

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

March 20, 2024

The Finance and Capital Strategies Committee met on the above date at the UCLA Luskin Conference Center, Los Angeles campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Regents Chu, Cohen, Elliott, Ellis, Lee, Makarechian, Matosantos, Pérez, Reilly, and Sherman; Ex officio member Drake; Advisory member Cheung; Chancellors Gillman, Hawgood, Khosla, and Larive; Staff Advisor Emiru

In attendance: Regent-designate Beharry, Secretary and Chief of Staff Lyall, Deputy General Counsel Drumm, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Chancellors Muñoz and Wilcox, and Recording Secretary Johns

The meeting convened at 4:15 p.m. with Committee Chair Cohen presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes the meeting of January 24, 2024 were approved, Regents Chu, Cohen, Elliott, Ellis, Lee, Makarechian, Matosantos, Pérez, Reilly, and Sherman voting “aye.”¹

2. STAIR TOWER AND EXIT CORRIDOR UPGRADES, UC DAVIS HEALTH, SACRAMENTO CAMPUS: AMENDMENT OF THE BUDGET, HOSPITAL SEISMIC UPGRADE

The President of the University recommended that the 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: UC Davis Health/Sacramento: Hospital Seismic Upgrade: Stair Tower and Exit Corridor Upgrades – preliminary plans, working drawings, and construction – \$36.3 million, to be funded from hospital reserves.

To: UC Davis Health/Sacramento: Hospital Seismic Upgrade: Stair Tower and Exit Corridor Upgrades – preliminary plans, working drawings, and construction – \$59,845,000, to be funded from hospital 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.]

¹ Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

UC Davis Human Health Sciences Vice Chancellor David Lubarsky introduced the item, a complex project and a key component of UC Davis' hospital seismic safety compliance effort.

UC Davis Health Interim Chief Financial Officer Noel Sousa noted that this project was much larger than its name might imply. The project would upgrade the 60-year-old East Wing of the UC Davis Medical Center to function independently of the seismically deficient 90-year-old North/South Wing by installing a tenth floor stairwell, fire safety vestibules, and exit corridors between the two wings. This budget augmentation would allow the campus to complete and close out this project, which was required by California seismic safety laws, and would allow continued use of 173 patient beds, which made up about 26 percent of the hospital's patient care capacity.

UC Davis Director of Environmental Planning Matt Dulcich noted that the complexity of this project was not fully understood initially. There was inadequate investigation, inadequate project management, and cost escalations due to the COVID-19 pandemic as well as permitting and supply delays. The campus had addressed these issues with a comprehensive project audit, a new project team, and an improved project management process. The campus now had an accurate budget augmentation and an oversight structure to prevent these types of issues from arising in the future.

The main hospital of UC Davis consisted of a series of connected buildings built at different times over the last 90 to 100 years. In order to continue operations in the East Wing, a new emergency exit stair tower and exit corridors needed to be inserted between the North/South Wing and the East Wing, a difficult design and construction effort. This work needed to be carried out within a fully occupied hospital within four feet of patient areas, often separated by a single wall. Continued use of the East Wing was critical as it housed 173 patient beds and eight in-patient procedure rooms and provided core support services for the entire Medical Center including clinical engineering, environmental services, emergency material storage, and critical clinical functions such as pulmonary function testing. Completion of this project would allow the East Wing and the remainder of the UC Davis hospital to remain operational.

Mr. Dulcich elucidated the reason for the budget augmentation. Due to the location of the construction and the age of the buildings, many unforeseen circumstances resulted in overall project delays and cost increases. Unexpected conditions within walls required redesign, re-permitting, and construction of a new solution. These types of iterative changes also affected the cost and schedule. There were complex hazardous materials that needed full abatement, extended permit cycles, revised project management, as well as labor and materials cost escalation. After the last augmentation for this project in March 2020, Dr. Lubarsky requested a full audit to analyze the project's change orders, schedule, and costs. As a result of that audit, new leadership was brought in for facilities planning and development, internal personnel separated from the University, third-party firms were replaced, and a new team took over management of the project.

