The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
March 16, 2022

The Finance and Capital Strategies Committee met on the above date at the UCSF-Mission Bay Conference Center, 1675 Owens Street, San Francisco and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Regents Cohen, Kounalakis, Lott, Makarechian, Ortiz Oakley, Pérez, Reilly, Sherman, and Zaragoza; Ex officio members Drake and Leib; Advisory members Horwitz and Pouchot; Chancellors Christ, Gillman, Hawgood, Khosla, Muñoz, and Wilcox; Staff Advisor Lakireddy

In attendance: 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, Senior Vice President Colburn, Vice President Leasure, and Recording Secretary Johns

The meeting convened at 1:50 p.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes the meeting of January 19–20, 2022 were approved, Regents Cohen, Drake, Kounalakis, Leib, Makarechian, Ortiz Oakley, Pérez, Reilly, Sherman, and Zaragoza voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Budget, Scope, External Financing, Standby and Interim Financing, and Design Following Action Pursuant to the California Environmental Quality Act, Falling Leaves Foundation Medical Innovation Building, Irvine Campus***

The President of the University recommended that:

(1) The 2021–22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Irvine: Falling Leaves Foundation Medical Innovation Building – design, construction, and equipment – $230 million to be funded from gifts ($50 million), external financing ($120 million), and campus funds ($60 million).

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

(2) The scope of the Falling Leaves Foundation Medical Innovation Building project be approved. The project scope shall consist of constructing an approximately 200,000-gross-square-foot (gsf) and 120,000-assignable-square-foot (asf) building that would provide research laboratory and support space, an animal research facility, scholarly activity space, academic and administrative office and support space, public space, and building support. Site development shall include hardscape and landscape; a loading and service area; and vehicular circulation improvements, including a drop-off area. The square footages noted are subject to change based on the selected design-build proposal. In recognition of current construction market volatility, if the design-build teams are unable to provide a bid that delivers the full program within the approved budget, the campus would deliver a portion of the program (animal research facility and/or a research laboratory floor) as shell space, to be built out when additional funds are available.

(3) The President be authorized to obtain external financing in an amount not to exceed $120 million, plus additional related financing costs, to finance the Falling Leaves Foundation Medical Innovation Building project. The President shall require that:

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

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

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

(4) The President be authorized to obtain standby financing in an amount not to exceed $10,035,000 and interim financing in an amount not to exceed $19.9 million, plus additional related financing costs to finance the Falling Leaves Foundation Medical Innovation Building project. The Irvine campus shall satisfy the following requirements:

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

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

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

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

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

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

(5) Following review and consideration of the environmental consequences of the proposed Falling Leaves Foundation Medical Innovation 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 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:

a. Adopt the Initial Study and Mitigated Negative Declaration for the Falling Leaves Foundation Medical Innovation Building project.

b. Adopt the Mitigation Monitoring and Reporting Program for the Falling Leaves Foundation Medical Innovation Building project and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UC Irvine.

c. Adopt the CEQA Findings for the Falling Leaves Foundation Medical Innovation Building project.

d. Approve the design of the Falling Leaves Foundation Medical Innovation Building project.

B. ***Amendment of Regents Policy 5307: University of California Debt Policy***

The President of the University recommended that the Regents amend Regents Policy 5307: University of California Debt Policy, as shown in Attachment 1.

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

Committee Chair Cohen briefly introduced the consent agenda.

With reference to the UC Debt Policy, Executive Vice President and Chief Financial Officer Brostrom reported that Moody’s Investors Service, one of the three rating agencies that rate the University, had affirmed UC’s Aa2 rating that week, with a stable outlook, and this in a sector where there was a negative outlook. This was good news.

Upon motion duly made and seconded, the Committee approved the President’s recommendations and voted to present them to the Board, Regents Cohen, Drake, Kounalakis, Leib, Makarechian, Ortiz Oakley, Pérez, Reilly, Sherman, and Zaragoza voting “aye.”

3. **WORKING DRAWINGS FUNDING, SCOPE, STANDBY FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT AND MAKE-READY CONSTRUCTION FUNDING; GATEWAY NEW ACADEMIC BUILDING, BERKELEY CAMPUS**

The President of the University recommended that:

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

From: Berkeley: <u>Data Hub New Academic Building</u> – preliminary plans – $30 million to be funded from gift funds.

To: Berkeley: <u>Gateway New Academic Building</u> – preliminary plans and working drawings for the entire project, and construction of the Site and Make-Ready Work portion of the project – $64.28 million to be funded by gift funds.

