

The Regents of the University of California

**FINANCE AND CAPITAL STRATEGIES COMMITTEE**

May 19-20, 2020

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

Members present: Regents Blum, Cohen, Estolano, Kounalakis, Leib, Makarechian, Park, Sherman, Simmons, and Um; Ex officio member Napolitano, Advisory members Bhavnani and Muwwakkil; Chancellors Christ, Gillman, Hawgood, and Khosla; Staff Advisor Jeffrey

In attendance: Regents Kieffer, Reilly, and Weddle, Regent-designate Stegura, Faculty Representative Gauvain, Secretary and Chief of Staff Shaw, Chief of Staff and Special Counsel Drumm, Executive Vice President Byington, Interim Executive Vice President and Chief Financial Officer Jenny, Chancellor May, and Recording Secretary Johns

The meeting convened at 11:30 a.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes the meeting of March 18, 2020 were approved, Regents Blum, Cohen, Leib, Makarechian, Napolitano, Park, Sherman, Simmons, and Um voting "aye."<sup>1</sup>

**2. PUBLIC COMMENT**

Committee Chair Makarechian explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following persons addressed the Committee concerning the items noted.

- A. Mia McIver, UCLA lecturer, stated that the University could draw on its working capital and unrestricted endowment funds to stabilize the budget at this time. Reducing administrative expenses that do not contribute directly to supporting students or classroom instruction would safeguard the quality of a UC education. UC should save costs incurred by the 26 percent annual turnover rate among UC lecturers. Even before the COVID-19 outbreak, UC was letting 1,600 qualified teaching faculty go and recruiting 1,600 new teaching faculty each year. This was expensive in monetary and educational terms. She urged UC to rehire its teaching faculty.

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

- B. Aarefah Mosavi identified herself as a rape survivor. She criticized regulations recently released by the U.S. Department of Education pertaining to campus sexual assault under Title IX. Ms. Mosavi expressed concern that the new regulations would negate UC's recent efforts to prevent sexual violence on its campuses. The new regulations would diminish colleges' responsibility to prevent sexual violence with regard to incidents that occur off campus or when the perpetrator is a student at another institution. These regulations made a mockery of the spirit of Title IX.
- C. Shannon Cotton, a nurse at UC San Diego in a COVID-19-designated intensive care unit, spoke on behalf of California Nurses Association (CNA) members. As UC medical centers have begun receiving more non-COVID-19 patients, UC must prioritize worker and patient safety. Every unit must be fully staffed to the highest standard, without violations of applicable nurse-to-patient ratios. UC must put patients over profits, even in these difficult times. Nurses and frontline bedside staff were essential and not expendable.
- D. Maureen Dugan, UCSF nurse and CNA member, stated that budget austerity related to COVID-19 could be prevented if the University worked with its union coalition. She warned against making cuts to nursing and ancillary staff, which would increase the risk of harm to patients and staff. Insufficient hospital staff numbers reduce the ability to notice changes in a patient's condition and intervene early.
- E. Eric Halgren, professor of radiology at the UCSD School of Medicine, stated that the three major commercial banks used by UC—Bank of America, Wells Fargo, and Union Bank—had bad records and policies with regard to addressing climate change. These banks were continuing to lend huge amounts of money to fossil fuel companies, and they had failed to adopt responsible policies regarding coal, tar sands, Arctic drilling, and other investments. The University's choice of its commercial banking partners was inconsistent with its commitment to sustainability. UC should issue a Request for Proposals for commercial banking services including a criterion of adherence to environmental, social, and governance principles that UC was already applying in its investment portfolio.
- F. Puanani Brown, a Native Hawaiian rights activist, spoke against UC involvement in the Thirty Meter Telescope (TMT) project on Mauna Kea. She stated that the University had contributed \$68 million to the project since October 2016, of which \$30 million came from UC's own funds. Ten million dollars had been contributed since February 2020, in spite of statements by Regent Pérez that the Regents would have a discussion of this matter. Ms. Brown stressed that the project was a bad investment for UC because there was no guarantee that the project would see completion without violence against protectors of Mauna Kea.
- G. Diana Garcia, UC Santa Barbara student, asked the University to divest from the TMT project on Mauna Kea. The project had violated indigenous rights and sovereignty. For various reasons including lease renewal and funding issues, there was no guarantee that the project would ever be built.

- H. Cole Rainey, UC Berkeley student, urged the University to divest from the TMT project and its desecration of sacred sites. It was unacceptable that UC invested money in this project when graduate student instructors were not being paid adequate wages. Regents and chancellors should speak with indigenous leaders and student advocacy groups.
- I. Elizabeth Milos, UCSF Spanish medical interpreter and member of University Professional and Technical Employees (UPTA), expressed concern about safety protocols for wearing masks at UCSF. During past influenza seasons, UCSF workers were asked to wear a new mask for every patient seen. UCSF was now requesting that frontline staff use the same mask for the entire day. Ms. Milos asked the University to adhere to stricter California Division of Occupational Safety and Health (Cal/OSHA) guidelines, rather than Centers for Disease Control and Prevention guidelines, to protect staff and patients.
- J. Robert Byrd spoke against the use of fetal remains in scientific experimentation. He stated that there were at least ten active projects at UCSF, funded by the National Institutes of Health, which drove an ongoing demand for fetal remains from abortions. Ethical protocols could be put in place and alternatives considered, such as using discarded tissues from surgery and creating a better infrastructure for the transfer of miscarried or stillborn children whose bodies have been donated.
- K. Lehuanani DeFranco, a Native Hawaiian indigenous rights activist, stated that the University had been investing its own funds in the TMT project on Mauna Kea as recently as February 2020. This was a waste of resources and a terrible investment. She enjoined UC to withdraw all financial support for this project. UC could only proceed with the project through violence against Native Hawaiians and by violating its own stated ethical standards.
- L. Terrisa Bukovinac identified herself as a liberal, pro-life atheist. She requested transparency regarding fetal tissue experimentation projects currently under way at UCSF, especially projects requiring monthly supplies of late-term fetuses. Ms. Bukovinac stated that UCSF performed targeted abortions through live dismemberment and medically induced labor, and she decried these practices.
- M. Terrill Williams, UC Riverside student, referred to the amounts of UC investment in the TMT project on Mauna Kea. This information had been obtained through a California Public Records Act request but should have been made available to students and the public. Mauna Kea protectors had been in place since July 2019 and had been threatened with the use of force, in part due to the University's continued investment in this project. The Regents had been warned about liability that might result from refusal to divest from the project.
- N. Drew Scott, skilled trades director for Teamsters Local 2010, stated that skilled trades and clerical workers represented by the Teamsters were doing critical work in keeping UC campuses and medical centers operational and were putting

themselves at risk of contracting COVID-19. While some campuses had taken the initiative on this matter, he asked that UC adopt a systemwide policy to supply all these employees with proper personal protective equipment. For those whose work could not be done remotely, this equipment was essential. The Teamsters believed that its members who were taking on additional risk by coming to work were entitled to additional compensation. Mr. Scott called upon UC to implement emergency pay provisions in line with measures in effect in the California State University system.

- O. Zina Kumetat, UC Merced child development teacher, commented that she and many of the other childcare teachers at UC Merced worked paycheck to paycheck and did not know what would happen after June 30. If they were to lose their jobs or receive a reduction in pay, she did not know how they would make ends meet. She had an underlying medical condition and was also concerned about having proper personal protective equipment so she could return to work.
- P. Laurence Young, UC Santa Barbara library employee, expressed concern about possible layoffs, furloughs, or other cutbacks for staff. He and his wife had recently purchased a home and wanted to start a family. These plans had been interrupted by the COVID-19 pandemic. He asked the University to ensure that all the young families who worked for UC were able to contribute to their communities and to the State's economic resilience, and to protect UC employees' safety, income, and jobs.
- Q. Annette Vidal, UCLA Health administrative assistant, stated that UCLA Health had been slow to adopt remote work options for its administrative staff, who were essential for UCLA Health's fiscal operations. Ms. Vidal was immunocompromised and at risk for infection by COVID-19. A request by administrative staff to work from home had been denied. She asked that UCLA Health allow telework options for administrative staff.
- R. Laura Newman, Teamsters representative, commented on the negative impact of potential layoffs. She reported that the facilities and skilled trades workforce in her department had been reduced through attrition over a number of years. This had led to increased injury rates and neglect of much-needed equipment maintenance. She urged the University to consider options other than the reduction of an already understaffed skilled trades workforce.
- S. Jeff Sharp, UCLA employee, emphasized that layoffs would affect families and underscored the stress that being laid off would place on him and his co-workers. UC employees were motivated to work at UC for job security and were very dedicated. During these unprecedented times, UC should be an example of an amazing organization that takes care of its employees.
- T. Marina Jurich, UC San Diego employee, urged the University not to cut back on essential workers. She described her own job and life situation. She was a single

individual without financial backup. If she were furloughed or laid off, she would likely lose her car and home, have to rely on friends for help, and experience a worsening of her medical conditions.

