The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
September 20, 2023

The Finance and Capital Strategies Committee met on the above date at the Luskin Conference Center, Los Angeles campus and by teleconference at 1200 Taraval Street, San Francisco and 106 E. Babcock Street, Bozeman, Montana.

Members present: Regents Cohen, Kounalakis, Makarechian, Matosantos, Pérez, Reilly, Robinson, Sherman, and Sures; Ex officio member Drake; Advisory member Salazar; Chancellors Gillman, Hawgood, Khosla, Larive, and May

In attendance: Regent Lee, Faculty Representative Cheung, 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, Interim Executive Vice President King, Interim Senior Vice President Reese, Chancellor Wilcox, and Recording Secretary Johns

The meeting convened at 10:30 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 July 19, 2023 were approved, Regents Cohen, Makarechian, Matosantos, Pérez, Reilly, Robinson, and Sherman voting "aye."[1]

2. **CONSENT AGENDA**

A. ***External Financing Related to the 2023 State Budget Act***

The President of the University recommended that:

(1) The 2023–24 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

a. ***UC Riverside Campus Expansion Project***

From: Riverside: Undergraduate Teaching and Learning Facility – preliminary plans– $6.8 million to be funded from State General Funds.

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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: Riverside: Undergraduate Teaching and Learning Facility – preliminary plans– $6.8 million to be funded from external financing supported by State General Funds for the UC Riverside Campus Expansion Project.

b. ***UC Berkeley Clean Energy Project***

From: Berkeley: Heathcock Hall – preliminary plans, working drawings, construction, and equipment – $150 million to be funded by gift funds ($90 million); campus funds ($30 million); and State funds ($30 million).

To: Berkeley: Heathcock Hall – preliminary plans, working drawings, construction, and equipment – $150 million to be funded by gift funds ($90 million); campus funds ($30 million); and external financing supported by State General funds for the UC Berkeley Clean Energy Project ($30 million).

c. ***UC Higher Education Student Housing Grant Program***

i. From: Santa Cruz: Kresge College Non-Academic – preliminary plans, working drawings, construction, and equipment – $429,594,000 to be funded by State funding from the Higher Education Student Housing Grant Program ($89 million), Auxiliary – Student Housing/Dining reserves ($8.5 million), Auxiliary– Student Fee Reserves (University Fee Reserves) ($1.2 million), Auxiliary – Parking reserves ($100,000), General Campus Funds ($28,666,000), external financing supported by Student Housing/Dining ($295,325,000), and external financing from Century Bonds ($6,803,000).

To: Santa Cruz: Kresge College Non-Academic – preliminary plans, working drawings, construction, and equipment – $429,594,000 to be funded by external financing supported by State General funds for the Higher Education Student Housing Grant Program ($89 million), Auxiliary – Student Housing/Dining reserves ($8.5 million), Auxiliary– Student Fee Reserves (University Fee Reserves) ($1.2 million), Auxiliary – Parking reserves ($100,000), General Campus Funds ($28,666,000), external financing supported by Student

Housing/Dining ($295,325,000), and external financing from Century Bonds ($6,803,000).

ii. From: Irvine: <u>Mesa Court Residence Hall Expansion</u> – design, construction, and equipment – $80,659,000 to be funded from Higher Education Student Housing Grant funds ($65 million), external financing ($14,779,000), and auxiliary reserves ($880,000).

To: Irvine: <u>Mesa Court Residence Hall Expansion</u> – design, construction, and equipment – $80,659,000 to be funded from external financing supported by State General funds for the Higher Education Student Housing Grant Program ($65 million), external financing ($14,779,000), and auxiliary reserves ($880,000).

iii. From: San Diego: <u>Pepper Canyon West Student Housing</u> – preliminary plans, working drawings, construction, and equipment – $385 million to be funded with external financing ($382.5 million), auxiliary-housing reserves from the Office of the President Housing Assistance Program ($1 million), and campus funds ($1.5 million).

To: San Diego: <u>Pepper Canyon West Student Housing</u> – preliminary plans, working drawings, construction, and equipment – $385 million to be funded with external financing ($282.5 million), external financing supported by State General funds for the Higher Education Student Housing Grant Program ($100 million), auxiliary-housing reserves from the Office of the President Housing Assistance Program ($1 million), and campus funds ($1.5 million).

(2) External financing be approved in an amount not to exceed $6.8 million plus related interest expense and additional related financing costs to finance the Riverside campus's Undergraduate Teaching and Learning Facility project. The following requirements shall be satisfied:

a. 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.

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

(3) External financing be approved in an amount not to exceed $30 million plus related interest expense and related financing costs to finance the Berkeley campus's Heathcock Hall project. The following requirements shall be satisfied:

a. 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.

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

(4) Additional external financing be approved in an amount not to exceed $89 million plus related interest expense and additional related financing costs to finance the Santa Cruz campus's Kresge Non-Academic project. The following requirements shall be satisfied:

a. 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.

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

(5) Additional external financing be approved in an amount not to exceed $65 million plus related interest expense and related financing costs to finance the Irvine campus's Mesa Court Residence Hall Expansion project. The following requirements shall be satisfied:

a. 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.

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

(6) The primary source of repayment of approved external financing be amended in an amount not to exceed $100 million plus related interest expense and additional related financing costs to finance the San Diego campus's Pepper Canyon West Student Housing project as follows. The following requirements shall be satisfied:

a. 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.

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

B. ***Preliminary Plans Funding, 2200 Bancroft Housing Project, Berkeley 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:

Berkeley: 2200 Bancroft Housing Project – preliminary plans – $7.06 million to be funded with campus funds.

C. ***Preliminary Plans Funding, Parnassus Central Campus Site Improvements, 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:

San Francisco: Parnassus Central Campus Site Improvements – preliminary plans – $4.1 million funded from campus funds.

D. ***Integrated Form of Agreement and Procurement Strategy, UCSF Benioff Children's Hospital Oakland New Hospital Building, San Francisco Campus***

The President of the University recommended that:

(1) The proposed Integrated Form of Agreement (IFOA) procurement methodology for the design, construction, and development of the UCSF Benioff Children's Hospital Oakland New Hospital Building project, based on selection premised upon a combination of qualifications and business terms followed by competitive negotiation, be determined to be in the best interest of the University pursuant to Section 10503(e) of the California Public Contract Code.

