The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
May 18, 2022

The Finance and Capital Strategies Committee met on the above date at the Luskin Conference Center, Los Angeles campus.

Members present: Regents Cohen, Kounalakis, Lott, 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, Chancellors Larive, May, and Yang, and Recording Secretary Johns

The meeting convened at 2:15 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 March 16, 2022 were approved.

2. **CONSENT AGENDA**

A. ***Adoption of Expenditure Rate for the General Endowment Pool***

The President of the University recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2022–23 fiscal year remain at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

B. ***Adoption of Endowment Administration Cost Recovery Rate***

The President of the University recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)[1] and apply to distributions from the General Endowment Pool (GEP) to be made after July 1, 2022, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

[1] One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 55 basis points are the equivalent of $55 on endowment assets with a 60-month average market value of $10,000.

C. ***Secured Line of Credit between the Regents of the University of California as Represented by the Office of the President and California Association for Research in Astronomy***

The President of the University recommended that:

(1) The President be authorized to obtain external financing in an amount not to exceed $5 million plus additional related financing costs to establish a fully secured revolving credit agreement with California Association for Research in Astronomy (CARA), pursuant to the following terms:

a. CARA shall maintain revenues in amounts sufficient to pay the debt service and meet the related requirements of the authorized financing.

b. The revolving loan will be secured by collateral of CARA's investment balances, currently held in University of California's Short Term Investment Pool (STIP), Total Return Investment Pool (TRIP), and General Endowment Pool (GEP).

c. The revolving loan will have a final expiration date no greater than five years from the date a loan agreement is executed between UC and CARA.

d. Under the revolving loan agreement, funds will be available to access in multiple draws, provided the aggregate principal amount outstanding at any time does not exceed $5 million.

e. During the term of the revolving loan, current interest on amounts outstanding will be paid monthly.

f. Principal amounts borrowed under the revolving loan can be repaid at any time, and any outstanding amounts on the revolving loan on the expiration date of the revolving loan will be immediately due and payable.

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

(2) The President be authorized to take all necessary actions related to the external financing described above, including, but not limited to approval, execution, and delivery of all necessary or appropriate financing documents.

[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.]

Regent Zaragoza requested that the Committee vote on item C separately from items A and B.

Upon motion duly made and seconded, the Committee approved the President's recommendations in items A and B above and voted to present them to the Board.

Regent Zaragoza stated that she was opposed to the Thirty Meter Telescope project and would be voting "no" on item C.

Executive Vice President and Chief Financial Officer Brostrom explained that item C concerned a line of credit between the Regents and the California Association for Research in Astronomy (CARA), which operated the W. M. Keck Observatory. The Keck Telescope had been in operation for about 30 years. The University invested CARA financial assets for CARA, and CARA wished to have a line of credit in case of a disruption to its cash flow. This item was not related to the Thirty Meter Telescope, which was associated with a separate consortium.

In response to a question by Regent Leib, Mr. Brostrom confirmed that the Keck Telescope was also located on Mauna Kea.

Regent Leib stated his understanding that opposition to the Thirty Meter Telescope project did not concern the Keck Telescope. Mr. Brostrom responded that this was correct.

Upon motion duly made and seconded, the Committee approved the President's recommendation in item C above and voted to present it to the Board, Regent Zaragoza voting "no."

3. **LONG RANGE DEVELOPMENT PLAN AMENDMENT AND DESIGN OF OCEAN ROAD HOUSING PROJECT FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, SANTA BARBARA CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the Ocean Road Housing 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:

A. Adopt the CEQA Findings for the Ocean Road Housing Project, having considered both the 2010 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the Santa Barbara campus and Addendum No. 4 to the 2010 LRDP EIR for the Ocean Road Housing Project.

B. Adopt as conditions of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the Santa Barbara campus as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2010 LRDP EIR.

C. Approve Amendment No. 6 to the 2010 Long Range Development Plan.

D. Approve the design of Phase 1 of the Ocean Road Housing Project, Santa Barbara campus.

E. Approve the design of Phase 2 of the Ocean Road Housing Project, Santa Barbara campus.

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

Regent Lott recused herself from this vote, explaining that her law firm represented one of the parties, albeit in an unrelated matter.

[At this point Regent Lott left the meeting.]

Chancellor Yang explained that this project would provide critically needed housing units for faculty and staff, for rent and for sale. The campus had engaged in extensive consultation with the City of Goleta, the County of Santa Barbara, and the California Coastal Commission.

Regent Leib expressed support for this project. The need for housing was paramount at UC Santa Barbara. There should be some conditions placed on the development regarding affordability, and Regent Leib would vote for this item with the understanding that there would be continued discussions to satisfy the Regents' goals for the affordability of this housing.

Committee Chair Cohen stated that there would be a discussion of affordability for this project at a future meeting.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

[At this point Regent Lott joined the meeting.]

4. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, SACRAMENTO AMBULATORY SURGERY CENTER, DAVIS HEALTH CAMPUS**

The President of the University recommended that:

A. The 2021–22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: Davis: Sacramento Ambulatory Surgery Center – preliminary plans – $26.6 million funded from hospital reserve funds.

To: Davis: Sacramento Ambulatory Surgery Center – preliminary plans, design, construction, and equipment – $579 million funded from external financing ($300 million) and hospital reserve funds ($279 million).

B. The scope of the Sacramento Ambulatory Surgery Center project (Project) be approved. The Project shall construct approximately 262,000 gross square feet (gsf) of operating rooms and support services space, including approximately 12 major operating rooms and five minor procedure rooms. Site development shall include landscape and hardscape, utilities, and pathways to integrate the new surgery center into the campus.

C. The President be authorized to obtain external financing in an amount not to exceed $300 million plus additional related financing costs to finance the Project. The President shall require that:

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

(2) As long as the debt is outstanding, the general revenues of UC Davis 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 Sacramento Ambulatory Surgery 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 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 and Statement of Overriding Considerations for the Project, having considered both the Sacramento Campus 2020 Long Range Development Plan (LRDP) Update Environmental Impact Report (EIR) and the Sacramento Ambulatory Surgery Center Addendum.

(2) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC Davis as identified in the Mitigation Monitoring and Reporting Program adopted in

connection with the 2020 LRDP Update EIR and the project elements identified in the Project's Addendum.

(3) Approve the design of the Sacramento Ambulatory Surgery Center Project, 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 briefly introduced this item. The Sacramento Ambulatory Surgery Center project would meet four primary objectives: moving outpatient surgical cases from the main hospital to free up inpatient resources; enhancing ambulatory surgery capacity to accommodate existing demand and expected growth; enabling expansion of complex surgical lines and therapies; and enhancing the patient experience by reducing wait times for elective procedures.

UC Davis Human Health Sciences Vice Chancellor David Lubarsky stated that UC Davis hoped to provide state-of-the-art surgery space for outpatient surgery, imaging space, and new clinical space. The building would provide a welcoming space for patients and meet sustainability goals. UC Davis planned to establish a project labor agreement for the project. The estimated completion date was March 2025. This would be a large ambulatory surgery center of about 262,000 gross square feet with 12 major operating rooms. This project was critical for UC Davis Health to be able to offer comprehensive service and the appropriate level of service for all types of surgeries. UC Davis Health currently did not have sufficient inpatient capacity to accommodate the large numbers of cases being referred to UC Davis. There was a long, 19-day median patient wait time for elective surgeries. This project would alleviate this situation of capacity and wait times. UC Davis had held a large number of open house neighborhood workshops to receive recommendations from the community.

Committee Chair Cohen observed that this project was more expensive on a per square foot basis than other comparable projects and asked why this was the case. Dr. Lubarsky responded that this was mainly due to the large size of the facility, which would be one of the largest ambulatory surgery centers in the U.S., with a large number of operating and procedure rooms. The building was not designed to replicate clinical space but to accommodate a high volume of procedures. Other comparable projects did not have the same proportion of high-technology space and imaging equipment. This accounted for the higher cost. Construction costs had also increased.

Regent Sherman asked about the timeline for the project and for going to the bond market. Dr. Lubarsky responded that the opening of the facility was planned for March 2025. This would allow time for building patient volume and upgrading existing operating rooms.

Regent Sherman asked when construction would begin. Dr. Lubarsky responded that the projected date was October 2022.

Regent Sherman commented on the inflationary outlook and interest rates, which would affect the construction and financing costs. Dr. Lubarsky concurred that time was of the essence. UC Davis Health did not believe that inflation or interest rates would decrease in the near future. Executive Vice President and Chief Financial Officer Brostrom added that part of this project was financed through a $3 billion bond issue in March, which covered about 60 percent of UC Davis' five-year capital plan. UC also had documents and credit approval for a $1 billion forward-starting swap. Unfortunately, the market was not in a position at this moment where the University would want to lock in a rate.

Dr. Lubarsky underscored that the Office of the President had been very helpful in ensuring that the UC Davis Health capital projects would be funded with appropriate interest rates.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

5. **AMENDMENT OF 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**

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*, be amended as follows:

A. The 2020–21 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 – $205.65 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 ($161.5 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 – $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).

…

Additions shown by underscoring; deletions shown by strikethrough

C. The President be authorized to obtain external financing in an amount not to exceed ~~$161.5 million~~ <u>$190 million</u> 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.

[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 recalled that, in March 2019, the Regents approved the Kresge College Non-Academic project, an extensive renovation, infrastructure, and new construction project at a projected cost of $205.65 million. The project consisted of two phases, allowing UC Santa Cruz to continue operating the 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 cafe. The first phase also involved significant site work, consisting of a storm water management system, new and advanced utilities, and circulation infrastructure including a renovated pedestrian bridge connecting Kresge College to the rest of the campus. The second phase was originally planned to focus primarily on restoration, addressing seismic upgrades and code compliance, and improving energy performance. The campus presented an information item on the updated vision of the second phase in November 2021, with even more student housing in the second phase.

The Santa Cruz campus faced an urgent housing challenge. On-campus student housing was a critical need. UCSC was compelled to seize every opportunity to make new student housing available relatively quickly. To build this additional housing, Phase One must be completed first, and that prompted the current item, which was a request that the Regents augment the budget for the first phase of construction by approximately 14 percent or $28.5 million. The campus planned to return to the Regents in the fall with a separate action item to amend and expand the scope of the second phase to include additional student housing.

The campus had put most of this project out to bid in April 2020, about a month after the beginning of COVID-19 “shelter in place” orders. The uncertainty arising from the pandemic led to many contractors sitting out the process entirely, while others attempted to factor in labor and supply chain uncertainties. UCSC performed numerous cost estimates during the design process and value engineered the project to keep it on budget. Despite this effort, bids for both Phase One and Phase Two were high, and the total bid cost for Phase One was $21 million over the initial budget. Despite the high bid, UCSC chose to move forward with Phase One and to start value engineering Phase Two to try to make up the cost difference. The campus believed that delays could increase escalation and cost. Bid overages accounted for nearly 75 percent of the total Phase One augmentation request. A key factor in the higher-than-anticipated bids was the uncertainty in the construction market at the beginning of the pandemic. Potential labor shortages, inconsistent shelter in place orders, and questions about materials availability and the supply chain created additional risk for subcontractors. The remaining 25 percent of the augmentation was the result of change orders that exceeded the campus' contingency. These included unforeseen site issues and schedule-related issues brought on by the pandemic.

Among other unexpected delays, the CZU Lightning Complex wildfires in August 2020 closed down the campus for two and a half weeks. Protests earlier that year affected entrances to the campus, essentially shutting down the work site for nearly three weeks. Supply chain issues continued to affect the schedule. Significant escalation and high labor costs experienced by the subcontractors were also affecting the project. The campus was frustrated with these overages, but believed that this remained an excellent project that would benefit students, the campus, and the UC system as a whole. The difficulties of the past two years had laid bare the challenges facing UCSC. Housing in Santa Cruz had grown both scarcer and more expensive. For this reason, UCSC was expanding its vision for Phase Two of the project, aiming to leverage the work done in Phase One to deliver additional beds, address the student housing shortage, and take advantage of the considerable site investment the campus had already made. The plan to expand Phase Two of the project would nearly double the number of beds from 550 to about 970. In order to attract competitive bids, UCSC was conducting outreach with site visits and informational sessions to attract bidders before Phase Two went out to bid in summer of this year. UCSC had also switched to a design build model in which the campus could lock in the price at an earlier point for greater cost certainty. UCSC recognized that it found itself in an unprecedented market at this time, with cost escalations across the board. Given this uncertainty, the campus planned to bring Phase Two back to the Regents for approval after the amended scope had received the bid.

The Kresge College renewal project overall, including academic and non-academic elements, was rooted in the founding vision and ideal of the Santa Cruz campus and would support student success and provide much-needed academic space, with nearly 900 new classroom seats included in the Kresge academic center, now under construction. The benefits of the project went beyond reinvestment in the physical infrastructure of the College. New and expanded utilities and pedestrian circulation infrastructure would link the west side of the campus to the campus core. The site work improvements would also support future development on the west side of the campus, allowing UCSC to house and educate the next generation of California leaders.

Regent Leib emphasized the importance of this project.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

6. **BUDGET, SCOPE, EXTERNAL FINANCING, AMENDMENT #10 TO THE UCSF 2014 LONG RANGE DEVELOPMENT PLAN, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, THE NEW HOSPITAL AT UCSF HELEN DILLER MEDICAL CENTER AT PARNASSUS HEIGHTS, SAN FRANCISCO CAMPUS**

The President of the University recommended that:

A. The 2021–22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Francisco: New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights – preliminary plans for the entire project and working drawings for Site and Make-Ready portion of the project – $202 million funded from external financing ($160.1 million) and hospital reserves ($41.9 million).

To: San Francisco: New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights – preliminary plans, working drawings, construction, and equipment for the entire project – $4,332,271,000 funded from external financing ($2,666,271,000), gift funds ($1.2 billion), and hospital reserves ($466 million).

B. The scope of the New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights be approved to include the construction of a 15-story, approximately 875,000-gross-square-foot (GSF) new hospital building, providing approximately 336 patient beds and expanded emergency department, imaging, and surgical services; renovation of approximately 114,000 GSF of space in the existing Moffitt and Long Hospitals to enhance inpatient clinical services and to address the need for increased patient capacity at Parnassus Heights; and seismic upgrade of the Moffitt Hospital to support acute care services beyond 2030.

C. The President be authorized to obtain external financing for the New Hospital at the Helen Diller Medical Center at Parnassus Heights project in an amount not to exceed $2,666,271,000 plus additional related financing costs. The President shall require that:

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

(2) As long as the debt is outstanding, general revenues from UCSF Health shall be maintained in an amount 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 New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights 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 the 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 Final Environmental Impact Report (FEIR) for the New Hospital at Parnassus Heights.

(2) Adopt the Mitigation Monitoring and Reporting Program for the New Hospital at Parnassus Heights and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UCSF.

(3) Adopt the CEQA Findings and Statement of Overriding Considerations for the New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights project.

(4) Approve Amendment #10 to the UC San Francisco 2014 Long Range Development Plan.

(5) Approve the design of the New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights project, San Francisco 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 Hawgood explained that the campus was seeking certification of the Final Environmental Impact Report for the New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights, and approval of the design and full budget, including external financing. The subsequent item described the demolition of the Langley Porter Psychiatric Institute, which would make way for the New Hospital.

Regent Ortiz Oakley asked how the campus had selected this site for the New Hospital project. Chancellor Hawgood responded that the campus went through a lengthy process and studied alternative sites and forms for the project. Alternatives included a smaller hospital, a two-phase hospital project that would include a smaller tower and demolition of Moffitt Hospital, locating the New Hospital at the currently proposed size at the western end of the campus, and locating the New Hospital at the Mount Zion campus or the Mission Bay campus. UCSF evaluated these alternatives with three major criteria in mind. First, UCSF had earlier conducted an 18-month study of the number of patient beds needed. The study found that a minimum increase of 180 net new beds was needed. Second, the hospital would need to be financially sustainable once it was built, so that net margin would cover increased debt service. Third, it was critical that the hospital remain close to UCSF's research and educational mission. This was not just a hospital, but a hospital that innovates with new therapies and educates the next generation of healthcare professionals. Each of the sites was evaluated with these criteria in mind, and each was found to fall short, other than the project now being presented.

Regent Ortiz Oakley praised this project, which was a $4.3 billion investment in UCSF and the community UCSF serves. He hoped that UC would find ways to make even a fraction of this investment in places like UC Merced and UC Riverside, where there were medically underserved communities. The University needed to find ways to make similar investments in other parts of the state. Chancellor Hawgood noted that UCSF and UC Merced were in active discussions about the path to an independent medical school at UC Merced, which might take about a decade. This would require an appropriate hospital facility in the northern part of the Central Valley.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

7. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, LANGLEY PORTER PSYCHIATRIC INSTITUTE BUILDINGS DEMOLITION FOR THE NEW HOSPITAL AT PARNASSUS HEIGHTS, SAN FRANCISCO CAMPUS**

The President of the University recommended that:

A. The 2021–22 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Francisco: Langley Porter Psychiatric Institute Buildings Demolition for the New Hospital at Parnassus Heights – preliminary plans and working drawings – $3.5 million funded from external financing.

To: San Francisco: Langley Porter Psychiatric Institute Buildings Demolition for the New Hospital at Parnassus Heights – preliminary plans, working drawings, and construction – $33,729,000 funded from external financing.

B. The scope of the Langley Porter Psychiatric Institute Buildings Demolition for the New Hospital at Parnassus Heights project includes interior abatement and demolition of four buildings (combined total of 109,065 gross square feet) located on the planned site of the New Hospital at Parnassus Heights. The four buildings are the Langley Porter Psychiatric Institute (LPPI), LPPI Butler, LPPI Outpatient Center, and LPPI Paint Shop.

C. The President be authorized to obtain external financing for the Langley Porter Psychiatric Institute Buildings Demolition for the New Hospital at Parnassus Heights project in an amount not to exceed $33,729,000 plus additional related financing costs. The President shall require that:

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

(2) As long as the debt is outstanding, general revenues from UCSF Health shall be maintained in an amount 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 Langley Porter Psychiatric Institute Buildings Demolition for the New Hospital at Parnassus Heights 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 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 Langley Porter Psychiatric Institute Buildings Demolition for the New Hospital at Parnassus Heights project.

(2) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the San Francisco campus as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the Comprehensive Parnassus Heights Plan Final Environmental Impact Report and the 2014 Long Range Development Plan Final Environmental Impact Report.

(3) Approve the design of the Langley Porter Psychiatric Institute Buildings Demolition for the New Hospital at Parnassus Heights project, San Francisco campus.

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

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

Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board.

Chancellor Hawgood expressed appreciation for the Regents' support of and confidence in the UCSF New Hospital project, which had taken a long time to develop.

Committee Chair Cohen acknowledged the hard work of Chancellor Hawgood and his team.

