The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
July 20, 2022

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

Members present: Regents Cohen, Makarechian, Ortiz Oakley, Pérez, Pouchot, Reilly, and Sherman; Ex officio member Leib; Advisory member Horwitz; Chancellors Gillman, Hawgood, Khosla, May, and Muñoz

In attendance: Regents-designate Ellis and Raznick, Assistant Secretary Lyall, Chief of Staff and Special Counsel Drumm, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice President Colburn, Vice President Lloyd, Chancellors Christ and Wilcox, and Recording Secretary Johns

The meeting convened at 3:50 p.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes the meeting of May 18, 2022 were approved, Regents Cohen, Makarechian, Ortiz Oakley, Pérez, Pouchot, Reilly, and Sherman voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Budget, Scope, and Design Following Action Pursuant to the California Environmental Quality Act, Peninsula Outpatient Center Tenant Improvements, San Francisco Campus***

The President of the University recommended that:

(1) The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Francisco: Peninsula Outpatient Center Tenant Improvements – preliminary plans – $2.5 million funded from hospital reserves.

To: San Francisco: Peninsula Outpatient Center Tenant Improvements – preliminary plans, working drawings, construction, and equipment – $88,841,000 funded from hospital reserves.

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

(2) The scope of the Peninsula Outpatient Center Tenant Improvements project be approved to include an ambulatory surgery center, a full complement of ambulatory imaging services, a cancer clinic, and an infusion center totaling 52,300 rentable square feet of leased space in a recently constructed medical office building.

(3) Following review and consideration of the environmental consequences of the proposed Peninsula Outpatient Center Tenant Improvements 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:

a. Determine that the project is categorically exempt from CEQA.

b. Approve the design of the Peninsula Outpatient Center Tenant Improvements project, San Francisco campus.

B. ***Budget, Scope, External Financing, and Design Following Action Pursuant to the California Environmental Quality Act, Medical Office Building for the Folsom Center for Health, Davis Health Campus***

The President of the University recommended that:

(1) The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: Davis: <u>Folsom Medical Office Building for the Folsom Center for Health</u> – preliminary plans – $6.9 million funded from hospital reserve funds.

To: Davis: <u>Folsom Medical Office Building for the Folsom Center for Health</u> – preliminary plans, design, construction, and equipment – $171.69 million funded from external financing ($100.8 million) and hospital reserve funds ($70.89 million).

(2) The scope of the Folsom Medical Office Building for the Folsom Center for Health project be approved. The project shall construct approximately 110,000 gross square feet (gsf) of medical office and support services space, including 115 patient examination rooms, four procedure rooms, and clinical and building support spaces. Site development shall include landscape and hardscape, parking, utilities, and pathways to and around the building.

(3) The President be authorized to obtain external financing (Series 2020N, 2022P, and/or 2022Q) plus additional related financing costs in an amount not to exceed $100.8 million to finance the Folsom Medical Office Building for the Folsom Center for Health. The President shall require that:

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

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

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

(4) Following review and consideration of the environmental consequences of the Folsom Center for Health, 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. Certify the program Environmental Impact Report (EIR) for the UC Davis Folsom Center for Health, including the Medical Office Building as the first phase of development.

b. 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 Folsom Center for Health.

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

d. Approve the design of the Medical Office Building for the Folsom Center for Health, 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.]

Committee Chair Cohen briefly introduced the item.

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

3. **AMENDMENT OF BUDGET AND EXTERNAL FINANCING; HEALTH SCIENCES INSTRUCTION AND RESEARCH BUILDINGS LIFE SAFETY IMPROVEMENTS; HEALTH SCIENCES INSTRUCTION AND RESEARCH BUILDINGS SEISMIC IMPROVEMENTS, SAN FRANCISCO CAMPUS**

The President of the University recommended that:

A. The 2022–23 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

(1) From: San Francisco: Health Sciences Instruction and Research Buildings Life Safety Improvements – design (preliminary plans and working drawings) and construction – $13 million funded from State Appropriations under the provisions of Section 92493 et seq. of the California Education Code.

