

The Regents of the University of California

**FINANCE AND CAPITAL STRATEGIES COMMITTEE**

September 29, 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, Kounalakis, Leib, Lott, Makarechian, Reilly, and Sherman; Ex officio members Drake and Estolano; Advisory members Horwitz and Pouchot; Chancellors Christ, Gillman, Hawgood, Khosla, Muñoz, and Wilcox; Staff Advisor Lakireddy

In attendance: Regent Zaragoza, Secretary and Chief of Staff Shaw, Chief of Staff and Special Counsel Drumm, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Chancellor Larive, and Recording Secretary Johns

The meeting convened at 10:25 a.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes the meeting of July 21, 2021 were approved, Regents Cohen, Drake, Estolano, Leib, Lott, Makarechian, Reilly, and Sherman voting “aye.”<sup>1</sup>

**2. CONSENT AGENDA**

**A. *Preliminary Plans Funding, Neuropsychiatric Replacement Hospital, UCLA Health, Los Angeles Campus***

The President of the University recommended that the 2021-22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Los Angeles: Neuropsychiatric Replacement Hospital – preliminary plans – \$22.5 million to be funded with hospital reserves.

**B. *Preliminary Plans Funding, UCSF Benioff Children’s Hospital Oakland Master Facilities Plan Phase 2 Including New Hospital Pavilion, San Francisco Campus***

The President of the University recommended that the 2021-22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the

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

following project:

San Francisco: UCSF Benioff Children's Hospital Oakland Master Facilities Plan Phase 2 Including New Hospital Pavilion – preliminary plans – \$90 million funded from hospital reserves.

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

Committee Chair Cohen briefly introduced the consent agenda.

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

**3. BUDGET, SCOPE, AND EXTERNAL FINANCING, STUDENT HOUSING AND OPEN SPACE COMPONENTS; AND DESIGN, ALL COMPONENTS, FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, HOUSING PROJECT #2, BERKELEY CAMPUS**

The President of the University recommended that:

- A. The 2021-22 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Berkeley: People's Park Housing – preliminary plans – \$10.13 million, to be funded with campus funds.

To: Berkeley: Student Housing and Open Space Components – Housing Project #2 – preliminary plans, working drawings, construction, and equipment – \$364.8 million to be funded with external financing.

- B. The scope of the Student Housing and Open Space Components – Housing Project #2 project shall provide approximately 326,500 gross square feet (gsf) of housing space, supplying 1,113 beds, related commons space, and approximately 1.7 acres of open green space.

- C. The President be authorized to obtain external financing not to exceed – \$364.8 million, plus additional related financing costs for the Student Housing and Open Space Components – Housing Project #2 project. The President shall require that:

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

- (2) As long as the debt is outstanding, general revenues from the Berkeley campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
  - (3) The general credit of the Regents shall not be pledged.
- D. Following review and consideration of the environmental consequences of Housing Project #2 as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 48 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents shall:
- (1) Adopt as conditions of approval of Housing Project #2 all applicable Mitigation Measures and Continuing Best Practices within the responsibility and jurisdiction of the University.
  - (2) Adopt the Mitigation Monitoring and Reporting Program for Housing Project #2.
  - (3) Following review and consideration of the previously certified Environmental Impact Report for the UC Berkeley 2021 Long Range Development Plan and Housing Projects #1 and #2, determine that no further environmental analysis pursuant to CEQA is required and adopt CEQA Findings and Statement of Overriding Considerations specific to Housing Project #2.
  - (4) Approve the Project design of the Housing Project #2 project, Berkeley campus.
- E. The President or designee be authorized, in consultation with the Office of the General Counsel, to execute all documents necessary in connection with the above.

