The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
November 16, 2022

The Finance and Capital Strategies Committee met on the above date at the UCSF-Mission Bay Conference Center, San Francisco campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Regents Chu, Cohen, Makarechian, Matosantos, Pérez, Pouchot, Reilly, Robinson, and Sherman; Ex officio members Drake and Leib; Advisory members Cochran, Ellis, and Raznick; Chancellors Gillman, Hawgood, Khosla, May, and Muñoz; Staff Advisor Mackness

In attendance: Interim Secretary and Chief of Staff Lyall, Deputy General Counsel Drumm, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Senior Vice President Colburn, Vice President Lloyd, Chancellor Larive, and Recording Secretary Johns

The meeting convened at 2:10 p.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of September 21, 2022 were approved, Regents Chu, Cohen, Drake, Leib, Makarechian, Matosantos, Pérez, Pouchot, Reilly, Robinson, and Sherman voting "aye."[1]

2. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, VITERBI FAMILY VISION RESEARCH CENTER, SAN DIEGO CAMPUS**

The President of the University recommended that:

A. The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: <u>Viterbi Family Vision Research Center</u> – preliminary plans – $6 million, to be funded from campus funds.

To: San Diego: <u>Viterbi Family Vision Research Center</u> – preliminary plans, working drawings, construction, and equipment – $152 million to be funded with external financing.

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

B. The scope of the Viterbi Family Vision Research Center project be approved. The project shall provide approximately 100,000 gross square feet, including dry laboratory space to conduct computational analytics and clinical trial research; wet laboratory space (open laboratory space design with dedicated laboratory support) to conduct basic science and clinical trial research; a core laboratory (vivarium); meeting and support space; and retail. The project would also provide service access to the building, parking reconfiguration, and public realm improvements.

C. The President be authorized to obtain external financing in an amount not to exceed $152 million plus additional related financing costs to finance the Viterbi Family Vision Research Center. The President shall require that:

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

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

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

D. Following review and consideration of the environmental consequences of the proposed Viterbi Family Vision Research Center project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 48 hours in advance of the beginning of the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

(1) Adopt the CEQA Findings for the Viterbi Family Vision Research Center, having considered the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the La Jolla Campus and Addendum No. 10 to the 2018 LRDP EIR for the Viterbi Family Vision Research Center.

(2) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC San Diego, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2018 LRDP EIR.

(3) Approve the design of the Viterbi Family Vision Research Center project, San Diego campus.

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

Chancellor Khosla introduced this item, explaining that the proposed facility would provide space for research on various ophthalmologic diseases and expand interdisciplinary collaborations across campus and the San Diego community to accelerate discovery and innovation in vision research. The campus was requesting to construct a building of approximately 100,000 gross square feet and 60,000 assignable square feet at a cost of $152 million, to be financed externally. The project would be supported by a $25 million gift from the Viterbi family and a $10 million gift for professorships to expand the Department of Ophthalmology.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Chu, Cohen, Drake, Makarechian, Matosantos, Pérez, Pouchot, Reilly, Robinson, and Sherman voting "aye" and Regent Leib abstaining.

3. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT FOR SITE AND MAKE-READY PORTION OF THE PROJECT, UC MERCED MEDICAL EDUCATION BUILDING, MERCED CAMPUS**

The President of the University recommended that:

A. The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

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

To: Merced: UC Merced Medical Education Building – preliminary plans for the entire project and working drawings and construction for the Site and Make-Ready portion of the project – $21.5 million to be funded from external financing supported by State General Fund appropriations ($17.3 million) and general campus funds ($4.2 million).

B. The scope of the Site and Make-Ready work portion of the UC Merced Medical Education Building project shall relocate the campus stormwater retention basin to clear the site for the Medical Education Building and create a permanent, more sustainable solution for the campus. The project will also augment the electrical capacity of the campus to enable the full electrification of the Medical Education Building and future facilities.

C. The President be authorized to obtain external financing for the UC Merced Medical Education Building project in an amount not to exceed $9.5 million plus related interest expense and additional related financing costs. The President shall require that:

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

(2) The source of repayment for the $9.5 million shall be from State General Fund appropriations, pursuant to the Education Code Section 92493 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.

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

D. Following review and consideration of the environmental consequences of the UC Merced Medical Education Building project as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 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:

(1) Certify the Environmental Impact Report (EIR) for the UC Merced Medical Education Building project.

(2) Adopt the CEQA Findings for the UC Merced Medical Education Building project, having considered both the UC Merced 2020 Long Range Development Plan Environmental Impact Report (2020 LRDP EIR) and EIR for the UC Merced Medical Education Building project.

(3) Approve the changes to the previously adopted Mitigation Monitoring and Reporting Program adopted in connection with the 2020 LRDP EIR.

(4) Approve the design for the Site and Make-Ready portion of the UC Merced Medical Education Building project, Merced campus.

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

Chancellor Muñoz briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board, Regents Chu, Cohen, Drake, Makarechian, Pérez, Pouchot, Reilly, Robinson, and Sherman voting “aye.”

4. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, NEUROPSYCHIATRIC REPLACEMENT HOSPITAL, UCLA HEALTH, LOS ANGELES CAMPUS**

The President of the University recommended that:

A. The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Los Angeles: Neuropsychiatric Replacement Hospital – preliminary plans – $22.5 million funded from hospital reserve funds.

To: Los Angeles: Neuropsychiatric Replacement Hospital – preliminary plans, design, construction, and equipment – $352 million funded from external financing.

B. The scope of the Neuropsychiatric Replacement Hospital project be approved. The project shall renovate the former Olympia Medical Center Hospital into a state-of-the-art acute Neuropsychiatric Hospital to provide 119 inpatient beds and related clinical and building support spaces. Site development shall include landscape and hardscape, utilities, and pathways to and around the building.

C. The President be authorized to obtain external financing in an amount not to exceed $352 million plus additional related financing costs to finance the Neuropsychiatric Replacement Hospital. 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 UCLA Health shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

D. Following review and consideration of the environmental consequences of the Neuropsychiatric Replacement Hospital project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 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:

(1) Determine that the project is categorically exempt from CEQA.

(2) Approve the design of the Neuropsychiatric Replacement Hospital, Los Angeles 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.]

UCLA Health Sciences Vice Chancellor John Mazziotta introduced this item, the renovation of the former Olympia Medical Center, including an office building and a parking structure, now referred to as the UCLA Health Mid-Wilshire Behavioral Health Campus. This item would provide planning approval and financing for the renovation of the hospital complex. The medical office building and the parking structure would be separate upgrades and were not part of this project. This project would provide the largest mental health hospital in Los Angeles County and the first dedicated behavioral health campus in California.

