The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
January 24, 2024

The Finance and Capital Strategies Committee met on the above date at the UCSF–Mission Bay Conference Center, San Francisco campus and by teleconference at 1021 O Street and 1430 N Street, Sacramento and Corral del Risco, 63727 Nayarit, Mexico.

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

In attendance: Regent Raznick, Secretary and Chief of Staff Lyall, General Counsel Robinson, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, and Recording Secretary Johns

The meeting convened at 1:00 p.m. with Committee Chair Cohen presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes the meeting of November 15, 2023 were approved, Regents Cohen, Ellis, Lee, Makarechian, Pérez, Robinson, Sherman, and Sures voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Advanced Work Phase of the Central Utility Plant Modernization and Expansion Project, UC Davis Health, Sacramento Campus: Working Drawings and Construction Funding, Scope, and Design Following Certification of the Environmental Impact Report Pursuant to the California Environmental Quality Act***

The President of the University recommended that:

(1) The 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Davis: <u>Central Utility Plant Modernization and Expansion</u> – preliminary plans for the entire project – $15 million to be funded from hospital reserves.

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

To: Davis: Central Utility Plant Modernization and Expansion – preliminary plans for the entire project, and working drawings, construction, and equipment for the Advanced Work Phase – $66 million to be funded from hospital reserves.

(2) The scope of the Advanced Work Phase of the Central Utility Plant Modernization and Expansion project be approved, which includes: the procurement of critical infrastructure equipment, emergency generators, and electrical switchgear; advanced work that is required ahead of the start of construction of the expansion (including the demolition of the Gross Anatomy Lab Extension); utility relocations; and the construction of new roadways and sidewalks in preparation for the use of Parking Structure 6. In addition, to prepare for the construction of the entire project, the project will construct a modular trailer to house the project's design and coordination office.

(3) Following review and consideration of the environmental consequences of the Central Utility Plant Modernization and Expansion project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 48 hours in advance of the beginning of the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

a. Certify the Final Environmental Impact Report (EIR) for the UC Davis Sacramento Campus Central Utility Plant Expansion project

b. Adopt the Mitigation Monitoring and Reporting Program for the UC Davis Sacramento Campus Central Utility Plant Expansion and make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC Davis.

c. Adopt the CEQA Findings and Statement of Overriding Considerations for the Advanced Work Phase of the Central Utility Plant Expansion project.

d. Approve minor Land Use Amendment #3 to the UC Davis Sacramento 2020 Long Range Development Plan.

e. Approve the design of the Advanced Work Phase of the Central Utility Plant Modernization and Expansion project, UC Davis Sacramento campus.

B. ***Authority to Indemnify the United States of America, United States Coast Guard for the Revocable License for Non-Federal Use of Federal Real Property to Place Ocean Current and Wave Equipment on the Coast Guard Station Humboldt Bay For UC Davis Bodega Marine Laboratory, Davis Campus***

The President of the University recommended that he be authorized to approve and execute an agreement allowing the Davis campus to place ocean current and wave equipment on Coast Guard Station Humboldt Bay, including a third-party indemnity provision in favor of the United States.

C. ***Authority to Indemnify the State of California, Department of Transportation for Lease of Property for Air Pollution Research for UC Davis College of Engineering, Department of Mechanical and Aerospace Engineering, Davis Campus***

The President of the University recommended that he be authorized to approve and execute an agreement allowing the Davis campus to place research trailers on premises controlled by the State, including a third-party indemnity provision in favor of the State of California, Department of Transportation.

[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 item.

Upon motion duly made and seconded, the Committee approved the President's recommendations and voted to present them to the Board, Regents Cohen, Ellis, Lee, Makarechian, Pérez, Robinson, Sherman, and Sures voting "aye."

[Board vote: The meeting was disrupted and subsequently adjourned prior to consideration of this item by the full Board. Pursuant to Bylaw 27.5, approved on behalf of the Board via interim action by Regent Leib, Chair of the Board, and Regent Cohen, Chair of the Finance and Capital Strategies Committee.]

