The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
July 17, 2024

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

Members present: Regents Cohen, Elliott, Lee, Makarechian, Pérez, and Sherman; Ex officio members Drake and Reilly; Advisory member Cheung; Chancellors Hawgood, Larive, and May

In attendance: Regents-designate Brooks and Komoto, Secretary and Chief of Staff Lyall, General Counsel Robinson, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Vice Presidents Kao and Lloyd, Chancellors Khosla, Lyons, and Muñoz, and Recording Secretary Johns

The meeting convened at 3:15 p.m. with Committee Chair Cohen presiding.

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

Upon motion duly made and seconded, the minutes the meeting of May 15, 2024 were approved, Regents Cohen, Drake, Elliott, Lee, Makarechian, Pérez, Reilly, and Sherman voting "aye."[1]

2. **CONSENT AGENDA**

A. ***Indemnification Terms in Banking Agreements***

The President of the University recommended that:

(1) The President be authorized to approve the terms of the agreement(s) with the Bank of New York Mellon Corporation (BNY Mellon), including a provision to "indemnify and hold harmless BNY, from any cost, liability or expense (including reasonable attorneys' fees) arising out of any claim by a third party with respect to any Monetary Disbursement or funds transfer request, including without limitation any claim of any person that BNY Mellon is responsible for any act or omission by UC or an Authorized Person. In no event shall BNY Mellon be liable for any consequential, special, punitive or indirect loss or damage or legal costs or attorneys' fees that UC may incur in connection with this Agreement, including without

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

limitation, any loss or damage from subsequent wrongful dishonor resulting from BNY Mellon's acts or omissions pursuant to this Agreement."

(2) The President or designee, after consultation with the General Counsel, be authorized to approve and execute any documents necessary in connection with the above.

(3) The President or designee, after consultation with the General Counsel, be authorized to execute agreements with other banking institutions whose standard terms and conditions contain substantially similar indemnification language, and to ratify any such agreements that have already been signed containing similar such provisions.

B. ***Pepper Canyon East District Phase 1, San Diego Campus: Preliminary Plans Funding***

The President of the University recommended that the 2024-25 Budget for Capital Improvements and the Capital Improvement Program be amended to include:

San Diego: Pepper Canyon East District Phase 1 – preliminary plans – $60 million, to be funded from auxiliary-student housing 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.]

Committee Chair Cohen briefly introduced the items.

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

3. **SEGUNDO INFILL STUDENT HOUSING, DAVIS CAMPUS: BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE 2018 LONG RANGE DEVELOPMENT PLAN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

The President of the University recommended that:

A. The 2024-25 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Davis: Segundo Infill Student Housing – preliminary plans – $4.1 million to be funded from housing reserves.

To: Davis: Segundo Infill Student Housing – preliminary plans, working drawings, construction, and equipment – $100,047,000 to be funded from external financing ($98,297,000) and housing reserves ($1.75 million).

B. The scope of the Segundo Infill Student Housing project be approved. The project shall provide a five-story building of approximately 116,000 gross square feet. The building will house approximately 494 student residents in 206 rooms and will include community and support spaces with outdoor amenities.

C. The President be authorized to obtain external financing in an amount not to exceed $98,297,000 plus additional related financing costs to finance the Segundo Infill Student Housing project and declare that external financing may be used to reimburse prior expenditures. 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 Davis 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.

(4) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

D. Following review and consideration of the environmental consequences of the Segundo Infill Student Housing project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 48 hours in advance of the beginning of 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 Segundo Infill Student Housing project, having considered both the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the Davis campus and June 2024 Addendum to the 2018 LRDP EIR.

(2) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the Davis campus as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2018 LRDP EIR.

(3) Approve the design of the Segundo Infill Student Housing project, Davis campus.

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

Chancellor May introduced the item, which requested approval for the construction of a new residence hall. This complex, the Segundo Infill Student Housing project, would have 206 rooms accommodating 494 students. The campus had added 6,500 beds since 2017 to meet the demands of undergraduate housing guarantees and enrollment growth and to make progress toward Long Range Development Plan (LRDP) goals and Memorandum of Understanding (MOU) commitments to the City of Davis. Rent for on-campus residence halls was approximately 28 percent below comparable units in the Davis market and UC Davis was committed to keeping campus housing rates substantially below market.

Vice Chancellor for Student Affairs Pablo Reguerín reiterated that the campus had added 6,500 beds since 2017 and commented that this new inventory had enabled the campus to offer a one-year housing guarantee to all incoming first-year undergraduate students and a two-year guarantee for incoming transfer students. The Segundo Infill project would ensure that UC Davis can continue to meet its housing guarantees, which was especially important with respect to enrollment growth and goals included in the University's Compact with the Governor. As of fall 2023, 38 percent of Davis-based undergraduate and graduate students lived on campus. This project would enable the campus to progress toward its LRDP goals and MOU commitments to the City, which would be to house 48 percent of Davis-based students on campus.

There were 206 residence hall rooms planned in this project, and the campus planned to accommodate 494 student beds by programming the complex at 60 percent double occupancy and 40 percent triple occupancy. Currently, approximately 30 percent of UC Davis students chose a triple room as their first choice, largely due to the lower cost, and most of the remaining students indicated that they would be satisfied with a triple room as their second choice. Students satisfaction surveys showed equivalent scores for students living in double and triple rooms. All residence hall rooms on the campus built since 2003 are between 206 and 220 square feet in size and were appropriately designed to configure as both double and triple occupancy rooms. This project was designed with a room size of 220 square feet, a size which has worked well at UC Davis, resulted in high satisfaction scores from students, and was in alignment with the existing inventory of residence halls.

