The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
September 16-17, 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, Leib, Makarechian, Muwwakkil, Park, Reilly, and Sherman; Ex officio member Pérez; Advisory members Gauvain and Lott; Chancellors Christ, Gillman, Hawgood, Khosla, Muñoz, and Wilcox; Staff Advisor Jeffrey

In attendance: Secretary and Chief of Staff Shaw, Chief of Staff and Special Counsel Drumm, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Chancellor May, and Recording Secretary Johns

The meeting convened at 3:15 p.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes the meeting of July 30, 2020 were approved, Regents Leib, Makarechian, Muwwakkil, Reilly, and Sherman voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Preliminary Plans Funding, Irvine Campus Medical Complex, Irvine Campus***

The President of the University recommended that the 2020-21 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

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

To: Irvine: Irvine Campus Medical Complex – preliminary plans – $67,503,000 to be funded from hospital reserves.

B. ***Preliminary Plans Funding and External Financing, Health and Behavioral Sciences Building, Merced Campus***

The President of the University recommended that:

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

(1) The 2020-21 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Merced: Health and Behavioral Sciences Building – preliminary plans – $12 million to be funded from external financing supported by State General Fund appropriations ($7.8 million) and general campus reserves ($4.2 million).

(2) The President shall be authorized to obtain external financing not to exceed $7.8 million, plus additional related financing costs to finance the preliminary plans for the Health and Behavioral Sciences Building. The President shall require that:

a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.

b. The primary source of repayment shall be from State General Fund appropriations, pursuant to the Education Code Section 92493 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.

c. As long as the debt is outstanding, general revenues from the Merced campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

d. The general credit of the Regents shall not be pledged.

C. ***Approval of Design Following Action Pursuant to the California Environmental Quality Act, Welcome Center Building on Lawrence Berkeley National Laboratory's Main Campus in Berkeley***

The President of the University recommended, following review and consideration of the environmental consequences of the Welcome Center Building Project (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) Following review and consideration of the previously certified Lawrence Berkeley National Laboratory (LBNL) 2006 Long Range Development Plan (LRDP) Environmental Impact Report (EIR), as supplemented, of which the Project is a part, determine that no further environmental analysis

pursuant to CEQA is required and adopt CEQA Findings in connection with the Project.

(2) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of LBNL, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2006 LRDP EIR.

(3) Approve the design of the Welcome Center Building and related site work, Lawrence Berkeley National Laboratory.

D. ***Preliminary Plans Funding Amendment, Working Drawings Funding, Scope, and External Financing, Hillcrest Outpatient Pavilion and Parking, San Diego Campus***

The President of the University recommended that:

(1) The 2020-21 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Diego: Hillcrest Outpatient Pavilion and Parking – preliminary plans – $20 million funded from campus funds.

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

(2) The scope of the Hillcrest Outpatient Pavilion and Parking project shall provide:

a. Approximately 240,000 gross square feet of space for an Outpatient Pavilion (OPP) to accommodate hospital-licensed services and programs.

b. Structured parking, totaling approximately 1,850 spaces, which would meet parking demands associated with the project in addition to replacing parking that would be removed when Bachman Parking Structure is demolished as part of this project.

c. Related utility and infrastructure, including the first phase of a new Central Utility Plant to support the OPP, parking structure and future Non-OSHPD (Office of Statewide Health Planning and Development) buildings.

d. New road connection at Bachman Place and Arbor Drive to assist with campus and community access, and a new First Avenue road extension.

(3) The President be authorized to obtain external financing from the Medical Center Pooled Revenue Bond 2020 Series N bonds in an amount not to exceed $24,816,000 plus additional related financing costs to finance the Outpatient Pavilion. The President shall require that:

a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.

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

c. The general credit of the Regents shall not be pledged.

E. ***Conforming Amendment to University of California 2020-21 Budget for State Capital Improvements and Approval of University of California 2021-22 Budget for State Capital Improvements***

The President of the University recommended that:

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

		State General Funds Financed ($000s)		
		Approved Budget May 2020	**Proposed Change**	**Proposed Budget**
Los Angeles	Public Affairs Building Seismic Improvements	$25,000		$25,000
Riverside	School of Medicine Education Building II	$93,600		$93,600
Systemwide	UC Center in Sacramento	$11,400		$11,400
Systemwide	2020-21 UC Seismic Program Supported by State Resources	$189,327		$189,327
Systemwide	2020-21 Planning for Future State Capital Outlay	$57,000		$57,000
Davis	Sprocket Building Seismic	$12,000		$12,000
Merced	Health and Behavioral Sciences Building (portion of preliminary plans)		$7,800	$7,800
	Capital Projects Total	**$388,327**	**$7,800**	**$396,127**
2020-21 Systemwide State Deferred Maintenance Program		$35,000		$35,000
	TOTAL STATE FUNDS FINANCED	**$423,327**	**$7,800**	**$431,127**

(2) The 2021-22 Budget for State Capital Improvements be approved as shown below:

		State General Funds Financed ($000s)
		Proposed Budget
Berkeley	Academic Seismic Replacement Building (Evans Hall Seismic Replacement) (working drawings and construction)	$116,723
	TOTAL STATE FUNDS FINANCED	**$116,723**

[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. He asked about item D above, *Preliminary Plans Funding Amendment, Working Drawings Funding, Scope, and External Financing, Hillcrest Outpatient Pavilion and Parking, San Diego Campus*. Executive Vice President and Chief Financial Officer Brostrom clarified that the design was mainly for the Outpatient Pavilion, an approximately 240,000-gross-square-foot building, which was the largest part of this project. The parking structure in this project would replace other parking. Chancellor Khosla recalled that the entire Hillcrest Campus development was reorienting many elements, including parking and traffic patterns, and building a new hospital while the existing hospital was still in operation. Construction of the Outpatient Pavilion was the first step, because as soon as it was built, it would begin generating revenue. But in order to accomplish this, the parking structure also needed to be rebuilt in this new location.

Committee Chair Makarechian asked about the scope of what would be covered by the funding in this item. Mr. Brostrom responded that this item would fund preliminary plans and working drawings for the Outpatient Pavilion, a Central Utility Plant, and parking. When the new hospital was built at Hillcrest, it would have a separate fund source. Funding in this item was for the overall Outpatient Pavilion site, including capital improvements to infrastructure.

Committee Chair Makarechian asked if the overall project budget had been set. UC San Diego Vice Chancellor Pierre Ouillet responded that this project was still in the design phase. The campus would present a budget at a future meeting. He noted that there would be no net new parking because the buildout in this phase would allow for the demolition of two existing parking structures now at the end of their useful lives.

Committee Chair Makarechian asked if the campus was designing to a project budget. Mr. Ouillet responded that the campus had a target budget totaling approximately $500 million, including $330 million for the Outpatient Pavilion and $40 million for the Central Utility Plant.

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

3. **DATA HUB NEW ACADEMIC BUILDING, BERKELEY CAMPUS**

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

Executive Vice President and Chief Financial Officer Brostrom remarked that the Data Hub New Academic Building was anticipated to be funded entirely through philanthropy.