B. The scope of the Gateway New Academic Building project be approved. The project shall provide an academic building of approximately 375,600 gross square feet (213,000 assignable square feet(asf)) comprised of office space (75,000 asf), meeting space (75,000 asf); research laboratories (15,000 asf); classrooms (19,000 asf); study space (12,000 asf); and other support and shared spaces to support occupants (17,000 asf); and public realm and circulation improvements, including an improved campus entry at Hearst Avenue; improvements to Bayard Rustin Way and MacFarlane Lane; and landscape and public gathering spaces throughout the site. The scope of the Site and Make-Ready portion of the project shall include permanent power, storm drain connections, demolition of the Wellman Hall Courtyard trailers, and fiber optic line relocation.

C. Standby financing be approved in an amount not to exceed $64.28 million plus related interest expense and additional related financing costs to finance the Gateway New Academic Building project. The Berkeley campus shall satisfy the following requirements:

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

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

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

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

D. Following review and consideration of the environmental consequences of the Gateway New Academic 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) Adopt the CEQA Findings for the Gateway New Academic Building project, having considered both the UC Berkeley 2021 Long Range Development Plan and Housing Project #1 and #2 Environmental Impact Report (2021 LRDP EIR) and Addendum #1 to the 2021 LRDP EIR for the Gateway New Academic Building project.

(2) Make a condition of approval the implementation of applicable Mitigation Measures and Continuing Best Practices within the responsibility and jurisdiction of UC Berkeley as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2021 LRDP and Housing Project #1 and #2 EIR.

(3) Approve the design of the Gateway New Academic Building project, Berkeley campus.

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

Chancellor Christ recalled that this project had been presented to the Regents in September and November 2020, then called the Data Hub New Academic Building. This building would house UC Berkeley's new Division of Computing, Data Science, and Society. This division was being reviewed as a potential new college on the Berkeley campus. The building project had since been renamed the Gateway New Academic Building.

The data science major was the fastest growing major at UC Berkeley. This space would facilitate collaboration to advance the campus' signature initiatives, which responded to society's great challenges in areas such as ethical artificial intelligence, technical innovation, environmental sustainability, public health, and social justice. The project would respond to enrollment and program growth with new academic space that would be better designed and incorporate flexible spaces and purpose-built spaces for maximum efficiency, flexibility, and resiliency. The new building would be all-electric, compliant with the UC Sustainable Practices Policy, and provide critically needed space to support UC Berkeley students. The project was planning for electric battery storage and the rooftop would be capable of accommodating a future solar photovoltaic installation. The Gateway New Academic Building would be an important component of the campus' seismic improvement strategy, accommodating programs and people currently located in multiple buildings that were prioritized for seismic improvement, including Evans Hall. The replacement space provided by the Gateway New Academic Building would reduce the impact of future moves when these other buildings undergo seismic retrofit or are demolished. This project was an incredible testament to philanthropic support for the campus' bold academic vision in Computing, Data Science, and Society. The campus had approximately $320 million pledged or gifted to date, including a gift of $250 million from a single lead donor, one of the largest gifts ever to the Berkeley campus.

Approval of this item would enable the campus to keep the project moving forward, maintaining a critical project schedule while the campus continued its fundraising efforts for construction. The Site and Make-Ready Work component of the project was being fully funded by donor funds and would expedite delivery of the project. The scope of the Site and Make-Ready Work package was necessary for any future development to occur in this area of the campus. Chancellor Christ anticipated that the campus would return to the Regents later in 2022 to request approval of the full project budget and construction.

Committee Chair Cohen asked about the campus' commitment to the neighborhood adjacent to this project. Chancellor Christ stated that UC Berkeley was deeply committed to working with the campus neighbors. There had been no neighborhood opposition to this project.

In response to another question by Committee Chair Cohen, Chancellor Christ confirmed that this project was part of the campus' Long Range Development Plan. She recalled that there had been a massive building on this site, Tolman Hall, which was demolished due to seismic deficiency.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Cohen, Drake, Kounalakis, Makarechian, Ortiz Oakley, Reilly, Sherman, and Zaragoza voting "aye."

4. **PRELIMINARY PLANS FUNDING, TRITON CENTER, SAN DIEGO 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:

San Diego: Triton Center – preliminary plans – $16.25 million to be funded from campus funds.

