

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

September 17, 2025

The Finance and Capital Strategies Committee met on the above date at the UCSF Mission Bay Conference Center, San Francisco campus.

Members present: Regents Chu, Cohen, Elliott, Komoto, Kounalakis, and Makarechian; Ex officio members Milliken and Reilly; Advisory members Craven and Scott; Chancellors Hawgood, Khosla, Lyons, May, and Muñoz; Staff Advisor Hanson

In attendance: Regents Anguiano, Batchlor, Leib, Myers, Park, Sarris, and Wang, Faculty Representative Palazoglu, Regents-designate Melton and Tokita, 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, Senior Vice President Turner, Vice Presidents Brown and Maldonado, Chancellors Assanis, Frenk, Gillman, Hu, and Larive, and Recording Secretary Johns

The meeting convened at 12:35 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 16, 2025 were approved, Regents Chu, Cohen, Elliott, Komoto, Kounalakis, Makarechian, Milliken, and Reilly voting “aye.”¹

2. CONSENT AGENDA

A. *Center for Health Sciences Emergency Power Upgrade, Los Angeles Campus: Budget Amendment and External Financing*

The President of the University recommended that:

- (1) The 2025–26 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Los Angeles: Center for Health Sciences Emergency Power Upgrade – preliminary plans, working drawings, and construction – \$39,795,000 funded by campus funds (\$32,795,000) and one-time State funds allocated for deferred maintenance (\$7 million).

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

To: Los Angeles: Center for Health Sciences Emergency Power Upgrade – preliminary plans, working drawings, and construction – \$41,795,000 funded by external financing (\$34,795,000) and one-time State funds allocated for deferred maintenance (\$7 million).

- (2) The President shall be authorized to approve external financing in an amount not to exceed \$34,795,000, plus additional related financing costs to finance the Center for Health Sciences Emergency Power Upgrade project. The President shall require that:
 - a. As long as the debt is outstanding, the general revenues of the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - b. The general credit of the Regents shall not be pledged.

B. *2025 Long Range Development Plan, Lawrence Berkeley National Laboratory: Approval Following Certification of an Environmental Impact Report Pursuant to the California Environmental Quality Act*

The President of the University recommended that, following review and consideration of the environmental consequences of the Lawrence Berkeley National Laboratory (LBNL) 2025 Long Range Development Plan (LRDP), as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents no less than 48 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

- (1) Certify the LBNL 2025 LRDP Final Environmental Impact Report.
- (2) Make as a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of LBNL as identified in the 2025 LRDP Mitigation Monitoring and Reporting Program.
- (3) Adopt the 2025 LRDP Mitigation Monitoring and Reporting Program.
- (4) Adopt the CEQA Findings and Statement of Overriding Considerations for the 2025 LRDP.
- (5) Approve the LBNL 2025 LRDP.

[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 Chu, Cohen, Elliott, Komoto, Kounalakis, Makarechian, Milliken, and Reilly voting "aye."

3. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2026–27 OPERATING BUDGET**

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

Executive Vice President and Chief Financial Officer Brostrom began the discussion of the University's operating budget for fiscal year 2026–27 by highlighting some of the fiscal constraints UC was currently experiencing. Fiscal year 2026–27 would be the final year of the University's Compact with Governor Newsom and the State Legislature. The State was facing its own budget challenges, and this has resulted in lower appropriations for the University than UC had anticipated as well as deferrals of ongoing support. In addition, federal government actions affecting higher education in general and UC specifically have had and would continue to have an impact on critical funding. The University was continuing to see substantial increases in its operating costs, which were likely to exacerbate existing budget challenges on the campuses.

With this in mind, UC would focus on a few key areas. First, the University must seek the State's support for systemwide enrollment, not just new enrollment, but for students who were already at UC and for whom UC has not yet received funding. Second, support for UC's capital needs remained a priority. There was no clear funding source to support the University's aging academic infrastructure or address its significant deferred maintenance backlog. 2026–27 would also be the fifth year of the Tuition Stability Plan, which was first implemented in fall 2022. Mr. Brostrom anticipated that a renewal of the Plan with a few proposed changes would be presented to the Regents at the November meeting.

Regarding the potential impact of federal actions on University revenues, Mr. Brostrom noted that federal support for the University amounted to more than \$17 billion in the most recent audited fiscal year. This support came in three general areas. The first was payments for patient care through Medicaid (known as Medi-Cal in California) and Medicare, nearly \$10 billion. Medi-Cal and Medicare patients now represented three-quarters of overall UC patient days, and so were an increasingly important part of the revenue mix at the medical centers. The second area was federal research support, which accounted for over \$5 billion of revenue both from direct spending and indirect cost recovery. This research support came from over 25 different federal agencies. Over 75 percent came from the National Institutes of Health (NIH) and the National Science Foundation (NSF). The third area was student financial aid, amounting to over \$1.7 billion. Pell Grant recipients represented 36 percent of UC's undergraduate population. UC enrolled a higher percentage of Pell Grant students than did comparable public and private universities. Maintaining this federal support was critical to maintaining UC's commitment to accessibility for all Californians.