Chancellor Christ explained that this building would house the new Division of Computing, Data Science and Society (CDSS) and provide a hub for interdisciplinary cooperation. The data science major was the fastest-growing major at UC Berkeley. This building space would facilitate collaborations to advance the campus' signature initiatives, in particular the development of innovative solutions for societal challenges such as ethical artificial intelligence, technological change, environmental sustainability, public health, and justice. The project would respond to enrollment and program growth with new academic space that was better designed, incorporating flexible spaces and purpose-built spaces for maximum efficiency, flexibility, and resilience. It would improve instruction and the student experience by designing classrooms and study spaces to meet modern pedagogy and the new remote learning paradigm. UC Berkeley anticipated continued hybrid instruction in the future. Classrooms would have advanced video recording capability, allowing simultaneous use of multiple screens and platforms, where students and instructors could easily move between and view these multiple platforms. The project would address critical seismic safety needs and would allow the campus to provide surge space for future seismic remediation projects. The campus had received a gift of $250 million, the largest it had ever received, to seed the project. UC Berkeley would raise an additional $300 million through philanthropy. Moving forward now would enable the campus to develop a shovel-ready project that would create 550 jobs. The project would construct a cost-efficient building in alignment with the campus program and capital needs.

Mr. Brostrom commented on the innovative nature of this project; it was hard to generate philanthropy for seismic projects, although this was a major demand within the UC system. Chancellor Christ had been able to raise money for a new building but also address the need to move people and programs out of other buildings with poor seismic ratings.

Regent Leib praised the project.

Committee Chair Makarechian asked if the 550 new jobs would be jobs for UC employees. Mr. Brostrom responded that these jobs would be for architecture/design, engineering, and construction firms. Some campus jobs might be created as well. Committee Chair Makarechian asked how many UC employees would be associated with this site in the future. Chancellor Christ responded that, since data science was the campus' fastest-growing program, UC Berkeley planned to increase the size of its faculty in this field. This would in turn increase the number of graduate students, postdoctoral scholars, and staff. She briefly introduced Dean of the School of Information and Associate Provost for Computing, Data Science and Society Jennifer Chayes, who had recently joined UC Berkeley and was providing leadership for this project and for the program.

4. **UC DAVIS 2020 LONG RANGE DEVELOPMENT PLAN AND 2020 PHYSICAL DESIGN FRAMEWORK AMENDMENT, SACRAMENTO CAMPUS**

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

Chancellor May began the discussion by stating that UC Davis was seeking the Regents' feedback on an updated plan to guide the UC Davis Sacramento campus' growth. This Long Range Development Plan (LRDP) would extend UC Davis' implementation of the 2010 LRDP and enable the Sacramento campus to advance with major new facilities, new academic office space, and other key small projects throughout the campus. He thanked the leadership of the City of Sacramento for their participation in the Aggie Square project. Chancellor May believed that this collaboration would produce substantial secondary projects related to workforce development as well as local opportunities for construction and post-occupancy employment, local procurement, community-serving programs, and education.

Director of Facilities Planning and Development Joel Swift noted that this LRDP was specific to the Sacramento campus and did not concern the campus in the City of Davis or other UC Davis locations. This 2020 LRDP was evolutionary and transformative for the Sacramento campus. He recalled that this campus was about 150 acres in size and located about two miles from the State Capitol. It included a former County hospital dating back to 1890 and the original site of the California State Fair. The updated 2020 LRDP incorporated minor modifications to the existing 2010 LRDP, with some exceptions. The single major exception was the inclusion of housing in the vision for the campus, which had not been considered before. UC Davis had studied the size of the site, its uses, and parking needs and the LRDP included a range of potential uses in the upcoming decade. The key initiatives were seismic compliance for the Medical Center, modernization of healthcare facilities, and facilities for teaching and research. The proposed 2020 LRDP would further develop the 2010 plan into distinct districts. The Education Core at the center of the campus was an important development and relatively new for the Sacramento campus. Important progress in the Education Core had occurred in the last decade: the Education Building was opened in 2010; in 2013 UC Davis opened the Center for Health and Technology; and four years prior, the opening of the Betty Irene Moore School of Nursing and Vanderhoef Commons had taken place. This evolution was continuing with the Tschannen Eye Institute, which would function as a terminus on the east side of the pedestrian zone which extended from the Patient Care district through the Education Core to the main Hospital district. The Physical Design Framework was further examining the details of how to integrate pedestrian spaces. With regard to the main hospital, UC Davis was simultaneously tearing down the oldest portions of the seismically deficient hospital while building the new Bed Tower on the eastern side, on 45th Street. A north-south pedestrian link would connect this area to Aggie Square. The fourth district was the Collaboration and Research zone, which would provide spaces for collaboration with private sector partners as well as expanded research capacity. Mr. Swift emphasized the role of outreach and communication in developing the 2020 LRDP. UC Davis had held more than 100 public meetings over the past three years, engaging with community members and elected officials. UC Davis hoped to make this campus the anchor institution for Sacramento. Environmental review was currently ongoing. The campus anticipated presenting action items for this project at the November meeting.

Committee Chair Makarechian asked how the proposed changes to the LRDP would affect UC Davis' obligations regarding infrastructure in and around this area. Mr. Swift responded that one of the critical components would be the Central Energy Plant, which currently served 90 percent of the campus. UC Davis was coordinating with the Sacramento Municipal Utility District to move toward more electric power and developing a utility master plan. UC Davis was considering electric power for all non-central plan components and key central plan upgrades.

Committee Chair Makarechian emphasized that there would be major changes to the infrastructure of the area, with millions of square feet of office space. He asked who would be responsible for these costs. Mr. Swift responded that a University capital project such as the Bed Tower was connected to the central plant. If the campus exceeded its sewer capacity, it might have to work with the Sacramento Area Sewer District. Most utilities would be managed through the campus' own central plant, which was part of UC Davis. Some projects at Aggie Square involving private sector partners might have to work directly with local utility providers.

Committee Chair Makarechian asked if UC Davis had engaged in discussions with these providers, and expressed concern about LRDP commitments and what the costs might be. Mr. Swift responded that the campus knew these costs because it had been negotiating for each project. The campus was within the sewer capacity cap set by the 2010 LRDP. For the remaining utilities, it was a question of making the right business decisions about energy consumption. The largest cost was ensuring that there was no need for excess sewer capacity.

Committee Chair Makarechian noted the high cost of building a sewage treatment plant. He asked if the campus was below the threshold requiring such a project. Mr. Swift responded that the campus was below that threshold. UC Davis had already negotiated the square footage cap in 2010 with the Sacramento Area Sewer District, and the campus was within that square footage. Executive Vice President and Chief Financial Officer Brostrom noted that, in 2010, the cap on building space was 6.57 million gross square feet. It would be increased to 7.07 million. The campus and Medical Center had become more efficient in use of energy and water. He anticipated that this project would remain within this limit.

In response to another question by Committee Chair Makarechian, Mr. Brostrom explained that land use designations had changed due to the Aggie Square project; this was the main difference in this LRDP.

5. **UPDATE ON THE 2020-21 OPERATING BUDGET**

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

Executive Vice President and Chief Financial Officer Brostrom recalled that the fiscal impact of the COVID-19 pandemic on the University had been discussed at the July meeting. Several new factors were now known, such as occupancy and enrollment at UC Berkeley and UC Merced, which had now opened for the fall term. Much was still unknown, such as possible federal stimulus funding before October 15, which might affect State funding.

From March and the start of the pandemic through the end of August, the pandemic had a fiscal impact of $2.2 billion across the campuses and medical centers. About $1.85 billion was lost revenue, as medical centers quickly had to shift to caring for COVID-19 patients and campuses returned funds from cancelled student housing and dining contracts. The rest of the impact was due to increased expenses for COVID-19 testing, personal protective equipment, cleaning, and remote teaching and learning. UC Health had borne the greatest part of this impact, about 62 percent or $1.3 billion. The remaining $900 million impact affected the general campuses, primarily in auxiliary enterprises, but also due to increased expenses in the move to remote teaching and learning.