[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 recalled that this project had been presented in the past and had then been called the Triton Pavilion for Student Resources and Community Engagement. This project would replace a collection of 1940s era one-story buildings that occupied the geographic center of the campus. These buildings had low density, were costly to maintain and energy-inefficient, and most had low seismic performance ratings. The Triton Pavilion project had received preliminary plans funding approval in May 2018. When UC San Diego concluded the initial planning effort in February 2020, it became clear that the target budget and schedule would not be met. The campus decided to make a change and separate from the contractor. A few weeks later, the COVID-19 pandemic hit the campus, and the campus paused all efforts related to the Triton Pavilion project and stopped all projects on which it had not yet broken ground. About a year ago, UCSD resumed this activity again to determine if and how it might be able to continue with its plans for this important project. Due to COVID-19 and evolving space needs, the campus completely revised the project to gain efficiency and provide opportunities to include critical student support space. The revised Triton Center project reflected a substantially altered program with three key priorities: (1) student health, mental health, and well-being; (2) the Teaching and Learning Commons; and (3) the Transfer Student Success Hub.

UCSD had developed an inclusive and integrative model for student mental health and well-being, operated through an ecosystem of support. There was a critical need now, more than ever, for student health and mental health services. On the campus last year, there were a total of 29,352 visits; in this year, the visit volume would surpass this number. As of January, the campus had seen a 75 percent increase over the prior year. The campus also saw a critical need for expanding access to counseling and psychological services, and Chancellor Khosla cited statistics showing the increasing use of these services over the last two years.

The mission of the Teaching and Learning Commons was to enhance learning and increase academic success. In the last five years, student visits to the Commons had increased from 6,150 to more than 51,000, an increase of about 830 percent, and more than

8,000 undergraduates now used the Commons on a regular basis. The Commons had produced positive outcomes, especially for first-generation and underrepresented minority students. Since 2012–13, UCSD had increased its overall four-year degree attainment from 57 percent to 72 percent and had reduced disparities between underrepresented minority and non-underrepresented minority students; Chancellor Khosla credited the Teaching and Learning Commons and its activities for these outcomes.

The Transfer Student Success Hub was temporarily housed in a small space in the Biomedical Library. Locating it in the Triton Center, in the heart of the campus, would better serve the needs of transfer students. UCSD's transfer student population was diverse, and 46 percent of these students were first-generation students. The Hub would provide specialized advising and access to campus resources.

The Triton Center would also include an Alumni Center. UCSD had 215,000 alumni. The campus would complete a ten-year fundraising program this year and had raised $2.94 billion. Alumni giving had increased over time and it was clear that alumni would play a significant role in the future.

UCSD was already fundraising for the Triton Center. Chancellor Khosla was hopeful that two alumni donors might provide between $50 million and $70 million for the mental health component and that UCSD might receive a $25 million gift for the Alumni Center.

Regent Ortiz Oakley asked about the need for an Alumni Center and what UCSD hoped to gain by this space. He asked how the new Transfer Student Success Center in this facility would be different from the existing space. Chancellor Khosla responded that the Transfer Student Success Center would be a hub location for transfer students to access services. Transfer students were being left behind by the campus' college system. Transfer students did not have a significant space of their own. This would be their space and would be located next door to the Teaching and Learning Commons, which provided many services used by transfer students. With regard to the Alumni Center, Associate Chancellor Suzi Sterner explained that alumni did not see a home for themselves on the campus. The Alumni Center would celebrate the history of the campus, including a Hall of Fame recognizing prominent alumni. It would be in the center of the campus amidst the students. Chancellor Khosla recalled that, many years prior, UCSD placed the career center administratively with the alumni relations group. The idea was that students and alumni would meet for mentoring and job opportunities. The cost of the Alumni Center would be covered by fundraising; UCSD alumni would pay for the project.

Regent Makarechian commented that it was good that alumni would pay for this project.

Regent Reilly expressed excitement about the plan, and especially that student health services and counseling and psychological services would be located together.

Regent Zaragoza asked how UCSD would include students in the design process. Chancellor Khosla responded that this would be a complex of four buildings in a quadrangle. UCSD had made it clear to the design team that had been hired that the team must receive student, faculty, and staff input and hear their concerns. Students would be part of the design process by mandate.

Committee Chair Cohen commented that this project was a significant re-envisioning of this part of the campus and congratulated the UCSD team on their work. Chancellor Khosla added that student health services were managed by UCSD Health. There would also be a staff health services center in this building. Staff with UC health plan coverage would be able to see their doctor on campus.

