THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
November 17, 2016

The Regents of the University of California met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present: Regents Brody, De La Peña, Elliott, Gould, Island, Lansing, Makarechian, Napolitano, Newsom, Pattiz, Pérez, Ramirez, Reiss, Schroeder, Sherman, Torlakson, and Zettel

In attendance: Regents-designate Lemus, Mancia, and Monge, Faculty Representatives Chalfant and White, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, 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, Duckett, and Holmes-Sullivan, Chancellors Blumenthal, Dirks, Gillman, Hawgood, Khosla, Wilcox, and Yang, Interim Chancellor Hexter, and Recording Secretaries Johns and McCarthy

The meeting convened at 9:00 a.m. with Vice Chair Reiss presiding.

1. **PUBLIC COMMENT**

Vice Chair Reiss explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following persons addressed the Board concerning the items noted.

A. Mr. Jelger Kalmijn, president of University Professional and Technical Employees Communication Workers of America and UC San Diego employee, expressed opposition to the outsourcing of jobs at UCSF. He commented that during an earlier time when manufacturing jobs were outsourced, an antidote was the promise of educating workers at UC campuses for high-paying technology jobs. UC should not be a leader in outsourcing technology jobs. He cautioned that any savings would be outweighed by the political, financial, and security costs.

B. Mr. Hank Nguyen, UCSF computer technician, commented that he had received a bill for his daughter to attend UC Santa Cruz the same day he received a layoff notice from UCSF.

C. Mr. Keith Pavlik, UCSF employee, commented that much outsourced work was being done through the use of H-1B visas. He said that when President Napolitano was Director of Homeland Security she took the position that the country's highest obligation was to ensure that American workers had jobs and he urged the University not to outsource UCSF jobs.

D. Ms. Jasmine Armstrong, UC Merced doctoral student, expressed solidarity with UC's working-class employees. She said that globalism had disenfranchised many members of the working class. She urged the Regents to put more resources into the academic study of these issues.

E. Ms. Julia Schemmer, second-year UC Riverside student, expressed her view that Regent Pattiz should resign his position as Regent because of alleged incidents of sexual harassment. Requiring him to take computer-based training in prevention of sexual harassment would be insufficient, and would not repair damage to the people affected and the University's efforts to establish a culture of prevention of sexual harassment.

F. Mr. Lawrence Le Blanc, second-year UC San Diego student, applauded the recent statement by President Napolitano and UC's ten chancellors reaffirming the University's values of diversity and inclusion following the recent U.S. presidential election. He asked if the University and UC police departments would voluntarily collaborate with federal agencies to deport undocumented immigrants and/or students. He asked the Regents to declare UC campuses as sanctuary campuses.

G. Ms. Ifechukwu Okeke, UC Berkeley student, spoke in opposition to tuition and student fee increases. Students' financial aid was not enough to cover their total cost of attendance, which she said was underestimated. She said that 48 percent of UC students were food insecure. She urged the University to seek increased State funding. Students should not be asked to pay higher tuition, especially given misuses of funds by the UC Berkeley Chancellor.

H. Ms. Maureen Berry, UC Irvine Medical Center emergency department registered nurse for 30 years and chief nurse representative for the California Nurses Association (CNA), reported CNA's disappointment with UC Irvine Medical Center's laying off 175 employees, including registered nurses. She reported concerns of frontline staff, patients, and their families that the layoffs would have a detrimental effect on patient care. She expressed opposition to UC Irvine's hiring expensive consultants and employing 50 traveling nurses, registered nurses contracted through an outside agency to work at a premium rate. She urged the Regents to terminate the traveling nurses' contract and place preferential rehires in their positions according to the CNA contract.

I. Ms. Shirley Toy, UC Davis Medical Center nurse for 26 years and CNA member, urged the Regents to support nurses, defend the interests of working people, and defend health care gains. She advocated adequate staffing levels to provide good patient care, and opposed job outsourcing, profit-driven layoffs, and pension cuts.

J. Mr. Shafi Karim, president of the Associated Students of UC Riverside, spoke on behalf of a former UC Riverside student, a Development, Relief and Education for Alien Minors (DREAM) Act undocumented student, who had to work two jobs while she was a full-time UC student. She ultimately fell behind and lost her financial aid, which led to her dismissal from the University. Her story was not unique and the UC system should take personal circumstances such as food and housing insecurity into account.

K. Ms. Christina Hildebrand, from A Voice for Choice, expressed opposition to UC's immunization policy that would take effect in the fall of 2017. She asked what authority the Regents had to mandate vaccines as a requirement for admission to UC. She urged the Regents to add a religious exemption, a fundamental right under the U.S. Constitution. She stated that UC would be the only university in the nation without a religious exemption to its immunization policy.

L. Mr. Thomas Milcarek said he suffered long-term effects from vaccines and urged the Regents to reconsider their immunization policy.

M. Ms. Loretta Lynch, a neighbor of San Francisco General Hospital (SFGH), stated that changes to the meeting agenda violated the Bagley-Keene Open Meeting Act by not providing ten-days' notice. She expressed her view that an action of the prior day's Finance and Capital Strategies Committee had not been properly noticed. The SFGH project failed to comply with UC's own long-range development planning process. She urged the Regents to remove the improperly noticed items from the agenda and engage with the local San Francisco community on its proposed parking and transit solutions.

N. Mr. Christopher Saber, SFGH neighbor, expressed his view that the SFGH project's Environmental Impact Report was inadequate since it violated California Environmental Quality Act (CEQA) provisions against piecemealing a project. The garage expansion should not be considered as a separate city project, pre-empting proper CEQA review by including only some of the impacts on the neighborhood. He said the site proposed for the SFGH research building was designated as open space in the EIR for the newly completed SFGH.

President Napolitano introduced UC Student Association president Ralph Washington, Jr., to address the Regents on issues of student concern.

Mr. Washington observed that the present time following the U.S. presidential election offered an opportunity for the University to demonstrate its commitment to its most important principles. UC offers transformative education, personal growth, and social mobility. Their cost was too high for many current students, who must choose between buying books or food. He expressed his view that UC could maintain its accessibility and affordability without increasing the cost of attendance. He urged the Regent to consider ways to roll back tuition and be tenacious in pursuing UC's goals.

2. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of September 15, 2016 were approved.

3. **COMMITTEE REPORTS INCLUDING APPROVAL OF RECOMMENDATIONS FROM COMMITTEES**

Vice Chair Reiss stated that chairs of Committees and Subcommittees that met the prior day and off-cycle would deliver reports on recommended actions and items discussed, providing an opportunity for Regents who did not attend a particular meeting to ask questions.

Report of the Academic and Student Affairs Committee

Regent Island reported that the Committee considered two important discussion items.

A. ***Continuation of Discussion on Demographic Trends in California and Implications for Enrollment and Diversity***

At the September meeting of the full Board, the Regents had discussed projected changes in California demography through 2040 as a starting point for discussions about UC's future size and shape. This robust follow-up discussion provided more data on California's college-age population, high school graduation projections, and UC's freshman and transfer entrants, along with information about UC programs that could help improve college and transfer preparation, and increase the number of qualified applicants to UC. In addition, more information was provided about UC's teacher preparation and teacher professional development programs, K-12 development programs, information systems about student progress, "a-g" requirements, and student recruitment. Committee members requested additional information on the eligibility of UC applicants, for example the completion of "a-g" requirements, required tests, grade point averages, and implementation of eligibility in the local context and its role in improving the recruitment of underrepresented students, particularly African Americans. Regents were interested in understanding the key leverage points where it would be possible to effect change, and whether UC needs to re-examine the goals of the California Master Plan for Higher Education or change the way it considers college readiness to ensure the University can meet future needs for college degree completion. Committee members also discussed the importance of outreach efforts, increasing graduate enrollment and diversity, and future state workforce needs.

Regent Island added that the Regents affirmed their commitment to continued focus on increasing enrollment of low-income and underrepresented minority students.

B. ***Improving College Readiness in the California Public School System***

In response to Regents' interest in learning more about how students in California's public K-12 schools are prepared for college, State Superintendent and UC Regent Torlakson and California State Board of Education President Michael Kirst described changes in the State's policies and strategies to improve

K-12 student success, and college and career readiness in California public schools. Broad agreement among educators, and business and political leaders had led to the implementation of major reforms in K-12 education aimed at better preparing students for college and 21st-century careers. Over the past six years, California had made significant changes to all aspects of the K-12 education system, including curriculum and instruction, assessment, school finance, school accountability, and systems to support local improvement efforts. California had adopted the Common Core State Standards for English Language Arts and Mathematics, the California Next Generation Science Standards, and overhauled the curriculum frameworks for History/Social Science.

The following year, a new system of evaluating and improving schools and districts would be launched that would consider multiple measures of progress, including college readiness. In September, the State Board of Education adopted a new accountability tool that would provide a more complete picture of what contributes to a positive educational experience for students and would promote equity by clearly identifying disparities among student groups.

Committee members expressed appreciation for having a direct discussion with State education officials. Concern was expressed about the shortage of teachers, particularly in fields of science, technology, engineering, and mathematics. The importance of UC's contribution to educating teachers was recognized and discussed. State officials also highlighted the importance of UC's role in professional development of existing teachers, noting the advantages of online courses.

There was some discussion about the effectiveness of different student remediation efforts, along with opportunities to keep students engaged, including dual enrollment and more effective use of the 12th grade.

State officials indicated that the new K-12 accountability standards would provide more information on needed improvements and expressed interest in future partnerships with UC and the other segments of California public higher education.

Report of the Compliance and Audit Committee

Regent Zettel reported on the Committee's three discussion items.

A. ***Annual Report on Internal Audit Activities 2015-16***

The internal audit team met all of its goals with the highest performance standards and identified no financial control issues that represented material deficiencies in internal controls to the University system as a whole. Several themes in internal control issues had been identified as risks and were being appropriately addressed, including information technology security and information privacy, research compliance, large-scale system implementations, affiliations, joint ventures and partnerships, staff turnover and succession planning, financial monitoring, and hiring and onboarding.

Systemwide audits in 2015-16 addressed student health and counseling centers, executive travel, executive compensation reporting, and construction.

B. ***Annual Report of External Auditors for the Year Ended June 30, 2016***

The Committee discussed the annual report of the Regents' external auditors, PricewaterhouseCoopers (PwC), who reported that University management and staff were very cooperative with the mandated audit. PwC identified no material weaknesses.

C. ***Update on Travel Abroad Security and Response Program***

The Office of Risk Services managed a significant network of programs that provide health, safety, security services, and support to UC travelers. UC purchased a travel insurance program for medical, travel, and security assistance. During the past year, UC was able to locate, provide guidance to, and confirm the safety of several employees and students during terrorist incidents in France, Belgium, and Bangladesh.

In fiscal year 2014-15, the University implemented UC Abroad, an online travel abroad training program that served as the UC Education Abroad Program's mandatory medical clearance course for students.

Report of the Finance and Capital Strategies Committee

Regent Makarechian reported that the Committee had considered three items for action, seven items for action as part of a consent agenda, and five items for discussion:

A. ***Update on Student Housing and Plans for the Continued Development of the West Village Neighborhood, Davis Campus***

About 29 percent of Davis students were housed on campus. It was anticipated that the campus would house 35 percent of its student population in the 2016-17 academic year. The campus plans to add approximately 1,700 beds for undergraduate and graduate students by fall 2021 to provide affordable housing for students.

B. ***Update on Student Housing and Plans for Middle Earth Expansion and East Campus Student Apartments Phase 4, Irvine Campus***

The Irvine campus accommodated 14,000 students, or 44 percent of its fall 2016 enrollment in on-campus housing. The campus' goal was to provide on-campus housing for 50 percent of its total student population to improve affordability for students. On-campus housing was currently half the cost of off-campus market-rate housing.

C. ***Preliminary Discussion of the 2017-18 Budget***

The long-term funding framework agreed upon by the Governor and the University contained an anticipated four percent increase in State support for the University's base budget. One of the highest priorities for the 2017-18 budget would be support for enrollment growth to ensure that the University continued to accommodate all eligible California resident undergraduates who wished to attend UC. The Budget Act of 2016 would provide $18.5 million to the University to partially fund enrollment growth of an additional 2,500 undergraduate resident students in 2017-18, or $7,400 for each additional student.

Executive Vice President and Chief Financial Officer Brostrom described efforts to address the University's funding needs related to the UC Retirement Plan. The budget framework called for State support of $436 million in one-time funding from Proposition 2 funds over three years.

There was a preliminary discussion about a potential tuition increase.

D. ***Approval of Three-Year Financial Sustainability Plan***

The Committee recommended that the University of California Three-Year Financial Sustainability Plan shown in Attachment 1 be approved, as requested in the California State Budget Act of 2016.

The University's three-year financial sustainability plan incorporated the funding and expected 2017-18 California 2,500 undergraduate enrollment growth reflected in the Budget Act of 2016; included continued efforts to maximize operational efficiencies and to control costs; sustained access, affordability, and excellence; and included modest growth in graduate student enrollment.

E. ***University of California Financial Reports, 2016***

The Committee recommended that the 2015-16 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers be adopted.

Significant transactions during the year included the sale of future patent royalties at UCLA for $520 million.
There would be an accounting change that would require the University to record the entire liability for retiree health benefits in financial statements.

F. ***Amendment of Regents Policy 5305, University of California Mortgage Origination Program, and Regents Policy 5306, University of California Supplemental Home Loan Program***

The Committee recommended that:

(1) Regents Policy 5305: Policy on University of California Mortgage Origination Program be amended as shown in Attachment 2.

(2) Regents Policy 5306: Policy on University of California Supplemental Home Loan Program be amended as shown In Attachment 3.

Regent Makarechian said the amendments would allow faster processing.

G. ***Annual Actuarial Valuations for the University of California Retirement Plan and its Segments and for the 1991 University of California-Public Employees' Retirement System Voluntary Early Retirement Incentive Program***

Regent Makarechian reported that the Committee considered this discussion item to be very important. The June 30, 2016 overall market value of assets of the UC Retirement Plan (UCRP) was $54.2 billion, down from $55.1 billion as of June 30, 2015. On a market value of assets basis, UCRP's funding ratio decreased from 84 percent to 78 percent, even though contributions from the University and employees combined were 14 percent of payroll. The prior year UCRP assets declined two percent, compared with its assumed rate of return of 7.25 percent. The Regents' actuaries were of the opinion that such market fluctuations would be absorbed by smoothing, but Regent Makarechian expressed concern that returns over the upcoming few years could continue to be well below 7.25 percent. Regent Makarechian asked that a presentation on this topic, including by Chief Investment Officer Bachher, be made to the Committee. The Committee also expressed concern about future funding obligations, the source of these monies, the impact of additional borrowing, and securing additional State support in the future.

H. ***Annual Actuarial Valuation of the University of California Retiree Health Benefit Program***

The July 1, 2016 valuation of the University's Retiree Health Benefit Program showed an increase in liability primarily as a result of a decrease in the interest rate assumption from 4.8 percent to 2.8 percent as prescribed by new Governmental Accounting Standards Board rules. The University's liability for Other Post-Employment Benefits increased from $17.3 billion as of July 1, 2015 to $21.2 billion. While retirees' health benefits are not vested, this represented a large liability, with projected cash costs of $301 million for fiscal year 2016-17, up from $285 million in fiscal year 2015-16.

Consent Agenda

University of California Debt Policy

The Committee recommended that the University of California Debt Policy, as shown in Attachment 4, be adopted.

Approval of the University of California 2017-18 Budget for State Capital Improvements

The Committee recommended that the *2017-18 Budget for State Capital Improvements* as shown below be approved.

2017-18 BUDGET FOR STATE CAPITAL IMPROVEMENTS ($000s)
CCCI 6566

		State General Funds Financed	Phase
Berkeley	Evans Hall and Hearst Memorial Gymnasium	$1,700	S P[1]
Berkeley	2223 Fulton Seismic Demolition	$3,050	C
Berkeley	Giannini Hall Seismic Safety Corrections	$3,250	P W
Irvine	Interdisciplinary Sciences Building	$50,000	D C
Los Angeles	CHS-NPI Seismic Correction	$25,000	C
Los Angeles	Franz Tower Seismic Renovation	$25,000	C
San Francisco	Health Sciences Instructional & Research Life Safety Improvements	$3,000	D
	Capital Projects Total	**$111,000**	
Systemwide State Deferred Maintenance Program		$50,000	
	TOTAL	**$161,000**	

[1] Seismic studies and design through the schematic level only.

Approval of the Non-State Budget, External Financing, and Standby Financing, Interdisciplinary Sciences Building, Irvine Campus

The Committee recommended that:

(1) Subject to the approval of the *2017-18 Budget for State Capital Improvements*, the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

Irvine: <u>Interdisciplinary Sciences Building</u> – design, construction, and equipment – $120 million from external financing ($37.75 million), gift funds ($30 million), campus indirect cost recovery reserves ($2.25 million), and external financing supported by State appropriations under Sections 92493 through 92496 of the Education Code ($50 million).

(2) The scope of the Interdisciplinary Sciences Building shall consist of constructing an approximately 133,000-gross-square-foot (79,700 assignable square feet (ASF)) building that would provide approximately: 3,500 ASF of instructional laboratory and support space; 60,000 ASF of research and scholarly activity space; 12,000 ASF of academic and administrative office space; 4,200 ASF of shared assembly and colloquium space; and associated site development and utilities.

(3) The President of the University be authorized to obtain external financing in an amount not to exceed $37.75 million plus additional related financing costs. 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 general revenues of the Irvine campus shall be maintained in amounts sufficient to pay the debt service and to meet the requirements of the authorized financing.

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

(4) The President be authorized to obtain standby financing not to exceed $30 million for the project, subject to the following conditions:

a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

b. Repayment of any debt shall be from gifts funds. As gifts are received, the campus will reimburse the standby financing in a timely fashion. If gift funds are insufficient and some or all of the debt remains outstanding, then unrestricted campus funds shall be used 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.

(5) The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

Approval of the Non-State Budget, Center for the Health Sciences – Neuropsychiatric Institute Seismic Correction, Los Angeles Campus

The Committee recommended that subject to the approval of the *2017-18 Budget for State Capital Improvements*, the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

(1) Los Angeles: CHS-NPI Seismic Correction – preliminary plans, working drawings, and construction – $40 million from external financing supported by State appropriations under sections 92493 through 92496 of the Education Code ($25 million), campus funds ($11 million), and hospital reserves ($4 million).

(2) The scope of the project shall include the seismic upgrade of the 292,300-gross-square-foot CHS-NPI facility from a performance rating of Level V to Level III. Code corrections triggered by the work would include disabled access upgrades and fire/life safety improvements.

Approval of the Non-State Budget and Approval of External Financing, Franz Hall Tower Seismic Renovation, Los Angeles Campus

The Committee recommended that:

(1) Subject to the approval of the *2017-18 Budget for State Capital Improvements*, the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

a. Los Angeles: Franz Hall Tower Seismic Renovation – preliminary plans, working drawings, and construction – $50 million from external financing ($25 million) and external financing supported by State appropriations under sections 92493 through 92496 of the Education Code ($25 million).

b. The scope of the project shall include the seismic upgrade of the 123,723 gross-square-foot Franz Hall Tower from a performance rating of Level V to Level III. Code corrections triggered by the work would include disabled access upgrades and fire/life safety improvements.

c. The President of the University be authorized to obtain external financing, not to exceed $25 million plus additional related financing costs, to finance the Franz Hall Tower Seismic Renovation project. The President shall require that:

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

ii. As long as the debt is outstanding, 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.