UCLA Health President Johnese Spisso stated that this behavioral health campus would serve anyone in a mental health crisis in Los Angeles County. The ability to create this campus with a dedicated psychiatric emergency department for adults, adolescents, and pediatrics would be a significant benefit in Los Angeles, where there had been a decrease in the number of mental health patient beds for many years. In addition to greatly expanding capacity for both inpatient and outpatient mental health at this facility, UCLA would have the ability to backfill 75 patient beds in the main Westwood hospital, providing more capacity for adult and pediatric critical care and tertiary and quaternary care. For UCLA, the acquisition of the mid-Wilshire facility was the most timely and cost-effective solution to severe overcrowding and the lack of inpatient access to mental health and to adult and pediatric tertiary and quaternary care. This was a more timely and financially feasible model than building a new hospital tower on the main campus, which would also require a new central utility plant.

Interim Vice Chancellor Allison Baird-James explained that the total cost of the project would be $352 million. The project would provide 119 inpatient beds using the progressive design-build delivery model, which can resolve unforeseen conditions quickly, provides control over design, cost, and quality, and maintains fair and transparent processes. The project would target the Leadership in Energy and Environmental Design (LEED) Gold rating and would include an all-electric central utility plant, which meets UC sustainability goals. Construction would be quick, since it was using an existing facility, with a projected schedule beginning in May 2023 and completing in December 2025. The project would be funded from external financing and was part of UCLA Health's overall master plan, which included the goals of increasing the number of inpatient beds at the main Ronald Reagan UCLA Medical Center and increasing access to mental health services. Debt would be funded from the overall increase in operating returns.

Regent Sherman asked if the patient beds that would be freed up at the main hospital required any renovation or upgrade work, or if they could be used right away. Ms. Spisso responded that those beds were currently inpatient psychiatric beds. They would need to be modified to accommodate medical, surgical, or intensive unit care. UCLA had recently retained an architect and was starting this work.

Regent Makarechian asked if there would be any naming opportunities for this hospital. Dr. Mazziotta responded that the existing neuropsychiatric hospital on the main Westwood campus was named, and that name would be carried over. However, this facility was an entire campus with various naming opportunities and subcomponents that could be opportunities for philanthropy.

Regent Reilly commended UCLA on this project and underscored the great need for these patient beds and services.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Chu, Cohen, Makarechian, Pérez, Pouchot, Reilly, Robinson, and Sherman voting "aye."

5. **AMENDMENT OF THE BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, KRESGE COLLEGE NON-ACADEMIC, SANTA CRUZ CAMPUS**

The President of the University recommended that the Regents' March 2019 action, *Approval of the Budget, Scope, External Financing, and Design Following Action Pursuant to the California Environmental Quality Act, Kresge College Non-Academic, Santa Cruz Campus*, amended May 2022, be further amended as follows:

A. The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Santa Cruz: <u>Kresge College Non-Academic</u> – preliminary plans, working drawings, construction, and equipment – $234.15 million to be funded by Auxiliary – Student Housing/Dining reserves ($8.5 million), Auxiliary – Student Fee Reserves (University Fee Reserves) ($1.2 million), Auxiliary – Parking reserves ($100,000), General Campus Funds ($27,547,000), external financing supported by Student Housing/Dining ($190 million), and external financing from Century Bonds ($6,803,000).

To: Santa Cruz: <u>Kresge College Non-Academic</u> – preliminary plans, working drawings, construction, and equipment – $429,594,000 to be funded by State funding from the Higher Education Student Housing Grant Program ($89 million), Auxiliary – Student Housing/Dining reserves ($8.5 million), Auxiliary – Student Fee Reserves (University Fee Reserves) ($1.2 million), Auxiliary – Parking reserves ($100,000), General Campus Funds ($28,666,000), external financing supported by Student Housing/Dining ($295,325,000), and external financing from Century Bonds ($6,803,000).

B. The scope of the Kresge College Non-Academic project, as amended, shall consist of approximately 146,400 assignable square feet (ASF), primarily residential space, supplying 400 new residential-hall-style beds (phase one) and approximately 590 apartment-style and residence hall beds (phase two). In addition, the scope includes approximately 3,600 ASF of student programs space, 2,800 ASF of college academic space, a 3,300 ASF new Town Hall for student activities, outdoor program areas, circulation, and parking lot accessibility improvements, and a newly accessible bridge.

C. The President be authorized to obtain external financing in an amount not to exceed $295,325,000 (a further increase of $105,325,000) plus additional related financing costs to finance Kresge College Non-Academic. 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 Santa Cruz 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.

…

E. Following review and consideration of the environmental consequences of the Kresge College Non-Academic project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 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:

(1) Adopt the CEQA Findings for the Kresge College Non-Academic project, having considered both the Kresge College Renewal and Expansion Project Environmental Impact Report (EIR) and the Addendum to the EIR for the Kresge College Non-Academic project.

(2) Adopt as a condition of approval the applicable mitigation measures within the responsibility and jurisdiction of UC Santa Cruz, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the Kresge College Renewal and Expansion Project EIR.

(3) Approve the design modifications to the approved Kresge Non-Academic project.

F. The President or designee be authorized, in consultation with the Office of the

General Counsel, to execute all documents necessary in the execution of 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 Larive introduced the item. She recalled that, in March 2019, the Regents approved this renovation, infrastructure and new construction project at a projected cost of $205 million. The project consisted of two phases, which has allowed UC Santa Cruz to continue operating Kresge College during construction. The first phase was well under way and included three new residence halls providing 400 student beds as well as community rooms, study lounges, and a café. It also involved significant site work consisting of stormwater management systems, new and expanded utilities, and circulation infrastructure including the renovation of a pedestrian bridge that connects Kresge College to the rest of the campus. In May, the Regents approved a Phase One budget augmentation of $28.5 million. The campus was excited about the progress it was making and looked forward to moving students into new residential halls in fall 2023.

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

6. **UNIVERSITY OF CALIFORNIA 2022–28 CAPITAL FINANCIAL PLAN**

The President of the University recommended that the University of California 2022–28 Capital Financial Plan be approved.

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

Executive Vice President and Chief Financial Officer Brostrom explained that the Capital Financial Plan is presented every year and updated for a six-year cycle. This item did not seek approval of any capital project. A new feature of this year's Plan was that it distinguished funded and unfunded projects.

Associate Vice President David Phillips explained that capital projects were divided into three broad categories. The first category, "education and general" projects, are funded by the State. The capital financial plan was a six-year window. There were many projects without a funding stream, although this year there was an increased number of projects with funding. Once a project is approved by the Regents or at the campus level, it is removed from the Plan. UC was gradually addressing its seismic safety needs and needs for capital renewal. The second and third categories are campus auxiliaries and medical center projects. There was a significant decrease in the Plan projects for the medical centers, largely because many medical centers projects were approved in the prior year.

