The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
January 20, 2021

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

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

In attendance: Regents Kieffer and Zettel, Secretary and Chief of Staff Shaw, General Counsel Robinson, Executive Vice President and Chief Financial Officer Brostrom, Chief of Staff and Special Counsel Drumm, and Recording Secretary Johns

The meeting convened at 2:25 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 November 18, 2020 were approved, Regents Drake, Estolano, Kounalakis, Leib, Makarechian, Muwwakkil, Park, Pérez, Reilly, and Sherman voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Approval of Indemnification Terms in Agreements with the United States Department of Energy Western Area Power Administration***

The President of the University recommended that:

(1) The President be authorized to approve the terms of the agreement(s) with the Western Area Power Administration (WAPA), including a provision to indemnify and hold harmless the United States, its employees, agents, or contractors from any loss or damage and from any liability on account of personal injury, death, or property damage, or claims for personal injury, death, or property damage of any nature whatsoever and by whomsoever made arising out of the University's, its employees', agents', or subcontractors' construction, operation, maintenance, or replacement activities under the agreement.

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

(2) The President or designee, after consultation with the General Counsel, be authorized to approve and execute any documents necessary in connection with the above.

(3) The President or designee, in consultation with the General Counsel, be authorized to execute all future documents related to WAPA supply agreements that contain substantially similar indemnification language.

B. ***Amendments to Regents Policy 5307: University of California Debt Policy***

The President of the University recommended that the Regents adopt the amendments to Regents Policy 5307: University of California Debt Policy, as shown 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 briefly introduced these consent agenda items.

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

3. **APPROVAL OF EXTERNAL FINANCING FOR WORKING CAPITAL**

The President of the University recommended that the Regents approve:

Until December 31, 2021, one or more external finance transactions in an aggregate amount not to exceed $500 million, plus financing costs and refinancing amounts, for working capital and working capital-related purposes.

[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 University would be proceeding with a large bond issue to finance and refinance both limited project revenue bonds and some general revenue bonds. The University would also like to add $500 million in taxable bonds for working capital. In June 2020, Regents' authorization for approval of external financing was granted via interim action, and, in July, UC financed $1.5 billion in working capital to provide liquidity and a cushion to the campuses during the COVID-19 pandemic. The campuses had made good use of these funds. Given the length of the pandemic, UC still had some need to help campuses to bridge both the decline in their revenues and ongoing expenses until the situation stabilized. Rates were still very favorable, and so UC wished to include up to $500 million in this borrowing in February.

Regent Sherman asked what terms the University would be able to achieve. Mr. Brostrom responded that it was very important that these bonds be index-eligible. There would have to be at least $300 million in each tranche. UC was considering a ten-year tranche, with a rate in the range of 1.75 to 1.8 percent. This was very favorable financing for a ten-year term.

Regent Sherman asked if there was any possibility of a longer-term tranche. Mr. Brostrom responded that the campuses appeared to favor this term. The University would consider a long-dated bond, such as a century bond or 50-year bond at some point. This borrowing was for working capital and would meet UC's needs most effectively.

Regent Sherman remarked that, with the yield curve as flat as it was, independent of campus term needs, it would be beneficial have the term as long as possible. Mr. Brostrom responded that a repayment plan was also needed. He asked if Regent Sherman was advocating for a long-dated bond. Regent Sherman confirmed this, as long as this bond did not have a significant call premium and would be callable at some point. Mr. Brostrom commented that, with a taxable bond, it was hard to imagine a point at which one could make a call on rates this low.

Regent Sherman observed that, with low interest rates and a flat yield curve, UC would not be paying much more for an extra ten or 20 years. Mr. Brostrom responded that the University could discuss this with its bankers. Director Meghan Gutekunst stated that the Office of the President would follow up on this.

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

4. **BUDGET; SCOPE; EXTERNAL, STANDBY, AND INTERIM FINANCING; AMENDMENT #3 TO THE UC IRVINE 2007 LONG RANGE DEVELOPMENT PLAN; AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, IRVINE CAMPUS MEDICAL COMPLEX, IRVINE 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: Irvine: Irvine Campus Medical Complex – preliminary plans – $67,503,000 to be funded from hospital reserves.

To: Irvine: Irvine Campus Medical Complex – preliminary plans, design, construction, and equipment – $1,073,000,000 to be funded by hospital reserves ($150 million), gift funds ($100 million), and external financing ($823 million).

B. The scope of the Irvine Campus Medical Complex shall consist of construction of approximately 604,732 gross square feet (gsf) of medical inpatient, ambulatory, and emergency services space, including a 128- to 144-bed hospital (344,643 gsf), and ambulatory care center (223,089 gsf), central utility plant (37,000 gsf); and approximately 521,282 gsf for a parking structure providing approximately 1,350 spaces. Site development shall include landscape and hardscape, two new access roads, and an events plaza between the hospital and ambulatory care center. The square footages noted are subject to change as the design is refined through the progressive design-build process.

C. The President be authorized to obtain external financing in an amount not to exceed $823 million plus additional related financing costs to finance the Irvine Campus Medical Complex project. 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, the general revenues of the UC Irvine Medical Center 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. The President be authorized to obtain standby financing in an amount not to exceed $19,838,000 and interim financing in an amount not to exceed $75 million plus additional related financing costs to finance the Irvine Campus Medical Complex. The Irvine campus shall satisfy the following requirements:

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

(2) Repayment of any standby debt shall be from gift funds. As gifts are received, the medical center will reimburse the standby financing in a timely fashion. If gift funds are insufficient and some or all of the debt remains outstanding, then hospital reserves shall be used to pay the debt service and to meet the related requirements of the authorized financing.

(3) To the extent additional gifts and other funds are received as cash, the amount of interim financing will be reduced. To the extent additional gifts are received as documented pledges, the interim financing will be converted to standby financing.

(4) If gifts or pledges are not received within seven years from the initial draw, the interim financing will be converted to long-term external financing or the Medical Center will pay down the interim financing.

(5) As long as the debt is outstanding, the general revenues of the UC Irvine Medical Center shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

E. Following review and consideration of the environmental consequences of the proposed Irvine Campus Medical Complex project and Long Range Development Plan Amendment #3, 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 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, the Regents:

(1) Certify the Subsequent Environmental Impact Report for the Irvine Campus Medical Complex project.

(2) Adopt the Mitigation Monitoring and Reporting Program for the Irvine Campus Medical Complex project and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UC Irvine.

(3) Adopt the CEQA Findings and Statement of Overriding Considerations for the Irvine Campus Medical Complex project.

(4) Approve Amendment #3 to the 2007 Long Range Development Plan.

(5) Approve the design of the Irvine Campus Medical Complex project.

F. 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.]

Executive Vice President and Chief Financial Officer Brostrom reported that letters of support for this project had been received from Newport Beach Mayor Brad Avery, Congressman Lou Correa, and the Second Harvest Food Bank. The campus had reached an agreement with the City of Irvine and its Mayor about their concerns. There was strong community support for the project.

Chancellor Gillman described the Irvine Campus Medical Complex as an extremely important and impactful project. It was a vital component of UC Irvine's overall campus strategic plan, of the UCI Medical Center strategic plan, and an unmistakably clear demonstration of UCI's commitment to providing everyone in the region with the kind of health care that could only be provided by a world-class academic medical center. He thanked the Regents for allowing the campus to move forward with its planning process over the past year.

UC Irvine Health Chief Executive Officer Chad Lefteris reported that the campus had achieved savings during the preliminary plans funding and preliminary design stages and selection of design-build partners. These savings could be redirected into the project at this early stage and would allow the campus to increase the total number of patient beds above the number that had been planned initially. At this moment, UC Irvine felt that it could capitalize on a growing market. The City of Irvine and the surrounding zip codes were the fastest-growing areas in Orange County. This was an opportune time for UC Irvine to stop for a moment and consider how many patients were leaving this service area for highly specialized care; UCI would now be able to provide this care closer to patients' homes. UCI could also capitalize on lessons learned from the COVID-19 pandemic experience for the project design and maximize value from the timing of the construction and from the lower cost of capital. UCI also benefited from the experience of other UC medical centers. The campus had originally planned for 90 to 100 patient beds, but, based on advice from other UC medical center administrators, it had increased this number to closer to 140 and would include expansion space in the project for future growth. UCI Health now had more than 21 locations throughout Orange County, and this new site would extend its reach further to Irvine, Newport Beach, and points south. With regard to the main campus in the City of Orange, Mr. Lefteris stated that this campus would remain the UCI Health hub. UCI Health had already begun to seed the marketplace in the Irvine-Newport Beach area with new sites opening over the past 18 months. Mr. Lefteris hoped that these would help as referral pathways for the Medical Complex when it opened. Sustainability was important for this project. Sustainability features were difficult to include in inpatient hospital buildings. UCI would achieve a rating of at least Leadership in Energy and Environmental Design (LEED) Gold on this project, but was striving for LEED Platinum. This project would have a tremendous impact on its community, and UCI would meet or exceed the required UC debt policy benchmarks. Mr. Lefteris expressed confidence in the campus' design-build partners.

President Drake praised this hospital project, which was needed by the community and should perhaps have been undertaken 40 years earlier.

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

5. **CHEMISTRY BUILDING SEISMIC IMPROVEMENTS, SANTA BARBARA CAMPUS**

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

Executive Vice President and Chief Financial Officer Brostrom noted that the University was in the midst of the seismic evaluation of its facilities. The UC Santa Barbara Chemistry Building had a Seismic Performance Rating of VI, the next to the lowest rating. The Office of the President strongly supported Chancellor Yang and the campus' wish to proceed with this project. An action item for preliminary plans funding would be presented at the March meeting.

