

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

September 29, 2021

The Finance and Capital Strategies Committee met on the above date by teleconference meeting conducted in accordance with Paragraph 3 of Governor Newsom's Executive Order N-29-20.

Members present: Regents Cohen, Kounalakis, Leib, Lott, Makarechian, Reilly, and Sherman; Ex officio members Drake and Estolano; Advisory members Horwitz and Pouchot; Chancellors Christ, Gillman, Hawgood, Khosla, Muñoz, and Wilcox; Staff Advisor Lakireddy

In attendance: Regent Zaragoza, Secretary and Chief of Staff Shaw, Chief of Staff and Special Counsel Drumm, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Chancellor Larive, and Recording Secretary Johns

The meeting convened at 10:25 a.m. with Committee Chair Cohen presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes the meeting of July 21, 2021 were approved, Regents Cohen, Drake, Estolano, Leib, Lott, Makarechian, Reilly, and Sherman voting "aye."¹

2. CONSENT AGENDA

A. *Preliminary Plans Funding, Neuropsychiatric Replacement Hospital, UCLA Health, Los Angeles Campus*

The President of the University recommended that the 2021-22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Los Angeles: Neuropsychiatric Replacement Hospital – preliminary plans – \$22.5 million to be funded with hospital reserves.

B. *Preliminary Plans Funding, UCSF Benioff Children's Hospital Oakland Master Facilities Plan Phase 2 Including New Hospital Pavilion, San Francisco Campus*

The President of the University recommended that the 2021-22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the

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

following project:

San Francisco: UCSF Benioff Children's Hospital Oakland Master Facilities Plan Phase 2 Including New Hospital Pavilion – preliminary plans – \$90 million 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.]

Committee Chair Cohen briefly introduced the consent agenda.

Upon motion duly made and seconded, the Committee approved the President's recommendations and voted to present them to the Board, Regents Cohen, Drake, Estolano, Kounalakis, Leib, Lott, Makarechian, Reilly, and Sherman voting "aye."

3. **BUDGET, SCOPE, AND EXTERNAL FINANCING, STUDENT HOUSING AND OPEN SPACE COMPONENTS; AND DESIGN, ALL COMPONENTS, FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, HOUSING PROJECT #2, BERKELEY CAMPUS**

The President of the University recommended that:

- A. The 2021-22 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Berkeley: People's Park Housing – preliminary plans – \$10.13 million, to be funded with campus funds.

To: Berkeley: Student Housing and Open Space Components – Housing Project #2 – preliminary plans, working drawings, construction, and equipment – \$364.8 million to be funded with external financing.

- B. The scope of the Student Housing and Open Space Components – Housing Project #2 project shall provide approximately 326,500 gross square feet (gsf) of housing space, supplying 1,113 beds, related commons space, and approximately 1.7 acres of open green space.

- C. The President be authorized to obtain external financing not to exceed – \$364.8 million, plus additional related financing costs for the Student Housing and Open Space Components – Housing Project #2 project. The President shall require that:

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

- (2) As long as the debt is outstanding, general revenues from the Berkeley campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - (3) The general credit of the Regents shall not be pledged.
- D. Following review and consideration of the environmental consequences of Housing Project #2 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 this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents shall:
- (1) Adopt as conditions of approval of Housing Project #2 all applicable Mitigation Measures and Continuing Best Practices within the responsibility and jurisdiction of the University.
 - (2) Adopt the Mitigation Monitoring and Reporting Program for Housing Project #2.
 - (3) Following review and consideration of the previously certified Environmental Impact Report for the UC Berkeley 2021 Long Range Development Plan and Housing Projects #1 and #2, determine that no further environmental analysis pursuant to CEQA is required and adopt CEQA Findings and Statement of Overriding Considerations specific to Housing Project #2.
 - (4) Approve the Project design of the Housing Project #2 project, Berkeley campus.
- E. The President or designee be authorized, in consultation with the Office of the General Counsel, to execute all documents necessary in connection with the above.

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

Chancellor Christ introduced the item, which she described as a multi-faceted development that would respond first and foremost to UC Berkeley's severe student housing shortage by delivering over 1,100 student beds for continuing students. These apartment-style units, most of which would offer double occupancy bedrooms, would align with the accommodations sought by students and would be available at below-market rental rates. The project would go beyond housing students and would also address a regional crisis of homelessness by incorporating a permanent supportive housing development to be delivered by a nonprofit housing partner. The project would also offer internship opportunities for UC Berkeley students in the Schools of Social Welfare and Public Health,

among others, providing academic enrichment and professional development. The project would retain more than half the site as open green space both to commemorate the history of People's Park and to reinvigorate one of the largest green spaces in Berkeley's Southside neighborhood, to make it safe and welcoming for UC affiliates and community members alike. The open space at the center of the project, along Dwight Way and Bowditch Street, would be connected by a spacious and airy portal that would flow under the south wing of the student housing building. This integral design feature would maintain a connected, open space that would be highly programmed and activated by students and community members. The program and design of Housing Project #2 were the product of nearly two years of engagement and dialogue with the campus community, neighbors, civic leaders, advocates for the unhoused, and neighborhood historians, among others. Through small group discussions, public open houses, and digital outreach and engagement, the campus heard from hundreds of Berkeley residents, faculty, students, and other stakeholders. The project's massing, spatial orientation, and connections to its surroundings had been designed to meet the campus' density targets while responding to stakeholder concerns about building height and preservation of open space.

This unique project was not without its challenges: an ambitious program, a constrained site, and the tradeoffs among stakeholders had resulted in a project that cost more than many other housing projects in the UC system. Nevertheless, Chancellor Christ believed that the value the project would bring to the campus and its neighbors would outweigh the cost and would ultimately strengthen UC Berkeley's academic and civic stature by clearly demonstrating the campus' values and advancing a transformative design.

Associate Vice Chancellor John Arvin outlined cost drivers for the project. The budget for Housing Project #2 reflected a very ambitious program, with over 1,100 beds, a large park, and a site for a permanent supportive housing building. There were three significant cost factors. The first was the fact that UC Berkeley would construct a high-rise building; the campus was doing this because it was the only way to accommodate this number of beds on such a small site. High-rise construction was rare in the UC system and was the most expensive building type, primarily due to additional requirements for structural and life safety systems. The second cost factor was the infill location of the site, in the middle of a fully developed neighborhood, surrounded by residential uses, institutional uses, a commercial district, and one-way streets. These conditions imposed constraints on the ability to move people and equipment, which would decrease productivity and increase construction costs. The third cost factor was the fact that the campus was building in the most expensive construction market in the U.S.

In order to mitigate these costs as much as possible, the campus began with an efficient floor plan. The predominant unit type in the building would be a four-room, eight-bed apartment with modest shared living and kitchen spaces. This design was among the denser types of student housing designs. Every residential floor would essentially be the same, with one stacked on the other. This design would allow for a higher production rate, increase quality, and lower construction costs. All the academic program space would be concentrated on a single floor rather than being distributed throughout the building. The campus intended to have a robust contractor outreach program to ensure a satisfactory pool

of qualified residential contractors bidding on the project. This would lead to the most competitive bidding environment and the lowest-cost project possible. As a result of these efforts to mitigate cost, the building design had prioritized the efficiency of the floor plan for a lean academic housing program. Non-revenue-generating space had been minimized. Select amenity spaces had been carefully curated. While the total cost of the project was significant, the cost on a per-bed basis was less than the average of selected comparable projects and in line with recent projects in the UC system. After a rigorous assessment of all alternatives, massing types, construction types, and bedroom densities, the proposed project was determined to be the most cost-effective option that met all the campus' goals.