To: San Francisco: Health Sciences Instruction and Research Buildings Life Safety Improvements – design (preliminary plans and working drawings) and construction – $25.7 million funded from external financing supported by State Appropriations under the provisions of Section 92493 et seq. of the California Education Code ($13 million) and external financing supported by campus funds ($12.7 million).

(2) From: San Francisco: Health Sciences Instruction and Research Buildings Seismic Improvements – preliminary plans, working drawings, and construction – $47,432,000 funded from State Appropriations under the provisions of Section 92493 et seq. of the California Education Code ($37 million) and campus funds ($10,432,000).

To: San Francisco: Health Sciences Instruction and Research Buildings Seismic Improvements – preliminary plans, working drawings, and construction – $63.5 million funded from State Appropriations under the provisions of Section 92493 et seq. of the California Education Code ($37 million), campus funds ($10 million), and external financing supported by campus funds ($16.5 million).

B. The President be authorized to obtain external financing in an amount not to exceed $29.2 million plus additional related financing costs to finance the Health Sciences Instruction and Research Buildings Life Safety Improvements and the Health

Sciences Instruction and Research Buildings Seismic Improvements projects. 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 San Francisco 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.]

Executive Vice President and Chief Financial Officer Brostrom explained that, under delegated authority, he could approve projects up to $70 million. This project started below that dollar amount, but due to complications in the construction market and some project modifications, the project budget had risen above that threshold.

Chancellor Hawgood explained that this item had initially started life and been presented to the Regents in a series of meetings between 2016 and 2020 as two separate improvement projects for two 17-story research towers on the UCSF Parnassus campus. One was a life safety improvement project predominantly but not exclusively for the installation of code-required sprinkler systems. The second was a seismic improvement project. Both projects were approved under delegated authority. UCSF ultimately decided to proceed with both projects simultaneously, using a single general contractor, making this one project which exceeded delegated authority. UCSF had put this project on hold during the COVID-19 pandemic.

An exceptional augmentation to the original budget was needed largely because this was a complicated, tedious project from the perspective of a general contractor. UCSF wished the buildings to remain fully occupied and functional during the construction period. This was an unattractive bidding prospect and there was only one bidder. The campus was seeking a $28 million augmentation. This project was critical to keep the 17-story towers, essential for research on the Parnassus campus, both safe and seismically sound and to meet code requirements. Until now, UCSF had been carrying out this work floor by floor, and these individual floor projects were exorbitantly expensive. UCSF wished to proceed with this as a single project and with a single contractor.

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

4. **BUDGET, STANDBY AND INTERIM FINANCING, GATEWAY NEW ACADEMIC BUILDING, BERKELEY CAMPUS**

The President of the University recommended that:

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

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

To: Berkeley: Gateway New Academic Building – preliminary plans, working drawings, construction, and equipment – $550 million to be funded by gift funds.

B. Standby financing be approved in an amount not to exceed $320 million plus related interest expense and additional related financing costs to finance the Gateway New Academic Building project. The Berkeley campus shall satisfy the following requirements:

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

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

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

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

C. Interim financing be approved in an amount not to exceed $230 million plus related interest expense and additional related financing costs to finance the Gateway New Academic Building project. The Berkeley campus shall satisfy the following requirements:

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

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

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

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

(5) 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.]

Committee Chair Cohen recalled that the Regents had approved an item for *Working Drawings Funding, Scope, Standby Financing, and Design Following Action Pursuant to the California Environmental Quality Act and Make-Ready Construction Funding for the Gateway New Academic Building* at the March meeting.

Chancellor Christ reported that the project was proceeding as the campus had envisioned. The campus wished to continue on course because inflation for construction costs was high at this time. The project was on schedule and on budget. The campus was seeking authorization to proceed and for interim financing.

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

5. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, SCHOOL OF BUSINESS BUILDING, RIVERSIDE CAMPUS**

The President of the University recommended that:

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

From: Riverside: School of Business Building – preliminary plans – $4.3 million to be funded from campus funds.