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

(2) The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

Approval of Budget and External Financing, Nuevo West Graduate Student Housing, San Diego Campus

The Committee recommended that:

(1) The 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: <u>Nuevo West Graduate Student Housing</u> – preliminary plans – $7.56 million to be funded from UC San Diego Housing Auxiliary Reserves and Parking Reserves.

To: San Diego: <u>Nuevo West Graduate Student Housing</u> preliminary plans, working drawings, construction, and equipment – $178,292,000 to be funded with external financing ($177,992,000) and Housing Auxiliary Reserves ($300,000).

(2) The scope of the Nuevo West Graduate Student Housing project shall provide approximately 325,000 assignable square feet of housing space. This includes a minimum of 800 beds to support graduate students and 15 two-bedroom suites with kitchenettes, 25 hotel-style rooms with a bedroom, bathroom, and support/administrative space for the UC San Diego Health Family House. The scope also includes a parking structure with a minimum of 1,200 parking spaces, site improvements, and demolition of seven existing buildings at Mesa Housing (consisting of 100 beds).

(3) The President of the University be authorized to obtain external financing in an amount not to exceed $177,992,000 plus additional related financing costs. The President shall require that:

a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

b. As long as the debt is outstanding, general revenues from 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.

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

(4) The President, in consultation with General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

Approval of Preliminary Plans Funding, North Torrey Pines Living and Learning Neighborhood, San Diego Campus

The Committee recommended that the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: <u>North Torrey Pines Living and Learning Neighborhood</u> – preliminary plans – $22.25 million to be funded from housing auxiliary reserves ($13.35 million) and campus funds ($8.9 million).

Authority to Enter into a Ground Lease and Lease Disposition and Development Agreement following Action Pursuant to the California Environmental Quality Act for Construction of a Research Building at the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center, San Francisco Campus

The Committee recommended that the Regents take the following California Environmental Quality Act (CEQA) action:

Certify the *Final Environmental Impact Report for the proposed UCSF Research Building and City Parking Garage Expansion at the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center* (State Clearinghouse Number 2015102010).

With regard to the amendment of the UC Mortgage Origination Program (MOP) and UC Supplemental Home Loan Program, Regent Pérez asked if UC chancellors were to be excluded from those eligible to participate. Mr. Brostrom responded that UC chancellors would not be eligible for the MOP while they were chancellors, as they live in University-provided housing. They would be eligible while they were in a teaching role following their time as chancellor. Regent Pérez commented that allowing chancellors to participate in the MOP program while they were chancellors would be effective in helping to retain chancellors as UC faculty. Mr. Brostrom said that the MOP had been for owner-occupied housing, but Regent Pérez' suggestion could be considered.

Regarding approval of the Environmental Impact Report for the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center (SFGH), Regent Pérez expressed concern about air-quality mitigations, given issues raised by SFGH neighbors during the public comment period, including alleged inconsistencies in the application of the Bagley-Keene Open Meeting Act (Bagley-Keene), concerns about piecemealing elements of the SFGH projects, and the time of day traffic studies were conducted. General Counsel Robinson advised that he had reviewed the expressed concerns about notice requirements under Bagley-Keene and was satisfied that the asserted arguments were without merit. Notice had, in fact, been timely. To address concerns about the EIR being considered in closed session, that portion of the item had been moved to open session. He was satisfied that the requirements under all applicable Education Code and Bagley-Keene provisions were followed.

Regent Torlakson asked if it would be possible to postpone certification of the EIR to allow time for further consideration of neighborhood concerns.

Regent Makarechian suggested proceeding with approval of the Environmental Impact Report (EIR). Chancellor Hawgood expressed his view that traffic had been considered for the city's peak traffic times of day. He commented that there were more concerns about the garage extension than the research building. He noted that research at SFGH was currently being conducted in buildings along Potrero Avenue that had been rated seismically "poor" and "very poor," and were not able to be remediated. UCSF had a deadline to move out of those buildings; the deadline would be missed if the EIR were not certified. The ground lease was a result of long negotiations with the City of San Francisco. The next step would be consideration by the San Francisco Board of Supervisors in January, which could not occur until the EIR had been certified. The campus had put the EIR out for public comment as required, and had responded to the comments received.

Regent Torlakson asked if neighborhood concerns could still be considered, if the EIR were certified. Chancellor Hawgood advised that the campus had a comprehensive community engagement program in partnership with the Department of Public Health and the mayor's office.

Upon motion of Regent Makarechian, duly seconded, the recommendations of the Finance and Capital Strategies Committee were approved, Regent Elliott voting "no" on Item F above, the Amendment of Regents Policy 5305, University Of California Mortgage Origination Program, and Regents Policy 5306, University Of California Supplemental Home Loan Program, and Regents Pérez and Torlakson voting "no" on certification of the EIR for SFGH.

Report of the Governance and Compensation Committee

Regent Gould reported that the Committee considered five action items.

A. ***Amendment of the Annual Incentive Plan for Participants in the Office of the Chief Investment Officer, Office of the President***

The Committee recommended approval of the proposed amendments to the Office of the Chief Investment Officer Annual Incentive Plan, as shown in Attachment 5, using investment proceeds and no State funds. The proposed changes will be effective July 1, 2017.

B. ***Incentive Compensation Using Non-State Funds for Fiscal Year 2015-16 for Jagdeep Singh Bachher as Chief Investment Officer and Vice President – Investments and Arthur Guimaraes as Associate Chief Investment Officer, Office of the President***

The Committee recommended approval of the incentive awards for fiscal year 2015-16 under the Office of the Chief Investment Officer Annual Incentive Plan (AIP) for Jagdeep Singh Bachher as Chief Investment Officer and Vice President – Investments in the amount of $841,096 and for Arthur Guimaraes as Associate Chief Investment Officer in the amount of $210,892.

<u>Jagdeep Singh Bachher</u>
<u>Recommended Compensation</u>
Effective Date: upon Regents' approval
Base Salary: $632,380
AIP Award: $841,096 (133 percent of base salary)
Base Salary Plus Recommended AIP Award: $1,473,476
Funding: non-State-funded

<u>Prior Year Data (2014-15 Plan Year)</u>
Base Salary: $615,000
AIP Award: $874,838 (142 percent of base salary)
Base Salary Plus Recommended AIP Award: $1,489,838
Funding: non-State-funded

<u>Arthur Guimaraes</u>
<u>Recommended Compensation</u>
Effective Date: upon Regents' approval
Base Salary: $334,750
AIP Award: $210,892 (63 percent of annual base salary)
Annual Base Salary Plus Recommended AIP Award: $545,642
Funding: non-State-funded

<u>Prior Year Data (2014-15 Plan Year)</u>
Base Salary: $325,000
AIP Award: $170,625 (52.5 percent of base salary)
Annual Base Salary Plus Recommended AIP Award: $495,625
Funding: non-State-funded

The incentive compensation described above shall constitute the University's total commitment regarding incentive compensation until modified by the Regents or the President, as applicable under Regents policy, and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

C. ***Appointment of and Compensation for John Lohse as Interim Senior Vice President and Chief Compliance and Audit Officer, Office of the President***

The Committee recommended approval of the following items in connection with the appointment of and compensation for John Lohse as Interim Senior Vice President and Chief Compliance and Audit Officer, Office of the President:

(1) John Lohse be appointed as Interim Senior Vice President and Chief Compliance and Audit Officer at 100 percent time, effective on or about November 18, 2016 and continuing for up to 18 months or until the

appointment of a new Senior Vice President and Chief Compliance and Audit Officer, whichever occurs first, and including a transition period of up to two months.

(2) Per policy, an annual base salary of $290,000.

(3) Per policy, standard pension and health and welfare benefits.

The compensation described above shall constitute the University's total commitment until modified by the Regents or the President, as applicable under Regents policy, and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

D. ***Dates of Regents Meetings for 2018***

The Committee recommended that the following dates of Regents meetings for 2018 be approved.

2018

January 24-25
March 14-15
May 23-24
July 18-19
September 26-27
November 14-15

E. ***Amendment of Regents Policy 1100: Statement of Expectations of the Members of the Board of Regents and Regents Policy 1101: Policy on Board Education And Assessment***

The Committee recommended that:

(1) Regents Policy 1100: Statement of Expectations of the Members of the Board of Regents be amended as shown in Attachment 6, to provide that a Regent's actions, even in his or her private capacity, may be considered a failure to fulfill a Regent's duties as a member of the Board and may be a basis for sanction where such actions are inconsistent with the University's Policy on Statement of Ethical Values and Standards of Ethical Conduct (Regents Policy 1111), or the University's Sexual Violence and Sexual Harassment Policy.

(2) Regents Policy 1101: Policy on Board Education and Assessment be amended as shown in Attachment 7, to require that all Regents take the University's sexual harassment prevention training program for

supervisors upon being appointed to the Board and thereafter on a bi-annual basis.

Regent Gould explained that the changes to the incentives for the Chief Investment Officer (CIO) and key members of his team would realign the incentive structure with changes being made in the investment program. The incentive payments for CIO Bachher and Associate CIO Arthur Guimaraes would be consistent with existing contracts that provide for compensation when certain benchmarks are achieved.

The amendment of Regents Policy regarding expectations of the Regents included high expectations of the Regents' ethical conduct in both their public and private lives, and required training for Regents in the area of prevention of sexual harassment.

Upon motion of Regent Gould, duly seconded, the recommendations of the Governance and Compensation Committee were approved.

Report of the Health Services Committee

Regent Lansing reported on the following items from the Committee's October 18 meeting.

A. ***Remarks of the Executive Vice President – UC Health: UC Health Strategy and Budget Update***

Regent Lansing commented that the healthcare environment was very competitive. UC Health was exploring ways to expand its partnerships with other systems and physicians, taking into account the accompanying risks and benefits.

UCLA Health was pursuing a pilot program to provide health care for UC Santa Barbara employees. UC Health would explore similar arrangements with other UC campuses.

B. ***Status of the Student Health and Counseling Centers and UC Student Health Insurance Plan***

The Committee heard about the success of the UC Student Health Insurance Plan program and ways being explored to make it even more successful, including using online appointments and telemedicine. Concerns included appointment wait times and the need for more staff.

C. ***Appointment of and Compensation Using Non-State Funds for Michael R. Anderson as Senior Vice President – Children's Services and President of Benioff Children's Hospital, UCSF Health, San Francisco Campus***

Regent Lansing reported that the Committee approved the appointment of Michael R. Anderson as Senior Vice President – Children's Services and

President of Benioff Children's Hospital, UCSF Health, San Francisco campus, at 100 percent time, with an an annual base salary of $925,000.

D. ***Incentive Compensation Using Health System Operating Revenues for Fiscal Year 2015-16 for John Stobo As Executive Vice President – UC Health, Office of the President***

The Committee approved a Clinical Enterprise Management Recognition Plan 2015-16 Plan Year award of $135,370 for John Stobo as Executive Vice President – UC Health, Office of the President. The incentive award represents 22 percent of his annual base salary.

A working group would analyze benchmarks to ensure the competitiveness of UC Health salaries.

<u>Report of the Public Engagement and Development Committee</u>

Regent Lansing reported that the Committee considered five discussion items.

A. ***Annual Report on University Private Support 2015-16***

UC and its campuses exceeded fundraising totals of the prior year. One-half of all gifts to UC campuses were to health sciences and medicine.

B. ***Overview of University of California Privately Funded Scholarships and Fellowships***

The Committee intended to focus on ways the Committee could support general philanthropy and fundraising for scholarships and fellowships, including through social media.

C. ***Review of Federal and State Election Results Including State Ballot Initiatives***

Effects of the U.S. presidential election were currently uncertain. State ballot initiatives with possible beneficial effects for UC passed.

D. ***Upcoming State Legislative Session***

The Committee expressed interest in learning ways in which the Regents could support advocacy and government relations efforts in Sacramento and Washington, D.C.

E. ***Federal Election Impact on Higher Education Policy and Higher Education Act Reauthorization***

Effects of the U.S. presidential election were currently uncertain.

Report of the Subcommittee on Investments

Regent Sherman reported on the Subcommittee's meeting of October 29, at which it considered one action item and one discussion item.

A. ***Amendment of Regents Policy 6101: Investment Policy Statement for University of California Retirement Plan; Regents Policy 6102: Investment Policy Statement for General Endowment Pool; and Regents Policy 6109: Short Term Investment Pool Investment Guidelines***

The Chief Investment Officer, in consultation with Mercer Investment Consulting, Inc., recommended that Regents Policy 6101: Investment Policy Statement for University of California Retirement Plan be amended; Regents Policy 6102: Investment Policy Statement for General Endowment Pool be amended; and Regents Policy 6109: Short Term Investment Pool Investment Guidelines be amended.

Regent Sherman explained that this proposal would make the Short Term Investment Pool (STIP) Investment Guidelines a stand-alone policy, rather than part of the Investment Policy Statements of the University of California Retirement Plan (UCRP) and the General Endowment Pool (GEP). The STIP guidelines would amend the risk objective to be the preservation of capital and avoidance of negative returns, and set a duration target of three years. The Subcommittee did not vote on this action item because Subcommittee members suggested establishing a fixed, rather than floating, STIP benchmark and adding minimum credit ratings.

B. ***Update on Investment Products***

Regent Sherman stated that this update indicated preliminary results for the three-month period from June 30, 2016 through September 30, 2016. The GEP returned 4.5 percent (70 basis points above the benchmark); UCRP returned four percent (25 basis points over the benchmark). Returns were driven primarily by an upswing in the public equities market. The Total Return Investment Pool (TRIP) returned 2.4 percent for the three-month period, matching its benchmark; STIP returned 0.3 percent. The TRIP public equity portfolio is now 100 percent passively managed, primarily through indexed funds. Total UC assets have grown to more than $100 billion.

The Subcommittee briefly discussed performance relative to other endowments, UC's asset allocations in comparison with private institutions', and appropriate benchmarks.

<u>Report of the National Laboratories Subcommittee</u>

A. ***National Laboratories Update and Presentation on the State of Lawrence Livermore National Laboratory***

Regent Pattiz reviewed the Subcommittee’s one discussion item, which included a presentation by Lawrence Livermore National Laboratory (LLNL) Director William Goldstein on the state of that Laboratory. Mr. Goldstein reported that, in addition to LLNL’s responsibility to design, test, and steward the nation’s nuclear weapons stockpile, the Livermore Laboratory had responsibility in broader areas of national security, including chemical and biological security, cybersecurity, energy security, climate research, and counterterrorism. He described LLNL’s continuing achievements in high-performance computing. LLNL’s mission is to solve global security challenges for the nation through world-class science, technology, and engineering.

Regent Pattiz noted that the Los Alamos National Security LLC (LANS) contract for management of Los Alamos National Laboratory (LANL) had been extended for one year and the intention of the current federal administration was to re-compete the contract. However, the results of the recent U.S. presidential election would likely lead to appointment of a new Secretary of Energy and new administrator of the National Nuclear Security Administration. The University would closely monitor this transition and would continue to evaluate its options for continuing involvement at LANL. The LANL Plutonium Facility (PF-4) returned to full operations after a more than two-year pause to address criticality safety issues.

At Lawrence Berkeley National Laboratory, the Advanced Light Source Upgrade Project received its first Department of Energy approval, which would begin the process of additional planning for the conceptual design of the upgrade. The Advanced Light Source provided users from around the world access to the brightest beams of soft x-rays, together with hard x-ray and infrared light for scientific research in a wide range of disciplines. In 2015 the Advanced Light Source hosted more than 2,500 visiting scientists.

4. **RESOLUTION IN APPRECIATION – SHERYL VACCA**

Upon motion of Regent Zettel, duly seconded, the following resolution was adopted:

WHEREAS, the Regents of the University of California wish to express their heartfelt appreciation to Sheryl Vacca for her superlative judgment, unwavering integrity, and the insightful contributions she has brought to the Board of Regents as Senior Vice President and Chief Compliance and Audit Officer; and

WHEREAS, as a nationally recognized expert in corporate compliance and audit, she distinguished herself in the complex world of health care compliance and internal audit practice at both Sutter Health, where she developed the first enterprise-wide compliance program, and Deloitte and Touche LLP, where she led the internal audit program, experience which she then used to benefit the University and the people of California; and

WHEREAS, she defined the role of Senior Vice President and Chief Compliance and Audit Officer as the first person in the history of the University to hold that position, assisting the Regents in ensuring public transparency, establishing the highest standards of openness and accountability, and providing astute guidance in all aspects of compliance and risk; and

WHEREAS, she established a governance and compliance structure at UC that is one of a kind in higher education, including the formation of compliance oversight committees at every location, each with its own Campus Ethics and Compliance Officer; and

WHEREAS, she prioritized education and prevention, organizing ongoing in-person and web-based systemwide training programs on ethics, data security and privacy, and sexual harassment prevention, among others, to address a multitude of regulatory, compliance, and emerging areas of risk that the University faces;

WHEREAS, she proactively established task forces to consult broadly with the University community and take action in complex areas such as conflict of interest, compliance with the Health Insurance Portability and Accountability Act, data security, and the prevention of and response to sexual harassment and sexual assault, which resulted in new protocols for which the University is widely recognized as a model for other colleges and universities; and

WHEREAS, she created a collaborative process for developing and reviewing Presidential policies that standardizes the format and ensures broad consultation, providing greater clarity and guidance; and

WHEREAS, in recognition of her devoted and steadfast commitment to the Board of Regents and the University of California, and the thoughtful counsel and insightful analysis she provided the Regents to the benefit of the University and the public trust, the Regents do hereby confer upon Sheryl Vacca, the title, Senior Vice President Emerita;

NOW, THEREFORE, BE IT RESOLVED that the Regents of the University of California commend Sheryl Vacca for her distinguished service as Senior Vice President and Chief Compliance and Audit Officer and express their gratitude for her sound judgment and her unwavering commitment to transparency in public higher education;

AND BE IT FURTHER RESOLVED that the Regents wish Sheryl great professional success and personal fulfillment as she embarks on the next stage of her illustrious career, and direct that a suitably inscribed copy of this resolution be presented to her as an expression of the Regents' sincere appreciation, regard, and esteem.

5. **ACCESS, AFFORDABILITY, AND EXCELLENCE: THE ROLE OF UNDERGRADUATE FINANCIAL AID AND TUITION**

[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 introduced Director of Student Financial Support Christopher Carter, who discussed data regarding UC's undergraduate students. More than half come from families with annual incomes less than $80,000, and more than one-third with family incomes less than $54,000. This socio-economic diversity distinguished UC from its comparator institutions. UC enrolled a substantially higher proportion of Pell Grant recipients, typically with family incomes less than $50,000, than its comparison institutions, 42 percent compared with 22 percent at non-UC Association of American Universities (AAU) public universities and 17 percent at AAU private institutions. Four individual UC campuses each enrolled more Pell Grant recipients than all eight Ivy League institutions combined. Growth in UC's proportion of Pell Grant recipients had outpaced that at comparison institutions, so the gap was wider than it was five years prior. UC was clearly a leader among top research institutions in the socio-economic diversity of its student body. UC also enrolled more first-generation college students than other very selective research institutions, both public and private. UC's percentage of first-generation college students had increased modestly, but steadily, from 37 percent in 2009 to 42 percent in 2015.

Regarding racial and ethnic diversity among UC undergraduates, Mr. Carter displayed a graph showing a steady increase since 1999 in the percentage of UC undergraduates identifying as Chicano/Latino, African American, and American Indian. UC enrolled a higher percentage of undergraduates from underrepresented backgrounds than its public comparison institutions, and the proportion of underrepresented students at UC had increased in recent years. However, despite this increase, these groups remained underrepresented compared with their proportions in the state population.