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

Chancellor Christ introduced the item, which she described as a multi-faceted development that would respond first and foremost to UC Berkeley's severe student housing shortage by delivering over 1,100 student beds for continuing students. These apartment-style units, most of which would offer double occupancy bedrooms, would align with the accommodations sought by students and would be available at below-market rental rates. The project would go beyond housing students and would also address a regional crisis of homelessness by incorporating a permanent supportive housing development to be delivered by a nonprofit housing partner. The project would also offer internship opportunities for UC Berkeley students in the Schools of Social Welfare and Public Health,

among others, providing academic enrichment and professional development. The project would retain more than half the site as open green space both to commemorate the history of People's Park and to reinvigorate one of the largest green spaces in Berkeley's Southside neighborhood, to make it safe and welcoming for UC affiliates and community members alike. The open space at the center of the project, along Dwight Way and Bowditch Street, would be connected by a spacious and airy portal that would flow under the south wing of the student housing building. This integral design feature would maintain a connected, open space that would be highly programmed and activated by students and community members. The program and design of Housing Project #2 were the product of nearly two years of engagement and dialogue with the campus community, neighbors, civic leaders, advocates for the unhoused, and neighborhood historians, among others. Through small group discussions, public open houses, and digital outreach and engagement, the campus heard from hundreds of Berkeley residents, faculty, students, and other stakeholders. The project's massing, spatial orientation, and connections to its surroundings had been designed to meet the campus' density targets while responding to stakeholder concerns about building height and preservation of open space.

This unique project was not without its challenges: an ambitious program, a constrained site, and the tradeoffs among stakeholders had resulted in a project that cost more than many other housing projects in the UC system. Nevertheless, Chancellor Christ believed that the value the project would bring to the campus and its neighbors would outweigh the cost and would ultimately strengthen UC Berkeley's academic and civic stature by clearly demonstrating the campus' values and advancing a transformative design.

Associate Vice Chancellor John Arvin outlined cost drivers for the project. The budget for Housing Project #2 reflected a very ambitious program, with over 1,100 beds, a large park, and a site for a permanent supportive housing building. There were three significant cost factors. The first was the fact that UC Berkeley would construct a high-rise building; the campus was doing this because it was the only way to accommodate this number of beds on such a small site. High-rise construction was rare in the UC system and was the most expensive building type, primarily due to additional requirements for structural and life safety systems. The second cost factor was the infill location of the site, in the middle of a fully developed neighborhood, surrounded by residential uses, institutional uses, a commercial district, and one-way streets. These conditions imposed constraints on the ability to move people and equipment, which would decrease productivity and increase construction costs. The third cost factor was the fact that the campus was building in the most expensive construction market in the U.S.

In order to mitigate these costs as much as possible, the campus began with an efficient floor plan. The predominant unit type in the building would be a four-room, eight-bed apartment with modest shared living and kitchen spaces. This design was among the denser types of student housing designs. Every residential floor would essentially be the same, with one stacked on the other. This design would allow for a higher production rate, increase quality, and lower construction costs. All the academic program space would be concentrated on a single floor rather than being distributed throughout the building. The campus intended to have a robust contractor outreach program to ensure a satisfactory pool

of qualified residential contractors bidding on the project. This would lead to the most competitive bidding environment and the lowest-cost project possible. As a result of these efforts to mitigate cost, the building design had prioritized the efficiency of the floor plan for a lean academic housing program. Non-revenue-generating space had been minimized. Select amenity spaces had been carefully curated. While the total cost of the project was significant, the cost on a per-bed basis was less than the average of selected comparable projects and in line with recent projects in the UC system. After a rigorous assessment of all alternatives, massing types, construction types, and bedroom densities, the proposed project was determined to be the most cost-effective option that met all the campus' goals.

