The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
September 21, 2022

The Finance and Capital Strategies Committee met on the above date at the Price Center, San Diego campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

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

In attendance: Regents Chu and Matosantos, Interim Secretary and Chief of Staff Lyall, General Counsel Robinson, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President Byington, Executive Vice President and Chief Operating Officer Nava, Senior Vice President Colburn, Chancellors Block and Christ, and Recording Secretary Johns

The meeting convened at 1:20 p.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of July 20, 2022 and the minutes of the joint meeting of the Academic and Student Affairs Committee and the Finance and Capital Strategies Committee of May 19, 2022 were approved, Regents Cohen, Drake, Kounalakis, Makarechian, Ortiz Oakley, Pérez, Pouchot, Reilly, and Sherman voting "aye."[1]

2. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, ACADEMIC REPLACEMENT BUILDING, BERKELEY CAMPUS**

The President of the University recommended that:

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

From: Berkeley: <u>Academic Replacement Building</u> – study and preliminary plans – \$7.1 million to be funded from external financing supported by State appropriations under the provisions of Section 92493 et seq. of the California Education Code.

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

To: Berkeley: Academic Replacement Building – study, preliminary plans, working drawings, construction, and equipment – $136,823,000 to be funded by external financing supported by State appropriations under the provisions of Section 92493 et seq. of the California Education Code ($123,823,000) and campus funds ($13 million).

B. The scope of the Academic Replacement Building project be approved. The project shall provide an academic building of approximately 78,000 gross square feet (45,800 assignable square feet (asf)) comprised of office space (12,500 asf); classrooms (32,300 asf); and other support and shared spaces to support occupants (1,000 asf); and public realm and circulation improvements, including landscape and public gathering spaces around the site on Campanile Way, Grade Street, Frank Schlessinger Way, and Spieker Plaza. The make-ready scope shall include extension of campus power to the site.

C. The President shall be authorized to obtain external financing in an amount not to exceed $123,823,000 plus related interest expense and additional related financing costs to finance the project. The President shall require that the Berkeley campus satisfy the following requirements:

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

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

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

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

(1) Adopt the CEQA Findings for the Academic Replacement Building project, having considered both the UC Berkeley 2021 Long Range Development Plan and Housing Project #1 and #2 Environmental Impact Report (2021 LRDP EIR) and Addendum #3 to the 2021 LRDP EIR for the Academic Replacement Building.

(2) Make a condition of approval the implementation of applicable Mitigation Measures and Continuing Best Practices within the responsibility and

jurisdiction of UC Berkeley as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2021 LRDP and Housing Project #1 and #2 EIR.

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

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

Chancellor Christ stated that the Academic Replacement Building was a critical project for the Berkeley campus. It would provide new space to accommodate general assignment classrooms and student service space currently housed in Evans Hall. Evans Hall had a seismic performance rating of VI, and the replacement of Evans Hall was one of the campus' highest priorities. In 2018, the campus conducted a thorough analysis of this building and determined that moving people and programs out of the building to other spaces would be the most effective way to address seismic safety and deferred maintenance needs.

New construction would allow the campus to align space needs with current and future enrollment priorities, including the design of flexible classrooms that meet modern pedagogy standards. UC Berkeley had engaged in a robust design process to ensure that the building program aligns with campus priorities, is maximized on the project site, and can be delivered with available State and campus resources. The building would be centrally located on the Berkeley campus and would replace an existing surface parking lot. The structural system was intended to be mass timber, which was found to be cost-effective in comparison with other structural systems. The project was in alignment with campus sustainability goals and would be fully electric, meeting the requirements of the UC Sustainable Practices Policy.

The project budget was $136,823,000. The State would provide approximately $124 million to support the project, and the campus identified approximately $13 million in campus resources to maintain the full program. These extra costs were largely a result of escalation and inflation during the design process. Chancellor Christ enumerated the cost drivers for this project. The campus continued to be affected by inflation and the escalation of construction costs. UC Berkeley had evaluated the project to ensure that it would be delivered as efficiently as possible while meeting its goals. Building in the center of the campus was challenging, with space constraints and construction logistics that must account for heavy pedestrian traffic as well as for two bridges, one of them wooden, which limited access by trucks. To ensure that the project had adequate electrical service, a new connection would have to be provided. The campus had considered reducing the project size, but this would significantly affect the ability to move people and programs out of Evans Hall.