Regent Pérez said it would be important to review data showing the percentage of the fall freshman class from underrepresented minority ethnic groups for each campus. He also observed that data indicating that UC enrolled a higher proportion of undergraduates from underrepresented backgrounds than its public comparison institutions could be misleading because they did not account for the differences in the diversity of the college-aged population in California and the states of those comparators (New York, Illinois, Michigan, Virginia). He requested information about the proportion of enrolled underrepresented minority undergraduates compared with their proportion in the general populations of California and the comparator states. Mr. Brostrom agreed that UC's diversity did not reflect the diversity of California. The University would continue its work to increase diversity.

Regarding UC's financial aid, Mr. Carter displayed a graph showing a large difference between UC's per capita financial aid awards and those of comparator institutions, reflecting UC's larger proportion of financial aid recipients than any other top research university. In addition, unlike students at comparator institutions, UC's students benefit from strong financial aid programs at both the state level and the institutional level. More than half of UC's undergraduates effectively pay no tuition, receiving some combination of need-based grant assistance and scholarship support that fully offsets tuition. Since another 20 percent receive assistance that partially covers tuition, three-quarters of UC students do not pay full tuition. A graph of average gift assistance by family income showed that many UC students receive financial aid that covers tuition plus a share of other costs such as housing, food, books, and supplies. The average gift assistance systemwide for students who receive that type of aid exceeds $16,000. The largest awards go to students with the fewest financial resources and the largest share of students receiving those awards are from families with the lowest incomes.

Regent Pérez said it would be helpful to indicate what portion of the total cost of attendance students received in aid, since the total cost of attendance was more than double the cost of tuition. It would also be important to consider that it would be much more difficult for students from low-income families or independent students to provide the expected student annual self-help contribution of $10,000 per year, compared with students from families with higher incomes.

Regent Makarechian asked that the data on average gift assistance by family income be disaggregated by campus. Students' cost of living would be different at UC Merced compared with campuses in higher rent areas. He also commented that the data would not take into account students who have to commute a long distance to their campuses. Mr. Brostrom noted that the University normalizes financial aid across all of its campuses. The total cost of attendance is taken into account, and financial aid funds flow among UC campuses to help those campuses with higher percentages of students who are Pell Grant recipients or with higher costs of attendance. The expected student annual self-help contribution is $10,000 at all UC campuses.
Regent Makarechian asked if students with more financial need were given priority for on-campus housing. Mr. Brostrom responded that he was unaware of such programs and thought it was a good suggestion. Different financial aid costs of attendance were calculated for students living on campus and off campus. The difference in cost between living on and off campus had been increasing.

Mr. Carter added that in spring of 2016 UC completed a cost of attendance survey that, for the first time, included questions about commuting costs and more details about housing. Budgets reflecting those results would be used in 2017-18.

Regent Makarechian asked how students were classified as independent. Mr. Carter said it was according to definitions in federal financial aid programs, and could include factors such as being 24 years old, having dependents, being a veteran, coming from the foster care system, or being homeless, among others. Regent Makarechian asked about students who had lost support of their families. Mr. Carter said the federal program assumed that if a student was classified as dependent, his or her family would contribute support. Campus-level financial aid staff try to accommodate students whose parents were expected to contribute, but did not, but Mr. Carter acknowledged that it was challenging.

Regent Ramirez agreed that it would be helpful to have financial aid and cost of living data for each campus. She proposed inviting individual students to tell about their experiences with the cost of attendance and financial aid to add a human element to the data. Vice Chair Reiss suggested that Regent Ramirez could provide a list of possible speakers.

Regent Island commented that the data presented would provide a framework for trying to understand why UC had students who were homeless and hungry, and students who had to work three or four jobs. He expressed his view that the data would help focus efforts to provide assistance up to the cost of attendance for students whose families could not provide needed support. He noted the difficulty a family of four living in California on even $80,000 per year would have contributing the expected $10,000 a year in self-help. He urged the Regents to consider redeploying some resources to address the large self-help requirement imposed on low-income families.

Regent Pérez commented that some students live independently from their parents, but were not officially classified as independent. The Regents should reconsider policies that could result in students being misclassified. For instance, he stated that the State policy requirement for residency was one year, but the Regents' policy requirement was two years. Some students were misclassified initially and then remained in that classification. Mr. Carter said he would review this issue. He was of the opinion that a student's residency status could be re-examined.

Regent Pattiz questioned continued tuition increases.

Regent Newsom requested a breakdown by campus of the graph of grants and scholarship aid in relation to family income, and more information about the relationship of aid received to the total cost of attendance, which he said was substantially more than $25,000, the top figure on the graph, and probably more than $30,000.

Mr. Brostrom noted that the University's primary source for financial aid for students from low-income families was tuition. The University's return-to-aid policy resulted in one-third of all tuition going to financial aid. Some of that financial aid covered tuition, but more covered room and board, and books. Low-income students have had to pay more during periods of flat tuition than during periods with moderate, predictable tuition increases. In addition, the state's Middle Class Scholarship Program provided assistance to students from families with incomes up to $150,000. Mr. Brostrom pointed out that slight tuition increases for families with incomes over $150,000 resulted in increased financial aid for low-income students, rejecting the notion that tuition increases hurt low-income students.

Regent-designate Monge commented that tuition increases could threaten UC's diversity. Many students escape the poverty of their home communities only to face it again at the University. He urged the Regents, particularly those who are State officials, to make the case for investment in UC to the Legislature.

Regent Makarechian commented that the State was projected to give UC only $7,400 per student in its upcoming budget. He urged those who did not favor a tuition increase to communicate to State officials the need for additional funding.

Mr. Brostrom reiterated that tuition is the University's primary source of financial aid. Low-income students would not be hurt by tuition increases, which would provide more funds for financial aid.

6. **UC HEALTH STRATEGIC PLAN**

[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 Stobo provided the annual review of UC Health's Strategic Plan (Plan), which initially covered three years and would be updated each year. This Plan involved only UC Health's clinical enterprise, not its educational and research components, although in reality, these three were inextricably interconnected and the success of one depended on the success of the others. The Plan had been presented to the Health Services Committee and discussed with the chief executive officers (CEOs) of UC's medical centers and the deans of its schools of medicine. Dr. Stobo was visiting UC campuses with medical centers to present the Plan and receive feedback.

Dr. Stobo expressed his view that the recent U.S. presidential election would have little effect on the Plan. The Plan addressed a major change in the healthcare environment, which is moving from being volume-based to being value-based. Reimbursement would be based on the value added by the clinical service provided. This change had been set in motion prior to the signing of the Affordable Care Act (ACA) and had its own momentum that would continue. A major emphasis would be placed on decreasing the cost of health care. Dr. Stobo anticipated that the largest effect of the election would be on Medicaid expansion. He expressed his view that, if subsidies were withdrawn and Medicaid expansion stopped, the number of the nation's uninsured would increase to pre-ACA levels, which he said would be a sorry state of affairs.

Dr. Stobo discussed challenges facing UC Health's clinical enterprise. Reimbursement was declining from commercial insurers and public payers. Year-over-year reimbursement increases from commercial payers had been ten percent and were currently four to five percent. Dr. Stobo predicted three percent increases in coming years. UC Health faced cost increases that outpaced revenue increases each year. The prior year UC Health revenue increased nine percent, but costs increased 11 percent. UC Health faces relentless pressure to demonstrate value added for the services provided. The Centers for Medicare and Medicaid Services intended to base 90 percent of payments in 2017 on value added. The Medicare Access and Children's Health Insurance Program Reauthorization Act (MACRA) mandated that payment under Medicaid would be based on performance starting in 2019, with the base year of 2017. UC Health would have to choose in the upcoming year between two types of performance-based payment.

Another challenge was the dissociation of UC Health's clinical, research, and educational missions. While all were successful, their advances were in parallel, and the clinical enterprise did not take advantage of advances and expertise of the research enterprise. There were inconsistent views regarding UC Health's public status. On one hand, UC Health was viewed as a public institution with responsibility to educate the heathcare workforce and to treat all individuals irrespective of their ability to pay. On the other hand, the amount of direct funding UC Health receives from the State had dwindled. Dr. Stobo affirmed UC Health's view of itself as a public trust with a responsibility to address the health needs of all of society irrespective of ability to pay. There was also some internal ambivalence over the concept of a UC Health system. While there was increasing acceptance of the concept at CEO levels, that acceptance had not permeated all levels of every location.

Dr. Stobo reviewed the strategic goals for UC Health's clinical enterprise: to develop the scale and capability to thrive in a value-based healthcare environment; to strengthen UC's position as the destination for tertiary and quaternary care in the western U.S., while ensuring excellent primary and secondary care in its local markets; to amplify the impact of UC Health research on clinical excellence; to accelerate the Leveraging Scale for Value program; to promote the UC Health culture to benefit each campus; and to demonstrate more clearly UC Health's commitment to improve the health of California communities.

The Plan contained 21 tactics for addressing these strategic areas; Dr. Stobo reviewed six tactics. UC Health would launch a focused, systemwide effort to address the growing health needs of the Medi-Cal population. UC Health would partner with its faculty practices to prepare for MACRA, under which in 2019 UC Health would be paid only if it meets certain performance measures associated with Medicare payments. UC Health would expand its "big data" initiative, through which it had collected unique patient records and associated phenotypic parameters, to use those data to develop evidence-based clinical performance. UC Health would accelerate its Leveraging Scale for Value initiatives, which had yielded annual savings of $150 million. UC Health would strive to create a workforce that meets the health needs of California, particularly the need for more primary care. Dr. Stobo expressed his view that UC's medical schools could not be expanded quickly enough to meet that need, but professionals from its other professional schools, including nursing, dentistry, and pharmacy, could be more involved in providing primary care. UC Health would refine its organizational model to facilitate more efficient and integrated systemwide activities. UC Health had developed metrics for all 21 tactics to show whether it is meeting its goals.

Dr. Stobo reported positive reaction to the Plan at the campuses. A main concern expressed was that the Plan concerns only UC Health's clinical enterprise and not its education and research missions.

Regent Makarechian asked if Dr. Stobo had any suggestions for minimizing the expense of UC's retiree health benefits. Dr. Stobo commented that 55 percent of UC Health's expenses are associated with personnel. He recommended considering ways in which UC could make its retiree healthcare benefits more affordable. UC Health was reviewing its employee productivity compared with national benchmarks and would work to address discrepancies from benchmarks. UC Health would like to move from a defined benefit to a defined contribution retirement plan, which would provide mobility for its workforce. UC Health's comparators generally offered defined contribution plans.

Regent Makarechian asked about financial aid available to medical students, many of whom choose to remain in California for their residencies and careers. Dr. Stobo agreed that the percentage of UC medical school graduates who remained in the state to practice was among the highest in the nation. The debt among UC medical students was high, which sometimes contributed to potential students' decisions to attend other medical schools. UC Health was considering ways to provide financial aid to more of its medical students, for instance by developing philanthropic programs that would offer such aid.

Regent Makarechian asked about an implementation schedule and budget for coordinating medical data online. Dr. Stobo commented that all UC medical centers would soon be using the Epic medical record system by the end of 2016; however common use of Epic would not allow UC's medical centers to access records from one another. When UC Health partners with community-based hospitals, even ones that also use Epic, it can be difficult and costly to share medical records. Dr. Stobo said that some companies were working to solve this obvious problem, but there was currently no affordable solution. There was no implementation schedule for coordinating access to electronic medical records among all UC medical centers.

Regent Brody asked if UC Health was able to be nimble in its leadership and ability to react to changes in the healthcare environment. Dr. Stobo responded that the newly configured Health Services Committee with its delegated authority had improved UC Health's ability to accomplish transactions within specified financial parameters, with no loss of the Regents' fiduciary oversight.

Regent Newsom asked for Dr. Stobo's assessment of the effect of the recent U.S. presidential election on Medi-Cal. Dr. Stobo expressed his view that Medi-Cal expansion would stop; it was unclear only when it would stop. In his view, this would not be good for the nation or for California. It had been clearly shown that individuals with health insurance were more likely to seek health care. The financial effect on UC Health was difficult to predict. It was currently unknown how potential changes to Disproportionate Share Hospital (DSH) payments would balance out with reduction of the Medi-Cal expansion.

7. **UPDATE ON INVESTMENT PERFORMANCE FOR PERIODS ENDING JUNE 30, 2016**

[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.]

Chief Investment Officer (CIO) Bachher reviewed investment results for the fiscal year ending June 30, 2016, including an update for the quarter ending September 30, 2016. As of September 30, the Office of the CIO managed $102 billion for UC, an increase from $97.8 billion as of June 30. These funds were held in six distinct products, the $94 billion General Endowment Pool (GEP), the $56 billion UC Retirement Plan (UCRP), the $21 billion UC Retirement Savings Program (UCRSP), and $14 billion in working capital, including the $8 billion Total Return Investment Pool (TRIP) and the $6 billion Short Term Investment Pool (STIP), In addition the Office of the CIO recently assumed management of the $600 million Fiat Lux captive insurance pool.

Mr. Bachher discussed the investment environment of the past fiscal year and the first quarter of the current fiscal year. The beginning of the past fiscal year saw a continuation of the persistent period of low interest rates. Some governments globally were issuing debt at negative rates. There had been robust growth in Chinese markets, dating back seven years. However, through the fiscal year, China's growth was slower than expected. The British vote, known as Brexit, to leave the European Union, occurred near the end of the fiscal year. A market correction occurred in July 2015, with a second correction in early 2016, largely driven by the slowdown in the Chinese market.

For the fiscal year, the GEP returned negative 3.4 percent; UCRP returned negative two percent; TRIP returned 0.3 percent; and STIP returned one percent. Returns rebounded in the quarter ending September 30, 2016, during which the GEP returned 4.5 percent, regaining $400 million, after losing $300 million the prior fiscal year. For the quarter ending September 30, 2016 UCRP gained four percent, gaining $2 billion after losing $1.1 billion in the prior fiscal year. TRIP gained 2.4 percent and STIP gained one percent for the quarter ending September 30. Mr. Bachher stated that expectations for future returns should be tempered in the current low-return environment, with uncertain market conditions going forward.

Discussing longer-term returns, Mr. Bachher reported that the GEP returned 7.1 percent annually over a three-year period, and 7.7 percent annually over 20 years. The GEP paid out 4.75 percent each year. Over the past decade, the GEP had paid out close to $2.4 billion. The key objective of the GEP was to meet its payout.

During the past fiscal year, the UCRP policy asset allocation had been changed to 50 percent public equity, 20 percent fixed income, and 30 percent other assets such as absolute return, private equity, real estate, and real assets. UCRP earned 6.3 percent annually over the past three years and 7.2 percent annually over the past 20 years. UCRP's asset allocation should enable it to meet its pension obligations. UCRP earned $9 billion in investment returns over the past three years and $14 billion over the past five years.

The $21 billion defined contribution UCRSP had 300,000 participants, who saved a combined $1 billion annually in the UCRSP for their futures. One-fourth of this amount was invested in target date funds; one-fourth in equity-like funds; and the remaining one-quarter in a savings fund. Mr. Bachher's office was exploring ways to make the UCRSP more efficient. To streamline participants' investment choices and reduce management costs, the Office of the CIO had reduced the number of fund choices from more than 200 to 16, a number aligned with industry trends. The Office of the CIO was currently exploring using a third-party manager for UCRSP's target date funds.

UC's working capital pool had grown significantly over the past eight years and currently totaled $14 billion, close to the $15 billion combined total of the GEP and the campus foundations, but relatively unchanged from the prior fiscal year. Since its inception in 2008, TRIP had returned seven percent annually over the past eight years, while STIP earned 2.2 percent annually. The Office of the CIO helped the campuses manage their balance sheets to find the optimal allocation among STIP, TRIP, and GEP.

Mr. Bachher noted the importance of managing risk, since the current confluence of geopolitical and market risks created an environment of uncertainty that required that asset allocation and tactical implementation were well-positioned. His office's focus would continue to be on the long term.

Regent Island asked about the appropriateness of existing asset allocations, given the market uncertainty. Mr. Bachher recalled that his office had recommended changes to asset allocations that had been approved by the Regents, and added that his office would continue to review asset allocations in light of changes to market conditions. For example, private equity was ten percent of the asset allocation of UCRP. Investors worldwide were seeking higher returns to meet future obligations, resulting in high demand for private equity investments and causing the Office of the CIO to focus on managing risks. If valuations were high and there was a flood of capital into private equity, investing in that sector would be difficult. Mr. Bachher expressed confidence in the long-term policy asset allocations. In the short term, his office would remain disciplined and cautionary when valuations were high, but would invest capital when good opportunities arose.

Regent Makarechian expressed confidence in Mr. Bachher's leadership. He asked if the 7.25 expected rate of return for UCRP should be re-considered. Mr. Bachher responded that this important question was widespread for pension funds nationally and that he agreed with the common perception that it would be difficult to earn 7.25 percent over the upcoming five to ten years. However, actuarial projections use longer capital market assumptions, which result in a 7.25 percent projected rate of return over 20 years. Mr. Bachher found it instructive to note that, with a target return of 7.5 percent, UCRP returned 7.2 percent over the past 20 years. If the current market would be more challenging, it was appropriate to question whether the current 7.25 percent expected rate of return was realistic. Regent Makarechian asked for Mr. Bachher's opinion of the appropriate time for the Board to consider the UCRP expected rate of return. Mr. Bachher expressed his view that it would be appropriate to have that discussion, as it would relate to important governance considerations for the University.

Regent Newsom asked how UC's returns of the prior fiscal year compared with its comparator institutions. Mr. Bachher responded that UC's one-year returns were close to the bottom of the group of its comparators for both the pension and endowment. The GEP returns were close to the lowest among its comparator 20 large university endowments. On a longer term, ten years prior the GEP was among the lowest of this comparator group; five years prior the GEP returns began to improve and were in the middle of the group. On a three-year basis, the GEP ranked ninth out of 20. Over a ten-year period the top-performing endowments returned about eight percent annually; the GEP returned about six percent annually over that period. The range of returns for UC campus foundation endowments was from negative 2.2 percent to negative 5.1 percent. GEP returns were better than UC campus foundation returns on a three-, five-, and ten-year basis. UCRP’s three-, five-, and ten-year returns compared more favorably than GEP returns.

8. **CAMPUS OVERVIEW, 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.]

Executive Vice President and Chief Financial Officer Brostrom explained that the data in this presentation, as in other recent campus presentations, were drawn from the University’s corporate financial reporting systems, and included non-cash items, most notably depreciation. The figures shown for tuition were net of financial aid, not including return to aid.

Chancellor Khosla reported that this year, UC San Diego had admitted the most diverse class in its history. The campus was now 56 years old and had 33,700 students. He briefly presented statistics about the student population and expressed particular concern about the student-faculty ratio of 26 to one. He discussed balance sheet indicators for the years 2013 to 2015 and drew attention to the 50-percent increase in campus and foundation endowments. The campus was in the fifth year of a ten-year fundraising campaign. In four years, UCSD had raised more than $1.1 billion toward a goal of $2 billion.

Vice Chancellor Pierre Ouillet outlined three important aspects of the campus’ financial strategy: strong operating discipline, revenue diversification, and focused capital investments. He presented a chart of revenue and expense detail, noting that clinical care provided 42 percent of UCSD revenue. State appropriations accounted for eight percent of revenue, while tuition and fees provided 13 percent. Nonresident tuition had made up for the decline in State appropriations to the campus. As is the case with other UC campuses, salaries and benefits make up about 60 percent of total expenditures. UCSD tries to keep its staffing structure lean, and has a zero-based budget for all administrative units. Mr. Ouillet presented financial operating results and projections for 2013 to 2020. For the years 2013 to 2015, UCSD had net positive income, and then experienced a loss of about $20 million in 2016. This was a non-cash issue, the result of an overestimation of the campus’ capital asset base. This accounting flaw had since been addressed. Losses projected for 2017 and 2018 were due to the opening of Jacobs Medical Center.

