



320 STEPHENS HALL
UNIVERSITY OF CALIFORNIA

April 29, 2019

PROFESSOR BARBARA SPACKMAN
Chair, Berkeley Division of the Academic Senate

Re: CAPRA comments on the proposed Upper Hearst project

On Thursday, April 11, Chancellor Christ sent a message to the UC Berkeley community acknowledging that, as the campus community has learned more about the proposed development of the Upper Hearst parking lot, “legitimate concerns and questions” about the project have arisen. Responding to a petition, you have called a special meeting of the Academic Senate for May 1st, to discuss this project. In that context, the Committee on Academic Planning and Resource Allocation (CAPRA) felt that we could provide some useful framing and background to the faculty discussion. We discussed this issue at meetings on April 3 and April 17, and this memo outlines our collective views. I request that, contingent on the approval of DIVCO, you please make it available to members of the Senate in advance of the special meeting.

Problems in capital planning are longstanding

Although capital projects do not normally come before CAPRA (they are reviewed by the Capital Planning Committee, or CPC), over a number of years CAPRA has sought to give advice on capital planning strategy more broadly. We have welcomed the current Chancellor and EVCP’s commitment to a collaborative and strategic planning process, and appreciate their demonstrated willingness to work with the Senate. At the same time, campus practices around capital planning are broken, and have been broken for so long that it may take more than the good intentions of our able senior leaders to solve the problem. Our recommendations for FY 2019, for example, offer this bracing reminder: “For several years, the campus faced considerable budgetary challenges made worse by poor leadership decisions. CAPRA has repeatedly called for substantive changes in financial decision-making and academic planning, but to little effect.” The previous year’s report went into greater detail:

CAPRA continues to be concerned about the campus’ lack of skills to handle complex real estate transactions. The use of public private partnerships (P3s), our current source for external capital, needs to be carefully monitored. It needs to be

acknowledged that P3 projects are not free to us--as evidenced, for example, by the Bowles Hall project wherein the P3 debt actually appears on our balance sheet (at least for some period of time). Development professionals need to be engaged for all such projects, and properly performed and well-reviewed financial projections are mandatory.

It also makes specific recommendations. Recall that these are general recommendations from a document written two years ago, not in relation to this specific project:

Real estate investments, no matter how financed and for what purpose the buildings are intended, should all include:

- Detailed financial projections made by analysts on campus. You do not ask a used-car dealer to tell you what a good price for a car would be, and likewise you do not ask your partners in (say) a P3 transaction to tell you the returns you should be willing to accept on a real estate deal.
- Fundraising that covers the entire cost of the building, including the present value of all future maintenance and operating expenses, to avoid problems like those with the new swimming complex, where although construction was financed by a donor, the campus will end up spending large amounts of additional money each year to operate and maintain the facility.
- Consideration of the opportunity cost of each project. Even if an external donor is willing to fund 100% of a new building, it is not a good idea for the campus if its construction removes a valued common good or precludes construction of something else in the same location that would have been more valuable to the campus.

CAPRA has also repeatedly called for more consultation with the Academic Senate in the capital planning process, and for greater transparency about the decision-making process:

CAPRA is concerned that shared governance is being undermined by a recent trend whereby senior administrators share information with a small number of Academic Senate members (e.g., the Chair of the Academic Senate, the Chair of CAPRA, or select members of CAPRA), but then insist that the information is confidential and cannot be shared with CAPRA as a whole, despite CAPRA's policies of strict confidentiality. This practice makes it difficult to impossible for CAPRA to meet its charge to initiate and advise on annual and long-range academic and physical planning.

We believe that the growing unhappiness with the Upper Hearst Project can be attributed in part to a failure to implement CAPRA's recommendations. And CAPRA has not been alone its concerns about the campus' ability to do effective capital planning. The last campus-wide strategic plan, called the "New Century Plan ", was released in 2003, and includes the following:

A strategic plan is only as effective as its means of implementation. The UC Berkeley campus has been the subject of many outstanding analyses over the years, **yet capital investment decisions tend to be ad hoc**: not because the campus lacks sound decision-making principles, but because there has been no clear linkage of those principles to a practical decision sequence [emphasis added].