Vice Chancellor for Finance, Operations and Administration Clare Shinnerl referred to the architectural renderings in the background material. The campus gave a great deal of thought to the architectural aspects of this facility to ensure that students enjoy their time both indoors and out. The project's total size was about 16,000 square feet, but Ms. Shinnerl stressed that this was the inside space; the campus was also focused on outdoor landscaping. There would be 600 bicycle spaces, an important feature for UC Davis. The building would be five stories in height and would stand out compared to the two- and three-story projects around it. The campus believed that this building would establish a new height context for future development or redevelopment in the neighborhood. The project would be constructed using the design-build method, which UC Davis had used for about a decade for housing projects, and which helped manage cost and schedule. Ms. Shinnerl drew attention to charts in the background material which compared the cost of this project with ten other comparable projects, at UC and other universities. In terms of adjusted building construction cost per gross square foot, three projects were more expensive than the Segundo Infill project, five projects had similar costs, and two projects were less expensive. The project targeted a Leadership in Energy and Environmental Design (LEED) minimum building certification level of Gold, with a goal to achieve Platinum. The entire project would be 100 percent electric. If approved, the campus would begin construction in spring 2025, with completion anticipated in fall 2027.

Regent Makarechian asked about the rationale for the floor plan and the location of bathrooms in relation to the bedroom units. He asserted that the actual project cost per square foot was higher than stated. Mr. Reguerín responded that the floor plan and location of bedrooms and bathrooms was based on a cluster design. This design was used in other UC Davis housing projects, and student surveys showed a high level of satisfaction with those projects. Associate Vice Chancellor Mike Sheehan explained that this was a cluster design with eight bedrooms per bathroom. In recent surveys and focus groups, UC Davis compared two projects, Tercero Phase Four, which had a similar cluster design, and Shasta Hall, with semi-private bathrooms. The surveys found no difference in resident satisfaction; they were happy with both designs. Custodial, maintenance, and residential life staff expressed a preference for the off-hallway cluster design. These considerations had led to the use of the cluster design in this project.

Regent Makarechian questioned the stated building cost per gross square foot of $536. Ms. Shinnerl acknowledged that construction was expensive and outlined some items that contributed to the total cost. This site would require almost $4 million worth of investment in exterior utilities. UC Davis was converting the entire campus from natural gas to electric power, and it would be challenging to connect this site to the campus' Big Shift project. The campus administration cost of $5.99 million reflected the campus' role as developer; she hoped that this cost would ultimately be lower than projected. "Group 2 & 3 Equipment" represented the cost of equipment and furniture, and not all projects have included these. Another significant cost item was interest during construction. The campus would incur about $5 million worth of interest on this project. The steel frame of this building, which the campus hoped would give the project a long life cycle, also added to the construction cost compared to wood frame projects.

Regent Makarechian stated that these cost items were included in the other projects used for comparison. Other projects also used a suite floor plan, which was more expensive to build than this design, in which bathrooms on different floors are right above each other and which allows for the cheapest piping installation. He questioned the accuracy of student surveys. Students might have stated they were satisfied simply because they did not have an alternative. Mr. Reguerín responded that, in surveys, students sometimes reported feeling isolated and lonely and expressed a wish for more communal spaces. This was also considered in the design, as well as feedback from residential life staff, people who work with students on a daily basis. Mr. Sheehan articulated how the elements of bedroom, bathroom, floor lounge, and dining facilities were part of the community development experience. This model had been successful for the last 15 to 20 years. He expressed confidence in the accuracy of the survey information.

Regent Makarechian reiterated his question about the cost items Ms. Shinnerl had outlined compared to these costs in comparator projects. Ms. Shinnerl referred to the Tercero Phase Four project at UC Davis as an example of a project with a lower cost. This was a four-story wood frame building and so the construction cost was lower. The campus made a larger down payment, and this lowered the total interest. Tercero Phase Four was put out to bid in 2011, when the market was more competitive. Associate Vice President David Phillips commented that the comparable construction cost data reflected building cost only, and did not include all cost items. One should consider net cost per bed, which was an important benchmark. He acknowledged that this was an expensive project but noted that most of the student housing projects approved in recent years had comparable costs per bed. Ms. Shinnerl added that the adjusted building cost per bed for this project was 20 percent lower than the average for the comparator group, and the total project cost per bed would be five percent lower than the average.

Regent Makarechian objected that the per bed comparison was not a good criterion because a different number of beds can be placed within the same square footage. He believed that the state of the market and contractor interest were more favorable for the University today than they were in 2011.

Regent Pérez stated that he shared Regent Makarechian's concerns about how UC compares capital projects. The significant difference between total construction cost and the total cost, including other items that had been described, was problematic. In satisfaction surveys, students might not have real opportunities for comparison. In spite of these concerns, he expressed support for the project.

Regent-designate Brooks expressed concern about the high cost of the project. She asked if there were accessible units in the project for students with disabilities. Interim Associate Vice Chancellor and University Architect Julie Nola responded that the units were accessible.