Associate Vice President David Alcocer reported that the cumulative $2.2 billion impact was distributed unevenly across the UC system. Not surprisingly, the greatest impact was felt at campuses with medical centers, but even at those campuses, there was significant variation between UCLA, UCSF, and UC San Diego, as opposed to UC Davis and UC Irvine. This was partly due to the size of the medical centers themselves, but also a function of when the peak COVID-19 caseload occurred. Early in the pandemic, this occurred at largely at UCLA, UCSF, and UC San Diego. This was the moment when there was the greatest disruption to current operations and the greatest need to cancel all but the most essential procedures, and this led to revenue loss. All the general campuses experienced an impact to one degree or another, primarily in the auxiliary enterprises: housing, dining, performances, and athletics. Mr. Alcocer briefly presented charts showing monthly revenue losses at the medical centers from March to August, and 2019-20 UC Health patient census and ambulatory visit volume.

Student enrollment was a significant unknown factor for UC and for universities and colleges across the country. It was not clear how students would make decisions in light of the very different circumstances in which UC would deliver instruction. At this point, the University had real data only for the semester campuses, Berkeley and Merced, which began instruction at the end of August. The quarter campuses would not begin instruction until October 1, and information for those campuses would be available in time for the November meeting. Enrollment data for the Berkeley and Merced campuses were promising, in particular regarding California resident students. When one considered actual enrollment numbers, students present on the first day of instruction, there was hardly any meaningful impact of the pandemic on the enrollment of California resident students, either new or continuing. This was good news, and in fact the Merced campus saw an increase in retention rates from one year to the next. There was a slight decrease in new students at UC Merced, but this was largely because other UC campuses made greater use of their wait lists this year than they had in the past.

There were two areas of concern at UC Berkeley which were not unexpected. One was nonresident undergraduate enrollment. While UC Berkeley did quite well with respect to new, incoming students, there was a decline in the number of students who persisted, or re-enrolled, compared to the number expected. There was still work to be done to understand this outcome. This was a total of about 550 undergraduate nonresident students, disproportionately international students and upper division students. Seniors were the single largest group among these students. UC still did not know if some of these were students who had accelerated their coursework in the spring, took advantage of summer courses, and completed their degree requirements before the fall semester. There appeared to be an increase in the number of students who graduated over the summer. There was also anecdotal information about students who intended in the fall to enroll in Education Abroad programs; with the suspension of these programs, these students might have decided to pause their education and return in the spring. The second area of concern was graduate student enrollment. The enrollment of new graduate students was lower than expected, particularly in programs that serve a high percentage of international students, such as the Master of Laws program, which is geared toward international students, and the Master of Engineering programs, in which, at UC Berkeley, international students make up roughly two-thirds of the enrollment. Constraints on visas and instructional delivery might affect these students. No impact was found in graduate student enrollment at UC Merced. Mr. Alcocer opined that, while this picture was still incomplete, it was favorable with regard to California resident students and for most graduate students. It was distressing with regard to nonresident students, and the University would closely follow enrollment trends and outcomes for these students and report this to the Regents.

Mr. Brostrom commented that, at this time, all the University's revenue streams had been affected, a situation unlike that during the Great Recession of 2007-09. This fiscal crisis had two different profiles based on the time of the impact. The impact experienced to date had been mainly at the medical centers and in auxiliary enterprises. The University anticipated a V-shaped recovery. When the pandemic subsided, the medical centers would be full with the regular patient population and essential surgeries. When it became safe to for more students to return, all the campuses had waiting lists for their dormitories. This was an issue of liquidity; the University needed to maintain as much liquidity as possible to both cover these losses and pay unanticipated expenses. The University needed to proceed cautiously and conservatively. While $10.2 billion currently in the Short Term Investment Pool (STIP) appeared to be a great amount of liquidity, Mr. Brostrom recalled that this represented 90 days' cash on hand for the University. If UC housing was occupied at only 30 to 50 percent, this would represent a loss of $1 billion to $1.5 billion in any given year. The available STIP assets included $1.5 billion in taxable bonds that UC issued in July. There was also liquidity in the form of commercial paper, but this would need to be repaid by the campuses, unlike the STIP balances.

The other profile of this fiscal crisis would play out over an intermediate period. This would be the fiscal strain experienced by the State and federal budgets. In the current budget year, UC faced an approximately $300 million cut from the State, about eight percent of the State appropriation. If the State received $14 billion in new federal stimulus funds by October 15, this cut to UC would be reversed, and UC would see a five percent increase in its appropriation, or $170 million. The outlook for such an action was very uncertain, however. Entering the next fiscal year, UC faced several mandatory cost increases: collective bargaining agreements with represented employees; an increase in the employer contribution to the UC Retirement Plan (UCRP); a fixed amount of debt service that UC must continue to pay; the faculty merit program; and increased costs related to the pandemic. The impact on the State budget was anticipated to last several years, and the UC system would have to consider this carefully. The University also depended on the federal government for a large percentage of its revenues—at the medical centers, for Pell Grant recipients, and for federally funded research. UC would have to monitor both the State and federal budgets closely over the next several years. UC would also want to monitor closely any changes in enrollment. California resident applications and enrollment remained strong, but UC would have to monitor any long-term impact on nonresident enrollment, and, in particular, international student enrollment.

The University must also not lose sight of its long-term liabilities. In the area of capital renewal, there were several seismic and deferred maintenance projects which were expected to exceed $10 billion over the next six years. The University's capital financial plan called for additional State capital needs to support enrollment growth over that period. The UCRP liability and the unfunded liability for retiree health benefits were significant. While UC dealt with the immediate fiscal crisis and the structural crisis that would extend over the next several years, it must not lose sight of its long-term liabilities, which could also encroach on its operating budget.

Regent Pérez underscored that this situation was a multi-year challenge and a multi-year obligation. The University should avoid over-correction or under-correction in one year, assuming that this was only a one-year problem. This might cause wild fluctuations from one year to the next. If UC gave itself multiple years to recover, it could adjust how it used its liquidity.

Regent Muwwakkil asked about lessons learned from collecting enrollment data for the Berkeley and Merced campuses that might be applied to the campuses on the quarter system. Mr. Brostrom noted that there had been a last-minute "melt." These campuses lost about 800 students in the week before enrollment, students who had signed statements of intent to register and who were scheduled to come. This would have to be monitored at the quarter system campuses, not only up until the day of enrollment, but through the second or third week of the quarter. Chancellor Christ observed that the students who chose not to attend at the last minute were wealthier than most of the student body. The campus believed that these students had chosen to take a gap semester or year and to wait until they could have the campus experience that they wanted. Underrepresented minority students were a smaller share this "melt" than they would be in a regular year. These were interesting data with significant financial consequences for the campus. Chancellor Muñoz reported that the Merced campus' census day would be the Friday of that week, and enrollment was expected to be slightly increased. As at UC Berkeley, some students who had signed statements of intent to register did not come. The campus believed that these students were not persuaded that this would be the traditional academic experience they expected. UC Merced was targeting these students to encourage them to return in spring. One lesson learned at UC Merced was that, due to low rates of COVID-19 infection, the campus might reevaluate the number of students it could accommodate in the spring semester. It was still early, but the Merced campus was encouraged.

Committee Chair Makarechian asked about the total shortfall the University would experience, year over year. Mr. Brostrom responded that the University was a $40 billion enterprise overall. The shortfall of $2.2 billion was significant, about five percent of UC's operating budget.

