

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

May 15, 2019

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

Members present: Regents Anderson, Anguiano, Kounalakis, Leib, Makarechian, Park, and Sherman; Ex officio member Kieffer; Advisory members Bhavnani and Um; Chancellors Blumenthal, Gillman, Hawgood, and May; Staff Advisor Main

In attendance: Secretary and Chief of Staff Shaw, Chief Compliance and Audit Officer Bustamante, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Chief of Staff and Special Counsel Drumm, Chancellor Yang, and Recording Secretary Johns

The meeting convened at 11:45 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 March 13, 2019 were approved.

2. APPROVAL OF LONG RANGE DEVELOPMENT PLAN AMENDMENT 5 FOR THE NORTH DISTRICT DEVELOPMENT PLAN AND DESIGN OF THE NORTH DISTRICT PHASE 1 PROJECT FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, RIVERSIDE CAMPUS

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed North District Development Plan, including the North District Phase 1 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 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:

- A. Certify the Environmental Impact Report for the North District Development Plan.
- B. Adopt the Mitigation Monitoring and Reporting Program for the North District Development Plan, and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of the Riverside campus.

- C. Adopt the CEQA Findings for the North District Development Plan and Statement of Overriding Considerations for the North District Development Plan.
- D. Approve Amendment No. 5 to the UC Riverside 2005 Long Range Development Plan for the North District Development Plan.
- E. Approve the design of the North District Phase 1 project, Riverside campus.

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

Executive Vice President and Chief Financial Officer Brostrom briefly introduced the item, recalling that the business terms of the project had been approved in the preceding closed session meeting.

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

3. **APPROVAL OF LONG RANGE DEVELOPMENT PLAN AMENDMENT 4 AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, UPPER HEARST DEVELOPMENT FOR THE GOLDMAN SCHOOL OF PUBLIC POLICY AND HOUSING PROJECT, BERKELEY CAMPUS**

The President of the University recommended that, following review and consideration of the potential environmental consequences of the Upper Hearst Development for the Goldman School of Public Policy and Housing Project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff 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:

- A. Certify the Supplemental Environmental Impact Report for the Upper Hearst Development for the Goldman School of Public Policy and Housing Project.
- B. Adopt the Mitigation Monitoring and Reporting Program for the Upper Hearst Development for the Goldman School of Public Policy and Housing Project, and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of the Berkeley campus.
- C. Adopt the CEQA Findings and Statement of Overriding Considerations for the Upper Hearst Development for the Goldman School of Public Policy and Housing Project.

- D. Approve Amendment No. 4 to the UC Berkeley 2020 Long Range Development Plan.
- E. Approve the design of the 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 explained that the Upper Hearst Development for the Goldman School of Public Policy and Housing Project would combine additional space for the Goldman School, housing consisting of 150 apartments and studios, and parking. She was excited about the project because it would add much-needed space for the Goldman School, which had been expanding its programs. The project would provide a four-story academic building of approximately 37,000 gross square feet over one subterranean level of office, classroom, and event space. The project would also include an apartment building for which the preferred tenants would be faculty. A recent report on the need for faculty housing specified that UC Berkeley needed between 260 and 390 rental units for faculty; the campus currently had 26 such units. This would be a very important addition to UC Berkeley's housing stock, particularly for young faculty. There was currently a parking garage on the site in poor seismic condition. The loss of this parking for faculty would be mitigated by adding parking spaces in fairly close proximity, about one-third of a mile away.

Committee Chair Makarechian commented that UC Berkeley had committed to maintain the rental rates for faculty at least 15 percent below market and would strive for even lower rates.

Chair Kieffer expressed support for the project.

Regent Kounalakis noted that this project had generated much public interest. She asked about UC Berkeley's engagement with the City of Berkeley and with some faculty who had expressed concerns. Chancellor Christ responded that UC Berkeley was beginning conversations with the City about mitigation of the effects of the increase in the campus population. Chancellor Christ had set up a joint faculty-administrative committee to consider carefully the projected tenancy of this project, whether it should be for faculty, as Chancellor Christ believed, or include graduate or undergraduate students, to carry out a cost-benefit analysis of the project, and to propose improvements to the financial terms.

Regent Leib observed that the Goldman School was one of the schools within UC that train students to address the problems of the world. It was important to be able to offer students facilities like the Goldman School and these types of educational opportunities.

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

4. **APPROVAL OF BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, CLASSROOM BUILDING, SANTA BARBARA CAMPUS**

The President of the University recommended that:

- A. The 2019-20 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Santa Barbara: Classroom Building – preliminary plans – \$2.1 million to be funded from campus funds.

To: Santa Barbara: Classroom Building – preliminary plans, working drawings, construction, and equipment – \$97,133,000 to be funded with external financing of \$79,787,000 supported by State appropriations, and campus funding of \$17,346,000 from unrestricted non-State, non-tuition funds.

- B. The scope of the Classroom Building project shall provide approximately 51,000 assignable square feet (95,048 gross square feet) in a four-story structure. The building provides approximately 2,000 general assignment classroom seats in approximately 47,100 assignable square feet (asf) and approximately 3,900 asf of classroom support facilities that include projection rooms, sound and light locks, storage, lobby, technical office space, and a lactation room. The scope includes relocation of a bicycle path and bicycle parking, extension of the Pardall Corridor pedestrian walk, demolition of Building 408, soil remediation, landscaping, and fixed and movable furnishings and equipment.