Chancellor Yang briefly described weaknesses of construction in the Chemistry Building which now needed to be corrected.

6. **CAMPUS ALLOCATIONS OF STATE GENERAL FUNDS OVERVIEW**

[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 introduced this discussion of how the University allocates State General Funds to campuses, a process that has been named "rebenching." Rebenching had been established nearly a decade earlier through an extensive process which lasted over a year. This process involved many chancellors, campus provosts, Academic Senate representatives, and other campus leadership. Rebenching went into effect in 2011-12 and was phased in over the following five years. Mr. Brostrom pointed out that rebenching was not a static model. Changes were made almost every year to some set-asides and eligible funds.

The University had a nearly $42 billion budget. Core funds made up about 21 percent of this budget, including State General Funds and tuition and fees; State General Funds made up about nine percent of these core funds. The State General Funds were an important resource, and their allocation was critical for the campuses, for several reasons. Medical center revenues accounted for about half the University's revenue, but several campuses did not have medical centers. Medical center revenues were more fungible and flexible than other sources, such as private support or government contracts and grants, which were restricted. UC revenues also reflected a spectrum of management responsibilities. Some revenues were controlled at the campuses, some at the systemwide level, and some were shared between campus and systemwide management.

Associate Vice President David Alcocer explained that, prior to 2011, funds were allocated across the University through a number of different mechanisms, which were based on decisions often made decades earlier. The rationale for these earlier decisions might or might not still be applicable. During the tenure of President Yudof, the University moved toward a simplified, streamlined approach. There were three components to this approach. The first was "Funding Streams," the principle that campuses should retain the revenues they generated. This might sound self-evident, but it was in fact fairly revolutionary, compared to how UC had done business in the past. An important exception to this rule was with respect to undergraduate return-to-aid. The University set aside about one-third of all new tuition revenue for undergraduate need-based aid. UC recognized that there were significant differences among the campuses, not just in the number of students enrolled but in relative levels of student need for financial aid. For this reason, UC allocated these tuition dollars separately. Otherwise, funds remained at the campuses that generated them. The second component of UC's approach was a modification in how State General Funds were allocated, the rebenching formula, which was primarily determined by campus enrollments. The third component was the funding model for the Office of the President (UCOP), which was a campus assessment. UCOP provided centralized administration, resources, and programs that benefited the system as a whole. The costs of this were allocated to the campuses based on a formula that took into consideration each campus' overall expenditures, the number of employees, and the number of students enrolled. Over the past few years, this campus assessment had been replaced by a State General Fund appropriation. The University hoped to move back to what it felt was a more rational funding mechanism for UCOP.

The Funding Streams principle accomplished three main goals. First, it ensured that the revenue generated by a particular activity stayed at that campus to cover the cost of that activity. A campus that enrolled and instructed a student retained the tuition revenue for that student. The faculty and campus that conducted research retained the direct charges as well as the indirect costs associated with that research. Second, because this was a more predictable model than the model it had replaced, Funding Streams made it easier for campuses to plan for the future. Campuses had protections related to enrollment, research activity, and auxiliaries, and had better insight into available resources. Third, there was an important incentive in the fact that campuses retained their revenues. To the extent that a campus could identify new revenue sources, whether through philanthropy, self-supporting programs, or auxiliary or other additional revenues, the benefit of these revenues would remain at the campus. This was an incentive for campuses to be innovative in seeking out these opportunities. Similarly, when campuses achieved cost savings through administrative efficiencies or other measures, they would retain the benefit of those savings and could redirect them to campus needs.

Rebenching was developed shortly after Funding Streams. It was the result of a multi-year process of consultation and discussions involving the President, the chancellors, the Academic Senate, and others. Rebenching was based on a number of principles. The most relevant principle for the current discussion was the idea that the State subsidy per student should not necessarily depend on the campus that a student attended. All the campuses should receive the same level of support for a California resident undergraduate. Rebenching also acknowledged that certain broad categories of students had very different cost models with regard to the cost of instruction. In its enrollment-based method of allocating funds, UC did not count each student in the same way, but weighted different categories of students differently. In particular, students enrolled in high-cost disciplines, such as the health sciences, were weighted more than the typical resident undergraduate student. Similarly, students in academic doctoral programs were weighted at two-and-a-half times the rate of undergraduates or academic master's students. This reflected the additional resources needed to instruct those students. This enrollment-driven approach accounted for about 70 percent of the total State General Funds UC received. The remaining 30 percent was allocated for what UC identified as set-asides—institutes, research programs, and special initiatives which in some cases spanned multiple campuses.

The need to adequately fund these programs was independent of the enrollment at the campus that might host a particular program. Campuses received about 30 percent of overall funding in the form of set-asides.

Everything described so far applied to eight of the campuses. UC Merced and UCSF had separate funding corridors based on a different formula. The reason for this was the fact that both these campuses were unique. UC Merced, a young, growing campus, could not achieve the same economies of scale as other campuses. As a result, UC Merced received more State General Funds per student than other campuses. UCSF, exclusively a health sciences campus, with a different configuration and history of State funding, had a separate funding corridor.

When UC began rebenching in 2011-12 and applying weightings that reflected gross differences in the cost of instruction for different categories of students, there were significant disparities among the campuses in the amount of funding per weighted student that campuses received. In general, the higher levels of State funding happened to go to the older campuses—UCLA, UC Davis, and UC Berkeley. This was because those campuses had the good fortune of growing rapidly during decades when UC was supported primarily by State General Funds rather than tuition or other fund sources. Rebenching sought to undo this with additional State funds to bring other campuses up to the level of per-student funding at UCLA. UC pursued this with new funds only; the goal was not to reduce funding at any campus but to allocate incremental State dollars over time to close these gaps, which effectively occurred in 2016-17. The University was continuing to use this approach to allocate State funds. Regrettably, there had been a decline in State funding in the most recent year, 2020-21.

Mr. Alcocer enumerated some examples of set-asides, funds allocated to campuses separately from and in addition to those funds allocated based strictly on enrollment: Agricultural Experiment Stations; student financial aid, not only with regard to tuition, which was the largest part of UC's aid program, but about $50 million in State funds for financial aid; the UC Riverside School of Medicine; and other programs located at one or two campuses or programs for which there was a rationale for separate allocation, such as student basic needs.

Mr. Brostrom recalled that UC received support from the State not only for its operating budget. The University also received State support for capital projects. Historically, this support largely came from State-issued general obligation bonds and lease revenue bonds. In the past, the University received about $500 million in general obligation bond funding about every five years. This was an extremely important fund source for building the campuses. There had been no general obligation bond since 2006 and no lease revenue bond since 2011. There were two current avenues for State support for capital projects. One was AB 94 funds, based on an agreement with the State which allowed UC to pledge a certain portion of its State appropriation to support general revenue bonds. UC had financed about $2 billion in projects over the last seven years through the AB 94 mechanism. Mr. Brostrom noted that these were funds that could be used for operating expenses, such as supporting faculty and students; instead, UC was using the funds to pay debt service on bonds. These funds had been roughly equally divided among the campuses, except that UC committed about 25 percent of the funds to the Merced 2020 project. Given the trajectory of UC Merced's growth, this campus did not have access to general obligation bonds and lease revenue bonds that other campuses had when they were developing and growing. The second avenue of State support, which UC was fortunate to receive, was regular allocations for deferred maintenance in the State budget, including $175 million in Governor Newsom's January budget proposal this year. The deferred maintenance allocations took into account the age of campuses and facilities, the amount of State-supported space, and the type of buildings. In the future, the University might receive federal stimulus support for deferred maintenance and energy efficiency.

The University was continuously reviewing its rebenching process. The President and the chancellors reviewed allocations to determine if UC had the appropriate amount of set-asides, which accounted for nearly $1 billion of the State appropriation outside the rebenching process. UC also reviewed its weightings and considered whether to apply budgeted or actual enrollment. Last spring, a decision had been made to consider not only the weightings but also the disparities among campuses on an unweighted basis. Obviously, disparities emerged when one considered campuses with or without more health sciences students or a greater percentage of graduate students on an unweighted basis. UC had decided to use incremental State funding to ensure that no campus fell below 95 percent of the systemwide average on an unweighted basis. This functioned as a guardrail in addition to the weighted approach UC was taking.

Regent Leib asked if it was the case now that no campus fell below 95 percent of the systemwide average for State funding on an unweighted basis. Mr. Brostrom responded that UC Riverside, UC Santa Barbara, and UC Santa Cruz probably fell below 95 percent, while UC Irvine was above but close to 95 percent. Incremental State funding would be needed to ensure that these campuses were above this threshold. Regent Leib asked when this would occur. Mr. Brostrom responded that the President and the chancellors would discuss this in spring 2021. Regent Leib voiced a strong recommendation for implementing this. There were real disparities among the campuses, and he hoped that this funding level could be achieved on those campuses as soon as possible.

Referring to the weighting scale, Regent Leib commented that it was heavily weighted toward health sciences graduate students. While these programs were more expensive, this weighting created inequities for campuses without health sciences graduate students. He asked about evidence in support of this kind of disparity. Mr. Brostrom responded that the rebenching process had granular data on specific types of graduate programs. The differences in student-faculty ratios were an important factor; for example, between undergraduates and health sciences students. One point that was not considered when rebenching was developed was the fact that the health sciences programs receive funding from other sources, but Mr. Brostrom noted that the same could be said of other disciplines. Some graduate programs receive funding from sources such as the National Science Foundation.