The new team immediately began project recovery and completed three major objectives. First, it fully assessed the project for overall needs, design, and execution and reset the project, incorporating all the audit recommendations. Second, the team was pursuing disputed change orders to see if these would be recoverable and was working with UC Legal in this effort. Third, the team had completed a construction delivery plan, and the project was on schedule to be completed by November 2024. Contribution margin or revenue that would result from this project and continued use of the East Wing would approach nearly \$1 billion, greatly exceeding the total project cost.

Regent Makarechian asked if UC Davis had discussed the project with other campuses and learned from other campuses' experiences of projects and change orders. Mr. Dulcich responded that UC Davis was now collaborating more with the other campuses. He did not know if the prior project team had considered collaborating with the other campuses, but this was now occurring more frequently. Another fundamental lesson learned from this project was that, while stewardship projects like this one might not be as appealing as new expansive construction projects, they needed the same fundamentals of project management to be applied, with tracking and reporting to leadership on a regular basis. UC Davis anticipated working with other campuses in the future on these fundamental elements.

Committee Chair Cohen asked about discussions of capital projects at the systemwide level and convening representatives of the campuses. Executive Vice President and Chief Financial Officer Brostrom responded that such a meeting had not been convened since the pandemic and it would now be appropriate for such a meeting. The difficulty of this project was due to the fact that multiple buildings at this site had been built decades apart. Disconnecting one building from another and demolition of one building within the facility was a complicated challenge. This would serve as a case study for other UC campuses as well as for the State of California and other entities.

Regent Makarechian remarked on the cost escalations in this project due to the fact that the past project manager and others engaged to work on the project had not understood the project. He stressed that the campus must pursue these individuals and entities, who were responsible for failures, and seek to collect damages from them. Mr. Dulcich responded that the campus was still disputing some of the requested change orders and working with UC Legal to recover any amount it could. The total amount was approximately \$9 million, and the campus expected to recover some of it. The campus was racing to continue the construction but would not race to continue the closeout. Even if the closeout took place after the construction was permitted and completed, the campus would pursue recovery of all costs.

Regent Makarechian asked who was working on this. Mr. Dulcich responded that the campus was working with UC Legal. If appropriate, the campus would engage external consultants as well. Dr. Lubarsky expressed agreement with the concerns raised by Regent Makarechian. He stated that he considered funds spent on projects as money used to benefit patients; any amounts paid inappropriately to anyone took away from the purpose of these funds. The campus would not be requesting approval for this project if it were not essential.

UC Davis had many hospital capital projects under way, and there were no change orders because the campus had carried out thorough evaluations. This project had begun before Dr. Lubarsky's tenure at UC Davis, and the campus had done everything possible to expedite the project and contain costs.

Regent Elliott observed that a series of errors and mistakes over several years had contributed to the current state of this project. Mr. Brostrom acknowledged that there had been a series of false starts and sunk costs in this project. Nevertheless, this was a complex project, and the prior team had underestimated this complexity. He believed that the campus was now on the right track and had the right project team to finish the project by the end of the year.

Regent Makarechian asked about bonds or guarantees with the current contractor to ensure timely completion without change orders, cost increases, or design errors. Mr. Dulcich responded that the new project team had thoroughly investigated the remaining work, estimated the costs to complete that work, and the proposed augmentation in this item included a contingency that the campus felt was adequate to address any eventualities from now until November 2024.

Regent Makarechian asked what guarantee the campus received from the contractor. Mr. Sousa responded that UC Davis Health had worked extensively to improve cost estimation for all its projects. A new team was focused on this matter in particular. He did not believe that the campus had a cost guarantee with these vendors, but UC Davis had been very specific in outlining requirements and going over all details. He expressed confidence that the project would be completed on budget. The project was now almost 85 percent complete. Much of the cost was in abatement, and this had been identified and worked through. He acknowledged that the campus had learned many lessons from this project on better project management.

Regent Makarechian asked if the contractor had provided any cost estimate. Mr. Dulcich responded that, because this project had been affected by so many unforeseen conditions, there had to be a renegotiation and discussion with the contractor about the unforeseen conditions and the necessary costs. The campus could provide more information to Regent Makarechian about project items that were certain and items that the campus felt were still uncertain.