- C. The President shall be authorized to obtain external financing not to exceed \$79,787,000 plus additional related financing costs. The President shall require that:

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

(2) The primary source of repayment 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 proposed Classroom Building project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item

received by the Office of the Secretary and Chief of Staff to the Regents no less than 24 hours in advance of the beginning of the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

- (1) Adopt the Initial Study and Mitigated Negative Declaration for the Classroom Building project.
- (2) Adopt the Mitigation Monitoring and Reporting Program for the Classroom Building project, and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UC Santa Barbara.
- (3) Adopt the CEQA Findings for the Classroom Building project.
- (4) Approve the design of the Classroom Building project, Santa Barbara 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 Yang explained that the Classroom Building project would provide 28 new classrooms, including five large lecture halls, and would increase UC Santa Barbara's classroom seating capacity by 35 percent. The project would help the campus accommodate projected enrollment growth and lift enrollment caps on popular lower division courses. This would not only reduce students' time to degree but also improve the quality of teaching. UCSB faculty have communicated that, with growing enrollment, there was a need for large classrooms with 150 to 250 seats; at the same time, faculty wish to ensure interaction between faculty and students. This led to the mixed and optimized classroom design of this project.

Regent Anguiano expressed concern about the quality of education and asked how the large classrooms in the project, such as a 350-seat lecture hall and a 250-seat lecture hall, would allow for interaction. Chancellor Yang noted that large lecture classes include smaller sections with teaching assistants that allow for direct, face-to-face interaction. UC Santa Barbara University Registrar Leesa Beck explained that the campus tried to design classrooms in the proposed building to accommodate a variety of active learning pedagogies, such as project-based learning, discussion-based learning, and cooperative learning. UCSB wanted to ensure that every classroom space, including the large lecture halls, would facilitate a variety of different learning activities. The design of the large lecture halls included space and power for devices and technology that facilitate an active learning experience, and seating would be configured to allow students to easily turn and work in small groups after a lecture. The larger lecture halls would have sufficient space for faculty to walk around and interact with students while students are working in small teams. UC Santa Barbara had found that, with increasing enrollment in its science, technology, engineering, and mathematics courses, more space was needed for classes that

include project-based learning. Ms. Beck reported the view of a UCSB professor of microbiology that these classes can be enlarged effectively when the space facilitates this. Currently, the campus did not have this kind of space, and Ms. Beck stated that the proposed building would be an important gain for UCSB.

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

5. **APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO CALIFORNIA ENVIRONMENTAL QUALITY ACT, FRANKLIN ANTONIO HALL, SAN DIEGO CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the Franklin Antonio Hall 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 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:

- A. Adopt the CEQA Findings for Franklin Antonio Hall, having considered the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the La Jolla Campus, as well as Addendum No. 1 to the 2018 LRDP EIR for Franklin Antonio Hall.
- B. Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC San Diego, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2018 LRDP EIR.
- C. Approve the design of Franklin Antonio Hall, San Diego campus.

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

Chancellor Khosla explained that Franklin Antonio Hall would address the space needs of the Jacobs School of Engineering, whose faculty numbers had grown over the past five years from 190 to nearly 280. UC San Diego was pursuing this faculty growth to reduce the student-faculty ratio, and this effort was already showing positive results. In national rankings six years prior, the Jacobs School was ranked number 17; in the current year, the School's graduate program was ranked number 11. Chancellor Khosla hoped to bring the School within the top ten and anticipated further development of multidisciplinary activities and industry partnerships. Franklin Antonio Hall would provide spaces for research, teaching, and student projects.

Assistant Vice Chancellor and Campus Architect Joel King discussed a slide showing the project site, which is surrounded by an open space preserve and has a view of the Geisel Library. In developing this project, the campus aimed to maintain canyon rim circulation trails, preserve views, and respect the architectural character of the campus. The building would include several sustainability features, such as photovoltaic arrays on the roof, use of reclaimed water for irrigation, and vertical solar shading. Mr. King presented floor plans and a cross-section of the building. The primary construction material would be architectural concrete, and the building would feature a high-performance glazed curtain wall and vertical solar fins, which would provide shading as well as adding to the architectural interest of the building. Mr. King concluded his remarks with architectural renderings of views of the building from different sides and drew attention to the fact that for a building of this scale, of almost 200,000 square feet, the pedestrian entrance at street level would be an inviting space.

Regent Kounalakis asked about the estimated cost of construction per square foot. Mr. King responded that this cost was approximately \$670. Regent Kounalakis asked about the cost for completion of the project. Mr. King responded that the total project cost was just below \$970 per square foot.

Committee Chair Makarechian recalled that the Regents had approved \$8 million in preliminary plans funding for Franklin Antonio Hall in March 2018 and asked about the status of those funds. Executive Vice President and Chief Financial Officer Brostrom responded that the campus had used campus funds for the preliminary design and that these funds would be provided by bonds.

Committee Chair Makarechian commented on the difference between the project's 187,000 gross square feet and the 127,600 assignable square feet. He asked if this difference of approximately 60,000 square feet would be open space. Mr. King responded that the efficiency ratio was about 0.71, relatively high for this building. The open space was mostly attributable to the spaces within the so-called "collaboratories." Committee Chair Makarechian countered that 60,000 square feet was a very large amount of open space at a cost of almost \$1,000 per square foot. Chancellor Khosla explained that there would be large spaces throughout the building for students to gather and study. This was not an office building. Students would be in the building for 12 to 14 hours a day, and for this reason there would be multiple open spaces.