Chancellor Christ voiced the campus' commitment to providing better solutions for unhoused people than sleeping outdoors in unsafe and unsanitary conditions. The campus would proceed with construction only after having a plan in place to offer access to shelter and services to the 40 to 50 people currently sleeping in the park. The site had been a challenge to maintain and program effectively for over 50 years. This project was the first proposal since the 1960s that would rise to meet the challenges facing the community today: lack of housing, homelessness, and commemoration of shared history. The project now had the support of local elected officials, the site's neighbors, and a majority of UC Berkeley students. Most recently, a survey of current UC Berkeley students found that the students supported the project by a margin of 56 percent to 31 percent before being informed about the project's goal and elements. Once informed, the survey found that UC Berkeley students supported the project by a margin of 64 percent to 24 percent, with 68 percent specifically supporting the construction of student housing on the site. This support for the project, along with the campus' commitment to the current population at People's Park, would ensure successful implementation.

Regent Kounalakis commented that this project would make greater use of this site for student housing, housing for the homeless, and as a convening place. This was a historic site for American democracy. The campus had pursued the project in a way that had built up community support. She had heard that, the prior year, UC Berkeley had turned away thousands of students who applied for campus housing, and asked about these numbers. She thanked all who worked on development of this proposal, which would honor the history of the site and use the land to meet priorities of the community and the University. Chancellor Christ responded that UC Berkeley housed by far the lowest percentage of students on campus in the UC system; 23 percent of UC Berkeley students were living in University-controlled housing. This fall, the campus turned away 5,000 continuing students who wanted to live in UC housing. There were thousands of students that the campus and the City of Berkeley could not house. Housing in the City of Berkeley was hard to find and expensive. Students were living far away from campus and commuting, to the detriment of their education and experience. In her view, this was the most critical problem that UC Berkeley was facing as a land-constrained campus. UC Berkeley would have to use every piece of land that it had in order to meet its goals for student housing. Vice Chancellor Marc Fisher remarked that UC Berkeley students would either displace other people in the local housing market or would themselves be displaced because they could not find a place in the local housing market. UC Berkeley was reviewing every site in its portfolio for options for additional housing.







































University also received \$729 million in one-time funding, with over 40 percent earmarked for deferred maintenance and energy efficiency projects.

The Regents had taken a crucial step at the July meeting with item B1, the *Multi-Year Tuition and Financial Aid Plan*, to provide campuses with new resources from tuition starting next year, while giving students and families much greater predictability and more financial aid. An adjustment of 4.2 percent would apply only to new undergraduates in fall 2022, and those students could expect tuition to stay flat until they graduated, for up to six years. Continuing undergraduates would see no increase in systemwide tuition and fees next year. Base tuition for graduate students would be adjusted annually, based on inflation, with an increase of 2.2 percent in fall 2022. Together, these actions would generate roughly \$71 million in new revenue to support both campus operating budgets and enhanced student financial aid.

There was a growing demand for access to a UC education. The Legislature had expressed its intent to support further enrollment growth in the Budget Act, in two provisions. One called upon three UC campuses where nonresident enrollment exceeded 18 percent to reduce this enrollment to 18 percent over five years, beginning in fall 2022, in order to accommodate more California resident students. This provision also expressed the Legislature's intent to provide replacement funding to offset the lost tuition revenue that would result from this shift in enrollment from out-of-state to in-state students. The second provision expressed the Legislature's intent to fund enrollment growth of over 6,200 new California resident undergraduates beginning next year. Although funding was not provided in this year's Budget Act for either provision, the language was clear about the Legislature's intent to do so next year.

Mr. Alcocer then discussed budget priorities for 2022-23. There were two broad categories: sustaining core operations and making additional investments to enhance student access and success. Costs belonging to the first category included honoring commitments to represented employees, fairly compensating policy-covered faculty and staff, funding pension and health benefits for employees and retirees, and covering costs in areas such as purchased utilities, instructional equipment, and other non-personnel-related costs. This category also included debt service on many UC-financed capital projects, State-approved projects that the University finances itself in the absence of new support from State general obligation bonds or lease revenue bonds. There was also a need to address budget shortfalls created by California undergraduate enrollment growth in recent years above the number of students funded by the State. UC, like any public university, has relied on the State to cover a part of the cost associated with enrollment growth, to pay for additional faculty, staff, instructional equipment, and other investments needed to adequately support each new student. This was essential, because in-state tuition covered only a portion of these instructional costs. The State's expected contribution was over \$10,000 for each new California undergraduate.

