

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

March 13, 2019

The Finance and Capital Strategies Committee met on the above date at the Luskin Conference Center, Los Angeles campus.

Members present: Regents Anderson, Anguiano, Blum, Cohen, Leib, Makarechian, Park, and Sherman; Ex officio members Kieffer and Napolitano; Advisory members Bhavnani, Simmons, and Um; Chancellors Blumenthal, Gillman, Hawgood, Khosla, and May; Staff Advisor Main; Student Advisor Huang

In attendance: Regent Sures, Faculty Representative May, Assistant Secretary Lyall, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, Vice President Andriola, Chief of Staff and Special Counsel Drumm, and Recording Secretary Johns

The meeting convened at 10:15 a.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes the meeting of January 16, 2019 were approved.

2. **CONSENT AGENDA: APPROVAL OF PRELIMINARY PLANS FUNDING, PEPPER CANYON WEST UPPER DIVISION UNDERGRADUATE STUDENT HOUSING PROJECT, SAN DIEGO CAMPUS**

The President of the University recommended that the 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: Pepper Canyon West Upper Division Undergraduate Student Housing – preliminary plans – \$20 million, to be funded from auxiliary – student 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.]

Regent Cohen recalled that this project had been discussed at the January meeting. At that time, Committee members had asked the campus to consider increasing the density in this project. He asked what actions the campus had taken or what plans it had to increase density. Chancellor Khosla responded that UC San Diego had just selected the architecture and construction team a week earlier. The team was instructed to determine how many

more beds could be added to the project. Chancellor Khosla underscored that there would be a limit to how much more density the campus could achieve, but it had taken this input seriously and was working on increasing the density of the project.

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

3. **APPROVAL OF INCREASE TO UNDERGRADUATE NONRESIDENT SUPPLEMENTAL TUITION FOR 2019-20**

The President of the University recommended that the Regents approve the increase in undergraduate Nonresident Supplemental Tuition shown in Display 1, to be effective commencing with the 2019-20 academic year.

DISPLAY 1: Proposed Increase to Undergraduate Nonresident Supplemental Tuition

	2018-19 Charge	Proposed Adjustment	Proposed % Change	Charges Effective 2019-20
Nonresident Supplemental Tuition				
Undergraduate	\$28,992	\$762	2.6%	\$29,754

[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 explained that the proposed 2.6 percent increase in undergraduate Nonresident Supplemental Tuition (NRST) would provide \$28.9 million in new revenue for the campuses. It was a proposed adjustment of \$762 for the 2019-20 academic year. The increased revenue would help expand access for California students, increase degree attainment, close student achievement gaps, improve access to student mental health services, and address costs related to employee and retiree health benefits, faculty and staff compensation, and contributions to the UC Retirement Plan. The revenue would also cover debt service increases to UC's capital program under AB 94. NRST remains on the campus where it is generated. UC Berkeley uses this revenue to support its Student Learning Center, which provides academic support and advising to more than 12,000 undergraduate students. UC Davis has been using NRST revenue to pay debt service on classroom and infrastructure improvements, including the newly opened California Hall. UC San Diego uses this revenue to expand its Teaching and Learning Commons, which provides academic support services for students as well as pedagogy and teaching tools.

Associate Vice President David Alcocer stated that when the UC administration proposes an increase to student charges, it considers not only the reasons for the increase but also the potential impact on students. He reported that the annual number of nonresident freshmen applications had remained steady over the past four years, at about 61,000, even

as NRST had increased. This was about three times the number of applications in 2010. The yield, or percentage of admitted nonresident students who ultimately decide to enroll at UC, had also remained level at about 27 percent over the last ten years and had not been affected by changes in NRST. Nonresident students at UC tend to come from families with greater financial resources than California resident students. Their families' median income is about twice that of resident student families. About two-thirds of nonresident students are international students, who form an important part of the University community. In order to obtain a student visa, these students must demonstrate that their families have income and assets needed to cover tuition and living expenses. Nonresident students are less likely to rely on student loans than residents. Only about nine percent of nonresidents borrow in any given year, compared to about 43 percent of California residents. At the five campuses with the highest percentages of nonresident students, the four-year graduation rates of nonresidents are comparable to those of California residents. Mr. Alcocer stressed that he did not mean to discount the challenges that students face in financing their UC education. The University did not expect the proposed tuition adjustment of 2.6 percent, lower than the projected rate of inflation for the following year, to change UC's track record of strong student interest in UC and students making good progress toward graduation. Mr. Brostrom added that nonresident students pay both in-state tuition and NRST. In-state tuition would remain level, and so the overall increase of the two charges combined would be 1.8 percent.

Committee Chair Makarechian asked what portion of the approximately \$30 million in NRST revenue would come from international students. Mr. Brostrom responded that roughly two-thirds of nonresident students were international students, so that they would contribute about \$20 million of the total.

Committee Chair Makarechian observed that, for many international students who were not wealthy, the \$762 increase would be a hardship, and that \$20 million in revenue from these students was very little in comparison to overall UC revenues. He asked how this \$20 million in revenue would make a significant difference for the University. Mr. Brostrom responded that the University's overall budget was \$36 billion, while the core budget was about a quarter of this amount. Seventy-five percent of revenues were generated by the medical centers, contracts and grants, and other fund sources with little fungibility that would allow use of these funds to support UC's core mission. UC had kept the NRST increase lower than it had been in previous years. NRST revenue was an important part of UC's core budget. The budget approved by the Regents requested about \$420 million from the State. The University had received \$240 million and was already in a deficit of \$180 million. It would be difficult to face another shortfall of \$30 million. It was almost certain that the State would not buy out NRST. Most international students were from families with the financial resources to support this increase, and they must demonstrate that they have the financial means to attend UC.

Committee Chair Makarechian expressed concern that the proposed increase would exclude gifted international and nonresident U.S. students who had less money, and that this action would contradict the University's goal of inclusivity. He emphasized that many

international students have settled in the U.S. and made valuable contributions, such as founding companies.

Regent-designate Um acknowledged the University's view that this increase would not have an impact on the demand for a UC education by nonresident students. The numbers of applicants and enrollees would remain level because UC has outstanding campuses that students want to attend. He asked about the number of international students currently enrolled. Mr. Alcocer responded that in past years, when there have been NRST increases, the University has not seen declines in student persistence or a reduction in graduation rates. He attributed this to the fact that these families have demonstrated at the outset that they have the resources to pay for a UC education. For anyone planning a university education, it would be reasonable to assume at least an inflationary cost increase. Mr. Brostrom recalled that nonresident students had qualified for UC financial aid in the past. Four years prior, UC had agreed with the State to redirect these funds for California student enrollment growth. Nonresident students already enrolled were covered by a grandfather clause. Incoming nonresident students beginning in the next year would have no access to UC undergraduate student aid; this circumstance would probably have a greater impact than the proposed increase.

Regent Anguiano asked if there were scholarships UC could provide for nonresident students and asked about the impact of this increase on undocumented students. Mr. Alcocer responded that there were other financial aid resources available to these students, mostly campus-based, including private gifts and philanthropy. Campuses have discretion about how to use NRST revenue, and if a campus has a particular interest in enrolling nonresident students, it can use the revenue for this purpose. There is a prohibition against using fundamental tuition or University Student Aid Program (USAP) revenue for these students; but there is no prohibition against using other sources.

Regent Anguiano asked how much scholarship funding was provided to nonresident students. Mr. Alcocer responded that, systemwide, a little more than \$20 million of UC's own institutional aid was provided. These students also qualify for outside gift aid, such as external fellowships and scholarships.

Regent Anguiano asked if this increase would affect undocumented students, since they are considered nonresidents. Mr. Alcocer responded that the vast majority of undocumented students would not be affected by the increase. These students qualify for a waiver of nonresident tuition under AB 540, provided that they attended a California high school for at least three years and graduated from a California high school. A small number of UC undocumented students did not attend a California high school, and this adjustment would apply to them.

In response to a question by Regent Leib, Mr. Alcocer explained that undocumented students are sometimes concerned about whether or not they are treated as California residents or nonresidents because by law, UC may not classify these students as residents, even if they attended a California high school. Technically, they are nonresidents, but are

eligible for a waiver of NRST. Undocumented students from other states would be affected by the increase.

Regent Anderson identified the essential challenge as underfunding by the State. The State was still not funding UC at levels needed to sustain the highest quality and pay for needed services. Unfortunately, the University was placing some of this burden on international and out-of-state students. These students would be paying the market value of a UC education, and this raised the question of what the market value was on a relative basis. UC hoped to have more funding but would need this market-based tuition from nonresident students. Mr. Brostrom commented on how UC's NRST compared to nonresident tuition charged by comparator public institutions. UC NRST was lower than nonresident tuition at the University of Michigan and the University of Virginia, and above nonresident tuition at the University of Illinois and the State University of New York at Buffalo. The total cost of attendance at UC was higher than at these schools because of the higher cost of housing.