Committee Chair Makarechian asked about the impact on the net worth of the University, assets and liabilities. Mr. Brostrom responded that this shortfall would have some impact on net worth, but net worth would be more affected by interest rate movement. At a time of low rates, UC retiree health liabilities could increase by $3 billion to $4 billion.

Committee Chair Makarechian asked how UC had used borrowing and federal assistance to address the shortfall. Mr. Brostrom responded that the University had received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Not counting the funds that went to students, this might have covered about 40 percent of the overall shortfall. Mr. Alcocer explained that about $500 million went directly to the medical centers, and about $137 million to the campuses. While this was a substantial amount of backfill, he underscored that the situation was evolving and that the $2.2 billion number would grow. Mr. Brostrom recalled that the University had added $1.5 billion in taxable bonds directly to campus fund balances.

Committee Chair Makarechian expressed concern about revenues from student housing. In the coming year, student housing might produce only one-fourth to one-half of the usual revenues. He asked about the basis for calculating the University's current liquidity, whether this was the current burn rate, projections, or past history. Mr. Brostrom responded that this calculation was based on standards used by rating agencies to estimate how long the University could continue to pay wages and salaries if it had no revenues due to a major catastrophe. UC currently had $10 billion of liquidity. The losses over the last five months had been about $2 billion. The University had strong liquidity as it entered the next year. An important factor would be the question of when dormitories could be fully occupied. With the current partial occupancy, this represented a loss of about $1 billion a year.

Committee Chair Makarechian asked how the campuses would get needed cash, such as by borrowing from the Office of the President. Campuses had different cash positions and needs. He expressed concern about students who were unable to pay the costs of their education under the current economic conditions. He asked how the University was making decisions about funding allocations to the campuses. Mr. Brostrom responded that, for the taxable bond issue, the Office of the President asked the campuses what they needed, and then funded this amount. This added up to approximately $1.5 billion. There were several other mechanisms that campuses have used to assist the most vulnerable students. There was excess basic needs funding from the State, and this was redirected to assisting students to acquire necessary technology. There was philanthropic funding at UC Merced, where Hewlett-Packard donated laptops and hotspots. The allocation of funds from the taxable bond issue was based on requests made by the campuses in June, before the University went to market.

Committee Chair Makarechian asked how this allocation was accounted for, after it had been passed on to the campuses. He asked if this was recorded as a liability on the campus balance sheet and if campuses paid interest. Mr. Brostrom responded that this was a liability, similar to the debt service that would be paid for a capital project, but paid as a taxable bond. To date, the campuses had not used all this funding, so it could be invested, and there were no restrictions on its investment. These funds could be invested in the Total Return Investment Pool to make up the interest costs. This was a cushion of liquidity for the campuses.

Regent Sherman asked if campuses were making up for reductions in enrollment by encouraging students on the waiting list to enroll. Mr. Alcocer responded that the reductions experienced so far were among continuing students, primarily upper division students, and not incoming students. These reductions did not immediately create capacity for new freshmen, and they occurred very late in the process. Until a few weeks prior, the trends indicated by statements of intent to register and students' pre-registration for courses were favorable. If campuses had enough lead time, they might be able to extend offers of admission to students on their wait lists. At that point the yield can be challenging, because many of these students would have accepted an offer of admission elsewhere. Campuses' options were limited this late in the process. Chancellor Christ noted that the Berkeley campus actively managed its wait list, filling spaces as students decided not to enroll. UC Berkeley was strict about deferrals, not allowing these for freshmen or transfer students except for good reasons. The situation of a senior deciding not to enroll was more difficult for the campus. UC Berkeley would engage in aggressive outreach, seeking to convince these students to come back.

Regent Sherman asked how long UC Berkeley would hold spots for juniors or seniors who did not want to return for a semester. Chancellor Christ responded that these students would have to apply to be readmitted.

Regent Leib asked about the percentage of nonresident undergraduate students who did not return. Mr. Alcocer responded that this shortfall of about 550 students represented about seven percent of the UC Berkeley nonresident undergraduate population. Regent Leib asked if most of these students were seniors. Chancellor Christ responded that half of these students were seniors.

Regent Reilly recalled that there had been an increase in telehealth visits at the medical centers. This would likely continue even after the pandemic. She asked if this was a significant potential revenue generator. Mr. Brostrom responded that this was not only a potential revenue generator, but would increase UC Health's ability to serve the whole state. Executive Vice President Byington explained that UC Health saw telehealth as a way to augment its services. There were still issues regarding reimbursement for telehealth versus in-person visits, and the University was advocating at the State and federal levels on this matter. Telehealth would not go away.

Faculty Representative Gauvain asked what proportion of graduate and undergraduate students who would not be returning in the fall were international students, and if the pattern observed at UC Berkeley should be expected at the campuses on the quarter system when they opened for the fall term. Mr. Alcocer responded that, at the undergraduate level, the impact had been experienced primarily among continuing nonresident students and upper division students. At the graduate level, there had not been much effect on continuing student enrollment, but there had been a loss of incoming students, about 300, and primarily in disciplines that have historically enrolled a high percentage of international students. The University might experience an impact in programs that enroll many international students, and an impact was more likely to occur in the enrollment of incoming rather than continuing students. Chancellor Christ added that there were also significant declines in enrollment of international students in UC Berkeley Extension programs. Certain programs which catered to international students had virtually collapsed. UC Berkeley was changing strategy and developing remote learning programs that would be of interest to international students.

Regent-designate Lott asked if telehealth patient visits would help UC Health make up for patient revenue lost during the COVID-19 crisis. Dr. Byington responded that overall ambulatory volume had increased for both in-person and telehealth visits. The addition of telehealth had increased the overall ambulatory volume compared to before the pandemic. UC Health was continuing to build its telehealth network and increase sites across UC, such as at Merced and Santa Cruz. It was hoped that this would facilitate referrals to UC medical centers. Chancellor Hawgood observed that the losses at the medical centers were losses of revenue against plan but did not represent negative income or a negative net margin. He believed that all the medical centers had reported positive earnings before interest, depreciation, and amortization (EBIDA) for 2020.

Committee Chair Makarechian asked if the University would have a clearer picture of the status of housing, auxiliary revenues, and tuition at each campus by November. Mr. Brostrom responded that, at the November meeting, the University would have the fall enrollment census and occupancy figures. President Drake had been receiving weekly updates from the chancellors about occupancy in campus housing. There was a range from single digits at UCLA to 50 percent single occupancy at UC San Diego.

Committee Chair Makarechian asked if the occupancy information for this fall would provide a sense of occupancy rates for the following year. Mr. Brostrom anticipated that there would have to be close collaboration with UC Health to determine if occupancy can be expanded. There would be a need for updates at every meeting and between meetings.

Committee Chair Makarechian hoped that, in November, the University would have a clearer picture of UC revenues and possible mitigation measures, such as refinancing and cost reductions. He anticipated that this challenging financial situation would last for two years. With regard to debt refinancing, Mr. Brostrom noted that Associate Vice President Peggy Arrivas had been reviewing all UC liens. The University was considering creative refinancing options.

Committee Chair Makarechian requested an update on the status of all joint ventures for which the University receives external financing. Mr. Brostrom responded that the UC 2019-20 financial reports would be presented at the November meeting.

6. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, THEATRE DISTRICT LIVING AND LEARNING NEIGHBORHOOD, SAN DIEGO CAMPUS**

The President of the University recommended that:

A. The 2020-21 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: Future College Living and Learning Neighborhood – preliminary plans – $30 million funded from housing reserves.

