The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
September 26, 2018

The Finance and Capital Strategies Committee met on the above date at the Luskin Conference Center, Los Angeles campus.

Members present:	Regents Anderson, Anguiano, Makarechian, Park, and Sherman; Advisory members Bhavnani, Simmons, and Um; Chancellors Blumenthal, Gillman, Hawgood, and May; Staff Advisor Main; Student Advisor Huang
In attendance:	Regents Cohen and Leib, Assistant Secretary Lyall, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Vice Presidents Duckett and Humiston, Chancellors Christ, Wilcox, and Yang, Chief of Staff and Special Counsel Drumm, and Recording Secretary Johns

The meeting convened at 2:05 p.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes the meeting of July 18, 2018 were approved.

2. **PRELIMINARY DISCUSSION OF THE UNIVERSITY OF CALIFORNIA 2019-20 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.]

Executive Vice President and Chief Financial Officer Brostrom began the discussion by noting that this budget would be different from budgets in past years in that it would bring together two workstreams. The University was contemplating a multi-year plan that considered enrollment growth, degree completion, and commensurate budgetary requirements. Due to the State calendar, UC must develop the budget proposal for 2019-20 for the Regents to review in November and then submit this to be part of the new Governor's first budget.

The University was experiencing another year of extraordinary enrollment growth. This fall there would be an additional 4,000 California resident undergraduates over the previous year. Since 2014, UC had added 15,000 California resident undergraduates. There had been growth in the number of freshmen and in the number of transfer students, which had been inspired by the budget framework agreement with Governor Brown. The University's goal was to arrive at a ratio of two freshmen to every one transfer student, and this had been achieved at all the undergraduate campuses except Riverside and Merced. The UC system as a whole had met this target.

Enrollment growth presented funding challenges. Mr. Brostrom displayed a chart with information on core funds relative to enrollment growth. Core funds consist of the University's State appropriation, tuition and fees, and UC general funds, which are primarily nonresident tuition. Since 2000-01 core funds had grown by eight percent on an inflation-adjusted basis. But during the same period UC added more than 100,000 students, or 59 percent growth. As a result, there was a 32 percent decrease in core funding per student. The University was pursuing many other revenue sources to try to make up for this shortfall, but the decrease in funding had a detrimental effect on the student-faculty ratio and caused delays for students in getting certain courses and in their time to degree.

This year's State budget had been very favorable for the University, with over $300 million in increases in funding, and this enabled UC to once again avoid a tuition increase. A challenge lay in the fact that many of the funds, particularly the funds in lieu of the tuition increase, were one-time funds. The University was determining what portion of the one-time funds would need to be converted to support ongoing operations and expenditures necessary to maintain educational quality for students.

Mr. Brostrom presented a chart showing year-to-year percentage changes in tuition and fees for California resident students since 1990-91. These changes largely mirrored the volatility of State funding. Over these past 29 years, there had been 14 years in which tuition remained level or declined, while in 11 years tuition had risen by ten percent or more, including by 40 percent in 1991-92 and by nearly 30 percent on two separate occasions. The University wanted to address this volatility through a multi-year plan which would seek to provide stability and predictability for campuses and for students and their families.

Associate Vice President David Alcocer stated that in addition to reducing tuition volatility for students, a multi-year plan could provide many benefits for the campuses – for planning, faculty hiring, capital needs, and other long-term investments. Stable funding and tuition were key parts of the plan but not the only desired outcome. A multi-year plan would be an opportunity for the University to play an even larger role in helping the state meet its projected needs for a highly educated workforce. In November 2017, representatives of the Public Policy Institute of California (PPIC) made a presentation to the Regents describing their findings, according to which California would fall short of its workforce demand by about 1.1 million college graduates by 2030, based on current needs. This was a staggering number and a call to every segment of higher education in California to help meet this need. PPIC proposed that UC alone produce 250,000 additional degrees toward this target. The multi-year plan for UC, starting with the proposal for the next year, 2019-20, would be developed in part to help meet this need.

Mr. Alcocer outlined key components of the plan. The University expected that moderate enrollment growth at the undergraduate level would be needed to maintain student access, given the projected increase in the number of California high school graduates over the next several years. It was also important to plan for graduate enrollment growth, not only to ensure a sufficient number of graduate teaching assistants for undergraduate classes, but also to sustain the University's research mission. UC graduate students are future faculty members, health care professionals, public servants, business leaders, and innovators. UC alone produces over 70 percent of all science, technology, engineering, and mathematics (STEM) doctoral degrees in California.