(2) 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.]

Committee Chair Cohen briefly introduced the item.

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

3. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE CHILDREN'S HOSPITAL AND RESEARCH CENTER OAKLAND CAMPUS MASTER PLAN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, UCSF BENIOFF CHILDREN'S HOSPITAL OAKLAND INFRASTRUCTURE IMPROVEMENTS, 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>UCSF Benioff Children's Hospital Oakland Infrastructure Improvements</u> – preliminary plans – $3 million funded from hospital reserves.

To: San Francisco: <u>UCSF Benioff Children's Hospital Oakland Infrastructure Improvements</u> – preliminary plans, working drawings, construction, and equipment – $66 million funded from external financing.

B. The scope of the UCSF Benioff Children's Hospital Oakland Infrastructure Improvements project be approved to include demolition and relocation of Pacific Gas and Electric power lines and a California Department of Transportation retaining wall, disconnection of utilities and exiting connections to the AB and BC Buildings, and renovation of space in the Outpatient Center, 5700 Martin Luther King, and 4242 Broadway locations.

C. The President of the University be authorized to obtain external financing for the UCSF Benioff Children's Hospital Oakland Infrastructure Improvements project in an amount not to exceed $66 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 UCSF Health shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

D. Following review and consideration of the environmental consequences of the proposed UCSF Benioff Children's Hospital Oakland Infrastructure 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 UCSF Benioff Children's Hospital Oakland Infrastructure Improvements project, having considered the Children's Hospital and Research Center Oakland Campus Master Plan Project Final Environmental Impact Report (CMP Final EIR) and Addendum No. 2 to the Final EIR.

(2) Adopt the Mitigation Monitoring and Reporting Program for the UCSF Benioff Children's Hospital Oakland Infrastructure Improvements project and make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the San Francisco campus.

(3) Approve the design of the UCSF Benioff Children's Hospital Oakland Infrastructure Improvements project, San Francisco campus.

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

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

Chancellor Hawgood provided a historical background to this item, reminding the Committee that, after extensive negotiations in calendar year 2012, UCSF entered into an affiliation, approved by the Regents in 2013, with what was then Children's Hospital Oakland and was now UCSF Benioff Children's Hospital Oakland. When UCSF executed this affiliation, it was aware of the hospital's master facility plan and the significant effort UCSF would be taking on to improve both outpatient and inpatient facilities. UCSF believed strongly in the mission of this safety net hospital. The hospital was unique in having a Federally Qualified Health Center specifically for children. More than 75 percent of patients were insured through the Medi-Cal program, and the hospital included extensive school and homeless clinics as well. UCSF believed that a critical role for the University was to support a hospital which, without this affiliation, would undoubtedly have gone out of business.

In the ten years since the affiliation had been in place, UCSF had stabilized the hospital's finances and, even with this payer mix, UCSF had been able to manage the hospital's operations at a break-even point. UCSF had secured philanthropy from Marc and Lynne

Benioff and had built a new ambulatory clinic which opened in 2018. UCSF was now turning attention to the inpatient facilities, which also needed to be rebuilt. This action being proposed addressed infrastructure improvements; Chancellor Hawgood noted that this work would need to be done regardless of the design of the subsequent new hospital. He anticipated that a major item for the hospital replacement might be presented to the Regents in May 2024.

UCSF Health Chief Executive Officer Suresh Gunasekaran described this project as an enabling project critical to the modernization plan for the hospital, but which would be important regardless of the modernization plan, just to be able to use the site more effectively. The proposed infrastructure improvements would advance seismic safety compliance and implement site work necessary before the construction of the new hospital building. There were three major elements. One was to relocate an existing Pacific Gas and Electric line that crossed the site, serving the neighbors to the west, and to construct a new retaining wall along the onramp of Highway 24; this would maximize the area for future development. The second was to disconnect utilities and exiting connections to the AB and BC buildings in order to discontinue use of these seismically non-compliant buildings. The third and final element was to renovate space in the outpatient center at 5700 Martin Luther King Junior Drive and to lease space at 4242 Broadway to provide replacement space. These three elements needed to be accomplished prior to the site modernization. The total budget for the infrastructure improvements was $66 million to be funded with external financing

Regent Makarechian expressed support for this item, which reflected UC's public service mission.

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

4. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE COMPREHENSIVE PARNASSUS HEIGHTS PLAN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, PARNASSUS RESEARCH AND ACADEMIC BUILDING AND WEST CAMPUS SITE IMPROVEMENTS, 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>Parnassus Research and Academic Building and West Campus Site Improvements</u> – preliminary plans for the entire project with working drawings, and construction for the Site and Make Ready Work portion– $98.4 million funded from external financing.

To: San Francisco: Parnassus Research and Academic Building and West Campus Site Improvements – preliminary plans, working drawings, construction, and equipment for the entire project – $843.1 million funded from external financing ($428.1 million) and gifts ($415 million).

B. The scope of the Parnassus Research and Academic Building and West Campus Site Improvements project be approved to include the construction of a nine-story, approximately 323,000-gross-square-foot (GSF) new academic and research building, including the demolition of UC Hall (148,000 GSF), and extensive site improvements to the west campus area (approximately 1.65 acres) including a new primary east-west pedestrian artery (Promenade).

C. The President of the University be authorized to obtain additional external financing for the Parnassus Research and Academic Building and West Campus Site Improvements project of $329.7 million for a total not to exceed $428.1 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 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 Parnassus Research and Academic Building and West Campus Site Improvements project, having considered both the previously certified Comprehensive Parnassus Heights Plan Final Environmental Impact Report (CPHP Final EIR) and the Addendum #1 to the CPHP Final EIR.

(2) Adopt the Parnassus Research and Academic Building and West Campus Site Improvements Mitigation Monitoring and Reporting Program and make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the San Francisco campus.

(3) Approve the design of the Parnassus Research and Academic Building and West Campus Site Improvements project, San Francisco campus.