President Drake commented that the weightings were based student-faculty ratios, which were also considered by rating agencies for accreditation of various disciplines. The funding mechanism developed two decades prior started with student-faculty ratios. Some subjects required one-on-one teaching, such as teaching surgery to medical students, while for other subjects, faculty can lecture to large groups of students. The cost of providing sufficient faculty in the health sciences for accreditation must be subsidized by clinical revenue. These weightings were not arbitrary, but considered differences between training different kinds of students in different circumstances.

Regent Kieffer stressed that an important topic for the Regents' consideration was the health of each UC campus and the state of its faculty, students, and infrastructure. It was not possible to obtain meaningful answers to these questions in a Board meeting like this one. This was a complicated matter that concerned the welfare of the University, and he suggested that a smaller group of Regents be formed to study the questions of campus allocations. When the University moved to a new funding model, the President became something like a taxing authority for the campuses, and this changed the perception of the State Legislature and contributed to an incorrect perception of UCOP's role. In the past, UCOP, like any other executive office, would decide on allocations to the campuses. Now this was based on a detached formula. A smaller group of Regents needed to understand this process and ask questions about how well the campuses were faring.

Regent Park expressed agreement with Regent Kieffer's suggestion for creating a Regents' working group to delve more deeply into these questions. There was a need for more expansive discussion about resource allocation. The Regents reviewed and approved the UC budget at a high level, paying attention to big line items, positive or negative, compared to the prior-year budget. For the sake of efficiency, Regents did not receive the same kind of insight into campus budgets. The formulas UC relied on needed to reflect current and future needs, relative to what UC wants to achieve. The principles that had been presented were not bad, but Regent Park was not sure what the overriding principles should be. The Regents should be attentive to a hierarchy of principles. She would wish to review ideas about the segregation of State revenue and other revenue and about allocations per student. She drew attention to an illustration on a slide showing that students begin with different advantages and are not equal. The world does not provide a level playing field. This illustration of inequality could be applied to the campuses as well. The campuses were not all on the same playing field, given the factors of nonresident student tuition, fundraising ability, being located in a geographic area with economic opportunities and fundraising potential, and longer history and time to develop resources. If one goal of the University was to be more equitable and create greater equity for students, UC must consider campuses that were serving the highest proportion of Pell Grant-eligible, underrepresented, and historically marginalized students.

Regent Sherman asked if the cost structure of each of the campuses was taken into consideration in determining allocations. The actual payroll probably differed per faculty member at each campus. Mr. Alcocer responded that this factor did not enter into the calculations. The fact that certain categories of students had a higher weighting was a gross way of capturing cost structure. A campus supporting a large number of health sciences graduate students probably had a greater cost structure. Factors such as a campus' maintenance needs or payroll were not part of the calculation.

Regent Sherman supposed that the cost structure at UC Santa Barbara might be greater than at UC Riverside, simply because of the difference in the cost of living between the two geographic areas. He asked if it would be logical to consider this factor in making allocations. Mr. Alcocer responded that this raised a larger question of what should determine differences in faculty salaries. Before the Funding Streams and rebenching process, this factor was considered, and it was perceived by some as perpetuating the differences in cost structure among the campuses. It was reasonable to consider this factor, but, for various reasons, it was not part of the current framework.

Regent Reilly agreed with the suggestion of Regents Kieffer and Park for further, more in-depth discussion of this issue. She expressed interest in hearing the chancellors' views on this matter.

Chancellor Hawgood explained that UCSF, a campus with only health sciences students, had a separate funding corridor through which it agreed to take a smaller amount of any upside that came through increased State funding. UCSF did this willingly, and it had forgone approximately $26 million of State funding in order to recognize its differences from the other campuses and to do its part in leveling the playing field.

Chancellor Wilcox observed that this matter was to a large degree an administrative question. It was an appropriate function of the Board and its members to look at the UC system to ensure that the system was moving in the right direction and that different parts of the system were in a position where they should be. This was a very difficult time for UC Riverside. He applauded his fellow chancellors for reaching an agreement the prior year that was not easy to reach and for their ability to think about the collective, but that initiative had been shelved. It would be important to UCR for the University to find an expedited way to get through this difficult period. UCR was keen to become an even bigger and more dynamic campus. For UCR to grow in the next ten to 20 years and to fulfill the aspirations of the State would be difficult under the current model. Chancellor Wilcox stressed that it would be good if the University could collectively address this challenge.

Chancellor Gillman noted that he was not serving as Chancellor when the original allocation formulas were developed, but had heard that this was a very challenging process. Many factors have to be taken into account in trying to determine an appropriate distribution to the campuses. The past year, the chancellors had considered this matter and how they might start from zero, but none of them thought that it would be possible to reach a reasonable result in a reasonable amount of time. The chancellors' commitment was to know that this distribution model was a first approximation. Much work would go into the ongoing process of adjustment. The chancellors' commitment to imagining new ways in which one could allocate additional funding and take into account issues that had not been considered earlier was part of what had led to the current agreement between and among all the chancellors. The COVID-19 pandemic had interrupted this process, but the chancellors were ready to resume this process as quickly as possible. Fundamentally, it was a question of how well the campuses were doing and how they could help each other. The chancellors were all committed to continuing this work. It was appropriate and expected that the Regents would ask the chancellors periodically about the next level of thinking as the campuses move forward. This was a complicated issue and one could not start from zero in trying to manage the issue.

Chancellor Muñoz stated that it was encouraging, as the newest chancellor, to be among a group of colleagues who understood that this issue needed to be examined through the lens of equity and parity. Like UC Riverside, UC Merced had aspirations to grow during a difficult time. Certain funding streams were not available to a campus that was only 15 years old. Taking into consideration the kinds of students at the various UC campuses, the kinds of academic programs, the kinds of revenue streams these programs introduce; these were all part of this very complicated formula and worthy of the chancellors' continued attention and consideration as the campuses move forward. Chancellor Muñoz expressed his endorsement of this process.

Regent Muwwakkil looked forward to future conversations of this matter and expressed support for Regent Kieffer's suggestion for a working group to look more closely at these issues. Resource allocation suggested priorities and values, and informed where the University might go and should go. As UC celebrated the fact that UC Riverside was rated the number one campus for social mobility, the existing structure appeared to penalize this campus for having achieved this. This was a legitimate question that called for reflection. He asked if the University's resource allocation would look wildly different if UC assigned greater weight to Pell Grant-eligible undergraduate students as well as graduate students who increase UC's diversity and to those campuses that are minority-serving institutions. Mr. Alcocer responded that UCOP had considered this. If one changed the weighting as Regent Muwwakkil suggested, there would be an increase in funding to UCR, with the magnitude depending on how one changed the weightings. At the same time, there would be a decrease in funding to other campuses, such as UC Santa Cruz, which was not particularly well-resourced. These types of actions can result in unintended consequences, and, for this reason, UCOP developed many models and projections. UCOP was examining this potential change in weighting, as well as many other permutations. Mr. Brostrom added that the University must examine set-asides; if the amount of set-asides were decreased, more funds would be available for the core missions of teaching and research.

President Drake observed that the issues dealt with in this discussion were extraordinarily complex. They were based on a complex series of considerations which had been studied by many people, day by day, over years. He recalled his own experience as an administrator, which had included starting colleges and schools from zero, building within a model that used funding coming from other locations. The cost of starting a new school of law was different compared to the cost of other initiatives. There was a great deal of rationality and practicality in the structures that had allowed the University to grow to its current state. One of the challenges for the University now was that all the campuses were competing as hard as they could individually. Each campus was stretched, and there were funding challenges from the State partner. The campuses were doing their utmost to maintain their excellence, which was reflected in the high ratings of UC's campuses, while trying to increase diversity and the success of their students. The University was a national model due to its ability to balance these extraordinarily complex competing interests on a daily basis, with budgets that were very thin on their margins. Two decades prior, with a different funding model, there was more discretion at UCOP. Money came to UCOP, different priorities for growth were identified, and differential funding was agreed to. It was then the daily task of the campuses to take these resources and try to increase their excellence and rise in the national rankings. UC was striving to be a more perfect University.

Chancellor Yang recalled discussions on rebenching that had taken place ten years earlier at the meetings of the Council of Chancellors. Questions of resource allocation were important for all the chancellors and campuses. Chancellor Yang also recalled that the first question he asked President Napolitano when she became President was about rebenching. This was a complex issue that would take a long time to discuss, and he was glad that this discussion today had taken place.

7. **REVIEW OF THE GOVERNOR'S JANUARY BUDGET PROPOSAL FOR 2021-22**

[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 introduced this brief overview of the Governor's January budget proposal for 2021-22. The overall budget was about $227 billion, with about $165 billion from the State General Fund. It reflected projected windfall revenues but also potential softening of the budget in coming years. For the next year, the State was forecasting a $7 billion deficit, which would increase to $11 billion by 2024-25. The future was uncertain. The windfall this year was the result of a very conservative forecast.

Associate Vice President David Alcocer drew attention to new ongoing State support for UC. The University received a total increase of $136 million. The single largest element of this a three percent base budget increase of $104 million. This was roughly one-third of a restoration of the $300 million State General Fund cut to the campuses in the current year. This was a good start but still left a significant gap. The University was very pleased that it was to receive $15 million for enhancing student access to the internet and necessary digital technology as well as to student mental health services. In the budget approved by the Regents in November 2020, there was a stand-alone request for student mental health services; some of these State funds would be used to address this need. The University's request for its Programs in Medical Education (UC PRIME) had been fully funded. The funding of $12.9 million would allow the launch of two new UC PRIME programs, as well as continued support and expansion for the existing programs.

Mr. Alcocer presented some examples of State support in the form of one-time investments. The University would receive $175 million for deferred maintenance projects, and particularly for those with an energy efficiency aspect; the University had requested

$250 million. The Governor's proposal included $20 million for student fellowships at the four California Institutes for Science and Innovation. Another one-time investment was $15 million in emergency financial aid for low-income students.