To its great credit, the State had provided this support in most years since UC started rapidly increasing California resident undergraduate enrollment in 2015. But the State had provided this for only about 14,400 students, even though UC actually grew by over

24,000 students between 2014-15 and 2020-21. The roughly 9,800 students that UC has enrolled beyond State-funded levels were effectively unfunded. UC campuses were educating and supporting them without the historic State contribution. This created a strain on campus resources. Campuses must do this without the roughly \$100 million they would typically expect the State to contribute to educate 9,800 more students. This had contributed to some worrisome trends: a higher student-faculty ratio, especially for ladder rank faculty; declining student satisfaction rates, particularly among students from disadvantaged backgrounds; and concerns frequently heard from students and faculty about course availability, academic advising, and other matters. California resident enrollment growth was an area where UC had not only met the State's expectations but had far exceeded them. The University needed help from the State to ensure that enrollment growth that has already occurred did not come at the expense of students.

The University's efforts to expand student access and success included strategic and organic enrollment growth over time, building on the Legislature's clear intent to help make this possible, and graduate enrollment growth, which was critical to research, California's economy, and UC's ability to provide instruction, not just today with graduate teaching assistants, but in decades to come as graduate students become future faculty. UC remained committed to ambitious goals at each campus to eliminate equity gaps in four-year graduation rates. Student Academic Preparation and Educational Partnerships (SAPEP) programs have been instrumental in achieving these goals. UC received \$22.5 million in new one-time funds for SAPEP this year, which was excellent. The University would like to see this converted to ongoing funding next year. There were ongoing needs in other areas of concern to the Regents and others: improving access to student mental health services, expanding financial aid, which the University was doing itself through its return-to-aid policy, and providing support to especially vulnerable student groups.

Executive Vice President and Chief Financial Officer Brostrom expressed the University's gratitude to the State for a large allocation of one-time funds for capital projects, particularly for deferred maintenance, energy efficiency, and seismic upgrades. As would be detailed in the following discussion item, the University had inventoried its needs in these areas and the projected long-term cost exceeded \$20 billion. In the last fiscal year, the State provided \$325 million in deferred maintenance funding, which was being used to implement over 400 projects systemwide. State revenues continued to be strong, and if they remained so, the University would seek additional one-time monies to continue these types of projects. Climate change was a priority and had been highlighted by Regent Estolano and President Drake. Mr. Brostrom noted that his office was working with Provost Brown, Vice President Maldonado, and other campus and Office of the President leaders to develop a proposal for applied research in climate change and climate resiliency that would leverage the breadth and depth of the UC system. Mr. Brostrom was also working with Executive Vice President Byington on a one-time request for the development of a mental health nurse practitioner program, which UC could include in a request to the State.

UC had other ways and other revenue sources to address budget needs outside the cohort tuition model and State support. The University had been working to optimize its working



capital investments, ensuring that it keeps sufficient liquidity for its operating needs but directing all additional working capital to higher-yielding investments to generate discretionary revenue for the campuses. Nonresident enrollment at three undergraduate campuses was below the cap, so these campuses could add revenue by growing nonresident enrollment. UC anticipated cost reduction opportunities emerging in the post-pandemic work environment. Most immediately, there had been a dramatic reduction in the amount of funding for travel across the UC system. There were also longer-term opportunities in rationalization of real estate, particularly for administrative support, as campuses engage in hybrid work environments. Because of the recent performance of UC's investment accounts and the strong funding status of the UC Retirement Plan, the University was also evaluating a potential reduction in the employer contributions to the pension system. With UC's overall total covered compensation at \$14 billion, every one percent of savings in employer contributions would yield \$140 million; one-third of this would go to UC core funds. These opportunities would inform how much the University would seek in State support in the upcoming year and over a short-term horizon.