To: San Diego: Theatre District Living and Learning Neighborhood – preliminary plans, working drawings, construction, and equipment – $645 million to be funded with external financing ($644 million) and campus funds ($1 million).

B. The scope of the Theatre District Living and Learning Neighborhood (TD LLN) project shall provide approximately 2,000 undergraduate student beds, plus 50 beds for resident advisors and live-in staff, and residential support space of approximately 574,000 assignable square feet/823,000 outside gross square feet and non-residential space of approximately 71,000 assignable square feet/106,000 outside gross square feet including administrative space; approximately 17,000 assignable square feet of flexible classroom space; a meeting center; a dining hall, a restaurant and retail. The scope would also include underground parking for approximately 1,200 cars. Public realm and vehicular circulation improvements would include an improved campus entry at Revelle College Drive; realignment of Scholars Drive South; an extension of Ridge Walk; a valet/drop-off zone for the adjacent performing arts venues; a transit hub for campus shuttles; and recreation and outdoor wellness areas throughout the site.

C. The President be authorized to obtain external financing in an amount not to exceed $644 million plus additional related financing costs. The President shall require that:

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

(2) As long as the debt is outstanding, general revenues from the San Diego campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

D. Following review and consideration of the environmental consequences of the proposed TD LLN project, as required by California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

(1) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC San Diego, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR).

(2) Adopt the CEQA Findings for the TD LLN, having considered the 2018 LRDP EIR for the La Jolla Campus, as well as Addendum No. 5 to the 2018 LRDP EIR for the Theatre District Living and Learning Neighborhood.

(3) Approve the design of the TD LLN project, San Diego Campus.

E. The President be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

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

Chancellor Khosla began the discussion by emphasizing that, despite the changes brought about by COVID-19, the residential student experience would not go away. The college experience was not just about content acquisition but about social, psychological, and emotional growth, and this could best occur when students were living on campus among other students, not sequestered at home. Secondly, the residential experience led to better academic performance and outcomes. The University should be thoughtful in expanding campus housing opportunities, especially for first-generation and underrepresented minority students. Chancellor Khosla anticipated that, following the widespread experience of online teaching and learning due to COVID-19, when even those opposed to online education saw that it could be useful, college education would take the form of a hybrid implementation with online elements amplifying the in-person experience. UC San Diego had seen that the residential experience, and the need for it, had become stronger. Many students have expressed concern about being isolated during the pandemic. This fall, there would be 7,000 undergraduate students on campus at UCSD, and 4,500 graduate students. Although undergraduate courses would be taught remotely, and the 7,000 undergraduates did not need to be on campus, they chose to come. Chancellor Khosla noted that students from low-income families often did not have a good study situation at home, with not enough private space and time. Living on campus was beneficial for these students.

Chancellor Khosla recalled that the 2018 UCSD Long Range Development plan for the La Jolla campus, approved by the Regents in November 2018, included the goal of expanding on-campus housing to accommodate up to 65 percent of total eligible students in order to achieve a four-year housing guarantee, with rent at 20 percent below market rates. Due to COVID-19 and the removal of double and triple rooms, UCSD was now not able to offer even a one-year housing guarantee for all students. The Theatre District Living and Learning Neighborhood project would add 2,000 beds and make up for the 2,000 lost through the decompression process, which had changed triple rooms to doubles. The campus believed that this project was the right thing to do at this time. The project would create 700 construction jobs for three years, 80 permanent jobs at UCSD, and 50 to 60 retail/restaurant positions. A small handful of UCSD's neighbors were opposed to the project, but students very much supported the project, and some had spoken earlier at this meeting during the public comment period. Chancellor Khosla noted that the Regents had been provided with background materials including letters of support from elected officials and community members.

Regent Park expressed agreement with Chancellor Khosla's statements about the value of the student residential experience and recognized that UCSD had experienced tremendous growth. She voiced concern about the financing of this project. Campus margins were thin. The campus was receiving support from the Office of the President (UCOP). UCSD had undertaken efficiency measures, and some of these measures were layoffs. UCSD had other projects under way at the same time, such as the extensive Hillcrest campus project. Regent Park was concerned that this was not the right time to proceed with the project, given all the risks and the financial circumstances of the campus. Students wanted to live on campus, but this desire was being hampered by the reality of COVID-19, and it was not known how long the pandemic would last. Chancellor Khosla responded that the campus' finances were not as weak as they might appear. He was not aware of any subsidies or loan from UCOP. Executive Vice President and Chief Financial Officer Brostrom noted that the campus had received one million dollars in UCOP housing assistance allocation from surplus funds. These funds were given to each campus. He observed that the University was conservative in drafting pro forma financial statements. The financial coverage in this case was not as good as UCOP would usually wish to see, but this was because UCOP asked the campus to calculate at a much higher borrowing rate than the current rate, and higher than the rate that Mr. Brostrom would anticipate in the next few years. UCSD had also made calculations with lower borrowing rates, and in that case the coverage numbers improved dramatically. Mr. Brostrom commended Chancellor Khosla for strong cash management. The campus' days of cash on hand appeared low, but this was because the campus had been moving surplus revenues into funds functioning as endowments with higher rates of return. UCOP had asked UCSD to maintain sufficient sums in funds functioning as endowments to cover any shortfall. UCSD Vice Chancellor Pierre Ouillet stated that there was no financial assistance from UCOP to UCSD, with the exception of UCSD's share of the loan for auxiliaries mentioned by Mr. Brostrom. Days of cash on hand had increased this year, including for the UCSD Medical Center. UCSD had reduced expenses structurally, in advance of any State cuts, through attrition and staff retirements. Mr. Ouillet anticipated that UCSD would have a balanced budget or a small surplus in the coming year.

Regent Park asked if there had been layoffs at UCSD. Mr. Ouillet responded that there were temporary layoffs in housing, for less than ten weeks. All these employees came back and were rehired. UCSD had returned to full capacity in housing and dining staff.

Regent Park referred to Attachment 4 to the item, a ten-year financial forecast chart. One row of figures was identified as "other revenue support," and a footnote further clarified that this was "Health System support plus revenue transfers from Office of the President (State Lottery Funds, assessment funding, etc.)" Mr. Brostrom explained that the State Lottery Funds were a distribution of State funds, a normal allocation, like State General Funds and a few other special funds that were distributed from UCOP to the campuses. Chancellor Khosla underscored that UCSD was not receiving any extra subsidy from UCOP, but receiving funds through the usual allocation process. He expressed confidence in UCSD's financial status. In spring, at the beginning of the pandemic, UCSD had balanced its budget or even had a bit of surplus. The campus had experienced its highest student enrollment numbers in 2018, and Chancellor Khosla cited strong enrollment numbers in 2019 and 2020.

Regent Park asked if any Health System support was being applied to this project. Chancellor Khosla responded that there were no Health System revenues supporting this project. The campus had made loans to the Health System in the past. The campus' financial status was strong. The budgets of both the campus and the Medical Center were balanced.

Regent Park asked about the number of temporary and permanent layoffs. Mr. Ouillet responded that there were 220 temporary layoffs. There were no permanent layoffs in housing and dining. Two-thirds of these employees were rehired during the layoff period to staff another project, and this could not have been done without the layoff process due to labor relations regulations. All these employees had returned by the previous week.

Regent Estolano expressed support for the project and agreement with Chancellor Khosla's comments on the importance of the student residential experience. She requested clarification of funds functioning as endowments. Chancellor Khosla responded that the campus had moved some of its funds from the Short Term Investment Pool (STIP) and the Total Return Investment Pool to funds functioning as endowments. In STIP, these funds might earn an investment return of 0.25 percent or 0.5 percent, but, in the funds functioning as endowments, the return might be in the range of seven to nine percent.