To: Riverside: School of Business Building – preliminary plans, working drawings, construction, and equipment – $87 million to be funded from campus funds ($80 million) and external financing ($7 million).

B. The scope of the School of Business Building project shall provide approximately 36,000 assignable square feet (60,000 to 64,000 gross square feet) of instructional and support space in a new facility for business education, including furniture and equipment, and all associated site work and utilities.

C. The President of the University shall be authorized to approve external financing (Century Bond 2015) in an amount not to exceed $7 million to finance the School of Business Building. The Riverside campus shall satisfy the following requirements:

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

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

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

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

(1) Adopt the CEQA Findings for the School of Business Building, having considered both the 2021 Long Range Development Plan Environmental Impact Report (EIR) for the Riverside campus and Addendum No. 1 to the 2021 LRDP EIR for the School of Business.

(2) Make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UC Riverside as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2021 LRDP EIR.

(3) Approve the design of the School of Business Building, Riverside 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 Wilcox introduced the item. Prior to the COVID-19 pandemic, in 2019, the Riverside campus began planning for this project to accommodate a nearly 60 percent enrollment growth in School of Business over the past seven years, and to support the burgeoning and self-supporting graduate business programs. The UCR School of Business was currently housed in one of the campus' original structures, Anderson Hall, which was built in 1916 for the UC citrus experiment station. The School had limited instructional space located in various buildings across the campus and in a movie theater across the highway from the campus. UCR had recently learned that the movie theater was under new ownership. The lease would expire and UCR would lose these instructional spaces.

As part of its initial planning, UCR elected to utilize the design-build delivery model and had identified $55 million as an original target budget. Between January 2020 and January 2022, the project working group, which consisted of faculty and staff, engaged with a programming architect to develop the basis of the design document. UCR was deliberate in requesting professional cost estimates throughout this two-year period; however, prior to the pandemic, the campus did not anticipate the rapidly escalating labor and construction costs, rising inflation, supply chain disruptions, and overall market uncertainty that now had affected the final project budget.

Through several consultant reviews, UCR adjusted the scope of the building and increased the total budget to $65 million, assuming that this adjustment would address conditions and design needs. In January 2022, UCR released the basis of the design in a Request for Proposal document to three pre-qualified design-build teams who were engaged in competition for the project. As UCR worked through these items from January to April, it became clear that market conditions had continued to change and that the project cost would be higher than the adjusted budget. As the design process progressed, all three teams indicated that, in order to accommodate the desired program while responding to the site geography and topography, the building would need to be in the approximate range of 60,000 to 64,000 gross square feet, which was 5,000 to 9,000 gross square feet more than originally planned. At present, the proposed building would provide approximately 36,000 assignable square feet within the estimated 60,000 to 64,000 gross square feet. The final budget, as determined by programmatic needs and current market conditions, was $87 million. While this budget was substantially larger than the original estimate of $65 million, the campus has remained steadfast in keeping the project cost as constrained as possible while working swiftly to provide the additional instructional space greatly needed at UCR. The building would be funded primarily from School of Business resources—$80 million of the $87 million—while the remaining $7 million would come from Century Bond resources. The original $65 million budget fell within the Chancellor's delegated authority; the budget now exceeded the delegated authority threshold of $70 million, and, for that reason, this item was being brought to the Regents for approval. Further delays could result in additional costs, put the project at risk, or extend the project timeline so that another academic year would pass before the building was completed and ready for occupancy.

Regent Cohen commented that the loss of instructional space in the movie theater was disappointing news. While this might not have been an ideal solution, it served a useful purpose. He asked about the timeline of losing that space. UCR Vice Chancellor Gerry Bomotti responded that UCR had a lease on the space for 25.5 years. The prior fall, the theater was sold to a new owner who was interested in renovating the space in a way that would greatly reduce the spaces leased by UCR. UCR worked with the new owner and believed that there was a solution for continuing to use the space, but a few months prior, UCR was informed that 60 percent of the space used by UCR would be lost due to the new layout. Given this significant reduction, it did not seem feasible for UCR to use the space, and UCR was not able to reach an agreement with the new owner. The lease had expired on July 1, 2022.