Chancellor Christ voiced the campus' commitment to providing better solutions for unhoused people than sleeping outdoors in unsafe and unsanitary conditions. The campus would proceed with construction only after having a plan in place to offer access to shelter and services to the 40 to 50 people currently sleeping in the park. The site had been a challenge to maintain and program effectively for over 50 years. This project was the first proposal since the 1960s that would rise to meet the challenges facing the community today: lack of housing, homelessness, and commemoration of shared history. The project now had the support of local elected officials, the site's neighbors, and a majority of UC Berkeley students. Most recently, a survey of current UC Berkeley students found that the students supported the project by a margin of 56 percent to 31 percent before being informed about the project's goal and elements. Once informed, the survey found that UC Berkeley students supported the project by a margin of 64 percent to 24 percent, with 68 percent specifically supporting the construction of student housing on the site. This support for the project, along with the campus' commitment to the current population at People's Park, would ensure successful implementation.

Regent Kounalakis commented that this project would make greater use of this site for student housing, housing for the homeless, and as a convening place. This was a historic site for American democracy. The campus had pursued the project in a way that had built up community support. She had heard that, the prior year, UC Berkeley had turned away thousands of students who applied for campus housing, and asked about these numbers. She thanked all who worked on development of this proposal, which would honor the history of the site and use the land to meet priorities of the community and the University. Chancellor Christ responded that UC Berkeley housed by far the lowest percentage of students on campus in the UC system; 23 percent of UC Berkeley students were living in University-controlled housing. This fall, the campus turned away 5,000 continuing students who wanted to live in UC housing. There were thousands of students that the campus and the City of Berkeley could not house. Housing in the City of Berkeley was hard to find and expensive. Students were living far away from campus and commuting, to the detriment of their education and experience. In her view, this was the most critical problem that UC Berkeley was facing as a land-constrained campus. UC Berkeley would have to use every piece of land that it had in order to meet its goals for student housing. Vice Chancellor Marc Fisher remarked that UC Berkeley students would either displace other people in the local housing market or would themselves be displaced because they could not find a place in the local housing market. UC Berkeley was reviewing every site in its portfolio for options for additional housing.

Regent Estolano commended Chancellor Christ and her team. This was a complicated project. It was innovative and balanced the needs of the University and the community in a responsible way. The partnership with Resources for Community Development (RCD) to provide affordable housing and permanent supportive housing was essential. RCD was an appropriate partner to realize the vision of this project. The University would be making a unique contribution for residents of the future RCD development with the internship opportunities mentioned earlier for UC Berkeley students in the Schools of Social Welfare and Public Health. Regent Estolano praised the design: the building elevations, the planned passageway, and an open space that would have transparency and visibility, which would contribute to the safety of residents and people using the space. The project would preserve trees and plant more trees, creating a carbon sink in a dense urban environment, and the building would use an all-electric design. She asked how this project fit into the campus' Long Range Development Plan (LRDP). Chief Campus Counsel David Robinson responded that this project was specifically studied in the LRDP and contemplated in California Environmental Quality Act (CEQA) documents approved by the Regents for the LRDP. The CEQA documents also included the Anchor House student housing project. Three lawsuits had been filed challenging the LRDP. A preliminary injunction hearing was scheduled for the following month; this was an attempt to enjoin construction of the Anchor House project, which the campus would oppose. UC Berkeley anticipated a challenge to the People's Park project. These projects were part of an integrated plan to increase substantially the amount of housing for UC Berkeley students and a fundamental element of the LRDP. The People's Park project was an important early implementation step in increasing the supply of student housing as contemplated by the LRDP.

Regent Estolano underscored that this project was part of an overall plan to address the low percentage of students that UC Berkeley could house on campus. This was an integrated, comprehensive approach to housing UC students and mitigating the impact of UC's growth on the surrounding community. To the extent that individuals in the community cared about providing relief for the affordable housing crisis and about housing the homeless and low-income people, and were interested in creating a more sustainable environment in a dense urban setting, this was an excellent project and should not be opposed. Regent Estolano expressed strong support for the project.

Regent Makarechian expressed support for the project and its high density, but concern about the size of the budget. He referred to budget details of the student housing building included in the background materials and estimated that the construction cost per square foot would be significantly higher than for complicated high-rise construction projects in Los Angeles. The construction cost was \$228 million for the building alone. This did not include "special items" such as special consultants for telecommunications, acoustics, elevator, trash, waterproofing, and façade, among other items, which represented another \$7 million cost. He drew attention to the stated contingency cost of \$50,229,000, which he found excessive. The budget should undergo further review; at this meeting, the Regents could approve all elements of the project except the budget for the student housing building. He expressed concern that an excessive budget would become a baseline for future projects. The Regents, as fiduciaries of public funds, should be very careful about what they approve. Mr. Arvin acknowledged that the project was expensive. UC Berkeley

had done everything possible to simplify the project and make it as efficient as possible. One of the reasons that the project would be able to provide a 1.7-acre park was that one of the building's wings was elevated by two stories, so that the park could flow underneath the building. This was not conventional construction and would add to the cost of the building, but was an important feature of the overall project. With regard to cost per square foot, Mr. Arvin believed that there was a significant premium on construction in the San Francisco Bay Area over Los Angeles. He referred to a chart in the background materials indicating that the adjusted building cost per square foot was about \$700; this was reasonable, given construction costs in the region. Due to the nature of the project there was a higher than normal contingency. The campus was taking this measure to protect itself against unknown contingencies, and was trying to build a budget in which it had confidence, confidence that UC Berkeley could deliver the project at or below this budget. There would be a robust bidding process. The budget hoped to capture every necessary item so that the campus would not have to seek separate approval later. Executive Vice President and Chief Financial Officer Brostrom added that, in his view, the campus' estimates were prudent and conservative. Among the financing assumptions, the campus assumed a financial feasibility rate of 4.25 percent. The University's most recent borrowing on its Limited Project Revenue Bonds was at 2.7 percent. The budget also included a line item for capital renewal; it made sense to include an endowment-style fund to address future deferred maintenance needs. The project would go through a bidding process, and the campus hoped that this budget would be an "outside envelope" and that construction costs would ultimately be lower. Mr. Arvin remarked that the project would deliver beds at a cost of \$300,000 per bed. This was expensive but in line with other housing projects on campus. The campus had recently had discussions with an apartment owner in Berkeley who wished to sell housing at a cost of \$400,000 per bed. The replacement cost for student housing would be much more expensive than the proposed project.

Regent Makarechian argued that the cost of \$400,000 per bed included the cost of land; without the cost of land, the cost would be significantly lower. The cost per square foot of \$700 that had been cited also did not represent the total project cost. He reiterated his concern about the high contingency amount. Mr. Arvin responded that the project had a higher than normal contingency amount because the campus expected possible delay to the project. There would be cost escalation associated with any delay. Regent Makarechian noted that steel and iron prices had recently decreased. Mr. Arvin hoped that the campus would be able to take advantage of such lower prices when the project had been competitively bid.

Committee Chair Cohen asked about the schedule for the bidding process and the parameters that would be used to ensure a competitive bid. Mr. Arvin responded that the campus would have a robust contractor outreach program, so that well-qualified, experienced residential builders would bid on the project. The campus would select the lowest-cost project possible. The campus had solid construction documents with a clearly defined scope. The design had been simplified as much as possible, which would minimize the opportunity for change orders. This would be a modest, efficient student housing building without luxuries or special features. The campus anticipated that it would be ready

to begin construction in the middle of the next calendar year. The construction period would last about two-and-a-half years.

Regent Makarechian expressed concern that a published high budget would encourage contractors to bid high. He reiterated his suggestion that the project budget be reviewed, with realistic numbers to be approved at a future meeting. Mr. Brostrom recalled that a similar situation had arisen with the UCLA Le Conte Apartments project, which included a large contingency. UCLA had provided further reporting on the actual bid. UC Berkeley needed to have this budget approved in order to proceed with the bidding process. The campus would be able to return and report on the actual bid. Mr. Brostrom believed that it was prudent to include the large contingency, given the complexity of the project, but mostly to account for potential delays. Regent Makarechian suggested that the Regents approve a placeholder budget, subject to the campus returning to report on final bids.

