

The Regents of the University of California

COMMITTEE ON FINANCE

May 21, 2015

The Committee on Finance met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present: Regents Gould, Kieffer, Leong Clancy, Lozano, Makarechian, Reiss, Ruiz, and Saifuddin; Ex officio members Napolitano and Varner; Advisory members Davis, Gorman, Hare, and Oved; Staff Advisors Acker and Coyne

In attendance: Regents De La Peña, Elliott, Engelhorn, Lansing, Ortiz Oakley, Pattiz, Pérez, Sherman, and Zettel, Faculty Representative Gilly, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, Senior Vice Presidents Henderson and Peacock, Vice Presidents Brown, Budil, Duckett, and Sakaki, Chancellors Block, Blumenthal, Hawgood, Khosla, Leland, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 1:45 p.m. with Committee Chair Ruiz presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of March 18, 2015 were approved.

2. ALLOCATION OF LOS ALAMOS NATIONAL SECURITY, LLC AND LAWRENCE LIVERMORE NATIONAL SECURITY, LLC FEE INCOME TO BE EXPENDED IN FISCAL YEAR 2015-16

The President of the University recommended that she be authorized to expend an estimated \$21.7 million from the University's net share of Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) income earned between January 1, 2015 and December 31, 2015, as projected by the limited liability companies (LLCs), for the following purposes and in the following amounts:

- A. The University's contractually required share of compensation costs for LLC employees in UC-designated Key Personnel positions under the LLC Agreements that is not reimbursed by the federal government under the prime contracts. Compensation for LLC employees in Key Personnel positions is paid by the LLCs as approved by the LLC Executive Committees. The amount of UC's contractual

share of unreimbursed compensation for UC-designated Key Personnel positions for 2015-16 is estimated at \$2 million (\$2.2 million in 2014-15).

In the event all or part of the \$2 million is not needed, the unspent allocation will be transferred to the LLC Fee Contingency Fund (see paragraph D. below) and carried over to 2016-17 in order to maintain the LLC Fee Contingency Fund at the \$7 million level recommended to the Regents. In the event the LLC Fee Contingency Fund has been fully funded, the unspent allocation will instead be transferred to the Post-Contract Contingency Fund (see paragraph C. below) and carried over to 2016-17 to build up that fund to the level approved by the Regents.

- B. An appropriation to the Office of the President budget for federally unreimbursed costs of University oversight of its interest in LANS and LLNS, paid or accrued July 1, 2015 through June 30, 2016, including but not limited to an allocable share of the costs of the President's Executive Office, the Provost, the Academic Senate, Human Resources, Financial Management, Compliance and Audit, Laboratory Management Office, Research Security Office, Federal Government Relations, Office of Research and Graduate Studies, Office of the General Counsel, Office of the Secretary and Chief of Staff to The Regents, and the University-appointed Governors on the Boards of the LLCs in the amount of \$5.1 million for 2015-16 (\$5.05 million in 2014-15).

In the event all or part of the \$5.1 million is not needed, the unspent allocation will be transferred to the LLC Fee Contingency Fund (see paragraph D. below) and carried over to 2016-17 in order to maintain the LLC Fee Contingency Fund at the \$7 million level recommended to the Regents. In the event the LLC Fee Contingency Fund has been fully funded, the unspent allocation will instead be transferred to the Post-Contract Contingency Fund (see paragraph C. below) and carried over to 2016-17 to build up that fund to the level approved by the Regents.

- C. An appropriation in 2015-16 to a Post-Contract Contingency Fund in the amount of \$1.3 million (zero for 2014-15). Starting in 2015-16, any income generated by the Post-Contract Contingency Fund under the University's Short Term Investment Pool (STIP) shall be reserved exclusively for that fund.
- D. An increase in the funding target for the LLC Fee Contingency Fund, previously called Contingency for Factors Affecting the Final Fee, from \$5 million to \$7 million in order to reduce risk to the University due to any potential significant reductions in fee earned by the LLCs and the potential for substantial financial fines and penalties such as occurred in 2014-15. Actual income received from LLNS for 2014-15 was \$3.4 million greater than estimated by LLNS in December 2014. Of this \$3.4 million, \$1.3 million was allocated to the LLC Fee Contingency Fund as authorized by the Regents in the January 2015 *Amendment to the Allocation of Los Alamos National Security, LLC and Lawrence Livermore National Security, LLC Fee Income to be Expended in Fiscal Year 2014-15*. Subject to approval of the current item, the remaining \$2.1 million in additional

2014-15 LLNS income will be allocated to the LLC Fee Contingency Fund to reach the \$7 million target. With this approval, no allocation to the Fund is required for 2015-16. Starting in 2015-16, any income generated by the LLC Fee Contingency Fund under the University's STIP shall be reserved exclusively for that fund.

- E. An appropriation in 2015-16 in the amount of \$13.3 million for the UC Laboratory Fees Research Program and other research relevant to the missions of the National Laboratories and the University. Of this total appropriation, \$400,000 is a designated appropriation in 2015-16 for the UC-National Laboratory Student Fellowship Pilot Program, to be administered by the UC Laboratory Fees Research Program in the Research Grants Program Office. The original allocations for 2014-15 approved by the Regents in May 2014 of \$13.5 million for the UC Laboratory Fees Research Program and \$400,000 for the UC-National Laboratory Student Fellowship Pilot Program were zeroed out in the January 2015 *Amendment to the Allocation of Los Alamos National Security, LLC and Lawrence Livermore National Security, LLC Fee Income to be Expended in Fiscal Year 2014-15*.

[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.]