President Napolitano stated that the proposed action would maintain nonresident tuition level in terms of constant dollars. The lack of this \$29 million in revenue would result in cuts elsewhere in the University's programs or the inability of campuses to hire faculty and academic advisors and to expand resources for popular and crowded majors and minors. The proposed increase would keep UC competitive with its public comparators, and UC's NRST would be in the middle of the range of the four universities mentioned by Mr. Brostrom. The University did not take this action lightly. As had been mentioned, there were other forms of financial assistance available to out-of-state and international students. NRST had been raised in the past, with no decline in the number of applications from nonresident students.

Student Advisor Huang described nonresident students as a great strength of the University and expressed concern about how the diversity of the nonresident student body would be affected by the increase. While the number of applications and interest in a UC education would not decline, some countries, states, and communities would be more affected than others. He asked about what other forms of assistance could be offered to these students, other than the private scholarships mentioned earlier. Mr. Brostrom responded that nonresident students were eligible for any form of scholarship or grant other than return-to-aid or USAP. This included State, federal, private, and merit-based scholarship sources.

Mr. Huang asked what alternatives the University considered before raising NRST. Mr. Brostrom responded that the University had assembled a comprehensive budget plan, which was approved by the Regents in November 2018. This plan pursued a balanced approach. The University would make efforts in asset management, philanthropy, procurement, and risk management to contain costs and generate alternative revenues. The State's contribution included a buyout of in-state tuition. The increase in NRST was an additional form of revenue, along with an increase in nonresident enrollment at those campuses where this enrollment was below the current cap. Mr. Alcocer added that when UC worked with the State the prior year, the University asked if there was any interest on the State's part in buying out a proposed NRST increase. The State's response was a strong statement of its expectation that for the additional cost associated with nonresident

students, those students and families should pay their fair share, rather than expecting California taxpayers to buy out this expense.

Regent Park observed that difficult choices made by the University often had to do with competing values. She asked about the amount of return-to-aid that in the past was used to support nonresident students. Mr. Alcocer responded that before UC began the process of phasing out financial aid for nonresident students, about ten percent of these students qualified for financial aid, which amounted to approximately \$42 million. The University was asked to return these funds to its operating budget.

Regent Park asked about the eligibility threshold for return-to-aid. Mr. Alcocer responded that this was not a flat number, and the threshold for nonresidents had been calculated differently than for California residents, in that the additional expense of NRST was never considered to be eligible for coverage by return-to-aid. Nonresident students faced this additional expense of approximately \$20,000.

In response to another comment by Regent Park, Mr. Alcocer confirmed that nonresident students received some aid but not as much as California residents. The University has always had a different level of commitment to financial accessibility for California residents than for out-of-state students. There has always been an additional challenge for out-of-state students in paying for a UC education. Mr. Brostrom noted that the average median income of nonresident student families was more than twice as high as that of California students. Almost half of California resident undergraduates take out some form of loan, while only nine percent of nonresident students do so, even though the cost of a UC education is much higher for them.

Regent Park commented that citing median income figures tended to obscure the students and families who would be affected by this increase. If the State did not allow UC to provide financial aid to nonresident students, the University should try to meet this need in other ways. She stated that it would not be desirable to arrive at a point where international students came only from wealthy families; this would not reflect the values of UC or of the State of California. In discussions on this topic, it was important to avoid giving an impression that only wealthy international students come to UC. She hoped that UC would make additional efforts to support nonresident students. While there were reasonable arguments based on average profiles and the median wealth of international students, not everyone is average.

Chair Kieffer cited statements by President Napolitano to the effect that UC teaches for California and researches for the world. The Regents' obligation as trustees is to the education of California students and the economy being built in California, and to the research that UC carries out for the world. He expressed support for out-of-state students and the value they bring to the University, but stressed that the Regents' obligation is to the UC system, and the system was short of revenue. An essential question was whether UC was competitive, such that out-of-state and international students could come to UC as easily as they might enroll at the University of Michigan and other top public universities. The Regents should be sympathetic to the desire of people throughout the world to have a

California education, but in his view, this could not drive the Regents to support the financial needs of these students. He observed that tuition could not be held at a constant level indefinitely. All UC's costs rise by approximately two to three percent annually, and he advised that the University should be thinking in constant dollars.

Committee Chair Makarechian countered that the NRST increase would be significant for some of the families of international students. He expressed concern that the increase would eliminate gifted, low-income students from applying to UC. In order to qualify for a U.S. visa, international students must demonstrate that they have the means to pay tuition. He advised giving international students advance notice of this increase.

Regent Sures stressed the importance of informed choice for students. The University should engage in long-range planning so that it can provide resident, nonresident, and undocumented students with projections of what tuition increases they might expect during their period of enrollment at UC. He asked if it would be possible to provide this kind of estimate for students. Mr. Brostrom responded that UC hoped and expected to achieve this in its multi-year plan with the State, maintaining tuition at an even level in constant dollars for resident and nonresident students. Such an estimate would be contingent on State appropriations. He suggested that the University could show a range of possible increases.

Regent Sures again emphasized that it would be desirable for students to have this information ahead of time so that they can make informed choices. Disclosure and transparency were desirable. Mr. Brostrom expressed agreement, stating that predictability and stability were among the goals of the multi-year plan.

Student Observer Varsha Sarveshwar urged the Committee to vote against the proposed NRST increase. It was not politically expedient for UC to support its nonresident students, and the University has been criticized for admitting nonresident students. There was a need to maintain trust between UC, elected officials, and the public. In the wake of recent revelations about a widespread college admissions fraud scheme, it was understandable that California families would worry that their own children might not have access to a public higher education. Ms. Sarveshwar observed that these criticisms of UC, when made by elected officials, are not always made in good faith. The University had increased nonresident enrollment when State funding declined, and UC had also increased California resident enrollment beyond set targets. NRST subsidizes classrooms, services, and institutional aid for in-state students. Nonresident students bring diversity of identity and of perspective to UC campuses. She cautioned that NRST increases would steadily price out low-income and middle-class nonresident students. In-state students did not wish to see their nonresident classmates and friends being pushed out of the University.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Leib, Makarechian, and Park voting "no."

4. **OVERVIEW OF PARNASSUS HEIGHTS PLANNING AND RENOVATION OF UC HALL, 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 presented an initial update on UCSF's planning efforts for a major new hospital on the Parnassus Heights campus and for an overall revitalization of the campus site. Due to the size and complexity of this project, likely to extend over a period of two decades, he anticipated that this would be the first of several presentations over the next two years.

The Parnassus campus was the oldest and largest UCSF site, home to four professional schools, various research programs, and adult specialty hospitals and clinics. Over the past two decades, UCSF had gained widespread philanthropic, civic, and community support that enabled the development of the Mission Bay campus. UCSF was now turning its attention to revitalizing the Parnassus Heights campus. The oldest building on this campus was over 100 years old, and half of the buildings were at least 50 years old, with much of the physical plant not suited for 21st century science, education, or clinical care. In addition, in order to comply with SB 1953, the Moffitt Hospital must be seismically retrofitted or decommissioned for inpatient acute care by January 1, 2030. For these reasons, UCSF had embarked on two major parallel and coordinated planning processes to ensure that the Parnassus campus site remains a flagship site for UCSF. The first of these processes was the design and construction of a new hospital on the site, to be called the Helen Diller Medical Center on Parnassus Heights. The second planning process was the Comprehensive Parnassus Heights Plan, which would reimagine and revitalize the entire academic campus, along with the new hospital.

UCSF launched its comprehensive planning process in May 2018. The resulting Comprehensive Parnassus Heights Plan would be an essential tool to help guide decisions regarding new construction, demolition, and renovation over the next two decades. The Plan was intended to provide flexibility for the current leadership team and its successors and to allow UCSF to adapt to future opportunities and needs. Scenarios for an initial phase of the comprehensive improvement were being developed along with a framework for future phases of revitalization. One of the guiding principles of the Plan was to form complementary districts that can help organize functions to reinforce identity, improve operational efficiency, and facilitate collaborations. Districts would be supported by a series of concourses to provide clear way-finding and connections to the community. These Plan concepts would foster a convergence of the academic, clinical, and research missions of UCSF.

