

The Regents of the University of California

**ACADEMIC AND STUDENT AFFAIRS COMMITTEE
FINANCE AND CAPITAL STRATEGIES COMMITTEE**

November 18, 2021

The Academic and Student Affairs Committee and the Finance and Capital Strategies Committee met jointly on the above date by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Representing the Academic and Student Affairs Committee: Regents Anguiano, Elliott, Hernandez, Lansing, Park, and Sures; Ex officio members Drake and Estolano; Advisory members Blas Pedral, Cochran, and Timmons; Chancellors Block, Larive, May, and Yang; Staff Advisor Tseng

Representing the Finance and Capital Strategies Committee: Regents Cohen, Kounalakis, Leib, Lott, Ortiz Oakley, Pérez, Reilly, Sherman, and Zaragoza; Ex officio members Drake and Estolano; Advisory members Pouchot and Horwitz; Chancellors Christ, Gillman, Hawgood, Khosla, Muñoz, and Wilcox; Staff Advisor Lakireddy

In attendance: Regent Guber, Secretary Shaw, General Counsel Robinson, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice President Colburn, and Recording Secretary Lyall

The meeting convened at 11:20 a.m. with Academic and Student Affairs Committee Chair Park presiding.

1. STRATEGIC CAMPUS OVERVIEW, SAN FRANCISCO CAMPUS

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

Chancellor Hawgood presented an overview of the University of California, San Francisco's vision for the future and how its academic strategic plan fits within the financial position of the campus and drives the budget and capital planning process. He outlined the four strategic pillars for the campus: innovation, partnerships, culture, and resiliency.

UCSF has been known for innovation throughout its history. Chancellor Hawgood provided examples of UCSF's involvement in the biotechnology industry, its groundbreaking research during the AIDS epidemic, and UCSF Health's many clinical innovations.

Chancellor Hawgood focused on the Living Therapeutics Initiative, where living cells are engineered to be effective therapeutic agents against a wide range of intractable diseases. The campus is investing substantially in the idea that engineering of cellular circuits will lead to treatments for a wide range of currently intractable diseases. This initiative ranges from systems biology and cell engineering through onsite cell manufacturing for the first in-human studies that include detailed immunoprofiling, a way to measure the state of an individual's immune system.

The initiative has received significant philanthropic support and has generated several companies, most recently a partnership with Thermo Fisher Scientific to develop a manufacturing facility certified by the Food and Drug Administration to manufacture cells for human use, which will open in May 2022 at the UCSF Mission Bay campus.

Chancellor Hawgood recognized the work of David Julius, who was awarded the 2021 Nobel Prize for Medicine and Physiology for the discovery of the molecular basis of pain sensation. This is UCSF's sixth recipient of the Nobel Prize in Medicine and Physiology in the past 32 years and is a clear illustration of the campus' innovative discovery ecosystem.

The development of partnerships with other universities, national laboratories, and non-profit and for-profit entities has strengthened the campus' core mission and extended its capacity. Over the past five years, UCSF has established partnerships with the Chan Zuckerberg Biohub (with UC Berkeley and Stanford University); UCSF Fresno and UC Merced; the Weill Neurohub (with UC Berkeley and the University of Washington); Accelerating Therapeutics for Opportunities in Medicine (ATOM), which is a consortium comprising Lawrence Livermore National Laboratory, Department of Energy, National Cancer Institute, and GlaxoSmithKline; Computational Precision Health with UC Berkeley; and UCSF Health Affiliates like Canopy Health and John Muir Health.

Chancellor Hawgood highlighted UCSF's partnership with the University of California, Merced, which was established to increase the number of health professionals in California's Central Valley. The San Joaquin Valley has the lowest ratio of physicians per population in California despite being among the fastest growing regions in the State, and has some of the State's worst healthcare outcomes.

In 2019, the UCSF Fresno Program was designated as a UCSF School of Medicine regional clinical campus and the UCSF San Joaquin Valley Prime Program was developed. The goal of this program was to increase the number of students from the San Joaquin Valley who attend UCSF's School of Medicine. Students from the San Joaquin Valley attending UCSF's School of Medicine spend the first year and a half at UCSF and the last two and a half years in a clinical residency at UCSF Fresno. The program is now being substantially expanded to offer classroom-based medical education at UC Merced, which allows students to take classes in the San Joaquin Valley rather than move to San Francisco. This new expanded program, the SJV PRIME + Program, is a combined eight year B.S./M.D. program, the first in the UC system. Students will be recruited directly from high school to

UC Merced, with conditional acceptance into the UCSF School of Medicine, and will receive an augmented undergraduate curriculum to ensure their success in medical school. The first phase of the medical education will be delivered at UC Merced and the final two phases, clinical and research, will be delivered at UCSF Fresno. The intent is for medical students to receive residency training at UCSF Fresno and then remain in the San Joaquin Valley to practice medicine and teach future physicians.