- U. Nancy Hernandez, UCLA Health administrative assistant, stated that she could perform her duties at home. She and other administrative assistants had requested permission to telework, but the request was denied. She described her own situation with an immunocompromised child at home and her fear of exposing her child to the risk of infection. She asked that UCLA Health allow employees who can work from home to do so.

### 3. **CONSENT AGENDA**

#### A. *Adoption of Endowment Administration Cost Recovery Rate*

The President of the University recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)<sup>2</sup> and apply to distributions from the General Endowment Pool (GEP) to be made after July 1, 2020, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

#### B. *Adoption of Expenditure Rate for the General Endowment Pool*

The President of the University recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2020–21 fiscal year remain at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

#### C. *Amendments to the 2019–20 and 2020–21 Budgets for State Capital Improvements*

The President of the University recommended that:

- (1) The amended 2019–20 Budget for State Capital Improvements be approved as shown below:

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<sup>2</sup> One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 55 basis points are the equivalent of \$55 on endowment assets with a 60-month average market value of \$10,000.

		State General Funds Financed (\$000s)		
		Approved Budget Jan 2020	Proposed Change	Proposed Budget
Berkeley	University Hall Seismic Safety Improvements	\$6,050	(\$6,050)	
Irvine	Student Wellness & Success Center	\$13,000		\$13,000
Riverside	Pierce Hall Interiors	\$13,000		\$13,000
Riverside	School of Medicine Education Building II	\$6,400		\$6,400
Santa Barbara	Classroom Building	\$79,787		\$79,787
Santa Cruz	Kresge College Academic	\$47,200		\$47,200
Division of Agriculture and Natural Resources	Facilities Renewal and Improvements	\$19,237		\$19,237
<b>Capital Projects Total</b>		<b>\$184,674</b>	<b>(\$6,050)</b>	<b>\$178,624</b>
2019-20 Systemwide State Deferred Maintenance Program		\$35,000		\$35,000
<b>TOTAL STATE FUNDS FINANCED</b>		<b>\$219,674</b>	<b>(\$6,050)</b>	<b>\$213,624</b>

- (2) The amended 2020–21 Budget for State Capital Improvements be approved as shown below:

		State General Funds Financed (\$000s)		
		Approved Budget Jan 2020	Proposed Change	Proposed Budget
Los Angeles	Public Affairs Building Seismic Improvements	\$25,000		\$25,000
Riverside	School of Medicine Education Building II	\$93,600		\$93,600
Systemwide	UC Center in Sacramento	\$11,400		\$11,400
Systemwide	2020-21 UC Seismic Program Supported by State Resources	\$300,000	(\$110,673)	\$189,327
Systemwide	2020-21 Planning for Future State Capital Outlay	\$80,000	(\$23,000)	\$57,000
Davis	Sprocket Building Seismic		\$12,000	\$12,000
<b>Capital Projects Total</b>		<b>\$510,000</b>	<b>(\$121,673)</b>	<b>\$388,327</b>
2020-21 Systemwide State Deferred Maintenance Program		\$35,000		\$35,000
<b>TOTAL STATE FUNDS FINANCED</b>		<b>\$545,000</b>	<b>(\$121,673)</b>	<b>\$423,327</b>

D. *Approval of Design Following Action Pursuant to the California Environmental Quality Act, Inpatient Rehabilitation Hospital Project, Davis Health Campus*

The President of the University recommended that, following review and consideration of the environmental consequences of the Inpatient Rehabilitation Hospital 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 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation,

that the Regents:

- (1) Determine that the Inpatient Rehabilitation Hospital project is exempt from CEQA.
- (2) Approve the design of the Inpatient Rehabilitation Hospital, Davis Health 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.]

Committee Chair Makarechian briefly introduced the consent agenda. Interim Executive Vice President and Chief Financial Officer Jenny explained that, in item 3A, *Adoption of Endowment Administration Cost Recovery Rate*, the endowment administration cost recovery was funding to manage the activities of complying with gift terms, reporting, and other activities necessary to carry out the terms of endowments. These costs were determined by asking campuses to complete workbooks that have been refined to more accurately assess the costs that campuses incur. The rate being proposed was consistent with that of the previous year.

Regent Leib suggested that, in the future, UC consider different opportunities for addressing administrative expenses for students. In large building projects, there might be a way to recoup funds for student mental health services. This could be done voluntarily, as part of philanthropy; asking philanthropists if they would consider such a charge to fund student services programs. Mr. Jenny responded that UC could consider this. In 2008, during the Great Recession, the University had considered extraordinary endowment payout measures, but no action was taken then due to restrictions on individual endowments. This could be reconsidered, and he could discuss this in more detail with Regent Leib later.

Regent Cohen stated that he intended to vote “no” on item 3D, *Approval of Design Following Action Pursuant to the California Environmental Quality Act, Inpatient Rehabilitation Hospital Project, Davis Health Campus*. He did not see how this project was consistent with the Regents Policy Generally Prohibiting Contracting for Services, approved in November 2019. This project had not been reconsidered in light of those principles.

Regent Estolano suggested that the Committee vote separately on item 3D. Committee Chair Makarechian moved that the Committee vote first on items 3A, *Adoption of Endowment Administration Cost Recovery Rate*, 3B, *Adoption of Expenditure Rate for the General Endowment Pool*, and 3C, *Amendments to the 2019–20 and 2020–21 Budgets for State Capital Improvements*.

Upon motion duly made and seconded, the Committee approved the President’s recommendations in items 3A, 3B, and 3C above and voted to present them to the Board,

Regents Blum, Cohen, Estolano, Kounalakis, Leib, Makarechian, Napolitano, Park, Sherman, Simmons, and Um voting “aye.”

Regent Estolano referred to background material provided for item 3D, which indicated that the project had received a waiver for compliance with the Leadership in Energy and Environmental Design (LEED) Silver requirement and would strive for LEED “certified.” She did not understand why a waiver was needed and would not feel comfortable voting to approve the item.

Regent Cohen asked if this project had been reconsidered in light of the Regents Policy Generally Prohibiting Contracting for Services. Chancellor May responded that this joint venture, with a partner who had successfully delivered and operated similar facilities throughout the U.S., would allow UC Davis to preserve capital resources. UC Davis Human Health Sciences Vice Chancellor David Lubarsky explained that the topic of this facility had arisen during negotiations with the American Federation of State, County and Municipal Employees (AFSCME). These negotiations resulted in a side letter. All of the issues raised in the side letter had been addressed, according to the campus’ legal and labor relations team. Dr. Lubarsky emphasized that this facility was a critical part of the healthcare infrastructure in Northern California. UC Davis Health operated a Level 1 Trauma Center for 33 counties, but its rehabilitation facilities were below average. These facilities were located in an older part of the hospital that would be demolished. UC Davis’ partnership with Kindred Healthcare would allow it to build a state-of-the-art rehabilitation hospital to serve not only patients after they have received acute trauma care, but also to serve stroke patients in a comprehensive stroke center, patients for whom UC Davis currently had no room. UC Davis had a facility with 20 rooms at this time; this project would more than double this capacity. This project was motivated by the goals of patient care and optimizing the quality of facilities in Northern California. There were no dedicated rehabilitation hospitals in the entire region.

Dr. Lubarsky referred to Regent Estolano’s question about the LEED waiver. The process of applying for Office of Statewide Health Planning and Development (OSHPD) approval for this facility had been a long process. The design of the facility was originally intended to be LEED “certified” and the design met all requirements for LEED certification when it was completed. The LEED certification rules had changed over the last two years. The project met all the requirements that were previously in place when the design was completed. UC Davis could not return to OSHPD and restart a three-year design process. UC Davis was doing everything within its capacity to make this project LEED certified. UC Davis, both the campus and medical center, was 100 percent committed to full sustainability and meeting all environmental concerns put forward by the University and the community.

Regent Cohen stated that he did not question the value of the facility or the fact that the University had addressed the labor challenge. He reiterated his question of whether the project had been reconsidered in light of the Regents Policy Generally Prohibiting Contracting for Services. President Napolitano responded that she had been present at the AFSCME contract negotiations when the topic of the Kindred Healthcare facility arose.

The University and AFSCME negotiated a separate side letter with respect to how this joint venture would be handled. As just stated by Dr. Lubarsky, the campus had met the conditions of the side letter. According to this agreement, if the campus met the conditions of the side letter, the joint venture could proceed.