Regent Makarechian asked if the campus had performance bonds. Mr. Dulcich responded in the affirmative. This was part of standard UC contracting.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Chu, Cohen, Drake, Elliott, Ellis, Lee, Makarechian, Matosantos, Pérez, Reilly, and Sherman voting "aye."

3. **EAST CAMPUS LOOP ROAD, SAN DIEGO CAMPUS: BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING CONSIDERATION OF ADDENDUM NO. 10 TO THE 2018 LONG RANGE DEVELOPMENT PLAN ENVIRONMENTAL IMPACT REPORT, PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

The President of the University recommended that:

- A. The 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: East Campus Loop Road – preliminary plans – \$6 million, to be funded from campus funds.

To: San Diego: East Campus Loop Road – preliminary plans, working drawings, and construction – \$77.67 million to be funded from external financing.

- B. The scope of the East Campus Loop Road project be approved. The scope consists of a realignment and widening of Health Sciences Drive, Medical Center Drive, and surrounding areas to improve access, safety, and wayfinding on the East Campus. In addition, a new road connection south of Health Sciences Drive would allow service vehicles more direct access to the central utility plant, hospital service areas, and clinical loading docks to the south. New traffic signals would be installed to enhance safety and reduce travel times to medical facilities and the Emergency Department.
- C. The President be authorized to obtain external financing in an amount not to exceed \$77.67 million plus additional related financing costs to finance the East Campus Loop Road project and declare that external financing may be used to reimburse prior expenditures. 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 San Diego 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.
 - (4) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.
- D. Following review and consideration of the environmental consequences of the proposed East Campus Loop Road 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 48 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 CEQA Findings for the East Campus Loop Road project, having considered the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the La Jolla Campus and Addendum No. 10 to the 2018 LRDP EIR.
- (2) 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.
- (3) Approve the design of the East Campus Loop Road project, 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 observed that this was a necessary project in a part of the campus that was expanding. Upcoming capital projects in this area would constrain access to the hospital, and this was especially a concern for emergency vehicles. While the project cost was high, it was necessary to realign roadways and create more utility infrastructure while keeping access to the hospital open.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Chu, Cohen, Drake, Elliott, Ellis, Lee, Makarechian, Matosantos, Pérez, Reilly, and Sherman voting "aye."

4. **CLASSROOM AND OFFICE BUILDING III, MERCED CAMPUS: PRELIMINARY PLANS FUNDING**

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

- A. The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Merced: Classroom and Office Building III – preliminary plans – \$8.6 million, to be funded from external financing supported by State General Fund appropriations (\$8.6 million).

- B. The President be authorized to obtain external financing for the Classroom and

Office Building III project of \$8.6 million plus related interest expense and additional related financing costs and declare that external financing may be used to reimburse prior expenditures. The President shall require that:

- (1) 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.
- (2) The general credit of the Regents shall not be pledged.
- (3) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

[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 Muñoz provided a brief overview of the proposed project, a facility with two levels on one side and three on the other. The project would be delivered using the design-build process and was expected to be completed in 2027. Classroom and Office Building III would include approximately 37,000 assignable square feet out of a 50,000-gross-square-foot total. It would contain a 459-seat auditorium lecture hall, something the campus currently did not have. The building would have a 292-seat circular lecture hall, a 250-seat case-style lecture hall, academic space, student services space, undergraduate and graduate advising space, and student meeting space. The building would also serve as the location for the School of Social Sciences, Humanities and Arts, one of UC Merced's three schools. Until now, this School and its departments have been dispersed in different locations. Utilization of UC Merced's limited supply of large classroom spaces was at about 128 percent. Chancellor Muñoz noted that UC Merced currently had only two lecture halls with a capacity of 200 to 300 students. This project was important not just in the immediate, short term but also responded to the Accelerate Campus' Evolution (ACE) initiative, funded with the support of the Office of the President, to dramatically increase the number of high-demand academic programs. The Merced campus was planning to design and approve such programs at a rate of three to five per year, and the programs would require facilities of this kind.