Mr. Brostrom observed that construction of campus housing would continue to be a challenge and need at all the campuses in the coming decade.

Mr. Phillips presented a chart showing $23 billion in projects for the next six years that had a funding stream, and how they were funded. Another chart summarized project objectives by campus. There were impressive projects and plans underway at all the campuses.

Mr. Brostrom recalled that, prior to 2011, much of UC's State capital project funding was in the form of general obligation bonds and lease revenue bonds. In 2012–13, Assembly Bill (AB) 94 authorized UC to redirect a portion of its State General Fund appropriation from operating needs to pay for debt service for capital projects that the State has approved. This has been about $15 million annually. In the last two years, UC had received significant one-time funding from the State. The Legislature intended to provide funding in 2023–24 and 2024–25 for capacity at UC Merced and UC Riverside, and the new Institute for Immunology and Immunotherapy at UCLA.

Regent-designate Ellis asked how deferred maintenance funding was distributed among the campuses and remarked that UC Merced had received less funding than other campuses. Mr. Phillips responded that UC had moved to a needs-based program, with a centralized database and an assessment tool used at all locations. The much-needed funds received from the State were allocated based on relative need. UC Merced received a relatively low fraction of these funds due to the age of the campus. The need for these funds was not as great at UC Merced as at other campuses.

Regent-designate Ellis commented that there appeared to be a significant need for more graduate student housing across the UC system.

Regent Sherman asked if there was a timetable for the direct State appropriation for the new Institute for Immunology and Immunotherapy at UCLA and when this item might come to the Regents for approval. Mr. Brostrom responded that UC wished to ensure that there was a second year of funding for the project before engaging in more detailed planning. He would provide more detail.

Regent Sherman asked if there was a clock running on this funding. Mr. Brostrom responded that it was a three-year outlay. Some planning had been done for the project, but UC wished to ensure full funding before continuing.

Regent Robinson asked how UC would address seismic safety needs in the current State budget environment and in the foreseeable future. Mr. Brostrom responded that AB 94 funding would support these projects, and UC determined how these funds were spent. The University was considering the possibility of a general obligation bond on the ballot in 2024. UC had a robust process for the ranking and triage of projects. UC would first pursue projects for structures with the worst seismic ratings and highest continuous occupancy. Mr. Phillips added that UC makes strategic investments that address multiple priorities. Projects in the Capital Financial Plan were generally integrated projects that address seismic safety needs, increase capacity, support enrollment growth, and address capital renewal needs. Funds are directed to the highest needs and to ensure the safety of the UC community.

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

7. UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2022

The President of the University recommended that the Regents adopt the 2021–22 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers.

[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 commented that the University's financial statements of this year reflected two primary factors. One was the return to operations after the COVID-19 pandemic, with a substantial rebound in UC auxiliaries and medical centers. The second was the decline in capital markets, especially the equity market, which had several effects on the financial statements. There was a dramatic increase in UC's pension liability, a decrease in retiree health liability due to the rise of the discount rate, and a decrease overall in investments. In total, there was a nearly $5 billion decrease in the University's net position, largely due to the capital market.

Regent Sherman asked about the effect of interest rate increases on the pension liability. As rates increase, liability decreases. Mr. Brostrom estimated this decrease at about $4 billion for every 100 basis points.

Regent Sherman asked if there would be a significant reduction in the pension liability when it was recalculated on December 31, 2022 or on June 30, 2023. Mr. Brostrom hoped that this would be the case. The liability was calculated on an actuarial basis, which does not move as much as the market value. The following year UC would conduct an experience study. This was carried out every four years and considered the proxy rate as well as longevity and other demographic changes.

Regent Makarechian asked about differences in increases in the numbers of students versus numbers of faculty and staff from 2018 to 2022. Mr. Brostrom explained that much of the growth in staff was at the medical centers and in research. Campuses had been increasing student enrollment without adding the faculty and staff that were needed.

Regent Makarechian asked about cause of the retiree health benefits liability. Mr. Brostrom recalled that the retiree health benefit expenses are paid on a pay-as-you-go basis. The prior year, the expense was about $350 million. Under Governmental Accounting Standards Board (GASB) rules, this must be discounted at the risk-free cost of capital, a 20-year municipal bond index. Earlier, this had been 2.8 percent, and was now about 3.5 percent. Due to the higher discount rate, the liability decreases. UC continued to pay these expenses on a pay-as-you-go basis and not fund the retiree health benefit trust.

Regent Makarechian asked about returns on investment in the UC Retirement Plan. Mr. Brostrom responded that, over five years, the returns had been about 6.8 percent, and the actuarial value of the Plan improved, but returns for the last year were negative, about ten percent.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Makarechian, Matosantos, Pérez, Pouchot, Reilly, Robinson, and Sherman voting "aye."

8. **APPROVAL OF THE UNIVERSITY OF CALIFORNIA'S 2023–24 BUDGET FOR CURRENT OPERATIONS AND STATE REQUEST FOR CAPITAL PROJECTS**

The President of the University recommended approval of the following items:

A. The proposed budget plan shown in Attachment 1, *University of California 2023–24 Budget Plan for Current Operations*.

B. A request for one-time State funding of $1.2 billion in 2023–24 for capital projects to support facilities renewal, enrollment growth, and clean energy.

[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 the item and provided an update on fall enrollment. The University had about 1,800 more California resident undergraduates on campus this year compared to last year, or about 1,600 full-time equivalent students. Over the past six years UC had grown its undergraduate population by about 22,000 California undergraduates. UC had exceeded its targets for California first-year students but had been lagging targets for transfer students. This reflected a decline in community college enrollment. Enrollment at the California Community Colleges in 2020, the first year of the COVID-19 pandemic, was 18 percent below the previous year's enrollment, and this affected the numbers of transfer students coming to UC. Another factor was student enrollment in summer 2022, which was above pre-pandemic levels but below the level of 2021, when many students chose to take summer courses. On a full-time equivalent basis, student enrollment had remained flat. There had also been a reduction in the number of units that students were taking.

Between 2020–21 and 2021–2, the average number of student credit hours fell between 0.3 and 0.4 per quarter. Spread across more than 200,000 students, this resulted in a decline in full-time equivalent students. This was a paradoxical situation: the University was serving more California undergraduates than ever before, but on a full-time equivalent basis enrollment appeared largely flat. The University must make up a substantial amount of student enrollment to meet its State-funded target. If students began to take on course loads more like past norms, there would be an increase in full-time equivalent students. There had also been a decline in the retention of freshman and transfer students of about one percent. Among freshmen, this was a decline from 93.7 percent to 92.8 percent; the decline was similar for transfer students. Campuses were trying to identify the factors contributing to this and to shore up retention rates.

