The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
November 15, 2023

The Finance and Capital Strategies Committee met on the above date at the Luskin Conference Center, Los Angeles campus and by teleconference at 455 Golden Gate Avenue, San Francisco and Corral del Risco, 63727 Nayarit, Mexico.

Members present: Regents Cohen, Elliott, Makarechian, Pérez, Reilly, Robinson, Sherman, and Sures; Ex officio members Drake and Leib; Advisory member Cheung; Chancellors Gillman, Hawgood, Khosla, Larive, and May; Staff Advisor Emiru

In attendance: Regent Tesfai, Regent-designate Beharry, Secretary and Chief of Staff Lyall, Deputy General Counsel Drumm, Chief Compliance and Audit Officer Bustamante, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Rubin, Interim Senior Vice President Reese, Vice President Lloyd, Chancellors Block and Muñoz, and Recording Secretary Johns

The meeting convened at 11:20 a.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes the meeting of September 20, 2023 were approved, Regents Cohen, Leib, Makarechian, Pérez, Robinson, and Sures voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Preliminary Plans Funding, Seismic Improvements of Acute Care Hospital and Associated Structures, San Diego Campus***

The President of the University recommended that the 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: <u>Seismic Improvements of Acute Care Hospital and Associated Structures, San Diego Campus</u> – preliminary plans – $12.7 million to be funded from hospital reserves.

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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.

B. ***Amendment of Budget, Mount Zion Main Hospital Buildings A and B Seventh Floor Renovations for Inpatient Psychiatric Services, San Francisco Campus***

The President of the University recommended that the 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Francisco: Mount Zion Main Hospital Buildings A and B Seventh Floor Renovations for Inpatient Psychiatric Services – preliminary plans, working drawings, construction, and equipment – $65.8 million funded from hospital reserves.

To: San Francisco: Mount Zion Main Hospital Buildings A and B Seventh Floor Renovations for Inpatient Psychiatric Services – preliminary plans, working drawings, construction, and equipment – $72.55 million funded from hospital reserves.

C. ***Continuation of the Student Seismic Fee, Los Angeles Campus***

The President of the University recommended that, starting in summer 2025, the UCLA Student Seismic Fee be continued through summer 2055, as follows:

(1) All students enrolled at the UCLA campus during the regular academic year be assessed the Student Seismic Fee of $113 per student per year ($38 in the fall quarter, $38 in the winter quarter, $37 in the spring quarter, or $56.50 per semester).

(2) Students enrolled in summer sessions be assessed the Student Seismic Fee of $37.67 per student.

[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, Leib, Makarechian, Pérez, Robinson, and Sures voting "aye."

3. **AMENDMENT OF BUDGET, SCOPE AND DESIGN FOLLOWING AN EXEMPTION DETERMINATION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, HUNTERS POINT RESEARCH SUPPORT FACILITY UPGRADES, SAN FRANCISCO CAMPUS**

The President of the University recommended that:

A. The 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

From: San Francisco: <u>Hunters Point Research Support Facility Upgrades</u> – preliminary plans, working drawings, construction, and equipment – $19,253,000 funded from federal grant funds ($12,545,000), campus funds ($5 million), and external financing supported by State General Fund appropriations under the provisions of Section 92493 et seq. of the California Education Code ($1,708,000).

To: San Francisco: <u>Hunters Point Research Support Facility Upgrades</u> – preliminary plans, working drawings, construction, and equipment – $37.4 million funded from gift funds ($15,364,000), federal grant funds ($14,652,000), campus funds ($5,636,000), external financing supported by State General Fund appropriations under the provisions of Section 92493 et seq. of the California Education Code ($1,708,000), and University Funds ($40,000).

B. The Regents approve the amended scope to increase the mechanical equipment; replace research support equipment; provide additional improvements to mechanical, electrical, and plumbing systems to support additional equipment; and implement accessibility and security improvements.

C. The Regents determine that the Hunters Point Research Support Facility Upgrades project, as amended, is exempt pursuant to the California Environmental Quality Act.

D. The Regents approve the amended design of the Hunters Point Research Support Facility Upgrades project, San Francisco campus.

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

Chancellor Hawgood explained that this item requested augmentation of funds to complete a renovation and an addition of scope on the relatively small, 22,000-square-foot animal care facility in the San Francisco Hunters Point area. The site was originally owned by the U.S. Navy and transferred to UCSF in 1976. Since that time, it has been used exclusively to support the prion-based pre-clinical work done by UCSF Professor Stanley Prusiner, who won the Nobel Prize in Physiology or Medicine in 1997 for his prion investigations. It would be UCSF's preference to close this facility and bring the animals into one of the other UCSF vivaria, but due to the nature of the infectious prions, this facility could not be shared.

Committee Chair Cohen noted that the budget for this project had doubled over time. He asked if UCSF had reviewed the item and was convinced that the project was worth the proposed cost. Chancellor Hawgood responded that UCSF had proposed and withdrawn this project twice in the past in order to try to keep it under the original budget. About $5 million of the augmentation was an increase in scope to accommodate a positron emission tomography/magnetic resonance imaging (PET/MRI) scanner for small animals and about $12 million was due to bids. This was a complex project that would have to be staged and was unattractive to contractors to bid. The campus had been fortunate in receiving an additional $5 million in federal funds and more than $12 million in a gift to finish the project.

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, Pérez, Robinson, Sherman, and Sures voting "aye."

4. **BUDGET; SCOPE AMENDMENT; EXTERNAL, STANDBY, AND INTERIM FINANCING; AND DESIGN AMENDMENT FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE UC MERCED MEDICAL EDUCATION BUILDING ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, UC MERCED MEDICAL EDUCATION BUILDING, MERCED CAMPUS**

The President of the University recommended that:

A. The 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Merced: <u>UC Merced Medical Education Building</u> – preliminary plans and working drawings for the entire project and construction for Site and Make Ready – $49.3 million to be funded from external financing supported by State General Fund appropriations ($45.1 million) and campus funds ($4.2 million).

To: Merced: <u>UC Merced Medical Education Building</u> – preliminary plans, working drawings, design, construction, and equipment – $300 million to be funded from external financing supported by State General Fund appropriations ($243 million), gift funds ($44.8 million) and campus funds ($12.2 million).

B. The amended scope of the UC Merced Medical Education Building project be approved. The project shall provide approximately 203,500 gross square feet (gsf) (101,500 total assignable square feet (asf)) comprised of instructional space (18,900 asf), medical education space (25,900 asf), research space (22,800 asf), community engaged research space (10,300 asf), academic and staff support office spaces (11,200 asf), other support and shared spaces to support occupants (7,400 asf), graduate student space (2,100 asf), and building support space (2,900 asf). The project includes approximately 159,100 gsf of finished space, 44,500 gsf of shell space, and 3,300 gsf of useable roof space. The project includes an approximately 60-stall surface parking lot necessary for the community guests involved in medical education, research, and the allied department participants.