With respect to new academic programs, Chancellor Muñoz reported that first-year and transfer applications to the campus in the year to date had increased by over 12 percent; international and non-resident applications had increased by over 51 percent. This was unprecedented. This might be due, among other factors, to six new academic programs that UC Merced had recently publicized. In order to be prepared for these anticipated enrollment increases, the campus needed facilities like Classroom and Office Building III. UC Merced students were overwhelmingly California residents, first-generation students, Pell Grant recipients, and diverse. Adding facilities and high-demand academic programs

would increase educational access and opportunity for a diverse and previously underserved student population.

Student observer Miguel Craven emphasized the importance of a building like Classroom and Office Building III for UC Merced and the classroom space it would provide. He provided examples from his own experience as an engineering student at UCM to illustrate how in-class instruction and interaction were preferable to classes taught via videoconferencing. The spaces in the proposed building would be used by students for student events as well. This building would be beneficial to the campus and help UC Merced thrive.

Regent Makarechian suggested that the campus discuss the success of the Merced 2020 project and the design-build-finance-operate-maintain model. Committee Chair Cohen stated that this information would be provided at the May meeting at UC Merced, when there would be an opportunity to tour the campus. Mr. Brostrom added that the discussion would cover the successes and challenges of the arrangement.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Chu, Cohen, Drake, Elliott, Ellis, Lee, Makarechian, Matosantos, Pérez, Reilly, and Sherman voting "aye."

5. **UNDERGRADUATE TEACHING AND LEARNING FACILITY, RIVERSIDE CAMPUS: BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE 2021 LONG RANGE DEVELOPMENT PLAN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

The President of the University recommended that:

- A. The 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Riverside: Undergraduate Teaching and Learning Facility – preliminary plans – \$6.8 million, to be funded from external financing supported by State appropriations.

To: Riverside: Undergraduate Teaching and Learning Facility – preliminary plans, working drawings, construction, and equipment – \$156.3 million to be funded from external financing supported by State appropriations (\$154.5 million) and campus funds (\$1.8 million).

- B. The scope of the Undergraduate Teaching and Learning Facility project (Project) be approved. The Project shall provide approximately 100,700 gross square feet, including classrooms, studios, and instructional laboratory spaces. The Project would also provide study facilities, support spaces, and exterior site improvements such as landscaping and gathering spaces.

- C. The President be authorized to obtain additional external financing of \$147.7 million in a total amount not to exceed \$154.5 million plus related interest expense and additional related financing costs to finance Undergraduate Teaching and Learning Facility and declare that external financing may be used to reimburse prior expenditures. The President shall require that:
- (1) The primary source of repayment shall be from State General Fund appropriations. Should State General Funds appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.
 - (2) The general credit of the Regents shall not be pledged.
 - (3) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.
- D. Following review and consideration of the environmental consequences of the Undergraduate Teaching and Learning Facility 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 48 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 CEQA Findings for the Undergraduate Teaching and Learning Facility project, having considered both the 2021 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the Riverside campus and Addendum No. 2 to the 2021 LRDP EIR for the Undergraduate Teaching and Learning Facility project.
 - (2) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the Riverside campus as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2021 LRDP EIR.
 - (3) Approve the design of the Undergraduate Teaching and Learning Facility, 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.]

Chancellor Wilcox introduced the item. The Undergraduate Teaching and Learning Facility would be a new classroom building providing modern classrooms, studios, and instructional laboratory spaces. Growth in the number of classroom seats at UC Riverside had not kept pace with enrollment growth. From 2010 to 2023, UCR enrollment grew by 26 percent, with only modest growth in classroom space. As a result, there was currently a

shortage of about 4,500 instructional seats on campus. In addition, for the last 25 years, UC has leased theater space across the highway for instruction. The theaters were now under new management and the lease was ending.

The campus presented this project for preliminary plans funding approval in March 2023. Since that time, UCR had completed a design competition and one of the changes resulting from the competition was the identification of the need for a greater number of organic chemistry and biology laboratory spaces. Consequently, UCR had reduced the amount of open study and office space in the building and reduced the overall square footage of the building to accommodate the laboratories, but, more importantly, to accommodate the cost of the laboratories relative to those open spaces. This change resulted in the reduction of assignable square footage from 75,000 to 64,000 or about a 14 percent reduction. Ultimately, the Undergraduate Teaching and Learning Facility would provide an 18 percent increase in campus general assignment classroom space, a 54 percent increase in biology classroom seats, and a 20 percent increase in chemistry seats.