UCSD Health Chief Executive Officer Patricia Maysent reported that UCSD Health was continuing to grow in reputation and market share, in spite of a challenging market. Its geographic reach had expanded over the past three years, with affiliations with eight hospitals. The UCSD Health clinical integration network had grown to about 250 community physicians. UCSD Health was working in close cooperation with UC Irvine and would host UC Irvine's electronic medical records. The Jacobs Medical Center would open in a few days, on November 20, and would have a significant positive impact on the health of the community, but UCSD would have to absorb $117 million in new annual expenses related to the facility.

Chancellor Khosla discussed the strengths of UCSD, including research integration among the general campus, the Scripps Institution of Oceanography, and the School of Medicine, and increases in student diversity. UCSD was working to improve its students' four-year graduation rate. The campus' information technology operations were now integrated under one chief information officer. UCSD was striving to encourage faculty entrepreneurship and streamline licensing. The campus' major challenges were insufficient infrastructure, especially student housing, deferred maintenance, cyber security, and the high cost of living in San Diego. Chancellor Khosla briefly outlined campus strategies to address these challenges. He stated his view that the percentage of graduate students at UCSD should be higher.

In response to a question by Regent Makarechian, Chancellor Khosla stated that there were approximately 8,400 freshmen and transfer students at UCSD in the current year. Regent Makarechian observed that while the increase in percentage of African American students might be large, the actual number of these students was small. Chancellor Khosla responded that the campus' yield of African American students had improved due to an active strategy of working with high schools, alumni, and families. Regent Makarechian asked if there was a perception that UC San Diego is an expensive campus to attend. Chancellor Khosla responded that UC's campuses have comparable costs. Regent Island praised Chancellor Khosla's focus on diversity, commended him for making the campus a more welcoming place, and hoped that the campus would continue to make progress in this area. Regent Elliott also commended Chancellor Khosla for his diversity efforts and asked about his strategy. Chancellor Khosla responded that the campus needed more time to see if its current approach to increasing the yield of African American students was a sustainable strategy.

Regent Reiss suggested as a future topic for the Academic and Student Affairs Committee that the Regents examine campuses with exceptional results for diversity and how they have achieved those results.

9. CAMPUS OVERVIEW, SANTA BARBARA 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 Yang highlighted progress made by the Santa Barbara campus over the past two decades. For the fall of 2016, UCSB had 77,000 freshman applications and 17,000 transfer applications, both of which had nearly quadrupled in the past 20 years. The current freshman class had an average high school grade point average of 4.02, and was comprised of 33 percent underrepresented minority students and 40 percent first-generation college students. In 2015 UCSB was designated a Hispanic Serving Institution (HSI); Hispanic students currently comprised 28 percent of UCSB's undergraduate enrollment. UCSB is the first and only member of the American Association of Universities to be named an HSI, a designation that enables it to pursue additional external funding for student support. The campus received its first HSI grant from the U.S. Department of Education of $2.6 million to support student success and a National Science Foundation grant of almost $5 million designated to support engineering transfer students from diverse and low-income families. The prior year, the *New York Times'* College Access Index ranked UCSB third in the nation for serving low-income students; six UC campuses were in the top ten. The Institute for Higher Education Policy ranked UCSB third among public institutions for increasing enrollment of low-income students while maintaining strong outcomes; UC campuses ranked first through fourth. Six UC Santa Barbara faculty and one alumna have been awarded Nobel Prizes since 1988. Over the past four years, Leiden University ranked UCSB seventh, second, eighth, and seventh among 750 top world universities in research impact based on number of research citations per capita. Chancellor Yang cited other high rankings, noting that the campus' awards to young faculty indicated that it would continue to grow in stature in the years ahead.

UC Santa Barbara had been slowly and steadily recovering from budget cuts by focusing on preserving and enhancing academic excellence and diversity. Campus cash balances had remained relatively flat over the past three years, but the campus had maintained a steady reserve of 150 days' operating cash. Reliance on State funding for capital projects had been challenging; increase in capital assets reflected only modest growth. UCSB recently completed a new student housing complex and a library innovation. Completion of its bioengineering building, faculty club renovation, and an additional student housing project were anticipated in the coming year. The campus had increased philanthropy from a variety of sources, and had recently completed a $1 billion fundraising campaign. Its campus foundation assets increased 18 percent since 2013. Of the campus' outstanding debt, 43 percent is from student housing facilities.

Regarding revenues and expenses, Chancellor Yang said that 59 percent of revenue was generated from a combination of State support and student tuition. The reduced amount of State funding per student was particularly challenging considering enrollment growth. The campus' financial outlook is positive, with positive balances projected through 2020. UCSB has projected additional investment in faculty recruitment, graduate student support, and deferred maintenance.

UC Santa Barbara planned to capitalize on its strengths, including the excellence and diversity of its student body, faculty, and staff, its commitment to accessibility and affordability, and its designation as a HSI. The campus recently created a transfer student center to support that increasing student population and summer bridge programs to support first-and second-year students in all disciplines. UCSB is home for the UC systemwide Education Abroad Program (EAP); UCSB students comprise 20 percent of EAP students. UCSB has achieved recognition for its multi-disciplinary research clusters, which are being emulated around the world. The campus had received a $66 million gift from Charles Munger to develop a residence for visiting physicists to the Kavli Institute for Theoretical Physics; this would be completed in the current year.

Chancellor Yang discussed challenges UCSB faces. The campus' Long Range Development Plan anticipated enrollment increase of 5,000 students by 2020, but the campus had already grown by 3,000 students in the past five years. Increasing enrollment requires more student housing, classrooms, laboratories, and student support and activity facilities. The campus would commit to an ambitious program of faculty renewal to support enrollment growth as its senior faculty retire. During budget reduction years, UCSB faculty and staff were reduced by about five percent while student enrollment increased. The campus had made progress in reversing that trend. UCSB appointed 66 new faculty the prior year and 29 additional full-time equivalents in the current year. The campus would also continue to improve support for its staff.

UCSB had the goal of increasing the proportion of its graduate students, vitally important to support undergraduate enrollment increases. The campus was committed to enhancing it campus climate by fostering a diverse, inclusive, and welcoming environment. It would continue to pursue research excellence for the benefit of society, even during times of declining federal support for research. Like other UC campuses, UCSB was challenged to address its need for facilities renewal for teaching and research, and deferred maintenance. One of the campus' highest priorities is its need for a State bond measure for building new instructional and research facilities. Also, UCSB needs to provide affordable housing for its faculty and staff, faced with the challenge of the campus' location in an area with some of the highest housing costs in the nation. The campus continues to work to improve the living and learning environment in Isla Vista. To remain competitive and to meet the needs of its students, faculty, and staff, UCSB must invest in state-of-the art teaching, research, and student housing facilities commensurate with the national and international stature of the campus.

Regent Island congratulated Chancellor Yang on his stewardship of UC Santa Barbara. Regent Island asked for data showing the percentage of expenditures devoted to scholarships and fellowships at each UC campus. Executive Vice President and Chief Financial Officer Brostrom said he would provide these data and noted that financial aid was normalized across all campuses so that campuses with more low-income students or higher costs of attendance were not penalized. Acting Assistant Vice Chancellor Chuck Haines added that UCSB had tried new ways of using scholarship funds, for example its Promise Scholars Program offers students a four-year aid package, which had helped increase yield and student diversity.

10. **CAMPUS OVERVIEW, 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.]

Interim Chancellor Hexter recalled that UC Davis, established in 1905 as the University Farm, became a comprehensive campus in 1959, and had since expanded well beyond its roots in agricultural and veterinary sciences. UC Davis was currently one of the UC system's largest and most comprehensive campuses, with more than 36,000 students, 4,000 faculty, 22,000 staff, and an annual budget of $4.5 billion including its comprehensive health system.

Interim Chancellor Hexter noted the campus' growth and increase in stature. *U.S. News and World Report* ranked UC Davis tenth among public universities. UC Davis' first comprehensive fundraising campaign raised $1.3 billion ahead of its target date to raise $1 billion. The campus set a new annual fundraising record of $226 million the prior year.

UC Davis' Health System, comprised of the UC Davis Medical Center, the Betty Irene Moore School of Nursing, and most of its School of Medicine, is in Sacramento, about 20 miles from the Davis campus, presenting both advantages and challenges. UC Davis' new Manetti Shrem Museum of Art showcases the campus' longstanding excellence in the arts.

UC Davis has ambitious efforts underway to improve its student retention and graduation rates. For the sixth consecutive year, UC Davis was the UC campus with the most California undergraduates and has the system's lowest ratio of transfer students to freshman students. The campus intends to increase its graduate student population.

Discussing UC Davis' financial outlook, Associate Vice Chancellor Kelly Ratliff reported that its cash and investments had increased 25 percent over the past three years, reflecting effective asset management, effective use of the Total Return Investment Pool, and dedicated strategies to rebuild cash reserves. UC Davis has 100 days' cash on hand for both the campus and the Medical Center. The campus continually focuses on developing new sources of funding, including philanthropy, to increase its capital assets. The campus foundation's assets have grown to more than $1 billion. The campus carefully monitors it outstanding debt, and its debt service coverage ratio was currently 2.8 percent, well below the University's six percent threshold.

Discussing campus revenue and expenses, Ms. Ratliff noted that UC Davis Medical Center revenues comprise 44 percent of overall campus revenue. State appropriations provide only nine percent of revenue; student tuition represents 13 percent of revenue. At least two-thirds of UC Davis' expenses are for faculty and staff salaries and benefits. More than $200 million of UC Davis' annual expenses go to student financial aid.

Ms. Ratliff displayed campus operating results and projections through 2020, which included projected enrollment growth, planned addition of 250 new faculty, 50 percent increases in staff, and investments in capital projects, deferred maintenance, student housing and dining, and classrooms. In 2011, the campus implemented an incentive-based budget model.

UC Davis Health Chief Executive Officer Ann Madden Rice reported that UC Davis Health benefited from continued growth in stature in its clinical care, education, and research. The campus has elevated the use of technology, as evidenced by its large telemedicine program. Its leadership-focused School of Nursing has five graduate programs and is on track to full enrollment of more than 400 students.

UC Davis Health faces challenges common to other academic medical centers, compounded by California's seismic requirements. The campus' seismic obligations by 2020 are included in the presented financial forecasts and funding has been identified to meet that capital requirement. Declining Medi-Cal reimbursement rates and Medicaid expansion, coupled with evolving patient and consumer expectations, challenged the health system's ability to meet operating margins.

Ms. Rice briefly discussed UC Davis Health's future plans, including continued transitioning to value-based purchasing for further quality improvement and cost containment, consistent with UC Health's Strategic Plan. UC Davis was engaging new talent and leadership. It would also continue to partner with its local community in efforts to enhance the health of Northern Californians, expanding its reach without immediate capital investments through partnership development with community hospitals and physician groups, and leveraging its use of telemedicine. UC Davis was pleased to participate in UC Health's leveraging scale for value initiative, contributing to UC's mission to advance medicine and improve care for Californians.

Interim Provost Kenneth Burtis reviewed UC Davis' strengths and challenges. UCD is routinely ranked as the world's best school for agriculture and veterinary medicine. Its programs in science, technology, engineering, and mathematics (STEM), particularly in the life sciences, are also strong. *Forbes Magazine* named UC Davis the best university in the nation for promoting women in STEM fields. UC Davis has created an innovation ecosystem and campus research led to the creation of 51 startups over the past five years.

UC Davis is committed to becoming more inclusive and building a diverse faculty. The campus drafted a new strategic plan of inclusion and diversity. Through its five-year UC Davis ADVANCE program, the campus added Latina scholars and other faculty from historically underrepresented groups. ADVANCE has served as an incubator for the emerging independent and nationally prominent Center for the Advancement of Multicultural Perspectives on Science. Mr. Burtis cited statistics indicating increased hiring of women faculty and faculty from underrepresented groups. Regarding student diversity, almost half of UC Davis' undergraduates are the first in their families to attend college and the proportion of incoming freshmen from underrepresented groups had increased. UC Davis is on track to be named a Hispanic Serving Institution by fall 2019.

Mr. Burtis discussed challenges facing UC Davis. Enrollment growth is taxing campus infrastructure and its number of faculty. The campus is concerned about being able to maintain and enhance academic excellence given the gap between funding and the demands of financing enrollment growth. UC Davis is committed to increasing enrollment of master's degree students, improving its four-year graduation rates, and closing the achievement gap across all student groups.

Vice Chair Reiss asked whether projected changes to Medical Center revenue and expenses were included in the campus' overall financial outlook. Ms. Rice confirmed that anticipated changes had been considered. She acknowledged that payment to hospitals was more uncertain given the results of the recent U.S. presidential election. UC Health would closely monitor developments. Interim Chancellor Hexter said the campus communication with UC Davis Health was excellent and expressed confidence in the health system's budget projections.

Regent Lansing and Regent Island complimented Interim Chancellor Hexter and the Davis campus on its accomplishments. Regent Island asked about enrollment of African American students. Mr. Burtis stated that Davis had three percent African American undergraduates, or 980 students, in 2014. While that number had increased since that time, Mr. Burtis acknowledged the challenge of increasing African American applications and yield. UC Davis continued to increase its outreach and retention efforts. Regent Island urged UC Davis to be aggressive in its efforts to enroll more African American students.

Regent Makarechian noted UC Davis' large enrollment in its extension program and asked if that program was cost-effective for the campus. Interim Chancellor Hexter commented that the University Extension program was required to be profitable and the Davis Extension program returned money to the central campus each year. The UC Davis Extension's proximity to Sacramento enables it to run training programs for many governmental agencies at a satellite site in Sacramento along with offering online courses.

11. REPORT OF INTERIM, CONCURRENCE, AND COMMITTEE ACTIONS

Secretary and Chief of Staff Shaw reported that, in accordance with authority previously delegated by the Regents, interim, concurrence, or committee action was taken on routine or emergency matters as follows:

Approvals Under Interim Action:

A. The Chair of the Board, the Chair of the Committee on Finance, and the President of the University approved the following item:

Indemnification Terms in Agreements with Christina Buck, Trustee of the Buck Family Trust, Irvine Campus

That the University agree to defend and indemnify the Trustee of the Buck Family Trust as requested by the Trustee in connection with the transfer of artwork from the Buck Collection to UC Irvine.

Approvals Under Committee on Health Services Authority

B. At its October 18 meeting, the Health Services Committee approved the following recommendations:

(1) ***Appointment of and Compensation Using Non-State Funds for Michael R. Anderson as Senior Vice President – Children's Services and President of Benioff Children's Hospital, UCSF Health, San Francisco Campus***

a. Per policy, appointment of Michael R. Anderson as Senior Vice President – Children's Services and President of Benioff Children's Hospital, UCSF Health, San Francisco campus, at 100 percent time.

b. Per policy, an annual base salary of $925,000.

c. Per policy, a hiring bonus of 15 percent of base salary ($138,750), which is intended to make the hiring offer market-competitive and to assist in securing Dr. Anderson's acceptance of the offer. The hiring bonus will be paid in a lump sum subject to the following repayment schedule if Dr. Anderson separates from the University within two years of his appointment: 100 percent if separation occurs within the first year of employment and 50 percent if separation occurs within the second year of employment, subject to the limitations under policy.

d. Per policy, eligibility to participate in the Clinical Enterprise Management Recognition Plan's (CEMRP) annual Short Term Incentive (STI) component, with a target award of 15 percent of base salary ($138,750) and maximum potential award of 25 percent of base salary ($231,250). The actual award will be determined based on performance against pre-established objectives and will be prorated in his first year of participation based on the date of hire.

e. Per policy, standard pension and health and welfare benefits and standard senior management benefits (including eligibility for senior management life insurance and eligibility for executive salary continuation for disability after five consecutive years of Senior Management Group service).

f. Per policy, monthly contribution to the Senior Management Supplemental Benefit Program.

g. Per policy, eligibility to participate in the UC Home Loan Program, subject to all applicable program requirements.

h. Per policy, reimbursement for limited housing-related expenses actually and reasonably incurred for a period of up to 90 days, subject to the limitations under policy.

i. Per policy, reimbursement for up to two house-hunting trips each for Dr. Anderson and his spouse or domestic partner to secure housing in the San Francisco area, subject to the limitations under policy.

j. Per policy, reimbursement of actual and reasonable expenses associated with moving Dr. Anderson's household goods and personal effects from his former primary residence to his new primary residence, subject to the limitations under policy.

k. This action will be effective no earlier than December 12, 2016.

The compensation described above shall constitute the University's total commitment until modified by the Regents, the President, or the Chancellor, as applicable under Regents policy, and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

(2) ***Incentive Compensation Using Health System Operating Revenues for Fiscal Year 2015-16 for John Stobo as Executive Vice President – UC Health, Office of the President***

Approval of the Clinical Enterprise Management Recognition Plan 2015-16 Plan Year award of $135,370 for John Stobo as Executive Vice President – UC Health, Office of the President. The recommended incentive award represents 22 percent of his annual base salary.

Recommended Compensation
Effective Date: Upon approval
Base Salary: $615,322 (2015-16 salary)
Recommended CEMRP Award: $135,370 (22 percent of base salary)
Base Salary Plus Recommended CEMRP Award: $750,692
Funding Source: non-State funded

Prior Year Data (2014-15 plan year)
Base Salary: $597,400
CEMRP Award: $174,000 (30 percent of base salary)
Base Salary Plus CEMRP Award: $776,620
Funding Source: non-State funded

The incentive compensation described shall constitute the University's total commitment regarding incentive compensation until modified by the Regents or the President, as applicable under Regents policy, and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

12. **REPORT OF MATERIALS MAILED BETWEEN MEETINGS**

Secretary and Chief of Staff Shaw reported that, on the dates indicated, the following were sent to the Regents or to Committees:

To the Members of the Health Services Committee

A. From the Executive Vice President – UC Health, a news release announcing the collaborative relationship between UC Health and United Health Group. September 29, 2016.

To the Members of Investments

B. From the Chief Investment Officer, an update to the risk factor paper sent to the Committee the previous year. September 7, 2016.

To the Regents of the University of California

C. From the Secretary and Chief of Staff, letters regarding the appointments to the UC Berkeley and UC Davis Chancellor Search Committees. September 8, 2016.

D. From State Superintendent of Public Instruction Torlakson, letters of support for Propositions 55 and 56. September 13, 2016.

E. From the President of the University, the Annual Report on Approvals of Capital Projects for President's and Chancellors' Residences and Offices for the fiscal year ending June 30, 2016. September 21, 2016.

F. From the President of the University, the Annual Compensation Monitoring Report: Actions for Certain Athletic Positions and Coaches Systemwide – July 2016. September 23, 2016.

G. From the President of the University, a letter regarding the Indexed Compensation Level annual adjustment amounts. September 23, 2016.

H. From the Secretary and Chief of Staff, the Summary of Communications for September 2016. October 7, 2016.

I. From the President of the University, the 2015-16 Annual Report on Expenditures of Associates to the President and Chancellors. October 24, 2016.

The meeting adjourned at 2:45 p.m.

Attest:

Secretary and Chief of Staff

University of California
Three-Year Financial Sustainability Plan

Introduction

The University of California has maintained a remarkable track record of access, affordability, and excellence during periods of both economic growth and crisis. This success is attributable to a historically strong and robust partnership between the State and the University.