C. The President shall be authorized to obtain additional external financing in an amount not to exceed \$193.7 million for a total amount not to exceed \$243 million plus related interest expense and additional related financing costs to finance the UC Merced Medical Education Building. The President shall require that:

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

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

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

D. Standby financing in an amount not to exceed \$5 million plus related interest expense and additional related financing costs be approved to finance the UC Merced Medical Education Building. The Merced 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 Merced 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.

E. Interim financing in an amount not to exceed \$39.8 million plus related interest expense and additional related financing costs be approved to finance the UC Merced Medical Education Building. The Merced 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 seven years from the initial draw, the interim financing will be converted to long-term external financing, or the Merced campus will pay down the interim financing.

(4) As long as the debt is outstanding, the general revenues of the Merced 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.

F. Following review and consideration of the environmental consequences of the UC Merced Medical Education Building project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 48 hours in advance of the beginning of 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 UC Merced Medical Education Building project, having considered the UC Merced 2009 Long Range Development Plan Environmental Impact Report (LRDP EIR), 2020 LRDP EIR, the UC Merced Medical Education Building EIR, and Addendum No. 2 to the UC Merced Medical Education Building EIR.

(2) Make a condition of approval the implementation of applicable Mitigation Measures and Continuing Best Practices as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the UC Merced Medical Education Building Project EIR.

(3) Approve the amended design of the UC Merced Medical Education Building project, Merced campus.

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

Chancellor Muñoz began the presentation by referring to a February 2022 San Joaquin Valley Public Health Consortium analysis of health equity in the San Joaquin Valley, which found that San Joaquin Valley residents not only had shorter lifespans than residents of other parts of California, but also lower quality of life and less access to necessary and important resources and opportunities. UC Merced and the surrounding communities hoped to mitigate these disparities by launching a new undergraduate and graduate program between UC Merced, UC San Francisco, and UCSF Fresno. The UC Merced Medical Education Building would house medical education and allied healthcare programs and their associated instructional facilities, two allied departments, Psychological Sciences and Public Health, as well as the Health Sciences Research Institute and general assignment classrooms.

Chancellor Muñoz enumerated earlier approvals by the Regents for this project and the State support that had been made available. Two fundamental planning assumptions for the original project scope and budget had changed. The size of the approved building program had increased from 181,000 gross square feet to 203,500 gross square feet. UC Merced would require the extra square footage as it builds out its program and it would be more prudent to add this space now. The increase in space was related to design and program refinements based on additional considerations and consultation with UCSF. The July 2023 construction cost estimate forecasted that the project cost could be between 30 percent and 37 percent higher than anticipated in September 2020. Unfortunately, increases like this were becoming the norm for building projects in California.

The campus wished to develop this building to provide the foundation for research and teaching in the immediate and near future and 20 years into the future. The building would provide laboratory space and additional general assignment instructional space, in response to a demand for more classrooms at UC Merced. The project budget of $300 million would be funded with $243 million of State funds and a combination of gifts and campus funds of $57 million. Factors contributing to the project cost were the increase in square footage, the historic increase in construction and commodity costs, and the location of UC Merced and the cost of bringing builders and contractors to the area. The project team had adopted a number of approaches to contain costs, and the campus hoped that this project would be completed on time and under budget. The campus and the community were excited about this project. The building was scheduled to be completed in fall 2026, allowing instruction to begin in fall 2027 for the first cohort of medical education students.

Student Observer Miguel Craven introduced himself, a UC Merced student of mechanical engineering and current President of the Associated Students of UC Merced. He stressed the importance of the Medical Education Building project both for the campus and for improving access to health care in the Central Valley over the long term. UCM students had spoken to him about their experiences of long wait times for medical services and insufficient care. This project and UCM's medical education programs would serve as encouragement for students from this region to remain in the Central Valley and have a positive impact on their community as medical professionals.

Regent Ellis echoed the comments that had been made about health disparities and inequities in the Central Valley. This project represented a giant step forward for UC Merced. Regent Ellis expressed gratitude for the philanthropic support from the community for this project, support which would continue into the future, eventually for a medical school at UCM.

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, Pérez, Reilly, Sherman, and Sures voting "aye."

5. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ADOPTION OF A MITIGATED NEGATIVE DECLARATION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, GAYLEY TOWERS REDEVELOPMENT, LOS ANGELES CAMPUS**

The President of the University recommended that:

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

From: Los Angeles: <u>Gayley Towers Redevelopment</u> – preliminary plans and working drawings – $6.2 million funded from housing reserves.

To: Los Angeles: <u>Gayley Towers Redevelopment</u> – preliminary plans, working drawings, construction, and equipment – $108 million to be funded with external financing supported by housing revenues ($43 million), external financing supported by State General Funds for the Higher Education Student Housing Grant Program ($35 million), and housing reserves ($30 million).

B. The scope of the Gayley Towers Redevelopment project be approved. The project shall provide approximately 109,850 gross square feet (gsf), including up to 545 new beds (approximately 79,900 gsf of housing) in a mid-rise (eight-story) building. The scope includes the demolition of an existing building (100 beds).

C. The President be authorized to obtain external financing in an amount not to exceed $43 million, plus additional related financing costs to finance the Gayley Towers Redevelopment. 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 from the Los Angeles 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. The President be authorized to obtain additional external financing in an amount not to exceed $35 million, plus additional related interest expense and additional financing costs to finance the Gayley Towers Redevelopment. The President shall require that:

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

(2) The primary source of repayment shall be from State General Fund appropriations. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.

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

E. Following review and consideration of the environmental consequences of the Gayley Towers Redevelopment 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 shall:

(1) Adopt the Mitigated Negative Declaration for the Gayley Towers Redevelopment project.

(2) Adopt the Mitigation Monitoring and Reporting Program prepared for the Gayley Towers Redevelopment project and make a condition of approval the implementation of all applicable programs, practices, and procedures as well as mitigation measures identified therein that are within the responsibility and jurisdiction of UCLA.

(3) Adopt the CEQA Findings for the Gayley Towers Redevelopment project.

(4) Approve the design of the Gayley Towers Redevelopment project, Los Angeles campus.

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

Committee Chair Cohen recalled that the Committee had deferred action on this item at the last meeting in September and had raised a number of questions.