But if the University only relies on enrollment growth to produce more degrees, projections indicate that UC would still fall far short of the 250,000-degree challenge. In addition to enrollment growth, opportunities exist for the University to increase degree attainment and reduce time to degree for students. Campuses had already taken steps along these lines as part of the budget framework agreement with the Governor. Under that agreement, for example, every undergraduate campus reviewed the top 75 percent of its majors to find ways to streamline course requirements without compromising quality. Campuses also piloted ways to increase summer enrollment, to create three-year pathways to graduation, and to increase transfer student enrollment, all of which can accelerate degree production. Other opportunities could be found in leveraging technology to identify at-risk students, to provide improved academic advising and peer counseling, expanding online course availability, and other strategies to improve student retention. A sustained focus on degree attainment can help UC improve access and affordability. If students graduate more quickly, more space is made available for incoming students, and students can enter the workforce sooner and with less debt.

Achieving these goals means that UC must also cover costs associated with sustaining basic University operations, such as preventing further erosion of faculty and staff compensation in the context of a highly competitive labor market. The University was on track to improve the funded status of the UC Retirement Plan (UCRP) over time. There was no immediate plan to change the employer contribution rate to UCRP, although UC anticipated modest increases to overall expenses due to changes in the size of the UC workforce. The University had effectively contained costs for employee and retiree health benefits, but as more employees retire and life expectancy grows, UC could expect a three- to four-percent increase in the number of UC retirees and their dependents who participate in UC's retiree health plan. The University needs to make progress on its most pressing deferred maintenance needs at every campus. UC received $35 million for deferred maintenance from the State this year, but the total need in State-eligible space alone was over $4 billion. The multi-year plan would address other cost increases that UC generally expects would be caused by inflation. A stable funding plan is needed to support this effort.

Mr. Brostrom called attention to underlying principles of the plan. One principle was partnership with the State. The University counts on the State for support of base budget growth and capital facilities. The University would redouble its efforts to generate additional revenues and control administrative expenses in order to diversify revenue streams and drive all available revenues to the academic mission, and to reduce the strain on tuition and on the State. An essential goal was to achieve stability and predictability in all UC's revenue sources: stable, predictable growth from the State, a stable and predictable tuition model coupled with financial aid, and efforts to leverage UC's balance sheet to generate additional revenues and reduce expenses. The University currently had a solid foundation, but needed to build on this to maintain student access and the quality of education.

The plan was currently under development. All the chancellors were considering options for enrollment growth. At a recent retreat meeting of chancellors, innovative ideas for degree production were discussed. Mr. Brostrom related that he was surprised to learn that on average, about ten percent of students who begin at UC as freshmen or transfer students do not finish at UC or at another institution; the University should strive to help these students complete their degrees. Both the preliminary UC budget and a preliminary model of the multi-year plan would be presented at the November meeting, as the University would begin to consult with the Governor-elect, and a full presentation of the multi-year plan would be made at the January 2019 meeting. Mr. Brostrom observed that for the new Governor, the January budget would be a rushed affair, and many ideas would not be fully worked out until the May Revision; the University would work with the new Governor's administration throughout this period.

Regent Anguiano asked if the plan would indicate the projected gap between the 250,000 degrees proposed by PPIC and the University's current trajectory. Mr. Brostrom responded in the affirmative.

Regent Anguiano referred to the chart showing the decrease in core funding per student from 2000-01 to 2017-18. She asked what portion of this decrease was being covered by other funds, what portion was covered by increases in efficiency, and what portion actually caused decreases in quality that needed to be addressed. Mr. Brostrom responded that this chart showed core funds, excluding financial aid, debt service, UCRP contributions, and inflation. He asserted that the quality of the University had not decreased during this period, and some benchmarks had shown improvement, such as graduation rates and time to degree. The University had secured other revenue sources, such as returns on the Total Return Investment Pool (TRIP). TRIP had $9 billion, and if its returns average five percent more than the returns for the Short Term Investment Pool (STIP), this would represent $450 million annually that the University did not have ten years prior. The University has achieved efficiencies through its procurement programs and its captive insurance company Fiat Lux. It would be difficult to quantify the impact of these efforts in terms of per-student funding. Part of the net profit margin of the medical centers supports health sciences education at the medical schools. Mr. Brostrom acknowledged that other statistics show important developments during this time period in other areas. One such benchmark is the student-faculty ratio, and the changes to this ratio might indicate a degradation in the quality of education. The University had declined in its ability to offer competitive faculty salaries. One could debate about what an appropriate level of funding per student is.