Regent Leib commended Chancellor Christ and her team for taking on this difficult project, securing the support of the local community, and moving the project forward. He asked about the campus' options in developing the budget to ensure competitive bids. Mr. Robinson responded that the University had been subject to statutory competitive bidding laws for many years and had much experience in managing the bidding process in order to get to a competitive bid. Contractors were motivated to bid low. Mr. Robinson acknowledged that they were also motivated to seek change orders, and the design of the project took this into account.

Regent Leib asked if it was necessary to budget the contingency at this point, or if the campus could return to the Regents if a delay occurred. He hoped that the campus would present project documents that would encourage developers to bid low and that the project cost would be kept at the lowest possible level.

Regent Makarechian recalled that campuses had returned to the Regents with requests for budget augmentation when this had been necessary for past projects. At this time, it would make sense for the Regents to approve a more reasonable number for this project.

Faculty Representative Horwitz expressed support for the project, which came at an appropriate time for People's Park.

Regent Lott noted that there was a commitment to encourage the general contractors to engage small and minority-owned businesses. She expressed appreciation for this commitment but wondered why it was not a requirement. This should be a requirement at the beginning, when the general contractor comes to bid. The bid should contain some level of small business commitment for subcontractors. This was the practice of a number of cities in the Los Angeles area. The University should have such a requirement at the beginning of the bidding process, followed by verification. Mr. Robinson responded that this was a matter of general, UC systemwide policy. He believed that the contract documents for this project had been prepared consistent with Regents policy and systemwide guidelines. Regent Lott's question referred to UC's systemwide commitment

to small businesses. Mr. Arvin asserted that UC Berkeley would follow Office of the President policy regarding public procurement.

Regent Lott asked if there was a requirement in the bidding for a certain amount of engagement of small and minority-owned businesses. She recalled that, for 2019-20, UC-wide procurement with small businesses was low, at 8.7 percent. Mr. Brostrom responded that there was currently a requirement for procurement, but not for UC construction projects. He acknowledged that procurement with small businesses was at a low level. The University actively looked for small and minority-owned businesses in its bid, but this was not a contracting requirement.

Regent Lott underscored the need for UC to support small businesses in its communities, especially when many small businesses had closed during the COVID-19 pandemic. Committee Chair Cohen suggested that this issue, and how it could be addressed at the systemwide level, be discussed at a future meeting.

Regent Estolano suggested that the item be amended to remove the contingency from the budget for this project. She thanked Regent Makarechian for his careful review of UC capital projects over the years, which had saved the University millions of dollars. The Regents needed to signal that they were being good stewards of the public purse. The proposed contingency amounted to about 16 percent of the budget. She emphasized that she would not eliminate the approximately two percent reserved for capital renewal, which was prudent and likely to be included in future UC Berkeley projects. This kind of paring down was fiscally responsible. Regent Estolano understood the need for a contingency, but the proposed contingency was simply too high. Mr. Brostrom stated that this amendment was reasonable, but noted that the campus might return to the Regents if there were a substantive delay in the process. Chancellor Christ concurred with this.

Regent Makarechian asked that the campus return to the Regents with the final budget and rates of financing. Committee Chair Cohen noted that Chancellor Christ agreed to return with a project report once bidding was complete.

Upon motion duly made and seconded, the Committee approved the President's recommendation as amended and voted to present it to the Board, Regents Cohen, Drake, Estolano, Leib, Lott, Makarechian, Reilly, and Sherman voting "aye."

Later in the meeting, Regent Kounalakis stated that she had stepped away when the vote was taken and would have liked to be recorded as an "aye" vote.

4. **2021 LONG RANGE DEVELOPMENT PLAN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, SANTA CRUZ CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed UC Santa Cruz 2021 Long Range Development Plan (LRDP), 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 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 Final Environmental Impact Report for the UC Santa Cruz 2021 LRDP.
- B. Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC Santa Cruz as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2021 LRDP EIR.
- C. Adopt the Mitigation Monitoring and Reporting Program (MMRP) for the UC Santa Cruz LRDP.
- D. Adopt the CEQA Findings and Statement of Overriding Considerations (SOC) for the UC Santa Cruz 2021 LRDP.
- E. Approve the UC Santa Cruz 2021 LRDP.

[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 Larive recalled that the UC Santa Cruz Long Range Development Plan (LRDP) was an updated framework and land use plan to guide future physical development on the 2,000-acre residential campus in Santa Cruz and on the nearby 18-acre Westside Research Park. The LRDP used the year 2040 as a planning horizon for up to 28,000 total students on campus and up to 5,000 total employees. The current 2005 LRDP allowed for a student population of up to 19,500, and UCSC currently enrolled about 18,500 students. If all elements of the 2021 LRDP were realized, the campus would add approximately 9,500 students and 2,200 employees. A number of factors were used to determine the enrollment horizon that formed the basis of the LRDP. Demand for a UCSC education was high. Applications had doubled over the last 15 years. In fall 2021, over 41 percent of undergraduate applicants were turned away. Enrollment of 28,000 students in 2040 was consistent with the original vision for the campus, described in the 1963 LRDP, which anticipated accommodating 27,500 students by 1990; this enrollment projected in the 2021 LRDP also reflected the enrollment growth rate of UCSC over the past 20 years. This planning horizon served as the basis for evaluating environmental impact associated with potential growth. This growth would allow UCSC to advance UC's shared mission of offering access to a high-quality undergraduate education to all Californians, while also pushing forward the campus' significant research enterprise.

Chancellor Larive asserted UCSC's commitment to its mission of education, research, and public service and that the campus was mindful of its duty to be a responsible steward of its incredible landscape. Anyone who has visited the Santa Cruz campus quickly appreciates the opportunities and challenges afforded by the beautiful natural environment.

To a large degree, the land dictates what the campus can do. In this LRDP, developable land use areas avoided steep slopes, maintained existing watersheds, retained critical viewsheds, and avoided critical habitat when possible. The 2021 LRDP included a land use plan, an integrated transportation strategy, and a utilities and infrastructure framework. The LRDP was guided by several key objectives. The land use plan included housing for 100 percent of new students above the 19,500 contemplated by the 2005 LRDP. In pursuing the Student Housing West project and additional housing at Kresge College, UCSC had demonstrated its commitment to build housing needed by students. UCSC already housed more than 50 percent of its enrolled students on campus, one of the highest percentages in the UC system, but more housing was needed. Providing housing for the campus' additional enrollment would lessen the impact on the local housing market and would especially help upper division students, many of whom struggled with securing safe and affordable housing.

The 2021 LRDP provided for four new residential colleges, reaffirming UCSC's commitment to its residential college structure, which offered undergraduates the transformative experience of a small liberal arts college along with the rigor of a major university. The LRDP focused on compact and clustered development, primarily in already developed areas of the campus academic core, and in infill sites, along with some expansion of the north and south of the core. The LRDP embraced density in order to maximize land use and accommodated over 75 percent more square footage than the 2005 LRDP in nearly the same land use area. Compared to the previous LRDP, the 2021 LRDP would protect existing open spaces by setting aside nearly double the acreage for the Campus Natural Reserve, which served as a vital resource for research, teaching, and wildlife. This, together with UCSC's other open space designations, meant that about two-thirds of the campus would remain in its natural state, reflecting UCSC's commitment to the sustainable and efficient development of its land resources and to providing a carbon sink. The LRDP provided on-campus housing opportunities for up to 25 percent of new faculty and staff, based on demand. The LRDP's integrated transportation strategy created a more efficient road network and promoted a walkable core by consolidating parking at the periphery, limiting routine vehicle traffic, and prioritizing pedestrian and bicycle transit. The LRDP's infrastructure and utilities framework fostered long-term physical and social resilience by taking advantage of the compact development area, allowing the campus to use and reinvest in existing utilities systems, increasing the resilience of the physical framework and reducing greenhouse gas emissions. UCSC would continue to be a leader in water conservation.

