

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

September 18, 2024

The Finance and Capital Strategies Committee met on the above date at the UCLA Luskin Conference Center, Los Angeles campus and by teleconference meeting conducted in accordance with California Government Code §§ 11133.

Members present: Regents Cohen, Elliott, Lee, Makarechian, Matosantos, Pérez, and Sherman; Ex officio members Drake and Reilly; Advisory members Brooks, Cheung, and Komoto; Chancellors Hawgood, Larive, and May and Interim Chancellor Hunt

In attendance: Regents Beharry, Hernandez, Leib, Pack, Salazar, and Sarris, Faculty Representative Palazoglu, Secretary and Chief of Staff Lyall, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Provost Newman, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Rubin, Interim Senior Vice President Turner, Vice Presidents Brown and Kao, Chancellors Gillman, Lyons, Muñoz, Wilcox, and Yang, and Recording Secretary Johns

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

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes the meeting of July 17, 2024 were approved, Regents Cohen, Drake, Elliott, Lee, Makarechian, Pérez, Reilly, and Sherman voting “aye” and Regent Matosantos abstaining.¹

2. CONSENT AGENDA

A. *La Jolla Outpatient Pavilion, San Diego Campus: Preliminary Plans Funding*

The President of the University recommended that the Regents amend the 2024–25 Budget for Capital Improvements and the Capital Improvement Program to include:

San Diego: La Jolla Outpatient Pavilion – preliminary plans – \$30 million, to be funded from hospital reserves.

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

B. ***Falling Leaves Foundation Medical Innovation Building, Irvine Campus:
Budget Amendment and Interim Financing***

The President of the University recommended that:

- (1) The 2024–25 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Irvine: Falling Leaves Foundation Medical Innovation Building – design, construction, and equipment – \$249,999,000 to be funded from gifts (\$50 million), external financing (\$139,999,000 million), and campus funds (\$60 million).

To: Irvine: Falling Leaves Foundation Medical Innovation Building – design, construction, and equipment – \$262,599,000 million to be funded from gifts (\$62.6 million), external financing (\$139,999,000), and campus funds (\$60 million).

- (2) The President be authorized to obtain additional interim financing of \$5,284,000 for a total amount not to exceed \$24,584,000 plus additional related financing costs to finance the Falling Leaves Foundation Medical Innovation Building and declare that external financing may be used to reimburse prior expenditures. The Irvine campus shall satisfy the following requirements:

- a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
- b. 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.
- c. 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 Irvine campus will pay down, within a reasonable time, the amount of outstanding interim financing in excess of the amount of gifts and pledges received.
- d. As long as the debt is outstanding, the general revenues of the Irvine campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

- e. The general credit of the Regents shall not be pledged.
- f. Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

C. ***Funding Reallocation, UC Davis Health: External Financing Approval, Sacramento Ambulatory Surgery Center and Folsom Medical Office Building***

The President of the University recommended that:

- (1) The 2024–25 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Davis: Sacramento Ambulatory Surgery Center (“The 48X Complex”) – preliminary plans, working drawings, construction, and equipment – \$589 million to be funded from hospital reserves (\$289 million) and external financing (\$300 million).

To: Davis: The 48X Complex – preliminary plans, working drawings, construction, and equipment – \$569,698,000 to be funded from external financing.

- (2) The President be authorized to obtain additional external financing of \$269,698,000 in a total amount not to exceed \$569,698,000 to finance the 48X Complex plus additional related financing costs and declare that external financing may be used to reimburse prior expenditures. The President shall require that:

- a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
- b. As long as the debt is outstanding, the revenues of UC Davis Health shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
- c. The general credit of the Regents shall not be pledged.
- d. Any reimbursements will meet all requirements set forth in Treasury Regulations Section 1.150-2.

- (3) The 2024–25 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Davis: Folsom Medical Office Building for the Folsom Center for Health – preliminary plans, working drawings, construction, and

equipment – \$182.54 million to be funded from hospital reserves (\$81.74 million) and external financing (\$100.8 million).

To: Davis: Folsom Medical Office Building – preliminary plans, working drawings, construction, and equipment – \$182.54 million to be funded from hospital reserves (\$36.54 million) and external financing (\$146 million).

- (4) The President be authorized to obtain additional external financing of \$45.2 million in a total amount not to exceed \$146 million to finance the Folsom Medical Office Building plus additional related financing costs and declare that external financing may be used to reimburse prior expenditures. The President shall require that:
- a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - b. As long as the debt is outstanding, the revenues of UC Davis Health shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - c. The general credit of the Regents shall not be pledged.
 - d. 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.]