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

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

Chancellor Hawgood expressed enthusiasm about this project, which was a major component of UCSF's reimagining of Parnassus Heights campus by demolishing University Hall (UC Hall), a building which was the first inpatient hospital at UCSF, opened in 1917, and which presented seismic risk. UC Hall would be replaced by a 323,000-gross-square-foot state-of-the-art research building which would also become the new home of the UCSF School of Nursing. UCSF would raise $415 million in philanthropy to support this project and was well on the way to meeting this target.

President Drake recalled his experience as a medical student, decades earlier, in this building, and expressed support for 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, Drake, Kounalakis, Makarechian, Matosantos, Pérez, Reilly, Robinson, Sherman, and Sures voting "aye."

5. **DESIGN FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE 2018 LONG RANGE DEVELOPMENT PLAN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, SCIENCE RESEARCH PARK, SAN DIEGO CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed Science Research Park project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 48 hours in advance of the beginning of the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

A. Adopt the CEQA Findings for the Science Research Park project, having considered the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the La Jolla Campus and Addendum No. 13 to the 2018 LRDP EIR for the Science Research Park project.

B. Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UC San Diego, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2018 LRDP EIR.

C. Approve the development concept update and design of the Science Research Park project, San Diego campus.

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

Chancellor Khosla recalled that the campus had received suggestions from Regents to increase the number of square feet for this project. UC San Diego considered multiple options and decided on an approach which would maximize the space without creating any other impacts and would provide about 1.1 million square feet. The Science Research Park was an important part of UCSD's strategy to promote cutting-edge research, economic development, and high technology job creation. This was a 13.5-acre site and had been included in the UCSD Long Range Development Plan since the 1980s, but the campus had never had an opportune moment for this development. The current moment was such a time, a moment when the biotechnology and other technology industries in San Diego were rapidly growing.

Committee Chair Cohen recalled that there had been some opposition to the Science Research Park and asked about the benefits of the project for students, faculty, and staff. Chancellor Khosla responded that the benefits were several. The Science Research Park would house multiple small-, medium-, and large-sized companies in a critical mass. The project would generate core critical resources, primarily in biotechnology, promote collaboration between industry and UCSD faculty, and provide internship and job opportunities for students. The site would accommodate thousands of researchers, most of them high-caliber scientists, along with UCSD faculty and staff. Regarding housing, Chancellor Khosla noted that, by 2025, UCSD would have 24,000 beds and would become the largest university housing program in the U.S. New UCSD student housing was being built and more housing was being planned. Faculty and staff housing was slightly lower on UCSD's list of priorities due to not yet having sufficient staff time and resources for this development. UCSD had a ten-year plan for the Science Research Park. Chancellor Khosla emphasized that the current land lease opportunity for the Park, if not taken now, might be lost for a long time.

Executive Vice President and Chief Financial Officer Brostrom added that the campus had been creative in considering opportunities for staff housing. He mentioned recent real property purchases by the campus and noted that the Office of the President was working with UCSD on development of staff housing at the Hillcrest campus, which had been delayed by dysfunction in the commercial lending market. Chancellor Khosla added that, in the Hillcrest case, the land lease value went down significantly.

Regent Kounalakis expressed admiration for UCSD's ability to manage construction projects without necessarily relying on the public-private partnership model and to deliver housing projects at a lower cost per square foot cost as a result of the fact that the campus managed these projects. She suggested that best practices learned at UCSD should be shared with the other campuses to support their planning and construction efforts. Chancellor Khosla responded that UCSD had found that the public-private partnership model did not suit its student housing projects but was appropriate for the Science Research Park, based on the factors of cost, such as increase in premium, tenancy, and land value.

Regent Kounalakis asked about non-housing projects. Chancellor Khosla distinguished two categories of non-housing projects. UCSD did not seek public-private partnerships for projects in the central campus and did not wish a third party to own a building in the middle of the campus but would pursue public-private partnerships for projects for projects on the periphery of the campus.

Regent Kounalakis asked if UCSD had found that an increase in premium would be offset by the value added through working with outside entities. Mr. Brostrom commented that there was a risk transfer in the Science Research Park. The developer, Wexford, would be taking on the risk of the lease-up, as it was for the UC Davis Aggie Square project. Chancellor Khosla stated that he wished to bring cutting-edge research close to the campus and to faculty but did not want to be responsible for recruiting researchers and companies to come to the campus; this was not his strength, but it was a strength of Wexford.

Regent Kounalakis expressed confidence in UCSD’s decisions on building projects, especially in building housing without the use of public-private partnerships. She encouraged the UC system to consider how this decision-making process might be standardized and how the information and expertise from UCSD could be available to other campuses as well. Mr. Brostrom responded that UCSD had planned to construct staff housing at the Hillcrest campus on a ground lease basis with a third-party developer, but construction financing rates were currently unreasonably high. Construction lending was at eight to nine percent and mezzanine lending was in the double digits. The Office of the President (UCOP) worked with UCSD on in-house financing for the project while maintaining private management and development. This would help keep units affordable for staff. Chancellor Khosla emphasized that the expertise UCOP had shared with the San Diego campus could benefit all the campuses.

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, Pérez, Reilly, Robinson, Sherman, and Sures voting “aye.”

6. **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 – $3.1 million funded from housing reserves.

To: Los Angeles: Gayley Towers Redevelopment – 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 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.]

UCLA Administrative Vice Chancellor Michael Beck began the discussion of the Gayley Towers Redevelopment project. Over the last three years UCLA had opened nearly 6,000 new student housing beds, representing an investment of over $1.1 billion. The campus expected to house nearly 24,000 undergraduate and graduate students this year; of this number, just under 20,000 were undergraduates. Earlier this year, UCLA announced an undergraduate housing guarantee of up to four years of housing for incoming freshmen and two years for transfer students, but demand continued to be strong, so the campus was continuing to pursue additional projects.

The existing Gayley Towers building was an aging 1981 apartment building comprised of 51 studio apartments on less than an acre of land that housed 100 students. It would be demolished as part of this project and replaced with a new 545-bed facility for a net increase of 445 beds. This project was the latest effort to expand UCLA’s housing inventory and was specifically focused on providing affordable housing for undergraduate students. The project featured a new “co-living” format with dormitory-style rooms and community restrooms, kitchens, and living and study areas.