- Despite shifting economic circumstances and competing priorities, the State of California continues to provide substantial support to the University's core budget. Combined with the State's commitment to the Cal Grant program and the Middle Class Scholarship program, State support remains critical to the University's ability to serve California resident students.
- The University has continuously sought to serve more students while maintaining and enhancing the quality of instruction that it delivers at a lower overall cost per student. Examples of these cost-saving efforts include employing alternative instructional delivery models, streamlining paths to graduation, achieving administrative efficiencies, optimizing the University's investment of financial assets, and the management of our debt portfolio.
- The University's financial aid programs, together with State and Federal programs, ensure that over one-half of California resident undergraduates have their systemwide tuition and fees fully covered by gift aid.

The University is determined to sustain this tradition of providing a world-class education to an increasingly diverse and talented cross-section of California students.

Context for the University's Sustainability Plan

The Budget Act of 2016 calls upon the University to develop a sustainability plan and associated projections and goals for the years 2017-18, 2018-19, and 2019-20, based upon the long-term funding framework developed by the Governor and UC and endorsed by the Regents.

Financial sustainability at the University means having sufficient resources to support all three goals of access, affordability, and excellence. The long-term funding framework, together with funding provided in the Budget Acts of 2015 and 2016 for enrollment growth as well as other University resources, represents an integrated strategy to support all three goals. This strategy has enabled campuses to hire faculty members, to expand academic support services, and to provide other critical services associated with enrolling more California resident students. The University has built its three-year financial sustainability plan on the assumption that State support consistent with the current framework, State funding for further enrollment growth, and other University resources are available in future years.

The University has developed a sustainability plan that incorporates both the funding and the expected 2017-18 enrollment growth reflected in the Budget Act of 2016 while also sustaining expanded access in future years. The University's plan also includes modest growth in graduate student enrollment, consistent with UC's role as the primary research enterprise for the State and recognizing the essential contributions that graduate students make to undergraduate education. The University's plan reflects continued efforts to maximize operational efficiencies and to control costs as well as sufficient funding to support the University's commitment to providing the high-quality education students seek from UC.

SECTION A. FINANCIAL PLAN

In developing its long-range financial plan, the University has looked carefully at the basic cost drivers of the institution and the resources available to cover those costs.

Expenditure Assumptions of UC's Financial Plan

The University's plan includes projected expenditures based on the following baseline expenditure assumptions:

- an increase of 2,500 California resident undergraduate students in each of the three years of the plan;
- graduate enrollment growth of 900 students in 2017-18, 700 in 2018-19, and 700 in 2019-20 to support undergraduate enrollment growth and to maintain the University's ability to meet the State's need for both a highly skilled workforce and cutting-edge research;
- employer contributions to the University's retirement system at the current level, which is 14% of compensation over the three-year period;
- average annual increases in health benefit costs for active employees and retirees of 4% during the period covered by the plan;
- non-salary price increases of 2.5% in each of the next three years;
- funding for the Faculty Merit Program, which is based on a rigorous peer review of each faculty member every two to three years to ensure that UC retains the best faculty for teaching and research, and which remains a cornerstone of UC's compensation program to recruit and retain high-quality faculty;
- compensation increases that reflect existing collective bargaining agreements and an average increase of 3% each year for non-represented faculty and staff, which will help keep UC salaries from slipping further behind those of UC's principal competitor institutions as identified in the most recent UC compensation studies;
- funding to meet a portion of the University's deferred maintenance needs, which represent a growing life-safety and economic risk to the institution due to the deterioration of UC's aging buildings and supporting infrastructure;
- funding to support a modest capital program, consistent with the provisions set forth in AB 94 trailer bill language, to allow the Merced campus to continue to grow and to address critical capital needs at the other campuses; and
- annual investments in the academic program, including improving the student-faculty ratio; funding for startup packages for new faculty, which is a major obstacle for many campuses seeking to hire new faculty; augmenting graduate student support to ensure that the level of support offered by UC is sufficient to attract top graduate students; and enhancing undergraduate instructional support including instructional technology, libraries, instructional equipment replacement, and building maintenance.

Projections of Available Resources

The University's plan includes the following revenue projections, which reflect elements from the funding framework, the Budget Act of 2016, and the State's historic practice of supporting expanded access at UC for California resident students:

- an annual 4% base budget adjustment in State funding;
- $18.5 million in State funding in 2016-17 to support an additional 2,500 California resident undergraduate students in 2017-18 compared to2015-16 levels, consistent with the Budget Act of 2016;

- $25 million in State funding for enrollment growth of 2,500 undergraduate students in each of the next two years (2018-19 and 2019-20);
- $9 million in State funding for graduate enrollment growth of 900 students in 2017-18, along with comparable marginal cost support for growth of 700 graduate students in 2018-19 and 2019-20;
- annual increases of 5% in the Student Services Fee, with one-half of the revenue (net of aid) to be set aside for enhanced student mental health services; and
- annual increases of 5% in undergraduate Nonresident Supplemental Tuition, coupled with reduced growth in the University's nonresident undergraduate population each year.

The University's plan assumes additional resources from a combination of revenues, asset management strategies, and cost-saving efforts to include some or all of the following:

- Under the plan, funding from the University Student Aid Program (USAP) formerly awarded to financially needy nonresident undergraduate students will continue to be redirected to help support enrollment growth. (This change would not affect nonresident students who began to attend UC prior to this change, which first took effect in 2016-17.)
- Increases in philanthropic giving will remain part of the University's overall plan. While the University has been successful in increasing philanthropic giving, the vast majority of gifts to the University are restricted and not available to enhance the core operating budget. Achieving this goal will require the University not only to continue to increase existing levels of philanthropic support, but also to develop models that increase the fungibility of these funds.
- In recent years, the University's strategic sourcing initiative, also known as procurement reform, has delivered substantial cost savings (much of which accrues to non-core funds). The financial plan assumes additional permanent core fund savings from this systemwide initiative.
- The plan also assumes that the University will secure additional funding for operating budget purposes from liquidity management strategies, ensuring that the investment of financial assets is yielding as much as possible within the bounds of the University's prudent investment policies.
- Under the long-term funding framework, the University may consider an adjustment to Tuition beginning in 2017-18 pegged generally to economic indicators that reflect cost increases in the broader economy, a portion of which would be used to augment the University's undergraduate and graduate financial aid resources (i.e., 33% of new Tuition revenue from undergraduate students and students in professional degree programs, and 50% of new Tuition revenue associated with graduate academic students, would be set aside for financial aid).

The plan does not include projected increases in Professional Degree Supplemental Tuition (PDST). Any increase in PDST revenue resulting from enrollment growth in programs that charge PDST and/or from increases in PDST levels would cover cost increases associated with those programs and hence would not affect other aspects of the University's budget plan.

Other Efforts to Improve Student Access and Outcomes

Under the framework, the University committed to a number of key reforms that have the potential, over time, to improve student success, to expand the University's capacity to serve students, and to reduce elements of the University's cost structure. These include, but are not limited to, the following:

- an enhanced commitment to the transfer function, reflected in both enrollment goals and efforts to clarify and streamline the transfer function;

- innovations to support student progress and improve time-to-degree, such as reviewing the number of undergraduate upper division major units required for graduation across the system, identifying three-year degree pathways, and piloting alternative pricing models in summer sessions;
- continued development of online undergraduate courses, with funding priority for bottleneck courses;
- supporting the innovative use of data to identify students at risk, to explore different methods for assessing costs of instruction, and to support student learning; and
- developing new options for benefits under the University of California Retirement Plan (UCRP) for future hires that incorporate the pensionable salary cap reflected in State's Public Employee Pension Reform Act (PEPRA) for defined benefit plans.

Collectively, these far-reaching reforms represent a University-wide effort to rethink key elements of the educational and support services provided by the University to students and how those services may be delivered more effectively. Through the work of the faculty, campuses, and Office of the President staff, the University has made substantial progress on these initiatives.

Projections of Available Resources and Expenditures in 2017-18, 2018-19, and 2019-20

	Cumulative Change from 2016-17 Base ($M)		
	University's Plan		
	2017-18	**2018-19**	**2019-20**
Revenue			
State General Funds	$158	$327	$502
Tuition/Fees (Enrollment + 5% Student Svc. Fee incr.)	68	132	196
Redirection of Nonresident Aid	14	24	31
Nonresident Suppl. Tuition	71	140	207
Other Resources	70	140	228
Deferred Maintenance (One-time)	35	35	35
Enrollment Pre-Funding (One-time)	19	32	32
Total	**$434**	**$830**	**$1,231**
Expenditures			
Employee & Retiree Benefits (incl. UCRP & health)	$45	$93	$142
Academic Merit Program	32	64	96
Compensation	112	227	345
Non-Salary Price Increases	27	55	84
Enrollment Growth	80	156	232
Deferred Maintenance and Capital Program	65	90	115
Financial Aid	23	44	66
Academic Quality	50	100	150
Total	**$434**	**$830**	**$1,231**

Source: UC Budget Office

SECTION B. ENROLLMENT PLAN

B.1 ENROLLMENT

Under the University's plan, UC will be able to enroll substantially more California resident undergraduates over the next 3 years.

Under the University's plan, the enrollment of California undergraduates would grow by 2,500 California undergraduates each year. By 2019-20 – the last year included in the plan – UC will enroll over 13,000 more California resident undergraduates than it did in 2014-15.

Graduate and professional student enrollment, essential for California's economy and societal needs and to support the additional undergraduates who would be enrolled under the University's plan, would grow by 900 students in 2017-18 and by 700 students in subsequent years, for a total growth of 2,300 between 2016-17 and 2019-20.

In contrast, enrollment growth among nonresident undergraduates would steadily decline throughout this period.

Enrollment Projections Under the University's Plan

			University's Plan		
FTE Enrollment	*2015-16*	*2016-17*	*2017-18*	*2018-19*	*2019-20*
CA res UG	174,121	181,164	183,664	186,164	188,664
Nonresident UG	29,233	32,271	33,271	34,071	34,671
Graduate/ Prof	44,417	45,502	46,402	47,102	47,802
% Nonresident UG (**excludes** summer)	15.5%	16.3%	16.5%	16.6%	16.7%

Note: 2016-17 are estimates. Figures are FTE and include summer, except for the nonresident calculation.

B.2 ENROLLMENT — UPPER DIVISION CCC TRANSFERS

Under the University's plan, the number of transfer students will increase.

Supporting California Community College transfers is fundamental to the University's mission. From 2008-09 through 2011-12, UC increased both the proportion and the number of new transfer students enrolled. This trend had reversed in recent years due to lack of funding for new enrollment as well as declining transfer applicants—which reflect enrollment reductions at the community college level during the state's economic crisis. Increased applications from transfer applications (which may be partly attributable to substantial new funding directed to the California Community Colleges in recent years), coupled with the University's overall plan for enrollment growth, should result in greater numbers of transfer students.

In recognition of the importance of providing access for CCC students to the UC system, President Napolitano launched a transfer initiative to identify ways to broaden access, ease the transfer pathways, and improve educational outcomes for transfer students. Under the University's plan, which allows for increased enrollment of new California students, UC would be able to make progress on these goals.

Upper-division transfer students enrolled annually from the California Community Colleges (CCC)

							University's Plan		
Academic Year FTE	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Number	34,041	33,807	33,615	34,086	34,197	35,837	36,449	37,033	37,589
% of all undergrads (FTE)	19.8%	19.4%	18.9%	18.5%	18.1%	18.1%	18.1%	18.1%	18.1%

Note: 2016-17 are estimates. Excludes the summer term. Source: UC Corporate Student System. Upper-division CCC transfer students are those who enter UC from a California Community College with junior or senior standing. Postbaccalaureate teaching credential students are not counted as undergraduates.

B.3 ENROLLMENT — LOW-INCOME UNDERGRADUATES

Under the University's plan, UC's commitment to access for low-income students will be undiminished, although enrollment of low-income Pell-eligible students may decline slightly as a result of changes in the economy.

The University's track record for enrolling low-income students is unmatched by other research universities and is a strong engine for social mobility and economic equity in the state. Growth in Pell grant recipients over the past decade at UC reflects a combination of admission policies that seek out highly talented students from disadvantaged backgrounds, a robust financial aid program which keeps UC financially accessible for low-income students, the poor economy (which lowered families' income and hence made more students eligible for Pell grants), and changes to the federal Pell program that expanded eligibility to more students.

Trends in the number of Pell-eligible students can reflect both changes in the economy and changes to Pell program requirements. As a result, change in the enrollment of Pell grant recipients *over time* is an imperfect measure of accessibility for low-income students. For example, UC projects that the proportion of Pell-eligible students will decline slightly at UC (and nationally) in the coming years. This change is due in part to the ongoing economic recovery, which should result in higher family incomes generally. This is good news and does not reflect any reduction in the University's financial accessibility for students from low-income families.

Enrollment of Undergraduate Pell Grant Recipients

							University's Plan		
Academic Year FTE	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Number	71,565	73,147	74,984	76,183	75,608	78,735	79,957	81,165	82,359
% of all undergrads (FTE)	42%	42%	42%	41%	40%	40%	40%	40%	40%

Note: 2016-17 are estimates. Excludes the summer term. Source: UC Corporate Student System.

B.4 ENROLLMENT — UNDERREPRESENTED MINORITY UNDERGRADUATES

Under the University's plan, UC will be able to enroll more California resident undergraduates, who are more likely to come from underrepresented groups. This enrollment growth will provide greater opportunities for populations like Latino students, who are growing rapidly in number and whose levels of academic preparation are also rising.

Undergraduate students from underrepresented minority groups (African American, Latino, and American Indian) have been steadily increasing in numbers and in share at UC. Under the University's plan, UC will be able to increase access for California students and hence enroll a higher number of students from underrepresented minority backgrounds.

Enrollment of Underrepresented Minority Undergraduate Students

Academic Year FTE	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	University's Plan 2017-18	2018-19	2018-19
Number	40,552	43,100	45,702	49,089	50,532	52,605	53,534	54,290	55,040
% of all undergrads (FTE)	24%	25%	26%	27%	27%	27%	27%	27%	27%

Note: 2016-17 are estimates. Excludes the summer term. Source: UC Corporate Student System.

SECTION C. PERFORMANCE METRICS

Introduction

The text and tables on the following pages display the outcomes the University projects would be associated with the financial and enrollment assumptions reflected in the University's plan. Most of these metrics move very slowly. For example, degree completions associated with enrollment growth generally will not be reflected until after two years for transfer entrants, and after four years for new freshmen. Similarly, program enhancements designed to increase graduation rates cannot show immediate results because the cohorts that benefit from these programs are often early in their student careers. In some cases, it is even possible that indicators will move in the opposite direction for several years after a positive change is implemented because earlier cohorts will continue to exhibit outcomes based on conditions that existed in previous years.

The University carefully tracks graduation rates and degree completions and works at all levels to produce improvements in these metrics.

C.1 STUDENT SUCCESS — FRESHMAN AND TRANSFER GRADUATION RATES

Graduation rates for both freshman and transfer entrants at UC have been rising steadily in recent years. UC expects the rate of increase to slow because several campuses have reached rates that leave little room for dramatic improvements, and the improvements that will be achieved will come more slowly. In addition, as noted earlier, most of the students who will graduate during this three-year period are already enrolled and recent improvements in the academic programs on the campuses will have a limited effect on their graduate rate or time-to-degree.

Nonetheless, UC's campuses continue to aggressively pursue new ideas and programs to improve student success. As a result of these efforts, UC projects that four-year graduation rates for freshman entrants and two-year graduation rates for transfer entrants for both Pell and non-Pell students will increase by about 1% per year.

In comparing graduation rates below for Pell grant recipients and non-Pell recipients, note that while freshman four-year and transfer two-year rates show differences between Pell and non-Pell students, these gaps largely disappear when comparing six-year (freshman) and four-year (transfer) rates. Put another way, Pell-eligible students graduate at roughly the same rate as non-Pell students, but their average time-to-degree is longer. These differences are associated with family education levels and high school preparation levels that are lower for Pell grant recipients, on average, than they are for students without Pell grants. Six-year freshman graduation rates and four-year transfer graduation rates are not included in the performance metrics requested for this report but can be found online at accountability.universityofcalifornia.edu/2016/.

Graduation Rates

						University's Plan			
Entering cohort	F'07	F'08	F'09	F'10	F'11	F'12	F'13	F'14	F'15
4 yr grad rate, freshman entrants	60%	61%	63%	62%	64%	65%	66%	67%	68%
4 yr grad rate, Pell freshman entrants	52%	54%	57%	56%	58%	59%	60%	61%	62%
Entering cohort	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16	F'17
2 yr grad rate, Up Div CCC transfer entrants	54%	55%	55%	56%	55%	56%	57%	58%	59%
2 yr grad rate, Pell Up Div CCC transfer entr	47%	48%	51%	52%	51%	52%	53%	54%	55%

Graduation rates include UC-intercampus transfers. Students who graduate in the summer term are included with the prior year. Low-income Pell students are those who received a Pell grant during their time at UC.

C.2 STUDENT SUCCESS — DEGREE COMPLETIONS

Differences completions are expected to increase steadily.

Degree completions have risen steadily at UC, particularly among undergraduates from low-income households. Degree completions are influenced by changes in both the total number of students enrolled and completion rates. As with graduation rates, degree completions are lagging indicators that will not show dramatic change during the three-year horizon of this plan.

Degree Completions

							University's Plan		
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Freshman entrants	32,778	32,608	31,866	33,123	34,519	35,761	36,552	36,909	39,756
Up Div CCC transfer entrants	14,191	14,717	14,651	14,745	14,866	14,820	15,672	16,387	16,396
STEM freshman entrants	12,403	12,921	12,496	14,558	15,737	16,303	16,664	16,827	18,125
STEM Up Div CCC transfer entrants	3,724	3,961	3,831	4,482	4,766	4,751	5,024	5,254	5,257
Pell recipients	21,634	23,154	21,469	23,999	24,660	25,239	26,076	26,628	28,017
STEM Pell recipients	6,874	7,578	7,027	8,775	9,284	9,503	9,817	10,025	10,549
Graduate (excludes self-supporting)	14,290	14,579	14,322	13,976	14,497	14,768	15,038	15,309	15,580
STEM Graduate (excl self-supporting)	7,694	7,950	8,012	8,167	8,620	8,781	8,942	9,103	9,264

2016-17 is an estimate. Source: UC Corporate Student System. Graduate degrees exclude self-supporting programs.

C.3 ADDITIONAL METRICS — FIRST-YEAR UNITS

About half of new students take 45 units or more in their first year at UC and we do not anticipate changes in this metric.

In fall 2014, 52% of freshman entrants and 43% of transfer entrants took 45 units or more their first year. UC analysis of this indicator shows that whether or not a student has completed 45 units at the end of his or her first year is a poor predictor of eventual graduation or time-to-degree. Many students are eventually awarded units for courses taken elsewhere that have not yet been recorded at this point or earn units in later years through summer enrollment or by enrolling in a greater number of units during the academic year.

Percentage of undergraduates who take 45 units in their first year at UC

				University's Plan		
	F'14	F'15	F'16	F'17	F'18	F'19
% of freshmen completing 45 qtr units	52%	52%	52%	52%	52%	52%
% of UD CCC transfers completing 45 qtr units	43%	43%	43%	43%	43%	43%

Source: UC Corporate Student System. Transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units. Includes the trailing summer term.

C.4 ADDITIONAL METRICS — UNITS AT GRADUATION

Efforts to review major requirements may, over time, reduce UC students' total units at graduation.

A UC bachelor's degree requires a minimum of 180 quarter units (120 semester units). Transfer students use units transferred from community college to complete their degree requirements. Students pursuing majors with high unit requirements (such as engineering/computer science) and those pursuing multiple majors graduate with higher units, on average, than those in other majors.

As noted earlier, the University is engaged in a systemwide effort to review the major unit requirements for its most popular undergraduate majors with the goal of streamlining those requirements where possible.