Committee Chair Makarechian asked the campus to reexamine the projected cost per square foot, given the large amount of open space, and report back on how it could lower the cost of construction. Chancellor Khosla responded that the campus would be happy to do so. He stated that the campus had made much effort to lower the cost, which was determined by architectural features. This would not be a square office building, but a building with eclectic architectural beauty. Committee Chair Makarechian stressed that the proportion of open space in this project was enormous compared to other projects.

Chair Kieffer remarked that the cost of building on campuses was an ongoing question. He suggested that the Regents might form a working group to examine this issue to survey and

understand construction costs at UC and how these costs compare to costs at other universities. Chancellor Khosla noted that this working group should examine the high cost of reconstruction and remodeling, about \$1,000 per square foot.

Committee Chair Makarechian moved that the item be amended to approve the design of Franklin Antonio Hall, San Diego campus, subject to review of the project's efficiency ratio and cost by Regents Makarechian, Park, and Kounalakis.

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

6. **PRELIMINARY ENDORSEMENT OF SENATE BILL 14, THE HIGHER EDUCATION FACILITIES BOND ACT OF 2020**

The President of the University recommended that the Regents preliminarily endorse Senate Bill 14, the Higher Education Facilities Bond Act of 2020.

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

Executive Vice President and Chief Financial Officer Brostrom introduced this item for the endorsement of Senate Bill 14, the Higher Education Facilities Bond Act of 2020, which would place a general obligation bond on the State ballot for the first time since 2006. Historically, the University issued bonds in a few different ways. Sometimes the State issued bonds on UC's behalf, through two vehicles. One vehicle is a general obligation bond, which needs to be put on the ballot and approved by California voters. If passed, the State Treasurer issues bonds on behalf of the University. Most UC campuses were built and maintained over decades through this mechanism. The second vehicle is lease revenue bonds, issued by the State Public Works Board and approved by the Legislature. These bonds have a slightly lower rating because they are subject to appropriation every year. The University has not had a lease revenue bond since 2011. The State approved almost \$4 billion in bond support for UC capital needs between 2001 and 2010, but support declined significantly after that point. The University has had to issue bonds for seismic upgrades, deferred maintenance, and enrollment growth on its own balance sheet, and this takes away funds from the operating budget that might be directed to financial aid, faculty salaries, and hiring more staff.

In response to a remark by Committee Chair Makarechian, Mr. Brostrom explained that the general obligation bond being proposed would be issued by the State. It would not be on the University's balance sheet or income statement. The State would pay the debt service, both interest and principal.

Chair Kieffer reflected on the significant impact on the UC budget of the University having to issue its own bonds, in addition to overall reductions in State support for UC.

Regent Kounalakis voiced excitement about Senate Bill 14 and stated that she would try to raise awareness of this unique opportunity. The proposed general obligation bond would not only be a funding source for deferred maintenance but would also take pressure off student tuition. The University has buildings in a bad state which have gone without significant repair for decades. In order to maintain its status as an outstanding institution of higher learning, UC must repair these old buildings. The University must take this opportunity at this time, when the State could sell bonds at favorable rates. Regent Kounalakis observed that the form of this bond could change in the coming months. The University must insist on the proposed amount. In asking the Legislature and the voters to support this bond, UC must be committed to ensure that these funds are maximized to do as much as possible.

Committee Chair Makarechian observed that the University's total need for deferred maintenance was in the billions of dollars.

Senior Vice President Holmes stated that UC is prohibited from advancing the bill itself. Senate Bill 14 was co-sponsored by State Senators Steve Glazer and Ben Allen and Assembly members Jesse Gabriel and Jose Medina. UC was partnering with the California State University (CSU) and would divide the proceeds with CSU. Ms. Holmes anticipated that the bill would move out of suspense soon. At that point, the Office of the President would seek the Regents' formal endorsement.

Regent Sherman noted that the University should distinguish projects that generate income, such as student housing, from projects that do not generate revenue. He asked if there would be any restrictions on the University's use of these funds. Mr. Brostrom responded that the University may use general obligation bonds for general education and research facilities. These funds may be used for new buildings, but UC would use most of this bond support for seismic upgrades and deferred maintenance, and some to address enrollment growth. He pointed out that seismic upgrades result in safer buildings but add no new revenue or space. The University's Seismic Advisory Board was reviewing all UC buildings, while another UC initiative was simultaneously reviewing deferred maintenance needs. If a building is found to need both seismic upgrades and deferred maintenance, UC would consider the cost involved and determine if it would be appropriate to raze the building and construct a new building.

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

7. **CONSENT AGENDA**

A. ***Adoption of Endowment Administration Cost Recovery Rate***

The President of the University recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)¹ and apply to

¹ One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 55 basis points are the equivalent of \$55 on endowment assets with a 60-month average market value of \$10,000.

distributions from the General Endowment Pool (GEP) to be made after July 1, 2019, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

B. *Adoption of Expenditure Rate for the General Endowment Pool*

The President of the University recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2019-20 fiscal year remain at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

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

Executive Vice President and Chief Financial Officer Brostrom recalled that there is an annual payout from the General Endowment Pool (GEP). Each campus has its own foundation with separate payout and expenditure rates. The expenditure rate for the GEP is designed to provide a payout for the campuses but to preserve the purchasing power of the corpus. The payout rate plus inflation should equal the rate that the University expects to earn on the GEP. The rate had been at 4.75 percent for the past 20 years, with 60-month smoothing to take into account the volatility of returns. The endowment administration cost recovery is meant to help campuses cover the cost of fundraising and is set at a rate of 55 basis points.