8. **UPDATE ON PEPPER CANYON WEST STUDENT HOUSING RENTAL RATES, 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 recalled that, at a prior meeting, Regents had asked about rental rates in Pepper Canyon West student housing and how far below market these rates would be. The San Diego campus engaged a firm to conduct a survey of properties within a three-mile radius and all the zip codes in which students live. Assuming a three percent average inflation rate to 2024, Pepper Canyon West rates were 25 percent below market for new inventory in all neighborhoods, with "new inventory" defined as apartments built in 2007 and after. Pepper Canyon West rates were 33 percent below market compared to new inventory within a three-mile radius. Assuming a 6.5 percent inflation rate, Pepper Canyon West rates were 31 percent below market for new inventory in all neighborhoods and 38 percent below market compared to new inventory within a three-mile radius.

Regent Ortiz Oakley asked why Otay Mesa, far from the campus, had been included as a comparator neighborhood. Chancellor Khosla responded that some students lived in this zip code.

Committee Chair Cohen asked if the methodology used in this survey would be used by other campuses in the future. Executive Vice President and Chief Financial Officer Brostrom responded that this survey demonstrated the campus' wish to provide affordable and sustainable housing on campus. The Office of the President would propose to campuses to use the comparison with new inventory within a three-mile radius of the campus.

Chancellor Khosla commented that UC San Diego's rent inflation would be three percent or less. Over time, there would be a significant difference between the outside market and UCSD, with UCSD housing rates far below market.

Regent Sherman observed that apartments typically have a 12-month lease. He asked about the leases for on-campus housing. Chancellor Khosla responded that campus housing was on a nine-month lease. Regent Sherman noted that this was an important factor and asked if this was accounted for in these calculations. Chancellor Khosla responded in the negative. Executive Director Hemlata Jhaveri added that the campus would seek to rent out rooms during the summer months as well, but students were not locked into a 12-month lease. Mr. Brostrom added that most leases require first- and last-month deposits. Landlords often do not return security deposits.

9. **FISCAL YEAR 2022–23 BUDGET FOR THE UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT**

The President of the University recommended that the Regents approve the Fiscal Year 2022–23 Budget for the University of California, Office of the President, as provided 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.]

Executive Vice President and Chief Operating Officer Nava stated that the proposed 2022–23 budget for the Office of the President (UCOP) was fiscally conservative and reflected the priorities of UCOP and the campuses. UCOP, like the campuses, was facing a challenging macroeconomic climate and knew that it had to address the most critical areas for investment while considering the financial and service impact on the campuses. There were causes for optimism, such as the State's growing commitment to the University.

Ms. Nava reported that President Drake had clearly set the tone for this budget season and wanted to ensure that UCOP budget requests reflected priorities. UCOP had limited the campus assessment to 3.9 percent, less than the five percent put forward by Governor Newsom in the State budget. UCOP worked closely with the Executive Budget Committee, which includes campus representatives, on this modest increase to ensure that as much State funding as possible would go to benefit the campuses and UC students. Working with its divisional leaders, UCOP questioned all its operating expense increases. UCOP wished to ensure that it was making appropriate tradeoffs, shifting resources, and making investments aligned with UCOP priorities and goals. UCOP made strategic investments in areas that needed resources, such as Academic Affairs, and areas that represented enterprise risk, such as information technology systems, data security, and compliance. This budget recognized that there was intense pressure on the labor market and included UCOP's participation in the systemwide salary program of 4.5 percent to address inflation. UCOP wished to ensure that it preserved a minimal balance of discretionary funding in the Strategic Priorities Fund for the President's use during the year.

The proposed budget was $1,035.8 million, covering approximately 30 UCOP programs in Academic Affairs, including systemwide, State, and federal programs that are run by UC, and systemwide and core services that UCOP provides to gain efficiencies and limit potential redundancies on the campuses, such as benefits administration, the pension program, UC Legal, UC Investments, and UCPath. The proposed budget was a 2.9 percent increase over the current fiscal year budget. Seventy percent of the budget would pass through to the campuses, either through fee-for-service activities or other pass-through activities.

Compared to the past year, the budget showed relatively modest growth in restricted, designated, and unrestricted funds. In campus assessments, the core assessment for UCOP was increasing by 3.9 percent. The increase in the UCPath assessment reflected full funding for the UCPath Center for the first time since the program was fully implemented systemwide in July 2020. Agriculture and Natural Resources would continue to be funded with a direct State appropriation of $109 million.

Seventy-three percent of the proposed budget was in restricted and designated funds. Compared to the prior year, there were increases for the pension administration (Redwood) system, the Retirement Administration Service Center, UCPath, and UC Legal, to have more work performed in-house and less work referred to outside counsel. There were increased investments in the UC Health Collaborative and in UC Operations and UC Finance. There were decreases in State-funded research programs. Funding for the Tobacco-Related Disease Research Program was lower due to expected timing of grant awards and funding for the Laboratory Fees Research Program was also lower due to the award cycle. There would also be a decrease in funding for restricted and designated Strategic Priorities Fund projects. The percentages of spending of the restricted, designated, and unrestricted funds on programs and initiatives and systemwide and core needs was similar to previous years.

Regent Ortiz Oakley observed that UC had become more efficient in the course of the COVID-19 pandemic, reducing its carbon footprint through working remotely. He asked what efficiencies learned during the pandemic had been or could be included in this budget. Ms. Nava responded that this budget would continue many of the austerity measures of the pandemic, such as reductions in travel. The budget also included a vacancy factor, because hiring was currently a challenge in a highly competitive labor market. This has provided savings that UCOP has been able to reinvest in other programs and positions. UCOP has also been focused on a real estate consolidation planned before the pandemic in order to end various leases and move the Oakland offices into two buildings that are adjacent and connected. As employees return to working on site and in a hybrid mode, UCOP would also consider subleases. The California Digital Library and UC Press have been moved to this site. UCOP was seeking to maximize the use of its space and would continue to review this.

Regent Leib asked about the status of UCPath, noting that UC employees and affiliates continued to report problems with the system. He asked if UC has budgeted enough to address problems and make this a better program. Ms. Nava responded that this budget should address challenges in UCPath service and performance. She recalled that full implementation at all campuses and locations was completed in July 2020, at the beginning of the COVID-19 pandemic. At that time, UC was not able to fully fund the UCPath Center at the level that had been envisioned in order to provide an appropriate level of service. This proposed budget would fully fund the UCPath Center at the level UCOP believed was needed to support the system. From implementation and stabilization, UCPath was now moving toward optimization, working with the campuses to increase effectiveness and efficiency. This work would continue over the next six months to a year. Ms. Nava hoped that, next year at this time, there would be improved benchmarks for UCPath.

Regent Leib asked if there have been visible improvements in UCPath along the way and what the most significant challenges were. Ms. Nava responded that, when UCPath was launched with Oracle, UC made the decision not to upgrade the software while it was implementing UCPath at the locations. This past year, UC upgraded the PeopleSoft software, and this process went smoothly, with little noise or disruption to the system. There were challenges in the past year related to the implementation of a pharmacy benefit manager, which led to an increase in calls to the UCPath Center and the Retirement Administration Service Center. There were opportunities to improve UC's call center services, which were currently not meeting service expectations. This would be addressed with staffing increases and by ensuring that processes were as efficient as possible. This would be a major area of focus over the next several months.

Staff Advisor Lakireddy expressed appreciation for the 4.5 percent across-the-board salary increases for policy-covered staff. She asked how UC would retain staff in a tight labor market. People were being hired into new positions at a higher rate because the market had changed. Ms. Lakireddy asked how UC would make equity adjustments to retain employees who had been with the University for many years. UC Merced and UC Riverside were having difficulty recruiting staff. Ms. Lakireddy asked what the University could do differently to address this. Ms. Nava responded that the labor market was extremely tight. The University must try to address inflation. A key to employee retention was engagement. Employers and supervisors must pay attention to the institutional culture and environment and provide intellectually stimulating opportunities for staff to grow, as well as flexibility, which the workforce was now demanding. Ms. Nava noted that Chancellor Larive had instituted an equity program at the Santa Cruz campus, recognizing that salaries were behind the market.

Committee Chair Cohen asked if this budget included any increase for the Thirty Meter Telescope project. Ms. Nava responded that the budget had not changed with regard to the Thirty Meter Telescope project. There were no new commitments.

Committee Chair Cohen thanked President Drake, Ms. Nava, and her team for controlling the growth of the UCOP budget, which resulted in more money for the campuses.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, President Drake abstaining.

10. **ESTABLISHMENT OF UNIVERSITY OF CALIFORNIA CENTRALIZED DEBT MANAGEMENT MODEL, APPROVAL OF EXTERNAL FINANCING AND AMENDMENT OF REGENTS POLICY 5307: UNIVERSITY OF CALIFORNIA DEBT POLICY**

The President of the University recommended that the Regents:

A. Authorize the President to:

(1) Issue an aggregate principal amount not to exceed $2 billion plus financing costs under the University's General Revenue Bond Indenture in Fiscal Year 2022–23 for projects financed with the centralized debt management

model. As long as the bonds are outstanding, the following requirements shall be satisfied:

a. The campuses receiving such proceeds shall maintain revenues in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

(2) Take all necessary actions related to the action described above, including, but not limited to approval, execution, and delivery of all necessary or appropriate financing documents.

B. Amend Regents Policy 5307: University of California Debt Policy, as shown in Attachment 2.

[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.]

Director Meghan Gutekunst explained that, beginning in summer and fall 2021, the University began exploring the idea of a centralized debt management system. UC looked to examples of peer institutions, such as The Ohio State University, the University of Washington, and others who use a similar approach to managing their debt portfolios. UC's current model had served the University well. Looking to the future, the University had about $20 billion outstanding in the two credits being considering for the new approach: the General Revenue Bond credit and the Limited Project Revenue Bond credit. With respect to future capital needs, UC wished to ensure that it was doing the best it could for the campuses, particularly in the current environment of rising interest rates, and to use the strength of the UC system to provide budget certainty for the campuses. Currently, in the University's bond issuance process, each project has interest rate risk until UC goes to the market for long-term financing. The proposed approach would provide an internal loan rate, a stable rate for campuses and their budgeting. The University had been working for about eight months on this project and hoped to implement the new approach in summer 2022, in the new fiscal year. The Regents were being asked to approve up to $2 billion in external financing for projects that would move into the central bank as part of issuance for fiscal year 2023. The item also requested an amendment of Regents Policy 5307, University of California Debt Policy, to change the budget rate basis used by the campuses from the current market-based rate to an internal loan rate that UC would use for this centralized debt management model.

Executive Vice President and Chief Financial Officer Brostrom commented that this was an excellent model and a good time to implement the model, given rising interest rates and market volatility.

Committee Chair Cohen observed that this action would benefit the campuses, moving risk from the campuses to the Office of the President, where the risk could be better managed.

Chancellor Hawgood expressed appreciation for Ms. Gutekunst’s and Mr. Brostrom’s work and guidance on this and many other capital market issues.

Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board.

11. **UPDATE ON THE GOVERNOR’S MAY REVISION TO THE 2022–23 BUDGET**

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

Executive Vice President and Chief Financial Officer Brostrom began the discussion by observing that this was an extraordinary budget year, with a nearly $100 billion surplus and General Fund revenue $55 billion higher than in January. There was about $49 billion in discretionary surplus, which Governor Newsom’s team had largely directed to one-time projects; in UC’s view, this was prudent and appropriate. The Budget Stabilization Account was at its constitutional limit. There was also positive news of stronger projections for personal income through 2025. Mr. Brostrom recalled that personal income tax was the State’s largest single revenue source.

Associate Vice President David Alcocer recalled that, in January, Governor Newsom proposed a number of budget augmentations for UC. All of them were maintained in the May Revision. In ongoing funds, the January budget included a five percent base budget adjustment, which was crucial for covering investments in faculty and staff, employee and retiree health benefits, and other core operating needs. The January budget also included funding for enrollment growth. UC was engaged in ongoing discussions with the Governor’s administration and the Legislature to ensure that, in addition to funding new growth this fall, funding would also be available to support those students UC has already enrolled above and beyond the State’s recent enrollment targets. Part of that growth in the fall would come from a reduction in nonresident student enrollment at three campuses to allow more growth in California student enrollment. The January budget included $31 million to offset the financial impact to campus budgets of making that change. The January budget also funded expanded services for former foster youth, consistent with the Regents’ request in November 2021, and firearms violence research. The January budget also included three categories of one-time investments, totaling nearly $300 million, with the largest investments in climate resilience, deferred maintenance, and energy efficiency projects.

The May Revision added to these investments with another $15.2 million in ongoing funds. This included support for UC’s labor research centers, for incorporating independent colleges and universities in the ASSIST resource, which is overseen by UC and allows community college students and counselors to identify which courses at their colleges satisfy major requirements at UC and California State University (CSU) campuses. The May Revision would also backfill a projected decrease in Proposition 56 funds for graduate medical education. There was also new one-time funding, most notably, a $300 million capital investment to house a new Institute for Immunology and Immunotherapy at UCLA.

This funding, together with $200 million proposed for the following fiscal year, would be used to design and construct a state-of-the-art facility for ground-breaking research and collaboration on harnessing the body's immune system to treat a host of conditions and diseases that have to date been resistant to traditional therapies. The facility would represent a significant State contribution toward catalyzing additional private investment and leveraging research already underway at UCLA. The May Revision also included one-time funding for Blockchain and Web3 research at UC Berkeley, for the Ralph J. Bunche Center for African American Studies at UCLA, for UC fire advisors, and one-time funding to expand the ASSIST program.

Governor Newsom also released details of the proposed multi-year Compact agreement between his administration and UC, which would extend through 2027. The Compact combined a funding commitment from the State with a commitment by the University to advance multiple shared goals. The Compact called for annual base budget adjustments of five percent, along with new funds each year to allow campuses to further reduce their percentage of nonresident students, with the goal of reaching 18 percent by 2027. Importantly, the Compact would not prevent UC from receiving additional support if approved by the Legislature and the Governor for capital projects or for enrollment above the levels contemplated in the Compact. With respect to student access and enrollment, the Compact called upon UC to increase California undergraduate enrollment by about one percent annually, to maintain UC's commitment to enrolling at least one transfer student for every two freshmen, and to expand graduate programs by 2,500 students by 2027. Other shared goals addressed closing equity gaps and improving student success across the board; expanding access to debt-free pathways and seeking ways to reduce student expenses in areas like textbooks, housing, and transportation; collaborating with CSU and the California Community Colleges to adopt common technology platforms and data-sharing agreements to better serve students, in particular transfer students; prioritizing certain critically needed disciplines, where expanding UC's academic programs could make a real difference, and expanding opportunities for undergraduate research and internships; and increasing over time the number of student credit hours generated through online instruction compared to the 2019–20 baseline. Mr. Alcocer explained that this was only a high-level overview of the Compact, which included many specific sub-goals and benchmarks. The breadth of the Compact reflected not only the State's many priorities related to higher education, but also the University's unique ability to act on them and make progress toward important societal goals.

Mr. Brostrom concluded that, as the University proceeded in the last month of the budget process and engagement with the Legislature, UC's most urgent need was still for one-time funding for capital projects. This funding would go to every campus and Agriculture and Natural Resources for energy efficiency, deferred maintenance, expanding capacity, and seismic safety. The University had developed a $1.6 billion list of priority capital projects that had submitted this to the State Department of Finance and the Legislature. The University had received no general obligation bond funding since 2006 and no lease revenue bond funding since 2011. Other Regents' requests for ongoing funding were not funded: ongoing funding for the Student Academic Preparation and Educational

Partnerships (SAPEP) program, support for undocumented students and formerly incarcerated students, and a $4 million request for the UC Cancer Consortium.

Committee Chair Cohen asked that Mr. Brostrom provide the details of the Compact to the Regents so that they would have a clear sense of the Governor’s expectations. He asked if UC knew what the ongoing costs of the new Institute for Immunology and Immunotherapy at the UCLA campus would be and where funding would come from. Mr. Brostrom responded that UC had a breakdown of costs for developing the Center, but not for new hires or other startup investments. He would consult with Chancellor Block and provide written information.

Committee Chair Cohen underscored his personal interest in the $6 million in funding for former foster youth and encouraged UC to ensure the success of this program.

President Drake expressed gratitude to Governor Newsom for the ongoing funding that was provided. The University’s obligations under the Compact were in general well aligned with UC goals and aspirations. The University would work with partners in the Legislature over the next several weeks on addressing UC’s capital needs. The outcome of the Compact had been very positive for the University.

The meeting adjourned at 3:35 p.m.

Attest:

Secretary and Chief of Staff

Attachment 1

UNIVERSITY
OF
CALIFORNIA

Fiscal Year 2022-23 Budget for UC Office of the President

May 18-19, 2022

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:

FISCAL YEAR 2022-23 BUDGET FOR THE UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT (UCOP)

Contents

FY22-23: BACKGROUND AND OVERVIEW

The current FY21-22 year continues to reflect renewed optimism and recovery as the State of California, the University and the nation emerge from two years of disruption caused by the COVID-19 pandemic. In June 2021, the final State budget increased funding to UC's Agriculture and Natural Resources (ANR) division and to programs in Academic Affairs that primarily support undergraduate students. To reflect this new funding, the Regents approved a budget amendment in November, increasing UCOP's total FY21-22 budget to $1,006.6M.

The final FY21-22 State budget also returned UCOP and UCPath to the campus assessment funding model, eliminating two state direct appropriations and creating an environment that promotes the highest level of coordinated, systemwide planning across the UC system. UC ANR, meanwhile, continues to be funded by a state direct appropriation. While the January 2022 Governor's preliminary FY22-23 State budget signaled a five percent increase in state funding to support UC's further recovery and growth, the UC Office of the President (UCOP) FY22-23 budget proposal is conservative, reflecting macro-economic pressures and on-going funding constraints.

UCOP's proposed FY22-23 cost structure is built on anticipated revenues, fiscal conservatism, and targeted increases in critical areas. The total proposed budgeted expenditures are $1,035.8M, a $29.3M or 2.9 percent increase from FY21-22.

UCOP budgeted unrestricted funding totals $280.5M, a $7.7M increase or 2.8 percent from FY21-22 and includes a conservative 3.9 percent increase in the UCOP campus assessment (compared with an anticipated 5.0 percent UC systemwide increase in the State appropriation). Other unrestricted funding sources, primarily from investment income, show a decline due to changes in short-term interest rates, resulting in the net 2.8 percent overall unrestricted funding increase.

UCOP carefully evaluated expenditures on unrestricted funding to limit pressure on campus funding and other flexible funding sources. The funding increase supports the implementation of the President's proposed systemwide salary program for UCOP employees, contracted cost increases, and very limited new investments.