3. UPDATE ON THE UNIVERSITY'S INTEGRATED CAPITAL ASSET MANAGEMENT PROGRAM AND 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, over the past ten years, the University had completed a comprehensive inventory of UC assets through the Integrated Capital Asset Management Program (ICAMP). This was initiated to better understand and address UC's overall backlog and deferred maintenance. UC had inspected nearly every building it owned and assessed all major components, including roofs, electrical systems, heating, ventilation, and air conditioning (HVAC) equipment, and infrastructure. UC has catalogued these conditions and estimated the costs and risks associated with each of them in a centralized database. This allowed the Office of the President (UCOP) to work with the chancellors to address the most urgent needs through a triage methodology. While the University has not had sufficient funds to address all of these needs in a timely manner, the database had been very helpful for both making requests to the State when one-time funds have been available and prioritizing funding when UC has such resources available.

Mr. Brostrom presented a table summarizing the funding received from the State in recent years for restoration and renewal of existing facilities. In total, UC had received, for self-financing with operating budgets, approximately $818 million in projects since 2015–16. About $660 million of this came through one-time funding and $155 million through the Assembly Bill (AB) 94 financing mechanism. To put this funding in perspective, Mr. Brostrom noted that, according to the ICAMP database, the University currently had about $7.5 billion in projects that needed to be completed in the near and intermediate term. With the State funding UC received, it had been able to address slightly more than ten percent of the need. It was clear that the University needed to identify and draw on other revenue sources to make noticeable progress on these renewal needs.

Associate Vice President David Phillips noted that, beyond State funding shown on the chart, the campuses had also been providing their own discretionary contributions to the highest needs. Nevertheless, UC's overall spending had not been sufficient to properly address the backlog. In total, the estimated cost of UC's renewal and restoration needs had increased from $6.6 billion the prior year to $7.5 billion this year. About $640 million of that increase was due to inflation. The University updates its cost figures each year and the California Department of General Services' California Construction Cost Index increased by 9.4 percent in 2023. This followed increases of 9.3 percent in 2022 and 13.4 percent in 2021. The Regents had asked that the ICAMP database include all UC-owned buildings, not just those eligible for State support. UCOP had been working on this and last year added $277 million in newly identified needs across UC auxiliary enterprises and medical centers, or about 3,500 new projects in that category alone. UC had completed assessments for about 2,000 buildings, covering 62 million square feet, and had addressed much of its critical infrastructure, identifying 2,500 needs there. Funding to address these needs remained the central challenge.

Mr. Phillips then discussed the University's seismic safety program. California's approach to earthquake safety changed dramatically following the 1971 Sylmar (or San Fernando) earthquake, which killed 65 people, most of whom died when the San Fernando Veterans Administration Hospital collapsed. This terrible outcome led the State of California to adopt new sets of regulations for hospitals and other acute care facilities, now managed by the California Department of Health Care Access and Information (HCAI), formerly known as the Office of Statewide Health Planning and Development (OSHPD). The Committee had received many reports related to the State-mandated deadline to complete seismic upgrades for hospitals by 2030. UC had been devoting significant resources and funding to complete this work as required. In the past, this work on UC hospitals had not been included in updates on the UC seismic safety program.

The University first established its own seismic safety standards in 1975. This program addressed all the non-OSHPD facilities used for University operations. Mr. Phillips presented a quote from 1975 outlining the intent of that policy, an intent which remained true today. UC's existing buildings are not required to meet the same standards required for new construction, but UC leaders decided that prudence dictated that the University exceed the State's minimum standards in order to mitigate potential risks to the UC community. Significant updates to the UC Presidential Seismic Safety Policy were made in 2017. As part of those policy updates, UC established clear requirements to assess all its buildings and determine a seismic performance rating (SPR) for each building. By 2021, UC had completed 6,000 of these assessments, which established an initial SPR based on a building's location, construction characteristics, and other risk factors. A tiered program guides UC responses, and a higher SPR indicates greater risk. No actions were required under policy for an SPR of IV or lower, and this applied to 70 percent of UC space. At the other end of the spectrum, UC identified a few buildings with an SPR of VII. Policy requires the University to immediately vacate these buildings until remedial actions are taken, and UC had done this.