The three percent base budget adjustment was contingent on certain actions by the University. One expectation was that UC hold resident tuition and student fees flat for 2021-22. There had been no proposal to increase tuition, so this was consistent with the Regents' plan. The State also expected the University to close certain student achievement gaps by 2025, but would provide no additional funding to achieve this goal. There was an expectation that campuses increase online learning opportunities over 2018-19 levels; the University was still working to clarify this expectation. The State wished UC to better align student learning objectives with workforce needs and to develop a dual-admission plan for California Community College (CCC) students. A student might be admitted to both a UC campus and a CCC with the condition that, if the student chose to attend the CCC and completed a specified curriculum with a certain level of achievement, the student would be guaranteed a spot on the UC campus to which he or she had been admitted. All of these expectations of the State were under active discussion and would continue to be discussed through the spring. A portion of the three percent base budget adjustment applied to the Office of the President (UCOP). The State budget continued to allocate funds for UCOP separately, and would allow UCOP to assess campuses an additional amount for support for the Division of Agriculture and Natural Resources.

Mr. Brostrom stated that the University clearly needed to conduct advocacy on multiple fronts. A $1.9 trillion spending package proposed by President Biden included $350 billion which would flow to states and local governments. UC hoped that this might help address the State of California's budget shortfall. The spending package included an additional $35 billion for public higher education. The University would continue its advocacy with Governor Newsom and the Legislature for restoration of the reduction to UC and for additional one-time needs, such as seismic safety upgrades, deferred maintenance, and addressing the liability in the UC Retirement Plan.

Committee Chair Makarechian asked if the conditions of the dual-admission plan for CCC students had been worked out. Mr. Brostrom recalled that University had a plan for transfer admissions under which the campuses would enroll one transfer student for every two new resident freshmen. This had been achieved at all the campuses with undergraduate students except UC Merced, but Chancellor Muñoz had plans to increase transfer enrollment. This other plan envisioned in the State budget would be a dual-admission program, and there would be further discussions with Provost Brown and President Drake on what this would entail. Mr. Brostrom stated that a program like this had existed in the past but was discontinued due to lack of funding.

8. **AMENDMENT #7 TO THE UC SAN FRANCISCO 2014 LONG RANGE DEVELOPMENT PLAN FOR THE COMPREHENSIVE PARNASSUS HEIGHTS PLAN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, AND AMENDMENT #2 TO THE PHYSICAL DESIGN FRAMEWORK, SAN FRANCISCO CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed UC San Francisco (UCSF) Amendment #7 to the 2014 Long Range Development Plan (LRDP), 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, the Regents:

A. Certify the Environmental Impact Report for the Comprehensive Parnassus Heights Plan.

B. Adopt the Mitigation Monitoring and Reporting Program and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UCSF.

C. Adopt the CEQA Findings and Statement of Overriding Considerations.

D. Approve Amendment #7 to the UCSF 2014 LRDP.

E. Receive and accept Amendment #2 of the Physical Design Framework.

[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 introduced this item and recalled that the Regents had heard several presentations about the Comprehensive Parnassus Heights Plan at previous meetings. Given the size and complexity of this project, action items would be presented for Regents' approval at future meetings for all the typical steps—preliminary plans funding, budget, design, and external financing—for each of the buildings. He anticipated that the first of these steps for the new hospital and for the Research and Academic Building would occur later this year.

Chancellor Hawgood explained that, with this item, UCSF was requesting that the Regents certify the Environmental Impact Report for the Comprehensive Parnassus Heights Plan. UCSF was requesting that the Regents amend UCSF's 2014 Long Range Development Plan (LRDP) and that the Regents amend the UCSF Physical Design Framework to reference the Comprehensive Parnassus Heights Plan and the Parnassus Heights Design Guidelines. In January 1997, the Regents certified the Environmental Impact Report (EIR) for the development of the Mission Bay campus. This was a bold decision that allowed

UCSF to develop what was arguably one of most vibrant biomedical ecosystems in the world. Chancellor Hawgood believed that the current item was equally important for the future of UCSF. He stressed the urgency in moving forward with this project to address critical seismic safety deadlines, the functional obsolescence of the facilities on the Parnassus campus, and concerns about the current campus configuration. He was aware that the Regents had received extensive verbal and written communications from the San Francisco community. The most recent communications from the community contained arguments for and against the project, arguments with which the Regents were already familiar. Chancellor Hawgood's team, working with the Office of the General Counsel, had provided the Regents with a supplement that summarized the most recent communications. The supplemental information received since the Final EIR was filed did not result in any new environmental impacts or a substantial increase in the severity of any environmental impact. It did not constitute significant new information, nor did it alter the conclusion of the environmental analysis that would warrant recirculation of the Final EIR pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15088.5.

UCSF had engaged extensively with the community over the past two-and-a-half years, with 28 open community meetings, 70 briefings of elected officials, and thousands of neighborhood surveys and updates. As a consequence of this community engagement, 18 months prior, UCSF published an extensive community ideas document. This document served as an important road map for the year-long engagement with the San Francisco Planning Department and other City departments to develop a Memorandum of Understanding (MOU) memorializing UCSF's community benefits commitment. Referring to support UCSF had received for the project, Chancellor Hawgood reported that, just the previous day, newly elected District Seven Supervisor Myrna Melgar forwarded to the Secretary and Chief of Staff a strong letter of support. Most of the Parnassus campus was in District Seven, and Supervisor Melgar was the Chair of the Board of Supervisors' Land Use and Transportation Committee.

The main community benefits that would flow from this plan, which were commitments by UCSF, were memorialized in a detailed MOU with the City. A letter had been received from Mayor London Breed indicating that she fully supported the plan and would sign the MOU after the EIR was approved. The MOU followed a template provided to UCSF by the Mayor and the two supervisors whose districts cover the Parnassus campus. The MOU was extensive, and Chancellor Hawgood stated that he was proud of this document. He was also proud of the comprehensive workforce agreement that UCSF had negotiated for the hospital project.

Opposition to the project was based in part on the height of the new hospital tower, a building that was only in the early phase of concept design. Inaccurate claims had been made to the effect that UCSF intended to build a 30-story tower, when in fact UCSF's current focus was on an elegant 14-story building, one floor less than the existing hospital. Chancellor Hawgood was excited about the early work of the acclaimed design architects Herzog & de Meuron. He presented a slide with a rendering of an early exploratory design aesthetic which UCSF would be exploring with its community stakeholders beginning the following month. It was also important for the Regents to know that the hospital project, the largest project in the Comprehensive Parnassus Heights Plan, would be subject to a full separate EIR in the current calendar year. This would give the community another opportunity for engagement and input, and the Regents another opportunity to shape this project.

UCSF had initially planned to present this item to the Regents in November 2020, but accommodated a delay at the request of some community members. A second delay would add up to taking a third of the year out of what was already a very complex ten-year construction timeline for the new hospital. This would create significant challenges and add unnecessary cost. The item now presented to the Regents had been three years in the making, and Chancellor Hawgood hoped that the Regents would feel comfortable taking this action. UCSF wished to maintain its schedule, raise financial support for the new hospital, and meet seismic safety mandates for a much-needed new hospital and revitalization of the campus.

Committee Chair Makarechian thanked Chancellor Hawgood and his team for their effort on this amazing project and for their work on community engagement. He noted that he had received hundreds of email communications about this project expressing, among other things, aesthetic concerns about the future appearance of the hospital; the rendering presented by Chancellor Hawgood showed a beautiful building. Other concerns that were communicated had to do with traffic over the life of the project and the availability of parking for patients and visitors, since the streets in the surrounding neighborhood were narrow. Chancellor Hawgood responded that the new hospital would be larger than the existing hospital in terms of capacity and the number of patients UCSF would be able to treat. For this reason, UCSF anticipated an increase in the total number of vehicle trips to the campus. The development of the campus over the last century had been a process of accretion without a master plan. UCSF undertook a year-and-a-half master planning exercise for the campus, which, on completion, would result in a much more accessible and functional campus from the point of view of traffic flow and movement. There would be an entirely new service corridor. Also included in the master plan was a sky bridge over Parnassus Avenue, so that the roughly 55 to 60 percent of the people who come to the campus via Irving Street would be able to cross over this bridge and decompress the Parnassus campus. In the EIR, UCSF was committed to reducing the number of vehicle trips by 15 percent from that projected, and the campus was well on the way with plans to accomplish this. At this time, UCSF had the lowest number of single-occupancy car trips of any campus in the UC system, a fact of which Chancellor Hawgood was proud. UCSF believed that about 4,000 new visitors would come to the campus via public transportation. UCSF had worked with the City to enlarge the San Francisco Muni stop on Irving Street and a number of other improvements to transit in the surrounding community. While there was a densification of the campus in the plan, Chancellor Hawgood believed that, with all these measures in place, the campus would become much more accessible and functional for the community, patients, visitors, and employees.

Regent Reilly expressed support for the renovation and updating of the Parnassus campus. San Francisco was fortunate to have this world-class healthcare facility. She referred to the Regents' 1976 adoption of the "Designation of Open Space Reserve, Alteration of Campus

Boundaries, Commitment of Houses to Residential Use, Authorization to Negotiate Sale of Properties and Commitment to Transportation Studies, San Francisco," commonly referred to as the Regents' Resolution. This established a permanent limit on the expansion of the Parnassus campus, such that the campus would never exceed 3.55 million gross square feet of built space. Her understanding was that this commitment had been reaffirmed in 2014. In this item, the Regents were being asked to raise this space ceiling or limit by approximately 1.5 million gross square feet, a substantial increase. Regent Reilly asked if Chancellor Hawgood and the campus had examined every other alternative. UCSF owned a number of properties in San Francisco. UCSF wished to locate its research and instructional functions together. She asked if UCSF had considered moving some clinical care to other buildings so as not to have to raise the space ceiling to this extent.