The salary program invests in all UC employees, striving to counter employment market trends impacted by record inflation as well as the "Great Resignation". The remaining additional funds will cover inflationary costs across operations, information technology, and systems, fund key strategic resources in Academic Affairs, and provide the UC President modest flexibility to address emergent issues or shape new strategies.

The FY22-23 designated budget total of $503.1M is $17.1M (3.5 percent) more than FY21-22. UCOP reviewed services provided to the campuses and other activities funded by designated funds, with a sharp focus on limiting increases impacting the campuses wherever possible. With campus consultation, UCOP is proposing investments in UC Health, UC Legal, and the UC National Laboratories. UCPath also requires increased investment for FY22-23 to meet planned operational requirements. Increases to the designated budget have been partly offset by reductions to programs that received one-time state-funded increases in FY21-22.

The FY22-23 restricted budget of $252.3M increases $4.5M (1.8 percent) from FY21-22. Growth in this portion of the budget is driven by funding needed for critical management of the UC Pension Administration system ("Redwood") and the Retirement Administration Service Center, and are offset by lower State-supported Tobacco-Related Disease Research Program (TRDRP) research grant awards.

The presentation of the budget that follows provides alternative views to show how resources are deployed in alignment with the function of the Office of the President and in support of key UC stakeholders. Included is a detailed section covering UCOP fund balances and reserves. Consistent with past budget presentations, detailed financial schedules are provided in Appendix 1. Appendix 2 includes an overview of UCOP's function and how it aligns to the UC mission, and Appendix 3 provides information on Presidential Initiatives.

FY22-23 BUDGET CLIMATE

Funding Outlook

Three major external factors impact the FY22-23 budget. Financial pressures are driving up costs with the annual inflation rate in the US accelerating to 8.4 percent in March of 2022, its highest level since January of 1982 and up from 7.9 percent in February. Global instability persists and is affecting costs and causing supply chain challenges due to the lingering COVID-19 pandemic and political unrest. Throughout all of this, the US labor market is strong, with California showing a relatively low unemployment rate (5.9 percent in February 2022), creating challenges in recruitment and retention of staff in a competitive, dynamic labor market. As is the case across all UC locations, upward cost pressure is undeniable. Given these factors, UCOP remains conservative in prioritizing and budgeting revenues and expenditures in FY22-23.

Despite these challenges, many reasons for optimism remain across the UC community. Fall 2022 undergraduate applications achieved another record number of applicants and the Governor's proposed State budget for FY22-23 signaled the objective to allocate both UC and CSU a 5 percent annual increase in State support. UCOP's planning seeks to limit budget increases at the Office of the President, in favor of optimizing state funding for the campuses and UC students.

Unrestricted funding, which makes up approximately one-quarter of UCOP's budget, remains a significant challenge. Including this year's modest increase, UCOP's unrestricted funding through state appropriation or campus assessment shows a five-year compound annual growth rate of -0.04 percent at a time when one-time fund balances and investment income also decreased resulting in a revenue decline which UCOP has struggled to weather considering the economic factors noted above.

The gap in unrestricted funding has left UCOP with a structural deficit which has been addressed with limited one-time funding and unsustainable cost containment strategies including restructured loan payments, delayed salary programs, hiring freezes, and more. UCOP must develop a sustainable solution to fully fund the unrestricted portion of its budget. Over the past five years, one-time unrestricted fund balances have been depleted, cost reductions were made that impacted the campuses, and staffing and other costs were significantly constrained to accommodate contracted increases and limited strategic investments. These changes will impact campus service levels and cannot be sustained beyond FY22-23.

FY22-23 UCOP BUDGET - EXECUTIVE SUMMARY

The proposed FY22-23 budget has been developed to ensure that UCOP can deliver on its priorities while maintaining a balanced budget across all fund types. Revenue modeling, current year actuals, and forecasts provide the basis for the upcoming budget year. UCOP's total FY22-23 proposed budget is $1,035.8M which is a $29.3M (2.9 percent) increase over FY21-22.

Budget Changes

As compared to the FY21-22 budget, the $29.3M FY22-23 budget change is due to a few key drivers in across each of our three fund types:

- Compared to the FY21-22 campus assessment amount of $215.2M, the unrestricted UCOP campus assessment increases $8.4M or 3.9 percent. Minor increases in other unrestricted sources result from projected year-end fund balance due to conservative spending and some project timing shifts in FY21-22 offset by a decline in investment income.
- Designated funds increase due to UCPath enhancements to meet operational requirements which are offset by decreases in two Academic Affairs programs – California Subject Matter Program, which benefited in FY21-22 from one-time funding from the state, and the Lab Fees Research Program which is lower based on the anticipated timing of grant awards.
- Restricted funds show a net increase of $17.1M or 3.5 percent which results from necessary increases to enhance the Pension Administration system ("Redwood"), and to scale the Retirement Administration Service Center, offset by a reduction in the Tobacco-Related Disease Research Program ("TRDRP") which is lower than FY21-22 due to the timing of anticipated grant awards.

Budget Funding – Fund Types, Fluctuations, and Flexibility

Approximately 73 percent of UCOP's funding is either restricted or designated. Restricted and designated funding can only be used for specific, defined purposes aligned to the research, teaching, and public service mission or to provide critical campus services.

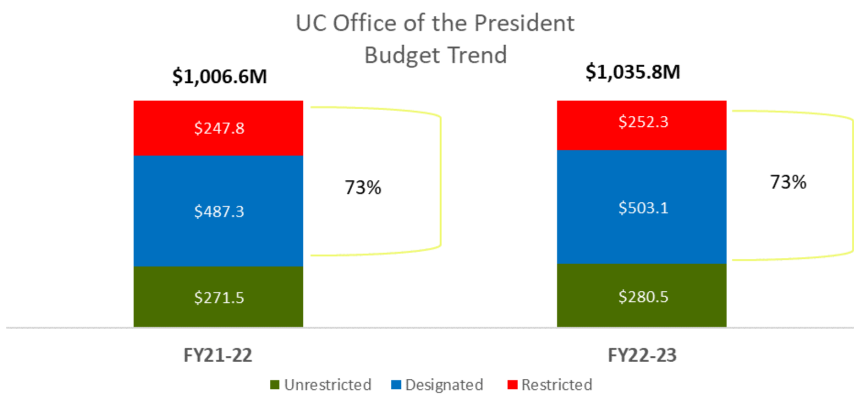
Restricted funds can fluctuate significantly from year to year depending on grant funding available from outside sources, including the state. For example, funding for Tobacco-Related Disease Research Programs has gone up and down by millions of dollars from year to year due to unforeseen events such as COVID-19 as well as changes in the timing of grant awards.

Designated funds are most affected by changes in designated programs, UCPath, and campus-sponsored fee-for-service (e.g. UC Legal, UC Health) or self-supporting activities (e.g. UC Investments). Increases in these areas benefit or are in service of the campuses and fee-for-service increases are closely reviewed by the UCOP Executive Budget Committee which includes either senior administrative or academic leaders from each campus.

Unrestricted funds, comprising 27 percent of UCOP's budget, allow the most flexibility and can support discretionary spending. Noted previously, these unrestricted funds have remained flat over the last five years despite inflation, and they continue to be constrained. These funds largely support operating expenses in Systemwide and Core Services, and to a smaller extent academic and research programs in Programs and Initiatives.

The unrestricted Strategic Priorities Fund (SPF) remains the only funding available to support new Presidential initiatives and urgent and emergent issues, such as systemwide campus safety reforms, COVID-related expenses, and other technology upgrades. The President's objective is to use these funds to seed initiatives and accelerate progress until such time the campuses can take ownership. This is the sole budgeted fund source over which the President has flexible discretion and is budgeted at $30M (2.9 percent of the total budget). Based on existing commitments, only $9.5M (less than 1 percent of the total UCOP budget) of the SPF is available for spending at the President's discretion for FY22-23.

Figure 1: UCOP Budget by Fund Type (FY21-22 to FY22-23)



- 73% of UCOP's budget is either restricted or designated and can only be used for defined purposes
- Restricted funds, in red, fluctuate with availability of grant funds
- Designated funds, in blue, are impacted by designated state appropriations and fee-for-service or self-funded services
- Unrestricted funds, in green, are largely from campus assessment and have been flat over five years (with the exception of the COVID-19 related state reduction in FY20-21)

FY22-23 Budget Considerations – Opportunities and Risks

FY22-23 budget development was completed based on the existing campus assessment funding model for UCOP and a W-2 fee-for-service, campus assessment for UCPath. It is expected that ANR will continue to be funded through a sole, ongoing state direct appropriation. Typically, each year, UCOP reviews new and shifting priorities, assesses both internal and external risk factors and strives to mitigate financial impact on the campuses. However, each year UCOP must address critical priorities, contract increases, alignment with systemwide salary programs, and preserve some flexibility for the year ahead.

The UCOP Executive Budget Committee (EBC) played an active role throughout the budget process to provide input regarding campus priorities, evaluate increases in fee-for-service activities, and provide its annual budget recommendation letter to the President.

The opportunities for investment that are captured in the FY22-23 budget proposal include:

- Alignment with the systemwide salary program to retain existing staff;
- Addition of key personnel in critical Academic Affairs programs and services; and
- Funding for stabilization and operationalization of critical systems, services, and networks.

The primary risks inherent in the budget proposal are:

- Modest 3.9 percent increase to the UCOP campus assessment is outpaced by recent inflation rates of 8.4 percent, more than twice the rate of UCOP's funding increase;
- The dynamic, competitive labor market may create further workforce disruption and impact UCOP's ability to deliver on some objectives;
- Unrestricted funding continues to be insufficient, forcing reallocations and cost cuts to absorb required increases. After multiple years, this is not sustainable and introduces organizational risk to staffing and service levels, and critical core functions that support the campuses;

- Most budget augmentations requesting unrestricted funds had to be rejected (~80+ percent) which included additions to valued programs for Historically Black Colleges and Universities (HBCUs) and Hispanic Service Institutions (HSIs), as well as some areas related to systems, such as an improved UCPath data warehouse, and more aggressive investments in cybersecurity and compliance; additionally
- The $30M unrestricted SPF amount, established in the FY17-18 Budget, has not been adjusted for inflation since its inception five years ago. This limitation continues to provide the President with potentially inadequate resources.

FY22-23 BUDGET DETAIL

The following section provides FY22-23 budget details for sources, uses of funds, and year-over-year changes. In addition, this section shares more information about Special Expense Classification activities, specifically Pass-Through expenditures and Fee-for-Service shared services. Lastly, this section provides an overview of UCOP fund balances and reserves.

FY21-22 to FY22-23 Budget Summary

Figure 2 summarizes and compares the proposed FY22-23 budget with the FY21-22 budget and Q2 forecast, and includes fund balances and reserves.

Figure 2: FY21-22 to FY22-23 Budget Summary[1]

UCOP Budget Summary (Adapted from CSA Figure 11[1])
Overall UCOP
$ in millions

	FY21-22 Budget	FY21-22 Q2Forecast	FY22-23 Budget	Variance: Increase/(Decrease) FY21-22 Fcst vs. FY21-22 Bud	FY22-23 Bud vs. FY21-22 Fcst	FY22-23 Bud vs. FY21-22 Bud
UCOP USES						
Programs and Initiatives	$ 437.6	$ 400.0	$ 411.5	($37.5)	$ 11.4	($26.1)
Systemwide and Core Services	433.0	429.8	479.3	(3.2)	49.5	46.3
Strategic Priorities Fund Unrestricted	30.0	30.1	30.0	0.1	(0.1)	(0.0)
Strategic Priorities Fund Desig. & Restricted	8.8	9.4	3.6	0.6	(5.9)	(5.2)
SUBTOTAL USES	**$ 909.3**	**$ 869.3**	**$ 924.3**	**($40.0)**	**$ 55.0**	**$ 15.0**
UCPath	97.2	97.1	111.5	(0.1)	14.4	14.3
TOTAL USES	**$ 1,006.6**	**$ 966.4**	**$ 1,035.8**	**($40.1)**	**$ 69.4**	**$ 29.3**
	% Spent:	96.0%		% Change:	2.9%	
				% Change Unrestricted:	2.8%	
INCLUDED IN USES ABOVE						
Fee-For-Service	$ 395.9	$ 357.0	$ 374.9	($38.9)	$ 17.9	($21.0)
Pass-Throughs	310.9	310.4	353.7	(0.5)	43.3	42.8
Total Fee-For-Service and Pass-Throughs	**$ 706.8**	**$ 667.4**	**$ 728.6**	**$ (39.5)**	**$ 61.2**	**$ 21.8**
CENTRAL OPERATING RESERVE[2]		**$ 15.0**				
NON-OPERATING AND PROGRAM RESERVES[3]		**$ 126.3**				

	6/30/22 Balance	Commitments	Remaining Balance
FORECASTED FUND BALANCES NET OF RESERVES[3]			
Unrestricted	$ 21.2	$ 17.4	**$ 3.8**
Designated	98.6	26.7	**71.9**
Restricted	3.9	-	**3.9**
Total Forecasted Fund Balances Net of Reserves	**$ 123.6**	**$ 44.1**	**$ 79.5**

1 Figure 11 in *CSA Report 2016-130* issued April 25, 2017.
2 Held in President's Endowment Fund
3 Reserves and Fund Balances provided are projections at June 30, 2022

The FY22-23 UCOP Budget Categories

UCOP organizes its budget according to three different categories defined below.

Sources of Funds	Uses of Funds	Special Expense Classifications

• Unrestricted
• Designated
• Restricted
	• Programs and Initiatives
	• Systemwide and Core Services
	• UCPath
	• Strategic Priorities Funds
	  ○ Unrestricted
	  ○ Designated/Restricted
		• Pass-Through
		• Fee-for-Service

In addition to the Sources and Uses of Funds, UCOP shows **pass-through** dollars which flow through the UCOP budget to campuses, researchers, and the public for systemwide programs. The largest programs are Agriculture and Natural Resources and the statewide Tobacco-Related Disease Research Program, managed by Academic Affairs.

Systemwide **fee-for-service** activities are provided by UCOP to campuses on a fee basis. The largest fee-for-service activities include UCPath, legal services, and management of investment assets and employee/retiree benefits. The three budget categories are displayed in Figure 3.

Figure 3: FY22-23 Budget Summary by Category

$ millions

Sources of Funds	FY22-23 Budget	% of Total
Unrestricted	$ 280.5	26.8%
Designated	$ 514.1	49.1%
Restricted	$ 252.3	24.1%
Total Sources	**$ 1,046.8**	**100.0%**
Uses of Funds		
Programs and Initiatives	$ 411.5	39.7%
Systemwide and Core Services	$ 479.3	46.3%
UCPath	$ 111.5	10.8%
Strategic Priorities Funds	$ 33.6	3.2%
Total Uses	**$ 1,035.8**	**100.0%**
Special Expense Classification		
Pass-Throughs	374.9	36.2%
Fee-For-Service	353.7	34.1%
Total Special Expense Classification	**$ 728.6**	**70.3%**
Budget Net of Expense Classification	**$ 307.3**	**29.7%**

***73%** of the sources of funds are designated for specific programs and services or restricted for use by a third party.*

***40%** of the uses of funds are dedicated to ~30 programs managed by UCOP on behalf of the State, Federal Government, Regents and the UC system.*

***30%** is the remaining UCOP budget net of dollars passed through UCOP to recipients across the state and fee-for-service activities.*

Key Drivers

The FY22-23 budget of $1,035.8M is higher than the FY21-22 budget of $1,006.6M by $29.3M or 2.9 percent. Key drivers for the change from the FY21-22 to FY22-23 budget include:

- UCOP campus assessment increase of $8.4M, largely used to support the UCOP unrestricted portion of the UC-wide salary program endorsed by President Drake.
- UCPath, year-over-year increase of $14.3M designed to fully fund its operational model and strategically invest in service optimization.
- Investment in the Pension Administration system, serving UC's growing retiree population, to stabilize the system and reduce risks, for an increase of $11.4M; and
- Required resources and service support for the Retirement Administration Service Center of $7.3M.
- Higher cost of Operations in IT Services to improve network stability and data security and costs for occupancy and other services required to support Oracle Cloud systems, +$9.4M.
- Campus support for strategic systemwide procurement and data analysis services in UC Health Collaborative, additional internal resources within UC Legal to support the system and campuses and lessen reliance on outside counsel, and added UC Investment resources to support compliance and investment areas such as real estate, $10.2M.
- Finance cost increases to optimize UC's updated large-scale system implementations including Oracle Cloud, treasury and lease accounting systems and support Capital Markets and Risk, +$1.8M.
- Strategic investments to address enterprise risks across compliance and audit, and increased resources to address critical areas in Academic Affairs and External Relations, +$3.0M.

Increases have been partly offset by reductions in programs including:

- Lab Fees Research Program (LFRP) -$7.0M, California Subject Matter Program (CSMP) -$5.1M, and Tobacco-related Disease Research Program (TRDRP) -$18M.
- Reduction in FY22-23 to Designated and Restricted SPF one-time projects, -$5.2M.

UCOP has also tightened expense budgets in light of the current uncertain environment and continuing constraints. Many FY21-22 savings initiatives continue into FY22-23 including:

- Setting targets for expenses on unrestricted funds.
- Re-establishing a salary vacancy factor to replace the hiring freeze and offset UCOP salary and benefits to recognize longer than anticipated recruiting timelines and expected employee turnover.
- Re-imagining post-pandemic and remote work including travel budgets, which remain lower than pre-COVID-19 levels by nearly one-third. While travel and in-person meetings are starting to pick up, it is anticipated that some meetings will continue virtually, saving time and travel costs.

Budget Requests, Reduced or Not Funded

Annually, divisions submit budget augmentation requests for new or continuing activities. During this budget cycle, UCOP rejected, reduced or required divisions' budgets to absorb more than $34M in unrestricted requests to balance the budget. The compromises were made across all divisions, and some of the items not funded included:

- New position funding requests for several under-resourced areas in Academic Affairs, and UC Operations.

- Increases to valued UC academic programs including Historically Black Colleges and Universities (HBCUs), Hispanic Serving Institutions (HSIs) and the California Digital Library (CDL).
- Full financial support to UC Observatories program (a multi-campus research unit) to offset uncertain FY22-23 grant fund revenues.
- Multiple large-scale requests to address network and data security vulnerabilities.
- UCPath data warehouse for better data metrics, analytics and reporting.
- Strategic investments in systemwide procurement efficiencies.
- Training and development opportunities.
- IT hardware requests (capital expenditures) to replace end-of-life equipment.

Key Takeaways

Budget Summary

1. The UCOP proposed **$1,035.8M** budget is a **$29.3M or 2.9 percent increase** compared to FY21-22.
2. **$755.4M or 73 percent** of the budget is in restricted and designated activities.
3. Excluding pass-through and fee-for-service activities, the UCOP budget is **$307.3M** (**30 percent**) of the UCOP total budget
4. **Key drivers** of increases include: participation in the UC systemwide salary program, required contract cost increases, UCPath and the pension system ("Redwood") and related staffing to support service improvements in the Retirement Administration Service Center.