Associate Vice President David Alcocer then presented details of the University's 2023–24 budget proposal. The budget plan included ongoing investments in four broad categories: (1) Sustaining core operations, the cost increases that any university can expect from one year to the next to support existing faculty and staff and to provide other resources that are essential to a university experience. (2) The plan also supported enrollment growth, primarily among California resident undergraduates and students in graduate programs. (3) Student financial aid remained a priority, including new resources to provide more students with a debt-free pathway to a UC degree. (4) There was a new program, DDS-ASPIRE, which would bring the same highly specialized outreach and training to dental education that UC currently provided to hundreds of medical school students throughout the system through the UC Programs in Medical Education (PRIME). DDS-ASPIRE was intended to help graduates better meet the needs of historically underserved populations.

The plan also included a request for $1.2 billion in one-time funds to address the campuses' highest-priority projects related to facilities renewal, enrollment growth, and clean energy projects, all of which were permitted investments under the Compact with the Governor beyond the five percent base budget adjustment.

The roughly $406 million in the plan to sustain core operations fell into a number of categories. Most were related to people, such as salary adjustments for current faculty and staff or benefits-related costs for active employees and retirees. Some of these expenditures were essentially mandatory, like existing collective bargaining agreements and UC's faculty merit program, but salaries for policy-covered faculty and staff, those who are not covered by a collective bargaining agreement, also need to be a high priority, given the University's experience in the extremely challenging labor market and concerns about inflation and equity.

Regarding enrollment growth, the plan included the estimated cost of enrolling an additional 2,000 California undergraduates the following year, along with 625 more graduate students. The plan included $78.3 million in new undergraduate and graduate financial aid; about $20 million of this would come from enrollment growth, but most would come from the return-to-aid from new tuition and fee revenue. With that aid, along with new federal and State resources, UC would continue to fully cover tuition and fees for more than one-half of all California resident undergraduates and would more than double the number of incoming Pell Grant recipients with financial aid packages that would allow them to cover their self-help contribution entirely from part-time work instead of borrowing and give them a debt-free path to a UC degree. Combined with the investments in the DDS-ASPIRE program, the total changes in expenditures in the plan amounted to $541.3 million.

Regarding policy-covered employees, the plan included a 4.6 percent increase in salary budgets for faculty and staff. This increase would come on the heels of a 4.5 percent increase in the current year for a combined increase of about 9.3 percent over two years. Faculty salaries continued to lag those of UC's comparator institutions by about 4.2 percent. UC had made progress in recent years in this area and wished for this to continue. Similarly, for policy-covered staff, over the past ten years, UC has funded salary increases that were smaller on average than those provided by other large employers in the Western U.S. A salary increase budget of 4.6 percent would help prevent further erosion in UC's ability to recruit and retain talented and dedicated staff.

Regarding revenue, the plan included $54.7 million in new resources from the University's own efforts to achieve further savings from procurement contracts, improving the return on a portion of the University's working capital, and slightly higher nonresident enrollment at campuses where nonresident students currently made up less than 18 percent of total enrollment. The plan included $252 million of new State support, consistent with the multi-year Compact with the Governor. This included the five percent budget adjustment, new funding to enroll California residents in lieu of nonresidents at three campuses (Berkeley, Los Angeles, and San Diego) and funding for the DDS-ASPIRE program.

Finally, the plan included a net contribution of $166.7 million from new tuition and fee revenue, from a combination of enrollment growth and UC's tuition stability plan. Of this amount, a little over $74 million would be used to enhance the University's financial aid programs, allowing UC to double the number of incoming low-income students to whom it can offer a debt-free education pathway.

The plan acknowledged that the total proposed change in expenditures exceeded the total identified new resources by about $68 million. This meant that the University would need to take further steps to control costs, to focus its limited resources on activities that are most directly related to its highest-priority needs, and to continue to develop alternative revenue sources to close the remaining gap over time.

Mr. Brostrom then explained that the proposed request for one-time State funding for capital projects was in addition to $400 million in capital funding approved in the 2022–23 budget to be funded in 2023–24, and nearly $300 million in 2024–25. This request was focused on facilities renewal, enrollment growth, and clean energy and included the highest-priority projects throughout the University, selected by the campuses. The request was also consistent with the multi-year Compact. Mr. Brostrom noted that he and Mr. Alcocer had been in discussions with the UC Student Association about their funding priorities, which included funding to improve disability services at UC and a focus on menstrual health and equity.

Regent Pérez remarked that the numbers presented for labor cost increases were small compared to what employees and unions were asking for. He asked if the Office of the President had estimated the costs of the wage and salary requests now being made and how much UC would have to adjust its budget request to the State. Mr. Alcocer responded that every increase of one percent in salaries for policy-covered faculty and staff would translate into slightly more than $40 million in extra costs for the UC core funds budget. UC was proposing a 4.6 percent increase; a ten percent increase had been requested. This five percent difference would add about $200 million to UC's budget request to the State. Mr. Brostrom added that there be increases in retiree benefits as well, since these are based on salary.

Regent Pérez emphasized the importance of having a clear understanding of the budgetary implications of requests made to the University. President Drake commented that some of the requests being made were greater and would result in costs many times higher than the $200 million that had been mentioned.

Regent Sherman expressed concern about the fact that students were not taking as many units as they needed for timely graduation and asked about the cause of this. Mr. Brostrom responded that there was a marked decline in the last year by number of units. In part, this might be due to students taking on heavier course loads during the pandemic or during the summer and then needing fewer units to graduate or continue. There had been a decline in retention rates, and UC was concerned that some students were not making timely progress toward their degrees. Mr. Alcocer added that this pattern was seen at every campus. The campuses were well aware of this situation and were trying to address it. This trend was also being experienced by the California State University (CSU) system.

Regent Sherman asked if there was a lack of capacity and students were not able to enroll in required classes. Mr. Brostrom responded that this might have been the case for summer courses. Faculty who taught in summer 2021 decided to take the summer off in 2022. Chancellor May commented that, on his campus, there was no indication of a lack of capacity, but that this appeared to be a reflection of students' inclination to take or not take classes.

Committee Chair Cohen asked what the campuses were doing to acknowledge that students were under stress and to provide counseling about enrolling in courses and progress toward timely graduation. Chancellor May responded that the campus took a number of steps during orientation and at other opportunities to advise and counsel students on the number of course hours they need to stay on schedule. He believed that this phenomenon was a result of the pandemic and would right itself over time.

Committee Chair Cohen referred to the enrollment numbers that had been presented, which indicated that enrollment was remaining level rather than growing. This trend would be a matter of concern if it lasted more than a year or two. He asked if the chancellors were confident that UC would be back on track with enrollment growth in a year or two as expected by the Compact and the Regents. Chancellor May responded that the Davis campus had met its enrollment targets and expressed confidence that enrollment would normalize in the next year or two. Chancellor Muñoz observed that many college campuses across the U.S., not only in California, were seeing this phenomenon. Students were readjusting and colleges were recalibrating how they deliver advice and counseling. New techniques were being developed, and the support needed for Pell Grant recipients was somewhat different than for other students. He believed that students would return to enrolling in the number of units that they have in the past.