Regent Cohen expressed appreciation for this response but questioned the idea that, as long as a union was in agreement, it would be acceptable to violate the Regents Policy. Committee Chair Makarechian asked which aspect of policy was being violated. Regent Cohen responded that, in his view, this project ran afoul of the notion that the University would preserve functions in-house. As he recalled, this was the basic tenet of the Regents Policy Generally Prohibiting Contracting for Services.

Committee Chair Makarechian noted that this item concerned California Environmental Quality Act (CEQA) and design approval for the facility and did not involve the agreement with the joint venture partner. Chancellor May confirmed that this was the case. The item before the Committee concerned design and CEQA considerations for the project. With regard to issues that had been raised, he commented that every UC employee working in the current facility would retain his or her position in the new facility. As one of the conditions of the side letter, the campus was asked to try to negotiate a majority interest in the project with the third-party partner, which the campus did. UC Davis had fulfilled both the letter and the spirit of the principles articulated in the Regents Policy.

Regent Park expressed support for the item but requested clarification regarding Regent Cohen's question before May 21, when the item would be voted on by the Board. The Regents should be consistent with their principles unless there was a clear exception and clarity about why the exception was acceptable. She asked if this was in fact an exception, and how UC was approaching joint ventures under the Regents Policy Generally Prohibiting Contracting for Services. Office of the President (UCOP) staff who were involved in the negotiations might provide greater clarity. Mr. Jenny responded that this information would be provided.

Regent Estolano stated that she understood the OSHPD approval issues outlined by Dr. Lubarsky but asked that this project strive for LEED Silver. This would reflect the University's Policy on Sustainable Practices.

Committee Chair Makarechian suggested that the Committee move forward with approval of the item, subject to UCOP staff providing further explanation, before the Board vote on this item, of how this item was an exception to the Regents Policy Generally Prohibiting Contracting for Services and how the University was mitigating any issues, as well as responding to the concerns of Regent Park and Regent Estolano.

Upon motion duly made and seconded, the Committee approved the President's recommendation in item 3D above, *Approval of Design Following Action Pursuant to the California Environmental Quality Act, Inpatient Rehabilitation Hospital Project, Davis Health Campus*, and voted to present it to the Board, Regents Blum, Leib, Makarechian,

Napolitano, Park, Sherman, Simmons, and Um voting “aye,” Regents Cohen and Estolano voting “no,” and Regent Kounalakis abstaining.

4. **PARTIAL PRELIMINARY PLANS FUNDING, IRVINE CAMPUS MEDICAL COMPLEX, IRVINE CAMPUS**

The President of the University recommended that the 2019–20 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: Irvine: Irvine Campus Medical Complex – partial preliminary plans – \$15 million to be funded from hospital reserves.

To: Irvine: Irvine Campus Medical Complex – partial preliminary plans – \$35,210,000 to be funded from hospital reserves.

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

Interim Executive Vice President and Chief Financial Officer Jenny recalled that an earlier version of this item had been presented at the March meeting. At that time, the Irvine campus requested \$73.1 million in preliminary plans funding for this project. The Regents approved \$15 million in funding for the project in March. The Irvine campus was asked to evaluate its financial situation in light of the impact of the COVID-19 pandemic before presenting the item again. The campus determined that it still needed to move forward with the project. The Regents were now being asked to approve an additional \$20.2 million in preliminary plans funding, which would result in a total of \$35.2 million, compared to the \$73.1 million originally requested.

Chancellor Gillman explained that the Irvine Campus Medical Complex project was a vitally important next step in UC Irvine’s investment in health. Like other campuses in the current uncertain environment, UC Irvine was delaying some of its plans. The campus believed that there was an urgent need to continue planning for this project but wished to proceed responsibly. In March, the campus had agreed to review its finances to ensure that it was confident in having hospital reserves to pay for ongoing planning. The campus had engaged in stress testing. Even though the total planning budget was approximately \$73 million, the campus would take a few more months and planned to return at the September meeting, when there would be a better understanding of the larger financial situation. This was a vitally important project. The campus was being very careful about which aspects of the project to move forward and was trying to proceed in steps. Chancellor Gillman was comfortable asking the Regents to allow UC Irvine a few months of additional work before returning with further information in September.

Committee Chair Makarechian noted that he had been very concerned, at the March meeting, about campuses spending any money on capital projects when the full financial picture was not known. He and Regent Park had spent much time discussing capital

projects with the campuses that had presented these items. At this point, he felt certain that spending \$20 million would not change UC Irvine's situation, based on days' cash on hand and consideration of worst- and best-case scenarios. He expressed support for this item.

Regent Sherman asked about the total estimated cost for the project and what percentage was represented by the soft costs of \$73 million. UC Irvine Health Chief Executive Officer Chad Lefteris responded that these planning funds would allow continuation of the design work. These were soft costs for design, with no construction costs.

Regent Sherman asked if the total project cost, based on the soft costs of \$73 million, would be in the range of \$600 million to \$700 million. Mr. Lefteris estimated that the cost for the entire project, with multiple phases, would amount to over \$1 billion over time. He hoped that changing factors in the marketplace would allow UC Irvine to lower this cost. Committee Chair Makarechian hoped that the campus would be able to negotiate the total cost down to \$600 million.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Blum, Cohen, Estolano, Kounalakis, Leib, Makarechian, Napolitano, Park, Sherman, Simmons, and Um voting "aye."

5. **PRELIMINARY PLANS AND WORKING DRAWINGS FUNDING AND SCOPE, MISSION BAY EAST CAMPUS PHASE 2 (BLOCK 34) PARKING GARAGE, SAN FRANCISCO CAMPUS**

The President of the University recommended that:

- A. The 2019–20 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Francisco: Mission Bay East Campus Phase 2 Parking Garage – preliminary plans and working drawings – \$4.5 million funded from auxiliary reserves.

- B. The scope of the Mission Bay East Campus Phase 2 Parking Garage project shall provide a new parking garage of up to 500 structured spaces and approximately 2,500 gross square feet of office and administrative space for UCSF Transportation staff.

[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.]

Interim Executive Vice President and Chief Financial Officer Jenny stated that this project would provide patient parking for UCSF's planned new clinical and ambulatory surgery building on Block 34.

Chancellor Hawgood explained that the four action items that UCSF was presenting at this meeting were actually two projects divided into four parts. The parking garage was associated with a new ambulatory surgery center at the Mission Bay campus. This was a critical project, made even more critical by the COVID-19 pandemic. UCSF had transformed its Mount Zion facility from an ambulatory surgery campus with patient visits of up to 23 hours to a site providing 24-hour care for COVID-19 patients. The Block 34 project was on a critical time path. Chancellor Hawgood commented that ambulatory surgery had a positive return on investment; the campus was confident that this project would be financially strong as well as provide a vital service to patients. The parking garage would provide 500 spaces, mostly for patients.

Committee Chair Makarechian noted that this project would generate revenue.

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

6. **PRELIMINARY PLANS FUNDING, MISSION BAY EAST CAMPUS PHASE 2 (BLOCK 34) CLINICAL BUILDING, SAN FRANCISCO CAMPUS**

The President of the University recommended that the 2019–20 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Francisco: Mission Bay East Campus Phase 2 Clinical Building – partial preliminary plans – \$2 million to be funded from hospital reserves.

To: San Francisco: Mission Bay East Campus Phase 2 Clinical Building – preliminary plans –\$23 million to be funded from hospital reserves.

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

Chancellor Hawgood explained that this clinical building would be located across Third Street from UCSF's Mission Bay hospital complex. It would add 39,000 gross square feet of ambulatory surgery space, ten operating rooms, two procedure rooms, 34 recovery bays, and 52,000 gross square feet for clinics, predominantly for adult specialty services. There was some shell space that remained to be programmed. This project would complete Block 34, provide a positive return on investment, and was adequately covered by UCSF's financial plan.

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

7. **PRELIMINARY PLANS FUNDING, INTEGRATED CENTER FOR DESIGN AND CONSTRUCTION AT PARNASSUS HEIGHTS, SAN FRANCISCO CAMPUS**

The President of the University recommended that the 2019–20 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Francisco: Integrated Center for Design and Construction at Parnassus Heights  
– preliminary plans – \$3 million funded from hospital reserves.

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

Interim Executive Vice President and Chief Financial Officer Jenny explained that, as noted by Chancellor Hawgood, this item and the following item were related. The Integrated Center for Design and Construction represented an approach that had been successful in the construction of the Mission Bay hospitals.

