

**For meeting of March 13-14, 2019  
Agenda item F1, Finance and Capital Strategies Committee  
Comment letter dated March 5, 2019**

**TO: THE REGENTS OF THE UNIVERSITY OF CALIFORNIA**

cc: Executive Vice President – CFO Brostrom  
Chancellor Blumenthal  
CP/EVP Tromp  
Vice Chancellor Delaney  
Vice Chancellor Latham

Re: “Student Housing West” Project at UC Santa Cruz

We thank the Regents for their consideration of the “Student Housing West” (SHW) proposed project at the Santa Cruz campus on January 15-16, 2019 and again at the forthcoming meeting on March 13-14, 2019. We write this letter, in our individual capacities, to try to bring into final focus the analytical defects of the Main Entrance East Meadow portion of the project, which comprises just 5% of the student beds, and which is the only part we oppose. We urge the Regents to have the campus administration promptly consider further and adopt an alternative.

The campus administration’s case for SHW, and the decision to put a small part of that project just inside the Main Entrance in the East Meadow, ultimately boils down to two points: it’s cheaper and faster than the alternatives. However when one takes a broader look, neither point is true. The campus administration’s rejection of the alternatives is based on inconsistent and analytically unsound cost attributions, which load costs on to the alternatives and don’t count the same type of costs for the proposed project, all the while ignoring the grossly wasteful expenditure of 57% of the total project land for just 5% of the student beds. The proposed project also ignores seasoned design judgments, including two unanimous, on-the-record votes by the campus Design Advisory Board to disapprove the project. Due to the intense community opposition arising from 5% of the project, it is not likely to be faster.

The versions of the Student Housing West project on the table for discussion -- the version now proposed and six alternatives – all provide more than enough additional housing to meet the University’s obligations under the 2008 Comprehensive Settlement Agreement; all but one would provide over 3000 new beds (and that other one would provide over 2000 new beds); all would alleviate current over-crowding; all would provide separate buildings for graduate, undergraduate and family students; all would provide new and expanded childcare facilities for students and staff; all would provide at least the majority of their beds at the Heller site on the West Meadow of campus; and all would be LEED certified. All these alternatives meet the need for on-campus housing.

However, the version proposed to the Regents is the only one of the seven that would put a portion of the housing in the East Meadow, just inside the Main Entrance to the campus, at the Hagar site. Out of their seven options, the campus administration picked the worst one.

Is it cheaper? Not when you consider the *full costs* to the University. Generally the administration's case to you underestimates the cost of their preferred project and overestimates the costs of the alternatives. Here are a few examples:

- The cost-estimating for the preferred project and its alternatives does not take into account that the proposed East Meadow portion of the project, which would be wood prefab construction, will not have the same durability as the types of construction proposed in all the alternatives and in much of the existing housing on-campus. There is no attempt at life-cycle costing that would reflect maintenance and replacement costs. With wood prefab construction you pay less up front because you get less and pay more later.
- The costs of the additional dining hall facilities necessary to accommodate the additional 3000 students are treated inconsistently in the analysis of alternatives. Those additional costs for the preferred project are noted but kept "off the books" for purposes of cost comparisons, while the costs of putting half of that dining hall capacity at the North Remote Parking alternative, for example, are fully loaded onto that alternative. That is an apples-to-oranges comparison.
- Additional benefits to the University provided by the alternatives are kept "off the books" when making cost comparisons, to the detriment of the alternatives. For example, in the above case, the additional dining facilities, when placed at the North Remote Parking site, would do double-duty by also addressing the desperate lack of dining facilities at the immediately adjacent Engineering and Science Hill campus core. That very substantial benefit should be reflected in the comparison of the preferred project to the alternatives.
- Similarly, the campus administration contends that the North Remote Parking site alternative should be burdened with 100% of the costs of extending utilities to that area, when the benefit of those utilities would ultimately accrue primarily to other campus development in that area, which is currently planned in the 2005 LRDP for extensive development as "Colleges and Student Housing" and "Academic Core."
- The several alternatives at the East Campus Infill site (ECI) have been burdened, without explanation, with the costs of a multi-level parking structure. There is no indication that the cost savings of thereby needing to build correspondingly less parking at the Heller site have been credited to

these alternatives. Furthermore, when the ECI was originally designed and approved by the Regents in 2008 (and then in an error of judgment cancelled by the campus administration in 2009, sowing the seeds of today's housing shortage) it contained no parking structure. Why did the same amount of housing, in the same proposed building, require no parking structure in 2008 but now does? The ECI site is now several underutilized parking lots, and a majority of that parking would remain after construction of ECI. Since no parking structure was needed when the Regents approved this project in 2008, and since campus policy is now to provide much less parking with new housing, why is a parking structure required now when it was not in 2008, if not simply to burden the ECI alternatives with additional cost?