Regent Anguiano asked what the University's funding goal was. Knowing this target would allow calculation of necessary resources. Mr. Brostrom responded that some of these figures are known. Improving the student-faculty ratio would be very costly. To lower the ratio by one would require between $225 million and $250 million. It would be necessary to have discussions with the chancellors and the Provost about ensuring high-quality outcomes and factors such as the percentage of graduate students. Mr. Alcocer added that the most recent UC Undergraduate Experience Survey showed decline in the perceived quality of UC and student satisfaction with UC. There was a real decline in the number of students who “agreed” or “strongly agreed” with the statement that, if they knew before enrolling what they know now, they would still enroll at the same UC campus. There were troubling indicators, such as the number of students who reported not being able to get access to their first-choice major, and an increase in the number of students who reported that they do not know a single faculty member well enough to ask for a letter of recommendation. These indicators were consistent with the reductions that campuses had been forced to carry out in the current funding environment.

Regent Sherman referred to the projected workforce needs for 1.1 million additional California college graduates. He asked about the workforce needs in terms of skills, if this affected majors and funding, given that it might cost more to educate a student in a STEM field than in the liberal arts, and how this would affect the University’s activities. Mr. Alcocer responded that the PPIC report with this projection broke the need down into broad categories, with an interesting balance across a number of different fields; workforce needs were not all concentrated in one field. UC has examined differential costs of providing education in various fields. This is a complex calculation and depends in part on whether one is considering lower-division or upper-division courses.

Regent Sherman asked what would be required to place a general obligation bond on the ballot to address the University’s deferred maintenance needs and necessary seismic retrofits. Mr. Brostrom responded that this requires a two-thirds vote of both houses of the State Legislature, the signature of the Governor, and then a simple majority of the voters. UC was now working with the California State University (CSU) on the possibility of a general obligation bond. This effort would potentially target fall 2020. The dollar level had not yet been determined, but the areas UC would seek funding for would be seismic upgrades, deferred maintenance, and capital renewal, for which UC does not have a revenue source.

Regent Sherman asked why this might not occur until fall 2020. Mr. Brostrom responded that a bond might get on the ballot for the 2019 primary election or in 2020, but bonds like this tend to fare better in presidential election years, when there is high voter turnout. Regent Sherman observed that interest rates were moving in a direction unfavorable for the University and asked if there was any way to accelerate this process.

Regent Cohen stated that unless a special election were called, the earliest vote on this bond would be June 2020. The year 2020 would be a realistic date for this bond. He noted that in any general obligation bond for UC, the debt service would come from UC’s operating fund. Regent Cohen stated his understanding that the State had provided UC with more flexibility for its debt service and its capital program, and that as the State has provided annual increases to the University, this has increased UC’s capital program as well, because this program is included in the base budget.

Regent Sherman asked about the difference between the State's credit rating and the University's credit. Mr. Brostrom responded that UC had better credit.

Regent Sherman asked if UC should go to the market before significant interest rate increases that were anticipated for the following year. Mr. Brostrom responded that UC had gone to the bond market during the past year, and he had spoken with UCLA about accelerating some of its housing projects in order to get into the bond market earlier. He expressed polite disagreement with Regent Cohen's statements. The State had made accommodations for UC capital programs, but this was a tradeoff with UC's operating budget. UC had $15 million set aside annually for debt service on AB 94 funds, but these were funds that could be used in UC's operating budget, if the State paid the general obligation bond debt service.

Committee Chair Makarechian asked why, if UC had the capacity to pay the debt service, it would have the State issue the general obligation bonds. Mr. Brostrom responded that UC did not have the debt capacity. UC had debt capacity for projects that were revenue-producing; public-private partnership projects produce revenue, while deferred maintenance or capital renewal projects do not. One of the reasons for engaging in public-private partnerships was to keep these projects from affecting UC's debt capacity. Committee Chair Makarechian stated that this debt appears on the UC balance sheet in any case, although the rating agencies do not count this against the University.

Committee Chair Makarechian again asked why, if UC has the cash flow capacity to pay for debt, it would need the State to issue a bond. Mr. Brostrom responded that UC would be servicing the debt. Regent Cohen clarified that the State would be servicing the debt, but using the University's operating funds to service the debt. He agreed that it would make sense for the University, if it advocates for more bond funds, to do so directly to the extent it can.

Committee Chair Makarechian stressed the great difference between the amount of student enrollment growth at UC and the much smaller increase in State funding. California would need more college graduates in fields like biosciences, for which the cost of education is higher than for liberal arts fields. If the State would not allow UC to issue general obligation bonds and cover the financing, then the University should borrow these funds on its own. Committee Chair Makarechian emphasized that UC campuses other than Merced did not have the capacity for many more students and expressed concern about the gradual decay of many University buildings. This Committee, working with the chancellors, needed to identify the future needs of the campuses and develop a program for the next ten years, identifying the enrollment capacity at the campuses, the numbers of classrooms and other facilities needed, and determine the funding necessary for each item. This would be a comprehensive overview with input from each chancellor, and the University should then approach the State with this comprehensive overview of its needs. He questioned where the projected 1.1 million college degrees would come from. Mr. Brostrom responded that what Committee Chair Makarechian had outlined was what the University was attempting with this multi-year plan, determining where UC could increase capacity, where it could increase effectiveness and productivity, and identifying operating budget and capital budget needs. Certain projects can be accomplished using the University's balance sheet, but UC also had huge needs in deferred maintenance and seismic safety for which it did not have an identified funding source.