Chancellor Hawgood also noted that this model had been used for the successful Mission Bay hospital project. In addition, the Integrated Center was a critical feature of the Integrated Form of Agreement (IFOA) delivery model, which had been approved by the Regents for the new Helen Diller Medical Center. Essentially, this project would construct a large room for designers, the architect of record, engineers, and the major trades to work side by side on a project that UCSF anticipated would take about ten years to complete. UCSF would transform a few floors of a parking structure into this Integrated Center. This would serve as a design center not only for the Helen Diller Medical Center, but for future projects on the Parnassus Campus.

Committee Chair Makarechian asked if UCSF was planning on increasing the square footage in this project due to the current requirements of social distancing during the COVID-19 pandemic. Chancellor Hawgood responded in the negative, but noted that UCSF was aware of the need for social distancing. At this time, at the beginning of the project, team members would work remotely. The square footage would remain the same, but the project would include technology that would allow for some degree of remote work.

Regent Leib observed that, based on UCSF's financial stress testing, should UCSF experience a 25 percent reduction in operating revenue, this project would become unprofitable. UCSF no doubt had planned contingencies, and the demand for this hospital would be great; nevertheless, the Regents should be aware of this projection. He expressed support for the Helen Diller Medical Center project. Committee Chair Makarechian responded that the new hospital must be built in any case due to seismic safety requirements.

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

8. **PARTIAL PRELIMINARY PLANS FUNDING, THE NEW HOSPITAL AT UCSF HELEN DILLER MEDICAL CENTER AT PARNASSUS HEIGHTS, SAN FRANCISCO CAMPUS**

The President of the University recommended that the 2019–20 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Francisco: New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights – partial preliminary plans – \$5 million to be funded from hospital reserves.

To: San Francisco: New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights – partial preliminary plans – \$135 million to be funded from hospital reserves.

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

Interim Executive Vice President and Chief Financial Officer Jenny recalled that, at the March meeting, the Regents had approved \$5 million of a request for \$181.8 million in preliminary plans funding. Following input from the Regents, UCSF was now seeking an additional \$130 million, for a total preliminary plans funding allocation of \$135 million, slightly less than 75 percent of the original request for \$181.8 million.

Chancellor Hawgood stated that this was a large preliminary plans funding request for a major project on the Parnassus campus to replace the Moffitt Hospital, which opened in 1955. The Moffitt Hospital had served UCSF for 65 years and would serve for another ten years, for a total of 75 years. Moffitt Hospital had served well but was now too small and functionally obsolescent; it could not continue to serve as UCSF’s main hospital. The prior year, UCSF turned away 3,000 acutely ill patients from hospitals in Northern California due to lack of beds. The proposed project would add another incremental 200 beds to UCSF. The project would respond to the seismic retrofit guidelines of State Senate Bill 1953, although Chancellor Hawgood acknowledged that the deadline set by this law might be delayed due to the current financial crisis.

The main issue before the Regents was the financial viability of this project, given present uncertainties. UCSF had been engaged in a significant amount of scenario planning, and Chancellor Hawgood stated that this planning made him confident about proceeding with this request. UCSF’s base case scenario, for planning purposes, indicated that revenue would return to January-February 2020 levels, considered as the base, by March 2021. Since March and April of this year, UCSF had already seen an increase in patient census. As of the previous day, UCSF was at 81 percent of average daily census. In January of this year, UCSF had been at about 95 percent of average daily census. UCSF expected to return to about 96 percent of base case census by March 2021. UCSF also expected to return to its fiscal year 2019 ten-year plan earnings before interest, depreciation, and amortization (EBIDA) by 2024, which was the year when UCSF planned to start construction and take

out substantial debt for this project. In order to accomplish this, UCSF expected to mitigate the decrease in revenue for fiscal years 2020 and 2021 through significant cost reduction and mitigation. UCSF would reduce costs by about 6.7 percent in 2020–21 through a variety of value improvement projects and the cancellation of approximately 1,000 open positions in UCSF Health. This would remove about \$336 million in costs. This calculation was made on the basis of a \$4 billion operating budget. UCSF believed that it would prove resilient, as it had in the recession of 2008–09. UCSF would experience a significant decrease in EBIDA compared to plan in 2020 and 2021, but would return to January 2020 revenues in approximately 12 months. UCSF was considering best and worst case scenarios; what Chancellor Hawgood had outlined was the base case.

UCSF Health had a strong balance sheet, with approximately \$1.2 billion in cash, while the campus had about \$1.6 billion in cash. UCSF believed that it could fund this project with operating income and cash. UCSF would be in a good position should there be any infrastructure assistance from the federal government. UCSF did not plan to start construction until 2024. If UCSF's scenario did not play out as projected or the economic situation became even worse, UCSF could pause at that point. UCSF would not have wasted \$135 million because the hospital would be designed and ready for construction. UCSF could not continue to fulfill its public mission if it did not build a new hospital. Chancellor Hawgood recalled that UCSF had opened the Mount Zion hospital, changing it from a 23-hour ambulatory surgery hospital to a full-service, 24-hour inpatient facility with about 55 beds and 12 operating rooms, which would increase UCSF's revenue-generating capacity if there was no COVID-19 surge in the fall or provide space for COVID-19 patients if there was a surge in the fall.

UCSF Health Chief Executive Officer Mark Laret commented that UCSF was consistently ranked as one of the ten best hospitals in the country. The Moffitt Hospital did not have air conditioning in many rooms and was not designed for medical care today. Regardless of the seismic safety law and the 2030 deadline, this building needed to be retired from inpatient use. UCSF would proceed very cautiously with this project. In 2008–09, the campus was able to take advantage of Build America Bonds because it had projects almost ready for construction. UCSF would like to be in this position again should the opportunity arise.

Committee Chair Makarechian noted that he and Regent Park had had extensive discussions with UCSF about this project and had become comfortable with the proposal. Hospitals are some of the most complicated structures to design and hospital projects require a great deal of lead time. One of his concerns had been the possibility of code changes due to the COVID-19 pandemic. The innovative design and building concept being used, the Integrated Form of Agreement, should address this. Other concerns of Committee Chair Makarechian had been put at ease by the stress testing the campus carried out. UCSF might be able to secure more favorable pricing from architects at this time. The campus also had adequate cash flow. He expressed full support for this item.

Regent Sherman asked if any of the philanthropic donations for this project had thresholds or timetables attached as conditions for receiving a gift. Chancellor Hawgood responded

in the affirmative. UCSF had a pledge for \$500 million from the Helen Diller Family Foundation. The language in the gift agreement allowed for withholding of the pledge should there be more than 12-month delay in the planning or delivery of the project not due to circumstances like war or natural disasters.

Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board, Regents Cohen, Estolano, Kounalakis, Leib, Makarechian, Napolitano, Park, Sherman, Simmons, and Um voting “aye.”

The Committee recessed at 1:00 p.m.

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 The Committee reconvened on May 20, 2020 at 1:25 p.m. with Committee Chair Makarechian presiding.

Members present: Regents Blum, Cohen, Estolano, Kounalakis, Leib, Makarechian, Park, Sherman, Simmons, and Um; Ex officio members Napolitano and Pérez, Advisory members Bhavnani, Mart, and Muwwakkil; Chancellors Christ, Gillman, Hawgood, and Khosla; Staff Advisor Jeffrey

In attendance: Regents Anguiano, Butler, Elliott, Kieffer, Lansing, Reilly, Sures, Weddle, and Zettel, Regent-designate Stegura, Faculty Representative Gauvain, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Investment Officer Bachher, Provost Brown, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Interim Executive Vice President and Chief Financial Officer Jenny, Interim Vice President Lloyd, Chancellors Block, Larive, May, Wilcox, and Yang, Interim Chancellor Brostrom, and Recording Secretary Johns

**9. PROJECTED COVID-19 IMPACT ON 2019-20 AND 2020–21 REVENUE**

[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.]

Interim Executive Vice President and Chief Financial Officer Jenny stated that the University was facing deep stresses on its financial health. Much was still unknown: the impact of a second surge of COVID-19, student enrollment in fall, the amount of housing the University could provide for students, the ability to provide critical, non-COVID-19 patient care, and the State’s continued investment in UC.

This discussion would focus on the revenue outlook, but Mr. Jenny wished to remind the Regents that UC had taken prudent steps to contain costs in future: a systemwide hiring freeze, a salary freeze for policy-covered personnel, a voluntary pay cut of ten percent for the President and chancellors, as well as limits on travel and non-essential purchases. The revenue projections to be presented were only one component of a broader strategy to respond to the financial challenges ahead.