Regent Makarechian observed that, on the basis of cost per square foot, this project would be one of the most expensive buildings on any UC campus. He asked how different this building was from other buildings. Based on background information provided, the cost per square foot for this project would be $1,754, while the cost for the Bechtel Engineering Center Renovation and Addition project, the following item to be discussed at this meeting, would be $1,117. Chancellor Christ explained that the Bechtel project would be adding a floor to an existing building with existing foundations. The Academic Replacement Building would be a new building. UC Berkeley Vice Chancellor Marc Fisher added that the Bechtel project had blended costs of renovation and new construction. The Berkeley campus was making every effort to keep the Academic Replacement Building on budget and to maximize the use of space. Construction costs were very high in and around San Francisco and the East Bay.

Regent Makarechian believed that the additional cost of $700 per square foot for this project, due to location and the two bridges, was excessive. This was an expensive project, and he was not sure that the price of $1,754 per square foot was right. Mr. Fisher responded that the cost was also due to the building's function; this would be a classroom building. He acknowledged that the cost was high compared to other projects but stressed that this would be an efficient building. There was nothing exceptional about this project. Chancellor Christ added that there was very limited space on the central campus on which to build. Another site for this building was not possible.

Regent Makarechian referred to the tables of comparable project information in the background materials. This project cost was higher than the costs of most projects listed there. Executive Vice President and Chief Financial Officer Brostrom responded that there was currently significant volatility in the construction market. He noted that bids for the Kresge College Non-Academic project at UC Santa Cruz had come in below the amount approved by the Regents. Given market volatility, the Office of the President believed that it would be prudent to have the project approved now and to proceed to market.

Regent Makarechian stated that he hoped that bids would be favorable, but feared that, once this project budget was approved, contractors would not make lower offers.

Committee Chair Cohen acknowledged that UC capital projects were presenting record costs but noted that UC was operating in fairly unprecedented circumstances following the COVID-19 pandemic.

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

3. **BUDGET, SCOPE, STANDBY FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, BECHTEL ENGINEERING CENTER RENOVATION AND ADDITION, BERKELEY CAMPUS**

The President of the University recommended that:

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

From: Berkeley: Bechtel Engineering Center Renovation and Addition – preliminary plans – $5.9 million to be funded from gift funds.

To: Berkeley: Bechtel Engineering Center Renovation and Addition – preliminary plans, working drawings, construction, and equipment – $92.35 million to be funded by gift funds.

B. Standby financing be approved in an amount not to exceed $18 million plus related interest expense and additional related financing costs to finance the Bechtel Engineering Center Renovation and Addition 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 meet the authorized financing requirements.

(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. The scope of the Bechtel Engineering Center Renovation and Addition project be approved. The project shall provide approximately 82,700 gross square feet (58,315 assignable square feet (asf)) of new and renovated space to address student support services and collaboration space needs, including office space (4,825 asf); collaboration and meeting space (18,630 asf); library space (22,210 asf); auditorium space (2,530 asf); general use space (1,530 asf); and flexible surge space (8,590 asf). Public realm improvements shall include expanded terrace and plaza spaces for studying and collaboration, and improved wayfinding and circulation. The project would also address deferred maintenance, including upgrades to mechanical systems, replacement of waterproofing, façade repairs, and removal of architectural barriers to accessibility.

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

(1) Adopt the CEQA Findings for the Bechtel Engineering Center Renovation and Addition project, having considered both the UC Berkeley 2021 Long Range Development Plan and Housing Project #1 and #2 Environmental Impact Report (2021 LRDP EIR) and Addendum #2 to the 2021 LRDP EIR for the Bechtel Engineering Center Renovation and Addition project.

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

(3) Approve the design of the Bechtel Engineering Center Renovation and Addition project, Berkeley campus.