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

5. **CONCEPTUAL PLAN FOR DEVELOPMENT OF NORTH IRVINE STAFF HOUSING, IRVINE 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 Gillman began the discussion by recalling that, for many decades, UC Irvine had been a national leader in providing affordable on-campus employee housing. Since 1983, nearly 1,230 for-sale homes and over 380 apartments had been developed for faculty and staff at UCI. In November 2021, the Regents approved an amendment of the ground lease with the Irvine Campus Housing Authority to expand University Hills, the campus' academic community in residence, allowing the development of an additional 102 for-sale homes. Despite the success of University Hills, there was significant unmet demand, driven by the rising cost of housing in the local market. This was particularly true for staff and non-Academic Senate faculty, who rarely had the opportunity to purchase a home in University Hills due to the priority given to newly recruited Academic Senate faculty. The need for attainable high-quality housing options remained a critical issue for recruitment and retention of staff in general, both on the main campus and at the UCI Health locations. UCI was grateful for its partnership with the Division of Agriculture and Natural Resources (ANR) for the use of 40 acres at the ANR research and extension center in the City of Irvine, which UCI was proposing for development of 800 for-sale and rental housing units.

Regent Makarechian urged the campus to increase the density of the project, eliminate large parking spaces, and consider podium construction. This land was valuable. He asked how staff would be selected and about UCI's pricing and market studies. Chancellor Gillman responded that the campus had heard and understood the Regents' guidance on ensuring that UCI was taking full responsibility for the amount of land it had and was deriving as much benefit as possible from this land. The campus would explore the possibility of a denser footprint for the project. In beginning the actual programming, the campus must have a sense of whether making this an even more dense development might increase the cost such that UCI could not accomplish its goal. The campus would study the density question, but there would be a point at which higher density might increase the construction cost. Interim Vice Chancellor Richard Coulon added that UCI was considering podium construction as a way to add density. The campus was trying to ensure that it was allowing for the best use of the land for staff. Affordability was essential. Even if the pricing was 30 percent below market rates, the campus would still have to ensure that this housing was affordable in terms of UCI staff salaries.

Regent Makarechian emphasized that land was the biggest portion of the cost. The greater the density, the lower the land cost per unit, and the lower the sales prices. Adding more units would lower the land cost and increase affordability. The campus was unlikely to find any more land in Orange County and must make the best use of the land it had. He asked the campus to study this matter and add as many units as possible. Affordability was a concern for staff and faculty and would continue to be in the future.

Regent Pérez praised the proposed project. He expressed agreement with Regent Makarechian that there was nothing rarer than land. It was essential to maximize the use of this land. He asked how the proposed density per acre compared to the latest phase of the Great Park development in Irvine. Assistant Vice Chancellor Richard Demerjian responded that UCI did not have a direct comparison to the latest phase. The campus had looked at the surrounding community in the Great Park and Portola Springs neighborhoods. The products UCI was considering were in that density range. Based on the Regents' advice, UCI could consider denser product types, building higher and using podium parking.

Regent Pérez stated that the University must consider parking differently today than it had ten or 20 years prior. The reason for asking about the latest phase in Great Park was that the City of Irvine was master planned, and one could learn from each phase of planning. Housing was becoming denser. Increasing the density of the UCI project would not increase the cost per unit. The net construction cost would increase, but the per-unit cost would not increase. There did not have to be one density profile across the entire UCI development, but the net density should be higher than what was being proposed. There were lessons to be learned from developments in Great Park and in the region. Chancellor Gillman responded that there were many single-family homes in Great Park; it would be surprising if the UCI project were not denser than Great Park. This comparison would be part of UCI's analysis. The campus had good relations with the City of Irvine. The City was excited about this project but the City and the campus needed to have serious discussions about mitigation measures. In planning the density of the project, it was important that the City be supportive of the final result.

Regent Pérez observed that the City of Irvine had not been effective in producing affordable housing. UCI's creation of affordable housing benefitted the City in terms of its obligation for affordable housing options. Chancellor Gillman responded that this point had been taken up in conversations with the City.

Regent Pérez commented that UCI was helping the City with its obligation and that the City should demonstrate some flexibility about density. Chancellor Gillman responded that he was optimistic about discussions with the City. In response to Regent Makarechian's earlier question about the selection process, he explained that there was a well-established lottery process for University Hills. That exact lottery system could not be applied to this housing ecosystem because UCI wanted to accommodate different groups of people and provide different levels of affordability. UCI would use some kind of lottery system analogous to that used for University Hills. Some adjustments to the University Hills management approach might be required. This was being evaluated by a separate group, and UCI would have a developed plan for selection when it presented this item again at a future meeting.

Regent Makarechian reflected that a lottery would result in winners and losers. He asked about the priority of affordability. Some staff needed this housing because they could not afford any housing in Orange County. He asked if UCI took this into account and noted that many buildings now being constructed in Orange County had five, seven, or more stories. UCI should consider the future needs of the campus. He again urged the campus to increase the project density. Chancellor Gillman responded that the campus group mentioned earlier was still working out whether selection would be by a lottery or a lottery system that takes specific needs into account, such as needs of people who otherwise would not have access to the regional housing market. Based on UCI's preliminary analysis, it appeared that about two-thirds of staff who had responded to housing survey questions would be able to afford the smallest homes UCI planned to build, if homes were part of a larger and denser model, and that about 80 percent of staff could afford to rent apartments. The campus would take these factors into account before presenting the item to the Regents at a future meeting.