Regent Park noted that the funds that are recovered help defray the costs on the campuses and at the Office of the President (UCOP) of administering and carrying out the terms of the endowments. She asked how the funds are divided between the campuses and UCOP. Mr. Brostrom responded that most of the funds flow to the campuses. UCOP has a small team that helps with legal issues and international gifts. The amount that flows to UCOP is small. He could provide this figure.

Regent Park asked why the specific endowment administration cost recovery rate, 55 basis points, mattered. Mr. Brostrom responded that this is discretionary money for the chancellors to support fundraising and the administration of gifts; otherwise these funds would go to individual account holders, such as professors, principal investigators, or athletic and other departments that depend on philanthropy.

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

8. FUTURE COLLEGE LIVING AND LEARNING NEIGHBORHOOD, SAN DIEGO CAMPUS

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

Chancellor Khosla reported that in the last seven years, UC San Diego had grown by more than 40 percent. This growth was mostly in the undergraduate student population, which was currently slightly above 30,500 and projected to be 32,000 by 2028. In UCSD's residential college system, all undergraduates are guaranteed two years of housing in their college. UCSD would like to guarantee four years of housing for all undergraduates at below-market rates. UCSD had six residential colleges, had received approval for the seventh college, and wished to prepare for its eighth college, or Future College. The infrastructure of the Future College would include housing, retail, and parking. The plans for the Future College Living and Learning Neighborhood were part of UCSD's strategy for a better student experience, to reduce the number of students per college, and to guarantee four years of housing for every undergraduate at 20 percent below market rate.

Executive Director Hemlata Jhaveri indicated the planned site for Future College, which would have approximately 2,000 beds. This new housing would be for first- and second-year students only. At the January meeting, UCSD had presented a discussion item on its Pepper Canyon West Upper Division Undergraduate Student Housing Project, which would address needs for upper division student housing. Ms. Jhaveri recalled that the new home of Sixth College would open in fall 2020.

In response to a question by Committee Chair Makarechian, Chancellor Khosla expressed optimism that UCSD would achieve rental rates in the Future College of 24.8 percent below rates off campus, as stated in the background materials.

Committee Chair Makarechian asked why this project needed to include 1,200 parking spaces. Chancellor Khosla responded that the location of Future College was currently a parking lot with 900 spaces, adjacent to the campus' Theatre District and the La Jolla Playhouse. The campus clearly needed to replace this parking and would add 300 parking spaces for visitors to the La Jolla Playhouse and for retail. There was no other parking available in this neighborhood. Students living on campus do not receive parking. UCSD aims to be a walking and biking community, with parking on the campus periphery.

Committee Chair Makarechian asked how much closer the addition of 2,000 new beds would bring the campus to the total number of beds it needed. Ms. Jhaveri responded that currently only 37 percent of undergraduates were housed on campus. With the opening of North Torrey Pines Living and Learning Neighborhood, the Pepper Canyon West housing, and Future College, 55 percent would be housed on campus.

Committee Chair Makarechian asked if the goal of four years of undergraduate housing included transfer students. Ms. Jhaveri responded in the affirmative. Chancellor Khosla noted that the campus would be building more housing in addition to the projects mentioned.

Faculty Representative Bhavnani asked if the rooms in Future College would be double rooms, or two students to a room. Ms. Jhaveri responded in the affirmative. All rooms in Future College would be double occupancy rooms, since Future College would be housing

for lower division students. UCSD transfer and upper division students have their own bedrooms.

Regent Anguiano asked about projected student enrollment growth between 2019 and 2028 and projected growth for graduate students compared to undergraduates. Chancellor Khosla responded that growth projections were based on the campus Long Range Development Plan (LRDP), but noted that the prior year, UCSD had 1,800 more students than envisioned by the LRDP. He estimated that, in its steady state, the campus would have about 42,000 students, with 32,000 undergraduates and 8,000 to 10,000 graduate students. With 30,500 undergraduates at this time, the campus was ahead of schedule compared to the LRDP.

Regent Anguiano asked about campus plans to accommodate future growth in California. Chancellor Khosla recalled that UCSD had grown quickly following the State's directive to UC to accept more students. There would be future growth at UC San Diego, but Chancellor Khosla wished to pause growth for two to three years in order to build necessary infrastructure, and to continue growth after that point.

Regent Kounalakis asked about the range in rental rates paid by students to live on campus and for how many years students are required to live in dormitories. Ms. Jhaveri responded that there was no requirement for students to live on campus, but given the residential college model, it made sense for lower division students to live on campus. With regard to rental rates, all lower division students paid the same amount. There was no cost difference between older and newer facilities. For a triple in a nine-month contract the cost was \$8,000, and for a double \$9,000. The rent for a single would be \$10,000, but very few lower division students would have a single. The cost of meal plans ranges by the number of meals students choose to sign up for. In developing housing for upper division students, UC San Diego was moving away from the meal plan requirement, since these would be apartment-style dwellings with kitchens.