The first class will enroll in 2023 as undergraduates and will graduate from medical school in 2031. The program currently has 12 students but the hope is to grow to a class of 50 students, contingent on funding. The ultimate goal is for UC Merced to become a fully independent medical school partnering with UCSF Fresno for clinical training. Chancellor Hawgood thanked UC Merced Chancellor Muñoz for his partnership and enthusiasm in this important effort.

Chancellor Hawgood shared that the third strategic pillar, culture, is vital to fulfilling the campus' vision. PRIDE values -- Professionalism, Respect, Integrity, Diversity and Excellence -- are foundational to maintaining the culture that defines and drives UCSF. Service to the community is key to UCSF's culture. Just before the COVID-19 pandemic, the campus launched a new initiative, with support from the San Francisco Foundation, to make UCSF an anchor institution and leverage the campus' resources to improve the health and well-being of the surrounding community, broaden the campus' impact as an economic catalyst, and mitigate the region's growing inequalities. The initial three areas of focus for the anchor initiative are workforce development, procurement, and community investment in social impact options, a first of its kind.

The fourth pillar, resiliency, pertains to the financial strength of the campus. UCSF has established an ambitious ten-year financial and capital plan to strengthen financial resiliency and prepare for and mitigate problems and risks. The campus has a strong operating position and balance sheet, despite the challenges presented by COVID-19.

UCSF's revenue grew nearly 50 percent over the last five years and significant growth is projected over the next ten years. Unlike other UC campuses, 80 percent of UCSF's total revenue is generated by highly competitive market-driven patient care and contracts and grants activity. UCSF's third major revenue source is private gifts and philanthropy. In October 2017, the campus launched a major development campaign that raised nearly \$6.2 billion in capital and endowment gifts, including more than 280,000 gifts from 160,000 individual donors.

Chancellor Hawgood explained that State funding has contributed less than three percent of UCSF's total revenue over the last five years, but noted that this funding has been critical to the campus' education mission and for academic and administrative support. He stated that the compound annual growth rate for revenue over the last five years was eight percent and the campus projects a target of 5.3 percent over the next ten years.

Chancellor Hawgood presented a chart that provided an overview of revenue and expenses over the next ten years indicating strong financial results which will enable successful achievement of the capital strategy. The chart indicated solid sustainable growth, positive net income, and consistent earnings before interest, taxes, depreciation and amortization of around 12 percent. These earnings will allow the campus to invest in its future, providing patients, staff, and students with state-of-the-art facilities. UCSF has three major projects in planning phases as part of its ten-year plan: a new hospital at Helen Diller Medical Center and a new Parnassus Research and Academic Building will begin the 20 year transformation of the Parnassus Heights campus, and a new hospital pavilion at the Benioff Children's Hospital will secure the future of UCSF's Oakland campus. These projects represent \$6.1 billion of the \$11 billion ten-year capital plan which will also fund deferred maintenance, scheduled replacement and renewal, and seismic safety.

Chancellor Hawgood remarked that to achieve these projects and fiscal health, UCSF will have to make sure that costs do not outpace revenue, which will require discipline in controlling expenses, success with multiple value improvement programs, further deployment of the lean management system, and a willingness to be proactive if there are changes to the economic outlook. The campus will pay close attention to earnings margins, philanthropy, cash, and external financing in order to execute its ten-year plan. The capital projects will nearly double UCSF's current \$4.2 billion of debt by adding an additional \$3.6 billion of external financing needed to support the projects. However, the campus' metrics support this level of investment. It has established a target of raising \$1.8 billion in philanthropy, with more than \$700 million already pledged. The campus is also building cash reserves and investing aggressively to support this level of construction and debt service. All three major capital projects will be brought to the Regents for discussion and approval of budget, financing and design in 2022-23.

Chancellor Hawgood stated that he is confident that the campus' strategic pillars will allow UCSF to remain at the forefront of education, discovery, patient care, and public service, as well as provide world-class clinical care, attract top talent, train the next generation, and lead the nation in biomedical discovery.