Regent-designate Brooks commented on the need to provide graduate student housing. She asked about the unit size, supposing that accessible units would be larger. Mr. Sheehan responded that the units were the same size throughout, with American with Disabilities Act compliance. This compliance required meeting specific targets for bathrooms and residence hall rooms. During the room assignment process, the campus works closely with disability services to ensure that students who have needs related to mobility, sight, or diet receive appropriate accommodations. The campus ensures that it has enough rooms within its inventory in a variety of buildings so that these students have some choice in the process. In response to the question about graduate student housing, Mr. Sheehan noted that UC Davis had opened a 1,500-bed graduate student apartment community in the past year. The campus had robust housing offerings for single graduate students as well as graduate student families.

Executive Vice President and Chief Financial Officer Brostrom commented on two aspects of affordability—the cost of construction and the cost of capital. UC's cost of capital was much lower than commercial costs, and this was one reason why UC could provide campus housing at 30 percent below market rates.

Regent Pérez added that UC did not have the cost of land, and UC's financial aid packages were more effective in providing affordability for students than financial aid at most other institutions.

Upon motion duly made and seconded, the Committee approved the President's recommendation as amended and voted to present it to the Board, Regents Cohen, Drake, Elliott, Lee, Pérez, and Reilly voting "aye" and Regent Makarechian abstaining.

4. **CAMPUS INTEGRATED UTILITIES SOLUTIONS, MERCED CAMPUS: PRELIMINARY PLANS FUNDING, PHASE 1 AND PARTIAL PRELIMINARY PLANS FUNDING, PHASE 2**

The President of the University recommended that the Regents:

A. Amend the 2024-25 Budget for Capital Improvements and the Capital Improvement Program to include the following project:

Merced: Campus Integrated Utilities Solutions – preliminary plans for Phase 1, Short-Term Solutions, and partial preliminary plans for Phase 2, Long-Term Solutions – $9,925,000 to be funded with external financing supported by State General Fund appropriations.

B. Approve external financing in an amount not to exceed $9,925,000 plus related interest expense and additional related financing costs to finance the Campus Integrated Utilities Solutions and declare that external financing may be used to reimburse prior expenditures. The following requirements shall be satisfied:

(1) The primary source of repayment shall be from State General Fund appropriations. Should State General Fund appropriation funds not be available, the President of the University 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.

(3) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

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

Chancellor Muñoz noted that UC Merced's initial years were marked by the establishment of essential facilities and programs and the construction of key teaching and research facilities, such as the Kolligian Library, Classroom and Office Building 1, and Science and Engineering Building 1. The campus has been at the forefront of sustainability in construction and design, including in the construction of its central plant and initial infrastructure facilities. The study for which approval was being requested in this item would ensure that environmentally friendly facilities including but not limited to the Medical Education Building currently in construction, Classroom and Office Building 3, and the "Promise" student housing project, have the capacity to function in the most climate-sensitive way possible. The University's initial investment in UC Merced was meant to support the first phase of development. The Campus Integrated Utilities Solutions was critical to guiding UC Merced's next phase of development, which was already under way.

Associate Vice Chancellor Andrew Boyd recalled that the groundbreaking for the Medical Education Building had taken place in May, during the Regents meeting at UC Merced. The infrastructure requirements for the Medical Education Building were representative of the requirements associated with facilities necessary to support the growth of a robust academic mission and vibrant student life environment. UC Merced had begun as a blank, 1,026-acre site envisioned as a future university campus. Today, 219 acres or about 20 percent of that campus had been developed, with more than 800 acres remaining to be planned and built upon. Underpinning these future facilities were complex utility systems and water and drainage solutions. The campus was initially designed to include several specific facilities essential to instruction and research, and the list of these facilities provided planners and engineers with the basis for utility designs. The central plant, delivered first, was an innovative facility that today supported several utility systems including power, chilled water, and steam for much of the campus. The initial design referred to the central plant as "node one," intending it to be part of a nodal system and to support the development of 2.9 million gross square feet. Each subsequent node of the system would be located in proximity to research facilities that were anticipated to require the greatest utility capacity. With the recent development of the 2020 Project, branch extensions from the node one central plant were included to support new facilities and the Project left potential sites for infill projects that would connect to utilities outlined in the 2020 Project master plan.

Unfortunately, the 2020 Project did not add capacity to utility systems or provide utility infrastructure south of Bellevue Road. The Campus Integrated Utilities Solutions project would serve as a precursor for future development south of Bellevue Road in support of ongoing campus expansion and would be aligned with the original basis of design, extending the concept of node two. Today, with the inclusion of almost 375,000 gross square feet that made up the Medical Education Building, the "Promise" housing project, and the Classroom and Office Building 3, it was likely that the campus would exceed the original capacity of the node one parameters. The node one central plant has served the campus well. It was initially built with excess capacity to enable installation of additional equipment such as chillers and cooling towers to align with the expansion of the campus. Over time, and especially more recently, the campus has optimized and maximized the capacity and productivity of this plant to enable the campus to continue to grow. The supply of electricity, especially during the early nighttime hours around 8:00 p.m., was reaching the limits of the built infrastructure both for the utility provider, Pacific Gas and Electric, and for the campus.

The original basis of design expected the campus to develop east across Le Grand Canal. While this was still possible, the most economical near-term development was to the south of Bellevue Road, which was lower in elevation; this created engineering challenges for the sanitary sewer system. Mr. Boyd noted that while these constraints might seem problematic, they in fact reflected a growing, thriving campus. The planning UC Merced intended to pursue in the Campus Integrated Utilities Solutions project was holistic in nature and would leverage the utility master plan, which had already been initiated and which the campus expected to complete this fall. Phase One of the Campus Integrated Utilities Solutions project would assess the maximum capacity of the existing infrastructure to ensure resilience in operations. Phase Two, through a formal assessment of options, would create a road map for scaling campus utility systems including power, chilled water, potable water, sewer, and stormwater in support of the 2020 Long Range Development Plan. Additionally, the campus would develop a financial analysis to establish the project affordability envelope and enable leadership to make decisions on a preferred technical solution timeline and phasing for individual utility subprojects.