A major element of UCSF's long-range renewal planning was the construction of a new hospital. UCSF had received a generous \$500 million pledge from the Hellen Diller Foundation for the planning, design, and construction of a new world-class hospital. UCSF planned to construct the new hospital in the current location of the Langley Porter Psychiatric Institute. This location would provide critical connections to the Long and

Moffitt Hospitals, optimizing the delivery of patient care and fostering connections to research and academic communities on the campus.

Outpatient psychiatric services currently located in the Langley Porter Psychiatric Institute would be relocated to the Child, Teen and Family Center and the Department of Psychiatry building at 2130 Third Street, one block south of the Mission Bay campus site. That building was currently under construction. The inpatient and partial hospitalization programs would be relocated to an alternative space. Discussions were under way to identify an appropriate location for these inpatient programs. UCSF envisaged the ability to demolish the Langley Porter Psychiatric Institute building to prepare for new construction as early as 2022.

The Parnassus Heights campus was critical to UCSF's future, and this planning process was intended to ensure UCSF's excellence into the next century. Over the last ten years, the San Francisco Bay Area population had grown approximately one percent annually, and similar, substantial growth was expected over the next decade. With national Medicare enrollment projected to increase with the aging of the population, UCSF also expected the acuity of patient conditions and the length of stay of patients to increase.

UCSF was planning to accommodate more complex cases in the new hospital as less complex cases continue to transition to outpatient care facilities or community hospitals in UCSF's ever-growing health network. This would mean a longer length of stay for each admission and an increase in bed needs. UCSF continues to work closely with its regional network partners and affiliates who rely on UCSF to take care of patients with complex conditions. The demand for patient transfers to UCSF was continuing to grow. In 2017-18, UCSF undertook a strategic clinical facilities planning process to develop achievable and affordable facility options that would align with patient volume projections, the long-term strategy for UCSF Health, UCSF's business plans, and UCSF's financial capabilities. The conclusion of this planning process was that a larger hospital was needed on the Parnassus Heights site than was envisioned in the 2014 Long Range Development Plan (LRDP).

By investing in these new facilities, UCSF Health would be investing in its patients, providers, and staff by creating more inviting, functional, and state-of-the-art buildings for clinical care. Hospital discharges for many services such as neurosurgery, vascular surgery, and high-end cancer care were expected to experience significant increases over the next ten years as a result of population growth in the Bay Area and the aging of the population.

The Comprehensive Parnassus Heights Plan would be completed in summer 2019, with a preferred alternative for the overall vision of the campus and different options for an initial set of improvements. Implementation would occur over the next two decades, as funding and program opportunities became available.

In 2018, a vision and guiding principles for the planning and design of the new hospital were developed. Based on this work, master planning and functional and space programming was now being started. Planning and programming for the new hospital would be developed in the context of functional needs and would include the existing Long

and Moffitt Hospitals. UCSF was planning the architectural design to begin in early 2020, with site clearance work in 2022 and subsequent construction to begin in 2023. UCSF was targeting 2029 for the opening of the new hospital. UCSF planned to return to the Committee with more information about the proposed hospital project, followed by discussion and a request for preliminary plans funding at subsequent meetings. UCSF would provide updates as its comprehensive campus planning efforts continued.

Committee Chair Makarechian concluded that this would be a significant project for the San Francisco Bay Area. He asked about construction of residential units to address the housing needs of faculty, staff, and students. Chancellor Hawgood responded that, as part of the Comprehensive Parnassus Heights Plan, UCSF was considering densifying the Parnassus campus by adding housing for students, and perhaps for staff and faculty as well. UCSF was currently envisioning the overall geography of the campus. In 1976, the Regents imposed a variety of restrictions on UCSF's capacity to expand the Parnassus campus. UCSF had already begun working with the community surrounding the campus as well as City and State elected officials to develop the Plan, which would add housing to the campus, reduce traffic, modernize facilities, and provide a world-class hospital. He described these efforts as a complex jigsaw that would be brought back to the Committee several times before the Plan was finalized.

Regent Anguiano asked if UCSF's planning incorporated an increase in enrollment. Chancellor Hawgood responded that UCSF was not contemplating a dramatic increase. UCSF was reviewing the number of its graduate students with the hope of identifying funding streams to increase the size of the graduate student body. UCSF was planning modest increases in the number of its professional students. UCSF had officially opened a branch campus for medical students in Fresno and would focus on increasing medical student enrollment in the Central Valley, but not on the Parnassus campus per se.

5. **REPLACEMENT OF THE UNIVERSITY HOUSE AND EVENT CENTER, SANTA CRUZ 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 Blumenthal began the discussion by observing that the University had a wise policy of requiring that a chancellor be provided with suitable living accommodations and public space for the many functions associated with the position of chancellor. He noted that UC Santa Cruz was approaching the appointment of its 11th chancellor, as he would be stepping down at the end of June. UCSC faced a significant challenge in the recruitment of a new leader. The existing University House was built in 1967, had aged considerably over time, and had been closed for seismic safety reasons for over three years. In addition to structural problems, the layout of the public and private spaces made effective use of University House difficult. Its technology was outdated, and ensuring the safety and privacy of the chancellor and his or her family members was challenging. University House did not meet modern standards of accessibility, and was thus not welcoming to many visitors and inconsistent with the campus' core values.

In September 2015, a University House and Event Center planning committee was formed. Along with overseeing an existing conditions evaluation then under way, the committee explored the current and future programs for the space, considered whether alternatives could meet campus goals, and analyzed options for implementation. The committee created guiding principles for the next phase of the University House and Event Center. Chancellor Blumenthal described University House as a special place for events honoring students, faculty, and staff. During his own time as Chancellor, he had hosted dinners for distinguished visitors and celebrated student and faculty achievements there, and advanced greater understanding and cooperation between the Santa Cruz community and the campus at events held in University House. Celebratory events at University House bring campus members together and make the chancellor accessible.

Vice Chancellor Peggy (Margaret) Delaney recalled that the building was closed in November 2015 due to serious structural issues. University House was consistent with building codes, including seismic requirements, at the time it was built. Building codes become more sophisticated over time, especially with regard to safety requirements. New knowledge about building failure modes is gained with each significant earthquake. The campus carried out a seismic evaluation of University House in fall 2015, which resulted in the building being closed, and a confirming study in fall 2016. There were clear conclusions on several major structural problems, along with other code and accessibility deficiencies. The existing perimeter stucco walls could not perform their function as the building's seismic force-resisting system. Under a renovation option, the campus would need to remove the stucco, insert new wood shear wall panels, and re-stucco the walls. The manner in which the buildings were attached to the foundation was not satisfactory, especially the cripple walls, which would need considerable reinforcement. The roof chords, the top and bottom pieces of the long trusses that support the roof, should be continuous everywhere because the roof changes in height, but they were not. Remedying this would require additional framing and bracing, and the current structural integrity of the lengthy existing roof trusses was not yet known.

The University House and Event Center planning committee examined various options for renovation or new construction of the public and private spaces. The committee recommended the total replacement of the existing University House and Event Center as the best long-term solution. Renovation cost estimates were roughly comparable to those for new construction. The comparable or sometimes lower estimates for renovation did not take into account aspects that make renovation more unpredictable than new construction. Renovation estimates also did not address programmatic deficiencies in both the private residence and public areas. Total redevelopment would afford the best opportunity to meet project goals and provide a functional, modernized, and secure space for the next chancellor and his or her family, and a more functional and flexible space for hosting intimate and large-scale fundraising and other events. The committee also recommended that the short-term needs of the new chancellor be met with a leased, ready-to-use residence near the main campus.

Ms. Delaney noted that the campus was currently in the pre-design phase for an approximately 9,000-gross-square-foot facility. About 60 percent of the space would be

dedicated to public events, and the residential space would include some space for hosting smaller events for 12 to 15 visitors. The campus was conducting planning, programming, and site studies, establishing design guidelines, and preparing a Request for Proposals for a design-build redevelopment project. The campus would return to the Committee with a request for budget approval and more details about project objectives and costs at a future meeting.

Committee Chair Makarechian referred to cost information provided on a slide according to which the target budget was \$10 million. For a house costing \$10 million near the Santa Cruz campus, the land cost would account for 30 to 40 percent of the total cost. The campus would build on free land. The estimated gross square footage was from 8,400 to 9,500. With a budget of \$10 million, this amounted to about \$1,000 per square foot. He asked the campus to develop a plan with a much lower budget and have the design meet that budget. He recalled that renovation of the UC San Diego chancellor's residence had encountered challenges such as slope mitigation and the presence of Native American remains. The Santa Cruz site did not present any such impediments and the budget of \$10 million was excessive and unacceptable. Ms. Delaney responded that, in its next presentation of this item, the campus would present more detailed, disaggregated costs. She stated that the adjusted costs for the proposed project were comparable to the costs of the UC San Diego renovation. There was a great deal of site work to be done at the Santa Cruz site, such as demolition and abatement. The sewer line was not built to code. The water lines were not sufficient to install fire sprinklers in the house. There were a number of costs that were site-related but not costs for construction of the house itself. Committee Chair Makarechian reiterated his concern about the high cost being proposed, stressing that UC is a public university and that these were public funds.