All new development would comply with the UC Sustainable Practices Policy and meet UC carbon neutrality goals. Chancellor Larive emphasized that, from the beginning, the development of this LRDP had included robust engagement with students, staff, faculty, alumni, and community members. UCSC knew that many in the campus community and in the greater Santa Cruz community would be interested in providing feedback on this LRDP, and UCSC actively sought public input. UCSC worked closely with numerous committees, including the LRDP Planning Committee, composed of faculty, staff, students, alumni, and community members. UCSC created a community advisory group made up of City and County representatives to gather their perspectives, meeting with them

throughout the planning process, and provided multiple opportunities for public feedback, including in-person workshops, scoping and public comment sessions, open forums, community meetings, and online engagement activities. Many elements of the 2021 LRDP and the associated environmental review documents were direct results of community input: increasing the LRDP's density and reducing its footprint; providing housing for 100 percent of new students beyond 19,500, or 8,500 student beds, and for 25 percent of new employees, or 550 housing units; reducing the development acreage in the North Campus, which was far from the academic core, would require significant infrastructure investment, and is in a higher-risk fire zone than other areas of campus; preparing a campus-wide habitat conservation plan; prioritizing pedestrian and bicycle transit circulation; adopting even more stringent water conservation measures than currently employed; and expanding the campus' non-potable water source.

UCSC received more than 130 letters and 30 individuals provided comments at public hearings on the Environmental Impact Report. UCSC understood the concerns expressed by City and County officials, as well as other organizations and individuals about growth in the community. The campus took these concerns seriously, and Chancellor Larive had taken part in regular, ongoing meetings with City and County leaders and State representatives. Work remained to be done, but Chancellor Larive felt that the campus' engagement had been positive and expressed confidence that the campus, working with stakeholders, would find a path forward. The Regents' action at this meeting on the LRDP would not end the conversation with the City and County of Santa Cruz, but would allow the conversation to continue and to focus on developing a framework for implementation of the LRDP informed by their input and concerns. UC Santa Cruz had long been a good community partner, not merely administratively, but through significant research and educational efforts. At the July meeting, some Regents had questions and provided feedback. In response, in the LRDP, the campus described the integrated transportation strategy, which prioritized reduced dependence on single-occupancy vehicles and encouraged pedestrian and bicycle transit. The LRDP detailed the pedestrian circulation improvements, planned along two key axes, designed to improve accessibility throughout the campus. The campus restated its commitment to provide housing for students, including its intention, under the 2021 LRDP, to house 100 percent of new student enrollment above 19,500. The LRDP described the campus' intent to maximize investment in the land by developing residential and academic facilities in a dense footprint.

Regent Makarechian thanked Chancellor Larive for taking all comments into account; those of the Regents, stakeholders, and the public.

Regent Estolano requested confirmation of UCSC's commitment to housing 100 percent of student growth over the baseline, and 25 percent of staff. This was an extraordinary commitment that should mitigate the impact on housing in the surrounding community. Chancellor Larive confirmed that this was correct; the campus was committed to housing 100 percent of students above 19,500.

Regent Estolano raised the issue of water resources. This would be a significant impact of the project that could not be fully mitigated to a less than significant level, and for which

the campus might make a Statement of Overriding Considerations. She referred to a mitigation measure described in the California Environmental Quality Act Findings for the project, Mitigation Measure 3.17-1b: Evaluation and Implementation of Additional Water Conservation Measures. The campus would initiate an engineering audit of campus water use. The audit would assess existing campus water uses and identify additional options for reducing water consumption. She asked what measures the campus intended to take related to this audit and other measures related to the water supply, so that the campus would be a good partner with the community. Chancellor Larive responded that water was a critical issue in the Western United States, including Santa Cruz. The campus was committed to sustainably managing its water resources. Currently, the campus' potable water demand was approximately six percent of the City of Santa Cruz Water Department supply. In a local news media report, City of Santa Cruz Water Director Rosemary Menard praised the campus for the measures it has taken to reduce water use. UCSC had reduced water use per user by 36 percent over the last 15 years and implemented additional conservation projects in response to drought in 2013 to 2016. In the new LRDP, the campus was committed to continuing to reduce potable water demand per user. One way to accomplish this was to further develop non-potable water sources on campus, such as storm water and rainwater harvesting for toilet flushing and irrigation, and to use non-potable recycled water. The Student Housing West project included a wastewater treatment plant on campus that would recycle water for non-potable needs. The LRDP would also comply with the UC Sustainable Practices Policy, which targeted a reduction in potable water consumption by 36 percent by 2025. The prior year, the campus had achieved a 39 percent reduction.

Regent Estolano emphasized that the campus would adopt the recommendations of the engineering audit. This was an enforceable mitigation measure, and there would be regular review of mitigation measures. Chancellor Larive confirmed this, and noted that there were more than 50 legally binding mitigation measures.

Regent Estolano drew attention to another measure described in the LRDP Findings, an annual monitoring program for transportation demand management. UC Santa Cruz was trying to substantially reduce the number of vehicle miles traveled and setting achievable goals, such as achieving a 15 percent reduction in the per capita vehicle miles traveled over baseline to a maximum of 7.7 vehicle miles traveled per capita. Housing more faculty and staff on campus would also help reduce vehicle miles traveled. Chancellor Larive responded that housing individuals on campus would contribute to this goal; the campus was also working to increase carpooling and pedestrian and bicycle transit. In accordance with the UC Sustainable Practices Policy, the campus would reduce single occupancy vehicle use by ten percent by 2025.

Regent Estolano referred to measures listed in the LRDP Findings that the campus would take to reduce greenhouse gas emissions. One of these measures was pursuing electrification of existing buildings and requiring that all new buildings be electric only. She also noted that growth would occur in the concentrated core area of the campus and that the campus' habitat conservation plan would be enforceable. Chancellor Larive responded that UCSC had already initiated discussions with the U.S. Fish and Wildlife Service to prepare the campus conservation plan, putting land under long-term protection,

and had set aside significant new acreage as part of the Campus Natural Reserve. Once the campus had completed the habitat conservation plan, it would reevaluate the Campus Natural Reserve space for further protection, such as becoming part of the UC Natural Reserve System.

Regent Estolano commented that Santa Cruz was a challenging place to build, but the campus was moving forward in a responsible manner and meeting UC and State of California needs, with more compact development than in the previous LRDP. She expressed support for the 2021 LRDP.

Regent Reilly referred to the commitment to providing housing for 25 percent of new faculty and staff, or 550 housing units. She asked how this percentage compared to other campuses. Chancellor Larive responded that she did not know these percentage figures; among UC campuses, UCSC was second in housing staff on campus. UCSC currently had about 220 units of employee housing, and the LRDP would greatly enhance that amount. The campus was working to understand the role of remote work and how this might affect future demand for housing. The LRDP set aside land that would more than accommodate the planned units for employees for the next two decades. Executive Vice President and Chief Financial Officer Brostrom stated that he would provide information on these percentages of employees housed on campuses.

Regent Reilly asked how employees were chosen for campus housing. Vice Chancellor Sarah Latham responded that the campus used a complicated system that had been developed over many years, taking into account number of units and prioritization. An employee housing work group was formed two years prior. It performed a survey and was working to establish priorities for future employee housing and determine unit types. In addition to building its own staff housing inventory, the campus was also examining how it can assist employees with down payments.

Regent Reilly recalled that, currently, the campus was using six percent of the City's water. She asked what percentage of the City's water the campus would be using when the LRDP was built out. Ms. Latham responded that the campus could not predict 20 years into the future. The City of Santa Cruz was planning to develop more housing in the community, and this would affect water needs.