In a region likely to be increasingly affected by climate change with extreme temperatures, air quality impacts due to a wildfire and smoke, and volatility in water supply, the campus felt that it was imperative to focus on climate resilience in its planning as well. Building on the vision of the initial architects and engineers who created the central plant, the campus has optimized the efficient use of energy and reduced its carbon footprint dramatically. The campus expected that during this planning phase, it would push the boundaries of existing and new technologies in the same visionary tradition.

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, Lee, Makarechian, Pérez, Reilly, and Sherman voting "aye."

5. **MULTIDISCIPLINARY LIFE SCIENCES BUILDING, SAN DIEGO CAMPUS: BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING CONSIDERATION OF AN ADDENDUM TO THE 2018 LONG RANGE DEVELOPMENT PLAN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

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: San Diego: Multidisciplinary Life Sciences Building – preliminary plans – $14 million, to be funded from campus funds.

To: San Diego: Multidisciplinary Life Sciences Building – preliminary plans, working drawings, construction, and equipment – $383.5 million, to be funded with $343.5 million from external financing and $40 million from gift funding.

B. The scope of the Multidisciplinary Life Sciences Building project be approved. The project shall provide approximately 202,000 gross square feet including new space for biomedical and biological sciences research programs, undergraduate instructional laboratory and support space, wet research laboratory and support space, dry research laboratory and support space, and faculty offices and administrative support space. Shared spaces would include vivarium, conference, and building services. The project will also include site utilidor infrastructure for future campus expansion.

C. The President be authorized to obtain external financing in an amount not to exceed $343.5 million plus additional related financing costs to finance the Multidisciplinary Life Sciences Building project and declare that external financing may be used to reimburse prior expenditures. 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 Diego 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.

(4) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

D. The President be authorized to obtain interim financing in an amount not to exceed $40 million, plus additional related financing costs to finance the Multidisciplinary Life Sciences Building project and declare that external financing may be used to reimburse prior expenditures. The San Diego 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 or both are not received within five years from the initial

financing draw in the full amount of the outstanding interim financing, the amount of outstanding interim financing in excess of the amount of gifts and pledges received will be converted to long-term external financing or the San Diego campus will pay down, within a reasonable time, the amount of outstanding interim financing in excess of the amount of gifts and pledges received.

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

(6) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

E. Following review and consideration of the environmental consequences of the Multidisciplinary Life Sciences 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 Multidisciplinary Life Sciences Building project, having considered the 2018 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the La Jolla Campus and Addendum No. 14 to the 2018 LRDP EIR.

(2) 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.

(3) Approve the design of the Multidisciplinary Life Sciences Building 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.]

To provide context for this Multidisciplinary Life Sciences Building project, Chancellor Khosla noted that the last wet laboratory facility at UC San Diego was built in 2014. In the last decade, the campus has experienced an increase of more than $800 million in its research program. The main motivation for this project was the redevelopment of the Hillcrest campus and the demolition of many buildings at that location. One of the buildings to be demolished was a research building which housed infectious disease research, and this research would be moved to the Multidisciplinary Life Sciences Building. This type of research had stringent laboratory requirements regarding air flow and other factors, and this had a significant impact on the project cost. The new building would combine biological and life sciences, in part to promote synergy in neuroscience and neurobiology, and in part to build up infrastructure. The building would include a vivarium and a teaching laboratory for biological sciences. Another cost factor was a 23-foot grade change on the site. Wet laboratories would take up about 75 percent of the laboratory space, whereas, in a typical research building, wet and dry laboratories would each account for 50 percent. There would be 30 procedure rooms with 53 fume hoods, which were costly to install and maintain. Chancellor Khosla acknowledged that the cost of the project was higher than he would like, but this facility was critically needed by the campus.

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, Lee, Makarechian, Pérez, Reilly, and Sherman voting "aye."

6. **UCSF BENIOFF CHILDREN'S HOSPITAL OAKLAND NEW HOSPITAL BUILDING, SAN FRANCISCO CAMPUS: BUDGET, SCOPE, EXTERNAL FINANCING, AMENDMENT NUMBER 11 TO THE UC SAN FRANCISCO 2014 LONG RANGE DEVELOPMENT PLAN, AND DESIGN FOLLOWING CERTIFICATION OF AN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

The President of the University recommended that:

A. The 2024-25 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: <u>UCSF Benioff Children's Hospital Oakland New Hospital Building</u> – preliminary plans – $84 million funded from hospital reserves.

To: San Francisco: <u>UCSF Benioff Children's Hospital Oakland New Hospital Building</u> – preliminary plans, working drawings, construction, and equipment – $1,491,000,000 funded from external financing ($891 million), gift funds ($350 million), hospital reserves ($163 million), and Children's Hospital grant funds ($87 million).

B. The scope of the UCSF Benioff Children's Hospital Oakland New Hospital Building project be approved. The project shall provide an approximately 277,500-gross-square-foot (GSF) new hospital building, providing approximately 104 patient beds, a new and expanded emergency department, imaging, and surgical services; renovation of approximately 11,800 GSF in the existing Patient Tower and Diagnostic and Treatment Building to enhance inpatient clinical services; and a 270-space, approximately 103,180-GSF parking structure with a rooftop helistop.