Committee Chair Makarechian referred to background materials indicating that the UCRP would be at 90 percent funded status by 2023. He asked how the University could reach this goal. A large number of employees were approaching retirement age, and the ratio of active employees to retirees would shift. Ensuring that the UCRP was funded to this level might also take funds away from the operating budget. Mr. Brostrom responded that the University was just completing its financial statements for the fiscal year, and it appeared that the UCRP would be 87 percent funded, compared to 74 percent five years prior.

Regent Park asked if there had been consideration or discussion of sharing facilities with other higher education institutions. Mr. Brostrom responded that chancellors were examining the possibility of shared facilities and partnerships with the other higher education segments, and even with private universities.

Regent Leib noted that other entities might be targeting November 2020 as a date for issuing major bonds. He asked if the California Community Colleges and CSU were also considering 2020, and if it made sense to partner with another entity. There would be many ballot initiatives at that time, and UC must know what initiatives might be put forward. Mr. Brostrom responded that UC had been communicating with CSU about a combined ballot measure. In the past, general obligation bonds had fared better when they were put forward in partnership with the K-14 schools, because this affects a wide segment of the California population. But because a K-14 school bond had been on the ballot in 2016, the K-14 schools might not need to issue another bond in 2020. He acknowledged that many issues would likely appear on the 2020 ballot for water, high speed rail, and other initiatives.

Chancellor Blumenthal referred to a remark made earlier about wishing to avoid further degradation in salaries. Faculty salaries were about 12 percent below salaries at the comparator institutions with which UC competes, and had been below comparator levels for more than a decade. A decade earlier, UC's benefit packages were so much better than at any other institution that this partially or completely made up for the difference. Today, UC's benefit packages were comparable to those offered by comparator institutions. One issue that would have to be addressed in the multi-year plan was whether UC could actually raise faculty salaries to a competitive level, comparable to salary levels at competitor institutions.

Chancellor Blumenthal referred to the future enrollment increases that were being contemplated. He recalled that in none of the past four years had the Legislature paid fully for enrollment increases the University had carried out. He asked if the University had a cumulative total of how far behind it was in receiving payment for the enrollment increases that were mandated by the Legislature, and if the University would be asking for more funding for any new increases. Mr. Brostrom responded that the funding for enrollment had not come through a traditional mechanism, the State General Fund. When UC eliminated financial aid for nonresident students, which was controversial, this freed up $45 million for a four-year period that UC then directed to enrollment growth. The previous year, $15 million derived from reductions in set-asides and reductions at UCOP was directed to the campuses for enrollment growth. The campuses were receiving funding for enrollment, but not from the traditional sources. The University had increased its enrollment far more than had been projected, and was $25 million to $30 million short in funding; this had been outlined the previous year's budget request to the State.

Regent Cohen stated that the Merced campus presented an opportunity to increase capacity. The Merced 2020 project was a step in that direction, and the University should contemplate further long-term projects to build up UC Merced. He praised the multi-year planning effort, which was long overdue and an excellent exercise. Items such as enrollment growth efficiencies and improvements in graduation rates should be quantified to the greatest extent possible. Working with a three- to five-year time frame would allow one to pursue procurement reform or actions on UC's insurance plans, actions that might take longer to generate savings and would not be worthwhile when working only from one year to the next. Regent Cohen hoped that the multi-year plan would take into account that by the end of the plan, it was almost certain that the State would experience another recession. The University should develop a scenario of what measures it could take in the case of a recession and a reduction in State funding. Mr. Brostrom referred to the last point and underscored that one of the University's goals was to provide a buffer against volatility and to be able ensure that tuition would not rise above a certain level, even if the State reduced funding to UC.

Committee Chair Makarechian stressed the need for the University to know what its needs are before taking measures such as streamlining courses or reducing students' time to graduation. The State had declined to issue general obligation bonds for the University because the State's debt was high. The State now had additional funds but was still declining to issue general obligation bonds for UC. The State was currently not in a recession and the State's position should change. Regent Cohen noted that from the State government's perspective, many organizations like UC were presenting similar arguments, including the court system and CSU. The claims of these organizations were legitimate, but they were in competition with one another and would be in competition with the State's provision of basic social services such as health care for individuals who cannot afford this. The University's deferred maintenance needs had grown over decades, and this problem would not be solved immediately, but the State was now at least addressing and acknowledging the issue of UC's deferred maintenance. Committee Chair Makarechian stressed that higher education is an engine for growth and social mobility in California, and should be a priority for the State.