In times like this, it was crucial to establish the values that would guide UC's work. First and foremost was the health and safety of the UC community, which had been the University's concern since the onset of the crisis. The choices that would be made must sustain the University's mission of instruction, research, and public service, including patient care. In evaluating options, UC would thoughtfully consider impacts on UC students, faculty, staff, and patients. UC would need to consult widely with its stakeholders as proposals were brought to the Regents, and UC would be transparent as it implemented processes and recommendations. Any strategy would need to consider both short- and long-term measures and align UC costs and resources.

Through April 30, the University had experienced a \$1.2 billion loss. A large part of this budget impact was a loss of \$700 million in revenue at the medical centers. While patient census figures had begun to increase at all the medical centers, the University expected revenue losses to continue for the remainder of the fiscal year. There was not much certainty about the trajectory of the pandemic or its long-term impact on the economy or on higher education.

Mr. Jenny stated that it was helpful to divide the current financial challenges into two categories. The first category comprised areas with an immediate impact, but where recovery over time was likely: medical centers, clinics, housing and dining, and other auxiliary enterprises. The short-term impact on these functions was significant, but the long-term demand for these services was certain, since the demand generally far outstrips supply. Recovery over time was expected, but with an uncertain time frame, due to the uncertainty about COVID-19. The second category comprised longer-term challenges, areas where the financial impact had been delayed but recovery was less predictable. State support was one example. The Governor's budget included a ten percent reduction to UC's base budget. History had shown that, when State funding for UC is reduced, recovery was not immediate but took several years. UC expected enrollment of California resident students to remain strong. Enrollment of international students was less predictable, especially if travel and other restrictions persisted into the fall and beyond.

Associate Vice President David Alcocer then discussed the impact on UC revenues in various areas, including a base case scenario, as though the pandemic had not occurred, and comparison of this scenario with a range of outcomes bounded by a more optimistic scenario and a more pessimistic scenario. The two scenarios reflected different assumptions about the trajectory of the pandemic and how soon a sustained, gradual return to normal operations might begin. The more optimistic scenario assumed that the University would begin to turn the corner in September 2020, six months after the start of the pandemic; the more pessimistic scenario assumed a 12-month period before UC would see a gradual and steady return to normal operations beginning in March 2021.

For medical centers and clinics, the immediate revenue decline was due to greatly reduced capacity to serve non-COVID-19 patients. All but the most essential procedures and services needed to be deferred. How quickly net revenue recovered would depend in part on how soon medical centers can resume normal operations, but also on other factors,

including the availability of federal support, efforts to expand capacity in innovative ways, and how the payer mix might change, for example, if fewer patients were covered by private medical insurance due to an extended period of high unemployment in the general economy.

Auxiliary enterprises such as housing and dining showed a similar trend, but on a much smaller scale. Auxiliary revenues collapsed in spring 2020, when many terminated their housing and dining contracts. Prospects for the coming year were uncertain at best. The timing of the recovery would largely depend on how quickly protocols could be introduced to ensure student health and well-being, and how soon overall the University returned to larger-scale, on-campus instruction.

The base case scenario for State General Funds reflected annual increases in State support of five percent, consistent with the Governor's January budget proposal. The two alternative scenarios reflected possible cuts of five percent or 15 percent in the following year. The Governor's May Revision, released the prior week, included a ten percent reduction which might place the University in the middle of the scenario range in 2020–21. Neither scenario assumed an immediate restoration of State funds. This was consistent with analyses by the California Department of Finance and the Legislative Analyst's Office, which both predicted a multi-year decline in State revenues. Unlike the situation of K-12 schools and the California Community Colleges, there was no constitutional provision that would limit reductions to State revenues for UC or the California State University.

The University was also predicting a range of possible shortfalls in core funding from tuition and fees. The base case scenario reflected inflation-based increases to tuition and fees, similar to the multi-year plans presented to the Regents in the past. Neither of the scenarios included a tuition increase, although this was an action that the Regents could decide to take. This was one area where action by the Board would result in new, permanent increases and resources to campuses, including additional funding for financial aid. The differences between the two scenarios reflected differences in enrollment. In the more optimistic scenario, the University was modeling a one-year decline in new international students, and therefore, less nonresident tuition revenue. Following this decline, total enrollment would recover by one percent annually. Under the more pessimistic scenario, the decline was much greater, with total enrollment declining slightly over the next two years.

Mr. Alcocer then presented a chart showing the combined effects of State funding and tuition and fee revenue, two resources that were very important for UC's core academic enterprise. Even under the more optimistic scenario, campuses could expect a net reduction of over \$200 million in core funds next year compared to 2019–20 levels. Core funding would remain below current levels for at least two years if tuition remained flat. The shortfall compared to the base case scenario was much greater—more than \$600 million next year, and more than \$1 billion dollars by year three. Under the more pessimistic scenario, with deeper State cuts and a larger decline in international student enrollment, the decline next year could be as high as \$1 billion compared to current levels, and worsening

from that point onward. Given these projections, it was hard to conceive of this situation as a short-term challenge with regard to core funds. This was a multi-year challenge that would likely require multi-year strategies for generating new revenue and reducing ongoing costs, as well as solutions that could be scaled up or down as more was known about the extent and duration of the pandemic.

Mr. Jenny reported that the University was taking every opportunity to access federal funds to offset a portion of the revenue losses and cost increases. Two important resources were the Federal Emergency Management Agency (FEMA) and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). FEMA provided 75 percent reimbursement for eligible expenses but did not provide reimbursement for lost revenue. The national impact of COVID-19 would put great stress on FEMA, and Mr. Jenny advised that 75 percent reimbursement might be an optimistic number. To date, the University had received \$288 million through the CARES Act for its medical centers and \$260 million for UC campuses to provide emergency grants to students and cover institutional costs. One-half of that \$260 million was returned directly to students, while the other was used to support essential educational services. The University had also received \$7 million for campuses that are federally recognized minority-serving institutions. UC was advocating for additional federal funds. An important feature of the Governor's May Revision was that the proposed cuts would only be made if the federal government did not provide additional support. UC was also developing a strategy to secure external financing, if needed, which could be amortized over a period of seven to ten years to lessen the immediate impact of COVID-19.

UC was ensuring that it had sufficient liquidity across the system. The University had over \$14 billion in liquid assets. The Office of the President would be working with the campuses on managing these reserves in light of reductions. UC would also be taking advantage of a provision in the CARES Act that allows employees to defer their Social Security payments in 2020, which would provide short-term savings of about \$700 million in the next fiscal year. Half of this amount would be repaid in 2021, and half in 2022. The May Revision of the State budget had been issued on May 14, and legislative committee hearings were under way. When the State budget was enacted, UC would have a better sense of the impact on its core educational budget. The status of student enrollment would become clear in August and September.

Chancellor Christ reported that the impact of COVID-19 on the UC Berkeley budget this semester had amounted to \$49.3 million—\$44.3 million in lost revenues and \$5 million in additional expenses. The lost revenues were in auxiliaries, mostly in housing and dining, but also in athletics, Cal Performances events, and University Extension. The additional expenses were largely in technology, janitorial services, and health services. In the coming fiscal year, UC Berkeley was expecting additional losses ranging from \$150 million to \$250 million, for a total deficit between \$200 million and \$300 million. These losses hit UC Berkeley at the heart of its enterprise. The ten percent reduction in the State's allocation for the campus was \$42 million. The campus would not know for some time whether it would experience enrollment declines, particularly in the international and out-of-state student populations. Tuition and State allocations funded UC Berkeley's academic

programs; losses in these income streams would necessitate cuts to core functions. Furthermore, losses in auxiliary enterprises might escalate sharply, depending on residence hall density and whether or not UC Berkeley would have a fall sports season. The campus would continue to accrue expenses created by COVID-19, such as the cost of testing and contact tracing, additional cleaning and disinfection, and information technology needs.

UC Berkeley was developing a three-part budget strategy to address the anticipated deficit. A plan for revenue losses in auxiliaries would seek to prevent the rest of the campus from absorbing these impacts through workforce reduction and some limited debt. The campus was trying to hold to the principle that one should not make cuts to the academic enterprise in order to make up for losses in auxiliaries, which were areas that would recover when the pandemic eased, with a fundamentally sound financial model. The campus needed to find bridging strategies for a relatively short but steep decline in revenues. UC Berkeley was identifying one-time funds for COVID-19-specific expenses. The most challenging losses by far were the reductions in the State allocation and potential declines in out-of-state tuition revenue. These would affect the academic core, and UC Berkeley wished to avoid damage to that core. The campus would rely on targeted reductions, salary actions, and the use of reserves. The duration of the pandemic would make a significant difference. It would be challenging to develop financial bridging strategies for a year but extremely difficult to do so for a longer period. If it appeared that the State would not recover and restore UC Berkeley's allocation, the campus would need to consider a tuition strategy. For the Berkeley campus, revenue from tuition and fees were roughly double the State allocation. In order to make up for a ten percent reduction in the State allocation, UC would need to raise tuition by five percent. UC Berkeley would also work to develop a revenue strategy to address losses in the core budget. Multiplying and diversifying sources of revenue was critical to eliminating UC Berkeley's \$150 million deficit, and this approach would be critical for resolving the current deficit as well. Chancellor Christ quoted a colleague who remarked that "you can't cut your way to heaven." It would take time to build revenues, but this was the best long-term strategy. UC Berkeley was planning on a three- to five-year recovery period from the effects of COVID-19.