Regent Anderson praised Chancellor Khosla and his administration for their successful efforts over the past several years in making the campus more accessible and welcoming.

Ms. Bhavnani thanked UC San Diego for these efforts. Students would learn better in the environment the campus was creating.

9. **PROPOSED AGGIE SQUARE MIXED-USE DISTRICT, UC DAVIS SACRAMENTO CAMPUS**

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

Executive Vice President and Chief Financial Officer Brostrom briefly introduced this item, an exciting initiative to develop the Aggie Square district adjacent to the UC Davis Medical Center in Sacramento.

Chancellor May reported that UC Davis had made significant progress on the Aggie Square innovation district project, working with the City of Sacramento and Mayor Darrell Steinberg during the past year. The project benefited from enthusiasm on the part of the campus and the City of Sacramento and had received planning funds from the State. UC Davis identified the Sacramento campus as the desired location for Aggie Square after a rigorous selection process. UC Davis envisioned this as a “live, learn, and work” environment for collaborative projects and cutting-edge research where companies, researchers, students, faculty, and community advocates would work side by side. The Sacramento campus is home to UC Davis Health, including its hospital, School of Medicine, School of Nursing, clinics, and research centers, as well as UC Davis’ executive MBA program. The site is located about 15 miles from the Davis campus. UC Davis plays a powerful role in the economy of the Sacramento region. The Aggie Square project was motivated by four goals: to advance UC Davis innovation, to propel economic development for the City of Sacramento, the region, and the State of California, to contribute to building more resilient communities and neighborhoods, and to create shared public spaces that enhance connections with surrounding communities.

Assistant Vice Chancellor Robert Segar noted that an April 2018 report by the Brookings Institution, “Charting a Course to the Sacramento Region’s Future Economic Prosperity,” highlighted UC Davis as one of the most promising and underused assets for growing and diversifying the Sacramento economy. UC Davis was in the midst of an extensive community engagement process, both internal and external to the University, with faculty, students, and neighbors, potential business partners, nonprofit organizations, and City leadership. The first phase of the innovation district was taking shape with a series of development themes that leverage UC Davis innovation to advance the project’s goals across all communities of interest. Aggie Square would provide faculty and academic leadership with opportunities to propose new ways of working with not only industry and community members, but with each other and with students. Life sciences, technology, and engineering companies were interested in being located together with UC Davis research enterprises in medicine, engineering, and entrepreneurship. UC Davis also saw its Continuing and Professional Education function as an anchor program in a new lifelong learning ecosystem at Aggie Square, which had already seen strong interest from major data sciences and information technology companies as a place to train the information technology and data sciences workforce of the future.

For the Aggie Square idea to thrive, Chancellor May had made it clear that UC Davis must also find opportunities for undergraduates to participate in the new innovation ecosystem. Provost Ralph Hexter and a team of academic leaders were exploring the idea of a “Sacramento quarter” during which students could participate in cross-disciplinary courses, taking advantage of the diverse environment of Aggie Square and adding valuable learning experiences to their undergraduate careers.

Mr. Segar outlined the development themes of the Phase One planning framework. There would be about 500,000 square feet of life sciences, technology, and engineering space, anchored by UC Davis programs and business partners in areas such as cell and gene therapies, medical device development, digital health, and biomedical engineering. A

Lifelong Learning Tower would provide approximately 250,000 square feet of capacity in which UC Davis would pursue cradle-to-career partnerships with youth development and workforce program partners in the Sacramento community. UC Davis would locate its own workforce development program and Continuing and Professional Education system in this space. Another element of Phase One envisioned by UC Davis was a mixed-use housing project with about 200 units with the potential to serve undergraduates, graduate and professional students, University affiliates, and business partners. There was currently no housing on the UC Davis Sacramento campus. UC Davis was ensuring that the project would include lively, active public spaces to encourage innovation and interaction, including a market plaza with a focus on food and health that would meet community needs and bring UC and nonprofit talent together in areas of food literacy, food access, and healthy food education. There would be an actual public space called “Aggie Square,” a lively events plaza where chance encounters could lead to innovation.

Aggie Square would be delivered using a public-private partnership model. UC Davis planned to begin recruiting developer teams by issuing a Request for Qualifications in June of the current year, select a developer team in the fall, and return to the Board for action on business terms, project design, and environmental review in the coming year. UC Davis had received very positive signals from its own market feasibility studies and every indication was that the national and local developer communities were anxiously awaiting the Request for Qualifications. UC Davis would diligently continue its internal and community-based engagement processes at the same time. The Aggie Square project had generated optimism, opportunity, and collaboration across the campus and the greater community.

Committee Chair Makarechian estimated that the Aggie Square project would construct about two million square feet. He asked if the Sacramento campus could accommodate this density. Mr. Segar responded that UC Davis was currently carrying out infrastructure studies for the development. Committee Chair Makarechian observed that the University would have to provide the needed infrastructure. Chancellor May responded that UC Davis would be partnering with the local business community. In response to another question by Committee Chair Makarechian, Chancellor May and Mr. Segar confirmed that Aggie Square would receive services from the City of Sacramento and that these services would be able to accommodate two million square feet.