Chancellor Gillman stated that all the chancellors were examining increases in degree production, not just by expanding enrollment, but also through greater efficiencies. Every campus had modeled percentages of improvement in time to degree, and the numbers of new degrees that could be produced over a certain number of years with various percentages of improvement. These measures would not require additional capital or faculty support, and this approach would allow the University to think about degree production, not just enrollment. With regard to enrollment, some campuses were interested in expanding undergraduate enrollment, others not. The University might have a more nuanced and fruitful discussion of increased enrollment if one did not believe that increased enrollment must be distributed equally across all campuses, regardless of circumstances, and one recognized that different campuses might need different resources in order to increase enrollment.

Committee Chair Makarechian stated that the University should examine the matter of capacity, where and how it could expand most efficiently, along with a consideration of the State's future workforce needs. He asked Mr. Brostrom when he would be able to present a long-term plan, a five- to ten-year plan with a calculation of the University's future needs in facilities and the funding sources for meeting these needs. Mr. Brostrom responded that two current workstreams were addressing this question. One workstream had been referred to by Chancellor Gillman; it was considering enrollment and degree production. Another workstream was focused on the capital financial plan, which would be brought to the Regents in November. This plan enunciates the University's capital needs and shows what portion of these needs is unfunded. As part of the multi-year plan, these two areas would be merged together. The plan would show the University's needs in base budget growth, to support enrollment, to support any special initiatives, and for capital needs. The plan would also present actions the University could take on its own in asset optimization, debt management, and cost reductions through procurement and the implementation of UCPath. A gap would remain, and UC would look to the State or to a tuition plan to fill this gap.

Committee Chair Makarechian asked if the multi-year enrollment and budget plan would include student housing needs. Mr. Brostrom responded that the multi-year plan would address only the core funding portion of the UC budget. Committee Chair Makarechian expressed concern about not including student housing in the multi-year plan, and Mr. Brostrom responded that this element could be merged into the plan.

Regent-designate Simmons asked if the multi-year plan, as a strategic plan, would cast a wide net and take account of a number of other salient issues such as Long Range Development Plans, campuses' relationships with surrounding cities and communities, the quality of education and the student experience, student homelessness and food insecurity, and the retention of students from underrepresented minorities. Mr. Brostrom responded that all the campuses were working to define their needs and capacities. He hoped that this plan would be both comprehensive and granular.

Committee Chair Makarechian asked if the University had studied the question, outside the Long Range Development Plans, of maximum possible enrollments on the campuses, the maximum number of students that could be added, even if a campus did not intend to grow to this size. Based on this information, the University could determine if the campuses currently had the capacity to produce the number of college degrees proposed in the PPIC report. Mr. Brostrom responded that in preliminary plans being developed with the campuses, of the 1.1 million college degrees, UC is expected to produce about 250,000. This would be achieved not only through enrollment growth, but with other approaches as well, such as shorter times to graduation, having students who have not completed their degrees return to complete them, better use of online and University Extension courses, and off-campus internships. A combination of approaches, as well as better integration with CSU and the California Community Colleges, would allow UC to approach the 250,000-degree goal.

Committee Chair Makarechian asked about this goal. Mr. Brostrom responded that this was a cumulative increase; some of the increase would be achieved by planned enrollment growth, but additional degrees beyond that level would be needed to reach the target. Committee Chair Makarechian asked that the Regents be informed about how the University was planning to achieve this goal to meet the state's needs. Mr. Brostrom reflected that the University needed to grow in any case because of growth in the number of UC-eligible students.

Faculty Representative Bhavnani noted that as UC increased student enrollment, it would also need to increase staff numbers, and ensure that there was housing for additional faculty and staff.

Regent Park asked how the Committee could deploy a strategic approach to development and construction to increase value for the University, examining these activities comprehensively, rather than transaction by transaction or campus by campus. Every dollar the University saves in the capital arena can be used for other needs.

Regent Anderson stated that the University must think more creatively about how it delivers education. Rather than having 100 faculty members teaching an introductory biology course, ten faculty might suffice with electronic delivery online, freeing up faculty time for more research. This would allow UC to spend less money on facilities on a per capita basis.