The project budget of \$156.3 million included \$154.5 million from the State and \$1.8 million from the campus. The building would also provide a space in its lower level for a new connection to the internet. The campus' internet connection was currently located off campus.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Chu, Cohen, Drake, Elliott, Ellis, Lee, Makarechian, Matosantos, Pérez, Reilly, and Sherman voting "aye."

6. **MID-YEAR REPORT OF THE UC OFFICE OF THE PRESIDENT'S BUDGET TO ACTUAL EXPENDITURES AND SECOND QUARTER FORECAST FOR FISCAL YEAR 2023–24**

[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.]

Student observer Miguel Craven reported on student concerns about the University's investment income and how it spends its investment income. He suggested that the Office of the President (UCOP) might wish to produce a summary fact sheet to respond to students' questions and concerns about UC investments. The fact sheet could also show which investments were beneficial to students, such as funding to support student housing and other campus capital projects. It would be desirable to show the correlation between high returns on investments and campuses' ability to build student housing. Students should understand how their tuition revenue is used by the University.

Regent Pérez asked if students on average were paying in addition to the actual cost of attendance. He explained that he raised this point not to undermine students' concerns about UC investments. Students seemed to believe that they were paying more than the actual cost of their education. This was not the case. Nevertheless, UC was a public entity using public funds, and the public was entitled to answers to the questions Mr. Craven had

raised. These were monies stewarded by the University that came from a variety of sources. It was difficult to identify funding mechanisms for construction of student housing and classroom space.

Executive Vice President and Chief Financial Officer Brostrom noted that the total annual cost of education for one student was over \$30,000, as reported in an analysis UC conducts for the State. Tuition varied by student cohort but was less than half of this amount. In addition, nearly 60 percent of UC students paid no tuition. He recalled that, when the University was calculating cohort tuition, one factor that enabled UC to keep tuition relatively low was the fact that investment income was becoming a bigger part of UC's overall budget.

Mr. Craven remarked that it would be helpful to communicate this information to students.

Regent Ellis recalled that students have asked for a number of initiatives to be funded by UCOP rather than by the campuses to ensure that all campuses have similar resources. He stressed the importance of budget flexibility at the campuses so that they can be and respond to student needs. At times it can make sense to centralize certain functions at UCOP. Executive Vice President and Chief Operating Officer Nava responded that more than 70 percent of the UCOP budget flowed to the campuses for programs and services that they provide. Services provided centrally at UCOP were services that, in her view, UCOP provides well, such as benefits management, investment management, and financial management. These were services which benefit the entire UC system.

7. **SIGNIFICANT INFORMATION TECHNOLOGY PROJECTS REPORT FOR THE PERIOD SEPTEMBER 1, 2023, THROUGH DECEMBER 31, 2023**

[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 Makarechian noted that there were no major information technology projects related to UCPath. The background material for the preceding item regarding the Office of the President (UCOP) budget had included a budget figure for UCPath. He asked if this represented overhead costs. Executive Vice President and Chief Operating Officer Nava responded that the Significant Information Technology Projects Report covered active projects for new systems that were being implemented or updated. UCPath was fully operational and there were no new system components that needed to be tracked. The figure shown in the preceding item for the UCOP budget was the operating expense associated with the staff who run the UCPath program: call center staff, payroll staff, and accounting staff.

In response to another question by Regent Makarechian, Ms. Nava noted that the annual operating costs for UCPath were about \$100 million.

Regent Makarechian asked if this cost was only for processing the payroll and other information for the roughly 200,000 UC employees. Ms. Nava responded in the

affirmative. The UCPATH budget for fiscal year 2023–24 was \$133.9 million, which included the salary benefits for about 465 staff and the operating costs associated with UCPATH.

Regent Makarechian asked about the cost per check issued to an employee using the UCPATH system. Ms. Nava responded that this was related to the number W-2 forms that UCPATH issues for each campus; based on this number, campuses are charged an assessment. She did not have the cost per check on hand but could find out this number and report it to Regent Makarechian.

The meeting adjourned at 5:00 p.m.

Attest:

Secretary and Chief of Staff