Regent Pérez noted that the background material stated that the project would provide a mix of triple and double rooms. He asked about the mix being proposed. Chancellor Block responded that the campus' original intent was to provide more triples than doubles in order to accommodate as many students as possible. Following the Committee's discussion, UCLA decided to begin with more doubles than triples and to see how successful this program would be. There would be greater cost to students and there would be students unable to find housing on campus because fewer triples would be available.

Regent Pérez asked if the proportion would be 80 percent doubles and 20 percent triples. Chancellor Block responded that the campus would be able to work with this proportion.

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, Pérez, Reilly, Sherman, and Sures voting "aye."

6. **UNIVERSITY OF CALIFORNIA 2023–29 CAPITAL FINANCIAL PLAN**

The President of the University recommended that the University of California 2023–29 Capital Financial Plan be approved.

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

Executive Vice President and Chief Financial Officer Brostrom recalled that the University's Capital Financial Plan is presented to the State annually following approval by the Regents. Regents' approval of the Plan did not constitute budget approval for capital projects. All projects and acquisitions with a budget of more than $70 million are brought to the Regents for approval. The current Plan covered all identified campus and medical center capital needs for this year and the next five years through fiscal year 2028–29.

Associate Vice President David Phillips reported that, this year, the University had $30 billion in projects with identified funding, a significant increase over identified funding the prior year. There were still $46 billion in unfunded projects, but this was about $5 billion less than last year. When Regents approve projects or projects are approved through delegated authority, they are removed from the Capital Financial Plan. About 140 projects or almost $3 billion worth of projects had been approved last year. A companion piece to the Capital Financial Plan was the annual Major Capital Projects Implementation report. The current-year report showed 90 projects completed or $1.6 billion. The University had almost 400 projects actively in design or construction totaling almost $19 billion. Altogether there were about $50 billion in projects either in implementation or with funding identified. Capital projects were divided into three major categories: medical centers, auxiliary enterprises, and "education and general." Mr. Phillips presented a chart with dollar amount totals for each category. Another chart showed the same categories with their funding sources. Most funding was through external financing, but there was also State, federal, and gift funding as well as public-private partnerships, which have been especially helpful to UC's housing programs.

Mr. Brostrom pointed out that the public-private partnerships were used primarily for staff and faculty housing. There was currently tremendous dysfunction in the commercial lending market, so UC was considering the possibility of acting as its own construction lender, especially for faculty and staff housing projects.

Mr. Phillips then presented charts with summaries of project objectives for the campuses and medical centers. The largest total one-time capital needs were for the UC San Diego campus and medical center, with large projects starting during the next six years.

Mr. Brostrom recalled that the University has received support from the State of California for capital projects in several different forms over time. Until 2011, UC received general obligation bond and lease revenue bond funding, with roughly $1.5 billion to $2 billion for every five year increment since about 1990. The last general obligation bond was in 2006 and the last lease revenue bond was in 2011. In the following decade, the University issued bonds using the Assembly Bill (AB) 94 mechanism, a new funding mechanism that enables UC to pledge a portion of its State appropriation to fund capital projects. The largest tranche of AB 94 funding, $660 million in 2016–17, was used to fund the Merced 2020 project. In the last several years, UC had also received direct appropriations from the State, which included the Higher Education Student Housing Grant Program. The State had also authorized a zero percent revolving loan fund for student housing. The University was working with the State on developing this program, which would help UC with access to capital to ensure the affordability of housing units once they are built.

Regent Makarechian requested clarification of what the Regents would be approving with this item and about the dollar amount thresholds that determine projects as well as real estate transactions requiring Regents' approval. He referred to a chart in the Plan document, "UC Davis Health Capital Need with Funding," which listed a real estate acquisition that the Regents had rejected earlier in the closed session meeting. Mr. Brostrom confirmed that this proposed acquisition would not move forward. In response to Regent Makarechian's first question, he explained that the Capital Financial Plan would move forward to the State; it would inform UC's request to the State and a potential general obligation bond issue. Authority for capital projects with budgets below $70 million was delegated to the President and then to the Executive Vice President and Chief Financial Officer, but if augmentations bring them above that amount, they must be brought back to the Regents for approval. Authority for real estate transactions under $70 million had been delegated, but based on feedback from Regents, this threshold might be lowered.

Regent Ellis requested that, in the future, capital project plans and reports include information on accessibility for students with disabilities, beyond mere compliance with the Americans with Disabilities Act, and how this is related to UC's overall capital strategies. Mr. Phillips responded that accessibility upgrades were currently included in the life safety category, but additional information could be included in the Capital Financial Plan next year. Regent Ellis noted that this would indicate clearly that the University was aware of and addressing these issues. Mr. Brostrom added that UC's Integrated Capital Asset Management Program included a relevant component in the infrastructure category for path of travel and other accessibility issues.

Regent Sherman asked if the University was eligible for federal funding in this area, such as infrastructure funding. Mr. Brostrom responded that the National Laboratories were funded by the U.S. Department of Energy. The University also used federal funding as a source of repayment for debt service, such as through indirect cost recovery. The most exciting opportunity at the moment was the Inflation Reduction Act of 2022, which provided many incentives for energy efficiency that might fund from 20 percent to 40 percent of new UC construction. The Office of the President was working with the campuses and medical centers on leveraging these funds, which came not through tax credits but through direct rebates, which was much preferable.

Regent Sherman asked if UC could receive this funding for upgrades to its utility plants. Mr. Brostrom responded that this funding might be applied to utility plants, electrification of buildings, and even to energy efficiency elements of buildings. The University would try to secure as much of this funding as possible.

Regent Tesfai asked how the "education and general" category of capital projects would be funded. Mr. Brostrom responded that there was a mix of different sources of funding for this category. The Merced and Riverside campuses had projects for expansion and increasing enrollment that were funded directly by the State. The University did not have a ready source for funding these projects. Enrollment growth produced additional funds, but these might be spent for deferred maintenance and seismic safety improvements. This category was the most challenging for UC and accounted for the largest portion of the University's capital funding request to the State.

Regent Tesfai referred to the possible issuance of a general obligation bond, mentioned earlier. He asked if this was being actively discussed. Mr. Brostrom responded that State Senator Steve Glazer had introduced a bill that would authorize the issuance of State general obligation bonds for the November 2024 ballot. Assemblymember Al Muratsuchi had also introduced a bill for an education facilities bond. These bills would have to be combined at some point. Mr. Brostrom hoped that the California State University and UC would be included in what had usually been a K–14 general obligation bond. These bills would be moving through the Legislature in the coming session. Mr. Phillips added that, as part of UC's overall budget, there was a one-time capital funding request to the State of $1.2 billion, which would cover many "education and general" capital projects.