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

Chancellor Christ introduced this project, which would renew and expand the existing Bechtel Engineering Center. This was a critically important investment to enhance the student experience and was necessary to support the academic success of a growing and increasingly diverse student body. It would provide approximately 34,700 net new gross square feet for academic support services and student learning and collaboration space. The project would renovate the existing two-story building and add two new levels on top of the existing roof level; it would contribute to the historic Central Glade on the Berkeley campus, expressed as a contemporary building that would also reflect the classical Beaux Arts context of this location. The project would address the existing building's deferred maintenance needs and improve its seismic performance rating from IV to III. The project would support the College of Engineering's strategic plan for equity and inclusion by providing space for programs that would help the College realize its goals for fostering inclusion and achieving educational equity.

The proposed project had a budget of $92.35 million to be fully funded by philanthropy. To date, approximately $75 million had been secured in pledged gifts, and this was the top fundraising priority for the College of Engineering. The campus had considered replacing the building instead of adding onto it, but the cost of doing so was estimated at $165 million in 2021, significantly more than the proposed project cost of approximately $92 million. The difference in project cost between renovation and addition on one hand and total building replacement on the other was due to an increase in new construction gross square feet, demolition of the existing building, foundation and footing work, and an increase to the escalation percentage due to longer project duration. Renovating the building rather than replacing it would also support UC Berkeley's sustainability goals by minimizing embodied carbon emissions. A project with only new construction would generate about twice as much embodied carbon as the proposed project.

Committee Chair Cohen asked if the campus had any concerns about the remaining fundraising for the project, about $20 million. Chancellor Christ responded in the negative. Executive Vice President and Chief Financial Officer Brostrom added that the University had conducted an analysis for a scenario if the campus had to make up the remaining amount.

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

4. **AMENDMENT OF PRELIMINARY PLANS FUNDING AND EXTERNAL FINANCING FOR THE ENTIRE PROJECT; WORKING DRAWINGS AND CONSTRUCTION FUNDING, SCOPE, AND DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT FOR THE SITE AND MAKE-READY WORK PORTION OF THE PROJECT; PARNASSUS RESEARCH AND ACADEMIC BUILDING AND WEST CAMPUS SITE 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:

From: San Francisco: <u>Parnassus Research and Academic Building and West Campus Site Improvements</u> – preliminary plans – $32 million funded from campus funds.

To: San Francisco: <u>Parnassus Research and Academic Building and West Campus Site Improvements</u> – preliminary plans with working drawings, and construction for the Site and Make Ready Work portion – $98.4 million funded from external financing.

B. The scope of the Site and Make-Ready Work portion for the Parnassus Research and Academic Building and West Campus Site Improvements project be approved, including exterior abatement and demolition of UC Hall (148,000 gross square feet), site stabilization and shoring, relocation of utility infrastructure, securing site perimeter with fencing and rerouting pedestrian traffic, and ordering of long-lead-time items and materials (e.g., select mechanical and electrical equipment, structural steel and other raw materials).

C. The President be authorized to obtain external financing for the Parnassus Research and Academic Building and West Campus Site Improvements project in an amount not to exceed $98.4 million 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, 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.

D. Following review and consideration of the environmental consequences of the proposed Site and Make-Ready Work portion of the Parnassus Research and Academic Building and West Campus Site 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:

(1) Adopt the CEQA Findings for the Site and Make-Ready Work portion of the Parnassus Research and Academic Building and West Campus Site Improvements 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.

(3) Approve the design of the Site and Make-Ready Work portion of the Parnassus Research and Academic Building and West Campus Site Improvements project.

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.]

Chancellor Hawgood explained that the Parnassus Research and Academic Building and West Campus Site Improvements project was one of the initial phase projects identified in UCSF's Comprehensive Parnassus Heights Plan. It would provide approximately 271,000 gross square feet of new research and education space. The project would provide seismic safety improvements and address deferred maintenance issues and the obsolescence of existing spaces. It would also provide space to support new and expanding programs, and extensive site improvements on the west side of the Parnassus Heights campus. The proposed project would replace UC Hall, which opened in 1917 and had a seismic performance rating of V. UC Hall was located on a complex, steeply sloped site within a dense urban area. The initial design work identified the need for additional analysis to incorporate a more comprehensive view of the site, additional programmatic requirements, and fulfillment of the objectives presented in the Comprehensive Parnassus Heights Plan to prepare future development on the west side of campus.