A challenge was posed by the fact that more than 30 percent of UC space was found to have an SPR of V or VI, which fell short of today's design standards for new construction. California building codes did not mandate that UC retrofit these buildings, but the UC Seismic Safety Policy requires UC to take action to upgrade these facilities or vacate them by 2030. Mr. Phillips noted that the University had set this date before it knew exactly how many buildings would require action or how much this would cost, but there was some good news. Over the past three years, the noncompliant space decreased from 47 million square feet to 42.5 million square feet, or by about ten percent. This progress was achieved by completing 30 retrofits of existing buildings, demolishing 25 others, and by reclassifying buildings as compliant after completing more detailed assessments.

Mr. Phillips provided a few examples of seismic retrofits. The Nimoy Theater, formerly the Crest Theatre, which first opened in 1940, was acquired and restored by UCLA over the past few years thanks to a generous donation from Susan Bay Nimoy, actor, writer, director, and widow of "Star Trek" actor Leonard Nimoy. This beautiful 300-seat theater had a grand opening in September 2023. Mr. Phillips presented images of the significant seismic retrofit work that took place before the theater could open. Other examples of seismic retrofits were the Luskin School of Public Affairs at UCLA and the UC Santa Cruz Farm Chalet.

On average, the cost to UC to remedy its noncompliant buildings was about $300 per square foot. Sometimes the University does not need to take any action other than to perform a more detailed Tier 2/3 seismic evaluation. These assessments allow UC to better assess risks and often show that a building is in fact compliant with policy. UC had assessed over 300 buildings since 2021 and about one-fourth of these buildings were found to be compliant with policy. The prior year, 116 buildings were reassessed and 32 were found to be compliant. This was a highly cost-effective strategy; UC was spending about $0.70 per square foot for these reassessments and removing this space from the backlog. Another 450 seismic evaluations were in progress or in the planning phase.

Mr. Phillips presented a chart showing the current inventory of noncompliant space by campus and the reduction in this space by percentages from 2022 to 2023. Progress in reducing this space tended to be uneven, as projects can take multiple years to complete. Campuses which did not show much percentage change on this chart had many projects under way. In total, about 30 percent of UC space or 43 million square feet was not currently compliant with UC seismic safety standards and policy. There were ten retrofit projects in construction, 170 buildings planned for demolition, and about 24 other projects approved for construction. UC's total need for seismic upgrades was estimated at nearly $14 billion. As the University completed these retrofits, it also needed to address other renewal needs in the buildings, so that the total cost associated with this work was nearly $20 billion.

About 75 percent of this space was State-eligible, but the State had not been able to provide UC with one-time funding to address a significant portion of these needs. UC was funding this work as it could. Mr. Phillips presented a table summarizing the funding UC has received for both deferred maintenance and self-financed seismic upgrades in recent years. UC had self-financed over $650 million in seismic upgrades over the past nine years or $72 million per year.

The existing UC Seismic Safety Policy required that all buildings come into compliance by 2030. Due to limited funding sources, the campuses and locations were challenged in meeting that deadline. For this reason, UC was currently in the process of revising the Seismic Safety Policy to better prioritize actions and deadlines, given the massive gap in funding required for this work. The University's plan provided for continual improvement versus a single deadline, which should allow UC to focus the available funds on the highest-priority buildings. The University would likely not complete all this work by 2030, but the proposed goal would drive continual improvement toward 100 percent compliance. Mr. Phillips noted that other State entities, such as the California State University and the Department of General Services, differed from UC in that they had not fully assessed all their buildings and had few hard deadlines for upgrades beyond those required by code.