Regent Leib stated that a target budget of \$10 million would not be well received by students. The Chancellor would be criticized because he or she would be perceived as living in a mansion. It was important to consider how this action appeared to students and the public.

Regent Sherman observed that the design-build method is used for complex capital projects. This project did not involve specialized construction and did not seem to lend itself to the design-build approach, as opposed to using an architect within UC and competitively bidding the construction. He suggested that the event space could be separate from the living space, two structures on the same plot. Chancellor Blumenthal responded that there was benefit in being able to invite potential donors and members of the community into the chancellor's house. These events generate goodwill. It was advantageous for the chancellor's residence to include event spaces.

Regent Anderson hoped that the budget for this project would be half or less than half of the amount proposed. He would not support this budget.

Committee Chair Makarechian observed that fundraising events held at chancellors' homes were very important. He expressed concern that contractors would take advantage of the

campus. The cost of this 9,500-square-foot house on free land should be in the range of \$3 million to \$4 million.

Regent-designate Simmons questioned the motivation for building beautiful homes for UC chancellors in the interest of fundraising. Benefactors and donors would continue to donate funds to the University regardless of the venues where they gather. The University had many other competing priorities. While there was a longstanding tradition of chancellor's houses used for these purposes, the University might be able to innovate in this area.

Regent Anguiano acknowledged the importance of event spaces on campus and stated that chancellor's residences add value to the University, but criticized the mentioning of chancellors' residences in connection with recruitment efforts. If a candidate for a chancellor position chose to work for the University because of the quality of the residence, that individual would not display the values UC wishes to see in its chancellors.

Faculty Representative Bhavnani stated that it is necessary for a chancellor to live on campus, and not only for fundraising purposes. If the chancellor allows, students can drop by. While this might not be easy or convenient for the chancellor, students know that the chancellor is available and cares about students and the campus. In her experience, having a chancellor living on campus made a difference in how students relate to the administration.

Committee Chair Makarechian reiterated his concerns about the proposed cost and stressed that a reasonable cost for this project would be in the range of \$3 million to \$4 million.

6. **UPPER HEARST DEVELOPMENT FOR THE GOLDMAN SCHOOL OF PUBLIC POLICY AND HOUSING PROJECT, BERKELEY 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 Christ introduced this mixed-use project, which would help the Berkeley campus meet several critical needs. The Goldman School of Public Policy would have the expanded facilities needed to most effectively deliver its degree programs; up to 150 housing units would help meet needs of the campus community, including faculty, staff, postdoctoral scholars, and graduate students; and parking would be replaced, partially on site and partially on other sites, to serve the new housing units and to replace the spaces lost through the redevelopment of the existing Upper Hearst parking structure.

Dean of the Goldman School of Public Policy Henry Brady stated that the School had been the top ranked public policy analysis graduate program in the nation for over a decade. A source of the School's preeminence has been its ability to enhance the breadth and depth of its programs. Initially offering a master's degree, the School now offered six concurrent programs, a large and growing undergraduate minor, a Master of Public Affairs for mid-career students, and executive education programs. The School had outgrown its current facilities. The proposed project would allow the School to keep pace with the demand for

its degree programs and provide adequately sized space for teaching, research, and public outreach. It would provide flexible teaching space with room for breakout sessions, research laboratories for faculty who work with teams of students, and space for public events and outreach that can double as classroom space. Another part of this project, the Upper Hearst housing development, would provide needed housing for the campus.

Vice Chancellor Rosemarie Rae explained that the Goldman School was currently housed in two buildings near the northeast corner of the main campus. In order to meet program needs, additional space is leased in California Memorial Stadium. The project would replace the Upper Hearst parking structure, which had poor circulation and was underbuilt for the development capacity of the site. This would allow UC Berkeley to densify the project while remaining sensitive to the needs of the residential community. The building design and massing would act as a transition point between the less dense residential area to the north and east of the site and the more active main campus area to the south. The project would be developed and operated under a public-private partnership with the nonprofit Collegiate Housing Foundation (CHF) as the issuer of bond financing and the owner of improvements for the duration of the ground lease and American Campus Communities (ACC) as the developer and manager of the project construction, and the project operator. Ms. Rae stressed that CHF and ACC would not participate in profit sharing. All residential cash flow after operating expenses, debt service, and management fees would go to the University. Development fees and construction management were fixed. There was a management fee of three percent of revenues, net of vacancy loss.

The project would consist of two buildings with three uses. Building 1 would house the academic functions of the Goldman School, with approximately 40,000 gross square feet and the ability to build up to four stories. Building 2 would provide 150 units of housing, primarily studios and one- and two-bedroom apartments, and about 170 parking spaces for daily parking for campus permit holders and for the housing units in the building, which might rise to six stories. The Goldman School would lease back Building 1 and have the responsibility of operating and maintaining it. The School would provide an equity contribution to reduce the need for financing and would fund the remaining debt service through program proceeds, augmented by fundraising. The housing component would be operated by ACC, and revenues from housing would support the debt service for the development of Building 2. UC Berkeley Parking and Transportation would operate and maintain the parking facilities in Building 2, be responsible for all costs associated with these parking spaces, and retain all revenues from these operations.

Committee Chair Makarechian noted that a number of Regents had visited the site and he expressed support for the project.

Regent Sherman asked how the building heights were determined. He asked why the campus would not build higher, given the scarcity of land in Berkeley, and if the campus needed this number of parking spaces. With regard to the number of parking spaces, Mr. Brady responded that the campus had carefully considered this question and determined the proposed number to be the right number, which was a reduction from the number in the current parking garage. This was a contentious issue on the Berkeley

campus. With regard to building height, he stated that the campus was striving to be consistent with the surrounding neighborhood. There were six-story academic buildings on one side and lower residential buildings of two, three, and four stories on the other. The project design endeavored to respond to and harmonize with these neighboring buildings on both sides.

Regent Sherman recalled that the site is on a hillside and asked if there would be any benefit in subterranean construction. Mr. Brady responded that there would be one underground story with some windows. He noted that subterranean construction was costly and this project would minimize the amount of this type of construction. Fortunately, the existing parking lot had been dug into the side of the hill, and that excavation would be used as the basis for the current design.

Regent Cohen asked about financial implications for the campus as a whole if the Goldman School no longer leased space in California Memorial Stadium. Mr. Brady responded that the School's lease was small, approximately \$150,000 annually. The School might continue to lease some of this space for researchers, younger faculty who receive grants which can pay for the space. Ms. Rae added that other academic units at UC Berkeley were interested in the space in California Memorial Stadium and would move in when the Goldman School moved out.

Regent Cohen asked about the implications of the project for current employees and their future employment opportunities. Ms. Rae responded that the campus' intention, to be itemized in the ground lease, was to use union labor and existing staff and to adhere to the prevailing wage. In response to another question by Regent Cohen, Ms. Rae confirmed that this would be a continuation of UC Berkeley staff. Executive Vice President and Chief Financial Officer Brostrom clarified that, in public-private partnerships that UC has engaged in, there was a distinction between the operator's responsibilities for major maintenance versus custodial and landscaping maintenance. At UC Merced, UC employees were responsible for most custodial and landscaping maintenance, while the developer was responsible for major maintenance, such as elevators, heating, ventilation, air conditioning, and roofs. The developer had a long-term obligation for operations and maintenance. Regent Cohen stated that there would not be issues of concern if this project followed the Merced model.

Regent Leib asked about the cost of the project. Ms. Rae responded that this information would be included in a future agenda item. Regent Leib observed that this project presented a good opportunity for philanthropy. Mr. Brady responded that the Goldman School had already raised \$15 million in pledges and cash. How much of this amount the School could immediately put into its equity contribution would depend on when donors execute their pledges. He anticipated that the School would have at least \$10 million at the outset. The School was working actively to secure philanthropic support for the project.

7. **REVIEW OF THE GUIDING PRINCIPLES FOR THE ESTABLISHMENT AND MANAGEMENT OF UC OFFICE OF THE PRESIDENT 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.]