Vice President Budil explained that while the University projects the annual fee income it receives for its participation in the management of Lawrence Livermore National Security, LLC (LLNS) and Los Alamos National Security, LLC (LANS), the actual fee determination is made by the Department of Energy at the end of the calendar year. This year the University projected that its fee income would be \$21.7 million, \$11.8 million from LANS and \$9.9 million from LLNS. The previous year, the fee income was \$13.9 million. The fee income is expended in four categories: contract compensation for UC key personnel at the Laboratories that is not reimbursed by the federal government, Office of the President oversight costs, and two contingency funds. An increase from \$5 million to \$7 million in the LLC Fee Contingency Fund was being proposed due to additional fee income earned the previous year at LLNS. Any residual fee income would be moved to the UC Laboratory Fees Research Program, projected to be \$13.3 million. Ms. Budil noted two changes. Short Term Investment Pool income for the contingency funds would be reinvested in those funds, and any underruns in expenditures at the Office of the President, for the current year only, would be moved into the contingency funds to address any possible liabilities. In prior years, all residual expenditures have been transferred to the UC Laboratory Fees Research Program.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

3. **APPROVAL OF EXTERNAL FINANCING UNDER FUNDING MECHANISM AB 94 FOR THE 2015-16 BUDGET FOR STATE CAPITAL IMPROVEMENTS**

The President of the University recommended that:

- A. The President of the University be authorized to obtain external financing not to exceed \$296,711,000 (plus related interest expense and financing costs) for the 2015-16 Budget for State Capital Improvements shown in Attachment 1. The President shall require that:
- (1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
 - (2) The primary source of repayment for the external financing of \$296,711,000 plus related interest expense and financing costs shall be from State General Fund appropriations, pursuant to the Education Code Section 924953 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.
 - (3) The general credit of the Regents shall not be pledged.
- B. For all projects supported by this action that have already received design/California Environmental Quality Act (CEQA) approval, the Regents determine that no further CEQA action is required.
- C. The President shall be authorized to execute all documents necessary in connection with the above.

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

Committee Chair Ruiz briefly introduced the item. Executive Vice President and Chief Financial Officer Brostrom recalled that the State had not issued lease revenue bonds in recent years. Earlier, these bonds had been a primary financing source for UC capital projects. In 2013, AB 94 gave the University the ability to restructure and refinance its own lease revenue bond debt, and this would save about \$100 million annually over ten years. AB 94 also established a new financing mechanism that allows the University to pledge a certain amount of its State General Fund appropriations as a repayment source for eligible projects. The projects covered by this item, most involving seismic and life safety improvements, had been approved by the Regents in September 2014. The current item concerned external financing.

Regent Makarechian asked about State funding for the debt service. Mr. Brostrom responded that the University generally budgets about \$15 million annually for this, but

the amount varies; in this case the annual debt service would be approximately \$20 million. Even though these are State funds, the amount counts as UC debt.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

4. **ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL**

The President of the University recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2015-16 fiscal year shall remain at a rate of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

[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 explained that the administration was recommending that the University maintain the payout rate for the General Endowment Pool (GEP) at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP. There was one small change. The 60-month period would not continue through the end of the current fiscal year but be shifted back six months, from January 2010 to December 2014. This period would maintain the same smoothing average and provide more certainty regarding the amount of the payout.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

5. **ADOPTION OF ENDOWMENT ADMINISTRATION COST RECOVERY RATE**

The President of the University recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)¹ and apply to the distributions from the General Endowment Pool (GEP) to be made after July 1, 2015, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

[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 outlined the item, explaining that this action would virtually eliminate any costs to the campuses for supporting endowment activities.

¹ One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 55 basis points are the equivalent of \$55 on endowment assets with a 60-month average market value of \$10,000.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 1:55 p.m.

Attest:

Secretary and Chief of Staff

2015-16 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s)
CCCI 6284

Additions shown by underscoring; deletions shown by strikethrough

CATEGORY TYPE (as % of Total State Funds)	CAMPUS	PROJECT	PHASE(S)²	2015-16 STATE FUNDS	ALL NON-STATE FUNDS³
Modernization (25%)	ANR	Intermountain REC Field Laboratory and Multipurpose Facility	C	\$ 1,786	\$100
	UCB	Wheeler Hall	WC	19,400	1,100
	UCR	Batchelor Hall Building Systems Renewal	WC	17,777	
	UCR	Pierce Hall Improvements	PWC	34,680	
Seismic and Life Safety (50%)	UCD	Chemistry Seismic & Life Safety	C	31,076	
	UCI	Fire and Life Safety Improvements Phase 1 ⁴	DC	<u>34,290</u> 35,486	
	UCLA	CHS – SOM West Seismic Renovation	C	25,000	15,000
	UCR	Environmental Health and Safety Expansion	E	369	3,663
	UCSF	Clinical Sciences Building Seismic Retrofit	C	21,735	<u>71,277</u>
	UCSB UCSC	Campbell Hall Replacement Building Environmental Health and Safety Expansion	PWCE PWC	15,787 19,437	52,001 15,787
Previous Growth (21%)	UCM	Classroom and Academic Office Building	E	4,951	
	UCSD	Biological and Physical Sciences Building	WC	55,800	<u>59,700</u>
	UCSC	Coastal Biology Building	E	2,000	51,300 10,565
Infrastructure (4%)	UCSC	Telecommunications Infrastructure Phase B	C	12,623	413
TOTAL STATE PROGRAM				\$296,711 \$ 297,907	<u>\$177,605</u> \$149,852

² P= Preliminary Plans, W=Working Drawings, C=Construction, and E= Equipment.

³ These figures represent total non-State funds for the entire project, and include funds subject to related Grounds & Building action items (Clinical Sciences Building and Biological and Physical Sciences Building).

⁴ Amount corrected to match project budget