Regent Sherman asked if these data correlated with the decline in summer session enrollment. Mr. Brostrom responded in the affirmative. He noted that UC would have to closely monitor the decline in the number of community college students, which was a matter of serious concern and a nationwide trend.

Chancellor Gillman commented that the number of units in question was small but became greater when multiplied over a few hundred thousand students. The average difference was less than one class a year. In the early stages of the pandemic students had been taking more units; there was then a fluctuation. These students had experienced perhaps the most disruptive series of events in American public education. This was not an ordinary situation and reflected how students were coping with the lingering effects of the pandemic.

Regent Pérez recalled that, the prior year, students experienced difficulties reenrolling due to the treatment of federal loans during the pandemic. UC must be cognizant of this, which was also a problem for the community colleges and for transfer readiness. As the University worked to increase capacity, it must discuss with the State government whether it can receive some relief from the mandated two-to-one admission ratio for freshman and transfer students when there are fewer community college students ready to transfer. The COVID-19 pandemic had affected the K–12 system, and this might have a longer and further effect on community colleges, CSU, and UC. The sooner UC engaged in this conversation with the State, the sooner it would receive appropriate latitude.

Regent Makarechian asked how the planned enrollment growth would affect the student-faculty ratio and course availability. Mr. Alcocer recalled that there had been a rapid increase in the student-faculty ratio ten to 15 years prior. This had leveled off to some degree. There had been marginal improvement in the student-faculty ratio in 2021. In his view, the current pattern of enrollment in fewer course units was not related to a worsening of the student-faculty ratio. This ratio remained a concern, because it meant that there were more students in a classroom and less engagement between individual students and faculty members than had occurred ten or 20 years earlier. This was reflected in students' responses in surveys, which indicated a decline in percentages of students who state that they know a professor well enough to request a letter of recommendation from that professor.

Regent Makarechian asked if in fact there was or was not a problem regarding capacity and course availability. Mr. Alcocer responded that, while there had been fewer courses available in summer 2022 than in summer 2021, there had not been reports of a lack of course availability during the regular academic year.

President Drake commented that the difference in course unit achievement being observed equated to one class over a student's entire college career. This was insignificant for the individual but mattered for the University because it occurred across 200,000 students. Changes in summer and transfer enrollment were important factors, and the University should begin to recover from these changes in spring 2023.

Regent-designate Ellis expressed concern about adequate funding for services for disabled students. Some community colleges receive a State appropriation for disability services and view this budget as the entire budget for disabled student services. He hoped that UC would not take this approach and asked that the Regents examine gaps in services for disabled students and how services are being provided on the campuses, whether services are adequate, and legal mandates, especially at this point in the pandemic with the arrival of long COVID.

Committee Chair Cohen echoed this request and asked for a baseline and expectations for disability services on the campuses in the coming year. Mr. Brostrom explained that this is not a separate category; this funding comes from the overall State appropriation and other fund sources. He would provide information on how campuses allocate this funding.

Regent Pouchot expressed appreciation for the detailed list of projects included as an attachment to the background materials ("Planned Use of One-Time State Capital Support, 2023–24"). She suggested that seismic ratings could be added to the list, as well as additional description to underscore how important these projects are to students, faculty, and staff, such as information on seismic, roof, air flow, and elevator issues. Associate Vice President David Phillips responded that these categories could be added to the list and that the project descriptions could be improved. There were regular updates on seismic safety projects.

Staff Advisor Mackness observed that the University had accrued certain savings because it had not been able to fill vacancies across the system. This was beginning to emerge as a risk factor. She underscored that, while UC had quantified the cost of salary increases for employees, the risk presented by unfilled positions also represented a cost. Campuses were finding it increasingly difficult to hire needed employees, and this would be a reason for offering larger salary increases. The University should try to find additional funds to increase the salary rates and consider other ways to deliver value to staff, such as tuition reimbursement for dependents of UC staff. Mr. Brostrom acknowledged that there was a significant vacancy factor at the Office of the President and the campuses. UC was buying down the active employee health benefit costs by $29.5 million and retiree health benefit costs by $5.5 million to address the effects of inflation on employees and retirees.

Regent Matosantos asked if the University had sought opportunities under the Inflation Reduction Act or other funding not specifically for the University, but for which UC could make a good argument. Mr. Brostrom responded that the University was carrying out a detailed analysis of funding opportunities from the Inflation Reduction Act. President Drake was working with Governor Newsom on creative ways to address infrastructure needs. UC was working on multiple fronts in this endeavor.

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

9. **ANNUAL ACTUARIAL VALUATIONS FOR THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND ITS SEGMENTS AND FOR THE 1991 UNIVERSITY OF CALIFORNIA-PUBLIC EMPLOYEES' RETIREMENT SYSTEM VOLUNTARY EARLY RETIREMENT INCENTIVE 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 Operating Officer Nava began the discussion by noting that the University had been providing some form of retirement benefits since 1905. The Regents formally established the UC retirement system in 1961. The system had four benefit tiers: the 1976 tier, the 2013 tier, a modified 2013 tier, and a 2016 tier. In 1990, the University began a 20-year hiatus for employer contributions because the UC Retirement Plan (UCRP) was overfunded at that time; UC resumed contributions in 2010. The University established a new tier in 2013 and again in 2016, when UC added a defined contribution option for the first time. In 2019, the Regents established a multi-year schedule to increase contribution rates and modified this in 2021. The target was a 17 percent employer contribution by 2028. The contribution changes had been designed to maintain the viability of the UCRP.

In the current tier, the Retirement Choice Program, as of July 1, 2016, new hires can enroll in either the Pension Choice Plan or a 401(k)-style benefit, the Defined Contribution Plan, or Savings Choice. Employees who do not make an election within the first 90 days of employment are enrolled in the Pension Choice Plan by default. The 2016 tier provisions are the same as those for the 2013 tier, with the exception that pensionable earnings for new hires are subject to the California Public Employees' Pension Reform Act (PEPRA) maximum. Employees subject to the PEPRA maximum receive a Defined Contribution Plan supplemental savings benefit. If employees choose the Savings Choice Plan, they have a one-time opportunity, at five years, to move to the Pension Choice Plan. Ms. Nava presented a chart showing employees' retirement choice activity since July 1, 2016. Sixty-three percent of new hires had enrolled in the Pension Choice Plan, either through active election or default, while 37 percent had elected the Savings Choice Plan. Of those employees eligible to move from the Savings Choice to the Pension Choice Plan, 15 percent chose to do so.