- In a number of instances regarding the East Meadow/Hagar/Main Entrance portion of the proposed project, far less planning and design has been done than is the case for the rest of the project. As a result, cost estimating is far less reliable than would normally be the case. One example is the test probing of the site for the large subsurface voids that are common at this site, which is entirely within the two worst karst hazard zone classifications. The proposed design would be capable of spanning karst voids of no more than 10 feet, yet the probing has been insufficient to establish that there are not subsurface voids several times that. If those large voids are encountered once construction commences, extraordinary measures would need to be taken to remedy the situation, at considerable extra cost. Another example is the childcare facility proposed for this location has had virtually no design work done – it is essentially a blank spot on the site plan. While it is obvious that all or at least a portion of the childcare capacity should be co-located with Family Student Housing (wherever that might be), the administration has not thought through the planning and design issues on childcare, and that remains a major unpredictable factor in their cost estimates.
- The phasing of the SHW project is a legitimate question, because the main housing development proposed in all options would be at the Heller site and would be built where today's Family Student Housing (FSH) sits, so FSH must be moved to either its new location or to an interim location. The campus administration's alternatives analysis assumes that, under all alternatives other than their preferred project, interim housing for FSH would have to be provided off-campus. That is a false assumption. We have demonstrated that, under nearly all the alternatives, the design at such locations could be slightly modified to provide some of the housing in a dual purpose layout that would permit those units initially to be used by the Family Students, then by non-family students once the new FSH is completed at the Heller site, as proposed in each of these alternatives. The administration has ignored our suggestions. They then compound the problem by claiming extraordinary, not credible costs of the interim housing off-campus, and burdening all the alternatives with exaggerated and unnecessary costs.

- *Most fundamentally, the cost of the proposed project is vastly understated because its profligate spending of a scarce public asset – buildable land at UCSC – is nowhere taken into account in comparing the proposed project to its alternatives.* The proposed project would put less than 5% of the proposed housing on 57% of the real estate proposed to be consumed by the entire project. None of the administration's alternatives come anywhere near that wasteful consumption of campus land. With respect to the use of real estate assets, the East Meadow/Hagar portion of the project would be 28 to 1 less efficient than the Heller portion of the project, and 14 to 1 less efficient than the East Campus Infill housing project (ECI) approved by the Regents in 2008 and then never built by the campus administration.
- Opportunity cost: We are well past the point when it would be appropriate to create 1950's-style sprawl development on scarce buildable land with such high value. It may have made sense for the private developer to suggest this kind of profligate consumption of public land – it's not his land and its cost does not show up on his books. But the University should not agree to this wasteful expenditure of public assets and should therefore not make cost comparisons as though expenditure of real assets is not a cost of this proposed project.

The Santa Cruz campus land was a gift from the Cowell Foundation to the people of California, through the Regents, and therefore the University doesn't normally factor land cost into the analysis of building projects, even though any private developer would consider land cost as an element of total cost. But that doesn't mean the land doesn't have value, nor that the profligate waste of land on the very low density East Meadow development proposed by the campus administration doesn't have real cost. Just for the purpose of comparative analysis, and using dollars as a proxy for the opportunity cost of the proposed project spending scarce land, assume that the land in the overall Student Housing West project were assigned an imputed value of \$1 million per acre. (This is a conservative assumption compared to the land values in the residential neighborhoods immediately adjacent to the nearby foot of the Santa Cruz campus, where 1/4 acre (or smaller) residential lots are worth approximately \$500,00 or more.)

Comparative dollar cost: if imputed land value is factored in, it becomes apparent that developing the East Meadow is extraordinarily wasteful. Even using a very conservative approximate land value of \$1 million per acre, then the Heller site's land value is \$1 M x 13 acres = \$13 M, and the Hagar East Meadow site's land value is \$1 M x 17.5 acres = \$17.5 M. Therefore the land cost per student bed on the Heller West Meadow site is \$13 M ÷ 2,932 student beds = \$4,434 *per student bed*, while the land cost per student bed on the Hagar East Meadow site is \$17.5 M ÷ 140 student beds = \$125,000 *per student bed*. Even if one used the campus administration's assumption of 3

residents per unit on the East Meadow site, that would still be a land cost of \$41,667 per *resident bed*. Under any analytical assumption, two things become clear: (a) the Hagar East Meadow site costs vastly more per bed than represented by the campus administration, and its supposed cost advantages more than disappear, and (b) the Hagar East Meadow site is much less cost-effective than either the Heller West Meadow site or any of the alternative sites considered and rejected by the campus administration.