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

3. **UCSF CLINICAL AND LIFE SCIENCES BUILDING, SAN FRANCISCO CAMPUS: AMENDMENT NUMBER 12 TO THE UC SAN FRANCISCO 2014 LONG RANGE DEVELOPMENT PLAN AND DESIGN FOLLOWING ADOPTION OF FINDINGS PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

The President of the University recommended that the Regents, following review and consideration of the environmental consequences of the UCSF Clinical and 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, and following review and consideration of the previously certified Potrero Power Station Mixed-Use Development Project Final Environmental Impact Report (PPS Final EIR) (State Clearinghouse #2017112005), certified by the City of San Francisco on January 30, 2020, of which the proposed UCSF Clinical and Life Sciences Building project is a part:

- A. Determine that the proposed project is consistent with the PPS Final EIR and that no further environmental analysis pursuant to CEQA is required, and adopt the CEQA Findings for the UCSF Clinical and Life Sciences Building project.
- B. Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the San Francisco campus.
- C. Approve Amendment No. 12 to the UCSF's 2014 Long Range Development Plan (LRDP) to include the project site in LRDP Chapter 10, Smaller Owned Sites.
- D. Approve the design of the UCSF Clinical and Life Sciences 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 briefly introduced the item.

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

4. **PARNASSUS CENTRAL CAMPUS SITE IMPROVEMENTS, SAN FRANCISCO CAMPUS: BUDGET, SCOPE, EXTERNAL FINANCING, AND DESIGN FOLLOWING ADOPTION OF FINDINGS 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: Parnassus Central Campus Site Improvements – preliminary plans – \$4,615,000, funded from campus funds and transferred to the plant expenditure ledger.

To: San Francisco: Parnassus Central Campus Site Improvements – preliminary plans, working drawings, and construction – \$125,895,000, funded from external financing (\$90,895,000) and campus funds transferred to the plant

expenditure ledger (\$35 million).

- B. The scope of the Parnassus Central Campus Site Improvements project be approved. The project shall provide site improvements in the central core of the Parnassus Heights campus site, including extending utilities to existing and future buildings and demolishing the School of Nursing Building.
- C. The President be authorized to obtain external financing in an amount not to exceed \$90,895,000 plus additional related financing costs to finance the Parnassus Central Campus Site Improvements 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 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.
 - (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 Parnassus Central 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 CEQA Findings for the Parnassus Central Campus Site Improvements project, having considered the previously certified Comprehensive Parnassus Heights Plan Final Environmental Impact Report (CPHP Final EIR).
 - (2) Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the San Francisco campus, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the CPHP Final EIR.
 - (3) Approve the design of the Parnassus Central Campus Site Improvements 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 introduced the item. The Parnassus Central Campus Site Improvements project was part of the long-range comprehensive plan for the refurbishing and renewal of the historic UCSF Parnassus campus. The proposed project would provide extensive site improvements to the central core of the campus and allow UCSF to reroute important utilities to the Parnassus Research and Academic Building, which was being built on the west end of the campus, and to prepare the infrastructure for future development of the west end of campus. The item also called for the demolition of the current School of Nursing building, which had a Seismic Performance Level of VI, and would allow UCSF to landscape this site, over the rerouted utilities, to create a welcoming central hub and improved landscaping. Pursuing this project now, while the Parnassus Research and Academic Building was under construction, was more efficient and cost-effective.

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

5. **CAL SOFTBALL FIELD RENOVATION, BERKELEY CAMPUS: AMENDMENT OF BUDGET, EXTERNAL FINANCING, SCOPE, AND DESIGN FOLLOWING CERTIFICATION OF AN ENVIRONMENTAL IMPACT REPORT PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

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

Committee Chair Cohen noted that there were a number of outstanding questions about this item. He stressed the Committee's commitment to equity for women's athletics. He suggested that action on this item be deferred to a future meeting.

6. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2025–26 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 recalled that an update on the final State budget for 2024–25 had been provided at the July meeting. That budget was an important context for the discussion of the following year's core funds budget plan for UC, which would be presented in November.