Chancellor Hawgood asked if the whole site and all the buildings would be a single development. Chancellor May responded that this remained to be determined as the campus developed its Request for Qualifications. The campus expected to identify about a dozen potential developers. Each of the buildings would be very different in character—research laboratories, housing, and classroom and office buildings—and it seemed unlikely that a single developer could develop all these different types of buildings. Mr. Segar concurred that UC Davis would likely select an assembly of developers with expertise in various areas.

Regent Kounalakis observed that there was much support in the Sacramento community for UC Davis having more programs in the City of Sacramento. In this area of Sacramento,

UC Davis had brought outstanding economic opportunities. She advised UC Davis to be mindful of project costs as it moved through the private-public partnership process. She recommended that the campus consult with experts at the Fisher Center for Real Estate and Urban Economics in the Haas School of Business at UC Berkeley. She hoped that the University would examine all UC private-public partnerships, systemwide, to get a sense of best practices and appropriate targets. Regent Kounalakis stated that UC should be mindful of the impact of private-public partnerships on labor, since this had been an area of controversy. Chancellor May responded that the campus would follow up with the Fisher Center. With regard to the labor question, Chancellor May noted that UC Davis had invited labor representatives to be part of the Aggie Square Partnership Advisory Council so that they would be involved during the planning process.

10. **SUSAN AND HENRY SAMUELI COLLEGE OF HEALTH SCIENCES BUILDING, AND SUE AND BILL GROSS NURSING AND HEALTH SCIENCES HALL, IRVINE CAMPUS**

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

Chancellor Gillman introduced this item as an exciting project that was vital to UC Irvine's strategic plans. The campus was dedicated to systematically building out health sciences facilities in an innovative way that would integrate medicine, nursing, population health, and pharmaceutical sciences within a single College of Health Sciences. These plans were able to move forward quickly due to the generosity of Sue and Bill Gross, who were committed to ensure that the nursing program would develop into an innovative School of Nursing and provided funds for a home for this School. Subsequently, Henry and Susan Samuelli provided a \$200 million gift for the College of Health Sciences, which would bear their name. Through this gift, UC Irvine would be able not only to expand its health sciences district, but expand it within a very distinctive model for education, research, and clinical delivery.

Vice Chancellor Steven Goldstein recalled that UC Irvine's College of Health Sciences consisted of the School of Medicine and the School of Nursing. In addition, there were two nascent programs that would be brought to the Regents for approval as schools at future meetings. The Samuelli gift would support each of these four entities as well as the proposed Integrative Health Institute. Both gifts were associated with funds for capital projects. The Samuelli gift would provide \$55 million for the College of Health Sciences Building and the Gross gift would provide \$30 million for the Nursing and Health Sciences Hall. Dr. Goldstein anticipated that the campus would present details of budget and financing for approval at the July meeting.

A number of factors motivated this project. The Samuelli gift had given the campus the ability to move forward with education and research toward team-based, integrated health care across medicine, nursing, pharmaceutical sciences, and population health. The campus lacked space for many programs and was leasing space. The existing leased space was inadequate, did not allow for research, and was not approved for clinical services. By

bringing together various functions in the proposed new facilities, the campus could efficiently and effectively encourage collaboration that would make the Schools successful. The College of Health Sciences Building and the Nursing and Health Sciences Hall would have shared instructional space and the leadership of the two Schools, the two future Schools, and the College would be located together.

Assistant Vice Chancellor and Campus Architect Brian Pratt explained that the approximately 11.4-acre project site was in the southernmost section of the health sciences district, located at a major gateway to the campus at the corner of Bison and California Avenues, near the 73 Freeway. The two connected buildings would be located close to the corner as a welcoming gesture for arriving students, patients, faculty, and staff. Because there were existing clinical functions within the Gavin Herbert Eye Institute and new clinical functions in the Susan Samueli Integrative Health Institute within the College of Health Sciences Building, clear way-finding would be critical. Patient drop-off would be located to allow convenient access. The new buildings would be arranged around a courtyard and a wellness garden that would lead visitors to the entrance. The site would be connected to the rest of the health sciences district and the campus beyond by a pedestrian mall running diagonally from the patient drop-off location. Well-coordinated vehicular and pedestrian circulation as well as parking would be central to the successful planning of the site. Vice Chancellor Ronald Cortez noted a change to the north side of the project. The campus had originally identified 300 spaces of surface parking; this would be changed to a structured parking lot.

Regent-designate Um expressed enthusiasm about this project and opportunity for the campus. He asked about consensus of faculty and community neighbors and if the campus had any concerns about people who might be opposed to the project. Chancellor Gillman responded that the campus had been working with faculty from all the relevant programs. There was general faculty excitement about and support for the project. The University Research Park, located across the street, was part of the campus ecosystem. He stated that there might have been objections if the campus had wanted to build more clinical space along California Avenue. During the planning process, the campus had considered placing a clinical facility such as a specialty hospital or an ambulatory center next to the College of Health Sciences Building. The campus had since realized that this would have too great an impact on the community and was considering other locations. Chancellor Gillman stated that UC Irvine did not anticipate concerns in the wider community about this project.

Committee Chair Makarechian stressed that there was widespread support in Orange County for the project.

Regent Park asked about programmatic elements and transformative changes the campus anticipated. She suggested that this project would have appropriately been reviewed by the Health Services Committee, since it concerned more than just construction of new buildings, and noted that the Health Services Committee examines workforce pipeline issues holistically.