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

7. **UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2023**

The President of the University recommended that the Regents adopt the 2022–23 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers.

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

Executive Vice President and Chief Financial Officer Brostrom briefly introduced the item.

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

8. **ANNUAL ACTUARIAL VALUATION OF THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT PROGRAM**

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

Executive Vice President and Chief Operating Officer Nava introduced the discussion, recalling that the University's retiree health benefit program was administered as a pay-as-you-go program. Actual cash costs for the past year were $361 million, $2 million higher than expected. Projected costs for 2023–24 were $388 million. UC's contribution for fiscal year 2023–24 was projected to increase by 7.7 percent, due to a combination of higher medical premium rates and an increase in the number of covered retirees. Ms. Nava noted that UC retiree health benefits were not accrued or vested benefit entitlements and could be changed by the University at any time. The program's liability as of July 1, 2023 was $22 billion.

Regent Makarechian asked about the reason for the increase in the program's liability. Ms. Nava responded that a number of factors accounted for this. One was the passage of time. As more UC employees retire, retiree health expenses increase. Another factor was higher-than-expected health benefit premium increases. Other factors were changes in the actuarial assumptions for the UC Retirement Plan, such as mortality rates, based on the most recent experience study and approved by the Regents, which flowed through and affected this program, and changes in healthcare cost trend assumptions.

Regent Makarechian referred to the increase in premium costs and asked if the University could control this factor through the use of the UC Health system. Ms. Nava responded that this was an important element of program management. UC works actively with UC Health providers and health plan partners to try to manage these cost increases. There were significant increases this year in part due to delayed care following the COVID-19 pandemic and specialty drug cost increases. The University was not the only employer that experienced these increases this year.

Regent Makarechian suggested that there be further discussions by this or another Regents' committee on how the University could address high premium costs, given that UC is a healthcare provider itself. Ms. Nava responded that the healthcare provider network was complex. This topic could be explored further with the Regents at future meetings. Executive Vice President and Chief Financial Officer Brostrom concurred that UC must undertake a comprehensive review of all its benefits in order to ensure that it can provide high-quality benefits in a cost-effective and controlled way.

Regent Makarechian asked if the University had a plan and a timetable for accomplishing this. Ms. Nava responded that the University was actively managing these costs and doing everything possible to control them.

Regent Sherman observed that the program's actual cash costs increased less than the liability and asked about the projection of annual cash costs over the next five to ten years. Mr. Brostrom referred to a chart in the background material showing projected pay-as-you-go cash costs through 2033. There would be a substantial increase based on the number of retirees; a large percentage of the UC employee population was expected to retire during this time. Another factor was the medical trend rate. The cash costs would more than double over the next ten years, a seven percent compounded annual growth rate.

Committee Chair Cohen asked if this projected increase presumed that UC would succeed in keeping premiums at 6.5 percent. Mr. Brostrom responded that the University wished to keep premiums below this level, with a goal of four percent; the assumption in the chart was 6.5 percent.

9. **ANNUAL ACTUARIAL VALUATIONS FOR THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND ITS SEGMENTS AND FOR THE 1991 UNIVERSITY OF CALIFORNIA-PUBLIC EMPLOYEES' RETIREMENT SYSTEM VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM**

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

Executive Vice President and Chief Operating Officer Nava presented highlights of the July 1, 2023 UC Retirement Plan (UCRP) valuation, performed by Segal. The market value of assets reflected a net investment return for 2022–23 of approximately 9.5 percent. The actuarial value of assets, incorporating five-year actuarial asset smoothing, reflected a net return of approximately 6.1 percent and recognized investment losses from prior years. The "smoothed" return was a key factor in changes and many of the results in this valuation.

The funded ratio of the UCRP was now 80.1 percent on a market value basis compared to 79.2 percent the prior year. On an actuarial value basis, the UCRP was funded at 81.8 percent, a decrease from 83.5 percent the past July. UCRP assets were $88 billion on a market value basis and $90 billion on an actuarial basis. This included a $500 million transfer from the Short Term Investment Pool (STIP) in 2022–23. The actuarial accrued liability for all Plan members as of the valuation date grew to $110 billion, which resulted in an unfunded liability of $20 billion, an increase of $3 billion over the prior year. The employer contribution rate to UCRP was currently 14 percent absent any action by the Regents and was scheduled to increase to 15 percent in July 2024. Subsequently it would increase by one-half percent each year until it reached 17 percent of payroll. The final STIP transfer, previously authorized, was made in July 2023.

Regent Makarechian referred to the Segal report and its price inflation assumption of 2.5 percent and cost of living adjustment (COLA) assumption of two percent. He asked about the effect of changing these assumptions and numbers. Segal representative Paul Angelo responded that, as long as the inflation assumption was between two percent and four percent, the COLA assumption would be two percent. He recalled that the experience study had been discussed with the Regents at the July meeting. Segal believed that the long-term price inflation assumption of 2.5 percent was still a valid target. This assumption was a component in investment returns and salary increases but it had a lesser effect on the COLA because of the way the COLA was designed.

10. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – PROPOSAL TO AUTHORIZE CHANGES TO UNIVERSITY CONTRIBUTION RATES AND MAKE ADDITIONAL CONTRIBUTIONS THROUGH TRANSFERS FROM THE SHORT TERM INVESTMENT POOL**

The President of the University recommended that:

A. The University contribution rate on behalf of active members in the Campus and Medical Centers and Lawrence Berkeley National Laboratory segments of the University of California Retirement Plan (UCRP) and on behalf of active participants in "Savings Choice" be increased based on the following schedule:

Effective Date	University Contribution Rate to UCRP	
	UCRP Active Members	Savings Choice "UAAL Surcharge"[2]
July 1, 2023	14.0%	6.0%
July 1, 2024	14.5%	6.5%
July 1, 2025	15.0%	7.0%
July 1, 2026	15.5%	7.5%
July 1, 2027	16.0%	8.0%
July 1, 2028	16.5%	8.5%
July 1, 2029	17.0%	9.0%
July 1, 2030	17.5%	9.5%
July 1, 2031 and later	18.0%	10.0%

B. The Regents' July 2017 action, *Authorization to Increase the University Employer Contribution Rate and Make Additional Contributions to the University of California Retirement Plan*, be amended by adding Sections P, Q, R, and S as follows:

Additions shown by underscoring

P. <u>Transfer funds from the Short Term Investment Pool (STIP) to UCRP in FY 2024-25 through FY 2028-29 in amounts shown in the table below each year.</u>

2 The "UAAL Surcharge" is the employer contribution to UCRP on behalf of active employees who elected "Savings Choice" as their primary retirement benefit and are current participants in the Defined Contribution Plan. The UAAL Surcharge pays down UCRP's unfunded actuarial accrued liability (UAAL).