Chancellor Hawgood recalled that UCSF had a revenue profile that was different from that of the other campuses. Sixty-five percent of UCSF revenue came from the health system and 20 percent from research, predominantly federal funding. The State allocation amounted to two percent of the budget, tuition accounted for one percent, and auxiliaries for one percent. The pressures on UCSF were different.

Through April, the UCSF health system had recorded a drop in revenues of \$256 million, of which \$209 million was actual loss of clinical revenue due to a decrease in patient census, while about \$45 million was due to new COVID-19-related expenses. UCSF expected to see a return to close to normal revenue over an approximately 18-month period, and was currently developing best, worst, and base case scenarios. The base case scenario would bring UCSF back to fiscal year 2019 revenues in September 2021. This would create another gap of about \$500 million in revenue, but throughout this period, under even the worst case scenario, UCSF would maintain positive earnings before interest, depreciation, and amortization (EBIDA), although it would not meet its planned projections. In the

month of May so far, UCSF had seen about a 25 percent increase in patient census and in elective surgeries, a critical area where the predominant profit margin resided. UCSF was engaged in detailed planning to remove \$330 million in costs from its base revenue budget of approximately \$4 billion, using multiple value improvement strategies and a hiring freeze. UCSF had about 1,000 open positions, and most of these would be cancelled.

UCSF had a more optimistic scenario for its research budget, about \$1.3 billion annually. There had been no significant reduction in this budget. UCSF faculty had been aggressive in applying for COVID-19-related research funding. UCSF hoped that the National Institutes of Health (NIH) would extend existing grants by three to four months, so that, overall, while there might be a small decline in cash flow, there would be no material loss in revenue. The reduction in the State allocation would affect the core education budget. UCSF was working with different revenue streams to mitigate this effect as much as possible. While the pandemic had made a significant impact on UCSF's ten-year financial plan, the campus would maintain positive EBIDA throughout and believed that it would return to its ten-year plan projected performance by 2024.

Committee Chair Makarechian described these projections as bleak and depressing. All the main sources of UC revenue were reduced, and the shortfall was substantial. The University had lost \$1.2 billion in only two months. The financial impact of the pandemic might last three to four years. The University should see what efficiencies could be undertaken. Revenue generated by student housing in the coming year might be one-third of the usual level due to the requirement for lower density. The number of student statements of intent to register was lower than usual at this time of year. He asked if the University would have more accurate projections by the time of the July meeting. Mr. Jenny responded that, in July, UC would know which reductions would be applied in the State budget and would have a more accurate idea of student enrollment. UC would not have solid numbers for tuition revenue until September. There would be much uncertainty until a vaccine for COVID-19 was developed. A second pandemic surge in the fall would affect patient census numbers at UC hospitals. President Napolitano added that the State Legislature might come back into session in August or September to adjust the State budget based on the status of tax revenues in July. Numbers for student enrollment would not be known until September, but UC would know in July how many students had filed statements of intent to register.

Committee Chair Makarechian stressed that the cost of attendance for students was already high. The University should consider any possible efficiencies other than tuition increases. He asked if UC medical centers had availed themselves of certain provisions of the CARES Act. Chancellor Hawgood responded that UCSF had effectively taken a loan of \$143 million from the Centers for Medicare and Medicaid Services, which it would pay back over a number of years. Committee Chair Makarechian advised against delaying Social Security payments.

Regent Cohen observed that this situation presented an opportunity to think differently about UC finances. This crisis was unique in affecting hospital and auxiliary budgets; during past State budget crises, these budgets had remained on the sidelines, on a stable

footing. Chancellor Christ's statements suggested that financing for housing and dining programs was stable, with some anticipated short-term borrowing. He asked if any UC campuses were struggling to meet their bond obligations, to the extent that this would be a drain on campus general purpose funds. Mr. Jenny responded that the University reviewed all its limited project revenue bonds, which were largely used to support housing, and stress tested them against scenarios with revenue reductions of 25 percent and 50 percent. UC would meet its covenants and still have the ability to cover its debt service for all these projects. UC was not worried about going out of compliance with its debt obligations.

Regent Cohen referred to Mr. Jenny's statement that UC might seek external financing that could be amortized over a period of seven to ten years. He asked what the University would be borrowing against; for example, if it would be pledging future tuition revenues, which would limit UC's capacity for recovery in the future. Mr. Jenny responded that it was still too early to say what forms of financing UC might pursue. Savings from certain efficiencies might take a few years to manifest themselves. UC could issue general revenue bonds to be paid back in seven to ten years. He stressed that external financing was not a revenue source, but a deferral of cuts the University would otherwise take. This was a way of creating liquidity, but UC must be mindful that these funds would come due. The Office of the President would work with the campuses to develop financial bridging strategies.

Regent Cohen concluded that the University would make a product available to the campuses but not require them to use it, and that campuses would be required to pay back these funds over time. Mr. Jenny remarked that UC's capacity to secure funds in this manner was not unlimited. He estimated the University's additional debt capacity to be somewhere between \$3 billion and \$5 billion. UC could not borrow its way out of this problem.

Regent Zettel asked for an estimate of total projected losses through the end of the current fiscal year. Mr. Jenny responded that UC's original estimate of losses had been about \$2 billion, including revenue losses and extraordinary expenses. The data for the current month of May, reported in early June, would be crucial. He anticipated that the financial situation would be better in May than it had been in April, and that there would be further improvement in June, absent a resurgence of COVID-19.

Regent Park requested confirmation of Chancellor Hawgood's statements about how long it would take UCSF to reach full patient census and original revenue projections. Chancellor Hawgood responded that UCSF believed it would return to the January 2020 revenue level by September 2021 for both inpatients and outpatients. There was still a significant amount of fear on the part of patients about coming into the hospital. Like all UC medical centers, UCSF was undertaking an extensive marketing and messaging campaign for patients. Outpatient clinics were not built to accommodate physical distancing, so these would not be able to return to full capacity at this time. In this regard, UCSF had benefited from its experience with telehealth. But Chancellor Hawgood noted that UCSF's payments for telehealth amounted to about 40 percent of payments for in-person visits. UCSF did not receive what was called a "technical payment" for telehealth visits. UCSF expected that, under any of its scenarios, it would be back to its plan levels

by 2024. In response to another question by Regent Park, Chancellor Hawgood confirmed that, in spite of the recent increase in patient census, it would take some time to return to 100 percent.

Regent Park asked about the University's degree of comfort when there were fewer days' cash on hand. Mr. Jenny responded that some campuses and medical centers had more liquidity than others. The prospect of continued erosion of days' cash on hand might lead UC to consider external financing now, at a time when rates were low. UC would have to pay the interest on this money even if it chose not to use the money. The Office of the President was working closely with the campuses to examine their liquidity needs and comparing these with the efficiencies that campuses would be achieving through budget reductions, as well as with revenue creation. The campuses were stress testing their liquid balances. As the Office of the President asked the campuses if they wished to pursue external financing, the cash management status of the campuses would become clear.

Regent Park stated that, while no campus really wanted to resort to these measures, it would be good to have an understanding of the sequence of measures that campuses would go through. Mr. Jenny anticipated that systemwide and campus updates would be provided to the Committee over the next several meetings.

Chancellor Block reported that the UCLA health system was recovering. This was a hopeful sign, but the campus recognized that this would be a long recovery. With regard to the idea that the University must find new ways to do business, he expressed some optimism. The campuses had learned that many employees work effectively remotely, and this was perhaps a pleasant surprise. Operations did not fall apart with employees working from home. Leasing space in the Westwood neighborhood of Los Angeles was expensive for UCLA, and this was a consideration in the campus' long-term building strategy. In the future, employees might not work full-time at home or remotely, but the current changes had had a significant impact on the number of people on campus and might lead to savings over time and have a long-term impact on UC budgets.

Committee Chair Makarechian emphasized that UC should take advantage of these lessons learned and reconsider where employees work and students take courses.