The format, as well as $35 million in State funding, would allow UCLA to dedicate at least 350 beds to qualifying low-income students for the 2026–27 lease rate of $600 a month, estimated to be 66 percent below 2026–27 market rents. This rate would be even 30 percent below rents allowed under the Higher Education Student Housing Grant Program under which UCLA had received the State funding. The building was across the street from UCLA residential dining facilities, and students would be eligible to purchase UCLA meal plans. The campus was also exploring the possibility of weekly delivery of kitchen staples such as grains, fruit, and milk to further reduce students’ living costs. The existing facility was scheduled to be demolished in March 2024. Construction would begin in September 2024, and project completion was anticipated in September 2026.

UCLA Interim Vice Chancellor and Chief Financial Officer Allison Baird-James outlined the three project funding sources: external financing supported by housing revenues, external financing provided by the State, and UCLA housing reserves. As mentioned earlier, the State funding was from the Higher Education Student Housing Grant Program, which provided funds for housing for low-income undergraduate students. In September 2022, the State appropriated $35 million under the Program for UCLA's redevelopment of Gayley Towers. Since that time, the direct State General Fund appropriation had been reverted. The Higher Education Trailer Bill associated with the Budget Act of 2023 included State General Funds to support the debt service for projects approved for funding under the Program. The project would be constructed under the construction management at risk model, achieve a Leadership in Energy and Environmental Design (LEED) Gold certification, and would comply with UC policies on sustainable practices and seismic safety. The building would encourage alternative transportation, be an all-electric building, and incorporate water efficiency features.

Regent Reilly asked how many square feet of space would be added, given that occupancy would increase from 100 beds to 545 beds. UCLA Associate Vice Chancellor – Design and Construction Peter Hendrickson responded that the new building would be about 109,850 gross square feet in size, while the existing building had space of about 57,000 gross square feet. A key element was project density and taking advantage of the elevation change from the street to the back of the property. UCLA would build higher and remove parking on the site.

Regent Reilly asked how large living quarters would be, with three students in each room. UCLA Assistant Vice Chancellor Peter Angelis responded that this space would be roughly 275 square feet, larger than the newer dormitory rooms built at UCLA. All three beds would be placed on the floor, not in bunk bed formation. There would be space for a nine-cubic-foot refrigerator and dry storage in each unit.

Regent Reilly asked if UCLA expected that students, when not sleeping, would spend most of their time outside these rooms, in common areas. Mr. Angelis responded in the affirmative. The "co-living" model provided smaller units where people sleep and larger shared areas for social space, study space, and a kitchen. UCLA would provide housekeeping services. Mr. Beck added that this had been a successful model.

Regent Sures asked how many parking spaces the building would have. Mr. Hendrickson responded that the building would only provide service parking for deliveries. The building would be absorbed into the overall campus parking plan.

Regent Sures asked if there had been any opportunities for including parking. Mr. Hendrickson responded that UCLA's parking plan for the entire campus was used for properties near the campus.

Regent Sures asked where residents of this building would park a car. Mr. Angelis responded that UCLA had recently built thousands of student beds adjacent to campus. UCLA's goal was to move from being a commuter campus to a residential campus, so that students can walk to classes. This building was across the street from the campus, even closer than other new student housing facilities that had been opened in the last two years. Mr. Beck commented that UCLA, as part of its sustainability plan, sought to reduce the number of commuter trips to campus and discouraged students from bringing a car to campus. Undergraduate students were not allowed parking permits unless they had employment or family responsibilities away from the campus. UCLA encouraged the use of public transportation.

Regent Pérez asked about the increased density in the project. Mr. Beck confirmed that the project would quintuple the number of students in double the space. The current space was inefficient.

Regent Pérez asked about the size of living quarters in the old model versus the new model. Mr. Beck explained that the old model was a studio apartment model, including kitchens and other elements. Regent Pérez asked if, in the original model, there were walls separating the beds from the kitchen. Mr. Angelis explained that these were open studio apartments with a loft area.

Regent Pérez asked how much of the apartment studio space was not a sleeping space and expressed concern about the negative mental health impacts of living in micro-units. Mr. Angelis responded that UCLA was a land-restricted campus. This fall, about 81 percent of the dormitory inventory was triple occupancy space. There had not been any reduction in demand for triple units. Mr. Beck stated his understanding that micro-units referred to single occupancy in small individual spaces.

Regent Pérez stated that micro-units might be for single or multiple occupancy. In response to a question by Regent Pérez, Mr. Angelis confirmed that hotel rooms in the UCLA Luskin Conference Center were larger than the proposed units in this project. With respect to Regent Pérez's concerns about living space density and mental health, he noted that UCLA provided residential life programs for students in dormitories, and a residential life component would be included in this project. There would be ample study space and social space, and these spaces would be of the same high quality as in other UCLA student housing projects. UCLA had experience in managing high density in student housing and making students' experience on campus as rewarding as possible despite the density. This reflected the reality of a campus with limited space.

Regent Kounalakis observed that there was now a trend of providing smaller spaces for students in student housing. Some of the new dormitories now being built on college campuses were cramped, with windows that do not open, and without much natural light. She noted one project at the California State University which had contemplated the use of artificial light that would mimic the changes of natural light during the day. UCLA needed to use every square foot of land to produce space for as many students as possible and had to address the high cost of construction. Nevertheless, there was a limit and a point at which students can experience negative mental health impacts due to their housing situation. This was a factor that the University should take into consideration for this and future projects.

Committee Chair Cohen asked about windows and light in the building. Mr. Beck responded that every room would have its own window, with natural light. This was the case for all UCLA housing projects. Mr. Hendrickson added that there would also be an interior courtyard providing natural light. Mr. Angelis underscored that he understood the stated concerns about student mental health. UCLA invested heavily in the upkeep and maintenance of these facilities as well as in health and fitness resources and attractive study spaces for students. He noted that this inventory was being made available to students with the greatest financial need. The rental rate would be $600 a month. The cost of living and cost of education were significant stressors for students. UCLA had chosen a high-density model in order to make the rental rate as low as possible and to become eligible for State support for the project.