Programs and Initiatives (P&I) (Schedule C)

1. The FY22-23 budget for Programs and Initiatives (P&I) is **$411.5M** (**40 percent**) of the UCOP total budget.
2. **$374.9M (36 percent)** of total budget is **pass-through** funding; these funds are distributed to campuses, researchers, K-12 programs, and other recipients throughout California in support of the University's teaching, research and public service mission.
3. State and Federal programs make up **$313.9M** of the P&I budget; Agriculture and Natural Resources (ANR) and the Tobacco-related Disease Research Program (TRDRP) comprise **$271.8M** of that total.
4. Program funding for FY22-23 is **$26.1M (6 percent)** lower, as a result of a decrease in TRDRP planned grant funds and awards due to a shift in the timing.

Systemwide and Core Services and UCPath (Schedule D)

1. The FY22-23 budget for Systemwide and Core Services is **$479.3M** (**46 percent**) of the UCOP total budget.
2. **Fee-for-service** activities are primarily in the Systemwide and Core Services budget and total **$353.7M (34 percent)** of total budget.
3. The Systemwide and Core Services budget **supports critical services in finance, human resources, compliance, legal, health, communications, government relations and others**; this budget is **$46.3M (11 percent)** higher than FY21-22; increases are driven primarily by higher operating costs including finance, legal, occupancy, and systems upgrades and resources to scale the pension system and service capacity.
4. The **UCPath operations budget** of $111.5M up from $97.2M in FY21-22 (excluding one-time SPF projects) or 14.7 percent to achieve staffing level targets and optimize campus services.

Strategic Priorities Funds (SPF) (Schedules F1 and F2)

1. The Unrestricted Strategic Priorities Fund is set at **$30M,** allowing the President $9.5M in discretionary funds for new priorities and initiatives and urgent / emergent issues given current commitments**.**
2. The **Designated/Restricted Strategic Priorities Fund** includes $3.6M in projects including Lived Name & Gender identity project, system upgrades and a student-pay project for UCPath endorsed by the campuses.

Fund Balances and Reserves (Schedules G, H)

1. Net of commitments and including fund balances applied to FY22-23 sources, unrestricted fund balances are forecasted to be **$3.8M**, a 62 percent decrease from the current year.
2. Designated fund balances are primarily held by **UCNL (50 percent of total fund balances)** from lab fees collected from managing multi-billion-dollar federal lab contracts. UCNL presents these balances annually to the Regents each July.
3. Forecasted year-end **reserve balances are $141.3M**. The majority of the reserves support multi-billion-dollar systemwide national lab contracts and the housing loan program.

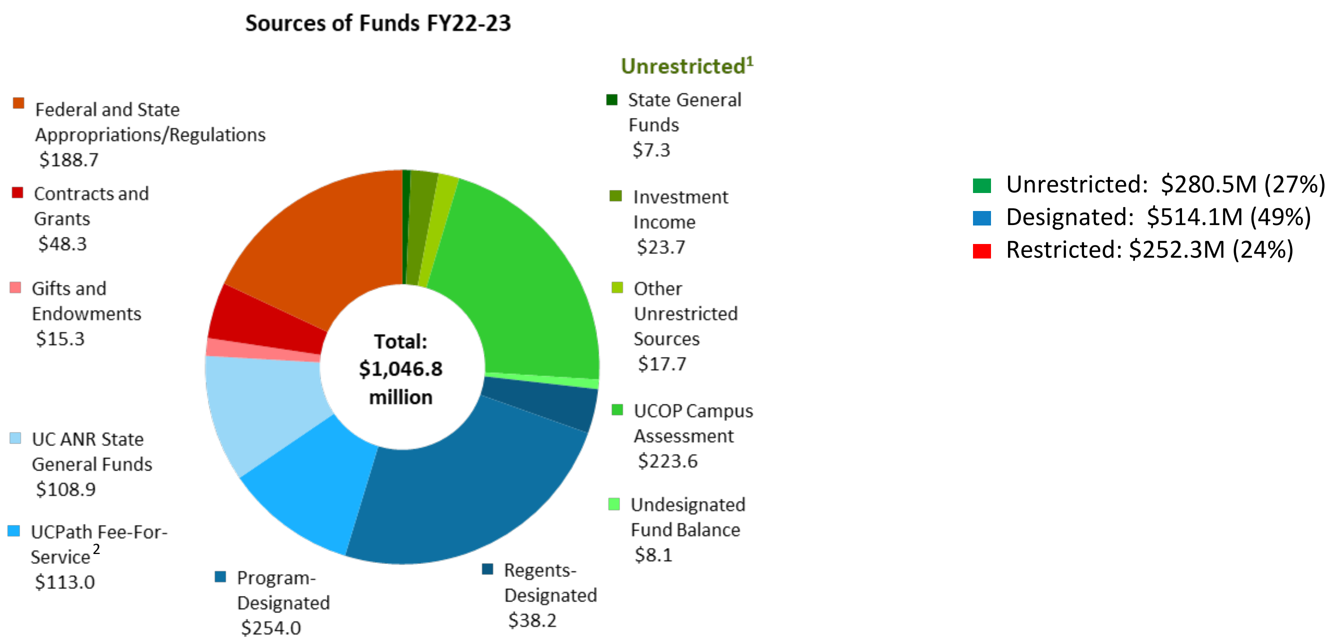
FY22-23 UCOP BUDGET

UCOP's total proposed expenditure budget for FY22-23 is $1,035.8M. The following sections describe the sources and uses, which are also detailed in **Schedules A-E**. The section also includes details on the various categories of the budget: Programs and Initiatives, Systemwide and Core Services, UCPath and the Strategic Priorities fund. In addition, the detail of all Pass-Through and Fee-for-Service activities are provided. Finally, a summary of uses by fund type is included.

Source of Funds

In FY22-23, UCOP's budget provides sources totaling $1,046.8M which are detailed in the appendix, **Schedule A.** As shown in Figure 4 below, **73 percent of fund sources are either restricted or designated**. The campus assessments for UCOP and UCPath total $335.1M; the direct appropriation for UC ANR totals $108.9M. Campus assessment funds, combined for UCOP and UCPath of $335.1M, comprise 32 percent of UCOP budgeted sources of funds.

Figure 4: Source of Funds



[1] Unrestricted funds include $223.6 in campus assessment, as well as state funds appropriated for faculty. $8.1M in undesignated fund balances are also included in the unrestricted sources
[2] Total UCPath sources of $113.0M include $1.5M in fund balance from prior year assessment of $98.6M.

Due to timing of sources and uses, the net margin reflects a surplus of $11.0M for FY22-23 on designated funds. Surplus funds, primarily from UCNL will be used in subsequent years and/or added to the fund balances for future expenditures. Additional information can be found in Schedule B. Figure 5 below shows the source changes between FY21-22 and FY22-23 by fund type.

Figure 5: Change in Source of Funds

$ millions

			Variance	
			FY22-23 vs FY21-22	
Fund Type	**FY21-22 Budget**	**FY22-23 Budget**	**% Incr/(Decr)**	**% of Total**
Unrestricted	$ 272.8	$ 280.5	2.8%	26.8%
Designated	$ 505.1	$ 514.1	1.8%	49.1%
Restricted	$ 247.8	$ 252.3	1.8%	24.1%
Total	**$ 1,025.6**	**$ 1,046.8**	**2.1%**	**100.0%**

- *Increase on unrestricted funds from a 3.9% increase in campus assessment funds*
- *Increase on designated funds driven by UCPath and other fee-for-service activities*
- *Restricted funds increase in retirement administration funds for the pension system*

Use of Funds

The FY22-23 budgeted use of funds is $1,035.8M. Programs and Initiatives and Systemwide and Core Services combined make up 86 percent of the budget. UCPath represents 11 percent of the budget, and the Strategic Priorities Funds comprise approximately 3 percent of the budget. Figure 6 provides an overview of UCOP uses by functional area.

Figure 6: Use of Funds
$ in millions

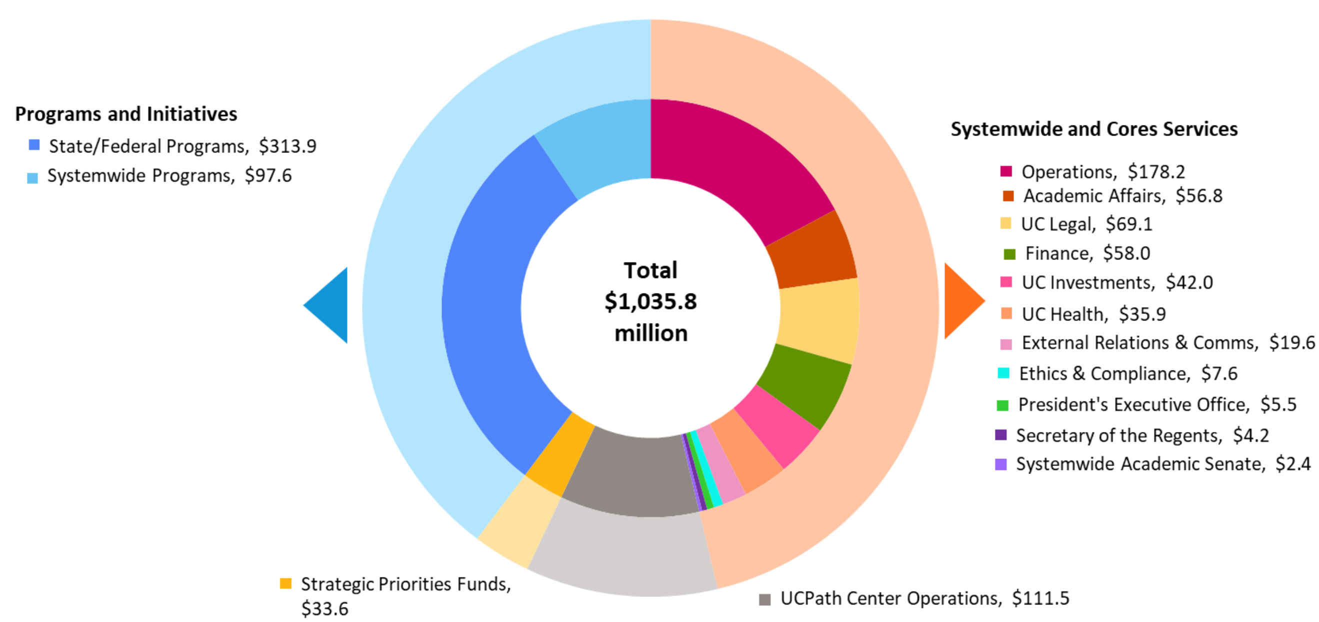


Figure 7 below outlines the changes in the budget by functional area. Additional detail on the Uses of Funds, including budgets, forecasts and variances are included in the section below and **Schedules A-E**.

Figure 7: Change in Uses of Funds

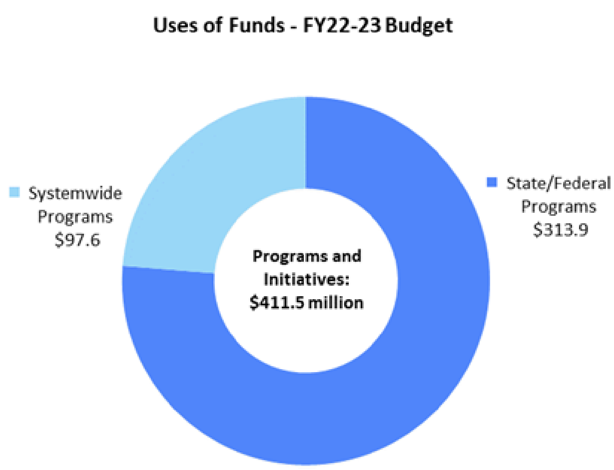
$ millions Functional Area	FY21-22 Budget	FY22-23 Budget	Variance FY22-23 vs FY21-22 $ Incr/(Decr)	% Incr/(Decr)
Programs and Initiatives	$ 437.6	$ 411.5	($26.1)	(6.0%)
Systemwide and Cores Services	433.0	479.3	46.3	10.7%
UCPath	97.2	111.5	14.3	14.7%
Strategic Priorities Fund, Unrestricted	30.0	30.0	(0.0)	(0.0%)
Strategic Priorities Fund, Desig. & Restricted	8.8	3.6	(5.2)	(59.5%)
Total	**$ 1,006.6**	**$ 1,035.8**	**$ 29.3**	**2.9%**
excl. UCPath	**$ 909.3**	**$ 924.3**	**$ 15.0**	**1.6%**

The total budget has increased by $29.3M (2.9%), or $15M (1.6%) excluding UCPath

Programs and Initiatives

The proposed FY22-23 Programs and Initiatives budget is $411.5M, or 40 percent of the budget. Figure 8 below shows the distribution between approximately 30 State/Federal and Systemwide programs. Most programs are managed by Academic Affairs as part of the research and public service the university provides on behalf of the state and federal governments. The complete list of programs, budgets, forecasts and comparisons, can be found in **Schedule C**.

Figure 8: Programs and Initiatives
$ in millions



76% - State/Federal Programs *are either required by legislation or operated by UC on behalf of the state or federal government, e.g., ANR and the Tobacco-Related Disease Research program.*

24% - Systemwide Programs *benefit the UC campuses and many other statewide recipients, e.g., SAPEP, UCPress, UC research and astronomy programs.*

Variances for the current year and comparison to the FY22-23 budget are in **Schedule C**.

Figure 9 below details the Pass-through funds, virtually all of which are in the Programs and Initiatives portion of the budget. Pass-through funds flow through the UCOP budget directly to campuses or other California institutions, individuals or researchers. The largest pass-through program is ANR which UC operates as the land-grant University for the State of California (see **Schedule E**). The majority of pass-through funds are distributed by the Academic Affairs division for research, diversity programs, online learning initiatives, undocumented students and more.

Figure 9: Pass-through Funds Programs

$ in millions

	FY21-22 Budget	FY22-23 Budget
Pass-Throughs		
Agriculture & Natural Resources	$ 197.2	$ 196.8
Research Grant Programs	101.9	86.4
Other Strategic Priorities Fund	12.7	17.9
UC Observatories	16.2	16.3
California Subject Matter Projects	14.7	9.6
National Laboratory Programs	15.6	8.5
UC Research Initiative	7.4	7.4
All Others	2.2	5.4
Diversity Initiatives	5.8	5.5
Other Academic Pass-Throughs	5.2	5.2
Public Service Programs	4.5	4.5
Public Service & Law Fellowship	3.0	3.6
Online Education Initiatives	3.1	3.4
Undocumented Students	2.2	2.0
iCAMP	0.5	1.0
UC Libraries	1.8	0.9
UC Health Initiatives	1.9	0.7
Total Pass-Throughs	**$ 395.9**	**$ 374.9**
Year-Over-Year Decrease $		$ (21.0)
Year-Over-Year Decrease %		-5.3%

- *The top two pass-through programs account for **76%** of the total*
- *Research grant programs are lower primarily due to a funding cycle shift*
- *CSMP reduction is due to the receipt of one-time funds in FY21-22*

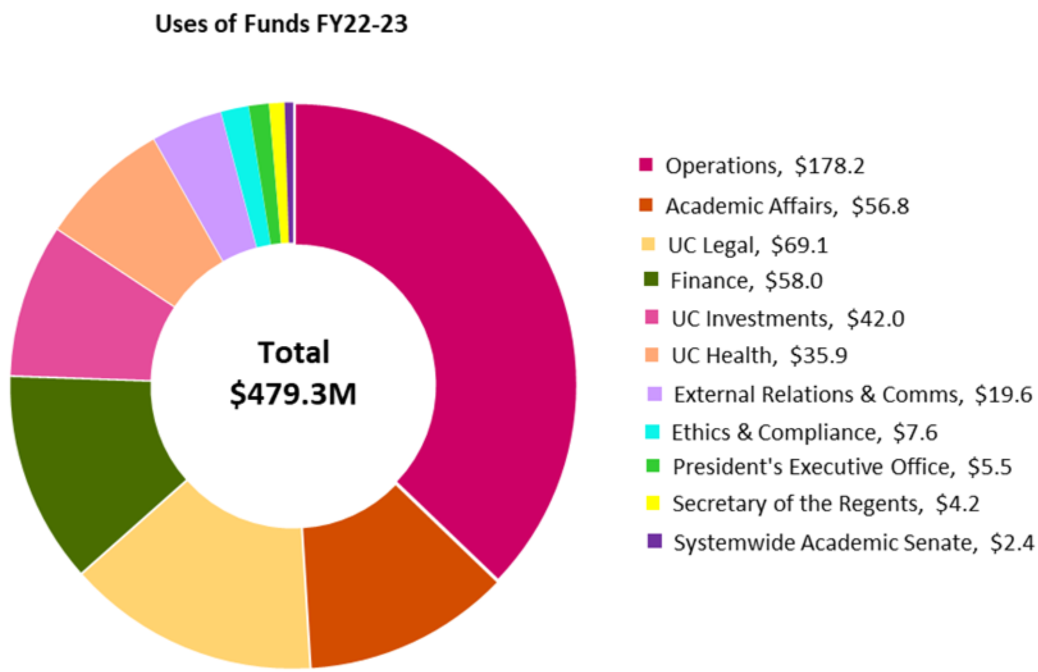
For FY22-23, the pass-through funds decreased $21.0M (5.3 percent). Of the total,

- $15.5M is a decrease in Research Grant Programs, including Tobacco-Related Disease Research and the California Breast Cancer Research Program
- $7.1M is a decrease due to the Lab Fees Research Program bi-annual grant competition.
- $4.7M is an increase in Strategic Priorities fund allocations for campus safety programs and the Native American Graves Protection and Repatriation Act (NAGPRA) work on campuses.
- $7.1M is a decrease in California Subject Matter Projects as it benefitted in FY21-22 from one-time state support in the June 2021 budget act.

Systemwide and Core Services

Systemwide and Core Services, excluding UCPath, total $479.3M and comprise 46.3 percent of the total budget; including UCPath, the total is $590.8M or 57.0 percent of the total budget. Figure 10 below and **Schedule D** provide a budget overview by division. The Systemwide and Core Services budget supports critical systemwide services and UCOP internal operations. The UC Operations division, which makes up a third of this budget, provides systemwide HR, benefits and retirement management, technology services, strategic planning and program management, and internal UCOP operations.

Figure 10: Systemwide and Core Services
$ in millions



Projected variances for the current year and a comparison to the FY22-23 budget are shown on **Schedule D**. The majority of UCOP Fee-for-Service activities, shown in Figure 11 below, are contained within the Systemwide and Core Services budget.