Chancellor Hawgood confirmed that the 1976 Regents' Resolution had put a space ceiling in place and imposed a number of restrictions on the campus, including the maintenance of the open space of Mount Sutro. The Resolution also drew a discrete campus boundary to prevent expansion into the neighborhood. Of the six or so elements of the Resolution, UCSF was seeking to amend only one element, the space ceiling. The Regents had amended the Resolution in the past. In 2014, the Regents allowed UCSF to not count housing space, which had been counted against the space ceiling. Chancellor Hawgood stressed that UCSF had carried out due diligence to determine if it could accomplish its goals with a smaller increment of space. UCSF had spent about a year working with the firm Blue Cottage Consulting to study clinical demand and project this demand over the next 50 years. This study resulted in a footprint for educational and clinical operations. UCSF considered opportunities on its own sites—the Mission Bay, Mount Zion, and Parnassus campuses. The item presented now represented the most viable, functional outcome of that study. The current Helen Diller Medical Center was made up of two hospitals: Moffitt Hospital, which was designed in the 1940s and opened in the 1950s, and Long Hospital, which opened in 1970s. The hospitals were joined together. Long Hospital and its central power plant met the 2030 seismic safety requirements, but this hospital was not sufficiently built to be a stand-alone hospital. It had no emergency room and was too small. UCSF did not have the entitlement at the Mission Bay campus to build a hospital anywhere near this size. The close connection between research and education was what made UCSF and the other UC medical schools and medical centers special. All of these elements were considered. UCSF also considered the question of where to locate the hospital on the Parnassus campus, if one decided on the Parnassus campus. There was a need to link it to the existing Long Hospital and central power plant to make a clinical neighborhood, with the outpatient facility across the street, connected by a sky bridge. These considerations made the east end of the campus the logical place to locate the hospital. Chancellor Hawgood noted that, at this time, if there is a medical emergency in the outpatient clinic on the northern side of Parnassus Avenue, an ambulance must transport the patient across the street. With a sky bridge, UCSF employees would be able to walk the gurney across the street. There were a number of reasons to locate the hospital in this place. The architects Herzog & de Meuron were aware of all of the community concerns, and Chancellor Hawgood believed that they would deliver an iconic building, which, along with the other modifications being made to the campus, would allow UCSF to densify the campus with additional square feet and still end up with a campus that would be more functional than it was today. He remarked that the additional square feet being requested were not a random number, but the result of a detailed analysis of UCSF's education, research, and clinical missions. Every square foot was programmed to allow UCSF to remain excellent in each of its missions. UCSF Health Chief Executive Officer Mark Laret added that the emergency department of this hospital served the entire western part of San Francisco. It would make no sense to leave the Parnassus site. UCSF must either rebuild the entire hospital at another site, thus abandoning western San Francisco, or stay on this site and address the seismic safety and functional obsolescence issues of Moffitt Hospital.

Regent Reilly asked about the possibility of moving not the hospital, but other buildings, used for research and teaching, to other UCSF locations. Chancellor Hawgood recalled that UCSF had built an entire new campus since the 1976 Regents' Resolution. UCSF continued to grow, and it was growing because it attracted world-class talent and funding for outstanding research. Much of the additional research and education space would be made possible by tearing down and replacing obsolescent buildings, rather than adding new square feet. Most of the new square feet would be dedicated to clinical functions, with some additional square feet for research. Most of the research space in the master plan would be achieved through demolition and repair. For example, UC Hall, which opened in 1917 and had been empty for the past decade because it had a Seismic Performance Rating of VI, would be demolished and replaced with a research building.

Regent Reilly asked if the MOU which the University voluntarily entered into with the City and County of San Francisco, and which mitigated certain traffic and housing issues, would be signed when the EIR was certified. Chancellor Hawgood responded in the affirmative. The University had received a letter from Mayor Breed indicating her support for the overall project, her pleasure in the final draft of the MOU, and that she would sign the MOU following Regents' approval of the item. She had not yet signed the MOU based on advice from the City Attorney, who opined that doing so at this point might create CEQA risk for both the City and the University.

Regent Reilly referred to concerns raised about preservation of a series of murals in Toland Hall, painted in the 1930s by artist Bernard Zakheim (1898-1985). UCSF had taken steps to preserve the murals, but there was no explicit statement in the EIR or the MOU that UCSF would not destroy these murals. Chancellor Hawgood responded that, in the draft EIR, published in June, UCSF had stated concern about not being able to preserve the murals. In an EIR, one has to describe the worst-case scenario. Since then, working with outside consultants, UCSF had determined that preservation was possible. UCSF had entered into a contract with ARG Conservation Services, an art and architecture conservation firm. This was described in the final EIR, and not as a mitigation measure but as a project, the preservation of the murals. UCSF was committed to a best faith effort to remove the murals without damage, and art preservation specialists would be engaged before that took place. UCSF would form a task force before any attempt to remove the murals. UCSF would place the murals in storage. The President of the San Francisco Historic Preservation Commission or a designee would be a member of this task force. The task force would be charged with providing recommendations on where the murals would ultimately be displayed. UCSF was committed to having the murals publicly displayed. The murals consisted of ten major panels weighing multiple tons each, on curved plaster backing. The consultants engaged by UCSF believed that the murals could be removed without damage. UCSF was spending millions of dollars to achieve this. UCSF was 100 percent committed to preserving the murals. The family of the artist knew this, and it was memorialized in writing in the EIR.

Regent Estolano enumerated the significant actions the Regents were being asked to take in this item. Chancellor Hawgood referred to information provided on a slide about the approval of Amendment #7 to the UCSF 2014 LRDP, namely, that it included updates to the Parnassus Heights functional zone map. He clarified that UCSF was not going outside the boundaries established in 1976. The campus was densifying within those boundaries.

Regent Estolano referred to plans for the open space. Chancellor Hawgood responded that this was a work in progress with the architect. The early concept design, which had been shown in the rendering, did not subtract any of the Mount Sutro Forest. There would be a cantilever overhang over Medical Center Way, a University-owned road, but the plan would not remove any of the Mount Sutro Forest.

Regent Estolano asked if UCSF would enter into a covenant to make this permanently an open space reserve. Chancellor Hawgood responded that the Regents had already done this in 1976. UCSF was happy to be the steward of the open space. The chancellor’s residence was located there. Chancellor Hawgood and hundreds of San Franciscans walked the trails and enjoyed this forest every day.

Regent Estolano noted that there might be a slight boundary change to the open space reserve. Chancellor Hawgood responded that UCSF was hoping not even to have to do this.

Regent Estolano stated her understanding that the Regents’ approval of this item concerned the CEQA framework and LRDP framework for additional work on the campus. The design and plans were not final; the Regents were just providing a framework. Chancellor Hawgood confirmed that the item provided a framework for the master plan. The hospital project was big enough in and of itself for the campus to develop a separate EIR. He anticipated that UCSF would develop the EIR in this calendar year, with public comment and engagement, and present the EIR to the Regents either at the end of the current calendar year or early in the following year.

Regent Estolano stated her understanding that, under the MOU, which was a voluntary agreement with the City and County of San Francisco, UCSF would commit to providing a number of community benefits, should this project move forward. Chancellor Hawgood confirmed that this was the case.

Regent Estolano noted that these community benefits would include job training programs in the health sciences, increasing UCSF’s spending with small, local, and diverse businesses, as well as housing and other items concerning community economic development. This would ensure that the benefits of the investments that occurred as a result of this project would accrue to some extent to residents of San Francisco, and in particular, residents who might not otherwise benefit from this development. Chancellor Hawgood confirmed that this was accurate. He was proud of the MOU, which was breaking new ground by committing to housing for lower area median income subsidies. The year-long negotiation with the City had moved UCSF in this direction.

Regent Estolano referred to the Agreement section of the MOU, section II, paragraph B5 regarding the Anchor Institution Initiative, and quoted this language: "UCSF has committed to increase its spend with small, local and diverse businesses by at least fifty (50) percent by 2024." She asked about UCSF's current spending on such businesses, in terms of dollar amounts and percentages. It was important for the Regents to understand what this meant, and to track it. This might be a 50 percent increase over a small amount. Chancellor Hawgood responded that the campus would provide these numbers. He noted that the Anchor Institution Initiative preceded the MOU and the Comprehensive Parnassus Heights Plan. This was a UCSF-wide project. UCSF had engaged in a year-long study with the San Francisco Foundation. While this was an unrelated projected, it served as a scaffold for some of the community benefits outlined in the MOU.

Regent Estolano stated that the language in paragraph B5 suggested that UCSF would continue to meet commitments it had already agreed to but would also meet annually with the Mayor's Office of Economic and Workforce Development. Chancellor Hawgood clarified that the Anchor Institution Initiative of 2019 was not something UCSF agreed to with another entity; these were commitments that UCSF imposed upon itself.