Regent Pérez asked about the number of the employees who chose to move to the Pension Choice Plan. Ms. Nava responded that currently, this was a total of 232 employees.

Ms. Nava then presented a chart with UCRP member demographic information. The 1976 tier had the largest number of active members, 37 percent, but the Retirement Choice Plan, including the 2016 tier and the Savings Choice Plan, accounted for 28 percent. There were more than 85,000 retired and disabled members and survivors receiving UCRP benefits. There were about 38,000 inactive members who would be eligible for benefits at a future time.

Segal representative Paul Angelo explained that, for public sector retirement systems, an actuary provides an annual actuarial valuation, which measures the funded status of the retirement plan by reviewing assets and liabilities and compares the past year's experience to assumptions. The actuary also calculates the Total Funding Policy Contribution, which is a combination of the normal cost, the portion of the cost allocated to active members for the current year, on a percentage of pay basis, and an amortized payment toward the unfunded liability. The University uses a 20-year layered amortization. Every year, UC identifies a new piece of unfunded liability and sets up a new separate layer for that year.

Mr. Angelo noted that the most interesting element of the UCRP experience over the last year that affected the valuation results was the fact that, in the previous year, there was a large investment gain, a 30 percent market return on retirement assets, whereas, in the most recent year, there was an absolute loss of ten percent. This experience provided a good example of why UC's Total Funding Policy Contribution includes asset smoothing, which manages short-term volatility.

The actuarial value of assets is the five-year, smoothed value. The market value of the UCRP decreased during 2021–22 from $92 billion to about $81.5 billion, but the smoothed value increased slightly from about $81 billion to about $86 billion. The smoothed value is used, compared to plan liabilities, to calculate the Total Funding Policy Contribution. The difference between the market value and the smoothed value this year indicated that about $4.3 billion of the market loss was being deferred and recognized in future years. The prior year, there had been $11 billion of gains that was deferred. The UCRP went from deferring gains to deferring losses because of a high market return two years prior followed by the market loss in the current year.

The actuarial accrued liability of the UCRP was about $103 billion, an increase from $97 billion the previous year. This was normal growth in liability from year to year. On a smoothed basis, the unfunded liability increased slightly from about $16.5 billion to $17 billion. On a market value basis, the unfunded liability increased from $5.5 billion to $21.4 billion; this fully recognized the ten percent loss in the most recent year. The funded ratio or percentage of the UCRP, on a smoothed, actuarial value basis, increased slightly from 83.1 percent to 83.5 percent. This was because the rate of return on a smoothed basis was almost the same as the assumed return of 6.75 percent. In contrast, on a market value basis, the funded ratio went down significantly to about 79 percent from about 94.5 percent the prior year, because this fully recognized the market loss in 2020–21.

The normal cost is the portion of the projected value of benefits for active members, allocated to each year of service. This was a fairly stable number. As a percentage it increased slightly from 20.5 percent to 20.7 percent from last year to this year, and in dollars from $2.6 billion to $2.8 billion. The Total Funding Policy Contribution rate was remarkably flat, 32.68 percent last year compared to 32.87 percent this year.

Mr. Angelo presented a chart showing the UCRP investment rates of return from 2002–03 to 2021–22. In the most recent year, the UCRP experienced a negative return of slightly more than ten percent. Because the UCRP had assumed a return of 6.75 percent, on an actuarial basis, the market value loss was 17 percent. However, under UC's funding policy, the funded status and the Total Funding Policy Contribution are not driven by market value returns but rather by the actuarially smoothed value of returns. Each year, the actuary compares the market return to the assumed return, and the difference is spread over five years. Thus, for 2021–22, the rate of return on a five-year smoothed basis was about 6.8 percent, just above the 6.75 percent assumption. In the previous year, the market return had been 30 percent, followed by a negative ten percent this year. Actuarial smoothing can dampen this short-term volatility by allowing year-to-year gains and losses to offset each other.

Mr. Angelo then presented a chart illustrating the funded ratio of the UCRP at July 1 from 2013 to 2022. As is the case for rates of return, the funded ratio on a smoothed basis generally follows the pattern of the market value basis, but with much smaller fluctuations. For example, after the ten percent market loss in 2021–22, the funded ratio was 84 percent on a smoothed value basis, but five points lower, 79 percent, on a market value basis. The previous year, following a 30 percent market gain in 2020–21, the funded ratio on a market value basis was 11 points higher than the ratio on an actuarial value basis. Mr. Angelo drew attention to the fact that the funded ratios in 2022 were only modestly greater than the corresponding funded ratios ten years earlier. He ascribed this to the fact that during these ten years there were two experience studies, and, based on these experience studies, the Regents adopted more conservative assumptions.

At the beginning of this period shown on the chart, the assumed return or discount rate used to measure liabilities was 7.5 percent. In the most recent valuation, the discount rate was 6.75 percent. Mr. Angelo stated that having the UCRP funded at 79 percent with a lower discount rate was preferable to the earlier, higher rates. Although the ratios on this chart appeared somewhat flat because the University has recalibrated the UCRP liabilities to more conservative assumptions, the UCRP was now in fact in a stronger funded status.

Finally, Mr. Angelo presented a chart projected with UCRP contribution amounts from 2022 to 2031. The chart compared the Total Funding Policy Contribution to the actual contributions that have been approved by the Regents. He reiterated that the Total Funding Policy Contribution is the total of the normal cost amount plus an amount to amortize the unfunded liability. The normal cost would decrease slightly over time because, as members retire from the 2016 tier, a slightly higher benefit tier, and are replaced by new hires in the lower benefit tiers, this lowers the amount of cost that accrues each year. The chart showed the member and employer contribution and the unfunded actuarial accrued liability (UAAL) surcharge. Mr. Angelo explained this surcharge by recalling that, when the Savings Choice Plan was established, the issue was raised that the members enrolling in Savings Choice would no longer be making contributions toward the unfunded liability, and the more employees enroll in Savings Choice, the less funding would go toward the unfunded liability. This was corrected by a policy and design adopted by the Regents, so that the University makes a contribution toward the unfunded liability for those members who elect the Savings Choice Plan. The funding of the defined benefit plan is not affected by the number of employees enrolling in the Savings Choice Plan.

The chart also showed transfers from the Short Term Investment Pool (STIP) in 2022 and 2023, about $500 million each year, and the contribution shortfall. Even with the future increases in employer contributions up to 17 percent, the projected total contributions to the UCRP would not meet the target funding levels for the University's actuarially determined contribution. The projected shortfall was over $900 million for the next two years and would increase to nearly $2 billion by the end of ten years. Mr. Angelo observed that this was not a benefit security issue but underscored that the current approved contributions fell short of what would be required under a full actuarially determined contribution. Segal would present an experience study to the Regents the following year. The study would review all the assumptions, economic and demographic, and recalibrate the liability. Segal would then take a fresh look at the approved funding policy levels and suggest any appropriate action.