3. **UNIVERSITY OF CALIFORNIA 2019-20 BUDGET FOR STATE CAPITAL IMPROVEMENTS**

[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 explained that the proposed 2019-20 Budget for State Capital Improvements included approximately $213 million of State resources and $98 million of non-State resources. In 2012-13, through Assembly Bill 94, instead of issuing general obligation bonds or lease revenue bonds, the State allowed UC to take a portion of its State appropriation and pledge this to make debt service payments on its own bonds. Since then, the University had carried out about $1.8 billion of projects through this mechanism, with a large amount of funding used for the Merced 2020 project. Later, Senate Bill 81 expanded the eligible use of the General Fund allocation to include availability payments, lease payments, installment payments, and other similar or related payments for capital expenditures. Mr. Brostrom emphasized that under this mechanism, the University was financing projects from its operating budget.

Projects that had been supported by AB 94 included seismic and life safety improvements, the Merced 2020 project, and classroom space for new enrollment. Over the past three years, the University had dedicated a portion of this funding to deferred maintenance. The 2019-20 projects were seismic safety corrections for University Hall on the Berkeley campus, projects related to enrollment growth at the Irvine, Riverside, Santa Barbara, and Santa Cruz campuses, facilities renewal and improvements for the Division of Agriculture and Natural Resources, and continuation of UC's deferred maintenance program.

Regent Park asked about the cost per campus project. Mr. Brostrom explained that this action would approve submittal of these projects to the State. The campuses then produce project guides.

Regent Park referred to the State Capital Improvements budget for the following year and asked if the 2020-21 budget could be approved earlier in the year. Mr. Brostrom responded in the affirmative.

Regent Cohen asked about how the campuses explore alternative approaches to meeting the needs of enrollment growth, such as technology and shared facilities. Mr. Brostrom responded that every campus has a Long Range Development Plan, which covers enrollment growth and the amount of space needed. For each project submitted to the Regents, the campuses must consider alternatives. There are criteria for the rate of classroom and laboratory utilization, and these are factored into every decision. In general, UC teaching spaces have high use rates and there is a need for new spaces. There had been a shift in the types of classrooms that UC needs.

4. **ESTABLISHMENT OF BAKAR BIO*ENGIN*UITY HUB AT WOO HON FAI HALL, BERKELEY 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 Christ began the presentation by noting that a critical part of the University's role as an engine for the California economy is the translation of discoveries and inventions resulting from UC research to produce a tangible, positive impact. The Bakar Bio*Engin*uity Hub would be a nexus for excellence and entrepreneurship at the interface of the biological, physical, and engineering sciences. The new space and its programs would be designed to foster interaction between UC Berkeley researchers and the San Francisco Bay Area business community. The donor-developed project would renew and transform the landmark former art museum in partnership with the Barbara and Gerson Bakar Foundation. This partnership would extend the Bakars' longstanding support for innovation and entrepreneurship at UC Berkeley. The project would build on the success of the Bakar Fellows Program, which supports faculty entrepreneurs, graduate students, and postdoctoral fellows. As of June 2018, more than 14 startup companies had been founded by Bakar faculty fellows.

Professor Amy Herr stated that the Bakar Bio*Engin*uity Hub would seek to expand the impact that the Bakar Fellows Program had realized over the prior six years. The overarching vision of the project was to accelerate the translation of UC innovation and discoveries through creation of a world-class incubator and interaction space for entrepreneurship, with 40,000 assignable square feet and a core of laboratory and office space for nascent ventures. The project would allow UC Berkeley to expand its impact from digital startup ventures to deep science startup companies and ventures, and would benefit from the campus' powerful existing entrepreneurial ecosystem. There was a high demand for well-equipped laboratory startup space in the San Francisco Bay Area.

Vice Chancellor Rosemarie Rae explained that the building was located on the southern edge of the Berkeley campus. This was a donor-developed project based on a lease/leaseback structure. The donor entity had also offered to provide financial support for the initial establishment and beginning operations for a three-year period. The project would renovate a currently vacant building with a seismic rating of "poor." The building was listed in the National Register of Historic Places and designated as a Berkeley landmark. The project was consistent with UC Berkeley's Long Range Development Plan and had been presented to campus stakeholders and the community, and to the City of Berkeley, specifically to the City's Landmarks Preservation Commission. Feedback had been positive. The incubator would be operated by QB3, the California Institute for Quantitative Biosciences, in collaboration with UC Berkeley during the initial development and growth phase, estimated to last three years. At this time, the memorandum of understanding with QB3, the term sheet, and the gift agreement had all been executed.

In response to a question by Committee Chair Makarechian, Ms. Rae confirmed that details of the leasing arrangement would be presented at a future meeting. Committee Chair Makarechian stressed his concern that there not be a large cost to the campus.