- In general it is valid for the narrow purpose of estimating the financing that the developer would need to obtain to include in that estimate only the “on the books” costs the developer would need to finance. But for the broader purpose of comparing the costs and benefits of each of the alternatives to the University and to the people of California, total costs to the University and total benefits to the University must be considered, whether they are on the narrower books of what the developer must finance or not. The fiduciary responsibility of the Board of Regents is of course to the University and to the people of California, not to the developer.

It is possible that the chosen alternative may be cheaper for the developer, but it certainly will not prove to be cheaper for the University or for the people of California. It may not be a coincidence that it was first proposed by the developer.

- Is it really faster? This matters, because due to such missteps as the cancellation of the approved ECI housing project in 2009 there is now a shortage of on-campus housing. We all want new beds to come online as soon as possible. However the campus administration’s claims on how to best achieve this desired result are a mirage.

As discussed above, the proposed project must be phased. Step One would be to build prefab housing at the East Meadow/Hagar/Main Entrance site, and move the Family Students to these new beds. Step Two would be to demolish the existing Family Student Housing. Step Three would be to begin construction on the present site of FSH. Without question this proposal creates the first new built beds fastest, but they are not net new beds – they merely replace the beds that are about to be demolished. There are no net new beds, no additional housing capacity, until the conclusion of Step Three.

In contrast, under most of the alternatives Step One is the construction of net new beds at such locations as ECI or North Remote Parking. Students could move in at the conclusion of Step One. Net new housing capacity is achieved at Step One and would either fully eliminate or largely alleviate (depending on the alternative chosen) today’s overcrowding, which the administration estimates at less than 1000 beds. Step Two would be construction of the balance of the total number of beds needed over the next few years.

The administration has put alternatives on the table that bring net new beds online faster, yet they have chosen none of those alternatives. Given the urgency of the need, why not?

In addition, because the administration has chosen the only one of their seven options that would develop the East Meadow, they have assured enormous controversy and opposition to the project. 95% of the controversy regarding the total project comes from the 5% of the project in the East Meadow. Because of the way the administration has structured this project, with the entire 3000-plus beds contingent on first building 140 beds in the bulls-eye of controversy, 100% of the project will be held up over 5% of it. And the hold-up will be months at the very least, and very likely years. This is not the best of strategic thinking. We all need to take a step back and ask ourselves if we are serious about the urgency of providing additional on-campus housing, or if that is just a talking point.

There are additional issues as well:

- At the January 2019 Regents meeting one Regent made the reasonable point that the Regents were not looking to act as a kind of local zoning board for the campus. And in fact the campus has a board that serves many of the purposes of a local zoning board, so the Regents should not have to. At UCSC that board is called the Design Advisory Board, and it is made up of prominent California architects and planners chosen by the administration. They meet regularly to review plans and designs for upcoming projects, and they typically suggest relatively modest but helpful modifications.

*In this case, the campus Design Advisory Board took the rare step, on two occasions, of unanimously opposing, on the written record, the proposal to put any of this project at the East Meadow/Hagar/Main Entrance site. The administration has chosen to brush aside those votes. That Design Advisory Board opposition has been paralleled in the opposition of such experts as the former Campus Architect Frank Zwart and the former Campus Provost and Executive Vice Chancellor Alison Galloway. They have also been brushed aside. We are presenting our case to the Regents not because we think the Regents should function as a kind of local zoning board, but because the local zoning board mechanism we should be relying on has been brushed aside by the campus administration, and we need someone to protect the interests of the campus, the students, the University, and the people of California.*

- Among the issues insufficiently considered for the East Meadow site is traffic congestion. The proposed site for Family Student Housing and the childcare facility is at the corner of Hagar and Coolidge, each a two lane road. Even without any development at this site, congestion is already severe. The attached photo was taken about 5 p.m. on 2/28/19 and is typical of the

commute time of day. (Imagine what would happen in the event of an emergency evacuation.) At this intersection is proposed to be added a car-intensive development of 140 beds with 193 parking spaces. That can only make the congestion even worse. Furthermore, the childcare facility, including a play area, is proposed to be immediately at this intersection, which as the photo shows, is already solid with idling cars emitting exhaust fumes.