A reform is said to be forthcoming (namely, the formation of the “Executive Committee on Capital Planning”), and assurances are made: “we must strive to ensure each new investment ...represents the optimal long-term use of land and capital for the campus as a whole.” Sixteen years later, we as a campus have not fulfilled that call. As state funding for capital projects has been withdrawn, we have been forced to rely more on philanthropy and P3 funding, adding complexity to the capital planning process, and reducing our ability to plan strategically.

Some history on this specific project

As with many domains at UC Berkeley, our formal policies regarding capital planning are complex, touching many different offices and committees. Partly as a result of this complexity, those formal policies are not always enshrined in common practice. For example, existing policy calls for the Space Assignment and Capital Improvements Committee (SACI) to appoint Academic Effect Study subcommittees (also known as Program subcommittees) from faculty nominated by the Senate to examine and advise on all major capital project proposals “at an early stage in their development”. In the case of the Upper Hearst proposal, no such subcommittee was appointed. But further, to the knowledge of anyone currently serving on CAPRA, no such subcommittee has been formed for a number of years, over many projects.

Consistent with policy and practice, the Upper Hearst development project was presented and discussed at the Capital Planning Committee on January 22, 2018, and was approved by that committee to move forward to seek bids. Overall, the project aimed to add academic space for GSPP and increase the supply of affordable housing close to campus. The project presented at that meeting differed considerably from the plan now being pursued. In early 2018, the plan was to leave most of the existing parking structure in place, to offer below-market-rate apartments, and for the developer to pay upfront an in-lieu fee for the parking spaces that would be lost.

When the project went out for bid, costs were considerably higher than anticipated. In response, a number of changes were made to the project, including: taking down the existing parking structure completely and replacing a smaller number of spots; increasing the number of housing units and their anticipated rents p to market rate; and postponing the payment of the in-lieu fee for a number of years. In January 2019, the CPC was asked to approve substantial changes to the scope and financing of the project via email, in order to make a deadline to get on the Regents’ agenda. In response to concerns raised by a faculty representative some members of the CPC participated in a phone-in meeting on January 23, 2019, when the changes were approved.

Concerns with this specific project

Academic space and housing are both important priorities, and the net benefit of those may in fact warrant this project. At the same time, CAPRA has four specific concerns.

Academic Planning. The GSPP is exceptionally distinguished, and its programs are valuable contributors both to campus and to the state. And indeed most of our schools and colleges are distinguished and make important contributions. Our current capital planning process is not set up to make decisions about which programs should be authorized to grow and which should remain at their current size: the composition of the committee, shown in the appendix, is primarily administrative campus leaders, not members of the Senate. And yet, when physical space is one of the important constraints on some programs' differential growth, the CPC is effectively making academic planning decisions.

Housing. Given the current housing crisis – the lack of affordable housing for students, faculty and staff in and around Berkeley – we agree with the Chancellor that we need to use our land efficiently and build aggressively. We know how committed the Chancellor is to mitigating the housing crisis, and applaud her efforts. However, there are real questions about whether the envisioned project can meet the needs of its intended beneficiaries – faculty, postdoctoral fellows, and graduate students – particularly as regards affordability. EVCP Alivisatos writes that “the University will have final approval on the rental rates charged” by the private developer – but he anticipates that those rates will be “at the middle of the current market range” – that is, at the same market range that most find unaffordable. Faculty who can afford high rents may well prefer to buy. Faculty with families may find the largest units to be too small for their needs. EVCP Alivisatos suggests that the campus might offer rent subsidies to make the market-rate units more affordable and more attractive. CAPRA is very pleased that the Chancellor and EVCP are working to increase access and affordability, but we wonder whether this method is the most efficient.

Parking. Parking is one of a variety of needs for campus. Many students, faculty and staff are forced by housing costs to live farther from campus and from public transit options than in the past, and according to data kept by Parking and Transportation, the university has lost a net of 449 parking spaces over the last ten years. The initial RFQ was for a project that did not entail a further loss of access to campus for those who are car-dependent: “The Project needs to provide a replacement for the current parking stalls, designed per University specifications and made available at no cost to the University so the University can continue to operate the parking lot as it currently does”. Later, it partly walked back that commitment:

Parking at the University of California has been reduced in the last few years because of other building projects, so the University's goal is to replace all of the existing 346 marked parking in the Upper Hearst Lot on-site. However, if full on-site parking replacement is demonstrated to be financially infeasible, then we

will consider alternative proposals, such as, partial on-site replacement and an in lieu payment so the University can replace the spaces elsewhere.