Regent Pérez observed that this challenge would not be a one-year challenge but would extend over multiple years. UC needed to seek solutions for managing this problem over multiple years. There were clearly different models for a U-shaped recovery and an L-shaped recovery. The Regents needed clear information. While not everything would be known by July, he hoped that the Regents would have a solid budget to vote on at the July meeting. The budget might contain assumptions and different actions depending on different circumstances, but the greatest part of the budget the Regents would adopt for the next fiscal year must be before the Regents in July. This would provide clarity for all members of the UC community. Mr. Jenny responded that a budget would be ready at that time. Committee Chair Makarechian added that some Regents should review the budget assumptions even before the budget item was presented to the Board. Regent Pérez

responded that he would engage with a number of Regents on this so that the July proposal would have benefited from a variety of perspectives.

Regent Sherman recalled that, at the end of 2019, in a summary of external financing, UC indicated that its debt capacity would be in the range of \$6 billion to \$8 billion over the next five years to maintain UC's AA credit rating. He asked about the current status of the University's debt capacity. He also noted that, given the Federal Reserve's current support for the municipal bond market, this was an extraordinary time for both taxable and non-taxable rates. Regent Sherman suggested that this would be a time for the University to go to the market and borrow as much as it can for as long as it can. In response to Regent Sherman's first question, Mr. Jenny anticipated that the updated figure for UC's debt capacity would be a number lower than \$6 billion to \$8 billion. The University might be taking a seven percent financial reduction, and this would have a commensurate effect on its debt capacity. With regard to Regent Sherman's suggestion about borrowing, Mr. Jenny responded that the University was studying its borrowing strategy; more details would be presented at a future meeting. UC had been following the Federal Reserve borrowing opportunities with great interest; the current lending program in question was short-term duration, with three-year maturities and only available to governments, and the cost of capital would be higher than UC's given the University's strong credit ratings. If, right now, UC were to model at a ten-year taxable note, ten-year duration, of about \$1 billion, UC would be in the marketplace for a rate of between two percent and 2.25 percent. This was still extraordinarily cheap capital. The question was to manage this with each individual campus' liquidity. Investments in the Short Term Investment Pool, Total Return Investment Pool, and Blue and Gold Pool had largely been moved out of the equity market. UC would be paying interest at a higher rate than that money would be collecting. Borrowing was being considered as a component of budget planning.

Regent Sherman asked if UC was exploring more esoteric or creative financing options. The University had a significant royalty income stream from its research enterprise. He asked if UC had considered securitizing these royalty streams, given the current low rates. Mr. Jenny responded that UC would explore this option.

Regent Sherman observed that the UC system could aggregate the royalty streams from the most significant inventions and take this to the market while rates were low. This could generate significant funds. Committee Chair Makarechian remarked that the structuring of the Merced 2020 project had used a similar approach.

Chancellor Gillman commented that, while all the campuses were taking steps that were considered prudent under the present circumstances, such as wage freezes, the campuses found themselves in very different situations. When considering aggregated numbers, there was a risk of assuming that all aspects of this analysis applied to all campuses. He anticipated that, as this situation developed, different campuses would have to adopt different strategies. Some of the large aggregated numbers were due to losses incurred at one or two medical centers; these numbers did not apply to campuses without medical centers. Although UC Irvine had experienced losses in its auxiliary enterprises, the general campus might end the year in net positive territory, simply due to budgeting. The UC Irvine

health system was currently at 90 percent of patient census and recovering. The situation of auxiliaries would be different in the coming fall than it had been this spring, even if dormitories were occupied at low density with one student per room. Chancellor Gillman cautioned against overreacting to some of the figures presented. He expressed confidence in his campus' workforce preservation measures taken at the beginning of this crisis. All the campuses were engaged in scenario planning and waiting for the final numbers for the State budget and for total tuition revenue once the fall term began. Although the loss figures that had been presented were significant, some campuses would be able to manage this situation without taking extraordinary steps. He expressed cautious optimism. Committee Chair Makarechian remarked that he would rather assume the worst case scenario.

Regent Blum observed that UC employees were almost never fired, even in the case of incompetent or ineffective employees. This should be reconsidered. At this time, an operation like the University could not be run like this. The University could not count on increased federal funding for higher education in the future, but should not stop trying to secure this funding.

Student observer Aidan Arasasingham commented on the University's response to COVID-19 and the pandemic's projected impact on UC revenues. With regard to the \$1.2 billion in pandemic-related revenue losses and increased costs, he reported that student leaders believed that these losses were understandable and the result of UC making the right decisions. Campuses refunded housing and dining plans when hundreds of thousands of students moved off campus while still keeping housing and dining open for students in need. As many private employers nationwide immediately moved to cut hours and furlough or even lay off workers, UC made a commitment to continue employment for all staff to the end of the academic year. When students and faculty were forced to quickly move to distance learning, UC swiftly entered large-scale contracts to provide necessary software and hardware to students in need. Although these were costly decisions, they were the right decisions. These decisions were for the public good, and they deserved and required public support.

The UC Student Association would work for greater State and federal support to the University, but it would not wish to see the Board consider premature budget cuts that would disproportionately affect UC's most vulnerable populations. Mr. Arasasingham expressed appreciation for the fact that the Committee would not be acting on cuts that had initially been proposed in the following agenda item, *Fiscal Year 2020–21 Budget for the University of California Office of the President*, and that Office of the President programs would continue to be funded at fiscal year 2019–20 levels in the immediate short term. However, the cuts that had been proposed were a matter of concern, such as reductions to the Student Academic Preparation and Educational Partnerships (SAPEP) programs, to campus services and financial aid for undocumented students, and to the President's Diversity Pipeline Initiative. He urged the Committee to direct the Office of the President to consult with students in a meaningful way before this item was reintroduced in the future. A real partnership of the Board and UC students required collaboration in difficult times as well as good ones. Mr. Arasasingham thanked Committee Chair Makarechian for encouraging the Regents to avoid tuition increases. Consultation with students on budget

and tuition issues would be necessary to best manage the impacts of the COVID-19 crisis and to ensure that the University would emerge from the crisis stronger than before.

10. **FISCAL YEAR 2020–21 BUDGET FOR THE UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT**

The President of the University recommended approval of the Fiscal Year 2020–21 Budget for the University of California Office of the President, as provided in Attachment 1.

[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 explained that the attachment to this item had been removed. Regent Pérez further explained that the item as initially anticipated was not now before the Regents. The recommendation had been updated as a continuing resolution. Much more detail on the Office of the President budget would be worked through before the July meeting, at the same time as the overall UC budget was also reviewed.

Regent Pérez moved that the following recommendation be approved:

“Resolved, the Regents authorize the Office the President to accept and expend funds for fiscal year 2020–2021 per Regents Policy 5101: Policy Regarding Approval of Annual Budget for the Office of the President with the understanding that the Office of the President will submit, at the July 2020 Board of Regents meeting, a balanced budget that incorporates the appropriate level of reductions.

The Regents shall consider and recommend a revised fiscal year 2020–21 budget at the July 2020 Board meeting. This resolution shall remain in effect through August 31, 2020.”

Upon motion duly made and seconded, the Committee approved the recommendation and voted to present it to the Board, Regents Blum, Cohen, Estolano, Kounalakis, Leib, Makarechian, Napolitano, Park, Pérez, Sherman, Simmons, and Um voting “aye.”

11. **AMENDMENT OF THE UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM PLANS TO PROVIDE FOR RELIEF DISTRIBUTIONS AND LOAN PROVISIONS AS PERMITTED UNDER THE CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES) ACT**

The President of the University recommended that:

- A. The UC Retirement Savings Program (RSP) plans be amended, as applicable, to implement the following provisions as soon as administratively feasible after Regental approval:
  - (1) The UC Defined Contribution Plan, Tax-Deferred 403(b) Plan, and 457(b) Deferred Compensation Plan be amended to permit qualified participants,

as defined under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), to request coronavirus-related distributions, including in-service distributions, regardless of age, provided that:

- a. The distributed amounts are limited to the participants' vested accumulations;<sup>3</sup>
- b. The coronavirus-related distributions among all three RSP plans do not exceed \$100,000 per qualified participant;
- c. The coronavirus-related distributions are requested and issued by December 31, 2020; and
- d. The coronavirus-related distributions may be repaid within three years and such repayments will be deemed an eligible plan rollover.

Note: In accordance with the CARES Act, coronavirus-related distributions will not be subject to early distribution penalties or the mandatory minimum 20 percent federal tax withholding applicable to eligible rollover distributions.