The Office of the President would be monitoring several relevant factors from now until the November meeting, when it would present the 2022-23 budget for UC operations. First, UC would then have a much better sense of fall student enrollment. Current-year enrollment would help guide UC's request for enrollment funding in 2022-23. The Office of the President had a series of ongoing consultations with the Academic Senate, campus leadership, the UC Student Association, and other student representatives about budget priorities. UC would also continue discussions with Governor Newsom's staff, the State Department of Finance, and legislative staff on the revenue forecast for the State and the overall outlook for the 2022-23 budget.

Committee Chair Cohen advised the University not to emphasize the notion of unfunded enrollment for five years and more in its budget and budget request to the State. This was the wrong approach and would seem to convey the message that the University would only serve students if UC is paid for them. This message would fall on deaf ears. The proposal for applied research in climate change and climate resiliency was excellent and should receive widespread support.

Regent Leib emphasized the importance of converting SAPEP funding from one-time to ongoing funding. He was happy to see this listed as a priority item.

Staff Advisor Lakireddy hoped that the University would continue to provide predictable raises for staff. A recent three percent across-the-board increase had been the first raise in a long time for policy-covered staff; she hoped that raises like this would continue in the future.

## 9. **UPDATE ON THE UNIVERSITY'S SEISMIC SAFETY PROGRAM**

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

Executive Vice President and Chief Financial Officer Brostrom recalled that General Counsel Robinson had provided a legal update on seismic issues in November 2014 and discussed updates to the University's seismic safety program, given new developments in seismology and geotechnical engineering and subsequent changes to the building code. The Finance and Capital Strategies Committee received an update on the seismic program in July 2017. In 2018, UC embarked on an effort to reevaluate the seismic safety of UC buildings in line with this new and updated program. The University had made substantial progress on its seismic safety program, including completion of seismic assessments on over 6,000 buildings, the majority of UC's inventory.

Associate Vice President David Phillips noted that UC has many older buildings; some were 100 to 150 years old. Construction design standards to protect buildings from earthquakes have changed significantly over the years. UC, like many long-term property owners, has many facilities that were not designed to meet today's seismic standards. The University had made significant investments to improve its facilities over the years and was committed to continuing this progress. This discussion would focus on progress since January 2020, when the Regents were last briefed on the program. Since that update, the campuses and locations had completed seismic evaluations of all buildings covered under the Seismic Safety Policy. The goal was to use these evaluations and results to prioritize actions for those buildings that posed the greatest risks. To achieve that goal, UC had developed a seismic risk model. The model takes data from the building inventory evaluation—factors such as building ratings, anticipated site ground motion, construction types, and occupancy—and outputs an estimate of the relative risk in comparison to other UC buildings. The evaluations included all UC-owned and UC-leased facilities, but not UC Health facilities, which are regulated by the California Department of Health Care Access and Information (formerly the Office of Statewide Health Planning and Development or OSHPD); those facilities were covered by separate code requirements, not UC policy. By January 2021, UC had completed over 6,000 evaluations. UC had 150 million square feet covered by its Seismic Safety Policy and could now report that 70 percent of this space was fully compliant with policy standards; this meant that no structural changes or further studies were required. About 15 percent of UC space required further evaluation. There were over 500 buildings in this category. Further evaluation might show that some of these buildings already met UC standards. The 70 percent compliance figure would likely increase after this work is completed. About another 15 percent of UC buildings needed physical improvements by 2030 to be aligned with UC policy goals. The University was currently in preliminary planning, design, and/or construction for about one-third of these facilities. There were 60 active projects with funding identified or proposed. Some examples of recent progress included seismic retrofits of Memorial Stadium and replacement of Tolman Hall at UC Berkeley, corrections to the Chemistry Building and the Walker Hall Building at UC Davis, and seismic renovations of Franz Hall at UCLA.