Regent Cohen asked when the School of Business building would be completed. Mr. Bomotti responded that the projected completion date was fall 2024.

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

6. **UPDATE ON THE FINAL 2022–23 STATE 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 underscoring that this year's State budget was a historic budget: over $300 billion, including $234 billion in the State General Fund, with large multi-year investments in infrastructure, housing, zero emission vehicles, and drought resilience, nearly $40 billion for addressing the impacts of climate change outside of such funding to UC, and nearly $20 billion in inflation relief payments to low- and middle-income Californians. The budget fully funded reserves of $37 billion, including $23 billion in the Proposition 2 rainy day fund.

This was a strong budget for the University, with over $1.1 billion in new investments: $360 million in permanent funds and over $750 million in one-time funds. Notably, the budget included enrollment growth funding for the coming year and 2023–24. It also funded overcharges in enrollment for the last several years. There were several one-time provisions that expressed the intent to provide additional funding in the following two years. UC received $389 million in a grant program that would go to six UC campuses; in addition, there was intent language to provide $1.8 billion over two years in a zero percent revolving loan fund for student housing. This would be a significant benefit for the campuses, increasing access and affordability for students.

Associate Vice President David Alcocer explained that the State budget had over 30 separate funding provisions for UC and highlighted some of the most significant ones. With respect to new ongoing funds, the State budget provided $342 million to directly support investments in alignment with the Regents' budget request. This represented 95 percent of the total increase in ongoing funds, including $200 million to support core operations, equivalent to a five percent base budget adjustment, and nearly $100 million for undergraduate enrollment. Ongoing funds would support several student-focused programs that are directly aligned with UC goals to enhance student access and success. The State had made permanent $22.5 million in one-time funding that UC received the prior year for Student Academic Preparation and Educational Partnerships (SAPEP). This funding would also allow UC to expand services systemwide for students who are former foster youth, undocumented students, and students affected by the carceral system. Mr. Alcocer acknowledged the many student advocates who were instrumental in having these programs included in the budget plan approved by the Regents in November 2021 and recognized and funded in the final State budget. This effort on their part would have a lasting impact on future generations of students. The budget provided $18 million in addition to the Regents' funding request, including $13 million for UC Labor Centers and related programs. Some elements of the Regents' request were not fully funded, such as an additional $50 million for operating costs, funding to close equity gaps in graduation rates, and support for the UC Cancer Consortium. But by any standard, this was an extraordinarily successful budget outcome, with a remarkable degree of alignment between what the Regents requested and what the Governor's administration and the Legislature ultimately approved.

With respect to one-time funds, $208 million was provided for capital requests endorsed by the Regents. This included $125 million for deferred maintenance, energy efficiency, and seismic safety projects and $83 million as the first of a planned three-year investment in UC Berkeley's Clean Energy Campus project. The State budget also funded 20 other programs and projects in addition to those requested by the Regents. The single largest of these commitments was $200 million to house the new Institute for Immunology and Immunotherapy at UCLA. Significant funding was also provided for UC-wide climate action research, climate initiatives at three campuses (Riverside, Santa Cruz, and Merced), and campus expansion at UCR and UCM, among many other smaller investments. The budget did not fully fund $1.4 billion in capital and other projects requested by the University. UC would need to find ways to address these needs over time, and they included failing business systems, improving energy efficiency, seismic safety, and expanding capacity.

Support for UC resident undergraduate enrollment in the budget totaled almost $100 million and was provided in three distinct categories. First, the State was providing $16.3 million in recognition of the fact that UC campuses have grown faster than the growth funded in recent State budget acts. This was a very much welcome return to how the State had historically funded UC enrollment growth until the Great Recession. Earlier, when UC exceeded its enrollment target, the State fairly reliably provided funding to support that above-target growth the following year. Since then, UC has been challenged in securing the full marginal cost from the State when campuses have exceeded their targets. This $16.3 million would support that above-target enrollment since 2018, about 1,500 students across UC. Mr. Alcocer was hopeful that this would bode well for future years, when campuses would enroll even more California residents than the State had anticipated. The second funding category was $31 million to offset the financial impact of reducing nonresident enrollment by 902 students at three campuses (Berkeley, Los