Mr. Brostrom presented a chart showing a breakdown of federal support by sources and by campus. The chart reflected the importance of Medicare and Medicaid support to UC. More than two-thirds of direct research support came from the NIH, and this was based especially at the campuses with medical centers, although as a percentage of overall campus budgets, federal support was extremely important on all the campuses, including those without medical centers.

Associate Vice President Caín Diaz discussed State funding. He observed that State funding for UC remained unpredictable despite the multi-year Compact. The Compact worked well for the University in the first two years of the five-year period. Funding received was generally aligned with expected support. In 2024–25, however, the State’s budget deficit resulted in a \$125 million reduction in support. State funding in the current year was lower than last year.

Despite the gap between anticipated State support and actual State support, the University continued to make progress on the shared goals outlined in the Compact. One of these goals was enrollment growth. Per the Compact and State Budget Act, the undergraduate full-time equivalent (FTE) target in 2024–25 was 206,588 FTE. Actual undergraduate FTE through 2024–25 was 210,635. The University has enrolled more than 4,000 FTE beyond the State’s target. Enrollment in 2025–26 might also exceed the target. Expanding access to UC for California residents was a worthwhile goal, but it was imperative that the State provide support for all enrolled students, new and continuing. With State support lower than expected and enrollment growth greater than anticipated, the amount of available core funding for students was decreasing, and this had been the case for two years in a row.

Chancellor Khosla then provided examples of the financial challenges at the San Diego campus. In the arts and humanities, there would be reductions in supplemental instruction, which had become more important since the COVID-19 pandemic. There would be reductions to the campus’ writing help and writing programs as well as math tutoring for students. Graduate programs would be reduced by 25 percent. Programmatic changes would be required in the biological sciences, one of the strengths of UCSD. The ratio of students to teaching assistants would increase in laboratory sections. This would not only have an impact on the quality of education but also had safety implications. In medicine, there would be a reduction in graduate admissions by up to 50 percent. All departments and units on campus would be affected, and they would be affected differently.

Mr. Diaz noted that operating costs on campuses were continuing to outpace growth in core revenues. With respect to compensation, actual increases in year-over-year salary expenditures reflected not only increases with bargaining units and approved salary programs for policy-covered staff, to which UC was contractually committed, but changes in individual salaries from merit, promotions, and new hires. In addition, six bargaining agreements remained open. The cost of health benefits remained a concern. Current estimates showed growth of 9.5 percent in 2026–27 for the employer share of the unit cost of employee and retiree health benefits. The UC Retirement Plan (UCRP) employer contribution rate would increase in 2026–27 from 14.5 percent to 15 percent after being held flat in 2025–26. UC Procurement has so far successfully limited the overall financial

impact of tariffs. This reflected the strength of the University's strategic sourcing framework and its ability to negotiate, defer, or reject unjustified increases. However, the inventory stockpiles that allowed UC's larger suppliers to mitigate tariff impacts were being depleted, and the University expected more valid and justifiable increases in the coming month.

Mr. Brostrom stressed that funding for capital needs remained a critically important issue for new projects and renewal of aging facilities, particularly for general education and research buildings, which, unlike housing or the medical centers, had no revenue source to support debt service or direct capital spending. In the past, UC regularly received hundreds of millions of dollars in State funding for capital projects through either general obligation bonds or lease revenue bonds. No general obligation bonds have been approved since 2006, and no lease revenue bonds since 2011. It seemed doubtful that there would be a general obligation bond on the ballot in 2026. Assembly Bill (AB) 94 has enabled UC to finance over \$2.5 billion dollars in capital projects over the past decade. While the University appreciated this mechanism, which had funded over two-thirds of the Merced 2020 project, the revenue supporting this debt came from the operating budget and could have been used to support operating costs, such as hiring faculty or supporting graduate students.