Associate Vice President Zoanne Nelson explained that this item was the result of an additional recommendation by the California State Auditor. In January 2018, the Office of the President (UCOP) presented an item on UCOP's central operating reserve, *Adoption of Regents Policy on a Central Operating Reserve for the University of California Office of the President and Discussion of Guidelines Governing the Central Operating Reserve*. The State Auditor has asked that UCOP establish guidelines for program-related reserves. The guidelines presented in this discussion would be submitted to the State Auditor the following month.

Executive Director Thera Kalmijn recalled that the January 2018 action set aside \$15 million in case of a significant disruption in UCOP revenues. The current discussion concerned other types of UCOP reserves, those for programs. UCOP had reviewed reserve targets at a large number of institutions and found that there was no standard approach. There were different types of targets for different types of reserves. UCOP determined which types of reserves it should have and developed categories: building and capital maintenance reserves, information technology infrastructure reserves, and program reserves for programs such as UC Press and the UC Washington Center. For building and capital maintenance reserves, UCOP would reserve from one to three percent of the current replacement value of its own assets, the UCOP buildings. For information technology infrastructure, the standard was around ten to 15 percent of current replacement value. Information technology assets depreciate more quickly than building assets and therefore require a higher reserve. The program reserves were for self-funded programs with variable revenue. UCOP would fund these reserves at three to six months of annual expense. In addition, there was another category of "other required reserves." This category included the Housing Loan Program, with a reserve of three to 3.5 percent of the outstanding balance of loans, and a number of reserves related to the National Laboratories for post-contract obligations, fee risks, and the Lawrence Berkeley National Laboratory guest house renewal. UCOP had set minimums and maximums for all these reserves and hoped that this would be responsive to the request by the State Auditor.

Regent Cohen referred to background materials provided which indicated that a number of the funds were below or above the recommended ranges. He asked how UCOP would bring these balances within the proposed guidelines. Ms. Kalmijn responded that UCOP would be implementing these guidelines for fiscal year 2019-20. In cases where reserve balances are above the recommended maximum, UCOP would work with the relevant unit or department to use those funds first, before receiving any State General Funds or campus funds. In the case of the Housing Loan Program, UCOP would allocate more of these funds to the campuses for housing programs.

Regent Cohen asked if UCOP had identified UC general fund expenses that it could offset. Ms. Kalmijn responded that UCOP was still working on its 2019-20 budget. More precise numbers would be presented in a future item. Ms. Nelson observed that most reserve balances were in between the recommended minimum and maximum. The Housing Loan Program reserve was above the maximum as of June 30, 2018. The amount above the maximum, about \$14 million to \$15 million, had been allocated out to the campuses in the current fiscal year.

Regent Cohen asked about the UC Washington Center reserve, which also appeared to be above the maximum. Ms. Kalmijn responded that the UC Washington Center had spent down some of its reserve on information technology infrastructure projects. UCOP would determine if the Center could use some of this reserve for its operating expenses in the 2019-20 budget. Ms. Nelson added that information on current uses and balances would be included in the presentation of the fiscal year 2019-20 UCOP budget at the May meeting.

Committee Chair Makarechian asked what portion of the \$25 million maximum reserve balance for the Housing Loan Program was for defaults. Ms. Kalmijn responded that about three to 3.5 percent of the portfolio, the entire \$25 million reserve, was set aside to cover defaults. Committee Chair Makarechian asked if this historically had been the amount of defaults per year. Ms. Kalmijn responded that she did not have statistics on default rates. The University's default rates were lower than in an average portfolio because UC faculty tend not to default on loans. Committee Chair Makarechian asked what UCOP does with these funds at the end of the year. Ms. Kalmijn explained that UCOP had allocated some of the excess reserve to housing programs on the campuses. UCOP had made such allocations in previous years as well, and would consider this in the 2019-20 budget proposal. Ms. Nelson remarked that the level of this reserve had been established by the Regents at three to 3.5 percent. Committee Chair Makarechian asked who makes the decision about allocations. Ms. Nelson responded that in the prior year UCOP budget item, UCOP proposed a \$30 million allocation, some from this fund and some from another fund to be made to the campuses, and this was approved by the Regents.

8. **SIGNIFICANT INFORMATION TECHNOLOGY PROJECTS REPORT FOR THE PERIOD SEPTEMBER 1, 2018 THROUGH DECEMBER 31, 2018**

[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.]

Vice President Andriola recalled that Regents Policy 5103: Policy on Reporting Standards for University of California Significant Information Technology Projects was adopted in 2017 to establish reporting standards for all University locations for information technology (IT) projects. The materials provided with the item included a report in dashboard format of all projects with an estimated or actual cumulative cost of \$5 million or more. This information is reported to the Regents three times a year, with one of these reports being made in person.

Regent Sherman noted that, in the list of projects, there appeared to be many similar projects at various campuses. He asked how the University benefited from this. Mr. Andriola responded that the University's IT program considers not only current projects, but also projects that are budgeted for coming years. UC is able to identify opportunities for synergy. One example was the need for a new financial system at the UC San Diego campus and medical center, UC Merced, and the Office of the President. While these were three independent projects, they were linked, and the project teams were communicating on a regular basis. The University was achieving synergy and keeping the total cost of these projects down through licensing and use of outside resources.

Regent Anguiano referred to information on student information system projects. The budget for a system replacement project at UC Irvine was \$70 million, while the budget for a system renewal project at UC San Diego was \$19 million. She asked about the difference in scope or other differences that would account for the different budget amounts for projects that appeared similar. Mr. Andriola acknowledged that these two projects looked the same at the line item level, but their scope was different, and the legacy systems that were being worked on were different. The University was making sure that the two project teams were in communication to determine points of similarity. UC Irvine was replacing a system that had been in place for a long time by working with an external partner, while UC San Diego was taking a different approach, relying on UCSD staff for its project.

Regent Cohen referred to green-colored or positive benchmark indicators for UCPATH in the dashboard report for this project. He questioned this evaluation, given the project's size and history. Associate Vice President Mark Cianca responded that for the time period represented by the report, the project status was "green." There had been developments since that reporting. UCPATH was currently being deployed at UC Berkeley. Leading up to the decision to deploy UCPATH at a location, the UCPATH team runs a process to ascertain readiness. This process had indicated that UC Davis was not quite ready for deployment and that additional testing was required. Because the Division of Agriculture and Natural Resources (ANR) depends on a number of financial subsystems that UC Davis provides, the UCPATH team decided to delay the UC Davis and ANR deployment until a later date. He anticipated that an update would be provided at the May meeting. In the current month, UCPATH was being implemented for approximately 24,000 additional employees.

Regent Cohen suggested that, in light of the current project status, the evaluation should have indicated the schedule risk at UC Davis. He asked about lessons learned and how this might have been reported differently. Mr. Cianca responded that the report period could have been aligned closer to the Regents meeting. The report indicated the project status three months earlier, and in a project as dynamic as UCPATH, this was a significant time period. The University might reconsider how it reports significant initiatives; the standard reporting period was adequate for smaller-scale projects. The lessons learned in UCPATH were applied with every deployment. The UCPATH team carries out three readiness assessments in advance of the decision to deploy the system at a location. In this case, the first assessment produced nominal results, indicating some issues of concern, but not unlike those observed in other deployments. By the time of the third of three assessments, there

had not been sufficient improvement. The reason for these multiple assessments is to focus attention on critical issues associated with implementation at a location.

Regent Cohen asked about comments made during the public comment period earlier that day about problems with payment. Mr. Cianca reported that the UCPATH team was tracking 22 items, working with UCLA Health and the California Nurses Association. Ten of these issues had been resolved, while another nine were scheduled to be resolved by the end of April, and three were still outstanding and needed to be worked on. Experience had shown that problems faced by UCPATH were related to data issues as well as expertise. UCPATH was very different from the University's legacy payroll system and, despite training, employees who carry out UCPATH transactions require time on the job to develop expertise.

Regent Leib observed that issues always arise during information technology upgrades. Good communication with those individuals who had been affected by the problems was essential.

Regent-designate Simmons asked if there were financial implications associated with additional training in the current or future deployments. Mr. Cianca responded that the errors being reported to the UCPATH Center suggested the need for refinement in training. In the case of UCLA Health, 15 topical areas had been identified for additional training and refresher courses. Experiential data from running UCPATH was being used to refine training, in consultation with the campuses.

Regent-designate Simmons asked if the 12 open issues mentioned by Mr. Cianca were the total number of issues across UCPATH. Mr. Cianca responded that 22 issues had been catalogued by the California Nurses Association. UCLA Health was first UC Health facility where UCPATH was deployed, and specific attention was focused on problems that might arise at UC Health facilities. There would always be problems and process issues, and the UCPATH Center maintains a list of these for all employees. The 22 issues mentioned were at UCLA Health.