Regent Sherman praised UCSF and Chancellor Hawgood for their successful philanthropic efforts and asked what lessons can be taken from their success. Chancellor Hawgood acknowledged that other campuses have also had extraordinary success but noted that UCSF is fortunate to be situated in the Bay Area where substantial new wealth is being generated. He also indicated that the COVID-19 pandemic has generated interest in health. To be successful in philanthropy, a campus needs to develop a big vision. The campus has worked to encourage faculty, in conjunction with the Chancellor's Office and the development office, to develop broader visions which tend to excite and attract donors who are ambitious about making an impact. These hybrid proposals have capital and programmatic components.

Chancellor Hawgood remarked that philanthropy is a relationship business and cannot be rushed. Throughout the process, building a sense of trust and accountability is crucial. A

donor needs to know that their investment in the University will be well-spent and that their goals of philanthropy are paramount.

Regent Sherman asked what the average contribution is from a donor to campus. Chancellor Hawgood reported that of the 260,000 gifts to campus during the recent campaign, approximately 90-95 percent of the money was from five percent of those gifts. The UCSF Foundation Board members contributed two-thirds of the total that was raised during the campaign.

Regent Sherman inquired about the size of the UCSF development staff. Chancellor Hawgood responded that their development staff is about 130 people with 30 staff members designated as major gift fundraisers. The campus' expenditure per dollar raised is one of the lowest in the country.

Regent Sherman noted that the planned projects are estimated to cost approximately \$6 billion but questioned where the difference will be coming from since the campus only has committed gifts and financing of about \$5.4 billion. Chancellor Hawgood replied that it will come from cash on hand and equity from both the campus and health system.

Regent Sherman asked how quickly the campus can go to the market for financing, given the low interest rate environment. Chancellor Hawgood indicated that he is working with the UC Office of the President and Barclays to lay out the campus' ten-year debt strategy. The campus hopes to bring the Helen Diller Medical Center Replacement Project to the Regents in May 2022 for certification of the building specific environmental impact report and full funding. Traditionally, the campus would not solicit external financing until after Regents' approval of full funding, but they are working with the Office of the President to strategize and possibly go to market in early spring. Executive Vice President and Chief Financial Officer Brostrom commented that they would like to lock in the rates by issuing as soon as possible, assuming the Regents approve the external financing for the project. They are also looking at using an instrument called a forward starting swap, which was successfully used at UC San Diego to achieve a 50 percent savings on refunding. For the UCSF projects, the hope is that two-thirds of the total debt can be secured. Mr. Brostrom noted there are constraints on tax exempt financing and indicated that the spend-down period requires the campus to attempt to optimize taxable and tax-exempt debt in order to not be subjected to the construction timeline completion date of 2030. Regent Sherman encouraged the campus to be aggressive and bring this to the Regents for approval quickly in order to secure funding, and expressed that the campus will likely have broad support from the Board.

Regent Leib referenced that \$1.8 billion will be raised from philanthropy for the planned projects and remarked that the campus has already secured \$700 million. He asked when the fundraising efforts began and when the additional philanthropic funds need to be secured. Chancellor Hawgood noted that the formal volunteer fundraising committee was just established last month. The Helen Diller Family Foundation generously donated \$500 million. The campus and foundation plan to be fairly aggressive over the next few years to

raise funds but the major cash output will be in 2025 to 2028 when construction is at its peak. Chancellor Hawgood stated that this is an achievable goal but noted that capital fundraising is the hardest fundraising to execute and raising \$1.8 billion will be challenging. He is optimistic that they will exceed their funding target with use of hybrid proposals that combine capital and programmatic gifts.

Regent Park praised the comprehensive nature of the item and asked about UCSF's community investment strategy. Chancellor Hawgood commented that the campus is using unrestricted cash to invest in three-year community pilot programs that aim to increase available lendable capital in San Francisco's under-resourced communities and those most adversely affected by COVID-19. A request for quotation was issued to community investors and the selection committee, which included UCSF staff, UC Office of the President staff, and outside consultants, selected four initial groups in which to invest between \$1 million and \$1.5 million each. These groups are considered emerging leaders in the field, enabling UCSF to invest in a diverse portfolio of impact investing initiatives. The intent is that the principal will get repaid within three years and then the program will be reevaluated and hopefully expanded.

Regent Park questioned the numbers that indicate that UCSF only expects to see modest growth in existing program enrollments due to space and clinical placement limitations. She asked how the State is going to meet its goals for primary care physicians and other specialty care if UCSF and other medical schools are not able to grow substantially. Chancellor Hawgood called attention to the partnership between the UCSF School of Medicine and UC Merced and indicated that this collaboration, if successful, will add an additional 50 students to the typical 160 students enrolled at the UCSF School of Medicine, which is 30 percent growth. He also noted that if the State funds the mental health nursing program next year, then UCSF will be able to increase the number of nurse practitioners. He cited the biggest limitation as clinical placements for students during their last two years in clinical rotation. He shared that the majority of medical schools around the country have between 150 and 200 students due to the high faculty to student engagement ratio and intense small group teaching.