Following updates to the policy this year, with the appropriate reviews, UCOP planned in the future to report progress for all UC-occupied space in these annual updates. This would include HCAI space as well as leased space, which had not been included in these updates. The comprehensive reporting of all UC's efforts to address seismic safety would provide a more accurate picture. Leased space was a relatively small fraction of the University's portfolio, about eight million square feet, but it had been challenging for compliance, since it was difficult for UC to force landlords to comply with UC policy when UC happened to be a minority tenant in a building.

For both maintenance and seismic needs, the University would continue to pursue all available funding options, including the general obligation bond proposals currently working their way through the Legislature. The University would focus on its highest-priority projects, especially those that achieve multiple campus objectives. Finally, Mr. Phillips noted that, rather than providing this separate briefing to the Regents in January, UCOP was proposing in the future to present these reports at the November meeting, when the Regents approve the Capital Financial Plan, so that the Regents review these capital needs at the same time, which would streamline the process.

Regent Sherman asked about the decision-making process used to determine whether to carry out a seismic retrofit or build a new structure. Mr. Brostrom responded that this was a matter for deliberation for every campus. A slide shown earlier had indicated a cost estimate of $14 billion for seismic upgrades for all remaining UC-owned buildings; in fact, the University would demolish many of these structures and construct new buildings or utilize other funding sources. UC Berkeley constructed a new data science building and in the process was able to move several departments from buildings with SPRs of V and VI into the new building. Campuses were taking creative approaches in their decisions on how to address seismic upgrade and space needs.

Regent Sherman asked if there was a threshold based on cost per square foot used to make these decisions about new construction versus seismic retrofit. Mr. Brostrom responded that, while the average cost for seismic upgrades had been about $300 per square foot, it was a mistake to perform a seismic upgrade and not carry out any other modernization or renovation on a building. Building renovation costs were higher when one added energy efficiency features and HVAC and other upgrades. UCOP asks all the campuses to review these options carefully when considering new buildings.

Regent Sherman commented that seismic retrofits were probably being performed for old buildings with less efficient design. New buildings would be designed for greater energy efficiency. Mr. Brostrom concurred and noted that it was easier to include seismic safety features in new construction.

Regent Makarechian referred to information on a chart shown earlier and asked why the San Diego campus had a relatively high square footage of noncompliant space. Mr. Brostrom responded that, although UC San Diego had been founded in the 1960s, the history of the campus extended back to the Scripps Institution of Oceanography, and there were buildings from earlier decades. Much of the construction from the 1960s and 1970s did not meet current code requirements and had SPRs of V and VI.

Regent Makarechian asked about inclusion of auxiliary facilities in this survey. Mr. Phillips responded that auxiliaries were included in the seismic policy but were not initially included in the ICAMP assessments. UCOP was expanding the ICAMP program to include auxiliaries.

Regent Makarechian asked if revenue-generating buildings had their own reserves for seismic upgrades. Mr. Brostrom responded in the affirmative. In general, UC housing and dining facilities were in good condition with respect to seismic safety. This was because they had a revenue source but also because of the prioritization factor of “equivalent continuous occupancy,” according to which a dormitory would be upgraded much sooner than a central plant.

Regent Makarechian stressed his view that the University must have deadlines for these projects. It should not remove the 2030 or other deadlines. It would be acceptable to change the deadline for a project from 2030 to 2040 or another date, but no projects would be completed without set deadlines. Mr. Brostrom responded that, if UC moved to a goal of continuous improvement, projects would have an implied date. For example, if the University set a goal of reducing noncompliant space by five percent every year, this would imply that UC would address all noncompliant space in 20 years. Mr. Phillips added that all the proposed projects had an end date. UC was examining the spending rate and determining an acceptable level of progress to maintain safety. All projects would have deadlines or end dates, but there would not be a single date, and UCOP would be reporting on the progress by location each year. Regent Makarechian emphasized that these deadlines should be publicized or communicated to the Legislature, to ensure that State funding is provided for these projects.