Regent Sherman asked about the renovation cost, if the University would have any exposure if that cost turned out to be significantly greater than estimated, and if the lease rate would be adjusted in such a case. Ms. Rae responded that there had been two rounds of feasibility studies, and a third round had just been completed. In her view, sufficient contingency had been built into the project plan. The University had an exit strategy if it were to find that construction costs were more than expected.

Regent Sherman asked if any additional costs would fall to the University via the lease payment that would be required. Ms. Rae responded that this would be possible. In response to another question by Regent Sherman, Ms. Rae confirmed that the University would potentially have exposure on the cost of the renovation, within certain limits.

Committee Chair Makarechian remarked that a future presentation of this item would include financial models with more precise cost estimates. Ms. Rae responded that the concern raised by Regent Sherman could be addressed in a future presentation.

5. **DEVELOPMENT OF NORTH DISTRICT PHASE I STUDENT APARTMENT COMMUNITY, RIVERSIDE 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 Wilcox presented a map of the campus, indicating the location of the North Campus, the Phase I project, and the Dundee Residence Hall and Glasgow Dining Project for which design had been approved at the July meeting. The construction of student housing in the Phase I project would draw on the momentum of the Dundee-Glasgow project and was a further step in this development, and students living in Phase I housing would use the Glasgow dining facility.

Chancellor Wilcox recalled that UC Riverside provides on-campus housing for about 28 percent of its students. The availability of living spaces in the surrounding community had been changing. Occupancy rates in Riverside were approaching 96 percent. Rental rates for most units had increased 6.5 percent each year over the preceding five years. UCR could not rely on the surrounding community as much as it had in the past.

Vice Chancellor Gerry Bomotti highlighted the fact that student enrollment at UCR had grown by about 35 percent over the past ten years, to approximately 6,100 students. The campus foresaw a trajectory for further growth in the future, and was pursuing a target two-to-one ratio of freshmen to transfer students by 2021. Transfer students would be served by this housing project. UCR currently only housed about 15 percent of its transfer students. The North District project would have the same public-private partnership structure and financing as the recently approved Dundee-Glasgow project. It would provide 1,500 apartment-style beds and was expected to open in fall 2021. With this project, and if enrollments were to remain level, UCR would move to housing 32 percent of its student population. There was currently a waiting list of over 2,300 who could not be accommodated in apartment-style housing. UCR anticipated that this project would be the first of several phases that would eventually add about 4,500 beds to the North Campus. The progress and schedule of these phases would depend on student demand. UCR was working on a five- to seven-year business plan to ensure that UCR rental rates are below market. Mr. Bomotti presented charts comparing UCR rental rates with private market rates and outlined the planned apartment configurations, project density, and location of planned parking structures. UCR anticipated returning with an item in early 2019 for approval of business terms.

Committee Chair Makarechian stated that he looked forward to examining the public-private partnership plan and he encouraged UCR to lower the projected rents. While cost numbers had not been included, the building design appeared efficient. He asked that a future presentation include detailed cost numbers. The developer would build on free land. The rental rates in this facility should be at least 20 percent to 25 percent lower than market rates. It would be necessary to negotiate this point with the developer, who had no incentive to lower the rents. This project should include an entire program, including dining facilities. Mr. Bomotti responded that the project was still in the early design phase, and that there was not yet a detailed floor plan. There were assumptions of efficiency in the facilities, and about what would be included in the design. These apartment units would include kitchen facilities and would not have an external dining facility. Future phases might include dining facilities. Rental rates in this facility would be equivalent to other campus rates, and the campus cannot compete with itself. The campus wishes to ensure that its rates are lower than the local market.

Committee Chair Makarechian countered that UCR should compete with itself to lower rates for students. Now, as UCR was in the midst of the design process, it could take this into account. Mr. Bomotti responded that UCR had debt financing on its existing housing. From a bond holder's perspective, UCR could not compete in this arena. Committee Chair Makarechian noted that the bond holders for this project would be new bond holders. The bonds would find buyers if there was positive cash flow. Mr. Bomotti responded that UCR would work with the Office of the President on this matter.

Regent Park observed that students cannot opt out of some of the features included in on-campus housing. The more that UCR could reduce the true cost for students, the better. Referring to information provided in the background materials, she commented that the use of a 2005 Long Range Development Plan (LRDP) in 2018 seemed dated, and reflected that the purpose of an LRDP was not entirely clear. Some LRDP goals, such as housing 50 percent of UCR students on campus, seemed so far beyond reach that it might make sense to set more realistic goals. Chancellor Wilcox responded that UCR's LRDP called for 25,000 students by 2020. He acknowledged that although the campus had a goal of housing 50 percent of its students, it had the luxury of not having to worry about this goal. UCR administrators were now discussing the next LRDP and precisely these questions were being raised: whether the LRDP is a long-term vision, a concrete plan, or a set of goals to aspire to. UCR's LRDP had played different roles. He noted that development of a new LRDP might take a year or two.