Committee Chair Cohen asked Mr. Angelo how concerned he was, from an actuarial perspective, about the University borrowing significant amounts at 6.75 percent interest to fund the retirement system. Even if all the assumptions that were presented were accurate and remained so after the next experience study, the University would keep falling behind the goal of a fully funded pension. Mr. Angelo responded that, in setting funding policy, one should consider three things: benefits security, contribution stability, and intergenerational equity. Regarding benefits security, Segal carries out a forward projection and Segal expected that the 17 percent employer contribution and investment returns would be sufficient to make all benefit payments to all current and future members, although the amount would be close. In a year with bad returns, or if the UCRP moves to more conservative assumptions, there could be a projected shortfall. Segal had also carried out a sensitivity analysis of the effect of a year with a zero return. In such a case, the 17 percent contribution would be sufficient to pay benefits for all current members, projected out for the remainder of their lives through retirement and until death, but not necessarily for future hires. Mr. Angelo did not believe that there was an immediate benefits security concern. Regarding the issue of intergenerational equity, the full actuarial costs of the UCRP were being deferred to future generations. The plan would not run out of money, but there was a transfer of an obligation from one generation to another.

Committee Chair Cohen referred to the experience study to be presented the following year and asked if there were any salient issues one could already observe now, such as retirement rates or the impact of the COVID-19 pandemic on UCRP membership. Mr. Angelo responded that, unless there was a change in real returns, which would not be known until the study, the UCRP might be able to maintain the 6.75 percent discount rate. The last several experience studies that Segal has carried out for other retirement benefit plans had shown relatively flat cost impacts. Given the current discount rate, inflation rate, and mortality, there might be fewer surprises. Pension plans did not know at this point how COVID-19 would affect them. Regarding retirement rates, Mr. Angelo reported that the California State Teachers' Retirement System (CalSTRS) had experienced a significant wave of retirements, but there had been nothing so dramatic at UCRP. In performing the experience study, whenever there is an extraordinary period, the actuary reviews and filters out elements of the experience that the actuary does not believe will obtain in future years.

Mr. Angelo believed and hoped that, in fact, the experience study would turn out to be rather boring.

Regent Makarechian asked Mr. Angelo what he believed that Segal's suggestions would be in the following year, based on the current status of the UCRP. Mr. Angelo responded that if the experience study turned out to be "uneventful," then the charts would look very much like the charts being presented at this meeting. On an actuarially funded basis, and ignoring the STIP borrowing, there was an approximately ten percent difference between the total contribution of about 22.45 percent and the Total Funding Policy Contribution of 32.8 percent. The 17 percent employer contribution, plus the employee contribution and the UAAL surcharge, fell about ten percent short of the actuarially determined contribution.

Regent Makarechian emphasized that the University should not put off dealing with the shortfall. He expressed concern that future employees would have to pay for the current underfunding. Mr. Brostrom expressed disagreement, declaring that the STIP borrowings had been a significant benefit to the UCRP. There had been about $6.5 billion in borrowing since this began in 2011, and the borrowing had added about 12 percent to the actuarial valuation. Without the STIP borrowing, the funded ratio would be 72 percent. The University currently had more liquidity than it needed. Mr. Brostrom would advise a multi-year plan to increase the STIP borrowing, although the STIP rate was rising.

Regent Reilly asked if the difference between the employer and employee contributions was standard for an institution like UC. Mr. Angelo responded in the affirmative. For plans governed by PEPRA, the normal cost is divided evenly between the employer and employees. The payment toward the unfunded liability is paid entirely by the employer. At one point the UCRP normal cost was around 16 percent. Since that time, more conservative assumptions were applied and the normal cost had increased to 21 percent, but the employee contribution had remained at eight percent. If the UCRP were a PEPRA plan, the employee contribution would be about 10.5 percent.

Regent Reilly asked if the contribution amounts were negotiated. Ms. Nava responded that the rates were subject to collective bargaining for represented employees.

Regent Sherman asked how the UCRP contribution rates compared to contributions to the Retirement Savings Program. Actuarial Services Manager John Monroe responded that for the Savings Choice Plan, the employer contributed eight percent into the member's Defined Contribution account, and the member contributes the same. Eight percent was the average across the board, while seven was the percentage for the most recent tier.

Regent Sherman asked if this was a match, or if the employer contribution would be made in any case. Mr. Monroe responded that this would be contributed in any case. The employer contributed an additional six percent to pay down the liability. The employer contributed 14 percent regardless of whether the employee had selected the Savings Choice or Pension Choice Plan.

Regent Sherman asked about UC's total cost for the Defined Contribution. Ms. Nava responded that the 14 percent cost was the same for both plans, Savings Choice and Pension Choice. Employees in the 2016 tier paid seven percent.

Regent Sherman remarked that these employees were paying a little less. Ms. Nava explained that, when UC implemented the 2016 tier, the normal cost was less than for prior tiers. Employees in the 1976 tier were paying eight percent.

Regent Sherman supposed that as time went on, the campuses would be paying more based on this schedule, while the Defined Contribution would remain level. Mr. Monroe responded that the Defined Contribution would also increase. Ms. Nava added that both plans were aligned. As the employer contribution increases for the pension plan, it also increases for the Defined Contribution Plan.

Regent Sherman asked if the market risk was 100 percent the University's under the Defined Benefit Plan while it was 100 percent the employee's under the Defined Contribution Plan. Ms. Nava confirmed that this was the case.

Regent Sherman asked about the percentage breakdown among the plans. Mr. Monroe responded that about 63 percent of employees have elected the pension or Defined Benefit Plan, while 37 percent have elected the Savings Choice or Defined Contribution Plan.

Regent Sherman asked if, after a few years, one of the plans was more portable than the other. Ms. Nava responded that an employee does not vest in the pension plan until five years of service are completed. If employees leave before the five years are completed, they take their own contribution but not the University's contribution.

Regent Sherman asked if it was younger employees who were tending to choose the Defined Contribution Plan. Mr. Monroe responded that it was employees who were younger at hire and those more likely to separate from UC earlier. Mr. Brostrom added that UC had received a private letter ruling from the Internal Revenue Service to allow a second choice for employees who wish to move from the Defined Contribution to the Defined Benefit Plan after five years.

Regent-designate Ellis asked about the role of the Governor and the Legislature in addressing the UCRP unfunded liability. Ms. Nava responded that when UC implemented the 2016 Tier, this was part of a Compact with former Governor Brown, and the University received a $436 million contribution toward the unfunded liability.