Average number of UC quarter units at degree completion

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Freshman entrants	183	183	183	183	183	183
Upper-div CCC entrants	95	95	95	95	95	95

Source: UC Corporate Student System. Only UC units are shown. AP/IB/transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units.

C.5 ADDITIONAL METRICS — CORE FUND EXPENDITURES PER DEGREE AWARDED

Dividing total funding by degrees awarded does not result in a useful metric.

In its March 2016 Performance Indicators Report, the University described its concerns with using a ratio of total funding to degrees awarded as an indicator of institutional performance. Such a ratio is a poor indicator of either productivity or quality. Core funds support the tripartite mission of the University and include significant funding for non-instructional uses, specifically research and public service. In addition, over $330 million of core funds were used to cover lease revenue and General Obligation bond debt service in 2015-16 and were not available for operating funds. Core funds also represent the primary fund source for student financial aid, which is effectively a pass-through to students. Also, such a measure cannot distinguish between reduced expenditures attributable to cost-cutting measures that should be applauded (e.g., operational efficiencies) and cost reductions that can reflect a genuine erosion of quality (e.g., a higher student-faculty ratio).

The University fully supports the goals of transparency and accountability in higher education. The University's *Annual Accountability Report*, for example, contains dozens of indicators that collectively provide insight into virtually every aspect of the University's mission – including student access, affordability, and success; undergraduate and graduate enrollment trends; faculty and staff demographics; student learning outcomes; research activities; and health sciences and services (along with many others). The most recent edition of the report is available at accountability.universityofcalifornia.edu/2016/.

Estimated Total Core Funds Expenditures ($M) and Degrees Awarded

	University's Plan		
	2017-18	**2018-19**	**2019-20**
State General Funds	$3,418	$3,587	$3,763
Tuition and Fees	3,523	3,664	3,810
NRST	1,106	1,178	1,250
Other Core Funds	378	389	401
Total Core Funds	$8,425	$8,819	$9,223
Degree Completions	68,648	70,054	73,181

Source: UC Budget Office

C.6 ADDITIONAL METRICS — CORE FUNDS FOR UNDERGRADUATE DEGREES AWARDED

Estimates of core fund support for undergraduate education are now available.

In its *Expenditures for Undergraduate and Graduate Instruction and Research Activities* report, published in September 2016, the University reported on its methodology for allocating core fund expenditures for education between undergraduate and graduate instruction. For purposes of this sustainability plan, figures in that report have been adjusted to reflect projected changes in core funds and enrollment. Estimated core funds for undergraduate education are shown below, along with projected undergraduate degrees awarded, for the years 2017-18 through 2019-20. Expenditure figures are in millions of dollars.

Estimated Total Core Funds Expenditures for Undergraduate Instruction ($M) and Undergraduate Degrees Awarded

	University's Plan		
	2017-18	**2018-19**	**2019-20**
State General Funds	$1,604	$1,681	$1,762
Tuition and Fees	$1,652	$1,718	$1,784
NRST	$519	$552	$585
Other Core Funds	$177	$183	$188
Total Core Funds	$3,952	$4,134	$4,319
Undergraduate Degree Completions	53,610	54,745	57,601

Source: UC Budget Office

APPENDIX 1

Provision 3 of Item 6440-001-0001 of the Budget Act of 2016 states the following:

2. (a) The Regents of the University of California shall approve a plan that includes at least all of the following:

(1) Projections of available resources in the 2017–18, 2018–19, and 2019–20 fiscal years. In projecting General Fund appropriations and student tuition and fee revenues, the university shall assume the availability of resources consistent with the framework for long-term funding endorsed by the Regents in May 2015.

(2) Projections of specific expenditures in the 2017–18, 2018–19, and 2019–20 fiscal years and descriptions of any changes to current operations necessary to ensure that expenditures in each of those years are not greater than the available resources projected for each of those years pursuant to paragraph (1).

(3) Projections of resident and nonresident enrollment in the 2017–18, 2018–19, and 2019–20 academic years, assuming implementation of any changes described in paragraph (2).

4) The university's goals for each of the measures listed in subdivision (b) of Section 92675 of the Education Code for the 2017–18, 2018–19, and 2019–20 academic years, assuming implementation of any changes described in paragraph (2) and an explanation of how these goals comply with the intent of the Legislature that the goals be challenging and quantifiable, address achievement gaps for underrepresented populations, and align the educational attainment of California's adult population to the workforce and economic needs of the state.

(b) The plan approved pursuant to subdivision (a) shall be submitted no later than November 30 to the Director of Finance, the chairpersons of the committees in each house of the Legislature that consider the State Budget, the chairpersons of the budget subcommittees in each house of the Legislature that consider appropriations for the University of California, the chairpersons of the committees in each house of the Legislature that consider appropriations, and the chairpersons of the policy committees in each house of the Legislature with jurisdiction over bills relating to the university.

California Education Code, Title 3, Division 9, Part 57, Chapter 6, Article 7.7, Section 92675: Reporting of Performance Measures

(a) For purposes of this section, the following terms are defined as follows:

(1) The "four-year graduation rate" means the percentage of a cohort that entered the university as freshmen that successfully graduated within four years.

(2) The "two-year transfer graduation rate" means the percentage of a cohort that entered the university as junior-level transfer students from the California Community Colleges that successfully graduated within two years.

(3) "Low-income students" means students who receive a Pell Grant at any time during their matriculation at the institution.

(b) Commencing with the 2013-14 academic year, the University of California shall report, by March 1 of each year, on the following performance measures for the preceding academic year, to inform budget and policy decisions and promote the effective and efficient use of available resources:

(1) The number of transfer students enrolled annually from the California Community Colleges, and the percentage of transfer students as a proportion of the total undergraduate student population.

(2) The number of low-income students enrolled annually and the percentage of low-income students as a proportion of the total student population.

(3) The systemwide four-year graduation rates for each cohort of students and, separately, for each cohort of low-income students.

(4) The systemwide two-year transfer graduation rates for each cohort of students and, separately, for each cohort of low-income students.

(5) The number of degree completions annually, in total and for the following categories:

(A) Freshman entrants.

(B) Transfer students.

(C) Graduate students.

(D) Low-income students.

(6) The percentage of first-year undergraduates who have earned sufficient course credits by the end of their first year of enrollment to indicate they will complete a degree in four years.

(7) For all students, the total amount of funds received from all sources identified in subdivision (c) of Section 92670 for the year, divided by the number of degrees awarded that same year.

(8) For undergraduate students, the total amount of funds received from the sources identified in subdivision (c) of Section 92670 for the year expended for undergraduate education, divided by the number of undergraduate degrees awarded that same year.

(9) The average number of course credits accumulated by students at the time they complete their degrees, disaggregated by freshman entrants and transfers.

(10) (A) The number of degree completions in science, technology, engineering, and mathematics (STEM) fields, disaggregated by undergraduate students, graduate students, and low-income students.

(B) For purposes of subparagraph (A), “STEM fields” include, but are not necessarily limited to, all of the following: computer and information sciences, engineering and engineering technologies, biological and biomedical sciences, mathematics and statistics, physical sciences, and science technologies.

Attachment 2

Additions shown by underscoring; deletions shown by strikethrough

REGENTS POLICY 5305: Policy on University of California Mortgage Origination Program

A. ELIGIBILITY AND PARTICIPATION POLICIES

In all eligibility and participation policies described herein, it is understood that any appointee in a position specifically designated by The Regents as requiring Regents' approval for compensation-related matters, must be approved for Mortgage Origination Program participation by The Regents.

All references to MOP loan eligibility, participation policies, and loan policies also apply to GP-MOP~~, IO-MOP~~ and 5/1-MOP loans unless otherwise described herein.

1. The eligible population for the Mortgage Origination Program (MOP) consists of full-time University appointees with positions in the following categories:
   - Academic Senate members;
   - Academic titles equivalent to titles held by Academic Senate members as specified in Section 105.1 and 103.3 of the ~~By-Laws and~~ Standing Orders of the Regents of the University of California or in successor Regents Policy;
   - Acting Assistant Professors;
   - Senior Management Group members;
   - UC Hastings College of the Law (UC Hastings) faculty members;
   - University or UC Hastings employees who will be appointed to any of these eligible categories effective no more than 180 days after loan closing;
   - Other appointees who have received required additional approvals to be eligible for participation.

2. From the eligible population, the Chancellor, Lawrence Berkeley National Laboratory (LBNL) Director, or the Dean of UC Hastings shall designate eligible individuals for participation in MOP based on each location's determination of its requirements for recruitment and retention. Additionally, the President is authorized to approve individuals not in the eligible population defined in Section A.1 for participation in MOP, based upon the essential recruitment and retention needs and goals of the institution. ~~Effective July 18, 2015,~~ The University of California Delegation of Authority (DA) 2587, dated July 18, 2015, delegates this authority from the President ~~has delegated this authority (DA2587)~~ to the Chancellors, LBNL Director, Executive Vice President – Chief Operating Officer, and the Agriculture and Natural Resources Vice President for specific titles as outlined in an Appendix to the University of California Home Loan Program Corporation – Program Lending and Administrative Manual.

3. A minimum of 60% of funds allocated for MOP is designated for participants who are purchasing their first principal place of residence within a reasonable distance of their work location. These loans are further designated for participants who have not owned a

principal place of residence within a reasonable distance of their work location within the 12-month period preceding the closing date of their MOP loan.

4. Up to 40% of the allocation is available to address essential recruitment or retention needs for otherwise eligible appointees for one or more of the following purposes (Limited Purpose loans):

   - to refinance existing qualifying housing-related debt secured on a participant's principal residence, including related loan transaction expenses included in the prior loan balance or related to the MOP loan. MOP loans may not be used to pay off loans, secured or not secured, used for non-housing-related expenses or for any mortgages on other properties. For any debt secured on a participant's principal residence that was incurred during the five years prior to loan closing, the participant must document the purpose and use of funds as qualifying housing-related indebtedness associated with the subject property;
   - to provide a new MOP loan to a current or prior MOP participant at the same work location; or
   - to provide a MOP loan to a participant who has owned a home within a reasonable distance of the work location within a 12 month period prior to the funding of a MOP loan.

5. MOP participation may continue for the term of employment by the University of California or UC Hastings, as long as the property securing the loan continues to meet the specifications outlined in Section B.1, it being understood that:
   - if the property securing the loan no longer meets the specifications outlined in Section B.1, the MOP loan shall be reviewed for appropriate disposition; and
   - if University or UC Hastings employment is terminated or, in the case of academic appointees, there is a permanent change to an appointment status not considered to be in full-time service to the University or UC Hastings, the MOP loan is to be repaid within 180 days of such date of separation or change in status, with the understanding that:
     - participation can continue when separation is due to disability or retirement under the provisions of the University of California Retirement Plan or other retirement plan to which the University or UC Hastings contributes on behalf of the participant; or
     - in the event of the death of the participant, participation can continue for a surviving spouse or surviving Domestic Partner or, in the absence of a surviving spouse or surviving Domestic Partner, for a surviving Eligible Child (as the terms Domestic Partner and Eligible Child are defined by the University of California Retirement Plan); or
     - in hardship cases, reasonable forbearance beyond the ~~180 day~~ <u>required repayment</u> period may be granted ~~for repayment~~, provided all other terms and conditions of the loan are satisfied.

B. MOP LOAN POLICIES

1. MOP loans shall be secured, using a recorded deed of trust for residences that are:
   - owner-occupied single-family residences, including planned unit development and condominium units, which may include one secondary unit that does not comprise more than one-third of the total living area of the home;
   - the principal place of residence for the participant, other than during absences for sabbatical leave or other approved leaves of absence;
   - used primarily for residential, non-income producing purposes; and
   - 50% or more participant-owned.

2. MOP loans may not be used for direct construction loans; however, MOP loans may be used to refinance commercial construction loans upon completion of a new residence or the completion of the renovation of an existing residence.

3. The maximum loan-to-value ratio (LTV) of a MOP loan is to be determined as follows:
   - for loans up to (including) ~~$845,000~~ $910,000 (indexed limit as of April 2016 ~~2015~~), the maximum LTV is 90% when the loan does not include any financing of closing costs and 92% with financing of documented closing costs;
   - for loans greater than ~~$845,000~~ $910,000 up to (including) the Indexed Program Loan Amount ~~($1,330,000~~ $1,430,000 as of April ~~2015~~ 2016), the maximum LTV is 90%;
   - for loans greater than the Indexed Program Loan Amount, the maximum LTV is 80%; and
   - MOP loan amounts greater than the Indexed Program Loan Amount shall require the approval of the President and the concurrence of the Chair of the Finance and Capital Strategies Committee. ~~the Chairman of the Board of Regents and Chairs of the Committees on Finance and Compensation~~.

   An increase to the 80% maximum LTV for loans in excess of the Indexed Program Loan Amount to no more than 85% may be approved upon recommendation by the President, with concurrence of the Chair of the Finance and Capital Strategies Committee. ~~Chairman of the Board of Regents and the Chairs of the Committees on Finance and Compensation~~. The value of the residence is, in all cases, defined as the lesser of the purchase price or current appraised value. The above dollar threshold amounts for determining the maximum LTV and for the Indexed Program Loan Amount reflect applicable levels in effect as of April ~~2015~~ 2016, which shall be adjusted annually each April, based upon any increases in the All-Campus Average Sales Price determined by the annual zip code study performed by the Office of Loan Programs.

4. The maximum term of a MOP loan shall be 40 years. Authorization by the Chancellor or other designated official is required when offering a loan with a term greater than 30 years.

5. The standard mortgage interest rate (Standard MOP Rate) will be equal to the most recently available average rate of return earned by the Short-Term Investment Pool

(STIP) for the four quarters preceding the issuance of a loan commitment letter for the mortgage loan, plus an administrative fee component of 0.25%:

- ~~the President shall determine the level of the administrative fee component of the rate up to an amount not to exceed 0.25%;~~
- the Standard MOP Rate will be adjusted annually on the anniversary date of the loan;
- the maximum amount of adjustment up or down of the Standard MOP Rate will be 1% per year;
- for MOP~~,~~ and GP-MOP ~~and IO-MOP~~ loans made on or after January 1, 2014, the overall cap on the adjustment of the interest rate over the term of the loan will be 10% above the initial interest rate for the loan;
- effective with loans approved on or after ~~August 1, 2010~~ February 1, 2017, the minimum initial Standard MOP Rate shall be ~~3.0~~ 2.75%, and the annual rate adjustment on these loans will have a floor rate of ~~3.0~~ 2.75%;
- in the event a loan commitment letter is issued for a MOP or ~~,~~ GP-MOP o~~r IO-MOP~~ loan and the Standard MOP Rate subsequently decreases prior to the loan funding, the participant will receive the more favorable rate; and
- the difference between the ~~weighted average rate of return~~ earnings of the UC-Owned MOP~~,~~ and GP-MOP~~, and IO-MOP~~ mortgage portfolios versus the comparable earnings if the funds had been invested in STIP ~~that of STIP~~ will be calculated monthly, with any earnings shortfall in the combined MOP~~,~~ and GP-MOP~~, IO-MOP~~ portfolios being covered by the Faculty Housing Program Reserve. The ~~rate of return of the~~ 5/1 MOP earnings ~~mortgage loans~~ will not be included in this calculation during the Fixed Rate Term, as defined in this document. Following the Fixed Rate Term, the 5/1 MOP loans will be considered MOP loans for the purposes of the monthly calculation. Any earnings excess will be retained in the Faculty Housing Program Reserve.
- The Faculty Housing Program Reserve will reimburse STIP for any principal losses resulting from portfolio loan losses.

~~6. Participants may request an Interest-Only MOP loan (IO-MOP) that has a temporary interest-only repayment feature for up to 10 years (IO-Period) with the following parameters:~~

- ~~the maximum overall term of the loan is 40 years and the minimum remaining term after the IO-Period is 30 years;~~
- ~~an additional interest rate margin of 0.25% will be added to the Standard MOP Rate during the IO-Period (IO-Rate);~~
- ~~the additional 0.25% margin amounts collected during the period of UC-ownership of any such loan shall be held in a separate loss protection account within the Faculty Housing Programs Reserve to offset any losses of principal attributed to this class of loans;~~
- ~~during the IO-Period, the maximum annual adjustment to the IO-Rate, up or down, is 1%;~~
- ~~after the IO-Period, the fully amortized payment will be calculated using the remaining loan balance and term at the underlying Standard MOP Rate in effect at the end of the IO-Period, subject to the maximum annual interest rate adjustment of the Standard MOP Rate, up or down, of 1%; and~~

- ~~the IO-Period is not renewable beyond the maximum 10-year IO-Period term.~~

~~Beginning with the 2010-2012 MOP allocation and for all subsequent allocations, IO-MOP loans shall be limited to 15% of the cumulative allocation.~~

~~7.~~6. Each Chancellor, the LBNL Director, and the Dean of UC Hastings is authorized to designate eligible participants for participation in the Graduated Payment Mortgage Origination Program (GP-MOP) option, which provides for a reduction in the Standard MOP Rate in the manner described below:

- the maximum rate reduction in the Standard MOP Rate is 3.0% and the minimum resulting mortgage interest rate for such loans shall be ~~3.0~~ 2.75%;
- the rate reduction amount will be decreased by a predetermined annual adjustment (ranging from 0.25% to 0.50%) until the mortgage interest rate equals the Standard MOP Rate;
- for the time period in which the rate reduction is in effect for each GP-MOP loan, the work location shall provide for a monthly transfer of funds (from available funds, including discretionary funds, as well as unrestricted and appropriate restricted gift funds) to STIP or to a third-party investor, if the loan has been sold, to provide the same yield that would have been realized under the Standard MOP Rate; and
- the President is authorized to approve an initial rate reduction greater than 3.0% and an annual adjustment amount outside the standard range of 0.25% to 0.50% based upon the essential recruitment and retention needs and goals of the institution.

~~8.~~7. Participants may request a 5/1 ARM product (5/1 MOP) that has a temporary fixed-rate period (Fixed Rate Term), after which the loan converts to a standard MOP loan.

- The initial interest rate (Initial Rate) will remain fixed until the date that the 60th payment is due, resulting in a fixed payment amount for the first 60 monthly payments.
- The minimum Initial Rate will be ~~3.5~~ 3.25%.
- The overall cap on the adjustment of a 5/1 MOP loan's interest rate over the term of the loan will be 10% above the Initial Rate for the loan.
- After the Fixed Rate Term, the interest rate will adjust to the Standard MOP Rate in effect at that time, subject to a 5% interest rate adjustment cap, and a ~~3~~ 2.75% minimum interest rate.
- After the Fixed Rate Term and the initial rate adjustment at the end of the Fixed Rate Term, the maximum annual adjustment is 1%.
- ~~There is no Interest-Only option available under the 5/1 MOP.~~
- The Fixed Rate Term is not renewable beyond 5 years.

~~9.~~8. The sum of monthly mortgage payments (principal and interest) of the MOP loan and all other loans secured by the residence may not exceed 40% of the participant's household income.

~~10.~~9. When administratively feasible, MOP loan payments shall be made by payroll deduction while on salary status.

~~11.~~10. MOP loans are not assumable.

~~12.~~11. MOP loans carry no prepayment penalty.

~~13.~~12. MOP loans carry no balloon payments.

Additions shown by underscoring; deletions shown by strikethrough

REGENTS POLICY 5306: Policy on University of California Supplemental Home Loan Program

Generally, Supplemental Home Loan Program (SHLP) loans are funded from available campus resources, which may include discretionary funds, as well as unrestricted and appropriate restricted gift funds. State funds (19900) cannot be used to fund SHLP loans.