Regent Pérez asked if the campus had not considered other models for greater square footage of useable space on the same footprint, and asked how such a model might change pricing and affordability. Mr. Beck responded that UCLA tried to remain below the high-rise limit for this project. Regent Pérez asked why. Mr. Beck responded that this was done to avoid additional cost associated with a high-rise building.

Regent Pérez asked if UCLA had modeled this option and could provide comparison costs. Mr. Hendrickson responded that this was an infill project that must remain consistent with adjacent properties. Regent Pérez asked which standard was being applied. Mr. Hendrickson responded that this was the University's standard.

Regent Pérez suggested that UCLA could have presented a project that was not consistent with adjacent properties. Mr. Hendrickson responded that the proposed project was highly efficient and provided a new housing type on campus.

Regent Pérez asked if the campus had developed a model with greater height and a different level of density, with a resulting rental rate that would be closer to the State limit rather than 30 percent below the State limit. Mr. Hendrickson responded that UCLA considered a number of options, and the proposed model was the most efficient in terms of balancing an appropriate number of beds, meeting the program requirements, and creating a new unit type.

Regent Pérez expressed his unease about the idea that a high level of density in student housing would be acceptable for low-income students, and how UCLA appeared to have evaluated the cost of housing versus other factors that might affect mental health. It seemed dismissive to assert that, for this population of students, this density was acceptable. Mr. Angelis responded that he was excited about this project because it served a need. He was concerned about students who could not afford housing in the UCLA inventory. This project would provide a price point that would address a need, and UCLA would see if this unit served this need in a way that was satisfactory for students. This project was also exciting because this was the first inventory of this type in the UC system. If this project worked well and students liked this "co-living" housing model, it might provide opportunities for the future as interest rates increase and it becomes increasingly challenging to undertake building projects. This project was an important exploration and a worthwhile experiment.

Regent Pérez commented that, if affordability was the deciding factor, and one was concerned about the students with the greatest need, then these students should have the most aggressively packaged financial aid that reflected the total cost of attendance. While he agreed that housing should be made as affordable as possible, there was a balance between affordability and other factors. The project as proposed might represent the right balance, but Regent Pérez stated that UCLA had not shown models that would give him assurance that this was the right balance and model. Executive Vice President and Chief Financial Officer Brostrom remarked that, under the Higher Education Student Housing Grant Program, the stated rental rates did not have to apply to these units. The lowest-income students would have these rental rates anywhere in campus housing. Mr. Beck added that 187 beds in this project would be rented at higher rates and would not be part of the State-funded project. UCLA would be attentive to student mental health and could change the density in this student housing in the future, if the density was shown to have a negative impact on student mental health. UCLA was focusing on programmatic activities outside the sleeping quarters, and these activities had been successful.

Regent Pérez asked whether, if the density in this project changed, from triples to doubles, UCLA would lose the eligibility for State funding. Mr. Beck responded that UCLA was bound to the rental rates. In the case of lower density, UCLA would be carrying the project at a loss, but this would be a lesser concern than if the campus found that the housing density was causing student mental health issues. Associate Vice President David Phillips explained that the Higher Education Student Housing Grant Program allowed for higher rents than were being proposed for this project. There was flexibility, and he believed that it would be possible for UCLA to convert these units from triples to doubles while remaining within the requirements of the Program.

Regent Makarechian asked about the cost of high-rise development and why UCLA would not build higher than eight stories. Mr. Hendrickson responded that one of the challenges of the site was the elevation change from the street level to the back of the property. For this infill project, UCLA would maintain a height that would be consistent with the surrounding neighborhood. Of all the options UCLA considered, a building with eight floors seemed most appropriate for the neighborhood and the project density.

Regent Makarechian asked who had come to this conclusion, or if this decision was based on the views of neighborhood groups. Mr. Hendrickson responded that there were community meetings and environmental analysis. There were many different options for the height of the building. The project team and campus leadership considered the various factors and found that the proposed projects presented an appropriate balance in terms of density and height.

Regent Makarechian commented that a higher building with more floors would have lower density and be less crowded. He referred to the floor plan and asked how residents in certain corners of the building would get to a staircase in case of fire. Mr. Hendrickson responded that a fire/life safety analysis of the building showed that the location of the two staircases were appropriate. Mr. Beck pointed out exit paths on the floor plan. Regent Makarechian reiterated his concerns about the layout, the location of the staircases, and ensuring that residents could quickly exit the building in case of fire.

Regent Makarechian suggested that UCLA should study more options for this project. He referred to the concerns that had been raised by other Regents during the discussion, such as that the rooms might be too crowded, and his suggestion that the building could be higher. The campus representatives had suggested that the project could be modified in the future if it was found not to be satisfactory, but this would be costly and difficult. Mr. Beck responded that every room had two emergency exit points. Regarding the height of the building, this was limited by the amount of State funding received. He enumerated positive features of UCLA student housing, including triple occupancy and shared student spaces, which were well received by students. These features were also part of this project, which was also a new “co-living” model. Mr. Angelis added that UCLA had submitted the project for State funding, seeking to make the project viable with a low rental rate for students. UCLA had built a high-rise building nearby, Gayley Heights, which was currently the most popular student housing, with high density, and had been funded by UC financing available before the COVID-19 pandemic. Following the pandemic, the current project would only be viable with State funding, and this consideration limited the height achieved on the site.

Regent Makarechian asked if State funding was restricted to certain building sizes. Mr. Angelis responded in the negative but enumerated other restrictions on the State funding. At the time of the proposal, UCLA followed State requirements to the letter and requested $35 million, not a higher amount.

Regent Reilly expressed support for the item but noted that concerns about small living quarters had been clearly expressed. She noted that student satisfaction at UC was declining in a number of areas. The proposed shared spaces in this project were an excellent feature and she commended UCLA for its creativity and efforts to increase student housing.

Regent Sures asked about the project timeline and how it would be affected if the Regents deferred action on this item. Mr. Hendrickson responded that UCLA was pre-qualifying contractors, would complete the design, put the project out to bid, and hoped to start construction in summer 2024.

Regent Sures noted that a number of concerns had been raised about the project and suggested that the Committee defer action on this item until the next meeting, so that Regents’ questions could be answered.