Figure 11: Fee-for-Service Activities
$ in millions

	FY21-22 Budget	FY22-23 Budget
Fee-for-Service		
UCPath	$ 98.6	$ 113.0
Office of the General Counsel	51.7	55.3
UC Retirement System	43.1	55.2
Investments & Asset Management	46.4	48.9
Employee Benefits Administration	29.7	32.5
UC Health Collaborative	22.5	25.7
Risk Management	7.2	7.6
Bond Management	3.8	4.4
Information Technology Services	0.9	3.2
Other Services	2.3	2.9
Patent Royalty Administration	2.5	2.7
UC Mortgage Origination Plan	2.3	2.5
Total Fee-for-Service	**$ 310.9**	**$ 353.7**
Year over Year Increase $		***42.8***
Year over Year Increase %		***13.8%***

- *The top six fee-for-service activities account for* ***93% of the total.***
- *UCPath (incl. fee-for-service one-time projects in designated SPF) is higher due to staffing level targets and operational stabilization.*
- *UC Retirement System is higher as work on the pension system project continues to move towards stabilization, and resources are added to the service center.*

Fee-for-service activities are functions that UCOP operates on behalf of the UC system to avoid redundancy on campuses and to save costs. UCPath provides systemwide payroll and human resource services. UC Legal fees fund internal and third-party legal costs that UC Legal coordinates on behalf of the campuses. UCOP also manages investment, systemwide retirement and employee benefit programs.

UCPath

UCPath is the largest shared services organization in higher education in the United States. It was created to consolidate multiple legacy and out-of-date University of California payroll, benefits, and personnel system instances – at more than 20 UC campuses, medical centers, and laboratories – into a single, cloud-based PeopleSoft software suite.

UCPath's singular purpose is to effectively serve the more than 230,000 employees from UC campuses, health systems, Office of the President, Agriculture and Natural Resources, Associates Students of UCLA, Hastings College of the Law and Lawrence Berkeley National Lab

Now that all locations have migrated into UCPath, the original service model needs to evolve to effectively achieve agreed-upon outcomes. To that end, the immediate strategic priorities for FY22-23 will be to:

- Continue to establish effective communications and partnerships with the UC stakeholder community to understand and address their concerns
- Institute a cultural and organizational transformation framework to demonstrate that UCPath recognizes its sole reason for existing was/is to support the UC locations.
- Develop a platform to shape a collective operational transformation agenda to stabilize UCPath operations
- Develop and execute a roadmap to optimize operational processes to improve the customer experience and achieve service level performance targets while minimizing risk across the enterprise.

The UCPath FY22-23 funding request is expected to enable the execution of specific goals, objectives and targeted initiatives to transition UCPath operations from "implementation mode" to a stable, steady-state, best-in-class shared services organization. For FY22-23, the UCPath proposed operating budget is $111.5M, up 14.7 percent from $97.2M in FY21-22, excluding designated SPF projects.

The UCPath FY23 budget proposal reflects a material increase from FY21-22, primarily driven by:

- The need to achieve long-planned staffing levels to effectively deliver UCPath services that were delayed during the COVID-19 pandemic
- The need to make technology and operational improvements to stabilize UCPath operations, alleviate location pain points and deliver a best-in-class customer experience
- The start of debt service principal payments

Stakeholders have asked UCPath to make a number of important system changes to reduce their workload, improve visibility to their employee data, increase accuracy of financial reporting and enhance functionality. UCPath leadership has also embarked on an operational transformation initiative to evaluate UCPath's existing operational processes, workflows, staffing, organizational structure, technology, etc. These project initiatives are included in the UCPath FY22-23 roadmap, which has already been broadly socialized with stakeholders and approved by UCPath governance.

In addition, UCPath will undertake two designated SPF projects: 1) a $1.2M student-pay pilot to assess the viability of biweekly pay at all campus locations which will enable improved automation, timeliness and flexibility and reduce complexity of payment cycles for student employees, and 2) a $0.2M PeopleSoft upgrade.

Unrestricted Strategic Priorities Fund (SPF)

The SPF was created in FY17-18 at $30M to fund emergent and urgent priorities, Presidential initiatives, and key projects requiring one-time funding. Many SFP priorities and projects span two or more years, meaning that a portion of the $30M budget is already committed at the start of the fiscal year to priorities started in the previous fiscal year. The remaining uncommitted portion allows the President to fund new priorities and projects throughout the year.

The total unrestricted SPF of $30M is an amount that has been approved by the Regents. **Schedule F-1** details the projected FY21-22 forecast and FY22-23 known commitments of approximately $19.9M, which include:

- On-going support for undocumented students
- Needed campus funding for Native American Graves Protection and Repatriation Act (NAGPRA)
- Programs that support the academic mission, students, and researchers
- Bridge funding for undergraduate and graduate student association initiatives (UCSA / UCGPC)
- IT projects, including a critical effort to stabilize the UCOP network
- Systemwide Integrated Library System Initiative
- Presidential initiatives, described in further detail in Appendix 3

The $30M SPF currently includes $9.5M in uncommitted funds. These funds, while limited, remain at the discretion of the President for new initiatives or strategies. However, these uncommitted funds also are used for unforeseen requirements, such as systemwide safety reforms, COVID-related expenses and technology upgrades, which can further limit the Presidents' flexibility.

Designated and Restricted Strategic Priorities Fund (SPF)

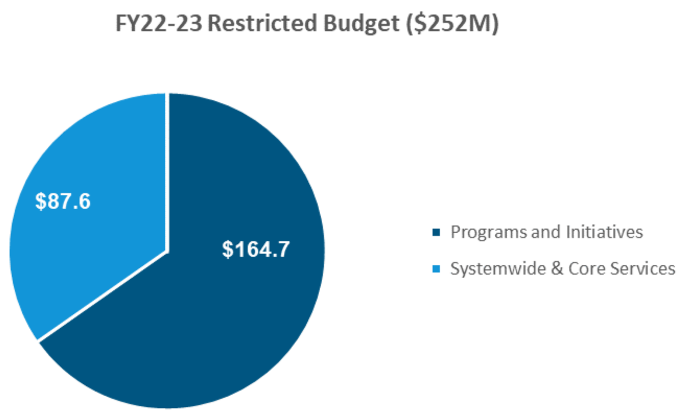
In addition to the unrestricted SPF, one-time designated and restricted projects can be funded with the Designated and Restricted SPF. This approach continues to provide transparency to short-term projects funded on designated or restricted funds so they may be accounted for separately from annual departmental operating budgets.

Schedule F-2 shows the planned projects to be funded by this SPF totaling $3.6M. These projects appropriately utilize designated and restricted funds and although they increase the overall size of the UCOP budget, they do not have the same flexibility as unrestricted funds. This year, major projects include further improvements to the retirement administration system and processes, iCAMP which addresses facility and infrastructure needs through lifecycle management across all campuses, and the previously mentioned Student-Pay project for UCPath. All requests were reviewed by the Executive Budget Committee, UCOP leadership, and the President and only critical projects are budgeted.

Use of Funds by Fund Type

Figure 12: FY22-23 Restricted Fund Uses

54 percent of restricted funds primarily support two large State and Federal programs, ANR and TRDRP. Restricted funds also support the UC retirement administration and systems, including one-time funds in the restricted SPF to stabilize and enhance the retirement administration system (the Redwood project).



Programs and Initiatives, $164.7M (65%):

- $137.3M of this total is from state / federal Programs with ANR and TRDRP accounting for $68.4M and $68.9M, respectively

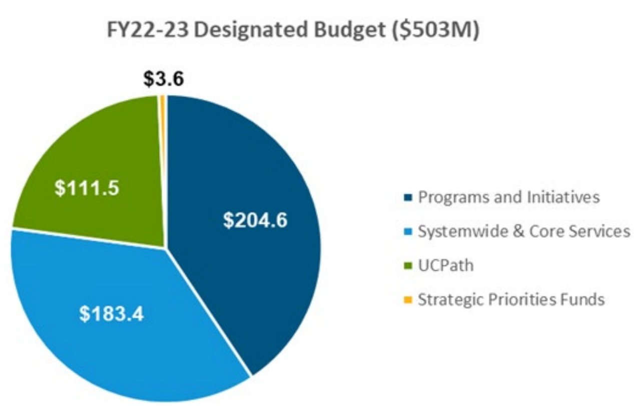
Systemwide Services, $87.6M (35%):

- $69.4M of this total is in Systemwide Human Resources associated with management of UC's systemwide retirement program

FY22-23 designated funds total $503.1M. Designated funds may only be used for a specific program, initiative or expenditure. Examples include UC Press, UC National Laboratories, and UC Investments. UCPath is also entirely funded on designated funds.

In FY22-23, designated funds increase by $15.8M from FY21-22. The change is driven by increases in UCPath, UC Legal and UC Health, offset by reductions in the Lab Fees Research Program and CSMP due to one-time funds received in FY21-22. Increases in Systemwide and Core Services or fee-for-service activities (which were reviewed with and supported by the Executive Budget Committee).

Figure 13: FY22-23 Designated Fund Uses



Programs and Initiatives, $204.6M (41%):

- $151.2M of the total is in state / federal programs incl. ANR $134.5M and UCNL $9.7M
- $53.4M of the total is in Systemwide programs: UC Press $19.7M, Lab Fees Research $8.1M, CA HIV/Aids $8.8M

Systemwide and Core Services, $183.4M (36%):

- UC Legal $58.1M, Risk Services $9.1M, UC Investments $42M, UC Health $28.8M

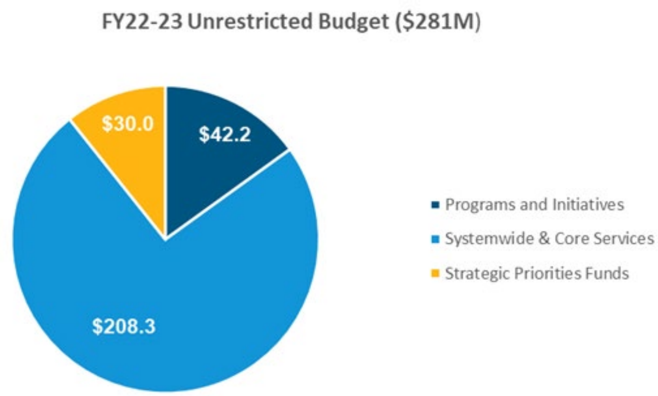
UCPath, $111.5M (22%)

Strategic Priorities Fund, $3.6M: (1%)

- Includes UCPath's implementation of student-pay $1.2M and systems upgrades for Lived-Name updates

Figure 14: FY22-23 Unrestricted Fund Uses

The FY22-23 budget includes total unrestricted funds of $280.5M. 74 percent of these funds go toward Systemwide and Core Services to provide services across the system, gain efficiencies and reduce redundancies. Detailed expenditures by fund type are provided in the Regents Schedule C-1 and D-1 in the appendix.



Systemwide and Core Services, $208M (74%):

- External Relations & Communications $12.4M, Finance $32.8M, UC Operations $86.8M (including IT, Systemwide Human Resources), UC Legal $10.2M, and Other (President's Executive Office, Secretary of the Regents, and more)

Programs and Initiatives, $42M (15%):

- Funding supports research and teaching: UC Observatories, $16.3M; Multi-campus Research Program Initiative $8.3M, UC Washington DC Center $1.5M
- And also supports public service: SAPEP $6.3M, HBCUs $4M

RESERVES

UCOP reserves are funds intentionally allocated and accrued from fund sources for use in the event of revenue disruption, for maintenance of assets including buildings and infrastructure, or used by UC National Laboratories for business development opportunities or potential post-contract liability risks.

UCOP completed a comprehensive review of best practices and peer benchmarking and established target funding levels for all reserves. The largest UCOP reserves, for the National Labs and UC Housing Loan programs, are reserves against multi-billion-dollar portfolios that are managed by UCOP and overseen by the Regents.

Reserves are not fund balances. While a reserve is intentionally accrued to manage risk, a fund balance is the net position, or the cumulative revenues (sources) received in excess of expenditures (uses) for a fund at any given time. Reserve funds are maintained separately from operating funds in order to manage each more effectively and transparently.

Reserve Target Funding Levels

In March 2019, UCOP established and reviewed guiding principles for UCOP reserves with the Board of Regents. The guiding principles include target funding levels, and controls for monitoring, reporting, and drawing on funds. In January 2018, the Regents adopted the *Policy on a Central Operating Reserve for the University of California Office of the President*. The policy and presidential guidelines establish the size, funding source and circumstances for drawing on the Central Operating Reserve. The central operating reserve is unchanged from previous years and set at $15M or at least 3.5 percent of covered funds and expenses and maintained in the President's Endowment Fund.

Forecasted Reserves

UCOP reports reserve balances and target funding levels to the Regents twice annually, during the presentation of the budget, and after fiscal year close. At the time the budget is presented, the fiscal year is not yet finalized, and therefore reserve balances are forecasted. Figure 15 **below** projects a total reserve balance of $141.3M as of June 30, 2022. Details are in **Schedule G**.

Figure 15 – UCOP Reserve Balances

$ in millions

UCOP RESERVES	Reserve Target Minimum	Reserve Target Maximum	6/30/22 Forecasted Reserve	Variance: 6/30/22 Reserve Over Max / (Under Min)
Building and Capital Assets Reserves[1]	$ 3.0	$ 8.5	$ 1.6	$ (1.4)
Program Reserves	65.9	83.3	68.4	-
Other Required Reserves	51.0	65.6	56.3	-
Sub-Total Program and Non-Operating Reserves	**$ 119.9**	**$ 157.4**	**$ 126.3**	
Central Operating Reserve	15.0	15.0	15.0	-
TOTAL UCOP RESERVES[2]	**$ 134.9**	**$ 172.4**	**$ 141.3**	

[1] The Capital Maintenance and Renewal reserve is under the target minimum currently due to significant capital expenditures in FY21-22 on the Oakland consolidation program. These reserves will be built back to the target range over the next three years.
[2] See Schedule G for additional details.

Individual reserves mainly fall within the established target funding range minimum of $134.9M and maximum of $172.4M, except where noted above. The Housing Loan program reserve requirement has been increased to accurately reflect a 4 percent maximum reserve target on the overall size of the loan portfolio of approximately $1.5 billion. The Regents determined in January 2012 that the program is required to maintain a 3.5 percent maximum reserve target. Given the current economic uncertainty, and need to accommodate requests for loan forbearance, the Office of Loan Programs recommended to management increasing the maximum target to 4.0 percent, with a resulting target maximum of $65.6M. The forecasted reserve is below that maximum.

FUND BALANCES

Fund balances reflect the difference at a point in time between sources and uses, less any known encumbrances and commitments. Because fund balances are one-time non-recurring funding sources, they must not be relied upon to fund recurring operations. **Schedule H, UCOP Fund Balances by Fund Type**, provides additional detail to the fund balances described below.

Actual and Forecasted Balances

To develop the FY22-23 budget, UCOP analyzed actual fund balances as of March 31, 2022 and forecasted fund balances for June 30, 2022. UCOP also reviewed known commitments identified for next year. Restricted or designated fund balances may only be used for their defined purpose.

Figure 16 shows a breakdown of fund balance by fund type, forecasted as of June 30, 2022. Overall, fund balances are projected to decrease by $22.1M or 22 percent compared to last year, the largest reduction (70 percent) taking place in the unrestricted funds.

Figure 16: UCOP Fund Balances

$ millions		6/30/22				
	6/30/21 Balance	**Forecasted Balance**	**Commitments**	**Remaining Balance**	**Change in Fund Balance**	**% Change**
Unrestricted	$ 12.4	$ 21.2	$ 17.4	$ 3.8	$ (8.6)	-70%
Designated	79.6	98.6	26.7	71.9	(7.7)	-10%
Restricted	9.6	3.9	-	3.9	(5.7)	-60%
Total Fund Balance	**$ 101.6**	**$ 123.6**	**$ 44.1**	**$ 79.5**	**$ (22.1)**	**-22%**

Unrestricted fund balances afford the most flexibility for use. Unrestricted balances total $3.8M or 5 percent of the total remaining fund balance, net of funds being used for FY22-23 budget sources. Historically, UCOP relied on these balances to address emergent priorities, but this practice was replaced in FY18-19 with the establishment of the Strategic Priorities Fund. The main cause of the change in unrestricted fund balances were due to a $7.3M commitment to campus-specific seismic work, interest on commercial loans and systems replacements. Final balances will be reviewed by UCOP after the June 30, 2022 fiscal close and reported in the FY21-22 Budget-to-Actuals item presented at the November 2022 Regents Meeting.

Designated fund balances total $71.9M or 90 percent of the forecasted remaining fund balance. A designated balance is considered committed by the Regents or UCOP for an intended purpose. The largest balance, $56.1M, or 71 percent of total fund balances, is Regents-designated for the management of the UC National Laboratories and the Lab Fees Research Program. The Office of National Labs provides a spending and reserves plan to the Regents each July for approval.

Designated fund balances also include balances for self-funded programs. The fund balance changes are due to:

- $17.2M decrease in the Lab Fees Research program to fund campus research opportunities
- $8.6M decrease in endowment cost recovery funds planned for future development work

Restricted fund balances by definition, cannot be reallocated for other purposes. Contracts and grants are funded on a reimbursement basis and thus carry no balances. Federal and special State appropriations are forecasted to be slightly lower based on disbursements to the campuses and laboratories. Restricted balances represent 5 percent of the forecasted remaining fund balance.

EXECUTIVE BUDGET COMMITTEE RECOMMENDATIONS

The Executive Budget Committee (EBC) issued its annual budget letter to President Drake in April. UCOP and all campuses continue to advise caution in planning the coming year, but share optimism as well and recommend selective investments over time to advance the mission. The Committee's feedback, recommendations, and guiding principles include support for:

- Continued support for the campus assessment funding model which improves systemwide coordination and holistic planning over a multi-year timeframe.
- Recognition that while UC system growth has been approximately 6.0 percent annually over the last five years, UCOP's funding through state appropriation or campus assessment has been less

than one percent. This has required UCOP to make only the most critical or strategically important investments, and impacts the system to make investments that benefit all campuses.
- SPF set at $30M since FY17-18, allows the President only a modest level of flexibility in which to set vision or strategic direction for the university.
- Use budget targets on unrestricted funds to contain costs and a return to the use of a UCOP vacancy factor to partially offset the impact of time to hire and turnover.
- Increased focus and time spent on budget uses funded by unrestricted or designated sources to control growth; there is universal agreement that restricted funds are generally variable and impacted by factors outside direct control of UCOP.
- Funding CDL for one more year as a systemwide expense funded by TRIP funds; however, there is interest to return to the campus assessment funding model or a systemwide set-aside.
- Finally, as a result of deep dive reviews, the EBC supports more use of seed funding for concept-proof prior to larger scale investments.

This committee continues to serve a major role in UCOP finances with strong collaboration and partnership.