In May 2021, the Regents approved $32 million in preliminary plans funding for the project, which had allowed UCSF to engage with an executive architect and construction professionals to refine the program scope and to advance the design. UCSF was now requesting an additional $18.3 million for preliminary plans and design development. The overall goals for the project had not changed. Chancellor Hawgood stressed that this was not a budget augmentation but moving future phases of the project into an earlier stage, which would allow for physical and programmatic connections on the south side of Parnassus Avenue. UCSF was also requesting $48.1 million in funding to take the site and make-ready work of the project through working drawings and construction, allowing for site preparation and construction elements that were not dependent on the final design of the building. This advanced site preparation and make-ready construction element included the demolition and exterior abatement of UC Hall, site stabilization and shoring for this location on the side of Mount Sutro, relocation of campus utilities to prepare the entire west side of the campus for future development, and purchase of critical items and materials that require a long lead time, such as mechanical and electrical equipment, structural steel, and other raw materials, in order to mitigate schedule and escalation risks. Mitigation of risk to the project schedule and budget was the goal of this item, and UCSF believed that this risk would be mitigated by implementing work that was required to be completed before beginning construction of the new building. UCSF also believed that the risk of proceeding with the construction and site and make-ready work was acceptable to avoid cost escalation that would result from project delay. Ordering select equipment and raw materials early would help address supply chain challenges that could cause further delays. As part of this item, UCSF was also requesting approval for external financing of $98.4 million, which was the total funding authorization proposed in May 2021 plus the current request. UCSF anticipated presenting the final design, Environmental Impact Report Addendum, and total project budget with additional external financing to the Regents in spring 2023.

Committee Chair Cohen asked if Chancellor Hawgood had concerns about having two major projects in progress at the same time on the same block, which might overwhelm the team. Chancellor Hawgood responded that there were two independent but cooperative teams for the new hospital project and for other campus projects. These were two separate teams under single leadership, and the teams were working closely together on items such as common procurement of steel in order to leverage scale for value. Chancellor Hawgood was not concerned about the teams but about the logistics of the site and managing two major construction projects on a very constrained site. At one point, UCSF had three simultaneous projects underway at the Mission Bay campus; in addition, the Chase Center was being built. UCSF, together with the Golden State Warriors, engaged a logistics firm to help manage all the site logistics. UCSF had now engaged the same firm for assistance with work on the Parnassus Heights campus. Chancellor Hawgood acknowledged that he was concerned but believed that UCSF had a plan that would enable it to manage both projects simultaneously. The goal now was to complete most of the external construction for this project before major construction of the new hospital would begin.

Regent Makarechian referred to the two phases of the project and asked how UCSF would treat liability in the contract. When one contractor builds on another firm's excavation or foundation, one firm typically blames the other for construction problems. UCSF Associate Vice Chancellor Scott Muxen responded that there was a single contract for the project. The contractor for the first phase, Hensel Phelps, would also be constructing the building.

Regent Makarechian asked if pre-purchase of materials, such as steel, was a good idea at this moment, given inflation and economic considerations. Chancellor Hawgood responded that UCSF was seeking approval to purchase at the appropriate time. UCSF was monitoring the cost of steel and other major commodities for both projects and had consultants who were providing daily updates and projections. With this item, UCSF was seeking approval for funding, with the flexibility to purchase materials at what UCSF hoped would be the right time. This would be carried out in coordination with the new hospital project. UCSF could potentially procure materials for both projects together at the right time, which remained to be determined.

Regent Makarechian asked about the type of contract with Hensel Phelps. Mr. Muxen responded that it was a design-build contract.

Regent Makarechian asked if there was a guaranteed maximum. Mr. Muxen responded that the contractor was designing to a target cost set by UCSF and was on track to meet this target cost.

Regent Makarechian asked if the responsibility for purchasing was on the contractor's side or the University's side. Mr. Muxen responded that the responsibility was on the contractor's side for all construction materials.

Regent Makarechian asked if the contractor would decide when to purchase materials. Mr. Muxen explained that two factors would determine the timing of purchasing. One was the question of the right time to mitigate cost escalation and the other was supply chain issues. It would be up to Hensel Phelps to make a recommendation to the University, which UC would approve or not approve.