General Counsel Robinson explained that it was not just UC policy that was driving the need to upgrade these structures, it was also the law, which requires the University to address dangerous conditions on public property by either repairing the conditions or protecting people from them. He expressed agreement with Regent Makarechian that an end date was required for renovation projects. There was an ongoing discussion about this between UCOP and the campuses. Mr. Robinson shared that he had concerns about ensuring that the University is making reasonable progress as required by law. It was true that UC's policy was more aggressive than code in this area, but it was also true that, according to case law, one cannot rely on code alone. It was also not necessarily the case that, because the University was compliant with code when structures were originally built, which could be 50 or more years ago, that this would satisfy a court in the event of future litigation. Such litigation would occur after a catastrophic event, and the University must bear this in mind.

Regent Cohen thanked UCOP administrators for being responsive to the Regents' desire for more comprehensive assessments. Targeting the most dangerous and unsafe structures first was a reasonable approach. Mr. Robinson noted that he would agree to move away from a 2030 deadline. It would not be desirable to enshrine in policy a deadline that UC did not believe it could meet.

Regent Raznick stated his understanding that UC was still committed to completing hospital upgrades by 2030 and addressing spaces with SPRs of VI and VII by 2030. He emphasized that the approach UC was taking to seismic upgrades would not diminish any safety requirements. Any UC policy would be within California law. He praised the UCOP plan, which moved out some deadlines, but committed the University to certain spending and percentages that UC would figure out how to achieve. The University was starting to get its arms around a problem that had been untenable.

Regent Ellis expressed agreement with Regent Makarechian about the need for specific deadlines or end dates for projects. UC must hold itself accountable to the people of California for ensuring that its facilities are safe. Safety was UC's number one priority, and closely entwined with this was accessibility for students with disabilities. The University should assess accessibility in the same light as seismic safety and achieve higher standards than the minimum required by law. He thanked UCOP and the campuses for their work in this area.

Regent Chu asked about the overall completion of assessments and how many more remained to be completed. She referred to the cost estimate of $20 billion for seismic upgrades and other renewal needs and Mr. Brostrom's comment that the University would not perform all these upgrades but demolish many of these structures and construct new buildings or utilize other funding sources. She asked if UC had some idea what this difference would be. Mr. Phillips responded that, of the ten percent reduction in noncompliant space over the past three years, two-thirds was due to assessments and removing buildings from the list. He hoped that this trend would continue with the remaining buildings. There were another 450 assessments in progress. As the assessment process continued, the percentage of buildings with a favorable assessment that are removed from the list might not continue to be as high. The $20 billion cost estimate for seismic and other renewal needs was based on an assumption of no buildings being removed from the list. Mr. Phillips hoped that the reassessment program would continue to reduce the number of renovation projects and their cost. Mr. Brostrom added that, putting aside the reclassifications or projects removed from the list, there was an approximately 50/50 ratio of retrofits and demolitions. One must keep in mind that, following a demolition, UC must build new space. Enrollment and faculty and staff numbers were growing. New construction had different funding sources: philanthropy, research grants, or other sources. Mr. Phillips noted that, in recent years, the demolitions had been a relatively small fraction of the reductions. UCOP was leaving this decision, based on all these factors, to the campuses. He believed that the University was not spending an excessive amount to retrofit existing buildings due to the factors mentioned by Regent Sherman.

Regent Chu asked about possible seismic safety policy amendments, other than completion timelines. Mr. Phillips responded that, in addition to changing the timeline, another amendment would be the requirement for continual improvement across the entire portfolio including leases. In his view, the policy as currently structured unfairly prioritized leased space because it required immediate compliance when UC was approaching the end of a lease or lease renewal. An unintended consequence of the policy was to direct much of UC's effort toward leases rather than the University's own space. UCOP was proposing some amendments to policy so that UC prioritizes its own space above leases.

Regent Matosantos expressed approval for the nuanced approach taken by the University regarding project end dates and underscored UC's need to be ambitious in this area while recognizing what it can afford.