Committee Chair Cohen asked if a two-month delay would cause undue harm to the project. Mr. Angelis responded that UCLA would miss the fall 2026 student move-in. Currently the project was scheduled for opening in September 2026.

Regent Makarechian expressed support for deferring the action.

Regent Sures suggested that, in spite of a 60-day deferral of approval, UCLA could still move forward with its contractor and answer Regents' questions. He reiterated the question about missing the student move-in date. Mr. Beck responded that there was a risk of missing the move-in date due to the tight construction schedule.

Committee Chair Cohen asked if the campus could gather information and answer Regents' questions by the following day. President Drake suggested that, if the campus could provide answers by the following day, the item could be approved; if not, the item would be deferred.

Regent Sherman asked if there was existing student housing in the UC system with rooms of this size. If so, what had been the reaction of students in housing surveys? Taking into account both sleeping area and shared spaces, there were about 200 gross square feet per bed. He asked if UC student housing with these specifications existed, and if so, how it compared. The cost was approximately $200,000 per bed, and he asked how cost related to square feet of useable space per bed. These data points—student satisfaction with a similar product, gross square feet per bed, and cost per bed related to gross square footage available for students—would be helpful for an informed decision.

7. **BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE NORTH DISTRICT DEVELOPMENT PLAN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, NORTH DISTRICT PHASE 2, RIVERSIDE 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: Riverside: <u>North District Phase 2</u> – preliminary plans – $8,275,000 funded from campus funds.

To: Riverside: <u>North District Phase 2</u> – preliminary plans, working drawings, construction, and equipment – $348.7 million to be funded from external financing supported by State General Funds for the Higher Education Student Housing Grant Program ($126 million), external financing ($217.7 million), and campus funds ($5 million).

B. The scope of the North District Phase 2 project be approved. The project shall provide an approximately 436,000-gross-square-foot new housing facility, including approximately 1,568 new beds. The scope includes student housing support services, associated parking, and site amenities serving the entire North

District Development (e.g., recreational fields), furniture and equipment, and related site work and utilities.

C. The President be authorized to obtain external financing in an amount not to exceed $217.7 million, plus additional related financing costs to finance the North District Phase 2 project. The President shall require that:

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

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

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

D. The President be authorized to obtain additional external financing in an amount not to exceed $126 million, plus related interest expense and additional financing costs to finance the North District Phase 2 project. The President shall require that:

(1) 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.

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

E. Following review and consideration of the environmental consequences of the proposed North District Phase 2 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 North District Phase 2 project, having considered both the North District Development Plan Environmental Impact Report (EIR) and Addendum No. 1 to the EIR for the North District Development Plan.

(2) Make a condition of approval implementation of the applicable mitigation measures within the responsibility and jurisdiction of UC Riverside as amended in the Mitigation Monitoring and Reporting Program adopted in connection with the North District Plan EIR.

(3) Approve the design of the North District Phase 2 project, Riverside campus.

F. The President or his designee be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above. This would include any agreements between the Regents and Riverside Community College District or the California Community Colleges Chancellor's Office related to the design, development, construction, financing, and long-term management, or operations and maintenance of the North District Phase 2 project.

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

Chancellor Wilcox introduced the item, a housing project in the North District of the Riverside campus. UCR had a goal of adding about 5,000 student beds to the campus and had added about 2,300 in the last five years. This project would provide another 1,500, but importantly, this project was a partnership with the Riverside Community College District (RCCD). It would provide an opportunity to help RCCD students think about a four-year university path and to be part of that environment before they transfer to UC.

UCR Vice Chancellor Gerry Bomotti recalled that the Regents had approved preliminary plans funding for the North District Phase 2 project in March 2023. At that time, designing and planning for the project proceeded as part of UCR's housing program, without an assumption of State funding. The campus was fortunate in receiving $126 million from the State Higher Education Student Housing Grant Program, which would allow UCR to offer 652 beds in this project at a lower cost. Students who would be eligible for the lower cost would be distributed throughout the project; there would not be a different type of apartment unit for these students. The programmatic goal of this project was to support student success, and UCR believed that the project would, over the long term, improve the success of transfer students. The most economical way to obtain a UC degree was to first attend a community college and then transfer to a UC campus. The success of transfer students at UCR was reflected by their very high two- and three-year graduation rates.

Between 2013 and 2022, UCR experienced an increase in student enrollment of about 26 percent. The campus consistently had over 3,000 students on its housing wait list, and this in spite of the fact that, from 2020 to the present, UCR added over 2,300 student beds. RCCD did not have student housing. The project would provide 1,568 beds, of which UCR would finance 916. As part of the project, UCR would add three recreational fields, which would benefit the entire campus. The project would include study rooms, a fitness facility, and other support areas.

The campus hoped to proceed on an aggressive schedule, start construction the following month, and complete the project by fall 2025. The opening would have to accommodate the RCCD semester schedule. Regarding market comparisons, in terms of annual rental rates, Mr. Bomotti noted that the rates for the State-grant-funded beds would be over 60 percent below market, while rates for the non-State-subsidized beds would be about 35 percent below market.

RCCD Chancellor Wolde-Ab Isaac expressed his gratitude regarding the North District project. The speed with which this project had progressed in its design, in the development of the term sheet, and in the articulation of the importance of ensuring a seamless integration of RCCD students not only into housing but into the full UCR campus experience was a testament to the long history of durable and lasting partnership between the two institutions. UCR and RCCD both understood that they served an educationally and economically disadvantaged region burdened by high levels of poverty. The disproportionate poverty in the Inland Empire was related to low rates of college attendance and graduation. The proposed project was part of UCR and RCCD's effort to address this challenge. It was a holistic and innovative approach designed not only to provide badly needed housing to students but also, more importantly, to break down cultural and psychological barriers surrounding access, success, and equity by immersing first-generation, low-income students in the full UCR experience, thereby instilling in them confidence, motivation, and inspiration to complete their community college work and transfer to UC. This project would bring UCR and RCCD much closer to the people of the region and reinforce their trust in higher education as an agent for social and economic mobility. The project would also without any doubt increase graduation and transfer rates, deepen the excellent collaboration between UCR and RCCD, and could serve as a model for others to emulate. On behalf of the RCCD Board of Trustees, faculty, administration, and students, Chancellor Wolde-Ab Isaac thanked the Regents for their support for this innovative and transformative project.