Fiscal Year	Transfer Amount
2024-25	$800,000,000
2025-26	$700,000,000
2026-27	$550,000,000
2027-28	$550,000,000
2028-29	$400,000,000

Should STIP have insufficient funds, funds will be transferred from the Total Return Investment Portfolio (TRIP) to STIP. These transfers shall satisfy the requirements below:

a. Maintenance of rating agency STIP and TRIP liquidity requirements at all times.

b. The creation of an internal note receivable ("STIP Note") for the amounts above, owned by STIP participants.

c. The ability to set the repayment terms on the STIP Note, which will have a final maturity no later than FY 2041-42.

d. Assessment of all University fund sources making UCRP payments to include an additional amount for principal and interest payments on the STIP Note, divided proportionally based on covered compensation.

e. For funding sources, such as federal contracts and grants, where interest payments for the STIP Note are not billable as direct program costs, the campuses will be required to pay these charges using non-federal sources.

Q. Obtain external financing not to exceed $3 billion, plus additional related financing costs in lieu of or in addition to the STIP transfers, for the purpose described above in Section P if it is expected that this option could be accomplished at a lower cost or is more practical for the University. The repayment of external financing is anticipated to be from the same University fund sources that would be responsible for making payments on the STIP Note as outlined above.

R. For Sections P and Q above, the total amount of the STIP transfers and external financing shall not exceed $3 billion plus additional related financing costs.

S. Take all actions and execute all documents necessary or appropriate in connection with Sections P through R 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.]

Executive Vice President and Chief Operating Officer Nava recalled that, at the July meeting, the Regents requested that two key pension-related concerns be discussed at this meeting. The first was the sufficiency of contributions to the UC Retirement Plan (UCRP). This item included various models to illustrate the impact of increased contributions, based on actions the University could take. The second issue was member pension contribution equity, with some Regents indicating that they were interested in exploring a contribution of 50 percent of the normal cost by both employer and employee. Another issue concerned the 1976 tier members and benefits in light of the contribution holiday that lasted from 1990 through 2010. The President's recommendation in this item addressed the need to achieve full funding of the UCRP within a reasonable time frame, was in alignment with the Regents' request to attain sufficient contributions to the UCRP, and addressed important concerns raised during the consultative process. The item sought authorization for the President to increase the employer contribution rate to UCRP from 14 percent to 18 percent by 0.5 percent per year over the next eight years. The item would also authorize five years of additional step borrowing from the Short Term Investment Pool (STIP). These actions were projected to bring the UCRP to a fully funded status by 2048.

Actuarial Services Manager John Monroe presented a chart with the current schedule of employer contribution rates. The current employer contribution rate to the UCRP was 14 percent of pay and was scheduled to increase to 17 percent of pay by 2029–30. The chart also showed the unfunded actuarial accrued liability surcharge rate, a contribution by the University to the UCRP for members in the Savings Choice plan. This rate was currently six percent and would increase in the same increments as the employer contribution rate.

The University had transferred $500 million from STIP to UCRP in July 2023. Mr. Monroe explained that STIP was a cash investment pool available to the campuses, who can maximize returns on their short-term cash balances by investing in a larger pool of assets. There was currently about $4 billion in STIP. Cumulatively, over time, there had been approximately $7 billion in transfers from STIP to UCRP. These transfers had increased the UCRP funding ratio by about 12 percent and reduced the unfunded liability by about $12 billion. Funds transferred from STIP to UCRP have an immediate impact on improving the funding status of the UCRP. STIP transfers were repaid via campus assessments as a percent of payroll, currently 2.32 percent. This was paid in addition to the employer contribution rate. These transfers earned potentially higher returns in UCRP compared to the lower interest rate on STIP repayment.

Regarding the question of pension contribution equity, Mr. Monroe presented a chart with current member contribution rates by pension tier. The chart included figures for the member contribution rates as a percentage of payroll, the normal cost as a percentage of payroll, and the percentage of normal cost contributed by members. The current member contribution rates as a percentage of payroll varied by tier and ranged from seven percent to nine percent. The normal cost was the cost allocated per year of service for active members or the amount that, if paid, would fund their UCRP benefits. The normal cost as a percentage of payroll also varied by tier and was about 20 percent of pay on average. The percentage of normal cost contributed by members was about 40 percent on average, with the exception of Safety members, whose contribution was around 30 percent. Mr. Monroe noted that the Safety member tier was much smaller, with only a few hundred members.

The next chart showed the projected total funding policy contribution broken down into components over the next ten years if all assumptions were met. This was a baseline projection and did not reflect the proposed action in this item. The total funding policy contribution for each year consisted of the normal cost plus an amount to amortize the unfunded liability. The normal cost would decrease slightly over time as members retired from the 1976 tier and were replaced by new hires in the newer tiers which had a lower normal cost. The amounts above the normal cost, which were payments toward the unfunded liability under the funding policy, consisted of an interest component and a component to pay down principal or the balance of the unfunded liability. The chart also identified the normal cost plus the interest payment only on the unfunded liability. This amount is also referred to as the modified actuarially determined contribution. If contributions did not meet this amount, the unfunded liability would increase each year, and currently, the total of the approved contributions did not quite reach this amount. Mr. Monroe enumerated the approved contributions: member contributions, employer contributions, the unfunded liability surcharge paid by the employer on behalf of members in the Savings Choice plan, and a STIP transfer. The chart indicated that in ten years, there would be a shortfall to the total funding policy contribution of about $1.7 billion.

Mr. Monroe then discussed new scenarios that had been modeled, based on the July 1, 2023 valuation of the UCRP. The scenarios assumed a 6.75 percent return each year in the future. Under the scenarios, the employer rate would increase effective July 1, 2024 and the member rate would increase effective July 1, 2025. The President's recommendation was to increase the employer contribution rate from 14 percent of payroll to 18 percent of payroll by 0.5 percent per year over eight years. A 0.5 percent increase in the employer contribution rate would amount to about $80 million per year, based on the current payroll. There would be five years of STIP transfers, totaling about $3 billion. There would be no changes to member contribution rates under the President's recommendation.

Requested Scenario One was the same as the President's recommendation but also included an increase in member contribution rates by one percent of payroll over four years, with 0.25 percent increments over four years. Requested Scenario Two would accelerate the increase in the employer contribution rate from 14 percent to 18 percent of pay over four years instead of eight years and would increase the member contribution rate to 50 percent of normal cost over two years.