C. The President be authorized to obtain external financing in an amount not to exceed $891 million plus additional related financing costs to finance the UCSF Benioff Children's Hospital Oakland New Hospital Building and declare that external financing may be used to reimburse prior expenditures. 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.

(4) Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

D. Following review and consideration of the environmental consequences of the UCSF Benioff Children's Hospital Oakland New Hospital 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) Certify the Environmental Impact Report for the UCSF Benioff Children's Hospital Oakland New Hospital Building project.

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

(3) Adopt the CEQA Findings and Statement of Overriding Considerations for the UCSF Benioff Children's Hospital Oakland New Hospital Building project.

(4) Approve Amendment No. 11 to the UC San Francisco 2014 Long Range Development Plan.

(5) Approve the design of the UCSF Benioff Children's Hospital Oakland New Hospital Building 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 recalled that the Regents had received reports about this project for almost a decade, and he briefly outlined its history. In 2012, what was then called Children's Hospital Oakland was a freestanding private nonprofit safety net hospital. It had existed for close to 100 years and had served the community extraordinarily well over that time, taking care of a very underserved population and providing outstanding health care. Beginning around 2010, the financial aspects of operating this standalone hospital, 70 percent or more of whose patients were Medi-Cal patients, became increasingly difficult. The facilities were aging, and the hospital needed a significant capital infusion and an operating partner. After Children's Hospital Oakland had discussions with other possible partners, UCSF and Children's Hospital Oakland entered into an affiliation agreement, approved by the Regents in January 2013. UCSF began operating the hospital as the sole member owner of the still private 501(c)(3) organization, but the University became solely responsible for finances and future funding.

UCSF entered this agreement knowing that major facility upgrades would be needed. Before the affiliation, the hospital had developed a capital plan divided into two phases. Phase One was a rebuilding of the outpatient facility and Phase Two was a rebuilding of the inpatient facility, but there was really no line of sight to accomplish these goals as a standalone hospital. UCSF and Children's Hospital Oakland began operating the facility jointly in January 2014. In July 2016, the Regents approved $50 million in external financing, and UCSF raised an additional $90 million in philanthropy to execute Phase One, which was to build an entirely new ambulatory care building on the Oakland campus. The building opened in 2018 and now experienced almost 250,000 patient visits annually. UCSF then turned its attention to Phase Two, which was the more complex modernization of the inpatient facility. This plan was first presented as a concept to the Health Services Committee in June 2021, and preliminary plans funding was approved by the Regents in September 2021. UCSF independently financed two make-ready projects, the Administrative Support Building and the Infrastructure Improvements project. The budget for the Administrative Support Building was approved via delegated authority, and the Regents approved the Infrastructure Improvements project in September 2023. These improvements included relocation of utilities and a major retaining wall. In September 2023, the Regents also approved the delivery mechanism for the New Hospital Building, the Integrated Form of Agreement. The item today included a request for approval of the final scope and budget, the ability to access the debt market, approval of an amendment to the Long Range Development Plan, and certification of the Environmental Impact Report.

UCSF Health Chief Executive Officer Suresh Gunasekaran explained that the two UCSF Benioff Children's Hospitals, in Oakland and San Francisco, had an integrated management team that treated the two campuses as one unified hospital. Most care at both campuses was delivered by faculty of the UCSF School of Medicine. UCSF was proud of these integrated and complementary offerings. The Oakland site had a Level One trauma center, and the San Francisco hospital had an integrated women's and children's healthcare delivery model; together, this made a powerful platform for children's care. UCSF Health continued to be in a strong financial position. Preliminary unaudited data for fiscal year 2024 indicated earnings before interest, depreciation and amortization (EBIDA) of well over $800 million, an 11 percent operating EBIDA. Of this $800 million, about $170 million came from the children's hospitals. Considered together, the Oakland and San Francisco hospitals were a successful business. UCSF Health at this time had $2.8 billion in unrestricted cash on its balance sheet, representing 160 days of cash on hand. The financial outlook for the coming decade was strong. With its ten-year plan, UCSF expected annual operating EBIDA to cross the $1 billion mark per year beginning in fiscal year 2026, even with the new hospital project on the Parnassus campus and this project in Oakland. Mr. Gunasekaran anticipated that UCSF Health would not dip below 150 days' cash on hand at any time during the course of this construction, and the debt service coverage ratio would not drop below 4.5. He expected that the two Benioff Children's Hospitals would start at a baseline of $170 million in EBIDA and surpass $200 million when the New Hospital Building opens. UCSF believed that this project would lead to improvement in its ability to care for inpatients and outpatients.

UCSF Health Senior Vice President Nicholas Holmes expressed UCSF's dedication to strengthening and expanding the care provided at Benioff Children's Hospital Oakland with the support of numerous community leaders, some of whom spoke earlier during the public comment period, as well as community-based organizations and community members. This new hospital building was a covenant with the community, creating a state-of-the-art facility to support and extend the excellent care provided by UCSF staff to all patients regardless of their socioeconomic status and maintaining the 100-year tradition of pediatric care in Oakland. This project would increase patient access, meet critical community health needs, and provide healing environments that support patients and their families on their health journeys. The project would provide modernization and updated, necessary technology. The project was critical to UCSF's comprehensive pediatric healthcare delivery, allowing Benioff Children's Hospitals to support healthy communities for decades to come, to serve children regardless of their families' ability to pay, and to address health disparities by providing access to care as a pediatric safety net hospital in the region. The project would help the hospital to maintain essential services to support its designation as a Level One pediatric trauma center; Dr. Holmes noted that there were only six such centers in the State of California. Benioff Children's Hospital Oakland provided a gamut of comprehensive pediatric care services from community-based outpatient primary care clinics to subspecialty complex care clinics like the Fetal Treatment Center and the Comprehensive Sickle Cell Center. The hospital had almost 40,000 emergency department visits per year. Inpatient services included neonatal and pediatric intensive care, oncology, bone marrow transplant, and rehabilitation medicine services. One service which had so far not been provided at this site was inpatient behavioral health. This project would create the first such unit in this region, with a 20-bed unit dedicated to pediatric behavioral health, providing a service critically needed today.