Angeles, and San Diego) and enrolling 902 California residents instead. This was likely the first year of a multi-year plan to reduce nonresident enrollment at those three campuses to 18 percent over time. The third funding category, $51.5 million, would fund enrollment growth in 2022–23 as well as any growth in 2023–24 above and beyond the one percent to which the University was committed in its Compact with Governor Newsom. Regarding total undergraduate enrollment growth, the State budget anticipated growth of about 7,630 new California residents over the next two years: 902 in the upcoming year through the replacement of nonresident students with California residents, 4,730 over the next two years, and growth of about one percent or 2,000 under the Compact in 2023-24.

Mr. Brostrom outlined a few considerations for the following budget year. The current year was the first year of a multi-year Compact with Governor Newsom, which included expectations and shared goals, such as increased enrollment, student success and closing equity gaps, affordability and debt-free pathways for students, collaboration with the other higher education segments in California, and an increase in online education. Mr. Brostrom's office had formed a team to work with the campuses on funding and tracking progress on each of these elements. Mr. Brostrom expressed the University's gratitude for this budget. Nevertheless, UC's greatest vulnerability was still in the area of capital needs. UC had conducted extensive reviews of its seismic safety and deferred maintenance needs, which amounted to billions of dollars. The University would work with the Governor's Office to try to secure more funding for these needs in the January budget. It seemed that the Legislature was more likely to provide support for enrollment growth and expansion at UC than for deferred maintenance needed for existing buildings.

Committee Chair Cohen congratulated UC Merced on the State's recognition of its unique capital circumstances and asked how the campus was contemplating the use of this funding. Chancellor Muñoz responded that the campus was fortunate to receive over $90 million in three tranches for capital projects. The State would provide $31.5 million immediately, the same amount in year two, and intended to provide this amount in year three. What came to mind first was the need for an additional general classroom building. The School of Humanities, the largest school at UC Merced in numbers of programs, did not have a dedicated building to aggregate most of its academic programs. The Medical Education Building would provide some capacity, accommodating 2,200 additional students, and Chancellor Muñoz hoped that the project would be presented to the Regents soon and begin construction in spring 2023. This State funding for capital projects was invaluable. UC Merced was also awarded $18 million for climate initiatives and would consider electrification of the campus and having a completely electric fleet. An energy plant would be needed for the Medical Education Building. These were the most obvious needs. Mr. Brostrom added that UC Riverside planned to use similar funding entirely for classroom space.

Regent Makarechian emphasized the historic nature of this budget for the University, so different from budgets in past gubernatorial administrations. He referred to the planned increases in student enrollment that were part of the Compact with the Governor and asked how this growth would be allocated to the campuses. Mr. Brostrom responded that the UC 2030 Capacity Plan would be discussed in the Board meeting the following day. The

University intended to increase enrollment by more than the approximately 8,000 students included in the Compact. Traditional growth could occur at UC Merced and UC Riverside, while other campuses would find creative ways of adding students, through better use of summer session, shorter time to degree, and more online education options. The University had a proposed plan for growth of over 23,000 students and an "aspirational" plan for growth of over 33,000 students. The Compact provided a baseline, but UC intended to grow enrollment more.

Regent Makarechian asked if the University had adequate resources and facilities to meet the terms of the Compact. Mr. Brostrom responded that the University's capital needs were the biggest challenge to meeting the terms of the Compact, the need to restore existing buildings and add capacity. The University would also reexamine administrative space; one was moving toward a future when UC might not need as much administrative work space, and UC would consider reconfiguring some administrative as academic space. This would be cheaper than constructing new buildings.

Regent Makarechian urged the Office of the President to set standards for UC capital projects and monitor and give directives to the campuses to maximize the efficiency of buildings. He recalled that the University was increasing the percentage of tuition that would be returned to aid and asked about the dollar impact of this change. Mr. Brostrom explained that this came about when UC adopted the cohort-based tuition model. There had been an amendment by Committee Chair Cohen. Mr. Alcocer recalled that the return to aid percentage had historically been 33 percent. The University proposed increasing this to 40 percent, and Committee Chair Cohen recommended that it be increased to 45 percent. Mr. Brostrom commented that this would promote the creation of debt-free pathways for students. He did not know the yearly dollar amount associated with this action.