PRESIDENT'S RECOMMENDATION

UCOP has developed this budget based on anticipated FY22-23 funding that delivers valued programs and services. The proposed budget is comprehensive, transparent and demonstrates UCOP's contributions to the University's teaching, research, and public service mission.

Pursuant to Regents Policy 5101, the President of the University recommends approval of the UCOP FY22-23 Budget by the Board of Regents.

Appendices

Schedule A

Sources and Uses by Year

Overall UCOP

$ in millions

	FY21-22 Budget YearTotal	FY21-22 Q2Forecast YearTotal	FY22-23 Budget YearTotal	Variance Increase/ (Decrease) FY21-22 Fcst vs. FY21-22 Bud	FY22-23 Bud vs. FY21-22 Fcst	FY22-23 Bud vs. FY21-22 Bud
SOURCES						
Unrestricted Sources						
State General Funds	7.1	7.1	7.3	0.0	0.2	0.2
Investment Income	26.0	26.1	23.7	0.1	(2.4)	(2.4)
Other Unrestricted Sources	19.9	18.2	17.7	(1.7)	(0.5)	(2.2)
UCOP Campus Assessment	215.2	215.2	223.6	0.0	8.4	8.4
Undesignated Fund Balance	4.5	2.3	8.1	(2.3)	5.9	3.6
Subtotal - Unrestricted Sources	**$272.8**	**$269.0**	**$280.5**	**(3.9)**	**$11.6**	**$7.7**
Designated Sources						
Regents-Designated	49.4	28.6	38.2	(20.8)	9.5	(11.3)
Program-Designated	248.1	243.0	254.0	(5.1)	11.1	6.0
UCPath Fee-For-Service	98.6	98.6	113.0	0.0	14.3	14.3
UC ANR State General Funds	108.9	108.9	108.9	0.0	0.0	0.0
Subtotal - Designated Sources	**$505.1**	**$479.2**	**$514.1**	**(25.9)**	**$34.9**	**$9.0**
Restricted Sources						
Gifts and Endowments	13.3	12.2	15.3	(1.1)	3.1	2.0
Contracts and Grants	45.5	46.9	48.3	1.5	1.3	2.8
Federal and State Appropriations/ Regulations	189.0	159.5	188.7	(29.5)	29.2	(0.4)
Subtotal - Restricted Sources	**$247.8**	**$218.6**	**$252.3**	**($29.2)**	**$33.7**	**$4.5**
TOTAL SOURCES	**$1,025.6**	**$966.7**	**$1,046.8**	**($58.9)**	**$80.1**	**$21.2**
USES						
Programs and Initiatives						
State/ Federal Programs	332.1	296.7	313.9	(35.4)	17.1	(18.2)
Systemwide Programs	105.5	103.3	97.6	(2.2)	(5.7)	(7.9)
Subtotal - Programs and Initiatives	**$437.6**	**$400.0**	**$411.5**	**($37.5)**	**$11.4**	**($26.1)**
Systemwide and Core Services						
Academic Affairs	55.4	54.7	56.8	(0.7)	2.1	1.4
Ethics & Compliance	6.8	6.8	7.6	0.0	0.8	0.9
External Relations & Communications	18.9	17.3	19.6	(1.6)	2.3	0.7
Finance	56.2	50.3	58.0	(5.8)	7.6	1.8
Operations	147.0	152.8	178.2	5.8	25.3	31.1
President's Executive Office	5.4	4.9	5.5	(0.5)	0.6	0.1
Secretary of the Regents	4.2	3.6	4.2	(0.6)	0.6	0.0
Systemwide Academic Senate	2.3	2.2	2.4	(0.1)	0.2	0.0
UC Health	31.2	29.0	35.9	(2.1)	6.9	4.7
UC Investments	40.1	42.5	42.0	2.5	(0.5)	1.9
UC Legal	65.5	65.5	69.1	0.0	3.6	3.6
Subtotal - Systemwide and Core Services (excl UCPath)	**$433.0**	**$429.8**	**$479.3**	**($3.2)**	**$49.5**	**$46.3**
Strategic Priorities Funds						
SPF - Unrestricted	30.0	30.1	30.0	0.1	(0.1)	(0.0)
SPF - Designated/ Restricted	8.8	9.4	3.6	0.6	(5.9)	(5.2)
Subtotal - Strategic Priorities Funds	**$38.8**	**$39.5**	**$33.6**	**0.7**	**($6.0)**	**(5.2)**
SUBTOTAL USES	**$909.3**	**$869.3**	**$924.3**	**(40.0)**	**55.0**	**15.0**
UCPath	97.2	97.1	111.5	(0.1)	14.4	14.3
TOTAL USES	**$1,006.6**	**$966.4**	**$1,035.8**	**(40.1)**	**69.4**	**29.3**
NET MARGIN SURPLUS (DEFICIT)	19.1	0.3	11.0	(18.8)	10.7	(8.1)
Included in Sources and Uses Above						
Pass-Throughs	395.9	357.0	374.9	(38.9)	17.9	(21.0)
Fee-For-Service	310.9	310.4	353.7	(0.5)	43.3	42.8
Total Fee-For-Service and Pass-Throughs	$706.8	$667.4	$728.6	(39.5)	$61.2	$21.8

Notes to Schedule A:

Sources

Unrestricted Sources

1. State General Funds: $7.3M reflects funds from the state for faculty diversity programs and iCAMP
2. Investment Income: $23.7M estimate based on historical returns; lower by $2.4M due to low short-term rates of return
3. Other Unrestricted: $17.7M is $2.2M lower than FY21-22 due to one-time procurement funds no longer in use
4. UCOP Campus Assessment: $223.6M total represents the $8.4M, or 3.9% increase
5. Undesignated Fund Balance: $8.2M estimate based on FY21-22 Forecast savings.

Designated Sources

6. Regents Designated: $38.2M decreased by $11.3M (23%) mainly due to a decrease in planned Lab Fees Research awards for FY22-23.
7. Program-Designated: $254M increased by $6.0M (2.4%) in the UC Health Collaborative based on growth in Clinical Strategy and Leveraging Scale for Value, and UC Legal to hire additional resources offset by reductions in CSMP for one-time funds.
8. UCPath Fee-For-Service: $113M increased by $14.3M (12.7%) compared to FY21-22 due to target staffing levels and strategic service improvements.
9. UC ANR State General Funds: $108.9M remains flat to the amended FY21-22 budget, which included an increase of $35M to grow ANR's research programs throughout California.

Restricted Sources

10. Gifts and Endowments: $15.3M is up $2M (15%) compared to FY21-22, with the increase in ANR.
11. Contracts and Grants: $48.3M increased $2.8M (6.0%) driven by ANR's extramural funding and other research funding.
12. Federal and State Appropriations: $188.7M is roughly flat to FY21-22, with a decrease in TRDRP funds offset by increased needs for retirement system funds to support critical improvement projects in the Retirement Administration Service Center.

Notes regarding Uses are appended to Schedules, C, D and F

Schedule B

Expenditure by Fund

Overall UCOP

$ in millions

	Unrestricted Funds	Designated Funds	Restricted Funds	FY22-23 Budget
TOTAL SOURCES	280.5	514.1	252.3	1,046.8
USES				
Programs and Initiatives				
State/ Federal Programs	0.8	151.2	161.9	313.9
Systemwide Programs	41.4	53.4	2.7	97.6
Subtotal - Programs and Initiatives	$42.2	$204.6	$164.7	$411.5
Systemwide and Core Services				
Academic Affairs	43.0	11.0	2.8	56.8
Ethics & Compliance	7.6	0.0	0.0	7.6
External Relations & Communications	12.4	5.8	1.3	19.6
Finance	32.8	22.0	3.2	58.0
Operations	86.8	15.4	76.0	178.2
President's Executive Office	5.0	0.3	0.2	5.5
Secretary of the Regents	4.2	0.0	0.0	4.2
Systemwide Academic Senate	2.3	0.0	0.1	2.4
UC Health	4.1	28.8	3.1	35.9
UC Investments	0.0	42.0	0.0	42.0
UC Legal	10.2	58.1	0.9	69.1
Subtotal - Systemwide and Cores Services (excl UCPath)	$208.3	$183.4	$87.6	$479.3
Strategic Priorities Funds	30.0	3.6	0.0	33.6
SUBTOTAL USES	$280.5	$391.6	$252.3	$924.3
UCPath	0.0	111.5	0.0	111.5
TOTAL USES	$280.5	$503.1	$252.3	$1,035.8
NET MARGIN: SURPLUS (DEFICIT)[1]	$0.0	$11.0	$0.0	$11.0

[1]Due to timing of sources and uses, the net margin reflects a surplus in designated funds only for FY22-23. Surplus funds will be used in subsequent years and/or added to the fund balances for future expenditures. Unrestricted funds are allocated by UCOP's budget team according to organizational priorities. UCOP divisions budget most designated and restricted sources based on anticipated revenues such as UC Office of National Laboratories' (UCNL) lab management fees or restricted revenues as in the case for Tobacco-related Disease Research (Proposition 56) funds. Revenues and expenses may differ due to timing differences. The $11M budget surplus in designated funds is mainly attributed to anticipated UCNL fee income which will be allocated through the annual spend plan approved by the Regents.

Schedule C

Budget by Programs and Initiatives

Programs and Initiatives

$ in millions

	FY21-22 Budget	FY21-22 Q2Forecast	FY22-23 Budget	Variance Increase/ (Decrease) FY21-22 Fcst vs. FY21-22 Bud	FY22-23 Bud vs. FY21-22 Fcst	FY22-23 Bud vs. FY21-22 Bud
PROGRAMS AND INITIATIVES						
State/ Federal Programs						
Agriculture and Natural Resources (ANR)	202.3	199.1	202.9	(3.2)	3.8	0.6
California Breast Cancer Research Program	9.7	7.4	12.9	(2.3)	5.5	3.2
California Subject Matter Project (CSMP)	15.6	14.7	10.5	(0.9)	(4.2)	(5.1)
Gaining Early Awareness and Readiness for Undergraduate Programs	3.5	3.5	3.4	0.0	(0.2)	(0.1)
Graduate Medical Education	1.9	1.9	1.9	0.0	0.0	0.0
Office of the National Laboratories (UCNL)	8.6	8.0	9.7	(0.6)	1.7	1.2
Other State/ Federal Programs	0.8	0.4	0.6	(0.3)	0.2	(0.2)
Tobacco-Related Disease Research Program (TRDRP)	87.0	59.4	68.9	(27.5)	9.5	(18.0)
UC Research: Cancer Research Coordinating Committee (CRCC)	2.7	2.2	3.0	(0.5)	0.8	0.3
Subtotal - State/ Federal Programs	$332.1	$296.7	$313.9	$(35.4)	$17.1	$(18.2)
Systemwide Programs						
California HIV/ AIDS Research Program (CHRP)	8.8	8.8	8.8	0.0	0.0	0.0
Eligibility in the Local Context (ELC)	1.0	1.0	0.9	0.0	0.0	0.0
Historically Black Colleges and Universities (HBCU) Fellowship Initiative	2.0	2.0	2.0	0.0	0.0	0.0
Historically Black Colleges and Universities (HBCU) Summer Research Initiative	2.0	1.9	2.0	0.0	0.0	0.0
Innovative Learning Technology Initiative (Online Education)	8.1	8.2	8.3	0.1	0.1	0.2
Natural Reserve System (NRS)	2.5	2.6	2.8	0.1	0.2	0.2
Other Systemwide Programs	1.9	1.9	2.2	0.0	0.2	0.3
San Joaquin Valley PRIME program	1.9	0.0	0.0	(1.9)	0.0	(1.9)
SAPEP	8.6	8.3	10.1	(0.3)	1.8	1.5
UC Astronomy: University of California Observatories (UCO)	7.5	7.5	7.5	0.0	0.0	0.0
UC Astronomy: W.M. Keck Observatory (Keck)	8.8	9.0	8.8	0.3	(0.3)	0.0
University of California Press	21.9	21.9	20.7	0.0	(1.2)	(1.2)
UC Research: Laboratory Fees Research Program (LFRP)	15.2	15.2	8.1	0.0	(7.0)	(7.0)
UC Research: Multi-Campus Research Programs and Initiatives (MRPI)	8.3	8.3	8.3	0.0	0.0	0.0
University of California Washington Center (UCDC)	7.2	6.7	7.2	(0.5)	0.5	0.0
Subtotal - Systemwide Programs	$105.5	$103.3	$97.6	($2.2)	($5.7)	($7.9)
TOTAL USES	$437.6	$400.0	$411.5	($37.5)	$11.4	($26.1)

Notes to Schedule C: Budget by Programs and Initiatives
FY22-23 Budget Increased/Decreased Compared to FY21-22 Budget > $1M

State / Federal Programs

1. California Breast Cancer Research Program: $12.9M increased by $3.2M, +33.0% due to the addition of two one-time funding opportunities for research initiatives in FY22-23.
2. California Subject Matter Program: $10.5M decreased by ($5.1M, -32.7%) as additional one-time state funding in FY21-22 is not expected in FY22-23.
3. Office of the National Laboratories (UCNL): $9.7 increased by $1.2M, +12.8% for needed business development funds to grow lab management and for operations for Hertz Hall.
4. Tobacco-Related Disease Research Program (TRDRP): $69.0M decreased by ($18.0M, -20.8%) due to lower anticipated grant awards related to a program calendar shift.

Systemwide Programs

5. San Joaquin Valley Prime Program: $0.0M (in UCOP budget), this program has been moved from a UCOP program to a set-aside and continues to be funded, but is no longer part of the UCOP budget.
6. SAPEP: $10.1M increased by $1.5M, +17.4% with additional funding to support ASSIST and Mesa.
7. UC Press: $20.7M decreased by ($1.2M, -5.5%) due to a departmental consolidation which reduces consulting and professional services.
8. Lab Fees Research Program (LFRP): $8.1M decreased by ($7.0M, -46.7%) as the program will not be awarding new grant applications in FY22-23.

Schedule C-1

Programs and Initiatives by Fund

$ in millions

	Unrestricted Funds	Designated Funds	Restricted Funds	FY22-23 Budget
PROGRAMS AND INITIATIVES				
State/ Federal Programs				
Agriculture and Natural Resources (ANR)	0.0	134.5	68.4	202.9
California Breast Cancer Research Program	0.0	0.0	12.9	12.9
California Subject Matter Project (CSMP)	0.2	6.8	3.4	10.5
Gaining Early Awareness and Readiness for Undergraduate Programs	0.0	0.0	3.4	3.4
Graduate Medical Education	0.0	0.0	1.9	1.9
Office of the National Laboratories (UCNL)	0.0	9.7	0.0	9.7
Other State/ Federal Programs	0.5	0.1	0.0	0.6
Tobacco-Related Disease Research Program (TRDRP)	0.0	0.0	68.9	68.9
UC Research: Cancer Research Coordinating Committee (CRCC)	0.0	0.0	3.0	3.0
Subtotal - State/ Federal Programs	**0.8**	**151.2**	**161.9**	**313.9**
Systemwide Program				
California HIV/ AIDS Research Program (CHRP)	0.0	8.8	0.0	8.8
Eligibility in the Local Context (ELC)	0.0	0.9	0.0	0.9
Historically Black Colleges and Universities (HBCU) Fellowship Initiative	2.0	0.0	0.0	2.0
Historically Black Colleges and Universities (HBCU) Summer Research Initiative	2.0	0.0	0.0	2.0
Innovative Learning Technology Initiative (Online Education)	0.0	8.1	0.2	8.3
Natural Reserve System (NRS)	2.0	0.0	0.8	2.8
Other Systemwide Programs	2.1	0.0	0.0	2.2
SAPEP	6.3	2.1	1.7	10.1
UC Astronomy: University of California Observatories (UCO)	7.5	0.0	0.0	7.5
UC Astronomy: W.M. Keck Observatory (Keck)	8.8	0.0	0.0	8.8
University of California Press	1.0	19.7	0.0	20.7
UC Research: Laboratory Fees Research Program (LFRP)	0.0	8.1	0.0	8.1
UC Research: Multi-Campus Research Programs and Initiatives (MRPI)	8.3	0.0	0.0	8.3
University of California Washington Center (UCDC)	1.5	5.7	0.0	7.2
Subtotal - Systemwide Programs	**41.4**	**53.4**	**2.7**	**97.6**
TOTAL USES	**$42.2**	**$204.6**	**$164.7**	**$411.5**