The following chart compared member contribution rates for the various tiers under the President's recommendation and under Requested Scenarios One and Two. Under Requested Scenario One, the contribution as a percentage of the total normal cost would move to the mid-40s range, while under Requested Scenario Two this would meet the total of 50 percent of normal cost. The increases for most tiers would be about 2.5 percent of payroll, and the largest increase would be for Safety members. Mr. Monroe recalled that any changes to member contribution rates were subject to collective bargaining for represented employees.

Segal representative Paul Angelo presented a chart showing projected UCRP contribution amounts under the President's recommendation. The funding policy shortfalls would be significantly reduced under this recommendation. The funding shortfall at the end of the ten-year period would be $1.1 billion, as opposed to the $1.7 billion in the baseline projection, due in part to the proposed STIP transfers and increased employer contributions. Under Requested Scenario One, the shortfall in the last year would be reduced from $1.1 billion to roughly $800 million. Under Requested Scenario Two, the funding shortfall would be further reduced to about $400 million by the end of the ten-year projection.

The next chart illustrated the effects of the baseline scenario, the President's recommendation, and Requested Scenarios One and Two on the UCRP unfunded actuarial accrued liability through 2051. Under the baseline scenario, the unfunded liability would increase in the coming years before decreasing, and the UCRP would not achieve 100 percent funding by 2051. Under the President's recommendation, the UCRP would reach full funding in 2048. Under Requested Scenario One, the UCRP would reach full funding about three years earlier, while Requested Scenario Two would accelerate the path to full funding by another three years. The following chart showed the projected UCRP funded ratio under the same four scenarios. Under the baseline scenario, the funded ratio would not reach 100 percent until 2056. Under the President's recommendation, the ratio would reach 100 percent in 2048. Requested Scenario One would reach this target in 2045 and Requested Scenario Two around 2043.

Finally, Mr. Angelo presented a chart which summarized much of this information, showing the number of years needed to reach 95 percent and 100 percent funding under the different scenarios, and the years needed to reach the modified actuarially determined contribution and to reach the total funding policy contribution. The President's recommendation and the Requested Scenarios would accelerate the attainment of these goals.

Regent Makarechian referred to the baseline scenario. He did not believe that borrowing money from STIP was a solution for UCRP funding; he stated that the University and its employees should contribute more to the UCRP. If employees contributed more, the University would also have to increase their salaries. Not increasing the employer and employee contributions was simply deferring the problem. The funds borrowed from STIP were needed by the campuses for building projects. The University should approach the Governor for State funding to address the UCRP unfunded liability. Mr. Brostrom expressed disagreement with Regent Makarechian regarding STIP transfers and asserted that they had been tremendously effective, increasing the UCRP funded ratio by 12 percent. This was also part of a broader strategy of moving funds from STIP, which provided the lowest returns, to the UCRP and to the Blue and Gold Pool. The Office of the Chief Investment Officer was currently in the process of moving $4 billion from STIP and the

Total Return Investment Pool (TRIP) into the Blue and Gold Pool because this would provide additional discretionary revenues for the campuses. The University was always working to ensure that it met the liquidity needs of the campuses and medical centers. The largest constraint on this effort had been the rating agencies, and the University had reached a satisfactory agreement with them about the amount to be held in STIP. It would be desirable to move funds above that amount into the endowment or the UCRP. The President's recommendation in this item in fact included Regent Makarechian's recommendation by increasing the employer contribution from 14 percent to 18 percent, a sizable increase, with STIP borrowing and without an increase in member contributions. Under the President's recommendation, UCRP would reach full funding in 25 years and the modified actuarially determined contribution within seven years. In Mr. Brostrom's view, this was a comprehensive strategy of the kind that Regent Makarechian was seeking.

Regent Makarechian observed that, if the STIP funds that would be borrowed were not required for the campuses, the funds did not have to remain in STIP and could be moved to TRIP, where they would earn greater returns. Mr. Brostrom responded that the University was moving the funds. UCRP earned greater returns than TRIP, and the endowment earned more than the UCRP. Funds were being moved into the endowment and into UCRP.

Regent Sherman asked how the increased employer contribution to the UCRP would affect the University's overall budget, given that payroll was a significant portion of the overall budget. Mr. Brostrom responded that covered compensation this year amounted to about \$16 billion. Every increase of 0.5 percent would equate to \$80 million. Mr. Brostrom stated his preference for making this increase gradually, rather than over four years.

Regent Sherman asked what the appropriate denominator would be, or the figure that \$80 million would be divided by. Mr. Brostrom responded that UC's overall budget was currently nearly \$50 billion.

Committee Chair Cohen asked how much this burden taken on by UC as the employer would contribute to the future budget deficit, and in dollar amounts. Mr. Brostrom responded that of an increase of \$80 million, one-third or about \$27 million would affect UC's core funds. There would also be some growth in employees.

Committee Chair Cohen restated this as the fact that, of the deficit, \$27 million was due to the increase in the employer contribution. Mr. Brostrom confirmed that this was the case. In general, compensation was the most significant factor in the UC deficit.

Regent Sherman stressed that the public should understand that the University was not proposing an increase to employee contributions in this item.

Regent Pérez asked why the University providing an offsetting wage increase along with an increase in the employee contribution would be different than having the entirety of the increase in the form of an employer contribution. There would be continuing discussions in the future about appropriate contribution rates. The University had taken a long pension contribution holiday and was still working to recover from its effects. An offsetting wage increase to make up for the employee contribution would reset the conversation about the cost of the pension plan and about its beneficiaries. Statements made earlier that day in the public comment period to the effect that increases to the employee contribution were effectively a cut in pay were correct. Introducing both an increased contribution and an offsetting increase would create a space in which to discuss the total economics of compensation and the tradeoffs between wages and maintaining the University's commitment to benefits. These would be difficult and necessary conversations with employees and bargaining units. Speakers in the public comment period expressed concern about paying increased contributions, but also about the fact that there had not been adequate discussion with stakeholders to vet these questions. The discussion of this item should be structured in a significantly different way in order to ensure long-term pension security.

Committee Chair Cohen observed that the California Public Employees' Pension Reform Act (PEPRA) had set a standard of contributing 50 percent of the normal cost for every public employee in California; UC was the one exception to this. He stated that he could not support the recommendation.

Regent Ellis expressed opposition to increasing the employee contribution without addressing inequity for lower-wage employees. If the Governor and the Legislature were able to contribute more to the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), the University needed to receive its proportionate share as well. Regent Ellis acknowledged that this was uncertain, given the economic situation in the next several years. He expressed support for the recommendation but stated that UC must address inequity on the lower end of the salary scales, for UC's lowest-paid employees.