Regent Makarechian asked how the University would control student debt and reduce student needs. Mr. Brostrom responded that UC would endeavor to offer financial aid packages without student debt. These offers would include student work expectations, but students should be able to cover the entire cost of education with Cal Grants, Pell Grants, and institutional grants, and the work requirement. Students could choose to take out loans; for example, if they felt that the work requirement of 15 hours or less per week would affect their academic success. UC wished to provide a pathway that would not require student debt.

Regent Makarechian referred to electrification efforts on the campuses. He advised caution and underscored the restrictions and limitations of electricity and the need for backup. Emergency generators can provide backup power, but only for a number of hours. The University must be prepared for long-term rolling blackouts and think carefully about reliance on one source of energy.

In response to another question by Regent Makarechian, Mr. Brostrom explained that the Compact with Governor Newsom was based on the University's permanent budget, \$4.4 billion, and five percent above that in the following year.

Regent Makarechian asked how the University would address ongoing needs and programs for which it received only one-time funding. Mr. Brostrom responded that this was a difficulty inherent in multi-year intent language. For a campus like Merced, without debt capacity, it was difficult to continue a program or project if the State did not provide funding in the following years.

Regent Makarechian asked if campuses would be forced to lay off employees or stop programs in such a situation. Mr. Brostrom responded that UC would wait to see how the State budget year was developing. For example, at UC Merced, it might be possible to carry out smaller projects that would add capacity without committing the full $90 million that would come over three years.

Regent Makarechian asked if the one-time funding would be restricted or unrestricted funds. Mr. Brostrom responded that this funding was restricted for purposes stated in the budget language. For the Merced and Riverside campuses, this funding was to expand capacity, such as classroom, teaching laboratory, and student advising space.

Regent Makarechian asked how funding not dedicated to a particular campus would be divided among the campuses. Mr. Brostrom responded that UC had an elaborate process of allocating funds from its operating budget. For capital projects, the University had provided a list with commitments to certain projects to the State Department of Finance.

Committee Chair Cohen recalled that the University had a list of $600 million in capital projects of which only about one quarter was funded. He asked how UC would go through the list and prioritize projects for the approximately $120 million in funding that UC had received. Mr. Brostrom responded that this process had already begun. In January, the University provided the Department of Finance a list of $100 million in projects. UC would identify projects that could be funded in this year's budget without requiring multiple years of funding. President Drake was asking each campus to carry out a decarbonization study, and UC would allocate monies to the campuses this year for this purpose.

Regent Makarechian stressed that the University must treat the campuses equitably in this funding. This had been a concern of the Legislature. Mr. Brostrom responded that the University was very much aware of this.

Regent Pouchot expressed gratitude to the State for this funding and to all UC stakeholders who worked on this budget and advocacy. In considering the next year's budget, it would be desirable to examine the risk presented by aging physical infrastructure at UC. It might make sense to involve Enterprise Risk Management program at the Office of the President in this review. It would be interesting to receive information on how this aging physical infrastructure affects faculty, students, and staff. Mr. Brostrom remarked that every campus, in its strategy presentation to the Board, should highlight its seismic safety and deferred maintenance needs.

Regent Ortiz Oakley referred to State support for enrollment growth. He asked if UC had made any additional commitment to constraining nonresident enrollment. Mr. Alcocer responded that the Compact did not have a component for further constraint of nonresident enrollment. The State had allocated funds to UC with the expectation that UC would constrain nonresident enrollment and to offset the financial impact to campuses that do so. The campuses developed plans for 2022–23 that anticipated this development, and this was reflected in the admissions offers that were sent out. The University believed it was likely that there would be similar language for a comparable kind of reduction in 2023–24. Mr. Brostrom added that the ultimate goal would be to reduce nonresident enrollment at every campus to 18 percent or lower. There would be a systemwide cap of 18 percent as well.