The developer decided that it was neither financially feasible to develop the site without demolishing the Upper Hearst parking structure, nor to pay the University's in-lieu fee up front. Instead, the in-lieu fee is to be gradually paid back out of the revenues from the housing rentals – revenues that may, if the university proceeds to subsidize those rents, ultimately come from central campus.

Moreover, it is unclear how the amount of the in lieu fee, since postponed, was set at the current level of \$30,000 per space. As far back as the 2020 Long Range Development Plan (LRDP), written in 2005, what was then called the “parking replacement fee,” required to be factored into costs of all developments on parking sites, was set at \$37,700. So, even in 2005 dollars, the University would already be shortchanging itself considerably. In 2019, it costs an estimated \$45,000 to replace each parking space (given land scarcity, almost all parking is now excavated or built). Even if central campus were to receive the projected \$5.1 million in lieu fees up front, it would not be possible to construct a new parking lot for this amount.

Financial planning. As we know, over the last several decades, the campus' financial reserves have been severely depleted, the depletion a consequence of (a) declining state investment; (b) the financial crisis of 2008-9; and (c) a number of questionable planning decisions of previous administrations. The campus has a large debt burden and limited borrowing capacity, and so has turned, in recent years, to donor development projects and public/private partnerships. The RFQ for the Upper Hearst project sought a private developer partner who would assume the financial risk: “The developer will design, finance, build, operate and maintain the building on University land under a long-term ground lease.” Indeed, the off-loading of debt onto the developer was described as “an important objective”:

An important objective for the University is for the Developer to structure the Project to have minimal or no impact on the University's credit rating or the campus's debt capacity. The University expects the developer to attract its own investors through the potential revenue coming from GSPP entering into a long term lease for its space combined with the revenue coming directly to the developer from the apartment rentals.

The ground lease does affect the revenue-generating capacity of the university. In addition, we are concerned about the financial model for the academic building. We are told that, “The new GSPP academic space will be financed by GSPP fundraising and GSPP operating revenues,” and that GSPP “will be responsible for the operations and maintenance of the academic building” [Alivisatos memo]. But CAPRA knows all too well from the experience of other units that such financial plans have almost always proved overly optimistic. The example of Berkeley Law is especially informative, as it is – like GSPP – a highly distinguished professional school with large PDST and SSGPDP programs. With partial philanthropic support, the previous dean took on considerable capital debt for expansion, which has contributed to the law school's

current financial struggles. Of course, we are all one campus, and the debt of a single unit is ultimately the debt of all.

Although the details are not yet available, the estimates that have been seen are for the new 37,000 sq ft GSPP building to cost between \$30 and \$35 million, of which \$10 million is already in hand. This projection is consistent with standard cost estimates for new construction of around \$800-\$1000 per sq ft. Raising enough money to pay the debt service on something north of \$23 million is not trivial, even for a professional school that is not currently running a deficit.

We appreciate the opportunity to comment, and look forward to continued conversations about this important issue.

With best regards,

A handwritten signature in blue ink, appearing to read 'J. Johnson-Hanks', with a long horizontal flourish extending to the right.

Jennifer Johnson-Hanks, Chair
Committee on Academic Planning and Resource Allocation

Appendix: 2019 Membership of the Capital Planning Committee

Chair: Paul Alivisatos, EVCP

Lisa Alvarez-Cohen Vice Provost, Academic Planning

John Arvin, Associate Vice Chancellor, Capital Strategies

Marc Fisher, Vice Chancellor, Administration

Jennifer Johnson-Hanks, Chair, Committee on Academic Planning and Resource
Allocation Committee (CAPRA)

Julie Hooper, Vice Chancellor, University Development and Alumni Relations

Randy Katz, Vice Chancellor, Research

Rosemarie Rae, Vice Chancellor, Finance and Chief Financial Officer

Barbara Spackman, Chair, Berkeley Division of the Academic Senate

Steve Sutton, Vice Chancellor, Student Affairs

Jennifer Wolch, Chair, Design Review Committee