The current-year budget was one element of the multi-year approach by Governor Newsom and the Legislature to resolve the State budget deficit, with actions intended to address a \$48.6 billion deficit in the current year, 2024–25, and a projected deficit of \$28.4 billion in

2025–26. This year’s State Budget Act included intent language reflecting proposed funding levels for the University through 2026–27 and deferral funding that would extend through 2027–28. Mr. Brostrom expressed the University’s gratitude to the Governor and the Legislature for providing increased support to UC this year, given the deficit and the position that the State found itself in at the time of the May Revision. The State had also provided a funding increase for the California State University. In moving forward, UC must be mindful of the fact that the State has signaled its intention to reduce the University’s ongoing support next year by over \$270 million; the State would restore the \$125 million cut from the 2024–25 budget but make a 7.95 percent reduction, which was consistent with the cuts that other State entities were beginning to absorb this year. The State would also defer the buyout of nonresident tuition made in return for a reduction in the proportion of nonresident undergraduates at the Los Angeles, Berkeley, and San Diego campuses.

While it was still possible that State revenues and the general economy might change for the better, the State budget context required that the Office of the President (UCOP) begin to work with the campuses this year to identify strategies for managing the budget and potential cuts in State funding. At the systemwide level, the budget plan presented to the Regents annually in November often includes increases, such as the salary program for faculty and policy-covered staff, the UC Retirement Plan (UCRP) employer contribution, and staff and retiree benefits. The budget plan also reflects estimated cost increases based on the latest financial or economic data.

UCOP works to manage these increases and identify ways to support the campuses. One example of this was debt management. In the past fiscal year, UCOP carried out a number of refinancings that would save \$200 million over the life of the bonds. While these refinancings were not all on UC’s core funds, they would produce savings for the whole system. Borrowing from the Short Term Investment Pool (STIP) into the UCRP saved about \$100 million in fiscal year 2025. During this year, the University transferred \$3 billion from the Total Return Investment Pool (TRIP) into the Blue and Gold Pool, which had a 15.7 percent return. This was one-time money but would give campuses flexibility and support UC’s bridging strategies. Mr. Brostrom stressed that UC was active in asset management, trying to keep as little as possible in STIP and to move more funds into TRIP and the Blue and Gold Pool, which enjoyed higher returns.

The University had realized approximately \$364 million in procurement savings, or four percent of total procurement spending. This did not affect core funds but resulted in direct cost reduction and some fiscal impact for the campuses.

The Tuition Stability Plan has been a tremendous benefit for UC and has become one of the University’s most stable sources of revenue. A significant percentage of this revenue is returned to financial aid, and this allows many students to graduate free of debt. Nonresident Supplemental Tuition (NRST) was an important revenue source, increasingly helping to fund a share of expenditures.

Associate Vice President Caín Diaz recalled that the possibility of action on NRST as part of the November budget had been discussed at the July meeting, action that would increase NRST at a rate greater than currently approved under the Tuition Stability Plan. He presented a chart showing incremental revenues that would be generated by NRST under the status quo and under an alternate scenario. Under the alternate scenario, annual increases would be twice the amount under the status quo and the Tuition Stability Plan. In both cases, the increases would still only apply to the incoming cohort of undergraduate students. This action would not affect graduate nonresident tuition. For the nonresident undergraduates, once they enroll, the tuition level would remain flat. Additional topics needed to be discussed regarding an NRST increase, and Mr. Diaz outlined four questions. First, assuming that the Regents were interested in an increase to undergraduate NRST beyond the status quo, what would that increase look like? The numbers presented in the chart were two times the California Consumer Price Index, but there might be other approaches worth considering and modeling. Second, would an increase be a standard increase in fee levels consistent across the campuses or an option under which the Regents approve an NRST range with a minimum and maximum level, with chancellors given the authority to set the fee based on local circumstances for their own campuses? Third, how can the University ensure that affordability for students remains a priority? Fourth, what is the view of campus experts, such as campus enrollment managers, of how an increase in NRST beyond the status quo might affect nonresident student enrollments?

Mr. Diaz recalled that most decisions related to core fund budgets were made at the campuses by central budget offices, colleges, divisions, departments, and individual units. The campuses used a variety of strategies to address budget pressures on core funds. One was improved asset utilization, including predictable returns from working capital. Another strategy was central budget resilience. Campuses have created budget models and funding allocation methodologies that increase flexibility in the use of available resources. Campuses are required to strategize regarding their workforce and to make strategic and often difficult decisions for managing personnel costs. In the current State budget environment, a multi-year outlook was essential for effective planning. A third strategy was revenue diversification. For some campuses, this meant continuing to expand access for students and increasing enrollment. Another opportunity might be to increase the number of graduate programs at UC, especially self-supporting graduate professional programs, which might generate revenues that could subsidize other areas of the campus budget. Mr. Diaz concluded his remarks by drawing attention to campus websites dedicated to keeping campus communities updated about budget challenges, current budget proposals and plans, local budget frameworks, and financial stability plans, among other issues.