Chancellor Khosla outlined the UC San Diego budget. The campus had four main sources of revenue: resident tuition and fees, State support, non-resident tuition and fees, and grants and contracts. He pointed out that while grant and contract funding was not part of core funding for the Office of the President, it was core funding at UCSD. In fiscal year 2025, UCSD received \$362 million in indirect cost recovery, more than any other UC campus. Revenue from non-resident tuition was at a similar level, \$334 million. Revenue from resident tuition and fees was nearly the same as State support. In a sense, these sources of revenue were balanced. Indirect cost recovery, which used to be a strength of the UCSD budget, has suddenly become a significant weakness, and the campus could lose a substantial part of this funding if research support is cut and grants are frozen. In the current year, fiscal year 2026, the budget was already \$70 million lower, in spite of an increase in resident tuition revenue of \$22 million. State support remained flat, and non-resident tuition revenue was nearly flat. The campus was projecting indirect cost recovery to decrease from \$362 million to \$200 million over the next three years. For next year, UCSD projected another \$22 million increase in tuition revenue, an increase of \$26 million in State funding, a decrease of \$15 million in non-resident tuition revenue, and a \$7 million increase in other sources for a total of \$40 million in incremental revenues, compared to incremental mandatory expenses of nearly \$83 million. In spite of an increase in tuition revenue, the campus would begin the year with a \$43 million deficit. This would be in addition to the \$130 million deficit the campus was already facing this year. Chancellor Khosla emphasized the importance of increased revenue from tuition; without this source, the situation would be much worse.

Mr. Brostrom then recalled that 2026–27 was the final year of the first term of the Tuition Stability Plan. At the last Regents meeting, there was a discussion of the Plan and its positive features, which included increased campus funding and more financial aid and predictability for those students and families who pay tuition. He anticipated that the Plan

would be presented to the Regents for renewal at the November meeting, along with potential changes based on Regents' comments and feedback at the last meeting. First, the University would maintain the five percent increase in any cohort but would build in a feature enabling UC to "bank" amounts above five percent to apply to a future increase. For example, if the blended inflation rate were 5.5 percent, UC would only charge the new cohort five percent but could use the half percent for a future cohort. Second, the University proposed reducing the return to aid from future increases from 45 percent to 35 percent. The higher amount has dramatically increased financial aid and brought UC closer to the absolute goal of 33 percent of total tuition revenue dedicated to financial aid. At this time, campuses needed funding to address the federal and State challenges that had just been discussed. Return to aid of 35 percent would still provide a substantial proportion of tuition revenue for financial aid, more than was the case for most of UC's public counterpart institutions. Third, the University would use a different inflation index, switching from the California Consumer Price Index to the Higher Education Price Index (HEPI), which more closely matched UC's cost structure, with a larger share of the components related to labor and healthcare costs. Fourth, the University would add a percentage point to the HEPI to provide a small hedge against inflation during an undergraduate's four years on campus. The five percent cap would still apply, but if the HEPI were 2.5 percent, the effective rate would be 3.5 percent for the incoming cohort.

Mr. Brostrom stressed that the Tuition Stability Plan has had a beneficial effect on all UC students. One of the key measures of students' financial burden was the incidence of student loan borrowing. Borrowing rates and the amount of debt at graduation have declined since the Great Recession and continued to decline during the COVID-19 pandemic. It was noteworthy that, with the Plan and the financial aid that it generated, rates and debt levels continued to decline across all family income levels. Where this most came into effect was in the area of self-help. Self-help was the amount that UC required of all undergraduate students after factoring in parental contributions, Pell Grants, Cal Grants, and the University's own institutional financial aid. This was an important factor for affordability for low- and middle-income students. Any increase in tuition resulted in an increase in financial aid. He presented a chart showing the self-help amount from 2021–22 to 2025–26 both with and without the Tuition Stability Plan. For much of this period, the self-help amount was about \$2,000 lower than it would have been without the Plan in place. In responses to questions about affordability and debt, the 2024 UC Undergraduate Experience Survey showed the lowest concerns over costs and debt burden since the survey was instituted, and Pell Grant recipients were more concerned about debt but also less likely to be concerned about the manageability of the cost of attending UC.

Student observer Isha Khirwadkar remarked that, given the fact that enrollment has exceeded targets while funding per student has been declining, it was important to ensure that the amount of funding for students increases in order to maintain the quality of education at the University. It was also important to ensure support for expanding financial aid through the Tuition Stability Plan's return to aid mechanism. The University must prioritize affordability and prevent inequitable burdens, particularly for low-income and first-generation students. UC budget decisions should protect investments in student services, including advising, housing, dining, and basic needs. Basic needs services have

become more important for students in recent years. UC must also ensure that the cost of housing remains affordable for students and does not become a barrier to access.

Ms. Khirwadkar asked if the deferral of State funds would lead to any instability felt by students on campus. Mr. Brostrom responded that the main instability was the uncertainty about whether these funds will be paid. The University had the ability to take out a loan from the State to cover this funding, but the State was facing multibillion dollar deficits. The uncertainty of State funding was the main instability for UC as a whole.

In response to a question by Regent Makarechian, Mr. Brostrom explained that this discussion of the operating budget focused only on core funds. It did not include auxiliary and medical center revenue. Chancellor Khosla added that the UCSD main campus budget was about \$5 billion, as was the budget for UCSD Health. The figures he had presented earlier did not include an impact of \$250 million to \$400 million on the medical enterprise due to Medicaid and other factors.