10. ANNUAL ACTUARIAL VALUATION OF THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT 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 Operating Officer Nava recalled that the Retiree Health Benefit Program is administered as a pay-as-you-go benefit. Actual cash costs were \$343 million for the last fiscal year; this was only \$4 million lower than the expected amount that had been budgeted based on the valuation. Projected cash costs were \$359 million for fiscal year 2022–23. The assessment charged to the campuses and medical centers was 2.23 percent of covered payroll. UC's contribution for fiscal year 2022–23 was projected to increase by 4.5 percent due to a combination of higher medical premium rates and an increase in the number of covered retirees. UC continues to manage its program costs actively each year. Ms. Nava recalled that retiree health benefits are not an accrued or vested benefit entitlement and can be changed by the University at any time. In the annual valuation of the program, a number of factors affected the overall performance and long-range estimates. There was a decrease in the program's liability as of July 1, 2022, from \$24.5 billion the prior year to \$19.8 billion. This was due in part to an increase in the discount rate. The discount rate was based on a 20-year municipal bond index and had moved from 2.16 percent to 3.54 percent.

11. **REPORT OF BUDGET TO ACTUAL EXPENDITURES FOR FISCAL YEAR 2021-22 FOR THE OFFICE OF THE PRESIDENT AND FIRST QUARTER FISCAL YEAR 2022-23 RESULTS**

[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 Operating Officer Nava presented the report of budget to actual expenditures for the Office of the President (UCOP) for fiscal year 2021–22, and the first quarter results for fiscal year 2022–23. Looking back at the performance of last year's budget, the year was better for UCOP than the prior year had been. There were three areas that affected expenses and performance relative to budget. The COVID-19 pandemic caused significant changes to the talent market. This led to vacant positions and longer times to hire, and this affected UCOP's ability to spend funds. There were challenges in the distribution of grant funds as quickly as planned. She recalled that the prior year at this time, the Regents amended the UCOP budget following additional State support, but it has not been possible to spend this money in the timeframe anticipated. UCOP underestimated the time required to launch new programs and underspent. For the fiscal year, expenditures were \$883 million, which was 12.3 percent below budget. Over the last few years, UCOP has been trending about two percent under budget, so this number was a significant departure from prior years.

The Agricultural and Natural Resources Division was under budget by \$47.8 million. The new incremental funding from the Legislature and the Governor last year was underutilized due to the time needed to build up programs and hire researchers throughout California. There was also slower than expected spending in the Tobacco-Related Disease Research Program, which was under budget by \$29.3 million. If one factored out these two major variances, UCOP was tracking about six percent under budget.

Another major budget variance pertained to systemwide and core services, which were under budget by $20 million. Ms. Nava attributed this to salary savings due to vacant positions and difficulty hiring. The UCOP vacancy rate was about 13 percent, higher than the average, which was usually nine percent. The UCOP vacancy rate was somewhat higher than the rate for the rest of the UC system.

Regarding reserves and fund balances, Ms. Nava reported that UCOP reserves were within the recommended range. Fund balances for the year ended at $66.3 million net of commitments, 34 percent lower than the prior year. Most of this was in designated funding and Laboratory reserves. Unrestricted fund balances were under $1 million for the year.

In results for the first quarter of fiscal year 2022–23, UCOP was tracking the budget. Quarter One expenditures were $255 million, under budget by 1.5 percent. UCOP had become better at and more precise in booking its budget to expected monthly expenditures.

Committee Chair Cohen asked if UCOP were taking steps to improve the speed of hiring, recruitment, and retention. Ms. Nava responded that UCOP was making a concerted effort, hiring for call centers for the UCPath system and in the Retirement Administration Service Center. UCOP was seeking external help in going to market and accelerated hiring. UCOP was reviewing its hiring processes and time to hire, to make processes as streamlined as possible and less bureaucratic, and paying attention to how and where UCOP was marketing positions, recruitment, and retention.

The meeting adjourned at 4:10 p.m.

Attest:

Secretary and Chief of Staff

University of California

Attachment 1

2023-24 Budget Plan for Current Operations

(dollars in millions)

2022-23 CORE FUNDS FOR CURRENT OPERATIONS

Total Core Funds (State General Funds, Student Tuition and Fees, and UC General Funds)	**$**	**10,567.3**

PROPOSED CHANGES IN EXPENDITURES

Sustaining Core Operations		
Faculty compensation: policy-covered	$	97.4
Faculty merit program	$	37.1
Staff compensation: policy-covered	$	69.0
Contractually committed compensation	$	37.0
Retirement contributions	$	72.7
Employee health benefits	$	24.3
Retiree health benefits	$	6.8
Non-salary price increases	$	55.4
Debt service for AB 94 capital projects	$	6.0
Subtotal	***$***	***405.7***
Enrollment Growth		
Compact: 2,000 CA undergrad, 625 grad*	$	55.5
Subtotal	***$***	***55.5***
Student Financial Aid		
New enrollment (2,000 undergrad, 625 grad)	$	16.1
Add'l 900 aid-eligible undergrads (NR swap)	$	4.0
Tuition/Fee/NRST Adjustments	$	58.2
Subtotal	***$***	***78.3***
Additional High-Priority Investments		
DDS-ASPIRE	$	1.8
EXPENDITURES TOTAL	**$**	**541.3**

PROPOSED CHANGES IN REVENUE / RESOURCES

Alternative Revenue Sources		
Procurement savings	$	13.8
Asset management	$	30.0
Nonresident enrollment growth (560), net	$	10.8
Subtotal	***$***	***54.7***
State General Funds		
5% Base Budget Adjustment	$	218.3
Convert 900 nonresident to resident slots		
Offset lost nonresident tuition revenue	$	27.9
Aid for add'l 900 eligible undergrads	$	4.0
DDS-ASPIRE	$	1.8
Subtotal	***$***	***252.0***
Tuition and Fees		
For campus operations		
Enrollment growth (net of aid)	$	32.0
Nonresident tuition reduction from swap	$	(27.9)
Tuition/Fee Adjustment (net of aid)	$	61.4
Nonresident tuition adjustment (net of aid)	$	26.9
For student financial aid		
From enrollment growth	$	16.1
From Tuition/Fee/NRST adjustments	$	58.2
Subtotal	***$***	***166.7***
REVENUE / RESOURCES TOTAL	**$**	**473.4**
Add'l cost savings/revenues required	***$***	***67.9***

ADDITIONAL REQUEST FOR ONE-TIME STATE FUNDS

Capital Support for Facilities Renewal, Enrollment Growth, and Clean Energy Projects	**$**	**1,200.0**

Figures may not sum to totals due to rounding.

** Does not include additional CA undergraduate growth beyond the level in the Compact, which would be funded from the University's 2022-23 State appropriation together with students' tuition and fees.*