4. **REVIEW OF THE GOVERNOR'S JANUARY BUDGET PROPOSAL FOR 2024–25**

[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 reported that, on January 10, Governor Newsom unveiled the State budget proposal for 2024–25. Mr. Brostrom described this as a grim budget, a $208 billion budget with a $38 billion shortfall due primarily to revenue. It exemplified the State's great dependence on personal income tax. There had been a 50 percent decline in home sales and an 80 percent decline in initial public offerings. One hoped that a continued strong performance in the stock markets would begin to rectify this situation. The State would make use of its rainy day fund. California was fortunate in having a high level of reserves in the rainy day fund and other reserves to address "boom and bust" economic cycles. The University was fortunate in being one of the few agencies, like the California State University (CSU), with a funding commitment. However, this commitment was deferred and would be paid in the 2025 budget year.

Under this budget proposal, the University would receive $227.8 million in ongoing funding and a five percent base budget increase, but it would be paid at one time, on July 1, 2025 and then UC would receive a double appropriation, or ten percent, in the 2025–26 budget. The University would be made whole under the Compact, although the funding for 2024–25 would be deferred. The same approach would be used for the funding to replace California nonresident student tuition at UC Berkeley, UCLA, and UC San Diego; these campuses would continue to enroll fewer nonresident students, and this funding would be made up on July 1, 2025.

Among positive developments in the budget, there was an ongoing commitment of $14.5 million for debt service for the UC Merced Medical Education Building, and $2.6 million to true up the Proposition 56 graduate medical education funding to a total of $40 million for 2024–25. The Governor made a commitment of $200 million for the California Institute for Immunology and Immunotherapy, but this was all the funding that the Institute would receive; the remaining funding of $300 million had been pulled back and would not be restored. The budget proposal also reversed $200 million in funding for the student housing zero interest revolving loan fund. This was unfortunate because the University had several projects that were counting on this funding. UC would be able to finance these projects with debt, but this reversal of State funding would affect affordability for students. The status of the expansion of the Middle Class Scholarship Fund and Cal Grant reform would be known at the time of the May Revision and updated revenues.

Mr. Brostrom outlined next steps for the University. The campuses, the chancellors, and the President were fully committed to the Compact goals, which were all in alignment with UC's 2030 goals for increasing enrollment, improving graduation rates, reducing equity gaps in graduation rates, intersegmental collaboration, online instruction, and workforce readiness. The Office of the President (UCOP) planned to report on progress on the Compact goals at the March meeting. Two bills for a general obligation bond, which would be an education bill, were in preparation. UC must ensure that it is included and can derive as much funding as possible from a general obligation bond for its capital needs.

The University had a number of ideas on how to address the one-year deferral of State funding. The University could borrow from the Short Term Investment Pool (STIP) for the campuses and had various lines of credit that it could call on. UC issued an external taxable note during the COVID-19 pandemic that would come due in May 2024, and this could be extended for another year. Interest rates had since risen. The most important decision to be made now concerned enrollment. UC planned to meet the Compact goals for increasing resident enrollment and decreasing nonresident enrollment. The University would wait until the May Revision before considering any changes to its expenditure plan.

Student observer Miguel Craven asked that the University not forget, as it deploys the UC Advocacy Network to lobby for increased State funding, to advocate for full funding for the Cal Grant Equity Framework, which could expand access to an estimated 150,000 students who were previously excluded, and to request funding to expand the Cal Grant beyond the current four-year eligibility. Students were also asking UC to advocate for funding for the California student housing revolving loan fund program, for which funding was promised in 2022. This program would serve students at all UC campuses. He hoped that, with everyone's continuous effort, the University would see an increase in funding from the State.