Chancellor Gillman remarked that the campus was excited about the distinctive way in which it was simultaneously building out a range of health sciences and a systematic plan for integration across academic, research, and clinical spaces. He would welcome the opportunity to inform the Health Services Committee about UC Irvine's plans.

With regard to workforce pipeline issues, Dr. Goldstein noted that the campus had a diverse undergraduate population. The campus believed that it could serve as a conduit for undergraduates into careers in the health sciences, in each of the Schools. The ability to carry out team-based education was an essential element of UC Irvine's approach to building out these programs. Ordinarily, a school of pharmacy begins as a clinical enterprise, later introducing the basic science of drug discovery. UC Irvine would do the opposite, training leaders in pharmaceutical sciences focused on precision medicine, team-based care, and community health, combining education, research, and care.

Chancellor Gillman commented that the College of Health Sciences itself was authorized to grant degrees. Apart from degrees granted by the School of Medicine or the School of Nursing, the College could grant a range of degrees, undergraduate, graduate, and professional, that could not be offered if the campus had only separate Schools. Given the new ways in which patient care was being organized, this innovative College structure would provide opportunities. Dr. Goldstein stressed the importance of health outcomes research, population health, and the data-driven component of these activities, which would be a central focus as UC Irvine develops the entire enterprise. Advances of the past decade would be brought to patient care in a new way.

11. **UCPATH UPDATE**

[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 stated that he was pleased to report on the success and progress of UCPATH. Associate Vice President Mark Cianca announced that the most recent deployment of UCPATH had been completed at UC Berkeley in March and April. UCPATH now served more than 100,000 UC employees. This was an important milestone and the University was beginning to achieve economies of scale with UCPATH. By all measures, this had been the most successful deployment to date. This was due to the fact that UC had applied lessons learned in earlier deployments and to the high quality, skills, and experience of UC Berkeley's project team. The UC Berkeley team had followed best practices in change management and communication with the campus. UCPATH management measures success in terms of stabilization after deployment, payroll quality, and the ability to reduce the number of UCPATH support staff at the location following deployment. Based on the quality of the UC Berkeley deployment, both project staff and UCPATH Center staff temporarily stationed at UC Berkeley have begun to leave the campus and return to their usual work locations. UC Berkeley's payroll population constituted about 25 percent of the total UCPATH service population but accounted for only 19 percent of calls received at the UCPATH Center, which demonstrated a good quality of experience with UCPATH.

Mr. Cianca recalled that, at the March meeting, there had been a discussion of the decision to defer deployment of UCPATH at UC Davis and for the Division of Agriculture and Natural Resources (ANR). There is a thorough readiness assessment for each location prior to deployment. Despite the best efforts of UCPATH management and teams at UC Davis, they were not able to address all critical readiness issues for UC Davis before the scheduled cutover. UC Davis and ANR share a number of administrative systems, so that the deployment for ANR was also delayed, resulting in changes to the overall project schedule. In March, UCPATH governance approved a revised schedule that shifted deployments at UC Davis and ANR to September, six months later than the originally scheduled date. Deployments would be completed at all remaining locations by April 2020. In the previous schedule, all deployments would be completed December 2019. All the remaining locations besides UC Davis and ANR would continue to work as a team or cohort in preparation and testing. One of the lessons learned from the UC Berkeley deployment was that it was easier to stabilize functions and ensure quality of payroll for a smaller population. The remaining locations were being treated as one cohort for purposes of readiness, but their deployments would be staggered, occurring in December 2019, February 2020, and April 2020 to facilitate a smooth transition. By April 2020, all 230,000 UC employees would receive payroll, Human Resources, and benefits administration services through UCPATH.

Previous discussions of the cost of the UCPATH project focused on capital expenses associated with deployment of new software and the start-up of the UCPATH Center in Riverside. The current overall UCPATH capital expense projection was \$553.2 million. UCPATH was also managing an operating budget; this is presented to the Regents as part of the overall Office of the President operating budget. Due to the delay in the final deployment date by four additional months, there would be an additional \$6 million expenditure, including approximately \$2.8 million in contingency funding. Mr. Cianca presented a chart including projected campus and project office costs. UCPATH receives updates on campus costs every six months.

Committee Chair Makarechian asked if the \$6 million would be allocated to campuses with delayed deployments or to all campuses. Mr. Cianca responded that the campuses were being charged an assessment proportionate to their issuance of W-2 forms through the end of the project. UCPATH management wished to shield campuses from trailing costs. After deployment, the fee for service assessed to the campuses would be based on their share of W-2 forms generated in the preceding year.

Faculty Representative Bhavnani cautioned against removing support staff from UC Berkeley too soon. A new cohort of graduate students would arrive in August, placing greater demands on the UCPATH system. Mr. Cianca responded that UCPATH management removes support staff in consultation and agreement with the campus. Some staff are removed from the site but support does not go away. There is dedicated "account support" that remains with the campus. With the UC Berkeley deployment, the focus was not on getting to the first day of production but on the annual business cycle. Shortly after the cutover at UC Berkeley, UCPATH management met with the Dean and members of the Graduate Division to examine their business cycle for the end of the spring semester,

summer, and the commencement of the fall semester to determine if UCPATH was prepared for these major milestones. This included efforts such as ensuring that UCPATH has updated mailing addresses for students, which often change at the end of the spring semester.