Regent Makarechian asked about a commission on the sale of these units. Chancellor Gillman responded that the Irvine Campus Housing Authority arranges for sale and resale. There was no third party and no brokers. This existing model would be used for this project as well.

Regent Makarechian noted that this would be a public-private partnership. He asked if the partner would charge a commission for that process. Executive Vice President and Chief Financial Officer Brostrom responded that there would be a ground lease, and the partner would develop the project, but it would be operated and managed by the Irvine Campus Housing Authority, which was a 501(c)(3) organization with UC representation. In response to another question by Regent Makarechian, Mr. Brostrom explained that this would be the same for both rental and for-sale units. There was an assigned equity index, and this was not a true market because it was constrained in demand.

Regent Sherman noted that development projects offering lower- and moderately-priced housing received a density bonus; UC should want to exceed the applicable threshold for such a bonus. He asked about equity sharing on a resale when a staff or faculty member sells a house. Mr. Brostrom responded that this was constrained by an index. The houses can only be sold within the UCI community to faculty or staff. The prices of homes for sale in University Hills were at about 50 percent of the rates of the surrounding market.

Regent Sherman again asked if a faculty member selling a house would share in the equity appreciation. Mr. Brostrom responded in the affirmative, but explained that this was based on an index, not on the market price. If the real estate index rose by 24 percent from the time of purchase to the time of sale, the faculty member would receive a 24 percent increase on the equity portion of the whole property.

Regent Sherman observed that these indices would likely reflect the market. This should be an important perquisite and attractive to faculty and staff. He asked Chancellor Gillman if this has been the case. Chancellor Gillman responded that one of the most important decisions made by the Irvine campus in the early 1980s was the creation of the University Hills model, which had played a central role in UCI's ability to recruit outstanding faculty. UCI had not been focused as much on affordable housing for staff as on housing for faculty and students. UCI hoped that this proposed project would function as a down payment in making this commitment to staff.

Regent Sherman asked if UCI had found this program to be more valuable than or as valuable as UC's mortgage assistance programs. Chancellor Gillman responded that this program had proved more valuable.

Regent Sherman asked if this type of housing program could be replicated at other campuses. Mr. Brostrom responded in the affirmative but underscored that available land was an issue for the campuses. In this case, the available land was a tremendous boon to the Irvine campus. He noted that a UCI faculty member can take out a Mortgage Origination Program loan for a home in University Hills.

Staff Advisor Lakireddy expressed appreciation for this item and commented that housing insecurity had become an issue for staff. Staff were often those traveling the farthest to come to campus. She hoped that other campuses would come forward with similar plans.

Committee Chair Cohen asked when the campus would make the next presentation of this project. Chancellor Gillman responded that UCI might present the next iteration of this item in September or November. A request for final approval of the first phase might be presented in March or spring 2023, with construction to begin subsequently.

6. **UC MERCED MEDICAL EDUCATION BUILDING, 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 introduced newly appointed Vice Chancellor Daniel Okoli, who would be leading the team that would complete the Medical Education Building. Mr. Okoli briefly described his academic and professional background and stated that he looked forward to working with his colleagues at UC Merced on this significant project.

Chancellor Muñoz recalled that the 2019 State Budget Act authorized the University to pursue a medical school project on the UC Merced campus with the intent of funding the debt service associated with the project in subsequent years. UC Merced was excited to host Governor Newsom on campus in fall 2021 to affirm his support for UC Merced's medical education program and the inclusion of the financing costs for the Medical Education Building in the State's multi-year expenditure projection.