Regent Estolano asked about UCSF's housing commitment in this project. Chancellor Hawgood responded that UCSF was focusing on the issue of area median income. UCSF had carried out an analysis of its workforce, its 24,640 staff members, excluding faculty and students. One percent of staff were below the 50th percentile of area median income for San Francisco in 2020. Four percent were between the 50th and 60th percentiles, and 95 percent of the UCSF workforce were above the 60th percentile. In UCSF's existing housing stock, 48 percent was rented at rates affordable for employees below the 80th percentile, 36 percent for those between the 80th and 100th percentiles, and 13 percent for those between the 100th and 120th percentiles. For the new housing to be built as part of this plan, UCSF had committed to having 50 percent affordable for those between the 60th and 80th percentiles; 25 percent for those between the 80th and 100th percentiles, and 25 percent for those between the 100th and 120th percentiles. UCSF's initial goal was to build affordable housing by UC standards at less than 120 percent of area median income. This was not specific enough for the City, and Chancellor Hawgood was pleased at the agreement that had been reached. UCSF was not a private developer, who could provide affordable housing when most of its housing was at market rates. UCSF did not have market-rate housing. Chancellor Hawgood emphasized that this was a significant commitment for himself and his successors; UCSF had done a great deal of calculation to arrive at this.

Regent Estolano observed that UCSF planned to phase in this housing; it would not all be built at once. Chancellor Hawgood explained that each tranche would be phased in. As part of its negotiations with the City, UCSF had increased its housing commitment by 200 units more than originally intended. Some of the land on which this housing would be built was on the western end of the Parnassus campus, the current location of the School of Dentistry. Construction could not occur until the School of Dentistry was moved, which was planned for ten years in the future. One tranche of housing would be built in the first ten years. UCSF had yet to determine where it would build the 200 additional units, whether on UCSF land, land that UCSF would acquire, or in partnership with some other affordable housing development.

Regent Estolano recalled that, earlier that day during the public comment period, Kathryn Lybarger, President of the American Federation of State, County and Municipal Employees (AFSCME) Local 3299, stated that AFSCME-represented staff would not be able to afford to live in this housing. Chancellor Hawgood countered that these employees would be able to afford the housing. He reiterated that 95 percent of the UCSF workforce were earning above the 60th percentile of area median income, and UCSF was building housing for that income range. There might be a legitimate complaint that UCSF was not building enough housing. This was the first time that UCSF was committing to building housing for its workforce, and it was a significant step.

Regent Estolano stated that she shared others' concerns about preservation of the Zakheim murals. Too often developers or public agencies take down murals, and the artwork disappears and is never returned. She was glad that UCSF had retained experts; it was important that UCSF make a commitment to bringing the murals back for public display. This was irreplaceable artwork and part of UC's history and heritage. Chancellor Hawgood affirmed his commitment.

Regent Pérez asked how UCSF would maintain housing affordability in the future. Senior Associate Vice Chancellor Brian Newman responded that the plan extended to 2050, but UCSF had committed to affordability through 2080, about 60 years from the present time. This did not mean that UCSF wanted to end affordability, but there needed to be an end date for the agreement with the City.

Regent Pérez commented that this raised a broader issue of enforcement. He referred to the fact, mentioned earlier, that the City Attorney had advised Mayor Breed to sign the MOU following Regents' approval of the item due to CEQA complications. He asked if the Office of the General Counsel concurred with this view. He had heard that the City Attorney did not believe that the MOU satisfied the test of enforceability. He asked if UCSF had received any indication from the City Attorney that he and his office were satisfied with the enforceability of the MOU. Chancellor Hawgood responded in the affirmative. He had not spoken directly with City Attorney Dennis Herrera, but one of Mr. Herrera's staff had worked with UCSF. Chancellor Hawgood recalled that UCSF began negotiations with the City on an MOU in response to a letter he received from City Supervisors about a year earlier. The Supervisors asked UCSF to negotiate an MOU and provided a template based on an MOU the City had signed with San Francisco State University.

Regent Pérez stated his view that, if the Regents were being asked to make a change to the space ceiling, enforceability was a legitimate question. He asked that UCSF provide some communication from the City Attorney indicating that his office was satisfied with the enforceability of the MOU. Regent Pérez also expressed concern about a ten-to-one vote by the San Francisco Board of Supervisors the previous week, a request to the Regents to delay action on this item until March. Chancellor Hawgood responded that the Mayor and the two Supervisors of the districts in which the Parnassus campus is located asked UCSF to enter into an MOU, not to negotiate an enforceable legal contract. Supervisor Dean Preston of District Five, which covers part of the northern side of the campus, first raised the question of enforceability. He asked the City Attorney whether the MOU document was enforceable. The City Attorney's staff responded that this was not a legally enforceable document in a court of law. But there was enforceability in the fact that the City holds the power to grant permits for each building project. If UCSF failed to comply with the MOU, the City could withhold permits for any of these projects.

Regent Pérez asked General Counsel Robinson about the University's experience with MOUs. Mr. Robinson responded that he had not been personally involved in the development of this MOU, and that he would prefer to have time to confer and respond to this question the following day.

Regent Pérez asked about the permanence of the 1976 Regents' Resolution. It appeared that the Regents could choose to modify the prior action. Mr. Robinson responded in the affirmative. As a general rule, if the only limitation is a limitation contained in a resolution by the Board, the Board has the power to modify that limitation.

Regent Pérez asked if this had occurred in 2014, when housing space was removed from calculation of the space ceiling. Mr. Newman explained that the 1976 Regents' Resolution had been amended on three separate occasions, most recently in 2014. The most recent amendment had removed housing from the calculation of the space ceiling.

Regent Pérez asked about the other two amendments. Mr. Newman responded that he believed these changes to have been minor, not substantive policy changes.

Regent Pérez referred to Chancellor Hawgood's earlier remarks about the campus' intention to build a 14-story building, one floor less than the existing hospital. Chancellor Hawgood confirmed that this was the case. The new hospital would have a larger floor plane and taller floor-to-ceiling heights which reflected modern hospital construction. The overall height would be greater than that of the existing hospital, but there would be one less floor. Chancellor Hawgood stressed that this was an early concept design. The architects had been working on this project for about four months.

Regent Pérez asked about the height of the existing building. Mr. Newman responded that this was approximately 200 feet. Regent Pérez asked about the anticipated height of the new hospital. Mr. Newman responded that the top of the uppermost occupied floor would be at 250 feet; the mechanical penthouse was another 30 feet high, although this height might be smaller when the design was finalized.

Regent Pérez reflected that the new structure might be 40 percent taller than the current hospital. He stressed the need for UCSF to be transparent about its plans. The overall project was spectacular and responded exactly to needs of the City and County, but details and enforceability mattered. UCSF should try to accomplish this project with as broad-based support as possible. He did not wish to delay this item, and suggested that UCSF resolve some of the outstanding questions by the following day. Chancellor Hawgood responded that the new hospital had not yet been designed. There would be an EIR process. The estimated height of 281 feet was likely to change. With regard to enforceability and legal questions, the campus could provide specific information by the following day. Chancellor Hawgood emphasized that UCSF had negotiated in good faith with the Supervisors and the Mayor for a year with the goal of an MOU. The goal was never a legally binding contract. The issue of enforceability had first been raised about ten days earlier by same Supervisor who asked UCSF for an MOU and provided the template for the MOU.

Committee Chair Makarechian suggested separating the issue of the building height and design, which could be presented to the Regents in a later discussion. There was pressure on every developer to raise ceiling heights. He noted that he had asked Chancellor Hawgood to include an architectural rendering in this presentation as a placeholder, and to make clear that the new hospital would not be a concrete gray box. Regent Pérez stated that he was comfortable with this suggestion, but cautioned against discounting public concerns about building size and massing.

Chancellor Hawgood referred to Regent Estolano's earlier question about UCSF's spending on small, local, and diverse businesses. He reported that approximately eight percent of UCSF's expenditures were spent on small businesses and 3.89 percent on diverse businesses. Senior Vice Chancellor Paul Jenny stated that he would provide the dollar amounts.

Regent Estolano asked what benefit UCSF derived from the MOU. The Regents should understand clearly why UCSF had entered into the MOU. Chancellor Hawgood responded that the MOU was rather unidirectional. UCSF believed the MOU was the right thing to do. The campus would function better if UCSF engaged in activities that benefited the community. This would also build relationships with the community.

Regent Estolano stated that the MOU represented a number of aspirations, not an expectation that providing certain benefits would buy a commitment from the community not to oppose the project. Vice Chancellor Francesca Vega confirmed that this was correct. UCSF had heard from the community about desired investments. This engagement process served as a foundation for discussions with the City.

Regent Estolano reflected that some people would always oppose any project like this one. It was worth noting that UCSF's lengthy community engagement had led to support for the project by the nonprofit public policy organization SPUR and groups advocating for affordable housing. This was the first step in establishing a relationship.

Regent Pérez stressed that it was important for the University to be clear about what its intentions and commitments were.

President Drake recalled his many years as a faculty member at UCSF, which made him familiar with the Moffitt and Long Hospitals. He also recalled the negotiations that took place in 1976. This action would replace the Moffitt Hospital, which had been operating since the 1950s and would have to be decommissioned over the next decade due to seismic safety requirements. This was a necessary step to replace a successful and revered institution. This hospital had brought immeasurable benefit to the community. He expressed the general desire of the Board that UCSF take the right approach to this project and have an appropriate partnership with the City, community, and neighbors. This project was very important for the City, community, and neighbors as well.

Regent-designate Torres underscored the need for access to health care in western San Francisco. There would always be people in San Francisco who opposed any project. A proposed project to add a story to the Davies Campus building of Sutter Health was not realized due to community opposition. The housing and sky bridge for transporting patients were important components of UCSF's project, as was accessibility of health care.

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

9. **RISK SERVICES UPDATE: INSURANCE COVERAGE CHANGES AND THE USE OF THE UNIVERSITY'S CAPTIVE INSURANCE COMPANY, FIAT LUX, AND COMMERCIALLY PURCHASED POLICIES**

[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.]

This item was deferred.

The meeting adjourned at 5:05 p.m.