Regent Makarechian asked about liability for Hensel Phelps if the contractor recommended purchasing at a given moment and prices came down later. He asked if there would be no such liability as long as the contractor met the guaranteed maximum. Mr. Muxen responded in the affirmative and noted that, under the contract, if prices went down after an order was placed, and an item became less expensive when the order was fulfilled, the associated savings would come back to the University.

Regent Makarechian asked if the University's approval of a purchase would not change the guaranteed maximum. Mr. Muxen responded in the affirmative.

President Drake asked about the timing of this project and the new hospital project and their start and completion dates. Chancellor Hawgood responded that UCSF was already carrying out interior soft abatement and interior demolition on the Parnassus Research and Academic Building and West Campus Site Improvements project. Full demolition would begin in 2023, and construction would begin in 2024. The planned move-in date was late 2026. Regarding the new hospital project, Chancellor Hawgood explained that UCSF first needed to complete construction of a new inpatient psychiatry unit at the Mount Zion campus in order to be able to vacate the Langley Porter Psychiatric Institute. That project would be completed at the end of calendar year 2023 and would allow for demolition of the Langley Porter Psychiatric Institute and for site and make-ready work for the new hospital in 2024. Work on the new hospital site would begin in the basement, and the work on this level would be completed in late 2024 to 2025. Major construction of the hospital would occur from 2025 to 2028. UCSF wished to complete the Parnassus Research and Academic Building before starting work on the new hospital building. UCSF was also working with the trades council on maximizing pre-fabrication at an offsite location, which would facilitate work on a congested site.

Regent Chu commended Chancellor Hawgood for UCSF's work on logistics and site control in a challenging location. Communication with the City of San Francisco and with the surrounding community would be important. The proposed acceleration of this construction project made sense and would help mitigate the risk of cost escalation. She asked if there were any issues of concern regarding electrical systems. Upgrades and systems for new buildings were often more problematic than expected and caused cost escalations in other projects. Chancellor Hawgood responded that UCSF was experiencing significant problems with City utilities and with Pacific Gas and Electric on existing projects, which were causing major delays. UCSF Senior Associate Vice Chancellor Brian Newman added that, depending on where UCSF was building in San Francisco, it was working with either Pacific Gas and Electric or the San Francisco Public Utilities Commission for power supply. There had been challenges with both organizations for setting specific dates or for keeping to these dates. UCSF met regularly with the leadership of both organizations and escalated issues when necessary. Recently, there had been problems at the Mission Bay campus regarding power capacity that might have been granted to another property owner. The previous day, UCSF had learned that one of its projects might potentially be delayed by a month. UCSF worked through the process as best it could with Pacific Gas and Electric and the San Francisco Public Utilities Commission, which had been responsive at times, in critical moments in UCSF's construction timeline.

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

5. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2023–24 OPERATING 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 introduced this preliminary discussion of the University's 2023–24 operating budget. He explained that the operating budget represented about one-quarter of UC's total budget and about $11 billion. This budget is presented to the Regents for approval and then submitted to the State Department of Finance. The past budget year had been very robust, and the University was grateful to the Legislature and Governor Newsom. UC had received an additional $360 million in ongoing support, with $200 million in the base budget and the remainder largely related to increasing California resident enrollment and the buydown of nonresident student tuition at three campuses. The University also received over $800 million in one-time funding; $319 million for designated programs and nearly $500 million in capital outlay.

Mr. Brostrom recalled the University's multi-year compact with the Governor, which had shared, mutual goals related to enrollment growth, student success as measured by graduation rates and time to degree, affordability and the goal of working toward a debt-free UC education, collaboration with the California Community Colleges and California State University, workforce preparedness, and online education. The compact provided UC with an annual five percent base budget increase which would cover enrollment growth up to one percent, and UC was seeking additional support above this amount for enrollment growth above one percent, the continued buydown of nonresident enrollment at the Berkeley, Los Angeles, and San Diego campuses, one-time funding for capital projects, and certain graduate health sciences programs, in particular the Programs in Medical Education (PRIME). Mr. Brostrom underscored the University's gratitude for this compact. State revenues through August were below what had been projected by about $2 billion or ten percent; UC would have to proceed cautiously and consider what efforts of its own it could make to augment this budget.