Staff Advisor Emiru voiced his support for the recommendation with no UCRP member contribution increases. He urged the University to consider how an increase in the member contribution would affect staff morale and UC's ability to retain employees and fill 5,000 current vacancies. One should consider not just the financial health of the institution but also UC's ability to become an employer of choice.

Regent Reilly asked why the University would not institute a member contribution increase and offset this with a wage increase. Mr. Brostrom responded that this would increase the deficit, adding the same dollar amount as the employer contribution increase.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Drake, Reilly, Sherman, and Sures voting "aye," Regents Cohen, Elliott, and Makarechian abstaining, and Regent Pérez voting "no."

11. **UNIVERSITY OF CALIFORNIA 2024–25 BUDGET FOR CURRENT OPERATIONS AND STATE REQUEST FOR CAPITAL PROJECTS**

The President of the University recommended that the Regents approve the following items:

A. The proposed budget plan shown in Attachment 1, *University of California 2024–25 Budget Plan for Current Operations*.

B. A request for one-time State funding of $1.2 billion in 2024–25 for capital projects to support facilities renewal, enrollment growth, and clean energy.

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

President Drake began the discussion of the University's 2024–25 budget plan for current operations by remarking that UC budgets reflected UC's institutional values. This budget proposal was closely aligned with the needs of the State of California and more specifically, with a multi-year Compact between the University and Governor Newsom. The University was committed to continuing to grow California resident undergraduate enrollment and graduate student enrollment and to making steady progress in areas such as student success and equity, affordability, intersegmental collaboration, workforce preparedness, and expanding access to online courses. President Drake thanked Governor Newsom and the Legislature for their steadfast support for the University even in the face of economic uncertainty, which had allowed UC to continue on a trajectory of enrollment and research expansion while ensuring that this growth was sustainable and in line with California's needs. This budget proposal included a salary program for policy-covered UC staff that was consistent with the staff salary programs implemented for the past two years. It would help ensure that UC salaries catch up with and eventually stay ahead of inflation and remain competitive with market rates. None of the work the University carries out every day, the recognitions it earns, and the impact it has would be possible without UC staff and faculty. The salary program aimed to recognize their contributions and to help address the ongoing economic pressures that UC employees were facing.

Executive Vice President and Chief Financial Officer Brostrom provided an update on enrollment. The University now had final data for 2022–23 from the campuses. California resident undergraduate enrollment grew by 1,250 full-time equivalents (FTE), far more than the initial growth estimate of 113 FTE. A decline in transfer enrollment was still a matter of concern. There had been a decline of about 20 percent in enrollment at the California Community Colleges between fall 2019 and fall 2021. This translated into an approximately five percent decline in UC transfer student enrollment. The University needed to focus more resources on a number of existing programs and new programs in order to reverse this trend.

Regarding 2023–24 estimated enrollment, based on preliminary estimates, UC expected to enroll more California resident undergraduates this fall than at any point in the University's history. UC anticipated growth of about 4,600 additional students in fall 2023 compared to fall 2022. This was based on three main factors. There was a modest increase of 536 FTE in summer enrollment in summer 2023 compared to summer 2022; there was more undergraduate enrollment in general; and there were early signs of improvement in unit taking and retention. This last point had been a matter of concern following the COVID-19 pandemic. Early indications from the Berkeley, Merced, and Santa Barbara campuses showed increases in the average number of courses taken by students and increased retention rates. Campuses based on the quarter system would have more updated estimates for these important benchmarks later in the year.

Under the University's Compact with Governor Newsom, UC was expected to grow by 2,000 undergraduate FTE each year through 2026–27. The Legislature had added resources and expectations for additional enrollment growth, including growth attributable to replacing undergraduate non-resident students with California residents. The University estimated growth in resident undergraduate enrollment of 16,642 students through 2026–27.

Interim Associate Vice President Cain Diaz explained that the budget plan was divided into three main elements. First, the expenditure components of the budget reflected ongoing investments in four broad categories: sustaining core operations, enrollment growth, student financial aid, and additional high-priority investments. The "sustaining core operations" category captured the expected cost increases in the upcoming year. As for most research universities, the greatest part of these increases was associated with compensation and benefits for faculty and staff. The budget plan also reflected enrollment growth expectations consistent with the Compact, as mentioned earlier, with a focus primarily on California resident undergraduates and students in UC graduate programs. Student financial aid remained a priority, including new resources to provide more students with a debt-free pathway toward a UC degree. As additional high-priority investments, the budget plan included a request for State support for three new health sciences programs, DDS-ASPIRE, PRIME-Rx, and Vet SERVE, which were modeled after the UC Programs in Medical Education (UC PRIME) and were intended to help graduates better meet the needs of historically underserved populations, consistent with the Compact.

The second main element of the plan was revenue and cost-saving components, which reflected ongoing support expected to be generated to support the University. The third element was a request for $1.2 billion in one-time funds to address the campuses' highest-priority projects related to facilities renewal, enrollment growth, and clean energy, all of which were permitted under the Compact and were beyond the University's five percent base budget adjustment.

A nearly $500 million increase in expenditures would be necessary to sustain core operations. Most of this increase was related to compensation and benefits for active employees and retirees. Some of these cost increases were effectively mandatory, like the faculty merit program and existing collective bargaining agreements. Mr. Diaz noted that the cost associated with new contracts with represented academic employees was a significant component of the budget and much higher than in prior budgets. Nevertheless, salaries for policy-covered faculty and staff, those who were not covered by a collective bargaining agreement, also needed to be a priority given the extremely challenging labor market and concerns about inflation and equity. Accordingly, the budget plan included a proposed salary program of 4.2 percent for these employees.

With respect to enrollment growth, the plan included the estimated cost of enrolling an additional 2,000 California undergraduates next year along with 625 additional graduate students. The plan included $92 million in additional undergraduate and graduate student financial aid. About $13 million of this would come from enrollment growth but most would come from the return to aid on new tuition and fee revenue. With that aid, along with new federal and State resources, the University would continue to fully cover tuition and fees for over half of all California resident undergraduates. UC would also continue expanding access to a debt-free pathway for its students from low-income families, from just under 15,000 new students in 2023–24 to over 17,000 new students in 2024–25. These expenditures, combined with the additional high-priority investments in the new, UC PRIME–like programs mentioned earlier, resulted in an increase of over $650 million in new expenditures.