Attest:

Secretary and Chief of Staff

Additions shown by underscoring; deletions shown by strikethrough

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
UNIVERSITY OF CALIFORNIA DEBT POLICY

I. Purpose/Objective of Policy

The University's Debt Policy (the "Policy") governs the use and management of debt used to finance primarily capital projects as well as certain other uses across the University of California System (the "System"). As such, the Policy provides a framework that guides the capital market activities that are critical to achieving the University's mission of teaching, research, and public service. This framework ensures that the University can do so in an efficient and cost-effective manner while managing risk in the debt portfolio.

Specifically, this Policy seeks to achieve the following objectives:
- Outline the University's strategic approach to debt management;
- Establish guidelines for approving, structuring and managing debt;
- Identify roles and responsibilities for approving and monitoring debt post-issuance; and
- Set reporting standards.

With debt a precious and finite resource, this Policy provides a framework within which to evaluate and manage the tradeoffs between credit ratings, cost of capital and financial flexibility. It is the overarching goal of this Policy to ensure that the University maintains ready access to the debt capital markets to meet the University's financing needs. The active management of the University's credit profile, including the debt structure with respect to maturity and composition, will allow the University to achieve these objectives.

The University's credit strategy and strength are rooted in the System's scope and diversity; therefore, debt is a central function.

The Office of the CFO has oversight over all of the University's capital market activities. As such, the Office of the CFO is responsible for maintaining this Policy and will review it at least every two years and present to the Board of Regents, for approval, any proposed material changes, as appropriate. Nonmaterial changes to this policy may be approved directly by the CFO.

II. Use of Debt Funding

A. Prioritization of Capital Needs. Campuses and medical centers prioritize their capital needs with respect to the essentiality to the University's mission of teaching, research, and public service. Campuses and medical centers also prioritize with respect to affordability, with special consideration given to capital projects that are self-funding or revenue-generating. The ~~Ten Year~~ Capital Financial Plan, updated annually, lays out the capital plan for each campus and medical center. The Plan includes a general funding plan for each project.

B. Approval Process. All University external financings must be approved by the Board of Regents, unless provided otherwise under the relevant University governing documents. The Office of the CFO coordinates the external financing approval process, which includes a review of the campus' or medical center's financial strength and ability to assume additional debt.

In addition to the campus and medical center guidelines below, external financing approvals will be considered in the context of the University's overall credit portfolio and any potential impact on the University's credit ratings. As described in Section IV below, the CFO, under the direction of the Board of Regents and/or the President, may delay or deny a request for external financing on the basis of a potential negative impact on the University's credit profile/ratings (even if the campus and medical center guidelines below are met).

The Office of the CFO has worked with the campuses and the medical centers to develop financial models that help assess the viability of future debt financings.

For the campuses, the Office of the CFO has developed the Debt Affordability Model to be used as part of the approval process. ~~The model includes 10-year projections of the campus' operations and planned financings.~~ The Debt Affordability Model produces certain debt metrics that are used in the external financing approval process. During the approval process, the campuses will utilize planning rates to calculate the debt service for the proposed projects. The planning rates will be calculated formulaically based on taxable and tax-exempt benchmark yields. The rates will be reviewed and annually reported to the Regents within the Annual Debt Report on Debt Capital and External Finance Approvals.

Campuses must meet the following requirements in order to receive approval for external financing:

1. Modified cash flow margin[1] ≥ 0%; *and*
~~1.~~ Debt service coverage ratio[2] ≥ 1.1x; *and* ~~to operations ≤ 6%; *or*~~
2. ~~Expendable resources to debt ≥~~
3. Monthly liquidity in STIP ≥ 60 days.

In addition, for external financing of auxiliary projects, Campuses must also meet the following requirements:

1. Project debt service coverage ≥ 1.0x; *and* ~~10x~~
2. Auxiliary debt service coverage ≥ 1.1x ~~25x~~.

Medical centers shall provide 10-year projections, or projections over a shorter time horizon as deemed appropriate, of their statement of income available for debt service,

[1] Modified cash flow margin is an income statement-based measure of a campus' debt service coverage, adjusted for certain cash and non-cash items.
[2] Debt service excludes state-supported debt and debt issued for pension funding.

statement of revenues and expenses, statement of net assets, and statement of cash flows, and meet the following requirements:

1. Net Income Margin[3] $\geq$ 0%; *and*
2. Debt service coverage[4] $\geq$ 3x; *and*
3. Days cash on hand $\geq$ 60.

The Office of the CFO may review and approve exceptions for campuses and medical centers that are unable to meet the above requirements on a case-by-case basis. In order to be considered for an exception, the campus or medical center must submit a financial model that demonstrates its ability to service the debt, a business case analysis explaining the strategic importance of the project, and a plan for achieving the minimum requirements listed above over time.

In addition to funding projects for the campuses and medical centers, the University also uses debt financing for system-wide initiatives, such as pension funding and the restructuring of State of California Public Works Board debt. While these projects benefit campuses and medical centers throughout the System, the debt is held at the system-wide level and is not attributed to the individual campuses and medical centers in the aforementioned debt models or projections. In lieu of an approval process similar to that outlined for the campuses and medical centers above, external financing for system-wide projects will be reviewed by the CFO, under the direction of the Board of Regents and/or the President, within the context of the University's overall operating performance and balance sheet, and the potential impact to the University's credit profile/ratings.

The University will also track system-wide credit ratios to monitor the strength of its overall credit profile. In particular, the University will measure and report to the Regents annually on the following system-wide targets:

1. Debt Service to Operations $\leq$ 6%; and
2. Spendable Cash and Investments to Debt $\geq$ 1.0x.

C. Execution of Debt Financing. The Office of the CFO coordinates financings for the University, working with internal University counterparts and external parties. Campuses and medical centers are involved in the months leading up to a financing as the Office of the CFO conducts due diligence on each project involved in a financing, which, along with the campus' or medical center's stated preferences, informs the sizing and structure of the bonds. The Office of the CFO also interacts with outside experts, including, but not limited to, financial advisors, financial institutions, the State Treasurer's Office, bond counsel, underwriters, rating agencies, and investors on the execution of the financing. The timing of a debt financing depends on a number of factors that include market conditions, need, and the status of projects in construction.

[3] Net Income Margin is net income (net operating income + non-operating income) divided by total operating revenue. Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.
[4] Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

D. Use of Proceeds. In order to ensure compliance with legal, regulatory, governance and policy matters, the Office of the CFO is authorized to oversee the proper use of the proceeds of debt financings throughout the System.

III. Financial Instruments/ Borrowing Vehicles

External Borrowing. The University generally issues debt using one of three different primary credit vehicles: General Revenue Bonds, Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds. On select occasions and for specific purposes, the University has also utilized third-party debt through vehicles such as the Financing Trust Structure and other third party structures. The credit to be used to finance a particular project will depend on the nature of such project, its potential impact on ratings and market interest rates at the time of the financing. The University strives to make the most efficient use of its differentiated credit structure in order to preserve its primary credit for core projects essential to the University's mission of teaching, research, and public service.

The following paragraphs provide brief overviews of the University's primary credit vehicles.

The General Revenue Bond (GRB) credit serves as the University's primary borrowing vehicle and is used to finance projects that are integral to the University's core mission of education and research. The GRB credit is secured by the University's broadest revenue pledge. It was introduced in 2003 to replace and consolidate several purpose-specific credits. The broad revenue base captures the financial strength of the System and facilitates the capital markets' understanding of the University's credit. The GRB credit carries the highest credit ratings among the University's financing vehicles.

The Limited Project Revenue Bond (LPRB) credit, established in 2004, is designed to finance auxiliary service projects that are of a self-supporting nature, such as student housing, parking, athletic, and recreational facilities. The LPRB credit provides bondholders with a subordinated pledge of gross revenues derived from facilities financed under the structure.

The Medical Center Pooled Revenue Bond (MCPRB) credit serves as the primary financing vehicle for the System's medical centers. These bonds are secured by gross revenues of the medical centers, which are excluded from general revenues pledged for GRBs. The MCPRB credit replaced the Hospital Revenue Bond credit in 2007. Previously, the medical centers issued debt on a stand-alone basis, secured by their individual revenue streams. The pooled credit lowers borrowing costs, facilitates access to the financial markets, and increases debt capacity for the medical centers.

Third-Party Financing Structures. At times, there may be compelling reasons for the University to pursue an alternative financing structure outside of the three primary credit vehicles described above. These situations will be evaluated on a case-by case basis, and should be supported by a business case analysis and financial feasibility study. The analysis must demonstrate that the project will be accretive to the University's financial position and also meet the following guidelines:

1. <u>Each project should meet investment grade rating standards on an individual basis.</u>
2. <u>Projects must demonstrate financial feasibility on an individual basis through pro-forma financial projections that use the assumptions outlined by the Office of the CFO.</u>

While certain third-party financings may be off-balance sheet, depending on the specifics of the structure, they still impact the overall credit profile of the University. Therefore, the CFO, under the direction of the Board of Regents and/or the President, has the authority to deny a third-party financing depending on the nature of the project and its potential impact on the University. To the extent a third-party structure is deemed to be in the best interest of the University, the financing will be executed centrally through, or in close partnership with, the Office of the CFO. The Financing Trust Structure will serve generally as the University's third-party financing tool unless granted an exception by the Office of the CFO.

Commercial Paper and Bank Lines of Credit. The University manages a commercial paper program, which primarily provides interim financing for projects prior to a permanent bond financing. The University also utilizes bank lines to provide bridge financing for projects that are awaiting gifts or other sources of funds and for working capital. In addition, the University has dedicated credit lines which support its commercial paper program and variable rate debt.

Derivative Products. The University maintains a separate policy guiding the use of derivative products.