Regent Estolano observed that the funds functioning as endowments provided a higher rate of return and were not restricted as other endowments might be. The campus was moving funds from a low-risk pool to a higher-risk vehicle in order to achieve a higher rate of return. Chancellor Khosla responded that this arbitrage allowed UCSD to invest in the campus. This was a simple strategy from which the campus had benefited significantly over the past seven to eight years. Mr. Brostrom added that UCSD had fairly low days' cash on hand. Adding the funds functioning as endowments, which were unrestricted, increased the campus' liquidity.

Regent Estolano referred to Attachment 4 to the item. She drew attention to figures provided in a column titled "Projected 2020" which indicated projected campus-wide revenues and expenditures for this year. At the bottom of the column, there was a figure of approximately $3.7 million for adjusted operating revenues. She asked how the campus had arrived at this figure of $3.7 million. The figures above this figure did not add up to $3.7 million. Mr. Brostrom explained that UC had criteria that it applied to the campuses for their debt capacity. Campuses must show positive operating margin and debt service to expenses below six percent. The figures in this chart were for the campus in general, not for this specific project. With regard to the $3.7 million figure, he explained that several pages of campus financial statements were boiled down to this chart, which showed operating revenues, non-operating revenues, and other revenue support to calculate the adjusted operating revenues. Associate Vice President Peggy Arrivas observed that the sum of the figures for operating revenues and non-operating revenues came close to the $3.7 million. Some adjustments might be buried in the figure for "other revenue support." Much of this support was funds transferred from the Medical Center for faculty salaries. Faculty salaries were included in operating expenses. Mr. Brostrom stated that he would provide the exact formula for the calculations shown in the chart.

Regent Estolano asked how the operating cash flow margin of 4.2 percent was calculated. Mr. Brostrom responded that this was the income available for modified cash flow, divided by operating revenues. Regent Estolano stressed the importance of accuracy and clarity in the information presented to the Regents concerning projects like this.

Regent Estolano noted that the project was assuming a six percent interest rate, which was very high. Mr. Brostrom stated that the University would propose a change to its debt policy which would change this figure from a fixed amount to some range. Regent Estolano expressed approval for this idea. Currently, the Chancellor and his team were put in a position of arguing against their own analysis and asking the Regents to assume that the actual interest rate would be lower than what was calculated on paper. Mr. Brostrom commented that the campus had analyzed the project assuming interest rates of three and four percent, and, under those scenarios, the debt service coverage improved dramatically.

Regent Estolano asked about certain assumptions for the housing project when it opened in 2023. The campus was assuming regular occupancy by that time and that revenues would be as projected. Chancellor Khosla confirmed that this was the case.

Regent Estolano recalled comments made by Executive Vice President Byington earlier that day to the effect that University activities might be almost back to normal by fall 2023, with student residence halls at normal capacity. She felt that this was a good project and that the campus had the necessary cash flow, although she had misgivings about the numbers that had been presented. Regent Estolano believed that now was precisely the time to construct the project, if the campus had the cash flow and could afford it. UCSD might even achieve lower prices.

Regent Estolano asked about the sustainability of the project. Based on the materials presented, it appeared that the project would create many green spaces and bioswales where there were now parking lots and paved spaces. She asked if the bioswales would water the trees. She asked about carbon sequestration and how the project would create a net benefit in reducing the urban heat island effect and increasing the tree canopy. UCSD Assistant Vice Chancellor and Campus Architect Joel King stated that one predominant feature of this project was the "ramble," a large public realm that would function as a low-impact device for storm water capture and present an opportunity for plantings and carbon sequestration. This would also enhance the student experience; these were landscaped outdoor areas for walking, gathering, and studying. This area was called the "ramble" because it was a continuation of the Revelle College storm water strategy. Revelle College was up the slope from this area. UCSD captured rainwater and did not allow it to flow into the ocean. The project was very careful in tree selection.

Regent Estolano asked about the square footage of tree canopy increase. Mr. King responded that the project would add about 3.8 acres of green space. Chancellor Khosla commented that the North Torrey Pines Living and Learning Neighborhood, which was about to open, was a project of similar size for 2,000 students. The Theatre District Living and Learning Neighborhood would have about twice the amount of room space per student than the North Torrey Pines project. As UCSD developed new projects, it took the strengths and weaknesses of past projects into account and aimed to create a cohesive campus architecture.

Regent Estolano asked about the square footage of living areas. Executive Director of Housing, Dining, and Hospitality Hemlata Jhaveri responded that, in the bedrooms, there was 100 square feet of space per student.

Regent Estolano observed that the projected construction cost per bed, $214,289, was low compared to affordable housing being built in Los Angeles. Regent Pérez noted that the City of San Diego had recently entered into an agreement to purchase two Marriott Residence Inns at a cost of roughly $332,000 per hotel room. UCSD's project was less costly. Committee Chair Makarechian commented that Marriott hotel rooms were 240 square feet in size, on average. Chancellor Khosla countered that Marriott hotels did not offer collaborative working spaces and other amenities offered by UCSD. When considering the cost per bed, one must take into account the other amenities UCSD offered.

Regent Leib stressed that student housing was perhaps the greatest challenge for the San Diego campus. The housing problem might be severe in 2023, when students returned to campus housing, without this project. He asked how much the campus might save by pursuing this project now, when costs and interest rates were low. Mr. King responded that the San Diego construction market was experiencing escalation of 3.5 to four percent per year. One could estimate the increase in the project cost if it were to be delayed for a year.

Regent Leib asked if the cost might be lower during a time when less construction was taking place. Mr. King responded that the campus could not promise that it would receive low bids, but there were indications that this was happening in the construction market.

Many projects had been suspended. By bringing a shovel-ready project to market when the market was down, UCSD hoped to receive favorable bids. Chancellor Khosla added that UCSD had suspended about $2 billion in projects. Mr. Brostrom recalled that UCOP had asked the campus to calculate the project at a six percent planning rate, while current rates were 200 to 300 basis points lower. This would reduce the debt service cost from $7.3 million to $5 million. Capitalized interest, also calculated at the six percent rate, was included in the overall cost per bed. The campus planned to issue a limited project revenue bond in early 2021 and hoped that rates would remain low.

Regent Leib expressed support for the project. He asked about potential litigation. Chief of Staff and Special Counsel Kelly Drumm responded that the only basis for litigation would be to challenge the California Environmental Quality Act (CEQA) documentation. The University could not preclude others from filing CEQA actions, but if someone were to file an action, UC would then evaluate it. Regent Leib expressed confidence in the campus' CEQA preparation and opined that it was now a good time to build the project.

Committee Chair Makarechian urged the campus to take advantage of low interest rates and stressed that this was a good time to engage contractors and architects. He expressed support for the project but felt that the budget costs were too high. The Regents needed to have a better understanding of UCSD finances. The projected cost per parking space of $85,381 seemed excessive, twice as high as it should be. Contractors were making large profits. The campus did not have land costs for this project. He suggested that the campus bring this item back at the November meeting with budget numbers closer to actual projections, rather than the six percent planning rate. The campus should consider worst-case scenarios for occupancy, at 75 percent rather than 100 percent. Committee Chair Makarechian stressed that the project cost seemed much higher than it should be.