~~Effective January 1, 2016, t~~ The President is authorized to designate a portion of the Faculty Housing Programs Reserve Fund (Reserve) as a centrally-available pool of funds to make SHLP loans that comply with the parameters outlined in Section C. below.

A. ELIGIBILITY AND PARTICIPATION POLICIES

In all eligibility and participation policies described herein, it is understood that any appointee in a position specifically designated by The Regents as requiring Regents' approval for compensation-related matters, must be approved for SHLP participation by The Regents.

1. The eligible population for SHLP consists of full-time University appointees with positions in the following categories:
   - Academic Senate members;
   - Academic titles equivalent to titles held by Academic Senate members as specified in Section 105.1 and 103.3 of the ~~By-Laws and~~ Standing Orders of the Regents of the University of California or in successor Regents Policy;
   - Acting Assistant Professors;
   - Senior Management Group members;
   - UC Hastings College of the Law (UC Hastings) faculty members;
   - University or UC Hastings employees who will be appointed to any of these eligible categories effective no more than 180 days after loan closing;
   - Other appointees who have received required additional approvals to be eligible for participation.

2. From the eligible population, the Chancellor, Lawrence Berkeley National Laboratory (LBNL) Director, or the Dean of UC Hastings shall designate eligible individuals for participation in SHLP based on each location's determination of its requirements for recruitment and retention. Additionally, the President is authorized to approve individuals not in the eligible population defined in Section A.1 for participation in SHLP, based upon the essential recruitment and retention needs and goals of the institution. ~~Effective July 18, 2015,~~ The University of California Delegation of Authority (DA) 2587, dated July 18, 2015, delegates this authority from the President ~~has delegated this authority (DA2587)~~ to the Chancellors, LBNL Director, Executive Vice President – Chief Operating Officer, and the Agriculture and Natural Resources Vice President for specific titles as outlined in an Appendix to the University of

California Home Loan Program Corporation – Program Lending and Administrative Manual.

3. SHLP participation may continue for the term of employment by the University of California or UC Hastings, as long as the property securing the loan continues to meet the specifications outlined in Section B.2, it being understood that:

   - if the property securing the loan no longer meets the specifications outlined in Section B.2, the SHLP loan shall be reviewed for appropriate disposition; and
   - if University or UC Hastings employment is terminated or, in the case of academic appointees, there is a permanent change to an appointment status not considered to be in full-time service to the University or UC Hastings, the SHLP loan is to be repaid within 180 days of such date of separation or change in status, with the understanding that:
     - participation can continue when separation is due to disability or retirement under the provisions of the University of California Retirement Plan or other retirement plan to which the University or UC Hastings contributes on behalf of the participant; or
     - in the event of the death of the participant, participation can continue for a surviving spouse or surviving Domestic Partner, or, in the absence of a surviving spouse or surviving Domestic Partner, for a surviving Eligible Child (as the terms Domestic Partner and Eligible Child are defined by the University of California Retirement Plan); or
     - in hardship cases, reasonable forbearance beyond the required repayment ~~180 day~~ period may be granted ~~for repayment~~, provided all other terms and conditions of the loan are satisfied.

B. SHLP LOAN POLICIES

1. SHLP loans shall be used primarily for the purchase of a participant's principal residence.~~, or to provide short-term bridge financing~~.~~;~~ At the discretion of the authority designating participation, SHLP loans may also be used to refinance existing qualifying housing-related debt secured on a participant's principal residence, including related loan transaction expenses included in the prior loan balance or related to the SHLP loan. SHLP loans may not be used to pay off loans, secured or not secured, used for non-housing-related expenses or for any mortgages on other properties. For any debt secured on a participant's principal residence that was incurred during the five years prior to loan closing, the participant must document the purpose and use of funds as qualifying housing-related indebtedness associated with the subject property.

2. SHLP loans shall be secured, using a recorded Deed of Trust for residences that are:
   - owner-occupied single-family residences, including planned unit development and condominium units, which may include one secondary unit that does not comprise more than one-third of the total living area of the home;

- the principal place of residence for the participant, other than during absences for sabbatical leave or other approved leaves of absence;
- used primarily for residential, non-income-producing purposes; and
- 50% or more participant-owned

3. The maximum loan-to-value ratio (LTV) of a SHLP loan, either alone or in combination with other loans, is to be determined as follows:
   - for loans totaling up to (including) the Indexed Program Loan Amount ~~($1,330,000~~ $1,430,000 as of April ~~2015~~ 2016), the maximum combined LTV is 95%;
   - for loans totaling more than the Indexed Program Loan Amount, the maximum combined LTV is 90%;
   - SHLP loan amounts greater than the Indexed Program Loan Amount shall require the approval of the President and the concurrence ~~of the Chairman of the Board of Regents and the Chairs~~ of the Chair of the Finance and Capital Strategies Committee. ~~s on Finance and Compensation~~

   The value of the residence is in all cases defined as the lesser of the purchase price or current appraised value. The above dollar threshold amounts for determining the maximum LTV and for the Indexed Program Loan Amount reflect applicable levels in effect as of April ~~2015~~ 2016, which shall be adjusted annually each April, based upon any increases in the All-Campus Average Sales Price determined by the annual zip code study performed by the Office of Loan Programs.
4. The maximum term of a SHLP loan shall be 40 years, with repayment schedules designed to accommodate the needs of SHLP participants as well as any requirements of the funding source. Authorization by the Chancellor or other designated official is required when offering a loan with a term greater than 30 years.

5. Each location shall determine the mortgage interest rate to be charged on a given loan, with the understanding that maximum rates may be established to comply with federal and State lending and tax laws and regulations. All SHLP interest rates must include a service fee component of .25%. The minimum SHLP interest rate shall be ~~3.0%.~~ equal to the most recently available average rate of return earned by the Short-Term Investment Pool (STIP) for the four quarters preceding the issuance of a loan commitment letter for the mortgage loan, plus a margin of 25 basis points (.25%).

6. For adjustable rate SHLP loans approved on or after February 1, 2017, the overall cap on the adjustment of the interest rate over the term of the loan will be 10% above the initial interest rate for the loan.

~~6.~~7. The sum of monthly mortgage payments (principal and interest) of the SHLP loan and all other loans secured by the residence may not exceed 40% of the participant's household income.

~~7.~~8.When administratively feasible, SHLP payments shall be made by payroll deduction while on salary status.

~~8.~~9.SHLP loans are not assumable.

~~9.~~10.SHLP loans carry no prepayment penalty.

C. CENTRALLY FUNDED SHLP LOAN PROGRAM

The parameters of the loans made from the Reserve will fall within the guidelines as outlined in Sections A. and B. with the following additional restrictions:

1. Loans must be in second position.

2. The maximum loan amount will be the lesser of 5.0% of the purchase price or $75,000. The maximum loan amount will be indexed to any increase in the All-Campus Average Sales Price determined by the annual zip code study performed by the Office of Loan Programs.

3. The maximum term ~~for loan amounts up to $25,000 will be~~ is 15 ~~10~~ years (~~120~~ 180 months).

~~4. The maximum term for loan amounts greater than $25,000 will be 15 years (180 months).~~

~~5.~~4. The loans will have a fixed interest rate equal to the most recently available 4-quarter average rate of return of STIP, ~~plus a .50% margin~~, plus a .25% servicing fee. The minimum interest rate will be ~~3.0~~ 2.75%.

D. INTEREST-ONLY SHLP (IO-SHLP) LOAN PROGRAM

The Campuses have the option to offer IO-SHLP loans using authorized Campus funding sources. There are no central funds available for the IO-SHLP loans. All loan parameters must fall within the guidelines outlined in Sections A. and B., with the following additional terms:

1. The Interest-Only Term (IO-Term) is available for 5, 7 or 10 years. Following the IO-Term, the loan will convert to a fully amortizing loan with an overall term as follows:

    - 5 year IO-Term: 15 year fully amortizing (20 year total amortization)
    - 7 year IO-Term: 23 year fully amortizing (30 year total amortization)
    - 10 year IO-Term: 30 year fully amortizing (40 year total amortization)

2. The Chancellor or other designated official will be required to acknowledge and accept any regulatory risk or potential litigation associated with making IO-SHLP loans, which are non-Qualified Mortgages, according to the CFBP’s definition.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
UNIVERSITY OF CALIFORNIA DEBT POLICY

I. Purpose/Objective of Policy

The University's Debt Policy (the "Policy") governs the use and management of debt used to finance primarily capital projects as well as certain other uses across the University of California System (the "System"). As such, the Policy provides a framework that guides the capital market activities that are critical to achieving the University's mission of teaching, research, and public service. This framework ensures that the University can do so in an efficient and cost-effective manner while managing risk in the debt portfolio.

Specifically, this Policy seeks to achieve the following objectives:
- Outline the University's strategic approach to debt management;
- Establish guidelines for approving, structuring and managing debt;
- Identify roles and responsibilities for approving and monitoring debt post-issuance; and
- Set reporting standards.

With debt a precious and finite resource, this Policy provides a framework within which to evaluate and manage the tradeoffs between credit ratings, cost of capital and financial flexibility. It is the overarching goal of this Policy to ensure that the University maintains ready access to the debt capital markets to meet the University's financing needs. The active management of the University's credit profile, including the debt structure with respect to maturity and composition, will allow the University to achieve these objectives.

The University's credit strategy and strength are rooted in the System's scope and diversity; therefore, debt is a central function.

The Office of the CFO has oversight over all of the University's capital market activities. As such, the Office of the CFO is responsible for maintaining this Policy and will review it at least every two years and present to the Board of Regents, for approval, any proposed material changes, as appropriate. Nonmaterial changes to this policy may be approved directly by the CFO.

II. Use of Debt Funding

A. Prioritization of Capital Needs. Campuses and medical centers prioritize their capital needs with respect to essentiality to the University's mission of teaching, research, and public service. Campuses and medical centers also prioritize with respect to affordability, with special consideration given to capital projects that are self-funding or revenue-generating. The Ten Year Capital Financial Plan, updated annually, lays out the capital plan for each campus and medical center. The Plan includes a general funding plan for each project.

B. Approval Process. All University external financings must be approved by the Board of Regents, unless provided otherwise under the relevant University governing documents.

The Office of the CFO coordinates the external financing approval process, which includes a review of the campus' or medical center's financial strength and ability to assume additional debt.

In addition to the guidelines below, external financing approvals will be considered in the context of the University's overall credit portfolio and any potential impact on the University's credit ratings. As described in Section IV below, the CFO, under the direction of the Board of Regents and/or the President, may delay or deny a request for external financing on the basis of a potential negative impact on the University's credit profile/ratings (even if the guidelines below are met).

The Office of the CFO has worked with the campuses and the medical centers to develop financial models that help assess the viability of future debt financings.

For the campuses, the Office of the CFO has developed the Debt Affordability Model to be used as part of the approval process. The model includes 10-year projections of the campus' operations and planned financings. The Debt Affordability Model produces certain debt metrics that are used in the external financing approval process. Campuses must meet the following requirements in order to receive approval for external financing:

1. Modified cash flow margin[2] ≥ 0%; *and*
2. Debt service to operations ≤ 6%; *or*
3. Expendable resources to debt ≥ 1x.

In addition, for external financing of auxiliary projects, Campuses must also meet the following requirements:

1. Project debt service coverage ≥ 1.10x; *and*
2. Auxiliary debt service coverage ≥ 1.25x.

Medical centers shall provide 10-year projections, or projections over a shorter time horizon as deemed appropriate, of their statement of income available for debt service, statement of revenues and expenses, statement of net assets, and statement of cash flows, and meet the following requirements:

1. Net Income Margin[3] ≥ 0%; *and*
2. Debt service coverage[4] ≥ 3x; *and*
3. Days cash on hand ≥ 60.

The Office of the CFO may review and approve exceptions for campuses and medical centers that are unable to meet the above requirements on a case-by-case basis. In order to be considered for an exception, the campus or medical center must submit a financial

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[2] Modified cash flow margin is an income statement-based measure of a campus' debt service coverage, adjusted for certain cash and non-cash items.

[3] Net Income Margin is net income (net operating income + non-operating income) divided by total operating revenue. Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

[4] Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

model that demonstrates its ability to service the debt and a plan for achieving the minimum requirements listed above over time.

In addition to funding projects for the campuses and medical centers, the University also uses debt financing for system-wide initiatives, such as pension funding and the restructuring of State of California Public Works Board debt. While these projects benefit campuses and medical centers throughout the System, the debt is held at the system-wide level and is not attributed to the individual campuses and medical centers in the aforementioned debt models or projections. In lieu of an approval process similar to that outlined for the campuses and medical centers above, external financing for system-wide projects will be reviewed by the CFO, under the direction of the Board of Regents and/or the President, within the context of the University's overall operating performance and balance sheet, and the potential impact to the University's credit profile/ratings.

C. <u>Execution of Debt Financing.</u> The Office of the CFO coordinates financings for the University, working with internal University counterparts and external parties. Campuses and medical centers are involved in the months leading up to a financing as the Office of the CFO conducts due diligence on each project involved in a financing, which, along with the campus' or medical center's stated preferences, informs the sizing and structure of the bonds. The Office of the CFO also interacts with outside experts, including, but not limited to, financial advisors, financial institutions, the State Treasurer's Office, bond counsel, underwriters, rating agencies, and investors on the execution of the financing. The timing of a debt financing depends on a number of factors that include market conditions, need, and the status of projects in construction.

D. <u>Use of Proceeds.</u> In order to ensure compliance with legal, regulatory, governance and policy matters, the Office of the CFO is authorized to oversee the proper use of the proceeds of debt financings throughout the System.\

III. Financial Instruments/ Borrowing Vehicles

A. <u>External Borrowing.</u> The University generally issues debt using one of three different primary credit vehicles: General Revenue Bonds, Limited Project Revenue Bonds and medical center Pooled Revenue Bonds. On select occasions and for specific purposes, the University has also utilized third-party debt through vehicles such as the Financing Trust Structure and other third party structures. The credit to be used to finance a particular project will depend on the nature of such project, its potential impact on ratings and market interest rates at the time of the financing. The University strives to make the most efficient use of its differentiated credit structure in order to preserve its primary credit for core projects essential to the University's mission of teaching, research, and public service.

The following paragraphs provide brief overviews of the University's primary credit vehicles.

The General Revenue Bond (GRB) credit serves as the University's primary borrowing vehicle and is used to finance projects that are integral to the University's core mission of education and research. The GRB credit is secured by the University's broadest revenue pledge. It was introduced in 2003 to replace and consolidate several purpose-specific credits. The broad revenue base captures the financial strength of the System and facilitates the capital markets' understanding of the University's credit. The GRB credit carries the highest credit ratings among the University's financing vehicles.

The Limited Project Revenue Bond (LPRB) credit, established in 2004, is designed to finance auxiliary service projects that are of a self-supporting nature, such as student housing, parking, athletic, and recreational facilities. The LPRB credit provides bondholders with a subordinated pledge of gross revenues derived only from facilities financed under the structure.

The Medical Center Pooled Revenue Bond (MCPRB) credit serves as the primary financing vehicle for the System's medical centers. These bonds are secured by gross revenues of the medical centers, which are excluded from general revenues pledged for GRBs. The MCPRB credit replaced the Hospital Revenue Bond credit in 2007. Previously, the medical centers issued debt on a stand-alone basis, secured by their individual revenue streams. The pooled credit lowers borrowing costs, facilitates access to the financial markets, and increases debt capacity for the medical centers.

Third-Party Financing Structures. At times, there may be compelling reasons for the University to pursue an alternative financing structure outside of the three primary credit vehicles described above. These situations will be evaluated on a case-by case basis, and should be supported by a business case analysis and financial feasibility study. The analysis must demonstrate that the project will be accretive to the University's financial position. While certain third-party financings may be off-balance sheet, depending on the specifics of the structure, they still impact the overall credit profile of the University. Therefore, the CFO, under the direction of the Board of Regents and/or the President, has the authority to deny a third-party financing depending on the nature of the project and its potential impact on the University. To the extent a third-party structure is deemed to be in the best interest of the University, the financing will be executed centrally through, or in close partnership with, the Office of the CFO. The Financing Trust Structure will serve generally as the University's third-party financing tool unless granted an exception by the Office of the CFO.

Commercial Paper and Bank Lines of Credit. The University manages a commercial paper program, which primarily provides interim financing for projects prior to a permanent bond financing. The University also utilizes bank lines to provide bridge financing for projects that are awaiting gifts or other sources of funds and for working capital. In addition, the University has dedicated and hybrid credit lines which support its commercial paper program and variable rate debt.

Derivative Products. The University maintains a separate policy guiding the use of derivative products.

B. Internal Lending/Borrowing. The Office of the CFO manages the UC Strategic Investment Program (UCSIP), which is a suite of internal loans designed to leverage the University's strong credit rating to fund short-term financing needs. UCSIP is comprised of three loan programs: CapEquip, which funds capital equipment acquisition; C3, which funds operational efficiency initiatives; and STARs, which funds laboratory renovations and equipment purchases tied to faculty recruitment and retention. At times, loans are also made for certain system-wide projects. These loans are funded from the University's commercial paper program, and in the future may also be funded from the University's bank lines of credit. Depending on need, the Office of the CFO will periodically determine an appropriate amount of the University's commercial paper program and bank lines of credit to be reserved for the purpose of funding these internal loans.

IV. Financial Performance/Ratios and Credit Ratings/Debt Capacity

The System's credit profile, as viewed by the rating agencies and capital markets, is a function of a number of qualitative and quantitative factors, both financial and non-financial. These include market position, management and governance, state relations and support, as well as the financial strength of the University. Financial strength is a function of both income statement (i.e., operating performance) and balance sheet (i.e., financial resources) strength and is generally evaluated with certain key financial indicators serving as proxies for an institution's relative health. The resulting credit ratings, in turn, drive debt capacity and impact the University's cost of capital.

A. Credit Ratings. As described previously, the GRB credit represents the System's senior most lien and is designed to support primarily projects that are core to the University's mission of teaching, research and public service. In order to ensure ongoing access to capital at attractive financing rates in support of its mission, the University will maintain credit ratings in the "AA" rating category for the GRB credit. In order to protect the "AA" ratings on the GRB credit – which will help ensure ongoing access to capital on favorable terms – the University will closely monitor debt affordability, as measured by certain financial metrics, including operating performance. The CFO, under the direction of the Board of Regents and/or the President, will slow down or deny any financings deemed to potentially have an adverse impact on the institution's overall credit profile or that might threaten the University's credit ratings.

B. Affordability and Financial Equilibrium. The University monitors key credit ratios system-wide and individually for each campus and medical center. By exercising fiscal discipline, the University strives to achieve financial equilibrium, which is key to the long-term financial health and viability of the System. The University monitors its operating margin system-wide, while campuses are required to monitor their modified cash flow margin and medical centers must monitor their net income margin. Campuses must demonstrate positive modified cash flow margins and medical centers must demonstrate positive net income margin, with the goal of leading the University to a positive operating margin system-wide.[4]

The medical centers comprise a substantial portion of the University's operations, and their operating performance has a direct impact on the University's overall credit profile. As such, a deterioration of the medical centers' operating performance may have a negative impact on the ratings of all of the University's credits, not just the medical center Pooled Revenue Bonds. Should the medical centers' operations decline over time, thereby threatening the University's credit profile as a whole, the CFO, under the direction of the Board of Regents and/or the President, has the authority to reassess debt financings for system-wide projects or for future contemplated medical center projects. Still, the University's differentiated credit structure is designed to allow the ratings on the MCPRB credit to move without adversely impacting the GRB ratings.