Based on the work completed to date, UC has estimated its total capital need to be \$20 billion. This figure included seismic, deferred maintenance, and other capital needs, such as energy efficiency upgrades, programmatic improvements, and other required changes. If UC takes a building out of service for seismic upgrades, it wishes to take care

of the building's other needs at the same time. These investments would add significant new life to UC's buildings. Of the total estimated funding need, funding for about \$2 billion, or approximately ten percent, had been identified or proposed. The remaining 90 percent had no funding currently identified. These capital needs estimates would be evaluated and refined over time in alignment with the Capital Financial Plan. UC had made active progress in seismic improvements in line with the compliance deadline of 2030, but the University and the campuses faced many challenges, mainly the limits of available funding. Implementing the projects can also be challenging. Construction and relocation can affect the ability to continue instruction and research. Many UC locations faced a lack of surge and swing space to house displaced functions during construction. UC would continue to make progress on implementing its seismic safety program and would work to address these challenges. The University would be completing over 500 more detailed evaluations which would confirm or improve building ratings and/or identify the specific improvements that were required. UC was hopeful that future general obligation bonds would provide funding to address the most critical needs and was working on additional funding strategies as well.

Committee Chair Cohen referred to the percentage of buildings still to be assessed and asked when this work would be completed. Executive Director Lauren Friedman responded that the work on buildings undergoing further evaluation should be completed in the next year to 18 months. The campuses were taking on this work as staff and resources were available. There was not a schedule for the ten percent of buildings to be improved for which funding was planned or identified. The scheduling depended on campus resources.

Committee Chair Cohen asked if the University would have an accurate assessment of needs at the end of 18 months, or if ratings might change. Ms. Friedman responded that UC would have a good assessment. She believed that a number of buildings with a current seismic safety rating of V, with a "borderline" status, would move to a rating of IV and be compliant with policy. Ratings determined under the current program would be valid for 15 years. In the case of a building with a rating of IV, absent an event like a major earthquake, the rating would not be revisited. Mr. Brostrom added that further evaluation would give UC a much better sense of the cost of required renovations.

Regent Estolano asked if there was any prospect of federal funding to address these needs. Mr. Brostrom responded that this had been discussed with Federal Governmental Relations, and the prospect seemed doubtful. UC was hopeful that there might be another general obligation bond on the ballot in a few years. The University must examine all alternatives to generate funding for these projects.

Regent Estolano asked how the seismic safety program might be combined with climate change efforts. Mr. Phillips responded that, for new construction projects, the University now included an estimate of utility use and carbon impact. Regent Estolano stated that she had thought that seismic upgrade evaluations would be combined with energy efficiency upgrade evaluations. Mr. Phillips responded that UC needed an integrated approach to climate resiliency, deferred maintenance, and seismic safety. There were opportunities, when a seismic safety project was in a building, to also upgrade existing infrastructure in

the building to make it more energy-efficient. Mr. Brostrom added that a great deal of effort is required to move faculty and students out of buildings. This was a reason for carrying out all upgrades at once.

Regent Reilly asked how much money Proposition 13, the unsuccessful 2020 general obligation bond measure, would have provided for the University. Mr. Brostrom responded that this would have been \$2 billion. UC had prioritized seismic safety and energy efficiency projects.

Regent Reilly asked about the University's strategies to meet this need, besides a general obligation bond or campuses' incremental funding. This was an urgent priority that concerned student, employee, and visitor safety. Mr. Brostrom responded that UC had a great deal of working capital; investing it more effectively might generate tens of millions of dollars or more. Because working capital varied every year, it was an appropriate source of one-time funding for projects like these. UC would continue to work with the State on one-time funds.

The meeting adjourned at 1:10 p.m.

Attest:

Secretary and Chief of Staff