Student observer Miguel Craven presented students' questions and concerns. Addressing the chancellors and the campuses, he asked that they work with their students and staff to establish which programs and resources they wanted to protect in this upcoming year. He asked the campuses to reframe this question with a focus on protecting programs rather than on cuts made to save money. Addressing the Regents, he asked that they help students and the campuses with advocacy. The UC Student Association and the UC Graduate and Professional Council had outlined their requests, and the Regents could work with students

to seek funding for these requests or defer cuts for another year. Addressing UCOP staff, Mr. Craven asked that they meet with students and ensure that students are involved in discussions regarding the budget, budget cuts, and decisions to be made at the systemwide level versus at the campuses. He thanked the University for seeking funding and resources to help transfer students and improve the transfer process from community colleges to the UC system and stressed the importance of these resources.

Regent Beharry expressed support for the proposal to increase NRST. He asked on what basis and how the alternate scenario had been calculated. Mr. Diaz responded that the calculation was consistent with the methodology used for the Tuition Stability Plan in calculating any increase for an incoming cohort of students; this was based on a three-year average of the California Consumer Price Index (CPI). The alternate scenario would be two times the CPI. It made sense to use the CPI as a baseline since this was a publicly available statistic. Mr. Brostrom added that the University should not simply base NRST on market factors. UC must recognize the value of a UC education for nonresident students and determine an appropriate tuition level and a method for setting NRST. NRST must be higher than in-state tuition due to the role played by California taxpayers, but UC did not wish to raise NRST to the level of tuition at private, elite universities.

Regent Matosantos commented that there must be a clear understanding about how NRST is related to the cap on total nonresident student enrollment. She asked about possible reductions to the student intern program at the UC Center Sacramento later this year. Such an action did not seem sensible in light of the University's important responsibility to the State as a partner and its mission of public service. She underscored the importance of this student intern program. Some students who participate in the program go on to work in the public policy arena. Mr. Brostrom responded that Provost Newman had been conducting a comprehensive review of all UC educational programs in Sacramento. Ms. Newman explained that an academic committee with representation from the entire UC system was carefully reviewing these programs. The intern program currently had 140 to 150 students a year, and the University was spending about \$1 million to subsidize the program. It was a valuable and important program that could be improved. For many reasons, enrollment in this program was not representative of the entire UC system. The academic committee was considering how this and other programs in Sacramento could be improved, such as through establishing a master's degree program in public affairs. This would appeal to people already working in Sacramento for whom a master's degree would be useful. The committee was considering how to increase enrollment in the undergraduate program by relying on good resources and enrollment at the Davis campus during certain times of the year and on the UC system as a whole in the summer. UC was considering inviting the Office of State Governmental Relations to move into the UC Center building, which would make for a robust UC presence. The California Policy Lab, an extraordinary resource that has been insufficiently used and recognized, might also move into the building. Ms. Newman stated that she had asked the academic committee to provide a report by November 20. She believed that the University was making good progress on plans for its programs in Sacramento.

Regent Matosantos asked for confirmation that the undergraduate program would continue through the end of the academic year without changes, with a report in November and review of possible improvements in the future. Ms. Newman responded that UC had authorized the undergraduate program to continue through the winter quarter, so that there would be enough time to determine the best move for the following spring, summer, and beyond.

Committee Chair Cohen stated that it might be desirable to extend the commitment to the undergraduate program through the spring quarter of this academic year. His own view was that he would be disappointed if changes were made in the middle of the academic year without Regents' approval. Ms. Newman responded that this matter could be presented to the Regents at any time.

Regent Leib asked when students are recruited for the spring quarter for the program. Ms. Newman responded that for the small number of students who have indicated an interest in the spring quarter, UC has suggested that they enroll for the winter quarter. She believed that this date was in late fall. She anticipated that the program would proceed as usual in the spring quarter, but UC wished to ensure that the program had the right profile, and UC might be able to make improvements in time for the spring quarter.