Regent Pérez observed that, while the State budget situation was not favorable, it was eminently manageable compared to past years, if one managed it intelligently, and it raised important questions for the University's long-term planning. With respect to the five percent adjustment in the Compact being deferred to the next year, UC was working under an assumption that, in the second year, it would receive a ten percent adjustment. He did not believe that this was a safe assumption. In the past, economic downturns have lasted more than one year. UC must be conservative in its projections and model funding situations in which it receives ten percent or does not receive this funding. Regent Pérez observed that multi-year commitments in this arena might be stated but did not exist. The Governor and the Legislature could not bind a future Legislature. These commitments were optimistic statements that were not enforceable. Regent Pérez raised the question of other revenue options. The State had bought out the difference between resident and nonresident students for the number of places that the State wished UC to hold for California resident students. This year the University fared particularly well on this. This buyout by the State might now grow, and UC should consider whether an increase in tuition for nonresident students would be appropriate. This was a factor over which UC had control, and UC's nonresident tuition was affordable compared to that charged by many other public universities. He did not wish UC to increase tuition for current nonresident students, but to consider this option for future years. The University would experience increasing labor and operational costs and must be mindful of revenue streams that it controls regardless of the State's economic circumstances; otherwise, it might find itself in a much less comfortable position in a year. Mr. Brostrom agreed that the University must plan for the possibility that it would not receive any of the ten percent base budget adjustment. There were many expenditures to which UC was committed, such as healthcare benefits, which were much costlier than anticipated, retiree health benefits, and retirement benefits. The University would be reviewing all options on the revenue and expenditure side. Regent Pérez commented that the current economic downturn was a normal cyclical downturn rather than a catastrophic downturn.

Regent Chu noted that the current downturn felt different from past budget deficits and that there appeared to be underlying shifts, at least in her local jurisdiction, regarding commercial real estate and retail that would require a longer adjustment period. In considering its long-term budget process, UC should think about these underlying weaknesses and risks. She asked about the timeline for Regents' decisions on the UC budget for the upcoming year. Mr. Brostrom responded that, as UC entered the budget season, he and President Drake would be testifying at State budget hearings. The most immediate task was enrollment decisions, since these letters must be sent out in March. UCOP would provide an update at the March meeting. Following the May Revision, the May meeting would be the point at which UC might make changes to the expenditure plan, primarily about assumptions made in labor and other areas.

Regent Robinson asked about the University's commitment to enrollment increases in the Compact. If the State was pausing its support for enrollment increases, he asked when UC would decide that it needs to pause increasing enrollment for its part, while maintaining its good faith partnership with the State. Mr. Brostrom responded that, in order to maintain the good faith partnership, UC needed to maintain student enrollment increases for the 2024–25 year. If UC did not do so, it would be breaking the Compact while the Governor was keeping it. Mr. Brostrom believed that UC would be able to increase enrollment by 2,000 undergraduate resident students this year. UC would reassess this matter when it began working on the 2025–26 budget.

Regent Ellis expressed agreement with Regent Perez about the uncertainty of State support in the following year. UC must fulfill its commitments under the Compact. Effective advocacy for the University was essential.

Regent Matosantos remarked that, if the University did not fulfill its part of the Compact, it would have no basis for requesting the deferred base budget increase. She recalled that the State did not have reliable cash data for personal income tax for an 18-month period and had made adjustments based on corrected revenue information. To the extent that commercial real estate and other economic factors have a greater impact on the underlying base than data, cash, or timing, future challenges looked more daunting. The University must be cautious but not undermine the case for continuing the Compact, which took a long time to come together. The University should think about what else it can do to continue supporting its mission as effectively as possible with the understanding that there would be changes between now and the May Revision, and before next year.

Regent Chu expressed agreement with Regent Matosantos and stressed the need to enter the budget process with one's eyes open regarding the fundamental underlying assumptions about the economy as opposed to a lack of data that might have been the cause of some readjustments. UC should budget for the entire planned amount for the upcoming year, but Regent Chu stressed that the University must have plans in case the requested funding did not materialize or only a portion materialized.

Regent Leib noted that the points raised by Regents Matosantos and Chu would be taken into account by UCOP in the budget planning process. Committee Chair Cohen concluded that the Regents had indicated the need for planning for unfavorable scenarios.

The meeting adjourned at 2:00 p.m.

Attest:

Secretary and Chief of Staff