Regent Makarechian asked Chancellor Hawgood to comment on how the two hospitals operated jointly. Chancellor Hawgood noted that, while UCSF saw the nine counties of the Bay Area as the primary market for its pediatric and adult services, patients came to UCSF from a much wider geographic space ranging from Hawaii to the Midwest. At the time of the affiliation a decade ago, UCSF conceived that it would be running a single pediatric or children's hospital enterprise at two different sites as well as in a number of ambulatory sites throughout the Bay Area. The two sites were run by a single management team. Patients go to the hospital, in Oakland or San Francisco, where the services are best aligned to their particular health issue. This arrangement of operating the two hospitals together allowed UCSF to conceive of the hospitals as a single financial entity and to maintain supplemental payments from the State government due to the Oakland location's status as a safety net hospital.

Regent Reilly commended and congratulated UCSF on this project. The Benioff Children's Hospitals were an important asset here in the Bay Area.

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, Lee, Makarechian, Pérez, Reilly, and Sherman voting "aye."

7. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – AMENDMENT TO PROVIDE VESTING CREDIT FOR ELIGIBLE EMPLOYEES TRANSFERRING FROM DIGNITY HEALTH FACILITIES TO UCSF**

The President of the University recommended that:

A. The University of California Retirement Plan ("UCRP") be amended to grant an eligible Dignity Health employee who transitions employment directly from Dignity to the University of California, San Francisco ("UCSF") on or after the closing date of the Affiliation Agreement between UCSF and Dignity Health, and as a direct result of the affiliation, and who otherwise is eligible to begin accruing service credit in UCRP as a UCSF employee, service credit under UCRP solely for vesting purposes (and not for purposes of benefit accrual) that is equivalent to the vesting service accrued by the employee under plans administered by Dignity Health and its affiliates (the "Dignity Plans") as of the employee's transition date, taking into account the different methods of crediting vesting service under the UCRP and the Dignity Plans.

B. The cost of providing the vesting credit under UCRP be funded by the acquired hospitals through UCSF via a supplemental contribution to UCRP during calendar year 2024.

C. Authority be delegated to the Plan Administrator to amend the UCRP as necessary to implement the change.

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

Executive Vice President and Chief Operating Officer Nava explained that this item requested authorization for the President to amend the UC Retirement Plan (UCRP) to implement the terms of the agreement between UC and Dignity Health (Dignity), specifically regarding the provision of UCRP vesting credit for service earned at Dignity by eligible employees who were transitioning to UC employment following the acquisition.

Vice President Lloyd reported that the UCSF acquisition of Saint Francis Memorial Hospital, St. Mary's Medical Center, and associated outpatient clinics, as well as the affiliation agreement between UC and Dignity, was scheduled to close on August 1. The agreement reflected a member substitution arrangement, meaning that there would be no termination and rehiring of Dignity employees. Unlike other recent UC Health transactions, in this case the employees would transition or transfer to University employment on the closing date. Recognizing transitioning employees' Dignity service for UCRP vesting purposes would support the acquisition and was in alignment with the affiliation agreement and UCSF past acquisitions, ensuring consistent treatment for employees at the same location. Prior Dignity service would only count toward the first five-year vesting requirement for UCRP. It would not affect benefit accruals, which are based only on actual UC service. Nor would prior service count toward retiree health benefit eligibility. For example, if a Dignity employee had three years of vesting service at Dignity and transitioned to UCSF, the employee would be fully vested in the UCRP after accruing two additional years of service credit at UCSF. If the employee chose to retire after two years at UCSF, they would be eligible to retire but their retirement benefit formula would only take into account the two years of UC service. The Regents' consulting pension actuary, Segal, estimated that providing this vesting service credit would result in an increase in the UCRP's present value of benefits of approximately $30 million. This represented the anticipated cost for allowing retirement benefits to be paid to employees who leave employment during their first five years at UC. A monthly pension benefit would be paid instead of the refund of member contributions that would normally be paid to an employee who leaves before being vested in the UCRP.

Committee Chair Cohen asked about the $30 million estimate and when UCSF had learned of this, stressing that the closing would occur in only a few weeks' time. Mr. Gunasekaran responded that UCSF had not insisted on a data transfer during the due diligence phase and so missed a window of opportunity for actuarial engagement. Subsequently, during the acquisition process and an extended review process by the Attorney General, UCSF did not have access to the data. UCSF only gained access to the data 45 days prior. Mr. Gunasekaran acknowledged that UCSF could have asked the actuary to use the black box data to provide an estimate but failed to do so and missed an opportunity. Once UCSF approved the term sheet, it was no longer able to access employee data until closing of the deal. Nevertheless, he believed that, even if UCSF had received this information, this would have been a cost estimate. There had been significant employee turnover during the last year, while the transaction was being negotiated. The current data were much more accurate than the data UCSF would have had earlier. There was a misstep in the black box process that UCSF did not anticipate.