- We also suggest that the Regents should take a particularly close look at the Findings they are being asked, individually and collectively, to legally certify. This version of Findings would seem to carry more than the usual level of risks, particularly with regard to the East Meadow/Hagar/Main Entrance portion of the project. This portion of the project came late to the planning process and has been significantly less well analyzed than the main portion of the project. For example, as discussed above, the East Meadow site is entirely classified in one of the two worst categories of karst hazard, a condition that is unusually concentrated in much but not all of the southern portion of the campus. The Findings you are asked to certify acknowledge the hazard: “The proposed project would result in construction of facilities in an area underlain by karst features, which could lead to settlement or collapse beneath the structures.” (Findings, p. 16) The Findings go on to in effect acknowledge that there may be voids here larger than the design void (10 feet in diameter) and larger than the minimal test probes that have been conducted could detect: Mitigation “would address the contingency that a void that is larger than the design void... may exist under the building footprints.” (Findings, p. 17)

What you are then asked to certify is that such voids will always be found if they are there, and that if found they will always be adequately dealt with by special (and unspecified and unbudgeted) means, and that therefore no building will ever settle or collapse. “The Regents find that [mitigation] will reduce this potentially significant impact to a less-than-significant impact and that the Project will not, therefore, result in construction of facilities in an area underlain by karst features, which could lead to settlement or collapse of structures.” (Findings p. 17) Under normal circumstances, such certification would be at a normal amount of risk. Under these circumstances, in which the probes done for the EIR at the East Meadow were so few that there could be undetected voids several times larger than the design void and deep enough so that they might not be detected prior to construction, the risk is higher. The question is whether you are comfortable certifying that nothing can go wrong under this Family Student Housing despite the minimal probing that has been done at the East Meadow. And, as noted above, potential karst problems at the East Meadow site would cause a delay of the entire project and the vastly larger number of much-needed beds at the Heller site.

That is just one page out of 42 pages of Findings you are being asked to certify.

- You are being asked to approve this project by a Chancellor who will not be Chancellor when this project would commence with the irreversible excavation of the East Meadow. There will be a new Chancellor who will not have had a chance to judge this project in relation to the now in-process next LRDP, but who will inherit all the controversy and much of the blame without having had the chance to decide whether there was a better way to meet the very real housing needs of the students. There will be a new Chancellor who will quite rightly wonder why he or she has to answer for a decision made by others. There will be a new Chancellor in a little over three months. It wouldn't take much to be fair to that new Chancellor.
- And finally, there are important lessons to be learned from this entire episode, lessons that if learned would make the P3 approach to housing projects much more likely to be successful in the future. The P3 approach to financing and construction has considerable potential to do good, but only if campus administrations have the capability and the will to make sure that the private developer acts consistent with the best interests of the campus, the University, and the people of California. In this case, the idea of building in the East Meadow did not come from the administration, it came late in the game from the private developer. The administration made a quick decision to adopt that idea as its own—and has been concerned ever since primarily with defending that quick decision. In a sense the developer acted reasonably *from the developer's perspective*: they needed a place to put FSH fast and cheap; they saw a piece of land that looked on the surface like it would be easy to build on; and they had no idea of the significance or special problems of that site, nor of the controversy and risk to the entire project that that site would create. Those were considerations and local knowledge that needed to come from the campus administration and did not.

Going forward, for P3 to achieve its potential, it needs to be paired with campus administrations that have strong capability and the will to judge and guide planning and design considerations so that they assure P3 projects best serve the campus, the students, the University, and the people of California. And those within the administration who are that capability need to have the authority and the standing to neither be ignored nor intimidated into silence. Too often, those positions within campus administrations with the responsibility for guiding planning and design have been downgraded to the point where they cannot effectively advocate for the optimum outcomes. That is a particularly dangerous situation as we increasingly rely on private developers to alter the physical space of our publicly-owned campuses.



In conclusion, we urge the Regents not to approve this project at this time, to return this project to the campus administration, and to instruct that administration to come back to the Regents at a future meeting with whichever of its own alternatives or combination of alternatives that it believes would be best and would not develop in the East Meadow. We are confident that, given such instruction, the campus administration and their chosen developer can devise an excellent proposed project to bring back to the Regents. That is the course that would best serve all interests: the students who need housing sooner rather than later, the next Chancellor, the campus, and the people of California who, through the Regents, own the campus.

Sincerely yours,

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