Regent Park asked why the UC Davis and ANR deployment was scheduled for September. In previous discussions, it had been mentioned that September is a difficult month for deployment. Mr. Cianca responded that there was no perfect month for a deployment, observing that December might be the easiest month. During the conversion process for monthly payroll, the payroll system is inaccessible for a week, and a week of transactions piles up. The same process then occurs for biweekly payroll. UCPATH has focused on shortening this window, reducing the amount of time it takes to convert legacy records into UCPATH and the amount of backlog. He noted that UC Davis and ANR were close to being ready for deployment in March, although not quite ready, and now UCPATH would be able to have a stronger focus on change management and controls. The earlier deployment at UCLA was the first deployment to a location with a UC Health facility and a number of features that were new for UCPATH, such as certain employee types. UCPATH had now gained a year of experience with these employee populations. UCPATH would focus on minimizing the impact of a September deployment.

Regent Park asked if UCPATH management had considered the features that made Lawrence Berkeley National Laboratory (LBNL) and UC Hastings College of the Law (Hastings) different from all other UC locations. Mr. Cianca responded that early on, UCPATH had catalogued the major differences. LBNL runs on a federal fiscal year cycle from October 1 through September 30. In accordance with a federal requirement, LBNL must carry out payroll reporting a day earlier than other UC locations. Hastings had an annualized number of 2,080 work hours, while the rest of the UC system had 2,088 work hours in the year. These small differences had been accommodated in UCPATH's operational calendar and UCPATH would be able to support these features in its operations.

Regent Park asked about the projected campus costs shown on a slide and how they would change in the future. Mr. Cianca explained that the components of the campus costs were the expenses associated with local teams to undertake the set of tasks needed at a given campus to move from the legacy system. Each campus has taken a different approach to these tasks and this was reflected in their costs. The campus costs essentially reflected the costs of maintaining a local project team required for preparatory activity for business processes, data conversion, and change management and communication.

Regent Park asked about the projected campus costs in fiscal years 2021 and 2022. Mr. Cianca clarified that the campus costs displayed were costs associated with the capital component of the project. With regard to the distribution of operating expenses, as an example, he estimated that roughly 22 percent of all W-2 forms in the UC system were generated by UCLA, the campus and UCLA Health, and so UCLA would pay 22 percent of a total operating expense. The campus costs associated with the capital component of the project would move to zero at the end of the project. Operating expenses would then be ongoing.

Regent Park stated that UC should consider both the project costs and the ongoing operating costs. Mr. Brostrom added that a third cost to be considered was the cost of phasing out the legacy PPS system.

Chancellor Hawgood asked why the contingency amount had increased, given that the deployment process was going better and UC was getting closer to the close of the project. Mr. Cianca responded that this was a budgetary convenience. UCPATH had been able to identify \$1.3 million in cost reduction in the current year, but rather than going through a process of lowering the contingency amount, which might have to be revised later, the contingency amount was left as it was.

Regent Anguiano estimated that the total cost of UCPATH would amount to \$780 million, or approximately \$80 million per campus. She wondered whether costs would have been lower if the campuses had implemented separately. It might be worthwhile to study this question to inform future systemwide information technology implementations. Mr. Cianca responded that some estimates had been presented to the Regents a few years prior, and these could be revised. He suggested that sufficient economy of scale was not available to replace a payroll system 11 times and to ensure compliance.

Staff Advisor Main reported that some UCPATH employees felt disconnected from the UCPATH Center due to the structure of the operation. She asked if UCPATH staff numbers would increase as the project moved into the final deployments and if such an increase would be built into the operating budget. Mr. Cianca responded that UCPATH currently had 370 employees, with a projected final number of 440. The projected growth in staff was accommodated in the budget. The decision to locate the UCPATH Center in Riverside had been productive and recruitment there had been effective.

Regent Anderson asked about the benefits the University would enjoy following full implementation of UCPATH and if these benefits could be quantified. Mr. Cianca responded that this might be the topic of a future presentation. He noted that UC should avoid the temptation to optimize too soon because it must focus on completing deployments at the remaining locations. The major accomplishment of bringing all UC locations into the UCPATH system would be standardizing business processes, but standardization was not optimization. Mr. Cianca anticipated three to five years of projects to streamline and reduce steps in the business processes that UCPATH supported. UCPATH would have the opportunity to take on additional transactional services such as travel reimbursement, which can be treated like nontaxable income and presented through a paycheck rather than using accounts payable, for which a significant amount of overhead is needed at the campus level. Mr. Brostrom added that historically, with 11 different payroll systems, there were 11 different ways of running systems, and none were completely accurate. UCPATH has had to work out issues with overtime and shift differentials.

Student Advisor Huang asked about changes in error rates before and after the UC Berkeley deployment. Mr. Cianca responded that there were currently about 3,000 communications made to the UCPATH Center every week by a UCPATH payroll population of about 101,000. These calls or contacts concerned a variety of issues; roughly one-third were related to

payroll or deductions, while about one-fourth were related to issues such as benefits administration, changes to health plans, and Defined Contribution Plan contributions. The UCPATH Center receives many questions about retirement planning, which are referred to the UC Retirement Administration Service Center. Mr. Cianca estimated that 55 to 60 percent of the cases generated every week were related to payroll and benefits. The number of cases per 1,000 employees added to UCPATH had gone from 57 per week to 32 per week. UCPATH was trending down with regard to errors, and this was the right direction.

The meeting adjourned at 2:00 p.m.

Attest:

Secretary and Chief of Staff