Associate Vice President David Alcocer recalled that the Budget Act of 2022 provided an ongoing five percent base budget adjustment this year for core operations, about $200 million, with funding for student outreach and support for former foster youth, undocumented students, and students who themselves or whose families were adversely affected by the prison system. The budget act also provided nearly $100 million for enrollment of California resident undergraduates; $16 million was to help address the above-target growth since 2018–19, or the number of students campuses had enrolled above what the State had funded; $52 million to add more than 4,700 students over a two-year period, above the one percent expected under the compact; and $31 million to replace nonresident student spaces with resident spaces at UC Berkeley, UCLA, and UC San Diego.

Expanding student access would continue to be a priority for UC in the coming year. In July, UC laid out an ambitious capacity plan to grow enrollment by 2030 equivalent to adding another UC campus. State support in the current budget act would allow UC to make substantial progress toward that goal. At the November meeting, a specific target would be presented for 2023–24, once campuses had more accurate information later in the fall about actual student enrollment in the current year. Consistent with the compact, the budget plan would also expand access to a debt-free path to graduation by offering enhanced financial aid packages to more UC students. This year, that effort included about 6,000 new students from low-income families and low-resourced high schools and community colleges. Next year, UC believed that it could potentially double this number to cover over 12,000 new students. Funding would come from a combination of UC's own institutional aid program, funded primarily by tuition, along with Pell Grants, Cal Grants, and the State's Middle Class Scholarship program.

The budget plan also needed to address UC faculty and staff compensation. Costs related to compensation accounted for about two-thirds of the core-funded budget. For ladder-rank faculty, UC salaries were about four percent below those at public and private comparator institutions. This had not always been the case; UC compensation had been above this benchmark in 2000. Despite falling below this benchmark subsequently, UC had been making a concerted effort to remain competitive. For policy-covered staff, salaries had largely kept pace with inflation from the Great Recession until about 2021. UC's salary program provided annual increases which were roughly the same as the increase in inflation on a cumulative basis. A change came in 2021. UC did not have a salary program the prior year due to concerns about the financial impact of the COVID-19 pandemic. The Regents had approved increases of 4.5 percent this year, in the 2022–23 budget, but even this had not kept pace with the projected increases in inflation. The University was also concerned about parity with represented employees. Considering how dependent the University is on its faculty and staff, it must take these trends into account in proposing a plan for the following year.

In the next year, the University would have to consider a tradeoff between its operating and capital needs. For many years, UC relied on State-issued general obligation bonds and lease revenue bonds to address capital needs associated with UC's core instructional mission. More recently, the lack of State-issued bonds had led UC to finance a growing portfolio of projects from its own State appropriations, which was made possible by Assembly Bill (AB) 94, passed in 2013. UC has taken advantage of this opportunity and financed about $2.3 billion in projects by setting aside a growing share of its ongoing State appropriation for debt service. As UC considered its needs for the coming year—for student enrollment, expanding financial aid, faculty and staff salaries, and other costs—it would need to consider whether further increasing a commitment to capital needs made sense or whether it would be more prudent to address ongoing operating costs and to seek additional one-time State support for the most pressing capital needs. Such a request for additional one-time funding was anticipated by and permitted under the compact, as long as projects were related to deferred maintenance, seismic safety needs, energy efficiency, or enrollment.

Mr. Brostrom commented on how the University could use its own balance sheet and make other efforts to augment the resources provided by the State. UC would work further to optimize its working capital to make more discretionary money available for the campuses. UC had about $20 billion in working capital, divided evenly between the Short Term Investment Pool (STIP) and the Total Return Investment Pool (TRIP). The University's rating agencies had established that UC would need to maintain only about $2 billion in STIP. The Office of the President had been working with the campuses in reducing amounts in STIP and transferring funds either to TRIP or to the Blue and Gold Pool, which was similar to an endowment. Over the last ten years, STIP returns had been approximately 1.4 percent, while TRIP returns had been about 5.3 percent, or four percent higher. Returns for the General Endowment Pool (GEP) had been over nine percent. There could be dramatic increases in discretionary revenue if UC moved as much money as possible into higher-earning pools.