~~A. Internal Lending/Borrowing. The Office of the CFO manages the UC Strategic Investment Program (UCSIP), which is a suite of internal loans designed to leverage the University's strong credit rating to fund short-term financing needs. UCSIP is comprised of three loan programs: CapEquip, which funds capital equipment acquisition; C3, which funds operational efficiency initiatives; and STARs, which funds laboratory renovations and equipment purchases tied to faculty recruitment and retention. At times, loans are also made for certain system-wide projects. These loans are funded from the University's commercial paper program, and in the future may also be funded from the University's bank lines of credit. Depending on need, the Office of the CFO will periodically determine an appropriate amount of the University's commercial paper program and bank lines of credit to be reserved for the purpose of funding these internal loans.~~

IV. Financial Performance/Ratios and Credit Ratings/Debt Capacity

The System's credit profile, as viewed by the rating agencies and capital markets, is a function of a number of qualitative and quantitative factors, both financial and non-financial. These include market position, management and governance, state relations and support, as well as the financial strength of the University. Financial strength is a function of both income statement (i.e., operating performance) and balance sheet (i.e., financial resources) strength and is generally evaluated with certain key financial indicators serving as proxies for an institution's relative health. The resulting credit ratings, in turn, drive debt capacity and impact the University's cost of capital.

A. Credit Ratings. As described previously, the GRB credit represents the System's senior most lien and is designed to support primarily projects that are core to the University's mission of teaching, research and public service. In order to ensure ongoing access to capital at attractive financing rates in support of its mission, the University will maintain credit ratings in the "AA" rating category for the GRB credit. In order to protect the "AA" ratings on the GRB credit – which will help ensure ongoing access to capital on favorable terms – the University will closely monitor debt affordability, as measured by certain financial metrics, including operating performance. The CFO, under the direction of the Board of Regents and/or the President, may slow down or deny any financings deemed to potentially have an adverse impact on the institution's overall credit profile or that might threaten the University's credit ratings.

B. Affordability and Financial Equilibrium. The University monitors key credit ratios system-wide and individually for each campus and medical center. The system-wide target metrics, Debt Service to Operations and Spendable Cash and Investments to Debt, will be reported to the Regents within the Annual Report on Debt Capital and External Finance Approvals.

   By exercising fiscal discipline, the University strives to achieve financial equilibrium, which is key to the long-term financial health and viability of the System. The University monitors its operating margin system-wide, while campuses are required to monitor their modified cash flow margin and medical centers must monitor their net income margin. In order to obtain external financing approval, campuses must demonstrate positive modified cash flow margins and medical centers must demonstrate positive net income margin, with the goal of leading the University to a positive operating margin system-wide.

   The medical centers comprise a substantial portion of the University's operations, and their operating performance has a direct impact on the University's overall credit profile. As such, a deterioration of the medical centers' operating performance may have a negative impact on the ratings of all of the University's credits, not just the MCPRBs. Should the medical centers' operations decline over time, thereby threatening the University's credit profile as a whole, the CFO, under the direction of the Board of Regents and/or the President, has the authority to reassess debt financings for system-wide projects or for future contemplated medical center projects. Still, the University's differentiated credit structure is designed to allow the ratings on the MCPRB credit to move without adversely impacting the GRB ratings.

   ~~The University also monitors its debt service burden, both system-wide and for the campuses. The University's debt service must not exceed 6% of its operating budget.~~[5]

~~[5] Also see Section II. B. Approval Process.~~

~~The University also monitors leverage as measured by expendable resources-to-debt. The University is focused on its negative unrestricted net asset (UNA) position, and strives to improve it by addressing its pension and OPEB liabilities. In order to protect the System's credit, the University may consider deferring debt financing for system-wide initiatives while its UNA position remains negative. In addition, the University may also~~ The University may consider delaying debt funded system-wide projects if its pension liability ratio falls below 70% funded on an actuarial value of assets basis. At the direction of the Board of Regents and the President, external financings that would improve the University's pension funding status may be excluded from this policy. ~~Campuses similarly monitor their expendable resources to debt ratios via their debt affordability models.~~

Irrespective of campuses and medical centers meeting certain thresholds and metrics, the CFO, under the direction of the Board of Regents and/or the President, has the authority to slow down or to deny projects if the financings jeopardize the University's credit ratings.

V. Structure

The issuance of debt entails a number of structural considerations that need to be evaluated on both an issue-specific as well as on an overall portfolio basis: tax-exempt versus taxable debt; fixed versus variable rate debt; amortization/final maturity; and ultra-long dated structures.

The structure of the System's overall debt profile has direct bearing on the University's credit profile. As such, structural decisions are a central function and are made by the Office of the CFO. Whenever possible and not to the detriment of the System overall, the campuses' and medical centers' preferences with respect to structure for a particular project/financing will be accommodated.

A. Tax-exempt versus Taxable Debt. Given its status as a public institution, the University has the option to raise capital in the tax-exempt debt market, which generally offers a lower cost of capital than the taxable market. However, unlike taxable debt, tax-exempt debt is subject to certain restrictions, including, but not limited to, private use and useful life constraints. In addition, the University is required to monitor the use of assets financed with tax-exempt debt generally over the life of the debt to ensure ongoing compliance with legal requirements. This introduces a significant administrative burden as well as risk given the University's large, complex and stratified/decentralized operations. Therefore, especially as it relates to the research and medical services enterprises, which historically have seen the most private use, the University may at times opt to issue taxable debt for increased operational flexibility.

   In addition, at times, market conditions are such that the yield/cost differential between tax-exempt and taxable debt is compressed, affording the University an opportunity to access less restrictive taxable capital at little to no incremental yield.

The University will evaluate the issuance of tax-exempt versus taxable debt in the context of the nature of the assets to be financed and prevailing market conditions.

B. Fixed versus Variable Rate Debt. The issuance of debt across the yield curve can be valuable both from a portfolio management point of view as well as from an investor diversification perspective. Variable rate or short-term debt may provide a lower cost of capital, but introduces risk in the form of uncertainty from a rate reset and/or rollover/refinancing perspective. Fixed rate debt, meanwhile, offers budget certainty, albeit at a higher cost.

Long-term tax-exempt debt is most commonly issued with a 10-year par call option, whereas variable rate debt generally can be called on any interest payment date, either for refinancing or retirement purposes, offering additional optionality. The University may consider longer or shorter call options depending on market conditions and the characteristics of specific projects.

Long-term taxable debt is most commonly issued with make-whole call features. The University may consider issuing taxable debt with a par call option depending on market conditions and the characteristics of specific projects.

Most forms of variable rate debt afford investors the opportunity to put the debt back to the University upon a predetermined notice period. This feature requires the University to have liquidity support to provide a backstop in case investors exercise their option. The liquidity can stem from either internal sources (i.e., STIP/TRIP) or external lines of credit. Either way, the liquidity requirement carries a cost, implicit or explicit, that needs to be factored into the structuring decision. In addition, the University's liquidity is finite and serves many other purposes, placing a natural limit on the amount of variable rate debt in the overall debt portfolio.

The University will aim to limit exposure to variable/short-term debt to a prudent percentage and diversify among short-term instruments. The University will not assume any additional variable rate or short-term debt that would require incremental external liquidity or an increase in the STIP and/or TRIP portfolios without properly evaluating the potential impact on credit ratings, cost, or implication for the STIP and/or TRIP portfolios.

In order to minimize debt service, the University may also choose to issue “put bonds” or other debt structures which either mature or require rollover prior to the anticipated final maturity of the debt. In these cases, the University will seek to diversify rollover and refinancing dates, taking into consideration the entire debt portfolio, in order to minimize rollover risk and maintain market access.

C. Amortization/Maturity. The maturity and amortization of debt will be instructed by both the nature and the anticipated cash flow pattern, if applicable, of the project(s) being financed as well as by prevailing market conditions at the time of the financing. In addition, the University will evaluate financings within the broader context of the institution's overall debt portfolio to ensure that debt service payments are managed in aggregate.

D. Ultra-Long-Dated Structures. At times, market conditions may provide for the issuance of ultra-long-dated debt (i.e., debt with a maturity of 50 years and beyond), affording the University the opportunity to lock-in capital at an attractive cost for an extended period of time. While such a structure can provide for valuable portfolio diversification, it demands prudence and internal discipline to ensure that future obligations can be met. As a result, the University requires internal borrowers to demonstrate a strategic need/rationale for these structures and to set aside funds at closing sufficient to accrete to the final principal repayment.

The availability of ultra-long dated debt is limited from both a market and credit perspective and the University will evaluate opportunities as they arise.

VI. Refinancing Opportunities

The University continually monitors its debt portfolio to identify potential savings opportunities that may exist through a refinancing of existing debt. The University works with its financial advisors to evaluate refunding opportunities within the context of market conditions, refunding efficiency, and overall level of rates. Refunding opportunities are evaluated on a net present value basis, taking into account all costs of issuance. ~~Because tax law limits the number of refinancing's for tax-exempt issuances, the University's evaluation takes into account the amount of time to the call date and the time to maturity.~~

In addition, at times, the University may choose to refinance debt for non-economic reasons, including to restructure the debt portfolio or to address legal covenants contained in the bond documents.

VII. Reporting

A. Internal Reporting. The Office of the CFO will be responsible for periodic reporting on the University's debt capital program. These updates will be made available on the Capital Markets Finance website or in the form of special reports to the Board of Regents, as appropriate.

B. External Reporting. The University's annual financial statements are filed annually with the Municipal Securities Rulemaking Board's EMMA website, in compliance with the University's obligations under its various continuing disclosure agreements. The University is also responsible for providing notices of certain enumerated events under these agreements such as rating changes and bond defeasances.