Committee Chair Cohen asked if it was the responsibility of Mr. Gunasekaran and his team to anticipate the implications for the UCRP. Mr. Gunasekaran responded in the affirmative and stated that this was his mistake. The business group negotiating the transaction identified this as a cost. He knew that there was a cost but had failed to ascertain it.

Committee Chair Cohen asked how this $30 million estimate was derived. He requested confirmation that there would not be a cross subsidy between incoming employees and existing employees and UCRP participants. Segal representative Todd Tauzer responded that, once data were obtained on the employees' service, salary, gender, and other factors. Segal analyzed these data in scenarios with and without vesting based on service with Dignity. This was a fairly straightforward calculation. He confirmed that no cross subsidy would occur.

Committee Chair Cohen noted that UCSF would pay $30 million and asked about the effect or consequences if this estimate were incorrect. Mr. Tauzer responded that, once these employees entered the UC system, their data would be reviewed again, and the evaluation of this cost would become more accurate. He remarked that Segal was considering the total present value of benefits, not just the cost in year one, but the anticipated cost over time as the benefit is provided all members. This was being funded right at the beginning, which was a conservative way to address the cost. Ms. Nava added that, once the acquisition was complete and UCSF knew which employees would be transitioning to UC, the liability would be recalculated, and UCSF would fund this amount.

Regent Pérez requested confirmation that in this vesting credit, the financial exposure was limited to the first five years. During this period, employees who retire and who would otherwise not have been fully vested in UCRP and who would have received a rebate would now receive a benefit. Mr. Tauzer confirmed that this understanding was correct.

Regent Pérez asked if UC would have closed the window for liabilities after five years. Mr. Tauzer responded that the only vesting credit was from past service with Dignity. Service with Dignity can be used for vesting purposes only. It would not be used to provide any additional benefits. He confirmed that the liability was limited to years zero to five.

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, Lee, Makarechian, Pérez, Reilly, and Sherman voting "aye."

8. **UPDATE ON THE FINAL 2024-25 STATE BUDGET**

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

Executive Vice President and Chief Financial Officer Brostrom informed the Committee that, in the last three days, the University had successfully sold $1.683 billion in bonds. This would help the University with new acquisitions and refunding. The University's credit remained strong.

Mr. Brostrom then recalled that Governor Newsom had signed State budget legislation at the end of June. The Budget Act of 2024 reflected total expenditures of about $298 billion with $211 billion from State General Funds, which was about $14 billion less in expenditures of State General Funds compared with the prior year budget. The State was proposing a multi-year approach to resolving the budget deficit, which was the largest ever single-year budget shortfall. The State was proposing actions intended to address a $48 billion deficit in 2024-25 and a projected deficit of $28.4 billion in 2025-26 through a mix of strategies including the use of the State's "rainy day" fund. Under the multi-year plan, the State would use $5.1 billion from the rainy day fund in 2024-25 and $7.1 billion in 2025-26. The final budget was a serendipitous outcome for the University. Following the Governor's May Revision, UC was expecting a reduction of $137 million to its ongoing support. Instead, the final budget provided UC with an increase of about $135 million or a 2.9 percent increase over the past year. The University would also receive $2.4 million in one-time funding for research.

Interim Associate Vice President Caín Diaz reported that the University would receive about $259 million in new ongoing support, consistent with elements of the budget plan approved by the Regents in November 2023. This included about $228 million to support core operations, equivalent to a five percent base budget adjustment. Per the Compact with the Governor, a portion of this funding would be used to support enrollment growth next year. The budget also included $31 million for the third year of the nonresident tuition buyout at UC Berkeley, UCLA, and UC San Diego. The Regents' request for $4.3 million to establish three new programs in health sciences was not funded.

Mr. Diaz then outlined funding outside the Regents' budget request. The State would provide $14.5 million in ongoing support to finance a new medical education building at UC Merced. This was consistent with the Legislature's intent as expressed in the Budget Act of 2019. However, to address the budget deficit, the State also included adjustments to the University's budget: a reduction of $125 million, expected to be restored next year, and the removal of $13.5 million in State General Funds previously provided in addition to Proposition 56 tobacco tax revenues, to bring total support for graduate medical education from both fund sources to $40 million.

With respect to one-time funding, and funding or actions outside the Regents' budget request, the University would receive $2.4 million to support the Nutrition Policy Institute, in Agriculture and Natural Resources. The University's request for $1.2 billion in one-time capital support was unfortunately not funded. The needs that these capital projects were intended to address—replacing failing building systems, improving energy efficiency, seismic safety, and expanding capacity—were still present and growing, but UC would need to find other ways to address them over time.

As mentioned earlier, the State had a multi-year plan for addressing the budget deficit, and this was outlined through 2025-26. The Budget Act also included intent language reflecting proposed funding levels for the University through 2026-27 and deferral funding that would be received in 2027-28. While a current Legislature cannot commit a future Legislature to specific funding levels as State revenues and the general economy can change, this nevertheless gave the Office of the President an opportunity to work with the campuses to plan over multiple fiscal years. The State budget anticipated a net reduction of a little over $250 million next year to the University's ongoing support. While the $125 million reduction this year was expected to be restored, UC would also receive a 7.9 percent reduction, consistent with cuts that other State entities were beginning to absorb this year. Deferrals of ongoing investments in UC consistent with the Compact were put in place through 2027-28. The funding the University would have otherwise received in 2025-26 was deferred to 2026-27, and funding for 2026-27 was deferred to 2027-28. The State budget included one-time funds in 2026-27 and 2027-28 meant to recognize support UC would have received in the prior year.