The Medical Education Building, formerly known as the Health and Behavioral Sciences Building, would house medical education, allied health care, and nursing instructional facilities, in addition to two of UC Merced's fastest growing programs, Psychological Sciences and Public Health. It would also provide general assignment classrooms that would help address increasing undergraduate enrollment. Using preliminary plans funding approved in September 2020, the project team was now engaged in an intensive process to design what would be UC Merced's first fully electrified building and carrying out a rigorous California Environmental Quality Act (CEQA) study. While materials and supply shortages had resulted in a significant escalation in construction costs, the team was working diligently to overcome these challenges by value engineering the project whenever possible without forgoing the program's original goals, scope, or ambition. The campus anticipated completing these efforts and returning to the Committee with an item for approval in early 2023. Local and small business enterprises would be encouraged to participate in the design and construction of a very inclusive environment dedicated to improving medical outcomes for all. UC Merced's goal was to design and build a state-of-the-art Medical Education Building that would enable the campus to recruit in partnership with UCSF-Fresno, training a new generation of healthcare professionals to provide high-quality, culturally sensitive, and accessible health care in the San Joaquin Valley, rectifying current and egregious healthcare disparities among these California residents. Beginning in fall 2023, UC Merced would enroll the first cohort of the B.S. to M.D. students, recruited with a focus on Valley residents. They would complete their B.S. at UC Merced and the first 18 months of their basic medical education in this building, as well as special training in public health relevant to underserved rural communities, before completing their M.D. through UCSF-Fresno.

Regent Lott referred to language in capital project items like this one according to which contractors would be encouraged to engage small businesses. It was not sufficient to encourage an action on the back end. This should be a requirement at the outset, because once a contract is agreed upon, the University loses its leverage and power to require this. It was her understanding that the University's Small Business First program did not apply to large capital construction projects. Regent Lott expressed her wish for a requirement to contract with small businesses in UC's large capital projects as well. Executive Vice President and Chief Financial Officer Brostrom responded that this point would be discussed the following day in the open session meeting of the full Board in item B2, *University of California Small Business Utilization Update*. The discussion would include efforts to expand this program, both informally and through formal policy, to construction and design.

Staff Advisor Lakireddy expressed excitement about this building project and the development of UC Merced's medical education program. There was a severe shortage of physicians and healthcare professionals in the region, and this building needed to be built as soon as possible.

Regent Pérez reported that he had recently visited the campus and praised its energetic development, its engagement with the surrounding community, its work to expand educational opportunity for residents of the Central Valley, among others, and its promise to provide medical education and healthcare services in an underserved region.

7. **UPDATE ON COMMUNITY ENGAGEMENT, CALIFORNIA HOSPITAL TOWER, DAVIS HEALTH CAMPUS**

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

Chancellor May recalled that, at the January meeting, the Regents had requested more details about community engagement associated with the California Hospital Tower project. He stated that UC Davis would establish a community workforce agreement, also known as a project labor agreement, for construction of the California Hospital Tower. In addition, the campus was continuing to provide workforce training programs within disadvantaged communities to develop and hire local talent, to purchase more goods and services from local vendors, to invest in local projects that would benefit vulnerable communities, and to engage UC employees to serve as volunteers in local neighborhoods. UC Davis was establishing benchmarks to measure the success of these efforts and expected that UC Davis would be a key partner for inclusive economic development and community engagement in the City of Sacramento. The Regents had received a letter from Sacramento City Councilmember Jay Schenirer, who represented the district adjacent to the Sacramento campus, expressing his support for this project.

UC Davis Human Health Sciences Vice Chancellor David Lubarsky emphasized that it was critical for the California Hospital Tower project to proceed in order to meet seismic safety requirements. The project would replace facilities that had been built in the 1920s and 1950s and include 332 private patient rooms with a net increase of 54 beds. When the project was finished about half of the 700 beds would be in intensive care unit (ICU) or ICU-adaptable rooms, a fourfold increase over the Medical Center's current 84 adult ICU spaces. UC Davis provided more than half of the region's ICU capacity. The design of the project took into account various disaster scenarios that might require a large number of ICU beds immediately, such as wildfires and pandemics. UC Davis' community engagement on this project was part of its overall anchor institution mission for community health. UC Davis was devoted to ensuring that the surrounding communities would benefit as the Sacramento campus grew. UC Davis continued to conduct community outreach unrelated to the California Hospital Tower per se. Both UC Davis and UC Davis Health were consistently recognized as among the best employers for diversity in the U.S. by *Forbes*, and they continued to pursue that level of excellence.

Regent Pérez thanked Chancellor May and his team for their work over the past two months in providing more details about UC Davis' community engagement and partnership.

President Drake reflected that the Aggie Square project and this California Hospital Tower would be critical for the region in the short- and long-term future. He underscored the fact that many beds in this facility would be ICU-convertible. Medical care in the future would involve outpatient care, short inpatient stays, and intensive care, and he anticipated that academic medical centers would serve largely as intensive care centers. It was appropriate to build toward that future. President Drake urged UC Davis to be mindful of remaining on budget as the project proceeded.