- (2) The Tax-Deferred 403(b) Plan be amended to permit qualified participants, as defined under the CARES Act, to request coronavirus-related loans from the plan, provided that:
  - a. The participant is an active UC employee with a balance of at least \$1,000 in the plan;
  - b. The participant does not already have an outstanding general-purpose loan from the plan;
  - c. The coronavirus-related loan amount does not exceed the lesser of \$100,000 or 100 percent of the participant's vested contributions in the Tax-Deferred 403(b) plan, plus interest or earnings;
  - d. The coronavirus-related loan is requested no later than 180 days following the enactment of the CARES Act; and
  - e. To facilitate these CARES Act loan provisions, temporarily suspend the current plan provision which limits a participant to receiving only one general-purpose loan in every 12-month period. A participant could not take more than one general purpose loan at the same time. Rather, it would allow a participant to initiate and pay

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<sup>3</sup> Vested accumulations as defined in each plan document. Generally, all member accumulations in the RSP plans are 100 percent vested immediately, with the exception of certain employer contributions and earnings in the Defined Contribution Plan.

off a general purpose loan and take another within a 12-month period.

- (3) The Tax-Deferred 403(b) Plan be amended, in accordance with the CARES Act provisions, to allow active participants with an outstanding plan loan, as soon as administratively feasible following Regental approval, to suspend any loan repayments that otherwise would have been owed through December 31, 2020. Although loan interest will continue to accrue during the grace period, this amendment provides a deferral of one year<sup>4</sup> on the participant's repayment schedule.
- (4) In addition to the optional provisions allowed under the CARES Act, the UC Defined Contribution Plan and 457(b) Deferred Compensation Plan be amended to permit plan participants who have attained age 59½ to request a full or partial in-service distribution of their vested contributions, plus interest or earnings, as already permitted under the Internal Revenue Code. (Since these in-service distributions are not related to the coronavirus pandemic, they would be subject to mandatory federal tax withholding. This aligns with current in-service distributions allowed under the UC Tax-Deferred 403(b) Plan.)

- B. The President be authorized to implement these approved provisions and supporting technical details, and the Plan Administrator be delegated authority to subsequently amend the RSP plan documents as necessary to implement the approved changes.<sup>5</sup>

[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.]

Interim Vice President Lloyd explained that the proposed action to amend UC's Retirement Savings Program plans would temporarily allow for certain financial relief options to be made available to those affected by COVID-19. This had been made possible through recent enactment of the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The risks to public health and the social and economic impact of COVID-19 were a general concern for everyone at the University. The full impact of the pandemic had yet to be felt. Adoption of these temporary provisions would provide needed support and options for those current employees, former employees, and retirees who might be most affected. These financial relief provisions were similar to those provided by the Internal Revenue Code following other federally declared disasters, including the

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<sup>4</sup> The CARES Act allows for the suspension of retirement plan loans for "one year." Fidelity Workplace Services LLC (Fidelity), UC's retirement savings plan record-keeper, is implementing this provision with its employer plan sponsor clients through December 31, 2020, pending further IRS guidance and clarification.

<sup>5</sup> The CARES Act allows employer plan sponsors to immediately adopt and implement the eligible defined contribution plan distribution and loan provisions contained within the Act. Employer sponsors of eligible governmental defined contribution plans have until the end of their 2024 plan year to formally, and retroactively, amend their plans accordingly.

California wildfires and Hurricanes Katrina and Maria. There had been broad support for the adoption of the CARES Act provisions throughout UC.

Regent Pérez recalled that this item had initially been presented to him as an interim action. At that point, he had had questions about equity and concerns that this action would be beneficial for employees who were well compensated. He had not received answers to questions about options for employees with lower compensation.

Retirement Policy Manager Scott Sylva outlined the proposed action. The CARES Act allowed for certain distribution and loan options to provide relief for individuals who were qualified. “Qualified” meant that an individual or a family member was diagnosed with COVID-19, or that an individual experienced financial hardship due to quarantine or sheltering in place. This item would amend UC’s three Retirement Savings Program plans to allow for the distributions provided for by the CARES Act, up to \$100,000 for qualified individuals. These distributions were not typically allowed for employees. The distributions were not subject to early withdrawal penalties or mandatory tax withholding. Participants would be allowed to repay these distributions within three years. If they did so, they would not be subject to income tax on the distributions; if they did not repay in this period, the income tax on the distributions would be spread over three years. This item would provide access to retirement savings to which participants would not normally have access. The item also proposed an amendment to the Tax-Deferred 403(b) Plan to increase the amount that can be borrowed, so that a qualified participant could receive up to \$100,000 or 100 percent of his or her vested accumulations in the 403(b) Plan. The loan provision was only open for six months from the time of the enactment of the CARES Act, through mid-September. Participants with an existing 403(b) Plan loan or who took out a loan during this period would be able to defer their loan payments through the end of the year. These were optional provisions included in the CARES Act. The item would also amend in-service distributions for the Defined Contribution Plan and the 457(b) Deferred Compensation Plan to allow regular in-service distributions at 59-and-a-half years of age, as already permitted under the Internal Revenue Code and in the University’s 403(b) Plan. All three Retirement Savings Program plans would have the same distribution rules. The University had reviewed the approaches taken by comparator universities and institutions. The Universities of Washington, Michigan, and Texas, Stanford University, and the California Public Employees’ Retirement System had adopted these provisions in full. Ms. Lloyd stressed that this program would be available to the full spectrum of UC retirement savings participants, regardless of income level.

Regent Pérez stated that he had asked UCOP (1) why this item had first been brought forward for interim action, and (2) about equity and how beneficiaries would be distributed across different income strata. He had asked for analysis of who would be able to benefit from this program, across different quintiles and the Defined Benefit and Defined Contribution programs. He had not received answers. Ms. Lloyd responded that the action had been presented as an interim action to provide access to this program to participants as early as possible. Retirement Savings Program Director Hyun Swanson stated that she had not been aware that Regent Pérez had requested these data. There was urgency in this matter. The CARES Act was passed on March 27, and, the following day, the University

was already receiving requests for withdrawals. UC local offices and Fidelity Investments, the University's record keeper, were receiving requests. The University wished to have the item approved as soon as possible.

President Napolitano recommended that the Committee approve this item but ensure that Regent Pérez receive the information he had requested.

Regent Sherman asked about the current loan limit on the Defined Contribution plan that was proposed to be doubled. Mr. Sylva responded that, currently, the 403(b) Plan was the only plan for which there was a loan program. The loan limit was 50 percent of accumulation across all plans, up to \$50,000. The proposed action would raise this to 100 percent of vested accumulation, up to \$100,000.

Regent Sherman asked if the interest rate paid by the employee was stipulated. Mr. Sylva responded that this rate would be the standard interest rate available at the time. Regent Sherman asked about the standard rate, wondering if there was a favorable rate for the employee to borrow against their benefits. Mr. Sylva responded that he did not have the exact number. He believed the rate to be around five percent. The CARES Act provisions would not change the regular loan rate. It would be like a general purpose loan.

Regent Sherman asked if there was any provision, not in the CARES Act, but in UC policy, for Defined Benefit participants to borrow if they were experiencing financial hardship. Mr. Sylva responded in the affirmative, but noted that UC did not have any provision for plan participants to borrow against the UC Retirement Plan. The CARES Act was not applicable to defined benefit plans, either. It would not allow an individual who was working to borrow from his or her defined benefit plan; it was only applicable to defined contribution plans.

Regent Sherman asked if the Employee Retirement Income Security Act (ERISA) or any applicable regulations would preclude the University from offering a program that would allow borrowing against the Defined Benefit vested benefit or, in order to benefit lower-wage employees, to institute an employee loan program that could be secured either by their Defined Benefit plan benefit or future pay. This might be a way of providing benefits for lower-wage employees. Mr. Sylva responded that he was not aware of provisions that would allow this, but there might be such provisions. Regent Sherman requested further information on this.

Regent Um emphasized that the University's options, in taking advantage of the CARES Act, were limited. He would like UC employees to have these options and expressed support for the item. He stressed that UC participants must receive appropriate materials about their options under the CARES Act to ensure that they are well informed in making financial decisions.

Regent Estolano also stressed the importance of outreach to all UC employees and participants, so that they are informed about the advantages and disadvantages of this plan. These distributions could be beneficial for some employees but detrimental for others. The

University must provide some level of education, and soon. She asked that the informational materials make it clear that this was not free money, that there was an interest rate, and that the distributions must be paid back. UC employees should have this option, but the University must ensure that all employees, not only those with financial expertise, were well informed about it.

Regent Leib asked that the information requested by Regent Pérez be distributed to all Regents.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Blum, Estolano, Kounalakis, Leib, Makarechian, Napolitano, Park, Pérez, Sherman, Simmons, and Um voting "aye," and Regent Cohen abstaining.

The meeting adjourned at 3:00 p.m.

Attest:

Secretary and Chief of Staff