Regarding revenues, the plan included $105 million in new resources from the University's own efforts to achieve further savings from procurement contracts, improving the return on a portion of the University's working capital, and slightly higher non-resident enrollment at campuses where non-residents currently accounted for less than 18 percent of total enrollment. The plan included $272.6 million in new State support, consistent with the multi-year contract with the Governor. This included a five percent base budget adjustment, new funding to enroll California resident undergraduates in lieu of non-residents at three campuses, and funding for the graduate health sciences programs mentioned earlier. Lastly, the plan included $205 million in total new tuition and fee revenues from enrollment growth and the University's Tuition Stability Plan. Of that amount, about $117 million would support campus operations and $88 million would be used to enhance the University's financial aid programs.

The plan acknowledged that the total proposed change in expenditures exceeded the total identified new resources by about $70 million. What this meant in practice was that the University would need to take further steps to control costs, to focus its limited resources on activities most directly related to its highest-priority needs, and to continue to develop alternative revenue sources to close the remaining gap over time.

Mr. Brostrom noted that the third element of the plan, the $1.2 billion request to the State for high-priority capital projects, would serve not only as a request to the State but also as a springboard for a potential general obligation bond to appear on the ballot. He expressed appreciation for the State's creativity in considering not only direct appropriations and grants but also including debt service in the base budget and developing a zero percent revolving loan fund. The budget plan would inform UC's advocacy during the legislative process.

The University's budget team met frequently with the leadership of the UC Student Association (UCSA) to discuss UCSA budget priorities. Among these were full funding for the Cal Grant Equity Framework, which would support an additional 150,000 Californians who were previously excluded, expansion of Cal Grant eligibility beyond four years, and ongoing funding for disability service providers across UC campuses. The Office of the President was working with its disability task force on the last issue.

Student observer Miguel Craven expressed students' wish for an increase in disability services program funding. The UC administration should join with UCSA in advocating for this funding from the State. This funding would lead to increased student success, which was an important element of the Compact with the Governor.

Committee Chair Cohen asked about the status of the disability task force and funding. Mr. Diaz responded that $19 million was included as part of the 2023–24 budget specifically for funding for students with disabilities. The task force had provided recommendations for the allocation of these resources to the campuses. The methodology for distributing these funds to the campuses would consider the number of students with disabilities at each campus but would also provide a portion of baseline support funding, acknowledging that there was likely a standard level of need for all the locations. The Office of the President was prepared to distribute this funding in the next month. Mr. Brostrom added that Mr. Diaz and his team worked with campus administrators on accurate calculations of campus spending on disability services before the $19 million budget allocation. This amount was approximately $24 million in programmatic funding, and not capital project funding. Mr. Brostrom and Mr. Diaz stated that more details could be provided.

Committee Chair Cohen recalled that the $19 million was one-time funding. He asked if UC would continue this as an allocation in the following year. Mr. Brostrom responded that part of this funding was one-time funding, while $3 million was ongoing funding. The remainder was $8 million, with campus matching funds. The University would analyze costs, develop a funding methodology, and work with the students on advocacy.

Regent-designate Beharry urged the University to remain cognizant of staff burnout that might occur as student enrollment increased, due to understaffing and lack of sufficient resources, and cognizant of the need to provide housing for increased numbers of students. Mr. Brostrom responded that the University was projecting an increase of 20,000 more dormitory beds but would be adding more than 15,000 students during this period. UC was projecting rates of growth in staff below the rates of growth of student enrollment. This was the current budgetary reality. He expressed appreciation for Regent-designate Beharry's concerns.

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

12. **REPORT OF BUDGET TO ACTUAL EXPENDITURES FOR FISCAL YEAR 2022–23 FOR THE OFFICE OF THE PRESIDENT AND FIRST QUARTER FISCAL YEAR 2023–24 RESULTS**

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

Committee Chair Cohen briefly introduced this information item.

The meeting adjourned at 1:15 p.m.

Attest:

Secretary and Chief of Staff

University of California
2024-25 Budget Plan for Current Operations

Attachment 1

(dollars in millions)

2023-24 CORE FUNDS FOR CURRENT OPERATIONS

Total Core Funds (State General Funds, Student Tuition and Fees, and UC General Funds)	**$**	**10,410.7**

PROPOSED CHANGES IN EXPENDITURES

Sustaining Core Operations		
Faculty compensation: policy-covered	$	88.5
Faculty merit program	$	38.7
Staff compensation: policy-covered	$	74.5
Contractually committed compensation	$	90.3
Represented academic employees	*$*	*76.0*
Represented staff employees	*$*	*14.3*
Retirement contributions	$	104.6
Employee health benefits	$	45.7
Retiree health benefits	$	11.1
Non-salary price increases	$	45.0
Subtotal	***$***	***498.3***
Enrollment Growth		
Compact: 2,000 CA undergrad, 625 grad*	$	57.8
Subtotal	***$***	***57.8***
Student Financial Aid		
New enrollment (2,000 undergrad, 625 grad)	$	13.3
Add'l 902 aid-eligible undergrads (NR swap)	$	4.0
Tuition/Fee/NRST Adjustments	$	75.0
Subtotal	***$***	***92.3***
Additional High-Priority Investments		
DDS-ASPIRE, PRIME-Rx, Vet SERVE	$	4.3
Subtotal	***$***	***4.3***
EXPENDITURES TOTAL	**$**	**652.7**

PROPOSED CHANGES IN REVENUE / RESOURCES

Alternative Revenue Sources		
Procurement savings	$	11.2
Asset management	$	90.0
Nonresident enrollment growth (200), net	$	4.1
Subtotal	***$***	***105.3***
State General Funds		
5% Base Budget Adjustment	$	235.2
Convert 902 nonresident to resident slots		
Offset lost nonresident tuition revenue	$	29.1
Aid for add'l 902 eligible undergrads	$	4.0
DDS-ASPIRE, PRIME-Rx, Vet SERVE	$	4.3
Subtotal	***$***	***272.6***
Tuition and Fees		
For campus operations		
Enrollment growth (net of aid)	$	29.8
Nonresident tuition reduction from swap	$	(29.1)
Tuition/Fee Adjustment (net of aid)	$	79.1
Nonresident tuition adjustment (net of aid)	$	36.8
For student financial aid		
From enrollment growth	$	13.3
From Tuition/Fee/NRST adjustments	$	75.0
Subtotal	***$***	***204.9***
REVENUE / RESOURCES TOTAL	**$**	**582.8**
Add'l cost savings/revenues required	**$**	**69.9**

ADDITIONAL REQUEST FOR ONE-TIME STATE FUNDS

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

Figures may not sum to totals due to rounding.

** Does not include additional CA undergraduate growth beyond the level in the Compact, which would be funded from the University's 2023-24 State appropriation together with students' tuition and fees*