Regent-designate Simmons asked about the total number of outstanding issues related to paychecks systemwide. Mr. Cianca stated that he could provide this information.

9. **APPROVAL OF THE BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, KRESGE COLLEGE ACADEMIC, SANTA CRUZ CAMPUS**

The President of the University recommended that:

- A. The 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Santa Cruz: Kresge College Academic – preliminary plans – \$3 million – funded from General campus funds.

To: Santa Cruz: Kresge College Academic – preliminary plans, working drawings, construction, and equipment – \$53 million to be funded from General campus funds (\$3 million) and external financing supported by State General Fund appropriations (\$50 million).

- B. The Regents approve the scope of the Kresge College Academic Project to provide approximately 25,000 assignable square feet of academic instructional and support space. At three stories, the facility includes a new approximately 600-seat lecture hall, another lecture hall, classrooms, and a computing laboratory.
- C. The Regents approve external financing in an amount not to exceed \$50 million plus related interest expense and additional related financing costs to finance Kresge College Academic. The Santa Cruz campus shall satisfy the following requirements:
- (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 shall be from State General Fund appropriations, pursuant to the Education Code Section 92493 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.
 - (3) The general credit of the Regents shall not be pledged.
- D. Following review and consideration of the environmental consequences of the Kresge College Renewal and Expansion Project Draft Environmental Impact Report, of which the proposed Kresge Academic Project is a part, 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 to the Regents 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 Regents:
- (1) Certify the Environmental Impact Report for the Kresge College Renewal and Expansion Project.
 - (2) Adopt the Mitigation Monitoring and Reporting Program for the Kresge College Renewal and Expansion Project, and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of the Santa Cruz campus.
 - (3) Adopt the CEQA Findings and Statement of Overriding Considerations for the Kresge College Renewal and Expansion Project.

- (4) Approve the design of the UC Santa Cruz Kresge Academic Project.

[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 Blumenthal recalled that the UC Santa Cruz undergraduate campus experience was structured around ten residential colleges. Kresge College, one of these ten, was built in 1971 as the sixth college. After nearly 50 years of service, it was time for a renewal of the site's infrastructure and buildings. The proposed project would create a contemporary vision of Kresge College that honors the College's iconic architectural status, its past and present identity, and the needs of current and future residents. There were a number of motivations for the project, including ensuring the long-term viability of Kresge College, strengthening connections to the academic core of the campus, accommodating additional academic, residential, and student support space, meeting code and accessibility requirements, and increasing energy efficiency. It would be necessary to maintain College operations during construction. Due to different sources of funds, this project was being presented as two items, the Kresge College Academic project and the Kresge College Non-Academic project (*Approval of the Budget, Scope, External Financing, and Design Following Action Pursuant to the California Environmental Quality Act, Kresge College Non-Academic, Santa Cruz Campus*). In managing the preparations for the project and the project itself, UC Santa Cruz treated the project as one integrated whole.

UC Santa Cruz Provost Marlene Tromp explained that the renewal of Kresge College would balance demolition of some of the buildings with renovation of others and with new construction. This would result in an increase in the number of beds and total square feet, and in the amount of student support space and classroom and computer laboratory space. Nine buildings were to be removed where, over time, it had become clear that the original plan of Kresge College did not meet modern accessibility standards. Twelve buildings would be renovated and sometimes reprogrammed, and five would be newly constructed, including an academic building and three new residential halls. The resulting transformation would create three coherent program areas. Academic space would include a lecture hall, classrooms, a computing laboratory, and academic offices. Student support space would include a multi-purpose town center and expanded student services. The academic and student support spaces would benefit the entire campus. Student housing space would create a higher density of beds on the site, including freshman and continuing student housing. The mix of housing types and their organization would improve the functioning of the Kresge College community by better addressing the different needs of freshmen and continuing students, and would align the residential capacity of Kresge College with that of the other colleges.

The project had two components: academic buildings, the north end of an approximately eight-acre site, and the non-academic spaces to the south. The approximately 25,000-assignable-square-foot academic building to be built in Phase 1 would include academic departmental support space, several classrooms, and a computing laboratory. These would be the first general assignment classrooms to be added at the Santa Cruz campus in nearly 13 years. The building would include a lecture hall targeted to have up to 600 seats. This

size was in the middle of the range of large classrooms on UC campuses. A survey of deans in 2016-17 indicated that there was an existing need for a classroom of this size. Certain courses could better accommodate student needs with a large lecture hall. UCSC could offer these essential courses in multiple quarters with a larger lecture hall accompanied by smaller discussion sections and hybrid offerings. The largest existing classroom at UCSC had 481 seats. Classroom utilization rates were highest in the largest classrooms, and the multiple offerings of classes in these rooms that could instead be held in a larger classroom reduced the availability of moderate-sized classrooms. The non-academic component of the project would expand and enhance residential life, transform and expand student support spaces, and create more accessible public spaces that encourage interaction. This would include about 400 new beds for first-year students. The apartments for continuing students would be renovated, providing about 150 beds. There would be a new café, study and interactive lounges, student cooperatives, and a multi-purpose space. New student support space would allow for the expansion of programs supporting student mental health and well-being.

Vice Chancellor Sarah Latham stated that multiple funding streams were integrated in this project. Campus funds and external financing supported by State General Fund appropriations would support the new academic building at the north end of the site, totaling \$53 million. The non-academic scope accounted for most of the project, and it would be supported by auxiliary reserves, external financing from Century Bond funds held by the campus, Student Services Fee reserves, campus funds, parking reserves, and external financing supported by student housing and dining fees. The non-academic component of the budget totaled \$205 million. The campus had thoroughly studied the cost factors for this project relative to UC benchmarks for similar construction. This project was smaller than comparable UC projects, and smaller than other projects going on at the same time at UCSC. The region had an overheated construction market with muted competitive pricing, and the geology and topography of the Santa Cruz campus was also a cost factor. The Kresge College site had a 40-50-foot grade change from north to south. The campus also needed to keep Kresge College operational during construction, which added cost and challenges. The project met all auxiliary and campus financial feasibility measures over a projected ten-year period. Ms. Latham recalled that the Santa Cruz rental market was challenging, with low vacancy rates and substantial annual increases in off-campus rental rates. Campus rental rates were lower than the market. Students living off campus sometimes live in substandard and overcrowded conditions. Beyond rental rate comparisons, there were other benefits to living on rather than off campus.

The campus had divided the project into three phases. The first phase would build the new academic building, new residential halls, a renovated bridge to the core of the campus, and related site work. The new residence halls ringing the periphery would have five stories above ground and a basement. The ground floors would have public-facing programs and transparent space, with the more private residential space above. The existing town hall, currently used as an academic classroom, was beyond the point of successful renovation. That site would be used for the new academic building. The second phase of the project would include renovated residential and college life spaces. This phase would renovate 150 beds and apartment-style accommodations for continuing students. The existing

pedestrian bridge would be redesigned for improved accessibility with a new north entry that would no longer require people to climb stairs. The design would leverage the topography to minimize the sense of height and massing on the site. Creating distinct areas for academic, student support, and residential spaces had been coupled with attention to creating and enlivening outdoor spaces for interaction and community-building. The third and final phase would construct student support space with renovation and reprogramming as well as new space for expanded services. This phase would include a new town hall and civic plaza. The three-part phasing strategy would build new space first, keep as many beds available each year of construction as possible, and allow Kresge College to continue its operations during construction.

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

10. **APPROVAL OF THE BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, KRESGE COLLEGE NON-ACADEMIC, SANTA CRUZ CAMPUS**

The President of the University recommended that:

- A. The 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Santa Cruz: Kresge College Non-Academic – preliminary plans – \$9,661,000 to be funded from housing auxiliary reserves (\$8,127,000), Student Services Fee reserves (\$1.2 million), parking auxiliary reserves (\$100,000), and campus funds (\$234,000).

To: Santa Cruz: Kresge College Non-Academic – preliminary plans, working drawings, construction, and equipment– \$205.65 million to be funded by: Auxiliary – Student Housing/Dining reserves (\$8.5 million), Auxiliary – Student Fee reserves (\$1.2 million), Auxiliary – Parking reserves (\$100,000), General campus funds (\$27,547,000), external financing supported by student Housing/Dining Fees (\$161.5 million), and external financing from Century Bonds (\$6,803,000).