Regent Makarechian expressed concern about the significant amount of projected uncompensated care for Medi-Cal and Medicare patients, an amount which would increase in the future. He asked if UC had any non-fixed rates on external financing which might have a positive or negative effect. Mr. Brostrom responded that the University did not have much variable rate debt but had about \$4 billion in commercial paper, of which about \$2 billion has not been drawn down. UC has doubled the amount of its commercial paper, and this was on a variable rate basis. Currently, UC's tax-exempt commercial paper rate was about 2.9 percent versus the fixed rate, which was about 4.25 percent.

Regent Makarechian also expressed concern about lower interest rates, which would substantially reduce the returns in the Short Term Investment Pool (STIP). Mr. Brostrom responded that STIP return rates were much higher than projected in the last few years due to the rise in short-term interest rates. The University generally projected lower STIP rates.

Regent Makarechian requested a discussion or presentation at the next meeting that would provide a full picture of the financial impact on the University of the current situation, including actions by the federal government, State budget actions, and financial factors that were raised in this discussion. Mr. Brostrom added that the contribution from the medical centers to UC financial statements last year was nearly \$900 million. This funding was used primarily to support the health sciences schools. If the medical centers experience a significant decline in margins or earnings before interest, taxes, depreciation, and amortization (EBITDA), this would affect the flow of funds used to supplant State funds in the health sciences schools.

Regent Anguiano referred to the proposal to reduce the return to aid from future increases in the Tuition Stability Plan from 45 percent to 35 percent and asked about the fact that the proportion of tuition and fees going to financial aid was not one-third. Mr. Brostrom responded that this proportion was currently about 30 percent.

Regent Anguiano asked about the impact of this reduction in return to aid on the goal of achieving a return to aid rate of one-third. Mr. Brostrom responded that it would take much longer to achieve this goal. UC projected that, at the 45 percent rate, the goal would be reached five to six years. Mr. Diaz added that a chart with these projections was included in the background material for the discussion of the Tuition Stability Plan at the July meeting.

Regent Anguiano noted that while the Tuition Stability Plan would address the needs of most low-income students, some categories of students might not be covered, such as current and former foster youth and undocumented students. She asked about the resources available for these students and how many students were affected. Mr. Brostrom responded that there were several categories of such students, and that between 95 percent and 98 percent of them received financial aid. There was a small number of affected students. One example was LGBTQ students, who might not receive parental support. Among the lowest-income students, eight percent did not apply for financial aid. Campuses can address these situations selectively using basic needs funds or other funds that have been set aside for extraordinary financial aid cases. Chancellor Khosla added that UCSD had several fund sources for this purpose. The UCSD Foundation has committed to providing basic needs funding, and other types of funding were also available.

Regent-designate Craven referred to a chart showing undergraduate student debt at graduation for various income levels from 2007 to 2023. It was gratifying to see the level of debt diminishing over time. He asked if the University had projections for future student debt, assuming that the proposed changes were made to the Tuition Stability Plan. Mr. Brostrom responded that overall financial aid would still be increasing. He projected that students should be taking on less debt and that this would be a lower percentage of students. He acknowledged that the level of debt would diminish more quickly if UC retained the 45 percent return to aid rate.

Regent-designate Craven stated that while it was helpful to see the categories in this chart and have assumptions for lower-, middle-, and upper-income students, the chart dated back to 2007. The ranges of income that qualified as low, middle, and upper income have changed over time. He asked if this chart could be adjusted to show the changes in category and debt over time. Mr. Brostrom responded that relevant and recent data for families of various income levels were included in the July meeting agenda item. He offered to resend this item as well as provide additional information. Mr. Diaz added that the next year's data would show debt at graduation for the first group of students who entered the University under the Tuition Stability Plan, and the University would pay close attention to these data.

Regent-designate Craven asked if there were any possibility of developing other kinds of stability plans for student fees or services such as housing. Chancellor Khosla responded that about eight or nine years prior, he had promised the Regents that student rental rates would be at least 20 percent below market and that the campus would reevaluate the situation annually. The cost of undergraduate student housing at UCSD was between 20 percent and 30 percent below market, with the market defined by a broad geographic

radius beyond the La Jolla area, which was an expensive housing market. Mr. Brostrom added that UC would like to extend stability plans to cover housing and other costs. Only about 41 percent of UC students lived in on-campus housing, and the University could not control the off-campus housing market. He suggested that individual campuses could agree to measures such as rate caps. The Office of the President asks the campuses to demonstrate that their campus student housing costs are between 20 percent and 30 percent below market.

The meeting adjourned at 1:15 p.m.

Attest:

Secretary and Chief of Staff