Regent Makarechian asked how this project differed from other UC affiliations with community colleges, with respect to controls and State funding. Executive Vice President and Chief Financial Officer Brostrom responded that Higher Education Student Housing Grant Program was a new program that would provide a grant of $126 million for the project, of which $51 million would accrue to UC Riverside and $75 million to RCCD. This funding was a pure grant, and the University would finance the rest of the project with its general revenue bond credit. UCR would oversee construction as well as ongoing operations and maintenance, so that the project would be completely within the University's control, but the contracts would be proportional, reflecting numbers of UCR and RCCD students.

Regent Makarechian asked if this project would be on the University's balance sheet. Mr. Brostrom responded in the affirmative but noted that a smaller portion would be on the balance sheet, given the loan to value ratio and the $126 million of equity contributed by the State.

Regent Makarechian asked if everything would be under the University's control, as long as a certain number of spaces were provided for RCCD students. Mr. Brostrom responded in the affirmative. This project would be part of the portfolio managed by the UCR Chancellor and administration. RCCD students would have to comply with all the same terms and conditions as UCR students living in a UC residence hall.

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

8. **PRELIMINARY PLANS FUNDING, RONALD REAGAN UCLA MEDICAL CENTER FOURTH FLOOR PATIENT CARE RECONFIGURATION, UCLA HEALTH, LOS ANGELES 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:

Los Angeles: <u>Ronald Reagan UCLA Medical Center Fourth Floor Patient Care Reconfiguration, UCLA Health</u> – preliminary plans – $9 million to be funded with hospital reserves.

[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.]

UCLA Health Sciences Vice Chancellor John Mazziotta introduced this item by noting that UCLA Health, like all the UC medical centers, had been struggling with inpatient capacity limitations. In the last 12 months, average daily census had ranged between 108 percent and 112 percent. The emergency department boarding time for admissions for medical, surgical, or psychiatric treatment was now averaging 27 hours. UCLA had purchased and was now renovating the former Olympia Medical Center in the mid-Wilshire district of Los Angeles to create the largest behavioral health campus and psychiatric hospital in Los Angeles County. This project would increase UCLA Health psychiatry beds from the current 74 to 139 and would allow the conversion of the psychiatry beds at the Westwood hospital to adult and pediatric medical and surgical beds. UCLA had originally projected that repurposing these vacated psychiatry beds would result in a one-to-one outcome, but careful planning had demonstrated that UCLA could place 103 beds in this space, compared to the existing 74, which represented an almost 20 percent increase in capacity. The proposed item would support initiation of the detailed planning phase for this bed conversion. Dr. Mazziotta anticipated that UCLA would present an item with full budget and scope in spring 2024.

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

9. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2024–25 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 began this discussion of the University's operating budget by noting that it was taking place in a promising environment, the third year of the multi-year UC compact with the Governor and Legislature. The State had met the terms of the compact in a year of surplus and in a year of deficit. The University was also in the third year of the Tuition Stability Plan.

The multi-year compact included five percent base budget increases, capital projects, enrollment growth in addition to the one percent annual target, and the buyout of non-resident student enrollment at the Los Angeles, Berkeley, and San Diego campuses. The University would focus on goals that it shared with the State, such as affordability, student outcomes, intersegmental collaboration, and workforce preparedness.

Mr. Brostrom stressed that the Tuition Stability Plan and the model of cohort tuition had been highly successful. The Plan provided predictability for students and families, enhanced financial aid, and augmented support for campus operations. The Plan was now in the third year; after the fourth year, UC would reset the Plan based on the rolling average of inflation.

Interim Associate Vice President Cain Diaz reported that, despite uncertainty in the economy and a $31.5 billion budget deficit, the State provided a five percent increase to UC's ongoing budget for core operations. This included funding to cover debt service in support of capital projects at the Berkeley, Riverside, and Merced campuses which had previously been funded with one-time monies. It also included funding to augment existing budgets for student basic needs, mental health, and rapid rehousing, as well as $1.5 million in new funding to support students with disabilities. Under the compact, the University was expected to fund enrollment growth of one percent, about 2,000 resident undergraduates, from the five percent increase. The Budget Act also included $30 million to replace non-resident student places with resident students at the Berkeley, Los Angeles, and San Diego campuses.

Access and affordability would continue to be a priority for the University in the next year. State support in the current Budget Act would allow UC to make substantial progress toward these goals. UC students today came from diverse backgrounds and circumstances, and UC wanted to ensure that its budget reflected that diversity. The budget to be presented at the November Regents meeting would include a specific enrollment growth target for 2024–25. Once campuses had more accurate information later this fall about actual enrollment in the current year. Consistent with the compact, the University was considering a request to expand graduate health science enrollment in dentistry, pharmacy, and veterinary medicine similar to the Programs in Medical Education (PRIME). The budget plan would also expand access to a debt-free path to graduation by offering enhanced financial aid packages to more UC students. In 2023–24, that effort included an estimated 14,800 new students from low-income families and the University believed that, next year, it could expand this to over 17,000 new students. Funding would come from a combination of UC's own financial aid program funded by tuition, Pell Grants, Cal Grants, and the Middle Class Scholarship program.

Ensuring a safe and supportive environment for UC activities depended on UC faculty and staff upholding the University's mission, so it was not surprising that personnel costs represented almost two-thirds of the University's overall core funds budget. The budget plan should allow for timely hiring of new staff to maintain and extend support services, but the plan should also reflect the importance of cultivating and retaining the existing workforce. About one-third of UC employees had worked for the University for ten or more years, and there were benefits to growing that share of employees who have experience, skills, and institutional memory. High turnover rates resulted in an inefficient use of limited resources. Accordingly, the budget plan would include a salary program for policy-covered staff that provided for wage growth designed to retain and recruit employees and decrease the cost of staff turnover.

The quality of the University was founded on its distinguished faculty. UC faculty members provided stellar instructional programs, research and creative work, professional leadership, and public service. Salaries of ladder-rank faculty were still about four percent below those for UC's public and private comparators, and this was despite a deliberate multi-year effort to address this gap through both a general range adjustment and a special salary plan for ladder-rank faculty. The faculty merit program was an important component for faculty retention.