Mr. Brostrom related that the State budget included language requiring the campuses to notify students in advance of the upcoming fall term of existing State and federal law as well as institutional policies, processes, and resources which are intended to protect freedom of speech but also ensure the safety of students, staff, and faculty on campus. The State made $25 million of UC's ongoing General Fund appropriation contingent on the submission of a formal report by October 1 on these activities. The Middle Class Scholarship program would be funded at $926 million this year, higher than the prior year funding level. This was a very important element in UC's efforts to provide debt-free pathways for students. As part of its budget solutions to address the deficit, the State was withdrawing $5 million in one-time funding that had been appropriated to UC in 2021-22 to support faculty equal opportunity hiring practices.

The University would continue to prioritize its commitment to the Compact and its goals. Most of these goals corresponded to goals that UC had already embraced, such as increasing graduation rates, closing equity gaps, working toward debt-free pathways, and enhancing collaboration with the California Community Colleges. The fiscal outlook for the next several years was not promising. The intent language in the Budget Act signaled a net reduction over the next two years, with a year deferral of the restoration of Compact funding. The Legislature had approved an education bond for the November 24 ballot but funding for UC and the California State University was not included in the measure. The University would need to work with the Legislature and the Governor's administration on other opportunities for capital funding, most notably lease revenue bonds.

While the State budget was a positive development, the outcome fell short of the budget approved by the Regents in November 2023. That budget had anticipated a shortfall between revenues and expenses. Fortunately, there has been positive financial news, and other revenue sources would help bridge the shortfall. Most notably, the investment returns on UC's working capital pools—the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP), and the Blue and Gold Pool—far outpaced what UC had budgeted for investment income. Preliminary information indicated a return of over 12 percent for TRIP, over 15 percent for the Blue and Gold Pool, and 5.5 percent for STIP. Given that UC had ended the fiscal year with working capital pools totaling $19.6 billion, this would yield hundreds of millions of dollars in additional discretionary revenues. These were one-time revenues that campuses could use for bridge funding strategies and capital projects.

The University would also consider other revenue opportunities. One such opportunity was nonresident tuition, which had been part of the Tuition Stability Plan since its inception. UC nonresident tuition levels were significantly below those at the University of Virginia and the University of Michigan, two comparator schools. The Office of the President would develop a proposal on nonresident tuition for discussion and action at future meetings. There were questions about the timeline and type of increase, whether a percentage or absolute dollar increase. If the University doubled the increase it was anticipating under the Tuition Stability Plan, which was about 3.5 percent, this would yield an additional $815 million systemwide. The Office of the President would also recommend removing return to aid on nonresident tuition, currently at 20 percent. Many campuses already used some form of discounting for nonresident students, and a systemwide return to aid might be redundant. Another possible action would be for the Regents to adopt a maximum for nonresident tuition while allowing campuses to set lower levels. This would be especially important for those campuses with nonresident student enrollment levels below the 18 percent cap—Santa Cruz, Riverside, and Merced.

Student observer Miguel Craven emphasized the importance of including students in budget discussions now and in the coming years, at campuses and systemwide, so that the University is aware of student priorities, which might change over time. As the campuses develop their budgets and are forced to make cuts to programs, the University might consider systemwide guidelines regarding which programs should not be cut, thus protecting certain programs on all campuses. This would be desirable for programs pertaining to student retention and graduation rates. The University should avoid hiring freezes, especially as student enrollment was increasing.

Regent Pérez reflected that the budgets being discussed were expressions of values. It was fortunate that the Legislature and the Governor reached a solution that valued the investment in public higher education. Nevertheless, it would be a mistake for the University to take the good news of this year and not make significant adjustments in its own budgeting for the next year. The University must also regard the signals being given for next year and let them guide UC through the adjustments it should make in the current budget year. It would be appropriate to examine nonresident tuition as a source of additional revenue, and in the context of the cohort model. He asked when the current cohort period would end. Mr. Brostrom responded that this was the fifth and last year of the program, which would be reviewed in spring 2025.

Regent Pérez stated that UC, at this juncture, must decide on its actions regarding California resident students and then have a discussion about whether to make adjustments to nonresident tuition. It made sense to allow for variability among the locations, but there should be guidelines. Campuses with nonresident enrollment significantly below the cap should have ways to incentivize and attract out-of-state students. Regent Pérez expressed concern about removing return to aid. Return to aid should be an established feature of the program, rather than making an assumption that campuses have a means of discounting tuition for these students. The Regents had not yet had a discussion about these tradeoffs. Regent Pérez expressed disagreement with Mr. Craven about hiring freezes. Hiring freezes might be an appropriate action in some circumstances as UC prepared for what would likely be a negative budget year next year. Regarding the fact that UC and CSU were not included in the State education bond measure, the Regents must have a detailed discussion about why the University was not included. In part this was due to public perception, and UC must address reputational issues. Mr. Brostrom responded that there would be a summary of cohort tuition and a discussion of future resident and nonresident tuition at a future meeting.

Committee Chair Cohen observed that the Legislature had given UC a chance to be more thoughtful about approaching budget deficits than it had been in the past. In his view, rushing to increase nonresident tuition, based on comparison with peer institutions, was not a thoughtful solution.

The meeting adjourned at 4:45 p.m.

Attest:

Secretary and Chief of Staff