Regent Reilly hoped that the campus would be able to decrease its use of City water resources. Chancellor Larive responded that the commitment to house growth in student enrollment and new faculty and staff would likely result in an increase in the absolute amount of water the campus uses; it was important for the campus to be a responsible steward of this resource. The campus had verified that students consume less water living on campus than if they live in apartments in the community due to mitigation measures on campus and educational programs on sustainability.

Regent Leib expressed confidence that the mitigation measures would be enforced. Chancellor Larive responded that the campus had been working with the City and County of Santa Cruz and that together they would develop an implementation format.

Regent Estolano recalled that the Regents had received an eloquent and heartfelt letter from State Senator Laird that reflected on his association with the University and the importance of UC Santa Cruz's partnership with the City and County. She asked that Chancellor Larive continue conversations with the City Council about plans for sequencing the level of housing development. Chancellor Larive responded that UCSC had entered into a tolling agreement with the City and County. This would provide space for conversations to continue and for mediating concerns raised by the City and County.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Drake, Estolano, Kounalakis, Leib, Lott, Makarechian, Reilly, and Sherman voting "aye."

5. **BUDGET, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, HILLCREST OUTPATIENT PAVILION AND PARKING STRUCTURE, SAN DIEGO CAMPUS**

The President of the University recommended that:

- A. The 2021-22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Diego: Hillcrest Outpatient Pavilion and Parking Structure – preliminary plans and working drawings – \$38,179,000 to be funded from campus funds (\$13,363,000) and external financing (\$24,816,000).

To: San Diego: Hillcrest Outpatient Pavilion and Parking Structure – preliminary plans, working drawings, construction, and equipment – \$550,275,000 to be funded from Medical Center Pooled Revenue Bonds (\$280 million), external financing (\$94.47 million), campus funds (\$104.16 million), operating leases (\$43,607,000), and hospital reserves (\$28,038,000).

- B. The President be authorized to obtain external financing from the Medical Center Pooled Revenue Bond 2020 Series N bonds in an amount not to exceed \$280 million to finance the Hillcrest Outpatient Pavilion. The UC San Diego Medical Center shall satisfy the following requirements:

(1) As long as the debt is outstanding, the general revenues of the UC San Diego Medical Center shall be maintained in amounts sufficient to pay the debt service and to meet the requirements of the authorized financing.

(2) The general credit of the Regents shall not be pledged.

- C. The President be authorized to obtain external financing in an amount not to exceed \$94.47 million plus additional related financing costs to finance the Hillcrest Parking Structure. 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 from the San Diego Campus shall be maintained in amounts sufficient to pay the debt service and to meet the requirements of the authorized financing.
 - (3) The general credit of the Regents shall not be pledged.
- D. Following review and consideration of the environmental consequences of the proposed project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 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 Hillcrest Outpatient Pavilion and Parking Structure project, having considered the 2019 Long Range Development Plan Environmental Impact Report (2019 LRDP EIR) for the Hillcrest Campus as well as Addendum No. 1 to the 2019 LRDP EIR for the Hillcrest Outpatient Pavilion and Parking project.
 - (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 2019 LRDP EIR for the Hillcrest Campus and revised in Addendum No. 1 to the 2019 LRDP EIR.
 - (3) Approve the design of the Hillcrest Outpatient Pavilion and Parking Structure project, San Diego campus.
- E. The President be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

[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 recalled that there had been a number of parcels of land within the perimeter of the 56-acre Hillcrest Campus that did not belong to UC San Diego. It had taken the campus more than five years and several tens of million dollars to acquire the entire property, and the campus could now reconsider how it wished to develop the property. This redevelopment compelled UCSD to build a new hospital while an existing hospital was still operating. Because no new beds were being added, UCSD must find ways to generate revenue and the resources needed for investment in the redevelopment, which might range from \$2.5 billion to \$3 billion over the next ten to 15 years. In order to generate

new revenue, UCSD would build an outpatient pavilion, included in the present item. The outpatient pavilion would add new services to the Hillcrest Campus that would generate revenue. Also, over the next five years or so, UCSD would build workforce housing as part of the Hillcrest Campus, which would provide housing for people who work on the Hillcrest Campus, would ease the housing burden for the surrounding community, and would generate revenue. This year, UCSD had received monies from the State for the Hillcrest Campus development.

UC San Diego Chief Executive Officer Patricia Maysent explained that Phase One of the project was development of the outpatient pavilion. The outpatient pavilion would house revenue-generating services but also services that were much needed in the community, such as cancer care. There would be an outpatient surgery suite, procedure suites, and specialty services. Patient volumes would more than double. The financial engine created by the outpatient pavilion would help UCSD with its replacement hospital effort. UCSD had engaged in a great deal of outreach to the community, and community members were excited about UCSD's plans, which would completely transform the Hillcrest campus.

Regent Makarechian recalled that there had been an eminent domain issue related to the Hillcrest site. He asked if this issue had been resolved. Chancellor Khosla responded in the affirmative.

Regent Makarechian noted that UCSD would be demolishing a large number of parking spaces. He asked the campus to explain why it was doing this and building new parking spaces. Director Robert Clossin explained that the replacement of two parking structures, the Arbor and Bachman parking structures, was part of the Long Range Development Plan. Both structures were aging and weak in terms of seismic safety. The new parking structure would allow UCSD to centralize and consolidate parking spaces on the Hillcrest Campus. UCSD needed to demolish the Bachman structure in the first phase in order to widen Bachman Place, which was necessary to meet circulation goals and accommodate traffic. Ms. Maysent added that circulation on the site was currently challenging.

Regent Makarechian recalled that he had earlier expressed concerns about the location of the new parking structure, which was a slope, partly cut and partly fill. If the structure were not built on piles, there might be many problems in the future. He asked how the foundation of this structure would be designed. Associate Vice Chancellor Eric Smith concurred that this was a very challenging site with challenging soil conditions, canyons, and some cut and fill. UCSD had spent a few years evaluating this. UCSD's team included experts in geotechnical and structural engineering. The team had evaluated numerous methods, including piles down to the bedrock as one alternative. The team considered big pile installation, which would involve piles, pile caps, and grade beams, to which the structure would be attached. The team had also evaluated other alternatives, including some hybrid methodologies which would not resolve concerns about differential settlement. UCSD had decided upon a methodology that was used in soil conditions like this, which was rigid inclusion piles. This is a type of pile that can be used in shallower conditions where one can reach bearing soil through a softer or unpredictable layer at the surface, and strengthen the entire footprint of the building. These piles are not reinforced. They are made of

concrete or a mixture of soil and concrete and are put into a grid formation across the entire footprint and tied together with a top layer of impacted aggregate, which then becomes the load-bearing and load transfer platform that distributes the load of the structure across the entire footprint. This technique had been selected by the team and was now in the design-build phase. Typically, each pile carries a point load that is transferred from the structure, and the structure is directly connected to the piles. In this technique, the structure is not directly connected to the piles; it sits on the cap that has been built to distribute the load across the entire site. Mr. Smith outlined the qualifications of engineers on the team and noted that UCSD was working with the firm Condon-Johnson, a leader in California and the Western U.S. in these types of projects involving challenging soil conditions.

Regent Makarechian referred to tables in the background materials showing projected financial performance. The projections for restricted assets for hospital construction were shown as zero in 2025 and later. Net assets were shown to decrease substantially over time. He requested an explanation. Ms. Maysent explained that these figures reflected an actuarial adjustment. Net assets decreased due to an actuarial adjustment that resulted in negative net income, but these were not cash items. The operating margin would be strong.

Regent Makarechian asked which actuarial adjustment this was. Ms. Maysent responded that this was the adjustment for pension and Other Post-Employment Benefits (OPEB).

Regent Makarechian asked why restricted assets for hospital construction were at zero. Mr. Brostrom supposed that these amounts had been taken as part of the reserves that would be used for the hospital construction; this was the reason why this became zero in 2025.

Regent Leib praised UCSD for the progress that had been made on the Hillcrest Campus redevelopment project and for UCSD's work with the community and the County.