6. CLASSROOM BUILDING, SANTA BARBARA 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.]

Executive Vice President and Chief Financial Officer Brostrom noted that this classroom building project at UC Santa Barbara was one of the items in the 2019-20 Budget for State Capital Improvements to be funded through the AB 94 process.

Chancellor Yang explained that the classroom building, to be located at the center of the East Campus, would add 32 new classrooms on four floors with 2,290 seats. There would be one or two large classrooms on each floor with several small interactive learning classrooms to enhance effective learning. UCSB had explored the options of renovating old lecture halls, renting space, or repurposing existing spaces. UCSB had identified a special need for large lecture halls for lower-division courses and small classrooms for upper-division courses. A third of UCSB's teaching facility needs were currently accommodated in three aging lecture halls. The campus' Long Range Development Plan

(LRDP) called for growth of 5,000 students through 2025. Enrollment had grown almost 20 percent in the past six years. This recent enrollment growth and projected future growth were the context for the proposed new classroom building. Chancellor Yang referred to his own teaching experience and noted that over decades, his medium-sized classes had been growing. In one case, he had more students enrolled than the number of seats available in the classroom. Over the past two years, the number of students waitlisted for courses had increased by 15 percent; increasing available classroom space would reduce waitlists and time to degree for students. The lack of classroom space, especially large lecture halls, was an important concern expressed by professors. The new classroom building would help ease students' access to popular courses and minimize waitlists.

Regent Anguiano asked about alternatives the campus had considered and about the motivation for large lecture halls with up to 250 students, where personal contact with faculty is minimal. Chancellor Yang responded that the large halls would be surrounded by smaller spaces for 30 to 35 people. Students would engage in active learning in these smaller spaces with a lecturer or teaching assistant after a large lecture.

Committee Chair Makarechian asked if this project would involve the California Coastal Commission. Assistant Chancellor Chuck Haines confirmed that the Coastal Commission would review the project when the campus carries out its California Environmental Quality Act analysis. The project was within the campus LRDP.

Regent Cohen asked about UC Santa Barbara's criteria for determining when lack of classroom space was at an unacceptable level. Mr. Haines responded that UCSB had repurposed general assembly spaces as classrooms. This was an interim solution but not a long-term, satisfactory solution. Campus planning had been affected by the surge in enrollment, and this was the motivation for this project. He stated that there was a desperate shortage of classrooms.

Regent Park asked about the plan for active learning spaces and new pedagogical methods. Committee Chair Makarechian noted that a design item with details would come to the Committee at a future meeting. Mr. Haines responded that as the administration worked with faculty on the design of the building, UCSB was considering emerging classroom designs for active learning. All spaces would have moveable chairs or chairs with a pivoting ability, and configurations for group work with six to eight students would be possible in larger spaces with technology available. He estimated that 30 percent of faculty were already engaged with active learning environments. Two facilities had been modified to accommodate active learning spaces, and they were in constant use. If UCSB had more of these facilities, this use would expand.

7. **COMMITTEE PRIORITIES AND ITEMS FOR THE UPCOMING YEAR**

[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 Makarechian reiterated his request for a comprehensive presentation on UC needs by the March 2019 meeting. This item might require a special, expanded session. In addition, UC needed to have a realistic understanding of its capital project needs.

Chancellor May noted that online learning had been suggested as a solution for facility and space problems at UC a number of times in the foregoing discussions. This Committee or the full Board might benefit from a presentation on the effects of online learning with respect to quality and pedagogy, especially for undergraduates. There appeared to be some misunderstanding of what online education can and cannot accomplish.

Regent Anguiano requested further information on what portion of the University's capital needs could be delivered by sources other than State funding or tuition, such as public-private partnerships or philanthropy. Executive Vice President and Chief Financial Officer Brostrom responded that the ten-year capital financial plan to be presented at the November meeting would explicate needs and sources. The University would arrive at a more precise calculation of its deferred maintenance needs later in the year.

Regent Leib emphasized the need to consider alternative revenue sources. Mr. Brostrom responded that the Committee receives reports on individual units and programs, such as Fiat Lux, the University's captive insurance company. He suggested that there could be a presentation to the Committee and a discussion on all the various forms of revenue generation. He agreed that UC needed to consider different forms of revenue, such as real estate monetization. Committee Chair Makarechian concluded that the University had been examining all possible sources of revenue since the State had reduced funding. The University needed to have a clear picture of its needs.

The meeting adjourned at 4:05 p.m.

Attest:

Secretary and Chief of Staff