8. **MID-YEAR REPORT OF THE UC OFFICE OF THE PRESIDENT'S BUDGET TO ACTUAL EXPENDITURES AND SECOND QUARTER FORECAST FOR FISCAL YEAR 2021–22**

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

Committee Chair Cohen asked about the process of Office of the President (UCOP) employees returning to work in the office. Executive Vice President and Chief Operating Officer Nava responded that UCOP was in the process of repopulating its Oakland facilities. Like all employers in California at this time, UCOP was challenged in its ability to recruit for open positions, and this affected the budget cycle. UCOP had more vacancies now than it would like to have. UCOP anticipated that, by the end of the year, it would be running about four percent under budget; currently it was running at about 18 percent under budget. UCOP anticipated higher expenditures in the second half of the year.

Committee Chair Cohen asked how UCOP was planning to improve its forecasting. Ms. Nava responded that her team was working with the UCOP divisions to better forecast monthly expenses so that UCOP could track the likely timing of individual expenditures. UCOP was making progress and becoming better at forecasting.

Regent Makarechian referred to the $100 million annual cost of UCPath. He asked about the status of UCPath, what the University was gaining from the system, and why UC was spending so much money on this. Ms. Nava responded that the $100 million shown in the budget model was the operating expense for UCPath. This included the cost of operating the call center in Riverside and the infrastructure to operate the PeopleSoft system. UCPath was servicing the entire UC system. All 230,000 employees were receiving services through UCPath. Ongoing operating costs had been anticipated in the design of the project.

Regent Makarechian asked if UC was spending $100 million just for running its payroll. Ms. Nava explained that UCPath provided more than just payroll services. UCPath supported all the campuses in benefits and compliance. In response to another question by Regent Makarechian, she stated that UCPath provided all employee-related benefits and payroll management.

Regent Makarechian asked how many people were working at the UCPath Center in Riverside. Ms. Nava responded that the Center was currently understaffed, but UC's projection was that the Center would be fully staffed at 460 employees.

Regent Makarechian asked if this project was almost complete and about additional implementations. Ms. Nava responded that there were no additional implementations; UCPath was fully implemented. UCPath was live at every UC location and had been so as of June 2019.

Regent Makarechian asked about the cost of running UCPath per employee. Ms. Nava responded that she could provide that information. She noted that the UCPath program was based on the number of W-2 forms generated at each campus. There was a fixed fee associated with the operating costs.

Committee Chair Cohen observed that, without UCPath, individual campuses would be increasing costs over time as they added employees. The cost of implementing UCPath had been greater than anyone anticipated, but now that UCPath had been implemented, the campuses should be experiencing savings as they add staff. Ms. Nava added that, now that the system was implemented and stabilized, the UCPath Center was moving into an optimization phase, ensuring that processes were as efficient as possible. This optimization work would continue over the next several years.

Regent Makarechian asked what had happened to employees working payroll departments on the campuses, now that the UCPath Center had been established. He asked that UCOP provide information at a future meeting on savings gained through the UCPath system.

9. SIGNIFICANT INFORMATION TECHNOLOGY PROJECTS REPORT FOR PERIOD SEPTEMBER 1, 2021 THROUGH DECEMBER 31, 2021

[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 referred to one information technology project listed in the background materials, the UCLA Finance Transformation (Ascend) project, and asked about the significant schedule change for this project. UCLA Vice Chancellor Gregg Goldman explained that a financial system integration project had been in play at UCLA for five or six years, using an Oracle cloud-based system. Mr. Goldman and other UCLA leadership reviewed the process and it became clear that certain necessary integration steps which should have been completed had not yet occurred. There was no academic representation on the steering committee, which Mr. Goldman felt as something missing. There was concern about change management. In December 2019, he advised Chancellor Block that the risk of failure was too great to proceed with implementation and the planned schedule. At that point UCLA decided to delay the project for one year. During the two-year period of the COVID-19 pandemic, a new Chief Information Officer, Lucy Avetisyan, was hired. UCLA dismissed its system implementer, who was not adding the value that UCLA expected. UCLA reviewed the project budget to see if the project could be completed at a lower cost than originally planned. The project was restarted, with a goal of implementation in mid-2024, in three phases.