Regent Leib stressed that students must plan early for the spring quarter, and UC should move ahead with plans for a spring quarter program. Encouraging students to enroll in winter rather than in spring might in fact drive down enrollment. This internship program had been in existence for a long time. It provided valuable experience for students and was also important for the University's continuing work with the Legislature. Regent Leib expressed agreement with Committee Chair Cohen about the need to continue to plan for the spring quarter. Ms. Newman responded that the University was looking for ways to grow this program. Her office had provided the first injection of paid internship funding for this year of about \$200,000 to support students from low-income backgrounds. She expressed confidence that the University would be able to create a much more robust full-year program. She and her office would take the Regents' advice about the spring quarter.

Committee Chair Cohen stated his understanding that this now represented a commitment by the University to continue the internship program through the spring. President Drake expressed his support for this.

Regent Reilly noted that certain private philanthropic funds could be reallocated to provide stipends for interns.

Committee Chair Cohen expressed the Regents' receptiveness to creative ideas to improve the existing program but specified that the Regents wished to hear and see the above-mentioned November report in order to be able to support the future development of UC's Sacramento programs and the use of UC's new building to the greatest extent possible.

Committee Chair Cohen asked Mr. Brostrom if he had any more information to present on the NRST proposal. Mr. Brostrom observed that one new idea would be to establish a range

approved by the Regents. Chancellors would have the ability to choose a tuition level within this range, based on local demand and interest. Committee Chair Cohen commented that the Regents would wish to hear the chancellors' views on the pros and cons of this idea.

Regent Elliott expressed concern about how different NRST levels at different campuses might affect the diversity of the nonresident student population. He would like to hear more on this topic.

Regent Matosantos voiced her preference for a systemwide approach on this issue. After a number of years, allowing for varying NRST levels at the campuses might result in significant differences among the campuses. She asked what budget areas were of the greatest concern to UCOP and what areas needed the most focus in order for UC to progress on accessibility, affordability, and other priorities. Mr. Brostrom responded that the University would continue to move forward on the goals of the Compact regarding access, affordability, and increasing enrollment, but within this budget model. UCOP would work with the campuses on leveraging every revenue stream and developing new ones.

Regent Matosantos asked about major pressure points in the UC budget. Mr. Brostrom responded that the University was in strong financial shape at this time, but changes were occurring. UC Health now accounted for more than 50 percent of the University's revenue, and this percentage would increase as new hospitals were being incorporated into the UC system. Twenty years prior, this percentage had been less than 25 percent. While this presented many opportunities, it meant that the University was more vulnerable to State and federal changes to Medicaid and Medicare and to changes in UC Health's payer mix. The cost of living and housing continued to be a significant issue for all the campuses, and UC would have to address this either through compensation or through the development of more staff and faculty housing. Another pressure point, but one which was a tremendous tribute to the University, was the unsurpassed demand for a UC education. Each campus was experiencing year-over-year increases in the number of applications. While this was a positive development, it was a factor that UC would have to manage within a shrinking State budget and constraints on other revenue sources. As a final pressure point, Mr. Brostrom anticipated that there would not be much State funding available in the next few years for capital projects. The University would have to find other sources, including some federal sources, for capital projects for research, education, and housing.

Regent Makarechian noted that, based on information provided to the Regents, all the campuses except UC Santa Cruz had positive operating margins. He asked about the reasons for this and how the University was addressing this. Mr. Brostrom responded that his office was working with Chancellor Larive, who had put together a budget plan. Mr. Brostrom and Mr. Diaz were meeting with the UCSC team at least monthly. Many of the University's expenses were for labor, and many measures to address the UCSC deficit would involve right-sizing the workforce. During the COVID-19 pandemic, the percentage of nonresident students at UCSC fell, and the campus had ideas on how to increase this number.

Regent Makarechian objected that this would only address a small percentage of the total. The news of UCSC's budget deficit came as a surprise. The campus must take specific steps to address this. Nonresident enrollment alone would not fix the problem. Mr. Brostrom responded that nonresident enrollment would only be a small part of the campus' plan. Chancellor Larive had instituted a hiring freeze, and natural attrition would reduce the workforce until these expenses matched revenues.

Regent Makarechian asked if this action would solve the problem. Mr. Brostrom responded that this solution would take time, perhaps two to three years. The University had a natural attrition rate of eight to nine percent. If the campus took time in filling these positions, this would bring down labor expenses. He acknowledged that there would not be an immediate turnaround.

Regent Makarechian asked that the Committee, at the November meeting, receive information about specific steps that the campus would take. Committee Chair Cohen and Mr. Brostrom responded that this information would be presented.

The meeting adjourned at 4:35 p.m.

Attest:

Secretary and Chief of Staff