- B. The base scope of the Kresge College Non-Academic project includes a net total of approximately 94,300 assignable square feet (asf). The project will provide approximately 84,300 asf of residential space, supplying approximately 400 new residence-hall-style beds for first year students, approximately 150 renovated apartment-style beds for continuing students, residential life space including a new café, study, and social lounges, and site improvements. The scope also includes approximately 10,000 asf of student programs space, 2,800 asf for academic office and support space, and outdoor program area, including circulation and parking lot improvements, outdoor commons, and a new accessible bridge. If the budget

allows, an additional 2,800 asf of space will be added for a new Town Hall for student activities. If the budget also allows, the extent of renovation work performed in a portion of the academic support space may be increased but with no change to the project's total asf.

- C. The President be authorized to obtain external financing in an amount not to exceed \$161.5 million plus additional related financing costs to finance Kresge College Non-Academic. 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, the general revenues of the Santa Cruz 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. External financing (Century Bond 2015) in an amount not to exceed \$6,803,000 to finance the Kresge College Non-Academic project be approved. The Santa Cruz campus shall satisfy the following requirements:
- (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, the General Revenues of the Santa Cruz campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - (3) The general credit of the Regents shall not be pledged.
- E. Following review and consideration of the environmental consequences of the Kresge College Renewal and Expansion Project Draft Environmental Impact Report, of which the proposed Kresge Non-Academic Project is a part, 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 to the Regents 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 Regents:
- (1) Certify the Environmental Impact Report for the Kresge College Renewal and Expansion Project.
 - (2) Adopt the Mitigation Monitoring and Reporting Program for the Kresge College Renewal and Expansion Project, and make a condition of approval

the implementation of mitigation measures within the responsibility and jurisdiction of the Santa Cruz campus.

- (3) Adopt the CEQA Findings and Statement of Overriding Considerations for the Kresge College Renewal and Expansion Project.
- (4) Approve the design of the UC Santa Cruz Kresge Non-Academic Project.

[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.]

(See discussion in item 9 above.)

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

11. APPROVAL OF LONG RANGE DEVELOPMENT PLAN AMENDMENT #2 AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, STUDENT HOUSING WEST PROJECT, SANTA CRUZ CAMPUS

Following review and consideration of the environmental impacts of the proposed Student Housing West 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 President of the University recommended that the Regents:

- A. Certify the Environmental Impact Report.
- B. Adopt the Mitigation Monitoring and Reporting Program for the Student Housing West project, and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of the Santa Cruz campus.
- C. Adopt the CEQA Findings and Statement of Overriding Considerations for the Student Housing West project.
- D. Approve Amendment No. 2 to the UC Santa Cruz 2005 Long Range Development Plan to change the land use designation of 17 acres of Campus Resource Land to Colleges and Student Housing.
- E. Approve the design of the Student Housing West project, Santa Cruz 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 Blumenthal recalled that this project had been discussed at length at the January meeting. He discussed the rationale for the project. It would add 3,000 desperately needed beds for upper division students, graduate students, and students with families at a campus that was battling an affordability and availability crisis, increasing available beds at UCSC by one-third. For this reason, Chancellor Blumenthal described the project as transformative and generational, a project that would make a significant difference. The Student Housing West project focused on the needs of current students in one of the most expensive housing markets in the country. The project was not being proposed to address future growth; it was needed by current students, as confirmed by waiting lists and demand studies. The local Santa Cruz rental market was brutal, with low vacancy rates and annual increases averaging 11 percent in recent years. Students were often living in crowded conditions to save money. The campus would require that Student Housing West maintain a rate structure equivalent to that of UCSC's current housing stock, with limits on annual rent increases throughout the life of the project. Chancellor Blumenthal presented a chart with comparisons of monthly rents on and off campus. Campus rates were much preferable. The savings of living on campus started at \$400 per month, a significant cost saving for UCSC students, and this was the reason that Chancellor Blumenthal continued to champion this project in spite of the objections of many distinguished supporters of the Santa Cruz campus. He stated that he wished this project were not so controversial.

Throughout the entire process, the UCSC administration had listened carefully and at length to supporters and opponents. Chancellor Blumenthal had weighed their concerns seriously and had requested significant project changes. There would be no grand consensus in this matter. The changes UCSC had made would not satisfy everyone, but he observed that controversy was a constant companion of change at UCSC. He was proud of the effort that had been made to inform and engage stakeholders in the project. There had been over 40 meetings to provide information and solicit feedback, including seven all-campus forums, six student family-focused group sessions, four employee housing resident-focused group sessions, eight forums concerning the Early Education Services center, two campus sustainability forums, and a number of meetings with small groups of opponents and proponents. In addition, there had been 14 meetings since 2017 with the project's student advisory committee, seven meetings with the project's graduate student council, and two meetings with the Student Union Assembly. There were presentations to and discussions with campus groups, including the senior leadership team, the Academic Senate Committee on Planning and Budget, the Academic Senate Committee on Faculty Welfare, the Advisory Committee on Campus Planning and Stewardship, the UC Santa Cruz Foundation, and the UC Santa Cruz Alumni Association. There were discussions with off-campus groups, including the Chamber of Commerce, the Santa Cruz County Business Council, and the Monterey Bay Economic Partnership. There were numerous campus news stories and news releases. There were nine meetings with the Chancellor's Design Advisory Board, and the designs for the Heller and Hagar sites changed significantly as a result of the Advisory Board's comments. Students were included in the original Student Housing West program committee. Once a public-private partnership model was selected, students also participated in charrettes and focus groups with development teams, and they served on the developer selection committee. Two demand studies had been carried out to assess student needs. The campus has a well-maintained and informative project website.

Committee Chair Makarechian stated that the Regents were aware of the many efforts that Chancellor Blumenthal and the campus had made to communicate with all interested parties about this project. Regents had also received a great deal of correspondence, almost 100 percent of which expressed support for Student Housing West. The biggest objection was to the 140 single-family homes. The Regents were in search of a solution. Those opposed wished to keep the East Meadow from being disturbed for only 140 units. This meadow is what one sees when entering the campus. Among the opponents were prominent alumni and members of the UC Santa Cruz Foundation. The Regents had received some preliminary information from the campus about six or seven alternative sites where construction would be costlier. Committee Chair Makarechian stated that he had not yet seen detailed cost analyses substantiating this, nor had he seen a substantial study of other potential sites for the 140 units. There was no question that student housing was needed. The only question concerned the location of the 140 units. He asked what the Regents could do that day to move forward with construction at the Heller site, but find an alternative solution for the 140 units, or suggested that the Regents might wish to delay action in order to allow time for studying all possible alternatives, cost analyses, and site analyses.

Chancellor Blumenthal responded that nothing would make him happier than finding a solution that would be cost-effective for students and satisfy those who would like to preserve the East Meadow and not build the 140 units in that location. If there had been a simple solution, it would have been brought to the Regents. In addition to the alternative sites already mentioned, since the last Regents meeting, UCSC had considered five additional sites and had detailed cost information. The cheapest of the alternatives to building at the Hagar site, the site at Ranch View Terrace, would add \$90 million to the project cost and would increase rental costs for students by 15 percent. The Ranch View Terrace site had already been set aside for faculty and staff housing, for which there was also a great need. If the Regents were willing to increase substantially the rental cost per bed for students, other options were available. Chancellor Blumenthal recalled that 13 years prior, UCSC had the second-highest cost per bed in UC system; currently, UCSC had the fourth-highest cost.

Committee Chair Makarechian expressed skepticism about the estimate of an increase of \$90 million for building on another site. Citing the serious concerns of those who opposed construction on the Hagar site, he stated that he wished to have a better understanding of the project before accepting this as the only solution. He asked if it would be possible for the Regents to approve the project on the Heller site, subject to a future presentation by UCSC about an alternative, or substantiating that the Hagar site was the only possible alternative.

Regent Cohen asked about the implications for the project if the Regents were to approve only the Heller site at this time and set aside action on the Hagar site.

Regent Anderson stated that he would not be in favor of building on the Hagar site. He agreed with the campus' analysis, according to which construction on the Hagar site would be the lowest cost incremental build alternative. He felt that UCSC would be wasting valuable land for a low-density development. He did not believe that the incremental cost

for construction of 140 units and a childcare center in another location would be \$90 million. He expressed support for approving the project for the Heller site, but finding an alternative for the Hagar site, further examining the costs of alternative sites, and considering denser, more compact construction on a smaller site for the family housing units and childcare center.

Regent-designate Um cautioned that by separating action on the two sites, the Regents would be micro-managing the project. The issue of development on the Hagar site would likely arise again in the future, in five or ten years. Based on their statements, even opponents of the Hagar site development found it likely that there would be development on that site in the future. There was no dispute about the need for housing or that development would happen on that site. He expressed support for the item as proposed and recalled that an opponent of the Hagar site development had spoken at the January meeting and had the opportunity to present the views and arguments of the opposition. The Regents should defer to the judgment of the Chancellor and the campus team that had worked on the project.