Ms. Avetisyan stated that she believed it was a best practice to have independent verification and validation for large, enterprise-wide implementations. Before restarting this project, UCLA issued a Request for Proposals and identified KPMG as a partner. KPMG began an assessment of the project and provided several findings. UCLA would continue its engagement with KPMG and receive monthly reports so that UCLA leadership would be fully aware of any risks and be able to address them in a timely manner. The first finding by KPMG related to resources. UCLA needed dedicated resources to launch successfully, both internal and external; to identify UC subject matter experts who could be committed to the project as well as a system implementer who could assist UCLA and provide Oracle expertise that UCLA did not have. With respect to scope, UCLA needed to validate the scope, identify the business processes it wanted to transform, and identify all the integrations and impacts on end users. The KPMG report also highlighted the fact that UCLA's timeline, with implementation scheduled for June 2023, was not feasible. Lastly, KPMG identified opportunities for enhancing the governance model to enable quicker and more efficient decision-making, adding an advisory group that could assist with validating requirements in how UCLA was configuring the system and identify clearly the roles and responsibilities of different groups in the project. UCLA was in the process of implementing these recommendations and wished to ensure it had addressed them before implementing this project again. Mr. Goldman added that UCLA's decision to delay the project was also influenced by the fact that, at that point, Oracle was still developing an accounting module. UCLA had concerns about its contract and grant activity, which is critical for funding and accounting at UCLA.

Committee Chair Cohen referred to the background materials, which indicated that the project cost was being reduced from $120 million to about $99 million. This was excellent, but he asked if this $99 million represented a subset of the original project scope. He asked what was included in the $99 million and when UCLA would have an updated project budget and scope. Mr. Goldman responded that he and others had worked with the implementation team to determine what UCLA could do to bring down the cost. UCLA did not wish to be "penny wise and pound foolish" but also did not want to spend any more than necessary. Ms. Avetisyan added that UCLA was still in the process of finalizing the scope, timeline, and related budget. She hoped to have most of this accomplished by mid-April, with the goal of presenting the project to its executive sponsors, and, if there were any budget changes, making a request for adjustments. UCLA was undertaking a rigorous process of validating the scope, engaging a system implementer, and understanding the associated costs. Following this process, UCLA would have a better picture of the overall project costs. Ms. Avetisyan did not anticipate that the cost would exceed the original number.

The meeting adjourned at 3:15 p.m.

Attest:

Secretary and Chief of Staff

Additions shown by underscoring; deletions shown by strikethrough

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

I. Purpose/Objective of Policy

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

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

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

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

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

II. Use of Debt Funding

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

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

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

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

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

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

1. Modified cash flow margin[1] ≥ 0 percent *and*
2. Debt service coverage ratio[2] ≥ 1.1x; *and*
3. Monthly liquidity in STIP and TRIP ≥ ~~60~~ the greater of 90 days or the minimum rating agency liquidity requirement.

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

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

Medical centers shall provide 10-year projections, or projections over a shorter time horizon as deemed appropriate, of their statement of income available for debt service, statement of revenues and expenses, statement of net assets, and statement of cash flows and meet the following requirements in order to receive approval for external financing:

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[1] Modified cash flow margin is an income statement-based measure of a campus' debt service coverage, adjusted for certain cash and non-cash items.

[2] Debt service excludes state-supported debt and debt issued for pension funding.

1. Net Income Margin[3] $\geq$ 0 percent *and*
2. Debt service coverage[4] $\geq$ 3x; *and*
3. Days cash on hand $\geq$ ~~60~~ 90[5].

The Chief Financial Officer of each of the medical centers will also review all proposed debt financed projects as a part of a peer review process.

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

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

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

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

C. Execution of Debt Financing. The Office of the CFO coordinates financings for the University, working with internal University counterparts and external parties. Campuses and medical centers are involved in the months leading up to a financing as the Office of the CFO conducts due diligence on each project involved in a financing, which, along with the campus' or medical center's stated preferences, informs the sizing and structure of the bonds. The Office of the CFO also interacts with outside experts, including, but not limited to, financial advisors, financial institutions, the State Treasurer's Office, bond

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

[4] Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

[5] Prior to June 30, 2023, days cash on hand shall be greater or equal to 60 days. Following June 30, 2023, the minimum amount of days cash on hand shall increase over a three-year period based on the following schedule:

- 70 days effective on July 1, 2023
- 80 days effective on July 1, 2024
- 90 days effective on July 1, 2025

counsel, underwriters, rating agencies, and investors on the execution of the financing. The timing of a debt financing depends on a number of factors that include market conditions, need, and the status of projects in construction.

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

III. Financial Instruments/ Borrowing Vehicles

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The University may_consider delaying debt funded system-wide projects if its pension liability ratio falls below 70% funded on an actuarial value of assets basis. At the direction of the Board of Regents and the President, external financings that would improve the University's pension funding status may be excluded from this policy.

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

V. Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VI. Refinancing Opportunities

The University continually monitors its debt portfolio to identify potential savings opportunities that may exist through a refinancing of existing debt. The University works with its financial advisors to evaluate refunding opportunities within the context of market conditions, refunding efficiency, and overall level of rates. Refunding opportunities are evaluated on a net present value basis, taking into account all costs of issuance.

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

VII. Reporting

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

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