The pandemic had brought opportunities for changes in campus operations. There had been reduction in travel, but one might see a greater impact in real estate and the optimization of space. Campuses were canceling off-campus leases, especially for administrative space, and considering the reconfiguration of administrative space for academic uses. The University was now in the second year of the tuition stability plan, which had been helpful in stabilizing and augmenting revenues and was a source of financial aid. UC would continue its discussions with the Governor and his team about ongoing funds consistent with the compact. UC would make a one-time request for capital, which was UC's largest unfunded need.

Mr. Brostrom anticipated that, for the November meeting, the Office of the President would have more accurate information on enrollment, with respect to both numbers of students and credit hours, and how this would translate into full-time equivalent students. This information would determine UC's request for increased enrollment funding from the State. There would be ongoing consultation with the Academic Senate, student representatives, the campuses, and other UC stakeholders; this would result in a more refined budget plan to be presented to the Regents at the November meeting.

Committee Chair Cohen asked when the Regents would receive a report on the status of the tuition stability plan. Mr. Alcocer responded that the entering class this fall was the first class for whom this plan was made available. Enrollment information would be available in November, and this would allow for reporting in spring. Mr. Brostrom added that there would also be information from Institutional Research and Academic Planning on changes in student debt levels and the percentage of students who must take out loans.

Regent Chu asked about capital planning and the different priorities among the campuses. She asked if the Regents received an overall capital plan for the University and how UC planned to address shortfalls when it had to weigh a number of factors including enrollment growth, the need for infrastructure repairs, and seismic safety. She asked about the big picture of UC's capital infrastructure needs and the funding gap. Mr. Brostrom responded that the Regents receive an annual Capital Financial Plan which identifies campus needs six years into the future. The large categories of need were enrollment growth, increased research space, and deferred maintenance and seismic safety. Since the implementation of the Integrated Capital Asset Management Program (ICAMP), the University had gained a much better understanding of its deferred maintenance needs. The University was also reviewing the seismic safety of its buildings. UC did not have enough of its own resources to address the funding gap for these needs. Some campuses were using philanthropy or indirect cost recovery, and UC was trying to develop new funding plans.

Regent Chu observed that some types of projects were more likely to receive philanthropic support than others. Mr. Brostrom confirmed that this was the case.

Regent Makarechian asked if the University had made use of all the COVID-19-related funding that had been allocated to UC. Mr. Brostrom responded that UC had fully expended these funds. There was a deadline for expending this funding by July 2023.

Regent Makarechian asked if the University would include funding for the UC Retirement Plan (UCRP) in its future funding requests to the State, since the funding ratio was low. Mr. Brostrom responded that the actuarial value of the UCRP had increased. The University did not plan to request funding for the UCRP from the State but planned to move forward with another borrowing from STIP. There would be a presentation on the UCRP at the November meeting.

Regent Makarechian asked why UC would not request UCRP funding now, when the State was flush with money. Mr. Brostrom responded that, in his view, the University's capital needs were more critical at this point; he would prefer to use one-time monies from the State for the most urgent capital needs. If the market rebounded, the UCRP might return to 90 percent funding in a few years.

Committee Chair Cohen asked Mr. Brostrom to comment on State budget surpluses which were now gone. Mr. Brostrom responded that there had been a decline in State revenues. This had been anticipated, given that capital gains revenue was such a large part of the State budget. Capital gains would be low this year. Most of the surplus funds that had been moved into the State's "rainy day" reserve would be used in this year's budget or in the following year.

Regent Pouchot asked about the University's long-term perspective on the need for competitive faculty and staff salaries when there were also concerns about UC's aging infrastructure and a push for enrollment growth. Mr. Alcocer responded that there was consensus that UC would not be able to solve these problems all at once. Regarding the gap in faculty salaries, which had been much worse in the recent past, he observed that UC had been able to raise salary levels through a concerted effort, not all at once, but by gradual, conscious investments over time. Similarly, it would be very challenging to close the gap in staff salaries, which had not kept pace with inflation, in only one year. There had now been a few consecutive years with inflation higher than anticipated. Inflation would be expected to subside at a certain point and the staff salary gap could be addressed over time. UC would take a longer-term approach to these challenges and act with intention to make progress. Mr. Brostrom added that there were important differences among the campuses' budgets. UC Merced depended on core funds for 80 percent of its budget, while UCSF depended on core funds for only three to four percent of its budget. Myriad funding sources created different opportunities and challenges at the various campuses. The Office of the President tried to manage this from its central position.