Chair Kieffer asked if it was possible for the Regents to approve the item for the Heller site but not the Hagar site. Chief of Staff and Special Counsel Kelly Drumm responded that the Regents would not be able to do so on that day. The project's environmental analysis at that point did not include an alternative of "no replacement" for the family student housing. All of the alternatives that had been analyzed described the construction of family housing at some other site. The analysis of the Environmental Impact Report (EIR) did not support approving the project without an alternative or replacement for the family student housing.

Committee Chair Makarechian asked if it was possible to remove the 140 units from the EIR. Executive Vice President and Chief Financial Officer Brostrom responded that from a practical standpoint, the campus could not proceed until it had developed a plan for the 140 student families.

Chair Kieffer asked if the Regents could indicate a willingness to find an alternative, and have the discussion of the alternative at the next meeting. Ms. Drumm explained that the set of documents before the Regents that day pertained to the project as described in the item. To proceed with a different configuration would require a revision to these documents, and it would take some time to determine the extent of that revision. At this moment it was not certain whether this might require recirculation of the EIR for further analysis. The documents before the Regents that day would not allow for approval of a "Heller site only" alternative. This might be possible at the next Regents meeting.

Regent Park expressed support for moving forward with the project that day. She drew attention to the fact that there was already traffic in this part of the campus. It was not a pristine rural area. She stated that she respected and understood the value of the East Meadow for people, and their emotional attachment to it. This project concerned the future of UC Santa Cruz. There would be development on the East Meadow at some point in the future. The campus had devoted considerable time and effort to studying alternatives. She stated her view that this was an appropriate and timely action to take.

Chair Kieffer asked if this project was the right use for the Hagar site. Some members of the Committee had doubts about whether construction of the 140 units was absolutely necessary on this site. He asked Chancellor Blumenthal to explain why those doubts were mistaken. Cost was not the only factor. Some would argue against any development on this site, while others would argue that a project on the site should provide more than only 140 units.

Chancellor Blumenthal stated that there were several issues of concern. If the Regents were to consider the Heller and Hagar sites as separate projects, the campus would have to develop a plan for the 140 families and for the childcare center. With regard to cost, he encouraged and invited Committee Chair Makarechian and other Committee members to examine the details of the cost estimates. There had been two independent cost estimates, and Chancellor Blumenthal expressed confidence in their soundness. In his view, the prospect of major development on the Hagar site was not a real issue. Opponents of construction on the Hagar site would like to maintain this place in a pristine state, as an iconic view of the campus. Because of the karst topography of the site, it seemed unlikely that a major building would be built there. This debate was about balancing values: the value of maintaining the pristine nature of the campus and the value of providing housing for students in the most affordable manner possible.

Chancellor Blumenthal presented a video with a view of driving up to the site from the entrance to the campus and driving past in the other direction, and a simulated view of what the site would look like in 2030 when the Hagar development was constructed, from a vehicle driving past the site and aerial views.

Vice Chancellor Peggy (Margaret) Delaney observed that any construction on the Hagar site taller than what was proposed would be challenging due to the geology of the site. In response to a question by Committee Chair Makarechian, she stated that there were no videos of the alternative sites. She commented that cost was not the only factor that the campus took into account in considering alternative sites. Some of the alternative sites presented more significant environmental concerns than did the Hagar site.

Committee Chair Makarechian asked if the campus had shared any of the cost analyses of alternative sites with individuals who had written detailed letters advocating for alternative sites. Mr. Brostrom responded that these analyses were not shared with some of the project opponents. The studies were carried out under privilege, due to the public-private partnership structure. Committee Chair Makarechian asked why these documents would be privileged. Ms. Drumm explained that since these documents concerned the cost of alternatives, there was a concern that if this information were made public, and one of the alternatives were selected, this would disadvantage the University in negotiations with its business partner; the business partner would know what the University's projections had been.

Committee Chair Makarechian asked about the effect on the project schedule and completion if the Regents were to delay action by two months. Chancellor Blumenthal responded that the campus had so compressed the project schedule that such an action

might result in a year's delay. He stated that he would provide detailed budget information including the cost of alternatives, but noted that opponents of the project would probably not change their views based on this information.

Committee Chair Makarechian asked if in fact a delay of 60 days in the Regents' action would result in one-year delay for the project. Ms. Latham responded that UCSC had originally planned to present this project to the Regents a year earlier, but had maintained the same 2023 target date for delivery of the new student housing. The campus had been able to maintain this target date by compressing the project schedule.

Chair Kieffer observed that the opponents of construction on the Hagar site had been persuasive and presented their points very well. This was a difficult decision and the Committee appeared divided. He suggested that while a delay of two months would complicate the project schedule for the campus, it would allow time for the Committee and the Board to receive more information on costs and other factors, and then the Regents could have more confidence about the action they would take.

Committee Chair Makarechian stated that students should also be provided with information on costs. This project was being built for students, and it was important to have student support for it. He anticipated that the project partner should be able to accommodate a further delay and keep the same target completion date.

Mr. Brostrom asked whether, in case the Committee decided to delay action, it would be possible to receive an interim delegation, such that if information were provided, the project could proceed in April.

Regent Leib stated that he was inclined to support the project as proposed. He asked about comments made earlier that day during the public comment period about the childcare center. Ms. Latham responded that UCSC was engaging with a third-party provider, Bright Horizons. There were concerns about the rates that students would pay for child care and concerns about what would happen to employees currently working at the UCSC childcare center. The campus would be making a transition from a childcare center for only the children of students to one that would also care for the children of employees. Childcare centers operate under different titles, and based on this status, they might or might not receive State subsidies. UCSC was subsidizing the student rates to ensure that they would remain consistent, with annual adjustments for inflation. UCSC had encouraged the childcare center employees to apply under Bright Horizons. For any individuals who choose not to apply or are not hired, UCSC would provide other positions on campus with an equivalent salary.

Regent Leib asked why UCSC was making the change to Bright Horizons. Ms. Latham responded that the campus would be creating a larger childcare center. There had been issues with some childcare employees in the past. The campus had reviewed the childcare arrangements with Bright Horizons at UC Davis and UCSF. Chancellor Blumenthal remarked that the central issue in this case was not cost but risk. Taking on a larger

childcare center entailed a certain level of risk that would not be in the long-term best interest of the campus.

Regent Leib stated that he would accept a delay but would also support action on this item now.

Regent Anguiano asked what the members of the UCSC leadership team would know in two months that they did not already know that day. Chancellor Blumenthal responded that they would learn very little that was new, since they had detailed financial analyses and environmental analyses. Regent Anguiano stated that, since the UCSC leadership team would have no new data that might change their recommendation, she supported the project moving forward.

Faculty Representative Bhavnani expressed concern about outsourcing childcare to Bright Horizons and asked about the rates to be paid by faculty and staff. Ms. Latham responded that rates for faculty and staff would be close to market rates. Ms. Tromp added that the campus had consulted with faculty who study child development. These faculty have influenced the design of the facility and have been working with Bright Horizons. Ms. Latham noted that faculty, staff, and student parents helped to design the program. The campus had a five-year contract with Bright Horizons, and the campus had formed a committee of faculty, staff, and students concerned with family-related issues that would evaluate the performance of this service provider. Ms. Bhavnani stressed her concern about the cost of childcare for staff and faculty. Ms. Latham responded that the campus would have to operate the facility at a higher rate than in the past.

Regent Park asked if the childcare issue was germane to this item. Ms. Latham responded that the decision on a contract with Bright Horizons was a campus-level decision. The childcare center building was included in this item, but not the service provider. The decision on the provider had already been reviewed and made by campus leadership.

Regent Park suggested that the Committee vote on the item. If the item was not approved, it would be assumed that the item would be brought back in two months at the next Regents meeting with additional information; if the item was approved, additional information would still be provided.

Committee Chair Makarechian suggested approval of the item subject to review by himself and a few other Committee members of the cost information for alternative project sites.

Chair Kieffer recommended that the item be amended as follows:

“E. Approve the design of the Student Housing West project, Santa Cruz campus, subject to approval by Regents Makarechian, Cohen, and Park to confirm the price of the other alternatives within two weeks.”

Upon motion duly made and seconded, the Committee approved the President's recommendation as amended and voted to present it to the Board, Regent Anderson voting "no."

The meeting adjourned at 2:15 p.m.

Attest:

Secretary and Chief of Staff