Regent Park asked about Chancellor Khosla's statement that the campus had made loans to the Health System in the past. This seemed to contradict what Ms. Arrivas had said. Regent Park requested clarification of which way funds were moving. Mr. Ouillet explained that the medical faculty practice, the physicians group, was integrated into campus financials. He oversaw these funds flows, since he served as the Chief Financial Officer for both the campus and UCSD Health. He could give an exact account of the transfers. Support from the Health System was directed primarily toward paying clinicians at market rate, which had to be shown as Health System support, and for subsidizing the primary care network, which typically loses money, while the hospital makes money. The campus did not rely on UCSD Health for its financial stability.

Regent Park referred to a chart of the campus' stress test of its fiscal year 2018-19 revenues, included in the background material, which indicated that a ten percent reduction in operating revenue would lead to a negative 3.4 percent operating cash flow margin. A footnote explained that these calculations did not consider operating expense reductions or reductions in other expenditures to mitigate the impact of projected revenue losses. This did not give an idea of what actions the campus might take, should it experience a ten percent reduction. She asked how the reduction in State funding was included in the proposed project budget. She asked about the potential impact if the State further reduced the University's budget and how UCSD's projections accounted for this. Mr. Ouillet responded that the campus had made conservative assumptions, including assumptions of cuts in State funding of 11 percent indefinitely, with further cuts in the next two years, and conservative assumptions about enrollment which were not materializing. The campus reduced its budget expenses to account for all these factors and applied a four percent cut across all operating budgets, in addition to a systemwide freeze on compensation. UCSD was reducing its expenses by $75 million. State funding represented only seven percent of the UCSD budget, or about $300 million in a budget of $6 billion. An 11 percent cut would amount to slightly more than $30 million, but UCSD had reduced its expenses by $75 million and entered the year with a positive margin. The campus followed a normal budget process, implementing the entire cut before the end of June. UCSD always closes its budget on time. UCSD manages its budget based on granular assumptions, on the conservative side, and takes structural expense actions in advance.

Regent Park suggested that, if this item were delayed until November, there could be a deeper explanation, with more accurate financial figures. Committee Chair Makarechian emphasized the uncertainties and risks of the present time due to COVID-19. He did not have a clear picture of how many projects were under way at UCSD which the campus was obligated to continue, regardless of financial circumstances. He wished to wait on this project for two months, which would give the campus an opportunity to negotiate with contractors. He reiterated his concern about the high costs in this budget. Chancellor Khosla cautioned that a delay of two months now would lead to a delay of one year for delivery of the project.

Regent Estolano asked why a two-month delay for project approval would delay the delivery by one year. Ms. Jhaveri responded that this project would require three years of construction. Students sign up for dormitory spaces for the fall. If the schedule for opening the project moved from fall 2023 to winter 2024, students would already have made commitments for off-campus housing. There was great demand from students for housing for the entire academic year. Students could not enter partial leases off campus without paying a premium, while they were waiting for a bed for the winter or spring quarter. UCSD would lose these students if it could not open this project in fall 2023. The project would open at full capacity in fall 2024. Committee Chair Makarechian remarked that, if a general contractor is told that it must deliver a project by a certain date, it would comply.

Regent Estolano reflected that this project was a significant investment; the Regents should feel confidence in voting for it. She asked that the presentation of this project include actual financial figures that the campus could confirm. A presentation in November could include a summary of all other ongoing and upcoming projects to which UCSD was committed and how these compared to cash flow projections, and how this project fit within that plan. Chancellor Khosla stressed that the campus needed approval for this project to keep it going.

Committee Chair Makarechian reiterated his concerns about costs. He questioned the need for the projected number of parking spaces and the high cost per parking space. The projected numbers needed to make sense before the Regents could approve them.

Mr. Ouillet explained that the campus had cash, but by policy, it could not spend more money on project design. UCSD would need either an approval to augment preliminary plans funding at this stage or approval at a meeting scheduled before November.

In response to another question by Committee Chair Makarechian, Mr. Brostrom noted that the campus needed to proceed with architectural drawings. Mr. King explained that the campus had expended the preliminary plans funds and now wished to engage the architect in the construction document phase. Chancellor Khosla and Regent Estolano asked what budget amount would be needed in the next two months.

Regent Estolano suggested that discussion of this item continue the following day. The campus could present a budget amount that it would need in order to continue the project for two months. Mr. Ouillet confirmed that the campus could present a dollar amount the following day. He underscored that the timeline for the project had already been compressed. He could not guarantee to the Board that UCSD would deliver the project in 2023. Chancellor Khosla recognized the important fiduciary responsibility of the Regents and the campus' obligation to provide a certain level of comfort with regard to projects. Committee Chair Makarechian observed that this information could have been provided to the Regents earlier.

Regent Estolano moved that the consideration of this item continue the following day. Upon motion duly made and seconded, the motion was approved, Regents Cohen, Estolano, Leib, Makarechian, Muwwakkil, Park, Pérez, and Reilly voting "aye."

7. NEW MARKETS TAX CREDITS FOR "THE U" IN DOWNTOWN SAN DIEGO, SAN DIEGO CAMPUS

The President of the University recommended that, for the benefit of the San Diego campus and in connection with tenant improvement costs and/or reimbursement of a portion of acquisition costs of an approximately 66,750-gross-square-foot, four-story, build-to-suit commercial building (Property) located at the intersection of Park Boulevard and Market Street in downtown San Diego (named "the U"), the Regents:

A. Approve the creation of a special purpose entity non-profit corporation (SPE NPC) to function as a Qualified Active Low-Income Community Business with consulting fees, due diligence costs, legal fees, and closing costs (collectively, the "Transaction Costs") to be paid from New Markets Tax Credits (NMTC) financing proceeds. Transaction Costs and interest payments payable and not covered by the NMTC equity allocation are to be paid from UC San Diego Extension Program reserves.

B. Approve the creation of a special purpose entity limited liability company (SPE LLC) to function as the NMTC Leverage Lender with Transaction Costs to be paid from the NMTC financing proceeds.

C. Approve the following terms of a master lease between the Regents as the property owner and the SPE NPC as Master Tenant:

(1) The term of the master lease shall not exceed 30 years.

D. Approve the use of campus cash reserves to fund a loan in an amount not to exceed $35 million to fund the campus portion of the NMTC Leveraged Deal Structure, subject to the following conditions:

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

(2) Any NMTC-related debt service obligations or NMTC-related expenses during the seven-year NMTC Compliance Period will be paid from NMTC funding reserved in escrow at the time of the NMTC closing.

E. Authorize the President or President's designee, in consultation with General Counsel, to assume liability for and indemnify the NMTC investor(s) and their affiliates, including their officers, directors, managers, trustees, employees, and agents, for the conduct of persons other than University officers, agents, employees students, invitees, and guests for liabilities or losses incurred in connection with the NMTC financing, including the presence or release of hazardous materials on the Property, the payment of the call price, and compliance with the applicable Internal Revenue Service NMTC requirements by the University, SPE NPC and SPE LLC during the compliance period.

F. Authorize the President or President's designee, after consultation with General Counsel, to negotiate, approve, and execute all documents, amendments, and modifications thereto, as may be necessary or appropriate in connection with the allocation of NMTC to the San Diego campus, establishment of the SPE NPC and SPE LLC entities, and the overall execution of the NMTC financing, provided that such documents, amendments, and modifications do not materially reduce the consideration to or increase obligations of the Regents. The general credit of the Regents shall not be pledged.

G. Authorize the President or President's designee to supervise the ongoing administration of the NMTC financing structure, including the SPE NPC and SPE LLC, and after consultation with General Counsel, to negotiate, approve, and execute all instruments, documents, amendments, and modifications thereto, as may be necessary or appropriate.