Regent Ortiz Oakley asked if campuses like UC Merced and UC Riverside, where nonresident enrollment was nowhere near 18 percent, would be allowed to increase nonresident enrollment. Mr. Brostrom responded in the affirmative. Their nonresident enrollment could grow to 18 percent.

Mr. Brostrom thanked the Regents for their efforts with the Legislature and the Governor.

Regent Pérez reflected that the positive budget outcome for the University could be attributed to the Regents' collective consideration of improving UC's service to students and focus on building on UC's public mission, and to how this work aligns with the removal of barriers to access to the University. Positive interaction with the Legislature was desirable, but it was also important to ensure that the Regents focus the work of the University. There had been a cultural shift in the institution, and this had led to a better position in relation to the Legislature and the Governor.

7. **AMENDMENT OF THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN FOR AD HOC COST OF LIVING ADJUSTMENT FOR ANNUITANTS**

The President of the University recommended that the University of California Retirement Plan ("UCRP" or "Plan") be amended to provide a one-time ad hoc cost of living adjustment (COLA) to restore purchasing power to an 85 percent minimum level, effective July 1, 2022.

[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 explained that the proposed amendment to the UC Retirement Plan (UCRP) would provide a one-time ad hoc cost of living adjustment (COLA) to restore purchasing power to an 85 percent minimum level effective July 1, 2022. Recent high levels of inflation had affected UC retirees as well as current employees. The UCRP provides annuitants with an annual COLA based on a formula that is generally tied to increases in the Consumer Price Index (CPI). The annual COLA provides some protection against the erosion of annuitants' purchasing power over time. Based on that formula, however, and in a year when the CPI is greater than two percent, annuitants' purchasing power decreases. This was especially the case in the most recent year, when inflation in California was over six percent. Most annuitants would receive a 3.7 percent COLA this year. Approximately 900 annuitants had purchasing power of under 75 percent, and 4,800 annuitants were under the 85 percent purchasing power level. These were annuitants who retired on or before July 1, 1991.

Historically, the Regents have striven to protect purchasing power from erosion by inflation. This has occurred through the Regents' adoption of ad hoc COLAs, which have restored annuitants' purchasing power to at least 75 percent, and in some cases to 85 percent. The most recent ad hoc COLA was adopted in 2001, and it restored purchasing power to the 85 percent level. This measure had been successful in maintaining purchasing power for the last 21 years. The Regents' consulting actuary, Segal, had confirmed that, if adopted, the current proposed amendment would not materially alter the funding status of UCRP. The proposed ad hoc COLA would increase the actuarial accrued liability by \$32.6 million, which represented a 0.03 percent impact on the last valuation. The ad hoc COLA would decrease the UCRP funded ratio by the same percentage of 0.03 percent.

Regent Pérez asked which UC retirees were UC annuitants versus those receiving other forms of retirement benefits. Mr. Brostrom responded that all these retirees were receiving UCRP benefits, and because all of them were past a certain age, they were receiving Social Security benefits. These retirees were all participants in the 1976 tier of the UCRP.

Regent Pérez asked how this action to protect purchasing power could be aligned with UC actions on subsequent UCRP tiers. The University had shifted a risk to employees who have been moved from the Defined Benefit Plan to the Defined Contribution Plan. Employees who have retired recently would have taken a much more significant hit to their purchasing power in retirement. He asked how UC can ensure that it is being consistent in its values and how the proposed action might cause one to examine the action to establish the Defined Contribution Plan. Mr. Brostrom responded that the inflation measurement for any of the Defined Benefit tiers would be the same. Given how the COLA is calculated, with a six percent inflation rate, there would be a 3.75 percent COLA. He acknowledged that employees who chose the Defined Contribution Plan and retired would suffer the impact of the 20 percent reduction in the stock market. Mr. Brostrom noted that selection of the Defined Contribution Plan is an opt-out choice.