Regent Estolano stated that this was a beautiful and necessary project, but commented that she found it painful to be voting for a project with a \$94 million, 648,000-square-foot parking structure for 1,850 cars. This would be a massive structure and it was an enormous expense. She hoped that she would not have to approve an almost \$100 million parking structure again. While she understood the need for this, she did not like this part of the project.

Regent Lott asked about encouraging general contractors to contract with small businesses on this project. Vice Chancellor Pierre Ouillet stated that campus procurement with small businesses amounted to about 15 percent of campus procurement and engaged about 2,000 small businesses. The campus must comply with insourcing policies, which did not favor small businesses. Mr. Smith added that UCSD was aggressive in its outreach for participation by small, minority- and veteran-owned businesses in the design and construction phases. In every solicitation for design professionals, UCSD specifically asks firms for statistics on diversity, equity, and inclusion as well as about their outreach to small businesses. The same occurs in the construction phase. In interviews with shortlisted firms, UCSD includes discussion about their strategy in assembling builder teams. UCSD

asks for the firm's plan and expects the firm to execute on its plan to include disadvantaged businesses.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Drake, Estolano, Kounalakis, Leib, Lott, Makarechian, Reilly, and Sherman voting "aye."

6. **AMENDMENT TO UNIVERSITY OF CALIFORNIA 2020-21 BUDGET FOR STATE CAPITAL IMPROVEMENTS AND APPROVAL OF UNIVERSITY OF CALIFORNIA 2022-23 BUDGET FOR STATE CAPITAL IMPROVEMENTS**

The President of the University recommended that:

- A. The amended 2020-21 Budget for State Capital Improvements be approved as shown below:

		State General Funds Financed (\$000s)		
		Approved Budget Sept 2020	Proposed Change	Proposed Budget
Los Angeles	Public Affairs Building Seismic Improvements	\$25,000		\$25,000
Riverside	School of Medicine Education Building II	\$93,600		\$93,600
Systemwide	UC Center in Sacramento	\$11,400		\$11,400
Systemwide	2020-21 UC Seismic Program Supported by State Resources	\$189,327	(\$21,900)	\$167,427
Systemwide	2020-21 Planning for Future State Capital Outlay	\$57,000		\$56,279
Davis	Sprocket Building Seismic	\$12,000		\$12,000
Merced	Health and Behavioral Sciences Building (portion of preliminary plans)	\$7,800		\$7,800
Capital Projects Total		\$396,127	(\$21,900)	\$374,227
2020-21 Systemwide State Deferred Maintenance Program		\$35,000		\$35,000
TOTAL STATE FUNDS FINANCED		\$431,127	(\$21,900)	\$409,227

- B. The 2022-23 Budget for State Capital Improvements be approved as shown below:

		State General Funds Financed (\$000s)	
			Proposed Budget
San Diego	Central Utility Plant and Mandell Weiss Theater and Shop Seismic Improvements		\$21,900
TOTAL STATE FUNDS FINANCED			\$21,900

[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 the Regents had approved about \$431 million in the 2020-21 Budget for State Capital Improvements. This included an amount for seismic safety improvements at Revelle College at UC San Diego. Since that time, the campus had determined that more extensive work was necessary to improve Mayer Hall. UCSD now wished to shift these funds to two other seismic safety projects: the Central Utility Plant and the Mandell Weiss Theater and Shop. The Office of the President supported this plan, which would move \$21.9 million from the 2020-21 Budget for State Capital Improvements to the 2022-23 budget so that the campus can undertake this work.

Committee Chair Cohen asked if all the mentioned projects would remain high-priority seismic safety projects. Mr. Brostrom responded in the affirmative. Chancellor Khosla underscored that renovation of Mayer Hall, where sensitive laboratories were located, would be a complex process. It might take five to ten years to move faculty from Mayer Hall to other locations.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Drake, Estolano, Kounalakis, Leib, Lott, Makarechian, Reilly, and Sherman voting "aye."

7. **UNIVERSITY OF CALIFORNIA DEBT PORTFOLIO OVERVIEW**

[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 noted that this was an opportune moment to discuss the University's debt portfolio. In the last fiscal year, UC issued more debt, nearly \$6 billion, than at any other time in its history. Much of this issuance came in the form of refunding, taking advantage of unprecedented low rates. The University also issued about \$2 billion in taxable debt for working capital. This was important during the COVID-19 pandemic to provide some operating cushion to the campuses and medical centers. Although there were historically low interest rates, the Tax Cuts and Jobs Act of 2017 removed an important tool for UC, which was the ability to execute advance refunding. The reconciliation package that was currently before the U.S. Congress included a provision that would restore the ability to carry out advance refunding. If this provision was included, UC had about \$6 billion in potential refunding, which would yield over \$1 billion in savings. Mr. Brostrom acknowledged the work of Federal Governmental Relations in advocating for UC. The University would be using debt extensively to address seismic safety and deferred maintenance needs. For the medical centers alone, UC projected over \$13 billion in capital spending to meet the seismic safety requirements of Senate Bill 1953. This would triple the debt on the medical center lien.

Director Meghan Gutekunst commented that debt has been a valuable tool for the University in recent years as it continues to grow. The Office of the President actively manages the debt portfolio in order to maintain a strong credit rating. Currently, the University had just over \$25 billion of debt outstanding in three core credits. General

Revenue Bonds were UC's primary credit and financed mission-critical projects including seismic safety projects. Limited Project Revenue Bonds were used for auxiliary facilities, including student housing projects. Medical Center Pooled Revenue Bonds would be critical over the next decade as UC pursues projects at the medical centers. The University had also made selective use of third-party structures, primarily for student housing projects.

Fiscal year 2020-21 had been a busy year. In addition to debt issued for working capital, UC was able to use General Revenue Bond credit to finance over 70 capital projects systemwide, including seismic safety and deferred maintenance work. Limited Project Revenue Bonds financed nine student housing projects. Even though tax-exempt advance refunding was not available at this point, UC evaluates the debt portfolio for a variety of other approaches and was able to deploy some of these during the past year. This resulted in over \$450 million in future cash flow savings for the campuses and medical centers. Of particular note was a medical center transaction that would produce over \$257 million in cash flow savings for UC Health in future years.

Ms. Gutekunst recalled that Regents Policy 5307: University of California Debt Policy had been amended earlier this year. Two new metrics, UC system targets, were added: debt service to operations and spendable cash and investments to debt. These figures would be reported to the Regents in the annual report on debt. Even though the University's debt portfolio had grown over the past decade, these benchmarks had remained very stable due to the continued growth of the University as well as the low cost of capital, which had kept debt service at a manageable level compared to UC operations. The debt policy also had metrics for the medical centers. The Office of the President was reviewing these metrics, and, if it wished to amend these, it would bring this to the Regents at a future meeting.

Mr. Brostrom added that the University often made exceptions for project financing, especially for student housing projects. This was because UC had an overall auxiliary debt service coverage ratio of 1.1x. If every campus housing project had to meet the project ratio requirement of 1.0x from its first year of operations, this would require higher student rental rates. UC usually allowed campuses to have lower ratios for specific projects as long as UC continued to meet the 1.1x coverage on a systemwide basis.

Committee Chair Cohen asked, assuming that advanced refunding became possible, when the University might generate the \$1 billion in savings mentioned earlier. Mr. Brostrom responded that the University would have to wait until its financial statements were approved in November. Ms. Gutekunst and her team were prepared to issue two items early in 2022, one for the medical centers and one Limited Project Revenue Bond. UC would then move on a General Revenue Bond as quickly as possible.