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

Executive Vice President and Chief Financial Officer Brostrom briefly introduced the item. Chancellor Khosla stated that this 66,750-gross-square-foot, four-story building in downtown San Diego would serve as UC San Diego's presence in this community. UCSD would offer many services at this location. The tax credits were free money, but in order to accept this money, a rather complicated structure had to be created.

UCSD Executive Director of Real Estate Jeff Graham explained that the proposed action was in accordance with a structure established by the federal government to invest in under-resourced communities. He opined that it would have been preferable to establish a grant program to which one could apply for project funding and receive funding directly. Instead, the government had established a complicated tax credit structure. For this project, UCSD would receive a subsidy of $6 million which would not need to be repaid. This would save money and allow for programs and investments to benefit low-income communities.

Regent Park expressed concern about the fact that this item required the creation of a new entity, which seemed like a shell company. The University was making itself eligible for this funding by creating a shell company and would be on both sides of the transaction. She was not comfortable about this item.

Regent Leib stated that he did not understand all the intricacies of the proposed action, but there was often complexity involved in receiving federal monies. He praised the project in downtown San Diego, which would be a presence for UCSD in an underserved area. He supported the project but would like more clarity about the transaction. Mr. Graham responded that there were examples of other public higher education institutions that had applied for and received New Markets Tax Credits. Government entities were not eligible for these tax credits, but many cities, counties, school districts, and higher education institutions have used this structure to build libraries, medical centers, and other projects which benefit low-income communities. This was a tried and tested program which had been in place for 20 years. There had been no adverse consequences for any public entity that had used this structure. Mr. Brostrom remarked that UCSD had already used this structure for a biofuel cell project, with the State and the City of San Diego. Mr. Graham confirmed that this had occurred in 2010. In that instance, UCSD was not the borrower of the credits, a separate renewable energy company was. This benefited UCSD by installing a renewable energy biofuel cell on the campus, which UCSD would otherwise have had to pay for.

Regent Park asked if governmental entities were creating these shell entities with no employees to receive these funds. Mr. Graham confirmed that this mechanism was the only way to receive these funds. The University would be in complete control of the separate entity; UC would appoint its board of directors.

Regent Park underscored that this structure was a shell and a fabrication, and, in fact, the University in another guise. Mr. Graham concurred, but noted that the University's team of attorneys with expertise in New Markets Tax Credits and tax accountants had expressed their approval.

Regent Estolano recounted that she had experience of New Markets Tax Credits when she served as Chief Executive Officer of the Community Redevelopment Agency of the City of Los Angeles. This type of transaction was burdensome, and it required the creation of a single-purpose entity or shell. There were lawyers and tax experts who specialized in the practice of constructing these entities. One might need a lengthy presentation to explain how New Markets Tax Credits work. This was not an unusual structure, and the only way to receive these tax credits. This mechanism was highly inefficient, but Regent Estolano did not believe there was any risk for the University in the proposed action. Mr. Graham added that, before working at UC, he had worked for Civic San Diego, a Community Development Entity, and had been involved in several transactions of this type. His organization received over $100 million in tax credit allocations. Each transaction was structured this way.

Regent Cohen asked if there could there have been another option for financing, and one more favorable for the University. Mr. Brostrom responded that this action was an addition to what the University would normally do, which would be to use tax-exempt financing. The New Markets Tax Credits provided free equity for 25 percent of buildout, and it made sense to proceed with this. This structure was complex, but he noted that there were other tax credit models which were even more convoluted. The only real risks to the Regents and the campus would be if UC moved the project out of the census tract, which was not possible because this was a building, or if UC became involved in illicit activity, which was unlikely. This was essentially free equity for the project.

Committee Chair Makarechian observed that another option would have been for UC to pursue this project on its own, and avoid fees it would be paying. Mr. Brostrom explained that UC was receiving $6 million and paying fees above that amount. Most of the fees would flow to the Community Development Entity.

Regent Pérez commented that he also had experience of New Markets Tax Credits transactions. The structure was complex, but the proposed action was appropriate.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Estolano, Leib, Muwwakkil, Pérez, and Reilly voting "aye" and Regents Makarechian and Park abstaining.

The Committee recessed at 6:00 p.m.

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The Committee reconvened on September 17, 2020 at 2:00 p.m. with Committee Chair Makarechian presiding.

Members present: Regents Cohen, Estolano, Leib, Makarechian, Muwwakkil, Park, Reilly, and Sherman; Ex officio members Drake and Pérez; Advisory members Gauvain and Lott; Chancellors Christ, Gillman, Hawgood, Khosla, Muñoz, and Wilcox; Staff Advisor Jeffrey

In attendance: Regents Anguiano, Butler, Elliott, Guber, Kieffer, Lansing, Mart, Ortiz Oakley, Stegura, Sures, and Zettel, Secretary and Chief of Staff Shaw, General Counsel Robinson, Provost Brown, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Chancellors Block, Larive, May, and Yang, and Recording Secretary Johns

8. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, THEATRE DISTRICT LIVING AND LEARNING NEIGHBORHOOD, SAN DIEGO CAMPUS, CONTINUED**

[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 presented revised recommendation language for this item.

Additions shown by underscoring; deletions shown by strikethrough

The President of the University recommended that:

A. The 2020-21 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: Future College Living and Learning Neighborhood – preliminary plans – $30 million funded from housing reserves.

To: San Diego: Theatre District Living and Learning Neighborhood – ~~preliminary plans, working drawings, construction, and equipment – $645 million to be funded with external financing ($644 million) and campus funds ($1 million)~~ preliminary plans and partial working drawings – $35 million to be funded from housing reserves ($34 million) and campus funds ($1 million).

~~B. The scope of the Theatre District Living and Learning Neighborhood (TD LLN) project shall provide approximately 2,000 undergraduate student beds, plus 50 beds for resident advisors and live-in staff, and residential support space of approximately 574,000 assignable square feet/823,000 outside gross square feet and non-residential space of approximately 71,000 assignable square feet/106,000 outside gross square feet including administrative space; approximately 17,000 assignable square feet of flexible classroom space; a meeting center; a dining hall, a restaurant and retail. The scope would also include underground parking for approximately 1,200 cars. Public realm and vehicular circulation improvements would include an improved campus entry at Revelle College Drive; realignment of Scholars Drive South; an extension of Ridge Walk; a valet/drop-off zone for the adjacent performing arts venues; a transit hub for~~

~~campus shuttles; and recreation and outdoor wellness areas throughout the site.~~

~~C. The President be authorized to obtain external financing in an amount not to exceed $644 million plus additional related financing costs. The President shall require that:~~

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

~~(2) As long as the debt is outstanding, general revenues from the San Diego campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.~~

~~(3) The general credit of the Regents shall not be pledged.~~

~~D~~B. Following review and consideration of the environmental consequences of the proposed TD LLN project, as required by California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

(1) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC San Diego, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR).

(2) Adopt the CEQA Findings for the TD LLN, having considered the 2018 LRDP EIR for the La Jolla Campus, as well as Addendum No. 5 to the 2018 LRDP EIR for the Theatre District Living and Learning Neighborhood.

(3) Approve the design of the TD LLN project, San Diego Campus.

~~E~~C. The President be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

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

Committee Chair Makarechian expressed his support for this project. He had questioned some of the cost figures that were presented the previous day. The campus would present a revised item at the November meeting. The amended item now before the Committee would provide an additional $5 million to keep the design process for the project going.

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

The meeting adjourned at 2:05 p.m.

Attest:

Secretary and Chief of Staff