He also noted that there is currently an increase in for-profit pharmacy schools throughout the country so the number of pharmacy students exceeds the demand. UCSF has a plan to differentiate its School of Pharmacy as a research intensive school for students who desire more complex pharmaceutical environments. In dentistry, there is a limitation in the number of patients who need complex dental procedures. In the campus' recent accreditation, it faced critique because of the inability to provide the required number of practical complex dental procedures so a strategy has been developed to improve and expand the clinical dental practices.

Regent Park asked if the career pathways training programs are offered to current employees. Chancellor Hawgood explained that this program was established for staff to start in entry-level positions within the campus setting or at UCSF Health and have a pathway to grow into a satisfying career. Unlike other UC campuses, UCSF does not have

an extension program, so this training program provides an internal program for staff development. For a more formal program, UCSF collaborates with the UC Berkeley extension offices in San Francisco.

Regent Park asked about the campus' biggest challenges moving forward in relation to its goals. Chancellor Hawgood commented that keeping the focus on the campus' mission rather than revenue and growth is challenging. UCSF's missions are growing at different velocities. There are relatively flat projections on the educational side, with research growing at around three and a half percent a year for the next ten years and the health system growing at double that rate. He remarked that UCSF's leadership at all levels needs to continue to focus on mission rather than revenue and growth as more of the campus' net margins come from the health system. Even with the COVID-19 pandemic, UCSF and other health systems across the country were successful from a financial perspective. However, there is an increased dependence on government payers, which equates to approximately two-thirds of UCSF's patient base, requiring subsidies from private patients. Chancellor Hawgood stated concern about how long the marketplace will allow for this cross-subsidy to occur. He also shared that executing the planned capital projects is a challenge due to the interest rate environment and costs of programs in San Francisco as well as compliance with seismic codes. He noted that if UCSF is able to successfully deliver these capital projects over the next decade the campus will be in a positive position from a facilities perspective for the next 50 years.

Regent Reilly asked about current and future housing concerns. Chancellor Hawgood explained that the campus has doubled its on-campus housing in the past five years. During the pandemic, with many students moving home and with recent rent decreases of up to 30 percent, the campus reduced its rental rates and provided incentives to live in campus housing. The campus has also opened up housing to staff members and there are currently a couple of hundred staff living in campus housing. Chancellor Hawgood noted that this initiative has been exciting, as many staff commute long distances to get to UCSF, including a carpool from Sacramento each day. As part of the Parnassus Heights Comprehensive Program, UCSF entered into a MOU with the City of San Francisco to add another 1,200 housing units for staff, specifically lower compensated staff.

Chancellor Hawgood remarked that UCSF's clinical faculty is quite diverse and continues to get more diverse, but there are concerns about lack of diversity in the campus' basic science faculty. The campus launched a successful initiative to recruit underrepresented faculty in the basic sciences departments, including hiring a staff member to focus solely on recruitment of outstanding underrepresented candidates in the basic sciences.

Regent Pérez asked for clarification of whether the diversity of clinical faculty is greater than that of basic science faculty. He questioned what is considered successful. Chancellor Hawgood stated that UCSF is not satisfied with its diversity but indicated that they have made progress. He noted that it is easier to make immediate progress in the student population. It is more challenging with UC faculty who are employed at the University for

an extended period of time, especially in the basic sciences, so the turn-over rate is quite low.

Regent Pérez requested that this be discussed again and noted that he appreciated the work that UCSF leadership has done to date as well as the progress that has been made. He underscored that UCSF is the number one medical school in the country but falls to number nine in terms of faculty diversity. Regent Pérez remarked that work still needs to be done to improve numbers and close this gap. Chancellor Hawgood agreed.

Regent Park praised UCSF for the increased percentage of underrepresented students and acknowledged its work in this area.

Chair Estolano commended Chancellor Hawgood for being thoughtful about faculty diversity. She cited that since 2019-20, 83 percent of faculty hired in the basic sciences departments at UCSF have been underrepresented minorities. She acknowledged that it will take time to build these numbers but praised Chancellor Hawgood for systematically investing in diversity.

The meeting adjourned at 12:15 p.m.

Attest:

Secretary and Chief of Staff