Regent Makarechian asked about calculations of debt service coverage ratios, and if the University took into account debt on public-private partnership projects. Mr. Brostrom responded that public-private partnership debt was carried on UC's balance sheet, but it was not part of the Limited Project Revenue Bond credit. Each project was analyzed individually. The University had been trying to use Limited Project Revenue Bond credit more than the Financing Trust Structure vehicle, because campuses often had to contribute

support to the Financing Trust Structure to bring it to the required coverage level. The financing rates for Financing Trust Structures had been favorable, but these were carried out on a project basis rather than a portfolio basis, and for this reason UC had moved away from using this vehicle recently.

Regent Makarechian asked how the University's auditors and rating agencies reconciled the fact that the University did not take this debt into account although it was on UC's balance sheet. This was not in fact UC debt, but the debt of the public-private partnership. Mr. Brostrom responded that the auditors included this in the University's financial statements. A footnote about housing explained the Limited Project Revenue Bond and Financing Trust Structure financing.

Regent Makarechian asked if this was noted as a violation of UC covenants. Mr. Brostrom explained that the University was not in violation of its covenants. UC now tended not to use Financing Trust Structures because the campuses often had to provide a housing subsidy for the Financing Trust Structure to bring it to the required coverage level, so that housing costs for all students are the same, regardless of whether a project is financed with a Limited Project Revenue Bond or a Financing Trust Structure.

Regent Makarechian asked if the debt service coverage ratio included public-private partnership financing. Mr. Brostrom responded in the negative. Regent Makarechian suggested that it would be good to include this information in a footnote in UC financial statements.

Regent Makarechian referred to campus requirements for monthly liquidity in the Short Term Investment Pool (STIP), shown on a slide. He asked if campus funds in the Total Return Investment Pool (TRIP) were included in that calculation. Mr. Brostrom responded that, in the coming year, the Office of the President was considering moving as much money as possible to TRIP while ensuring that there was enough money in STIP to satisfy liquidity needs. The prior year, TRIP had a return of over 20 percent more than STIP. While the University did not count on this kind of return, it did assume returns of two to four percent more in TRIP than in STIP. UC would discuss with its rating agencies the possibility of lowering the STIP requirement and putting as much as possible into TRIP.

8. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2022-23 OPERATING BUDGET**

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

Associate Vice President David Alcocer recalled that UC had enjoyed a very positive outcome in the 2021-22 State Budget Act. The final budget fully restored the \$302 million cut that UC sustained last year and provided a five percent increase over the past year to cover general operating costs, as well as new funding for student mental health services, UC Programs in Medical Education (UC PRIME), and other important programs. The

University also received \$729 million in one-time funding, with over 40 percent earmarked for deferred maintenance and energy efficiency projects.

The Regents had taken a crucial step at the July meeting with item B1, the *Multi-Year Tuition and Financial Aid Plan*, to provide campuses with new resources from tuition starting next year, while giving students and families much greater predictability and more financial aid. An adjustment of 4.2 percent would apply only to new undergraduates in fall 2022, and those students could expect tuition to stay flat until they graduated, for up to six years. Continuing undergraduates would see no increase in systemwide tuition and fees next year. Base tuition for graduate students would be adjusted annually, based on inflation, with an increase of 2.2 percent in fall 2022. Together, these actions would generate roughly \$71 million in new revenue to support both campus operating budgets and enhanced student financial aid.

There was a growing demand for access to a UC education. The Legislature had expressed its intent to support further enrollment growth in the Budget Act, in two provisions. One called upon three UC campuses where nonresident enrollment exceeded 18 percent to reduce this enrollment to 18 percent over five years, beginning in fall 2022, in order to accommodate more California resident students. This provision also expressed the Legislature's intent to provide replacement funding to offset the lost tuition revenue that would result from this shift in enrollment from out-of-state to in-state students. The second provision expressed the Legislature's intent to fund enrollment growth of over 6,200 new California resident undergraduates beginning next year. Although funding was not provided in this year's Budget Act for either provision, the language was clear about the Legislature's intent to do so next year.

Mr. Alcocer then discussed budget priorities for 2022-23. There were two broad categories: sustaining core operations and making additional investments to enhance student access and success. Costs belonging to the first category included honoring commitments to represented employees, fairly compensating policy-covered faculty and staff, funding pension and health benefits for employees and retirees, and covering costs in areas such as purchased utilities, instructional equipment, and other non-personnel-related costs. This category also included debt service on many UC-financed capital projects, State-approved projects that the University finances itself in the absence of new support from State general obligation bonds or lease revenue bonds. There was also a need to address budget shortfalls created by California undergraduate enrollment growth in recent years above the number of students funded by the State. UC, like any public university, has relied on the State to cover a part of the cost associated with enrollment growth, to pay for additional faculty, staff, instructional equipment, and other investments needed to adequately support each new student. This was essential, because in-state tuition covered only a portion of these instructional costs. The State's expected contribution was over \$10,000 for each new California undergraduate.

To its great credit, the State had provided this support in most years since UC started rapidly increasing California resident undergraduate enrollment in 2015. But the State had provided this for only about 14,400 students, even though UC actually grew by over

24,000 students between 2014-15 and 2020-21. The roughly 9,800 students that UC has enrolled beyond State-funded levels were effectively unfunded. UC campuses were educating and supporting them without the historic State contribution. This created a strain on campus resources. Campuses must do this without the roughly \$100 million they would typically expect the State to contribute to educate 9,800 more students. This had contributed to some worrisome trends: a higher student-faculty ratio, especially for ladder rank faculty; declining student satisfaction rates, particularly among students from disadvantaged backgrounds; and concerns frequently heard from students and faculty about course availability, academic advising, and other matters. California resident enrollment growth was an area where UC had not only met the State's expectations but had far exceeded them. The University needed help from the State to ensure that enrollment growth that has already occurred did not come at the expense of students.

The University's efforts to expand student access and success included strategic and organic enrollment growth over time, building on the Legislature's clear intent to help make this possible, and graduate enrollment growth, which was critical to research, California's economy, and UC's ability to provide instruction, not just today with graduate teaching assistants, but in decades to come as graduate students become future faculty. UC remained committed to ambitious goals at each campus to eliminate equity gaps in four-year graduation rates. Student Academic Preparation and Educational Partnerships (SAPEP) programs have been instrumental in achieving these goals. UC received \$22.5 million in new one-time funds for SAPEP this year, which was excellent. The University would like to see this converted to ongoing funding next year. There were ongoing needs in other areas of concern to the Regents and others: improving access to student mental health services, expanding financial aid, which the University was doing itself through its return-to-aid policy, and providing support to especially vulnerable student groups.

Executive Vice President and Chief Financial Officer Brostrom expressed the University's gratitude to the State for a large allocation of one-time funds for capital projects, particularly for deferred maintenance, energy efficiency, and seismic upgrades. As would be detailed in the following discussion item, the University had inventoried its needs in these areas and the projected long-term cost exceeded \$20 billion. In the last fiscal year, the State provided \$325 million in deferred maintenance funding, which was being used to implement over 400 projects systemwide. State revenues continued to be strong, and if they remained so, the University would seek additional one-time monies to continue these types of projects. Climate change was a priority and had been highlighted by Regent Estolano and President Drake. Mr. Brostrom noted that his office was working with Provost Brown, Vice President Maldonado, and other campus and Office of the President leaders to develop a proposal for applied research in climate change and climate resiliency that would leverage the breadth and depth of the UC system. Mr. Brostrom was also working with Executive Vice President Byington on a one-time request for the development of a mental health nurse practitioner program, which UC could include in a request to the State.

UC had other ways and other revenue sources to address budget needs outside the cohort tuition model and State support. The University had been working to optimize its working

capital investments, ensuring that it keeps sufficient liquidity for its operating needs but directing all additional working capital to higher-yielding investments to generate discretionary revenue for the campuses. Nonresident enrollment at three undergraduate campuses was below the cap, so these campuses could add revenue by growing nonresident enrollment. UC anticipated cost reduction opportunities emerging in the post-pandemic work environment. Most immediately, there had been a dramatic reduction in the amount of funding for travel across the UC system. There were also longer-term opportunities in rationalization of real estate, particularly for administrative support, as campuses engage in hybrid work environments. Because of the recent performance of UC's investment accounts and the strong funding status of the UC Retirement Plan, the University was also evaluating a potential reduction in the employer contributions to the pension system. With UC's overall total covered compensation at \$14 billion, every one percent of savings in employer contributions would yield \$140 million; one-third of this would go to UC core funds. These opportunities would inform how much the University would seek in State support in the upcoming year and over a short-term horizon.