Staff Advisor Mackness noted that this presentation had compared faculty salaries to market benchmarks but compared staff salaries to the rate of inflation. She asked if the University had compared staff salaries to market benchmarks. Mr. Brostrom responded that UC had made these comparisons. The University had many different staff cohorts in different areas such as information technology and housing and dining. UC had a longstanding practice of comparing faculty salaries, across faculty groups, to market benchmarks. Mr. Alcocer added that there were surveys of large employers and their salary plans over years, which indicated that these employers had strategies like UC's to keep pace with inflation, but it was unclear if they succeeded in doing so. For the purposes of establishing salary benchmarks, the faculty were more homogeneous than staff.

Regent-designate Raznick asked if there had been any discussion about one-time funds for student and faculty housing. Mr. Brostrom responded that there were two relevant State actions in the past year. One was a grant program through which six UC campuses received about $400 million. The other, which might have a greater impact for the University, was a budget bill for a zero percent revolving loan fund, which would be very helpful. If UC combined this with its own cost of capital, it could borrow at two percent. Debt service was a big part of the cost of new housing. If UC could lock in a two percent interest rate for 30 years, this would help address housing capacity and affordability.

Regent-designate Raznick asked if UC would request grant funding in future years like the grant funding that had been received this year. Associate Vice President David Phillips responded that the University would be applying for more funding this year and would lobby the State to increase the allocation percentages. Some campuses had missed out on the first round of funding, and UC wished to pursue this in partnership with the California Community Colleges. The revolving loan fund was anticipated to cover housing projects for staff and faculty as well as student housing. Mr. Brostrom added that UC had received a relatively small percentage of the grant program. It was not clear that all projects in the program would come to fruition, so there might be monies available for UC projects that were ready for implementation.

Regent-designate Ellis commented that if the University needed more contributions to the UCRP, it should request this from the State before requesting it from employees.

Committee Chair Cohen stated that the November meeting would be a good opportunity to review decisions made about the UCRP and questions about the State's role.

Regent Pérez observed that the revolving loan fund for housing would fundamentally shift the University's capability. It would create an ongoing opportunity for UC to create housing at a more affordable rate than the market. This was one of the few meaningful actions the University could take to cap the total cost of attendance for students, namely, dealing with the reality of how expensive housing was at every campus. This was an innovative approach and partnership with the State that would relieve the housing cost pressure on students and one hoped would have some residual benefit for the surrounding communities; housing units that might be occupied by students would be available for community members.

Regent Matosantos stated that, at the November meeting, it would be helpful for the Regents to understand and for the State to see what long-term commitment by the State allows UC to accomplish in programs and outcomes: the proposed increase in funding for return-to-aid and how this would affect graduation rates, time to degree, and other outcomes for students; other strategies to be able to do more with the same level of funding and UC goals regarding transfer students, time to degree, and the ability to expand capacity with the existing resources, including with consideration of recent changes in Cal Grants that would benefit returning students. The State should see how UC was using savings to improve graduation rates and lower student debt, especially for first-generation students.

President Drake emphasized the impact that return-to-aid and time to degree have on student debt. When more students graduate and enter the workforce with less debt, this allows them to participate more actively in society. He observed that an important return on investment in education was the fact that life expectancy was higher for people with a higher level of education, and this was a difference of years. State and UC investments in young people affect them throughout their lives, and this bigger picture could be included in the discussion.

Regarding returning students, President Drake observed that students leave UC for a variety of reasons. Some struggle academically, and some financially. Students who struggle academically for some time are penalized by having to leave the University and not being able to continue their education; these students should be assisted so that they are not jettisoned from UC. Some students are in good standing and leave voluntarily for financial reasons. These students then have to reapply to UC to return, and this barrier prevents some from doing so. This seemed an anachronism; a student who left voluntarily and in good standing should not have to reapply. UC should review this so that students who are close to completing their degrees can have a smoother and better pathway to completion.

The meeting adjourned at 2:30 p.m.

Attest:

Secretary and Chief of Staff