Schedule D

Budget by Division and Sub-Division

Systemwide and Core Services

$ in millions

	FY21-22 Budget	FY21-22 Q2Forecast	FY22-23 Budget	Variance Increase/ (Decrease) FY21-22 Fcst vs. FY21-22 Bud	FY22-23 Bud vs. FY21-22 Fcst	FY22-23 Bud vs. FY21-22 Bud
SYSTEMWIDE AND CORE SERVICES USES						
Academic Affairs						
Academic Personnel and Programs	20.8	19.9	20.4	(0.9)	0.5	(0.4)
Immediate Office	6.7	7.8	8.2	1.2	0.4	1.6
Institutional Research and Academic Planning	5.5	5.3	5.5	(0.2)	0.2	0.0
Research and Innovation	8.4	7.9	8.7	(0.5)	0.8	0.3
Graduate Undergraduate and Equity Affairs	14.0	13.8	13.9	(0.2)	0.1	(0.1)
Subtotal - Academic Affairs	**55.4**	**54.7**	**56.8**	**(0.7)**	**2.1**	**1.4**
Ethics & Compliance	**6.8**	**6.8**	**7.6**	**0.0**	**0.8**	**0.9**
External Relations & Communications						
Alumni and Constituent Affairs	0.5	0.4	0.5	(0.1)	0.1	0.0
Executive Communications & Engagement	0.8	0.8	0.8	0.0	0.0	0.0
Federal Government Relations	2.9	2.8	2.9	(0.1)	0.2	0.1
Institutional Advancement	2.2	1.7	2.5	(0.5)	0.8	0.3
Legislative Analysis	0.8	0.8	0.9	0.0	0.1	0.0
Marketing and Communications	5.9	5.5	6.3	(0.4)	0.8	0.4
Media Relations	0.9	0.9	0.9	0.0	0.0	0.0
State Government Relations	2.8	2.8	2.9	0.0	0.1	0.1
Immediate Office	2.1	1.6	1.8	(0.5)	0.2	(0.3)
Subtotal - ER&C	**18.9**	**17.3**	**19.6**	**(1.6)**	**2.3**	**0.7**
Finance						
Budget Analysis and Planning	2.0	2.2	2.2	0.2	0.0	0.2
Capital Markets Finance	6.2	5.6	7.5	(0.5)	1.8	1.3
Financial Accounting	12.5	11.3	13.1	(1.2)	1.8	0.6
Risk Services	8.6	7.5	9.1	(1.0)	1.5	0.5
Strategic Sourcing/ Procurement	12.0	10.9	11.6	(1.0)	0.6	(0.4)
Immediate Office	1.3	1.3	1.3	0.0	0.1	0.0
Capital Programs Energy and Sustainability	13.6	11.4	13.2	(2.2)	1.8	(0.4)
Subtotal - Finance	**56.2**	**50.3**	**58.0**	**(5.8)**	**7.6**	**1.8**
Operations						
Information Technology Services	45.3	45.2	48.0	0.0	2.7	2.7
Operational Expenses	4.0	10.2	10.7	6.2	0.6	6.7
Strategic Program Management Office	1.9	1.5	1.8	(0.5)	0.3	(0.1)
Systemwide Human Resources	56.4	58.1	77.0	1.7	18.8	20.6
UCOP Operations	37.7	36.4	38.8	(1.4)	2.5	1.1
Immediate Office	1.7	1.4	1.8	(0.2)	0.4	0.1
Subtotal - Operations	**147.0**	**152.8**	**178.2**	**5.8**	**25.3**	**31.1**
President's Executive Office	**5.4**	**4.9**	**5.5**	**(0.5)**	**0.6**	**0.1**
Secretary of the Regents	**4.2**	**3.6**	**4.2**	**(0.6)**	**0.6**	**0.0**
Systemwide Academic Senate	**2.3**	**2.2**	**2.4**	**(0.1)**	**0.2**	**0.0**
UC Health						
Self-Funded Health Plans	4.7	4.4	5.2	(0.3)	0.8	0.5
Academic Health Sciences	3.3	3.3	3.2	0.0	0.0	(0.1)
Center for Data Driven Insights and Innovation	7.1	6.0	7.4	(1.1)	1.4	0.3
Clinical Strategy & Operations	4.1	3.5	5.5	(0.6)	2.0	1.4
Finance and Administration	4.5	4.4	5.4	(0.1)	1.0	0.9
Leveraging Scale for Value	7.4	7.2	9.5	(0.3)	2.3	2.1
Subtotal - UC Health	**31.2**	**29.0**	**35.9**	**(2.1)**	**6.9**	**4.7**
UC Investments	**40.1**	**42.5**	**42.0**	**2.5**	**(0.5)**	**1.9**
UC Legal						
In-House Counsel	26.9	26.9	30.5	0.0	3.6	3.6
Outside Counsel	36.2	36.2	36.2	0.0	0.0	0.0
Systemwide Litigation	2.5	2.5	2.5	0.0	0.0	0.0
Subtotal - UC Legal	**65.5**	**65.5**	**69.1**	**0.0**	**3.6**	**3.6**
SUBTOTAL USES	**$433.0**	**$429.8**	**$479.3**	**($3.2)**	**$49.5**	**$46.3**
UCPath	**97.2**	**97.1**	**111.5**	**(0.1)**	**14.4**	**14.3**
TOTAL USES	**$530.2**	**$526.8**	**$590.8**	**($3.3)**	**$64.0**	**$60.6**

Notes to Schedule D: Systemwide and Core Services
FY22-23 Budget Increased/Decreased Compared to FY21-22 Budget > $1M

Academic Affairs

1. Academic Affairs Immediate Office: $8.2M, increased by $1.6M, +23.9% due to an increase in anticipated pass-through climate change awards in the coming year.

Finance

2. Capital Markets Finance: $7.5M increased by $1.3M, +21.0% related to FTE restored after the previous hiring freeze and a new central bank project.

Operations

3. Information Technology Services: $48.0M increased by $2.7M, +6.0% due to recharge reductions and added costs to support network stability and data-threat detection.
4. Operational Expenses: $10.7M increased by $6.7M, +167.5% due to inclusion of UCOP-wide central equity pool.
5. Systemwide Human Resources: $77.0 M increased by $20.6M, +36.5% to provide Redwood enhancement and stabilization support including a transition in the year from outside vendor to internal IT resources, expected to provide future efficiencies; and for added resources for personnel and systems to support the Retirement Administration Service Center.
6. UCOP Operations: $38.8M increased by $1.1M, +2.9% net change due to increased occupancy costs in Oakland, costs associated with the UC Sacramento center and additional FTE to support UCOP H/R and Business Resource Center.

UC Health

7. Clinical Strategy and Operations: $5.5M increased by $1.4M, +34.1% to support quality and population health analysis work across UC medical centers.
8. Leveraging Scale for Value: $9.5M increased by $2.1M, +28.4% for resources to drive savings and efficiencies in pharmacy and purchased services procurement.

Other Divisions

9. UC Investments: $42.0M increased by $1.9M, +4.7% to increase investment resources needed to support UC's portfolio including real estate and compliance.
10. UC Legal: $69.1M increased by $3.6M, +5.5% to improve internal UC legal capacity and reduce outside counsel reliance; however savings coming from in-sourcing are offset by an overall increase in legal expenses with system growth and volume in legal matters that require specialized legal counsel and reliance on increasingly expensive outside resources to support Innovation and investment activities of UC Investments.
11. UCPath Center Operations: $111.5M increased by $14.3M, +14.7% to staff the Path Center at recommended levels, enhance the system for UC's common chart of accounts and improve overall operations.

Schedule D-1

Systemwide and Core Services by Fund

$ in millions

	Unrestricted Funds	Designated Funds	Restricted Funds	FY22-23 Budget
SYSTEMWIDE AND CORE SERVICES USES				
Academic Affairs				
Academic Personnel and Programs	17.3	2.0	1.1	20.4
Immediate Office	6.7	0.1	1.5	8.2
Institutional Research and Academic Planning	5.5	0.0	0.0	5.5
Research and Innovation	6.1	2.7	0.0	8.7
Graduate Undergraduate and Equity Affairs	7.4	6.2	0.3	13.9
Subtotal - Academic Affairs	**43.0**	**11.0**	**2.8**	**56.8**
Ethics & Compliance	**7.6**	**0.0**	**0.0**	**7.6**
External Relations & Communications				
Alumni and Constituent Affairs	0.0	0.4	0.0	0.5
Executive Communications & Engagement	0.8	0.0	0.0	0.8
Federal Government Relations	2.2	0.7	0.0	2.9
Institutional Advancement	0.0	2.0	0.5	2.5
Legislative Analysis	0.9	0.0	0.0	0.9
Marketing and Communications	3.7	1.8	0.8	6.3
Media Relations	0.8	0.0	0.1	0.9
State Government Relations	2.9	0.0	0.0	2.9
Immediate Office	1.0	0.8	0.0	1.8
Subtotal - ER&C	**12.4**	**5.8**	**1.3**	**19.6**
Finance				
Budget Analysis and Planning	2.2	0.0	0.0	2.2
Capital Markets Finance	0.0	7.5	0.0	7.5
Financial Accounting	7.6	2.6	2.9	13.1
Risk Services	0.0	9.1	0.0	9.1
Strategic Sourcing/ Procurement	11.2	0.4	0.0	11.6
Immediate Office	0.5	0.6	0.2	1.3
Capital Programs Energy and Sustainability	11.3	1.9	0.0	13.2
Subtotal - Finance	**32.8**	**22.0**	**3.2**	**58.0**
Operations				
Information Technology Services	38.5	6.1	3.4	48.0
Operational Expenses	7.6	3.1	0.0	10.7
Strategic Program Management Office	1.8	0.0	0.0	1.8
Systemwide Human Resources	7.3	0.3	69.4	77.0
UCOP Operations	30.2	5.9	2.7	38.8
Immediate Office	1.3	0.0	0.5	1.8
Subtotal - Operations	**86.8**	**15.4**	**76.0**	**178.2**
President's Executive Office	**5.0**	**0.3**	**0.2**	**5.5**
Secretary of the Regents	**4.2**	**0.0**	**0.0**	**4.2**
Systemwide Academic Senate	**2.3**	**0.0**	**0.1**	**2.4**
UC Health				
Self-Funded Health Plans	0.0	2.1	3.1	5.2
Academic Health Sciences	1.8	1.4	0.0	3.2
Center for Data Driven Insights and Innovation	0.0	7.4	0.0	7.4
Clinical Strategy & Operations	0.8	4.7	0.0	5.5
Finance and Administration	1.7	3.7	0.1	5.4
Leveraging Scale for Value	0.0	9.5	0.0	9.5
Subtotal - UC Health	**4.1**	**28.8**	**3.1**	**35.9**
UC Investments	**0.0**	**42.0**	**0.0**	**42.0**
UC Legal				
In-House Counsel	10.2	19.5	0.9	30.5
Outside Counsel	0.0	36.2	0.0	36.2
Systemwide Litigation	0.0	2.5	0.0	2.5
Subtotal - UC Legal	**10.2**	**58.1**	**0.9**	**69.1**
SUBTOTAL USES	**208.3**	**183.4**	**87.6**	**479.3**
UCPath	**0.0**	**111.5**	**0.0**	**111.5**
TOTAL USES	**$208.3**	**$294.9**	**$87.6**	**$590.8**

Schedule E

UC ANR Budget within UCOP

Budget by Program and Unit - All Funds

$ in millions

	FY21-22 Budget	FY21-22 Q2Forecast	FY22-23 Budget	Variances: Increase/ (Decrease) FY21-22 Fcst vs. FY21-22 Bud	FY22-23 Bud vs. FY21-22 Fcst	FY22-23 Bud vs. FY21-22 Bud
SOURCES						
Federal AES	8.2	8.2	8.1	0.0	(0.1)	(0.1)
State UCCE	108.9	108.9	108.9	0.0	0.0	0.0
Federal UCCE	12.4	11.8	12.3	(0.6)	0.6	(0.1)
Endowment Payout	9.5	9.1	11.1	(0.5)	2.0	1.5
Extramural Funding	35.1	34.4	36.9	(0.7)	2.5	1.8
Other Sources	28.1	26.7	25.6	(1.4)	(1.1)	(2.5)
TOTAL UC ANR Budget within UCOP	**$202.3**	**$199.1**	**$202.9**	**($3.2)**	**$3.8**	**$0.6**
USES						
Unrestricted Sources						
AES Campuses						
Other Campus-Based Academics	1.0	1.0	1.3	0.0	0.2	0.2
UC Berkeley	8.5	8.4	8.6	(0.1)	0.2	0.2
UC Davis	26.0	25.8	26.0	(0.2)	0.2	0.0
UC Riverside	6.9	6.8	6.9	0.0	0.1	0.1
Subtotal - AES Campuses	**42.4**	**42.1**	**42.8**	**(0.3)**	**0.8**	**0.5**
Statewide Programs & Institutes						
Agriculture Issues Center	0.2	0.2	0.2	0.0	0.0	0.0
California Institute for Water Resources	1.2	1.2	1.1	0.0	(0.1)	(0.1)
Elkus Ranch Youth Development Center	0.8	0.7	0.5	0.0	(0.3)	(0.3)
Informatics & Geographic Information Systems	1.1	1.0	0.9	0.0	(0.1)	(0.2)
Integrated Pest Management	5.7	5.6	5.5	(0.1)	(0.1)	(0.2)
Nutrition Policy Institute	4.5	4.4	4.6	(0.1)	0.1	0.1
Statewide Programs & Initiatives	5.0	4.9	5.1	(0.1)	0.2	0.1
Sustainable Agriculture Research & Education	0.9	0.9	1.1	0.0	0.2	0.2
Volunteer Based Programs (MFP MG Naturalist)	1.0	1.0	1.6	0.0	0.6	0.5
Youth Family & Communities	3.0	3.0	3.2	(0.1)	0.2	0.2
Subtotal - Statewide Programs & Institutes	**23.3**	**22.9**	**23.7**	**(0.4)**	**0.8**	**0.4**
Research and Extension Centers (RECs)	23.5	23.1	17.8	(0.4)	(5.3)	(5.7)
County-Based Research and Extension	74.8	73.1	82.2	(1.7)	9.1	7.5
General Administration	22.3	22.1	24.7	(0.3)	2.7	2.4
UCPath and Systems Implementation	6.3	6.2	3.2	(0.1)	(3.0)	(3.1)
Subtotal - Administration	**28.6**	**28.3**	**27.9**	**(0.3)**	**(0.4)**	**(0.7)**
Institutional Support	**9.7**	**9.6**	**8.4**	**(0.1)**	**(1.2)**	**(1.3)**
TOTAL UC ANR Budget within UCOP	**$202.3**	**$199.1**	**$202.9**	**($3.2)**	**$3.8**	**$0.6**
NET MARGIN SURPLUS (DEFICIT)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

Schedule F-1

Strategic Priorities Fund
Unrestricted Funds
Overall UCOP

$ in millions

	FY 2021-22 Budget	FY 2021-22 Q2Forecast	FY 2022-23 Budget	Variances:Increase/ (Decrease) FY21-22 Fcst vs. FY21-22 Bud	FY22-23 Bud vs. FY21-22 Fcst	FY22-23 Bud vs. FY21-22 Bud
UNRESTRICTED-UNDESIGNATED FUNDS						
COMMITMENTS						
Systemwide and Core Services						
Anti Racism ELearning Course Pilot	0.0	0.0	0.1	0.0	0.1	0.1
Campus Comm Safety Planning/ RFC	0.0	0.1	1.6	0.1	1.5	1.6
Corporate Financial System Replacement	1.4	1.4	0.5	0.0	(0.9)	(0.8)
COVID-19 Communication	0.1	0.1	0.0	0.0	(0.1)	(0.1)
Digital Donor Library	0.6	0.6	0.0	0.0	(0.6)	(0.6)
Ediscovery SW/ SVC Implementation	0.0	0.0	0.1	0.0	0.1	0.1
FIS Phase II - EFA CFS-AST	0.6	0.6	0.0	0.0	(0.6)	(0.6)
Foster Youth Endowment Matching	0.1	0.1	0.0	0.0	0.0	0.0
GASB Lease Accounting System	0.5	0.5	0.2	0.0	(0.3)	(0.3)
IP Mgmt Financial System Replacement	0.0	0.5	0.5	0.5	0.0	0.5
Litigation Cost	0.2	0.2	0.0	0.0	(0.2)	(0.2)
Lived Name & Gender Identity	1.3	0.0	0.0	(1.3)	0.0	(1.3)
Mainframe Services Retirement	4.8	4.2	0.1	(0.6)	(4.1)	(4.7)
NAGPRA/ CalNAGPRA Implementation	0.0	0.0	2.9	0.0	2.9	2.9
Network Stabilization Project	0.0	0.0	2.6	0.0	2.6	2.6
OP Operations Change Management Resources	0.0	0.2	0.0	0.2	(0.2)	0.0
President Transition Expense	0.1	0.0	0.0	(0.1)	(0.0)	(0.1)
SPF UCOP COVID-19 Response	0.0	0.0	0.4	0.0	0.4	0.4
UCSA UCGPC Bridge Funding	0.7	0.5	0.2	(0.2)	(0.3)	(0.5)
Subtotal - Systemwide and Core Services	10.4	9.0	9.4	(1.3)	0.4	(1.0)
Presidential Initiatives						
Carbon Neutrality Initiative (CNI)	1.3	1.3	2.3	0.0	1.0	1.0
Global Food Initiative (GFI)	0.4	0.4	0.4	0.0	0.0	0.0
Presidential Public Service Fellowship	0.1	0.1	0.1	0.0	0.0	0.0
Public Service Law Fellowship	3.0	3.0	3.5	0.0	0.5	0.5
UC National Center for Free Speech	0.9	0.9	0.9	0.0	0.0	0.0
Subtotal - Presidential Initiatives	5.7	5.7	7.2	0.0	1.5	1.5
Systemwide Initiatives						
SW Integrated Library System (SILS)	2.1	1.1	0.4	(1.0)	(0.7)	(1.7)
Inclusive Innovation Equitable Entrepreneurship (I2E2) Initiative	0.0	0.0	0.6	0.0	0.6	0.6
Subtotal - Systemwide Initiative	2.1	1.1	1.0	(1.0)	0.0	(1.1)
Systemwide Program						
UC Observatory Operational Support	0.0	0.0	0.5	0.0	0.5	0.5
ASSIST Program	0.3	0.3	0.4	0.0	0.1	0.1
Undocumented Students - Campus Student Svcs & Financial Aid	2.2	2.2	2.0	0.0	(0.2)	(0.2)
Subtotal - Systemwide Program	2.5	2.5	2.9	0.0	0.4	0.4
Committed SPF Funds	20.7	18.3	20.5	(2.4)	2.2	(0.2)
Uncommitted SPF Funds	9.3	11.8	9.5	2.5	(2.3)	0.2
Total Strategic Priorities Fund	$30.0	$30.1	$30.0	0.1	(0.1)	0.0

Notes to Schedule F-1: Unrestricted Strategic Priorities Fund
FY22-23 Budget Increased/Decreased Compared to FY21-22 Budget

Systemwide and Core Services
Systemwide & Core Services - $2.5M Mainframe Retirement, to migrate UC applications from mainframe to cloud solutions which will generate future savings and reduce dependence on outdated hardware investments; $1.3M Lived Name project, the effort to upgrade numerous ITS-controlled systems to support the new non-binary gender and preferred name (or "lived name") designations

Presidential Initiatives (See Appendix 2 for details)
($1.1M) Public Law Service Fellowship; based on the guidance of President Drake to fund other emerging needs at UCOP

Systemwide Programs
($2.0M) UC Mexico has been moved to UCR campus to manage for participating campuses, ($1.0M) Reduce funding need to manage the ASSIST Project & ($0.8M)

Systemwide Initiatives
$1.5M SILS based on timing of approved project spending in the 3rd and final year

Schedule F-2

Strategic Priorities Fund
Designated/Restricted Funds
Overall UCOP

$ in millions

	Designated	Restricted	FY 2022-23 Budget
Central & Administrative Services			
Lived Name & Gender Identity	1.7	0.0	1.7
Peoplesoft Upgrade	0.2	0.0	0.2
SPF iCAMP	0.5	0.0	0.5
Student Pay Project Manager	1.2	0.0	1.2
Subtotal - Central & Administrative	**3.6**	**0.0**	**3.6**
Total Strategic Priorities Fund	**$3.6**	**$0.0**	**$3.6**

Notes to Schedule F-2: Designated and Restricted Strategic Priorities Fund
FY22-23 Budget Increased/Decreased Compared to FY21-22 Budget

1. Redwood Stabilization: $5.6M funded from restricted retirement investment funding for required system stabilization and enhancements.
2. iCAMP: $1.5M to support systemwide assessments of campus infrastructure managed by the CFO division using designated funds.
3. Student Pay Project: $1.2M to move all student employees to a standardized biweekly pay cycle