Regent Pérez recalled that some Regents had expressed concerns about this type of scenario at the time when the Defined Contribution Plan was established. It appeared that since that time, in the University's process of hiring and familiarizing new employees with the institution, a higher percentage of new employees than anticipated had chosen the Defined Contribution Plan. The Regents had not reexamined this, and Regent Pérez wished that they had done so.

Committee Chair Cohen expressed concern about spending \$33 million in a pension fund that is not fully funded, and the timing seemed curious. The University was trying to align retirement benefits with the regular cost of living, but he anticipated that there would soon be an announcement of poor UC investment performance for the last fiscal year, and the pension fund would be funded at a significantly lower level than it had appeared to be a year prior. This action concerned a relatively small group of individuals at a low cost, but he was troubled by the notion of providing increased benefits when UC had not put aside the funding to meet all its obligations. Mr. Brostrom responded that there had been pressure to move retiree purchasing power to 90 percent, which would have represented a cost of more than $200 million. UC chose to keep the level at 85 percent. He stated that he understood Committee Chair Cohen's concern but felt that this was the right and fair thing to do for this group of retirees, given their age and the years they have been in the UC system, and without a significant cost.

Regent Leib asked if this fairly small group of retirees had been hurt the most and if the Office of the President would present similar actions at future meetings for other groups of retirees. Mr. Brostrom responded that this was the only group of retirees whose purchasing power had fallen below 85 percent. When employees retire, their purchasing power is at 100 percent. If COLA keeps up with inflation, it remains at 100 percent but if COLA does not keep up with inflation, purchasing power starts to erode. Because these individuals retired more than 30 years ago, they were the only retirees whose purchasing power had fallen below the 85 percent level. For some of the retirees, it had even fallen below the 75 percent level. This was a small number of retirees, and for many of them, it did not require much funding to return them to 85 percent purchasing power.

Regent Pérez reflected that 100 percent purchasing power might be different for different populations of retirees; this depended on the pension tier and on the date when an employee retired. In some ways, the cost of living impacts for employees in the later pension tiers were greater. This item raised many questions about what level of retirement security the University feels obligated to provide for its employees and whether or not this was the right time to review decisions made in the past on the Defined Benefit and Defined Contribution plans. Regent Pérez had always feared that, especially for UC employees with the lowest compensation, migrating to the Defined Contribution Plan would create greater risk at the time of retirement. When the State considered this issue in discussions of the California Public Employees' Pension Reform Act (PEPRA), one point that informed the discussion was that, if a person is put into a position of greater need, the State, while not paying on the pension side, would be paying for social services. The University would not experience this same direct impact but should be informed by it. He asked that the Regents have a broader discussion of this issue at a future meeting. Mr. Brostrom responded that such a discussion would be appropriate. He observed that retirees in the 2013 tier and the 2016 tier might retire in the same circumstances, but the latter were affected by the PEPRA cap and might be at half of the income in retirement. Even though the calculations for inflation and purchasing power were identical, one would start from a base 50 percent lower.

Committee Chair Cohen noted that some retirees had worked during years when they were not contributing to the UCRP, unlike current employees. In the early 1990s, UC put additional funds into the Capital Accumulation Provision (CAP) program. The next time a COLA was being proposed, and if one was entering an environment of higher inflation, it would be desirable to see analysis of individual income and the Capital Accumulation Provision (CAP) accounts. One could not separate consideration of the pension benefit from what were sometimes fairly large accounts, the equivalent of a 401(k) funded by the University. The next time an item like this one is presented to the Regents, Committee

Chair Cohen requested that there be a more complete analysis of who would be served by any ad hoc COLA adjustment and of keeping the cost relatively minor. UC might not be able to maintain the 85 percent level on a long-term basis. The University was now in a very different world than at the times of past COLA adjustments. UC did not have a fully funded pension system. UC must ensure that it has met its obligation to employees and retirees before it can provide greater benefits to some retirees.

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

8. **NEXT GENERATION CENTRIFUGE FACILITY, DAVIS 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.]

Committee Chair Cohen noted that this project would depend on federal funding.

The meeting adjourned at 4:50 p.m.

Attest:

Secretary and Chief of Staff