The University's capital needs remained a concern. The budget approved by the Regents the prior year included a request to the State for $1.2 billion in one-time funding to address facilities renewal, capital needs related to enrollment growth, and clean energy projects. That request was ultimately not funded but those needs remained. The Integrated Capital Asset Management Program (ICAMP), UC's system for tracking capital renewal and deferred maintenance needs, had identified $7.4 billion of State-eligible deferred maintenance across the system. To address some of these needs, the University continued to take advantage of the flexibility authorized under the Assembly Bill (AB) 94 process. The University currently set aside about $198 million of its ongoing State support to cover debt service for over $2 billion of capital projects. Increasing the amount allocated to the AB 94 program was a trade-off between UC operating and capital needs. As the University considered these operating needs for next year—expanding access to campuses, ensuring the affordability of a UC education, and hiring and retaining dedicated faculty and staff—UC would need to decide between expanding its commitment under the AB 94 capital program or utilizing those resources to cover increasing operating costs while it sought one-time State support for the most pressing capital needs.

Mr. Brostrom noted that two bills in the State Legislature had been converted to two-year bills, one by Senator Steve Glazer, the other by Assemblymember Al Muratsuchi, which were bond measures for education. The University would be following the progress of these bills closely this winter and spring with the hope that they would be consolidated and put on the November 2024 ballot.

Mr. Brostrom then commented that UC must use other opportunities, particularly involving the balance sheet, to produce more revenues and curb expenses in order to produce balanced budgets for the campuses. UC was focused, systemwide and at the campuses, on private philanthropy. The University had raised over $3 billion in each of the last four years, but these funds were unfortunately largely restricted and so this did not provide much discretionary revenue for the campuses. The Office of the President was working with the chancellors on different models of fungible philanthropy, such as endowed chairs and graduate student support, which reflected donors' interests but represented expenses that would otherwise offset core funds from the State or tuition. If UC were able to shift even just one percent of this $3 billion to fungible philanthropy, this would represent $30 million for UC's discretionary budget.

Asset management strategies were another area of opportunity. The University was having the Chief Investment Officer move funds from the Short Term Investment Pool (STIP) into the Total Return Investment Pool (TRIP) and the Blue and Gold Pool. Over time, TRIP had outperformed STIP by four percent or five percent, while the Blue and Gold Pool had outperformed STIP by seven percent. UC would move these funds as extensively as possible while maintaining necessary liquidity. Mr. Brostrom also briefly mentioned procurement strategies to drive fiscal impact and real estate optimization, such as ground lease revenue, which was discretionary. The University was considering a number of these opportunities to augment core funding.

Regent Sherman referred to the Tuition Stability Plan, under which UC would assess charges below the amounts established in the Plan for any year when the State provides an increase of more than five percent to the University's permanent base budget to buy out some or all of the proposed student tuition and fee adjustments. In 2022–23 and 2023–24, the State had provided the increase of more than five percent, so that there had been no increase in tuition and fees for students. He asked what the increases for students would have been without the additional State support. Mr. Diaz responded that the increase would have been almost seven percent in 2022–23 and about 6.5 percent in 2023–24.

Regent Sherman emphasized that the University had held tuition and fees flat for students while UC expenses increased. He asked how and when the University would determine the rate schedule for the next cohort of students under the Tuition Stability Plan. Mr. Diaz responded that this would be based on July projections by the California Department of Finance. Mr. Brostrom added that UC used a three-year rolling average, a blended average so that there would be no increase affecting students in one class or year.

Regent Makarechian asked if the University was meeting all of its obligations or targets in the compact with the Governor. Mr. Brostrom responded that UC would report its progress on all the goals to the Regents. Certain student success outcomes were not on a desired trajectory, probably due to disruptions caused by the COVID-19 pandemic. The University hoped to catch up on this benchmark now that students had returned to residence on campus; this was the area where the most work was needed. Enrollment growth was exceeding projected targets. Mr. Diaz anticipated that this information would be reported in November.

Regent Makarechian asked about transfer students. Mr. Brostrom responded that the level of applications from transfer students had stagnated along with a decline in community college enrollment. The University was continuing to meet the targets, but this was an area of emphasis for both UC and the community colleges.

Regent Makarechian asked about the amount of working capital UC needed to maintain. Mr. Brostrom responded that the University conducted liquidity analysis by day and month. The largest need would occur when both payroll and retirement benefits must be paid on the same day, and UC had well above this amount on any given day. The rating agencies would like UC to maintain 90 days' cash on hand, which represented a quarter of overall operating expenses, about $12 billion. The University tried to convince the rating agencies that, because TRIP could be liquidated quickly, it should count toward UC liquidity as much as STIP. The University was reducing the amount in STIP to 20 days' cash on hand and moving funds to TRIP to optimize earnings for the campuses.

Regent Makarechian noted that different figures had been quoted and presented in materials regarding STIP transfers. Mr. Brostrom explained that the Office of the Chief Investment Officer, when moving funds, might park funds in STIP on a particular day; one should consider long-term trends. He believed that UC should move any additional available funds to the Blue and Gold Pool to maximize returns for the campuses.

Regent Reilly asked about the total dollar amount the State had contributed to the 2023–24 UC budget. Mr. Diaz responded that this was about $4.8 billion. This amount might include some one-time funding. He estimated the five percent increase for 2024–25 to be $235 million; this was five percent of ongoing State funding, not one-time support.

Regent Reilly asked about the total UC budget. Mr. Brostrom responded that it was close to $48 billion. The State contribution represented about ten percent of the UC budget.

In response to a question by Regent Pérez, Mr. Brostrom confirmed that this total budget included UC Health. Mr. Diaz added that the core funds budget was about $10.5 billion. Mr. Brostrom noted that UC Health now provided over 50 percent of UC revenue.

Regent Pérez expressed concern about the significant reduction in the numbers of community college students who were prepared to transfer and interested in transferring. The University should engage in discussions with the Governor's office on how to address this.

The meeting adjourned at 12:25 p.m.

Attest:

Secretary and Chief of Staff