Schedule G

UCOP Reserves

$ in millions

UCOP RESERVES	Reserve Target Minimum	Reserve Target Maximum	6/30/21 Actual Reserve	6/30/22 Forecasted Reserve	Variance: 6/30/21 Actual vs 6/30/22 Forecast	6/30/22 Reserve Target Over Max / (Under Min)
Building and Capital Assets Reserves						
Capital Maintenance and Renewal	$ 2.6	$ 7.9	$ (0.5)	$ 1.0	$ 1.5	$ (1.6)
UCOP IT Infrastructure	0.4	0.6	0.6	0.6	-	-
Sub-Total Building and Capital Assets Reserves	**$ 3.0**	**$ 8.5**	**$ 0.1**	**$ 1.6**	**$ 1.5**	
Program Reserves						
UC National Laboratories						
LANS and LLNS-LLC Post Contract Contingency[1]	19.0	19.0	21.2	23.2	2.0	4.2
LANS and LLNS-LLC Fee Contingency[1]	7.0	7.0	7.1	7.1	0.0	0.1
TRIAD Reserve Fund[1]	10.0	10.0	2.6	4.6	2.0	(5.4)
Capital and Campus Opportunity Fund[1]	10.0	10.0	7.9	8.4	0.5	(1.6)
LBNL Post Contract Contingency[2]	4.0	4.0	3.5	4.5	1.0	0.5
LBNL Building Commitment[2]	10.0	23.0	9.4	11.6	2.2	-
LBNL Guest House Renewal & Replacement[2]	1.5	2.5	1.4	0.9	(0.5)	(0.6)
UC National Laboratories SubTotal	***61.5***	***75.5***	***53.1***	***60.4***	***7.2***	
UC Press	1.5	1.5	1.4	1.5	0.1	-
UC Washington Center (UCDC)[3]	2.9	6.3	5.7	6.6	0.9	0.3
Sub-Total Program Reserves	**$ 65.9**	**$ 83.3**	**$ 60.2**	**$ 68.4**	**$ 8.2**	
Other Required Reserves						
Housing Loan Program[4]	51.0	65.6	53.0	56.3	3.3	-
Sub-Total Other Required Reserves	**$ 51.0**	**$ 65.6**	**$ 53.0**	**$ 56.3**	**$ 3.3**	**$ -**
SUB TOTAL NON-OPERATING AND PROGRAM RESERVES	**$ 119.9**	**$ 157.4**	**$ 113.4**	**$ 126.3**	**$ 13.0**	
Central Operating Reserve[5]	15.0	15.0	15.0	15.0	-	-
TOTAL UCOP RESERVES	**$ 134.9**	**$ 172.4**	**$ 128.4**	**$ 141.3**	**$ 13.0**	

[1] UCNL TRIAD (LANL) and LLNS-LLC reserves and reserve targets are established by the UC Regents.
[2] LBNL reserves targets are established by LBNL and UCNL management.
[3] UCDC reserve includes $0.2M in reserves and $6.4M in TRIP.
[4] The Housing Loan Program reserve has been adjusted to reflect a maximum of 4% of outstanding loans, plus $7.2M of reserve balance, set aside for campus supplemental home loans.
[5] Central Operating Reserve is held in the President's Endowment Fund. Per the established Presidential guidelines, the Central Operating Reserve may be supplemented with up to an additional $100M or three months of covered funds from a variety of sources.

Schedule H

UCOP Fund Balances by Fund Type [1, 2, 3]

$ in millions

	6/30/21 Balance	6/30/22 Forecasted Balance	6/30/22 Commitments [3]	6/30/22 Remaining Balance	Change in Fund Balance
UNRESTRICTED					
Undesignated - UCOP					
Investment Income	$ 0.3	$ 1.1	$ 1.0	$ 0.1	$ (0.2)
UC General Funds	1.2	0.2	0.2	0.1	(1.1)
Legal Settlements	2.6	5.6	1.9	3.6	1.0
Other	0.7	7.0	7.0	-	(0.7)
Sub-Total Undesignated - UCOP	**$ 4.8**	**$ 13.9**	**$ 10.1**	**$ 3.8**	**$ (1.0)**
Undesignated - Systemwide					
General Obligation Bond Income	$ 7.6	$ 7.3	$ 7.3	$ -	$ (7.6)
Sub-Total Undesignated - Systemwide	**$ 7.6**	**$ 7.3**	**$ 7.3**	**$ -**	**$ (7.6)**
Sub-Total Undesignated	**$ 12.4**	**$ 21.2**	**$ 17.4**	**$ 3.8**	**$ (8.6)**
DESIGNATED					
Regents Designated					
DOE Laboratories [4]					
LLC	$ 12.3	$ 21.9	$ -	$ 21.9	$ 9.6
LBNL	7.8	8.9	-	8.9	1.1
Triad	8.0	14.1	-	14.1	6.1
Lab Fees Research	28.5	19.4	8.1	11.3	(17.2)
Programs and Initiatives					
UC Healthcare Collaborative	$ 1.9	$ 4.7	$ -	$ 4.7	$ 2.8
California Digital Library	2.6	2.7		2.7	0.1
ICAMP	1.4	0.3		0.3	(1.1)
UC Washington Center	(0.4)	(0.9)	-	(0.9)	(0.5)
Procurement Initiatives	3.2	3.5		3.5	0.3
Writing Placement Exam	0.2	0.4	-	0.4	0.2
Other	2.6	2.3	-	2.3	(0.3)
Central Services Designated					
Endowment cost recovery	$ 10.3	$ 11.7	$ 10.0	$ 1.7	$ (8.6)
Energy and sustainability	1.0	1.0	-	1.0	(0.0)
Other	0.2	8.7	8.6	0.1	(0.1)
Sub-Total Designated	**$ 79.6**	**$ 98.6**	**$ 26.7**	**$ 71.9**	**$ (7.7)**
RESTRICTED					
Federal and Special State Appropriations/Regulations	$ 5.0	$ 0.5	$ -	$ 0.5	$ (4.5)
Gifts and Endowments	4.6	$ 3.4	-	3.4	(1.2)
Sub-Total Restricted	**$ 9.6**	**$ 3.9**	**$ -**	**$ 3.9**	**$ (5.7)**
TOTAL BALANCES - before building proceeds	**$ 101.6**	**$ 123.6**	**$ 44.1**	**$ 79.5**	**$ (22.1)**
Capital Projects	$ 13.8	$ -	$ -	-	(13.8)
TOTAL BALANCES	**$ 115.4**	**$ 123.6**	**$ 44.1**	**$ 79.5**	**$ (35.9)**

[1] Fund balances are exclusive of Reserve amounts

[2] Systemwide and pass-through fund balances are excluded, such as health and welfare benefits balances, wholesale power program funds, systemwide procurement incentives and patent royalty income

[3] Commitments include $8.2M in fund balances used in the FY22-23 budget, $7.3M for campus seismic work and interest expense, $8.1M for commitments on the Lab Fees Research grants, $10M for development efforts and $5M for UCPath in FY22-23.

[4] DOE Laboratories fund balances include DOE fee income from the three UC-run national labs, for lab oversight and building operations.

APPENDIX 2: ACHIEVING THE MISSION AND THE FUNCTION OF THE UC OFFICE OF THE PRESIDENT

The University of California is a powerful engine for the State of California, driving $82 billion in economic impact per year. UC supports the economy as the state's third-largest employer, directly employing about 233,000 full- and part-time faculty and staff and, through external programs, supporting 529,000 California jobs in total.

The UC's commitment to excellence in education is deeply rooted in fostering equity, access, and opportunity, serving more than 295,000 students across 10 campuses, including seven prestigious Association of American Universities (AAU) campuses, and five campuses designated as Hispanic Serving Institutions (HSIs). Approximately 40 percent of undergraduates are the first in their family to attend college, and 34 percent qualifying for Pell grants. While student debt is a national issue, 55 percent of California in-state undergraduate students have all their tuition and fees covered by financial aid.

The UC drives research and innovation and delivers medical breakthroughs that have local, national, and global impacts. UC averages five inventions every day, and last year alone received over 500 patents, bringing the university's total to over 5,000 active U.S. patents and nearly 6,000 foreign patents. UC Health, recognized for excellence in patient care, teaching and research, supports 9.3 million outpatient visits and 307,475 emergency room visits per year. Importantly, UC Health serves Medicare, Medi-Cal and uninsured patients, with a commitment to California's most vulnerable populations.

As the land grant university for California since its founding in 1868, UC's Agriculture and Natural Resources Division (ANR) has a presence in 58 California counties to provide research and education in agriculture, natural resources, and nutrition. ANR also supports community-based programs such as 4-H and nutrition education programs such as the California Expanded Food Nutrition Program in 24 counties and the CalFresh Healthy Living Program in 31 counties.

THE FUNCTION OF THE UC OFFICE OF THE PRESIDENT

The University of California Office of the President (UCOP) supports the UC system by providing the leadership to execute the mission cohesively, by incubating, funding, coordinating, and managing systemwide programs and initiatives, and by supporting operations and realizing efficiencies through Systemwide and Core Services.

UCOP's FY21-22 budget of $1,006.6 million is approximately 2.3 percent of total UC expenditures of ~$43.9 billion in FY21-22. The budget primarily supports two major areas, Programs and Initiatives and Systemwide and Core Services which are described below.

Programs and Initiatives – UCOP manages almost 30 State & Federal programs and systemwide programs that support the teaching, research, and public service mission of the University. These programs provide thousands of students learning and research opportunities, fund researchers across the state through competitive grant programs, and promote access and diversity through its outreach programs. While UCOP directs these programs, the funding largely passes through to the campuses and other California-based researchers where they employ scientists, fund research studies, and utilize funding in alignment with the UC mission.

State and Federal Programs: UCOP oversees these programs on behalf of the state or the federal government, and some are required by state legislation. These programs are primarily funded by restricted (~60 percent) and designated funds (~40 percent).

Key examples of State & Federal Programs include:

Research Programs
- ✓ ANR
- ✓ Tobacco-Related Diseases (TRDRP)
- ✓ Breast Cancer
- ✓ UC National Laboratories

Outreach & Public Service Programs
- ✓ ANR
- ✓ California Subject Matter Project (CSMP)
- ✓ GearUp
- ✓ Graduate Medical Education

Systemwide Programs: UCOP oversees programs that benefit the state or one or more campuses, and are funded on an-ongoing basis. These programs include unrestricted, discretionary (~40 percent) and designated funds (~60 percent) with a negligible amount of restricted funds.

Key examples of Systemwide Programs include:

Teaching Programs
- ✓ Innovative Technology Learning Initiative (ILTI)
- ✓ UC Sacramento
- ✓ UC Washington Center

Research Programs
- ✓ California HIV/AIDS Research
- ✓ Multi-campus Research Programs
- ✓ National Lab Research Programs
- ✓ UC Astronomy
- ✓ UC Press

Outreach & Public Service Programs
- ✓ HBCU fellowship and summer intern programs
- ✓ Natural Reserve System
- ✓ San Joaquin Valley PRIME Program
- ✓ Student Academic Preparation and Educational Partnerships (SAPEP)

Systemwide and Core Services – UCOP performs Systemwide and Core functions on behalf of the University to maximize efficiencies, eliminate redundancies, and reduce risk. Systemwide and Core Services are funded through a combination of fee-for-service, designated, and unrestricted funds. Examples of these services are:

- ✓ Undergraduate/Transfer Admissions
- ✓ Student Aid
- ✓ Academic Personnel and Programs
- ✓ Institutional Research and Academic Planning
- ✓ Knowledge Transfer and Intellectual Property
- ✓ UCPath
- ✓ Employee benefit programs
- ✓ Retirement Center
- ✓ Labor relations
- ✓ Systemwide Title IX
- ✓ UC Legal
- ✓ Ethics, Compliance and Audit
- ✓ UC Investments (retirement, endowment funds, etc.)
- ✓ Capital financing and bonding
- ✓ Corporate accounting
- ✓ Energy purchases
- ✓ Risk services/insurance
- ✓ Information technology
- ✓ Government Relations

APPENDIX 3: FY22-23 PRESIDENTIAL INITIATIVES

Presidential Initiatives Detail

The following provides a description of each UC Presidential Initiative including how it furthers the mission of the university.

	Presidential Initiatives	FY20-21 Budget	FY21-22 Budget	FY22-23 Budget	Incr / (Decr)[1]
1	Carbon Neutrality Initiative (CNI)	$ 1,321,800	$ 1,321,800	$ 1,863,000	$ 541,200
2	Global Food Initiative (GFI)	421,200	421,200	414,200	-0-
3	Presidential Public Service Fellowship	72,691	72,691	72,691	-0-
4	Public Service Law Fellowships	3,950,000	2,962,860	3,500,000	537,140
5	UC National Center for Free Speech and Civic Engagement	920,000	920,000	920,000	-0-
	Total	**$ 6,685,691**	**$ 5,698,551**	**$ 6,769,891**	**$ 1,078,340**

1. Increase/(Decrease) for FY22-23 versus the FY21-22 Budget.

1. **Carbon Neutrality Initiative (CNI)**
The Carbon Neutrality Initiative (CNI) launched in 2013, committing UC to emit net zero greenhouse gases from its buildings and vehicle fleet by 2025 – something no other major university system has done. This initiative advances the **public service** component of the University's mission by helping both California and the world to curb the forces that are driving global warming. This initiative also furthers the University's mission to provide **instruction** by giving undergraduate and graduate students the opportunity to study issues and fund student-generated projects that support the UC system's carbon neutrality goal through its Carbon Neutrality Student Fellowship Program. By bringing together a Global Climate Leadership Council to advance both teaching and research about climate change and sustainable business practices, this initiative also furthers the **instruction** and **research** components of the University's mission. CNI requested additional funding for FY22-23 in order to meet the increased needs specified by various arms of the initiative including applied research, climate action planning, and student engagement. These funding level recommendations were put forth by the Global Climate Leadership Council.

2. **Global Food Initiative (GFI)**
The Global Food Initiative (GFI) was launched in 2014 to address how to sustainably and nutritiously feed a world population expected to reach 8 billion by 2025. By working to increase food access and security among communities across the ten UC campuses, this initiative furthers the **public service** component of the University's mission. This initiative also furthers the University's mission to provide **instruction** by giving undergraduate and graduate students the opportunity to study issues such as food security and food waste through the GFI Fellowship Program. A community garden project also enables this initiative to provide instruction to elementary school students about ecology and nutrition. Additionally, by conducting systemwide studies about UC student food access and security through the Healthy Campus Network, and by providing development-oriented graduate students from multiple UC campuses the opportunity to engage in planning and implementing projects related to international food systems and agriculture, this initiative furthers the **research** component of UC's mission.

3. **Presidential Public Service Fellowship**
The Presidential Public Service Fellowship launched in FY15-16. This need-based fellowship annually supports up to three students per undergraduate campus, or 27 students in all, to participate in internships through the UC Washington Center (UCDC) and UC Center Sacramento (UCCS), gaining firsthand exposure to the American political process and attaining valuable work experience. Fellows receive $1,000 in financial support to defray costs (including incidental expenses such as travel and the cost of appropriate business attire) of enrollment at UCDC or UCCS. Fellows apply and are selected based on financial need and a demonstrated commitment to civic engagement and service for the public good. This initiative advances UC's **instruction** and **public service** mission components.

4. **Public Service Law Fellowships**
The Public Service Law Fellowship launched in FY16-17 to support both summer and post-graduate fellowships at all four UC law schools for students pursuing opportunities in public service. Post-graduate fellowships provide up to $45,000 for graduates entering public service plus an additional $2,500 to help defray bar-related costs. Summer fellowships provide approximately $4,000 to subsidize summer public interest law jobs. The annual UC National Public Service Law Conference is held to showcase important legal scholarship and practice and contribute to the national conversation on public interest law. By making post-graduate work and summer positions accessible for students who want to pursue public service legal careers, this initiative furthers the **instruction** and **public service** components of UC's mission. Public Service Law Fellowship funding was lowered for 2 consecutive years (FY20-22) from the original amount of $4.5M/year. During this time, the law schools funded the difference in stipend amount to each Fellow from their own funds. The increase in funding for FY22-23 will cover more of the annual cost of this Fellowship program. Starting in FY23-24 the Law Schools will continue the Fellowship program without any UCOP funding.

5. **UC National Center for Free Speech and Civic Engagement**
The UC system and the Free Speech Movement have long been synonymous. As an extension of this great legacy, President Napolitano launched the UC National Center for Free Speech and Civic Engagement in FY17-18 to further the public service mission of the University. The Center is housed at UC Irvine and at UCDC, the Washington D.C. location of the University of California. It serves as a national leader and resource on issues including how simultaneously to encourage robust inquiry and dialogue while safeguarding other institutional values such as equity and inclusivity. Through its programming, publications and preeminent fellows, the Center is blazing a trail to prominence as it researches how the fundamental democratic and academic principles of free speech and civic engagement enrich the discovery and transmission of knowledge in America's colleges and universities.

APPENDIX 3: KEY TO ACRONYMS

Acronym	Description
ANR	Agriculture and Natural Resources
CAS	Systemwide and Core Services
CDL	California Digital Library
CFO	Chief Financial Officer
COO	Chief Operating Officer
CSA	California State Auditor
CSU	California State University
EBC	Executive Budget Committee
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GO Bond	General Obligation Bond
HBCU	Historically Black Colleges and Universities
HSI	Hispanic Serving Institutions
HR	Human Resources
iCAMP	Integrated Capital Asset Management Program
Incr/(Decr)	Increase/(Decrease)
IT	Information Technology
LANL	Los Alamos National Laboratory
LBNL	Lawrence Berkeley National Laboratory
LLC	Limited Liability Company
LLNL	Lawrence Livermore National Laboratory
NAGPRA	Native American Graves Protection and Repatriation Act
SAPEP	Student Academic Preparation and Academic Partnerships
SPF	Strategic Priorities Fund
TRDRP	Tobacco-Related Disease Research Program
UC	University of California
UCDC	University of California Washington Center
UCGPC	University of California Graduate and Professional Council
UCNL	University of California National Laboratories
UCOP	University of California Office of the President
UCSA	University of California Student Association

Additions shown by underscoring; deletions shown by strikethrough

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

I. Purpose/Objective of Policy

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

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

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

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

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

II. Use of Debt Funding

A. Prioritization of Capital Needs. Campuses and medical centers prioritize their capital needs with respect to the essentiality to the University's mission of teaching, research, and public service. Campuses and medical centers also prioritize with respect to affordability, with special consideration given to capital projects that are self-funding or revenue-generating. The 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 campuses 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 based on 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 the Internal Loan Rate (ILR) ~~planning rates~~ to calculate the debt service for the proposed projects. The ILR is the rate at which UCOP makes long-term loans to the campuses for capital projects and is set by the Office of the CFO based on the aggregate cost of capital for existing and anticipated campus projects. ~~The planning rates will be calculated formulaically based on taxable and tax-exempt benchmark yields.~~ The ILR ~~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 ≥ 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:

---

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 $\geq$ 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. <u>Execution of Debt Financing.</u> 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 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 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 several 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. 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 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 source (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, 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. 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, considering 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.