The Office of the President would be monitoring several relevant factors from now until the November meeting, when it would present the 2022-23 budget for UC operations. First, UC would then have a much better sense of fall student enrollment. Current-year enrollment would help guide UC's request for enrollment funding in 2022-23. The Office of the President had a series of ongoing consultations with the Academic Senate, campus leadership, the UC Student Association, and other student representatives about budget priorities. UC would also continue discussions with Governor Newsom's staff, the State Department of Finance, and legislative staff on the revenue forecast for the State and the overall outlook for the 2022-23 budget.

Committee Chair Cohen advised the University not to emphasize the notion of unfunded enrollment for five years and more in its budget and budget request to the State. This was the wrong approach and would seem to convey the message that the University would only serve students if UC is paid for them. This message would fall on deaf ears. The proposal for applied research in climate change and climate resiliency was excellent and should receive widespread support.

Regent Leib emphasized the importance of converting SAPEP funding from one-time to ongoing funding. He was happy to see this listed as a priority item.

Staff Advisor Lakireddy hoped that the University would continue to provide predictable raises for staff. A recent three percent across-the-board increase had been the first raise in a long time for policy-covered staff; she hoped that raises like this would continue in the future.

9. **UPDATE ON THE UNIVERSITY'S SEISMIC SAFETY PROGRAM**

[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 General Counsel Robinson had provided a legal update on seismic issues in November 2014 and discussed updates to the University's seismic safety program, given new developments in seismology and geotechnical engineering and subsequent changes to the building code. The Finance and Capital Strategies Committee received an update on the seismic program in July 2017. In 2018, UC embarked on an effort to reevaluate the seismic safety of UC buildings in line with this new and updated program. The University had made substantial progress on its seismic safety program, including completion of seismic assessments on over 6,000 buildings, the majority of UC's inventory.

Associate Vice President David Phillips noted that UC has many older buildings; some were 100 to 150 years old. Construction design standards to protect buildings from earthquakes have changed significantly over the years. UC, like many long-term property owners, has many facilities that were not designed to meet today's seismic standards. The University had made significant investments to improve its facilities over the years and was committed to continuing this progress. This discussion would focus on progress since January 2020, when the Regents were last briefed on the program. Since that update, the campuses and locations had completed seismic evaluations of all buildings covered under the Seismic Safety Policy. The goal was to use these evaluations and results to prioritize actions for those buildings that posed the greatest risks. To achieve that goal, UC had developed a seismic risk model. The model takes data from the building inventory evaluation—factors such as building ratings, anticipated site ground motion, construction types, and occupancy—and outputs an estimate of the relative risk in comparison to other UC buildings. The evaluations included all UC-owned and UC-leased facilities, but not UC Health facilities, which are regulated by the California Department of Health Care Access and Information (formerly the Office of Statewide Health Planning and Development or OSHPD); those facilities were covered by separate code requirements, not UC policy. By January 2021, UC had completed over 6,000 evaluations. UC had 150 million square feet covered by its Seismic Safety Policy and could now report that 70 percent of this space was fully compliant with policy standards; this meant that no structural changes or further studies were required. About 15 percent of UC space required further evaluation. There were over 500 buildings in this category. Further evaluation might show that some of these buildings already met UC standards. The 70 percent compliance figure would likely increase after this work is completed. About another 15 percent of UC buildings needed physical improvements by 2030 to be aligned with UC policy goals. The University was currently in preliminary planning, design, and/or construction for about one-third of these facilities. There were 60 active projects with funding identified or proposed. Some examples of recent progress included seismic retrofits of Memorial Stadium and replacement of Tolman Hall at UC Berkeley, corrections to the Chemistry Building and the Walker Hall Building at UC Davis, and seismic renovations of Franz Hall at UCLA.

Based on the work completed to date, UC has estimated its total capital need to be \$20 billion. This figure included seismic, deferred maintenance, and other capital needs, such as energy efficiency upgrades, programmatic improvements, and other required changes. If UC takes a building out of service for seismic upgrades, it wishes to take care

of the building's other needs at the same time. These investments would add significant new life to UC's buildings. Of the total estimated funding need, funding for about \$2 billion, or approximately ten percent, had been identified or proposed. The remaining 90 percent had no funding currently identified. These capital needs estimates would be evaluated and refined over time in alignment with the Capital Financial Plan. UC had made active progress in seismic improvements in line with the compliance deadline of 2030, but the University and the campuses faced many challenges, mainly the limits of available funding. Implementing the projects can also be challenging. Construction and relocation can affect the ability to continue instruction and research. Many UC locations faced a lack of surge and swing space to house displaced functions during construction. UC would continue to make progress on implementing its seismic safety program and would work to address these challenges. The University would be completing over 500 more detailed evaluations which would confirm or improve building ratings and/or identify the specific improvements that were required. UC was hopeful that future general obligation bonds would provide funding to address the most critical needs and was working on additional funding strategies as well.

Committee Chair Cohen referred to the percentage of buildings still to be assessed and asked when this work would be completed. Executive Director Lauren Friedman responded that the work on buildings undergoing further evaluation should be completed in the next year to 18 months. The campuses were taking on this work as staff and resources were available. There was not a schedule for the ten percent of buildings to be improved for which funding was planned or identified. The scheduling depended on campus resources.

Committee Chair Cohen asked if the University would have an accurate assessment of needs at the end of 18 months, or if ratings might change. Ms. Friedman responded that UC would have a good assessment. She believed that a number of buildings with a current seismic safety rating of V, with a "borderline" status, would move to a rating of IV and be compliant with policy. Ratings determined under the current program would be valid for 15 years. In the case of a building with a rating of IV, absent an event like a major earthquake, the rating would not be revisited. Mr. Brostrom added that further evaluation would give UC a much better sense of the cost of required renovations.

Regent Estolano asked if there was any prospect of federal funding to address these needs. Mr. Brostrom responded that this had been discussed with Federal Governmental Relations, and the prospect seemed doubtful. UC was hopeful that there might be another general obligation bond on the ballot in a few years. The University must examine all alternatives to generate funding for these projects.

Regent Estolano asked how the seismic safety program might be combined with climate change efforts. Mr. Phillips responded that, for new construction projects, the University now included an estimate of utility use and carbon impact. Regent Estolano stated that she had thought that seismic upgrade evaluations would be combined with energy efficiency upgrade evaluations. Mr. Phillips responded that UC needed an integrated approach to climate resiliency, deferred maintenance, and seismic safety. There were opportunities, when a seismic safety project was in a building, to also upgrade existing infrastructure in

the building to make it more energy-efficient. Mr. Brostrom added that a great deal of effort is required to move faculty and students out of buildings. This was a reason for carrying out all upgrades at once.

Regent Reilly asked how much money Proposition 13, the unsuccessful 2020 general obligation bond measure, would have provided for the University. Mr. Brostrom responded that this would have been \$2 billion. UC had prioritized seismic safety and energy efficiency projects.

Regent Reilly asked about the University's strategies to meet this need, besides a general obligation bond or campuses' incremental funding. This was an urgent priority that concerned student, employee, and visitor safety. Mr. Brostrom responded that UC had a great deal of working capital; investing it more effectively might generate tens of millions of dollars or more. Because working capital varied every year, it was an appropriate source of one-time funding for projects like these. UC would continue to work with the State on one-time funds.

The meeting adjourned at 1:10 p.m.

Attest:

Secretary and Chief of Staff