The University also monitors its debt service burden, both system-wide and for the campuses. The University's debt service must not exceed 6% of its operating budget.[5]

The University also monitors leverage as measured by expendable resources-to-debt. The University is focused on its negative unrestricted net asset (UNA) position, and strives to improve it by addressing its pension and OPEB liabilities. In order to protect the System's credit, the University may consider deferring debt financing for system-wide initiatives while its UNA position remains negative. In addition, the University may also consider delaying debt funded system-wide projects if its pension liability ratio falls below 70% funded on an actuarial value of assets basis. At the direction of the Board of Regents and the President, external financings that would improve the University's pension funding status may be excluded from this policy. Campuses similarly monitor their expendable resources to debt ratios via their debt affordability models.

Irrespective of campuses and medical centers meeting certain thresholds and metrics, the CFO, under the direction of the Board of Regents and/or the President, has the authority to slow down or to deny projects if the financings jeopardize the University's credit ratings.

V. Structure

The issuance of debt entails a number of structural considerations that need to be evaluated on both an issue-specific as well as on an overall portfolio basis: tax-exempt versus taxable debt; fixed versus variable rate debt; amortization/final maturity; and ultra-long dated structures.

The structure of the System's overall debt profile has direct bearing on the University's credit profile. As such, structural decisions are a central function and are made by the Office of the CFO. Whenever possible and not to the detriment of the System overall, the campuses' and medical centers' preferences with respect to structure for a particular project/financing will be accommodated.

[5] Also see Section II. B. Approval Process.

A. Tax-exempt versus Taxable Debt. Given its status as a public institution, the University has the option to raise capital in the tax-exempt debt market, which generally offers a lower cost of capital than the taxable market. However, unlike taxable debt, tax-exempt debt is subject to certain restrictions, including, but not limited to, private use and useful life constraints. In addition, the University is required to monitor the use of assets financed with tax-exempt debt generally over the life of the debt to ensure ongoing compliance with legal requirements. This introduces a significant administrative burden as well as risk given the University's large, complex and stratified/decentralized operations. Therefore, especially as it relates to the research and medical services enterprises, which historically have seen the most private use, the University may at times opt to issue taxable debt for increased operational flexibility.

In addition, at times, market conditions are such that the yield/cost differential between tax-exempt and taxable debt is compressed, affording the University an opportunity to access less restrictive taxable capital at little to no incremental yield.

The University will evaluate the issuance of tax-exempt versus taxable debt in the context of the nature of the assets to be financed and prevailing market conditions.

B. Fixed versus Variable Rate Debt. The issuance of debt across the yield curve can be valuable both from a portfolio management point of view as well as from an investor diversification perspective. Variable rate or short-term debt may provide a lower cost of capital, but introduces risk in the form of uncertainty from a rate reset and/or rollover/refinancing perspective. Fixed rate debt, meanwhile, offers budget certainty, albeit at a higher cost.

Long-term tax-exempt debt is most commonly issued with a 10-year par call option, whereas variable rate debt generally can be called on any interest payment date, either for refinancing or retirement purposes, offering additional optionality. The University may consider longer or shorter call options depending on market conditions and the characteristics of specific projects.
Long-term taxable debt is most commonly issued with make-whole call features. The University may consider issuing taxable debt with a par call option depending on market conditions and the characteristics of specific projects.

Most forms of variable rate debt afford investors the opportunity to put the debt back to the University upon a predetermined notice period. This feature requires the University to have liquidity support to provide a backstop in case investors exercise their option. The liquidity can stem from either internal sources (i.e., STIP/TRIP) or external lines of credit. Either way, the liquidity requirement carries a cost, implicit or explicit, that needs to be factored into the structuring decision. In addition, the University's liquidity is finite and serves many other purposes, placing a natural limit on the amount of variable rate debt in the overall debt portfolio.

The University will limit exposure to variable/short-term debt to a prudent percentage and diversify among short-term instruments. The University will not assume any additional variable rate or short-term debt that would require incremental external liquidity or an increase in the STIP and/or TRIP portfolios without properly evaluating the potential impact on credit ratings, cost, or implication for the STIP and/or TRIP portfolios.

In order to minimize debt service, the University may also choose to issue "put bonds" or other debt structures which either mature or require rollover prior to the anticipated final maturity of the debt. In these cases, the University will seek to diversify rollover and refinancing dates, taking into consideration the entire debt portfolio, in order to minimize rollover risk and maintain market access.

C. <u>Amortization/Maturity.</u> The maturity and amortization of debt will be instructed by both the nature and the anticipated cash flow pattern, if applicable, of the project(s) being financed as well as by prevailing market conditions at the time of the financing. In addition, the University will evaluate financings within the broader context of the institution's overall debt portfolio to ensure that debt service payments are managed in aggregate.

D. <u>Ultra-Long-Dated Structures.</u> At times, market conditions may provide for the issuance of ultra-long-dated debt (i.e., debt with a maturity of 50 years and beyond), affording the University the opportunity to lock-in capital at an attractive cost for an extended period of time. While such a structure can provide for valuable portfolio diversification, it demands prudence and internal discipline to ensure that future obligations can be met. As a result, the University requires internal borrowers to demonstrate a strategic need/rationale for these structures and to set aside funds at closing sufficient to accrete to the final principal repayment.

The availability of ultra-long dated debt is limited from both a market and credit perspective and the University will evaluate opportunities as they arise.

VI. Refinancing Opportunities

The University continually monitors its debt portfolio to identify potential savings opportunities that may exist through a refinancing of existing debt. The University works with its financial advisors to evaluate refunding opportunities within the context of market conditions, refunding efficiency, and overall level of rates. Refunding opportunities are evaluated on a net present value basis, taking into account all costs of issuance. Because tax law limits the number of refinancings for tax-exempt issuances, the University's evaluation takes into account the amount of time to the call date and the time to maturity.

In addition, at times, the University may choose to refinance debt for non-economic reasons, including to restructure the debt portfolio or to address legal covenants contained in the bond documents.

VII. Reporting

A. Internal Reporting. The Office of the CFO will be responsible for periodic reporting on the University's debt capital program. These updates will be made available on the Capital Markets Finance website or in the form of special reports to the Board of Regents, as appropriate.

B. External Reporting. The University's annual financial statements are filed annually with the Municipal Securities Rulemaking Board's EMMA website, in compliance with the University's obligations under its various continuing disclosure agreements. The University is also responsible for providing notices of certain enumerated events under these agreements such as rating changes and bond defeasances.

Additions shown by underscoring; deletions shown by strikethrough

The University of California
Office of the Chief Investment Officer
Annual Incentive Plan (AIP)
For Plan Year July 1, ~~2015~~2017 through June 30, ~~2016~~2018

I. Plan Purpose

Under the authority granted by The Board of Regents, the purpose of the University of California Office of the Chief Investment Officer Annual Incentive Plan ("Plan") is to provide the opportunity for at risk variable financial incentives to those employees responsible for attaining or exceeding key objectives in the Office of the Chief Investment Officer (CIO) which are consistent with University investment objectives.

The Plan provides participants with an opportunity to receive an annual non-base building cash incentive based on the performance of the University's total investment portfolio~~, the assets and sectors/functional groups managed by the individual participant,~~ and the individual participant's qualitative performance. The incentive award is earned based on the achievement of specific financial, non-financial, and strategic objectives relative to the mission and goals of the Office of the CIO and the performance of the investment portfolio. The Plan focuses participants on maximizing returns in excess of stated performance benchmarks for all funds managed while assuming appropriate levels of risk. It is intended to support teamwork so that members of the Office of the CIO operate as a cohesive group.

II. Plan Year

The Plan year will correspond to the University's fiscal year, beginning July 1 of each year and ending the following June 30.

III. Plan Oversight

Development, governance and interpretation of the Plan will be overseen by an independent Administrative Oversight Committee (AOC) comprised as follows:

- Executive Vice President – ~~Business Operations~~Chief Operating Officer
- Executive Vice President ~~and~~ – Chief Financial Officer
- The Vice President – Systemwide Human Resources
- The Executive Director – Systemwide Compensation Programs and Strategy

The AOC, in its deliberations pertaining to the development or revision of the Plan, ~~will~~may consult with the CIO or other key members of the CIO's staff. The AOC will abide by the Political Reform Act, which would prohibit Plan participants, such as the CIO and other members of the CIO's staff, from making, participating in making, or influencing decisions that would affect whether they participate in the Plan, the objectives that will govern whether they earn awards under the Plan, and the amount of awards paid to them under the Plan. The Office of General Counsel will be consulted if there are any questions about the application of the

Political Reform Act in this context. The Chief ~~Audit and~~ Compliance and Audit Officer will assure that periodic auditing and monitoring will occur, as appropriate.

IV. Plan Approval

The Plan will be subject to an annual review conducted by the AOC to address design issues and market alignment. ~~Once approved by the Regents, the~~The Plan will be implemented each year upon the approval of the AOC if no changes to the Plan are being recommended. If the AOC recommends any substantive or material changes to the Plan, including, but not limited to, changing the award opportunity levels, the AOC will obtain the approval of the President and the Regents' ~~Committees~~Committee on Governance and Compensation and consult with the Chair of the Regents' Investments Subcommittee before implementing such changes. Reasonable efforts, given all circumstances, will be made to delay implementing substantive or material Plan changes until after the current Plan year has ended. However, if changes are implemented during the Plan year that would affect the award calculations, changes will only be applied prospectively to the remaining portion of the Plan year. Moreover, no changes will affect awards earned by Plan participants for performance in prior Plan years. Plan changes recommended by the AOC that are not material or substantive, or are deemed to be technical corrections, may be approved by the AOC after consultation with the President and ~~the Chairs of the Regents' Committees on Compensation and Investments and~~ will then be implemented by the AOC at an appropriate time. The Regents will receive reports of all substantive or material changes to the Plan.

V. Plan ~~Eligibility~~ Administration

The Plan will be administered by the Executive Director – Compensation Programs and Strategy, consistent with the provisions of this Plan approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary.

Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC. In the unlikely event that the AOC proposes an award that is not consistent with the terms of this Plan document, approval by the President and Regents will be required. The AOC will consult the Chief Compliance and Audit Officer in an independent advisory capacity during its review of proposed awards. Any incentive award for the CIO or any other participant who is a direct report to the Regents and/or the President will require the approval of the Regents in addition to the AOC.

VI. Eligibility to Participate

Eligible participants for the Plan include senior management, professional investment and trading staff and other key positions in the Office of the CIO, as recommended by the CIO and subject to approval by the AOC. Eligibility is reviewed annually by the CIO and is subject to approval by the AOC, prior to the beginning of the Plan year. ~~A participant who has been found to have violated state or federal law or to have committed a serious violation of University policy will not be eligible for an award under the Plan.~~

A participant who has been found to have committed a serious violation of state or federal law or a serious violation of University policy at any time prior to distribution of an award will not be eligible for such awards under the Plan for that Plan year and/or performance period. If such allegations against a participant are pending investigation at the time of the award distribution, the participant's award(s) may be withheld pending the outcome of the investigation. If the participant's violation is discovered later, the participant may be required to repay awards for the Plan years and/or performance periods in which the violation occurred.

Participants in the Plan ~~are~~may not ~~eligible to receive an award under~~participate in any other ~~University of California~~ incentive ~~program~~or recognition plan during the plan year, except in the event of a mid-year transfer within the University. Specifically, if a Plan participant is eligible for only a partial year award under this Plan because a mid-year transfer of position renders him or her eligible for Plan participation for only a portion of the Plan year, he or she may participate in a different University plan for the other portion of the Plan year. Concurrent participation in this Plan and another University plan is not permitted.

Prior to the beginning of the Plan year, the AOC will provide the President and the ~~Chairs~~Chair of the Regents' ~~Committees~~Committee on Governance and Compensation ~~and Investments~~ with a list of Plan participants for that Plan year, including appropriate detail regarding each Plan participant.

Plan participation in any one year does not provide any right or guarantee of eligibility or participation in any subsequent year of the Plan.

~~Continuing participants~~Participants must be active full-time employees of the University ~~of California~~ in the Office of the CIO at the ~~end~~conclusion of the Plan year (i.e., as of midnight on June ~~30~~30th) to be eligible to receive an award for that Plan year~~.~~, unless the circumstances of their separation from the University entitle them to a full or partial award as set forth in the Separation from the University provision below in Section VIII.

Eligible employees who are appointed after the start of the Plan year must have an employment start date no later than January 15, to be eligible to receive an award for that Plan year. Newly hired participants will be eligible to receive a prorated award in ~~the~~their first partial year~~ based on the actual salary received during the Plan year.~~.

Participants who were not working for a significant portion of the Plan year may receive a ~~prorated~~partial award~~.~~, if they are active full-time employees in the OCIO at the end of the Plan year. For the purpose of this Plan, leave of absence status will be determined by applicable University policies governing such leaves.

~~Termination Provisions~~

~~Participants must remain actively employed by the University of California at the end of each Plan year in order to receive previously deferred payments of a determined award. Participants who voluntarily separate or who are involuntarily terminated for cause from employment with the University of California will forfeit any previously deferred award amount and any associated interest that has not yet been paid as of the date of separation from University employment.~~

~~Participants who retire, become totally disabled, or involuntarily separate (due to reorganization or restructuring) are eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of separation of employment from the University. For the purpose of this Plan retirement and total disability status will be determined by applicable University policies. Lump sum payments as described above will be issued as soon as practicable following the date of separation. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued in accordance with the normal processing schedule.~~

~~Involuntary separation for any other reason will be handled on a case by case basis.~~

~~Participants whose employment terminates as a result of death are similarly eligible to receive a prorated incentive award for the current Plan year and a lump sum payment for the deferred portion(s) of approved awards from prior years that have not yet been paid (as explained in the Payout Determination provision below) and associated interest, based on the date of death. In this situation, lump sum award payments will be made to the estate of the deceased participant as soon as practicable following the date of death. In order to determine the most accurate award for the current Plan year, prorated payments will be calculated at the end of the Plan year and issued to the estate of the deceased participant in accordance with the normal processing schedule.~~

VII. Performance Standards

Each performance objective will include standards of performance defined as follows:

- Threshold Performance: This level represents satisfactory results, but less than full achievement of performance objectives.
- Target Performance: This level represents full achievement of all performance expectations.
- Maximum Performance: This level represents results that clearly exceed expectations.

VII. Incentive Award Opportunity Levels

Plan participants are assigned award levels that serve to motivate individual, group and total entity performance as part of a competitive total cash compensation package. Participants are eligible to receive an incentive award, expressed as a percentage of their base salary~~, which~~ that corresponds to predetermined target levels of performance. Actual incentive award levels may be greater or less than the target opportunity level, depending on performance relative to policy portfolio benchmarks and individual contribution. Award opportunity levels by position are as follows:

Position	Threshold Opportunity (as % of Salary)	Target Opportunity (as % of Salary)	Maximum Opportunity (as % of -Salary)
Chief Investment Officer (CIO)	50%	100%	165%
Senior Managing ~~Director & Associate CIO~~Directors & Chief Operating Officer	30%	60%	120%
Managing Directors	25%	50%	100%
~~Managing Director, Director, & Sr. Portfolio Manager~~Investment and Risk Directors	22.5%	45%	90%
Investment ~~Officer~~Officers	17.5%	35%	70%
Sr. Investment Analysts ~~& Jr. Portfolio Manager~~	10%	20%	40%
Other Participants, including Operations Managers/Directors	10%	20%	~~25~~40%

IX. Performance Objectives

~~Below are the four~~The three Performance Objective categories ~~for~~of the Plan are:

1. Quantitative Entity Performance (e.g., total investment portfolio performance)
2. Quantitative Asset Class ~~Performance (e.g., US equity, international equity, private equity, bonds & STIP)~~or

~~3.~~ Sector/Functional Group Performance ~~(e.g., government, credit, etc.)~~, if applicable

3.~~4.~~ Individual/Qualitative ~~Performance~~performance

The quantitative investment performance objectives will be reviewed and approved by the AOC in consultation with the CIO, the President, and Chairs of the Regents' Committee~~s~~ on Governance and Compensation, and ~~Investment~~Investments Subcommittee, and an independent investment consultant prior to the beginning of the Plan year.

Performance objectives for each Plan participant must include ~~both~~ the Entity Performance, the Asset Class/Sector Performance (where applicable), and the Individual/Qualitative Performance ~~categories listed below. Asset Class Performance and Sector/Functional Group~~

Individual/Qualitative Performance objectives ~~are incorporated for participants as appropriate.~~ may be established in, but are not limited to, the following areas:

- Leadership
- Implementation of operational goals
- Management of key strategic projects
- Effective utilization of human and financial resources

Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC prior to the beginning of the Plan year. The individual performance objectives of the CIO will be defined annually by the President, who may consult with the Chair of the Regents' Investments Subcommittee, prior to the beginning of the Plan year or as soon as possible thereafter. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants' objectives.

Prior to the beginning of the Plan year or as soon as possible thereafter, the~~The~~ supervisor of each Plan participant will provide him/her with ~~an annual Terms and Conditions document~~written documentation that (a) identifies the participant's individual performance objectives applicable to the Plan, (b) defines the performance standards and metrics that will be used to measure threshold, target, and maximum performance for each investment objective, and (c) assigns performance weightings to the participant's objectives.

~~**Performance Standards**~~

~~Each investment performance objective will include standards of performance defined as follows:~~

- ~~Threshold Performance: This level represents satisfactory results, but less than full achievement of performance objectives.~~
- ~~Target Performance: This level represents full achievement of all performance expectations.~~
- ~~Maximum Performance: This level represents results which clearly exceed expectations.~~

~~Individual/Qualitative performance objectives for each Plan participant other than the CIO will be defined by his/her supervisor. These objectives will be subject to endorsement by the CIO and approval by the AOC in consultation with the President and Chairs of the Regents' Committees on Compensation and Investments prior to the beginning of the Plan year. The individual performance objectives of the CIO will be approved annually by the President and Chairs of the Regents' Committees on Compensation and Investments, in consultation with the AOC, prior to the beginning of the Plan year. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of Plan participants' objectives.~~

~~Individual/Qualitative Performance objectives may be established in, but not limited to, the following areas:~~

- ~~Leadership~~
- ~~Implementation of operational goals~~
- ~~Management of key strategic projects~~
- ~~Effective utilization of human and financial resources~~

X. Performance Measures and Weightings

~~A~~For Plan participants other than the CIO, the participant's performance against assigned ~~qualitative~~ Individual/Qualitative goals will be assessed by the ~~CIO in consultation with the~~ participant's supervisor~~, if the immediate supervisor is not the CIO.~~ and require the approval of the CIO. The CIO's performance against assigned Individual/Qualitative objectives will be assessed by the President, who may consult with the Chair of the Regents' Investments Subcommittee.

~~Investment~~Quantitative investment performance of both the University portfolios and the market indexes for performance objectives is measured using a three-year rolling average. This method provides for longer term focus on and accountability for sustainable performance results. Investment returns in a given year, whether positive or negative, affect the average, and thus the payout, over three separate Plan years. The lowest value of any award in a given year will be zero.

~~Individual awards~~If the Entity, Asset Class or Sector/Functional Group experience negative three-year rolling average returns (or other, applicable performance measurement periods, as described in Section XI, below) in any year, regardless of relative performance against benchmarks, that year's award for that component (Entity, Asset Class or Sector/Functional Group) will be zero. In those years where a component has negative three-year rolling average returns and nil awards, a participant may nevertheless earn awards tied to the other components where performance is positive, as well as for Individual/Qualitative performance. Negative performance in the current year will have no adverse impact on the deferred portions of prior-year awards.

Awards are determined based on achievement of performance objectives relative to policy portfolio benchmarks and individual contribution, and in accordance with the payout curve established for each performance objective. Performance measures for participants in their ~~third~~first full Plan year or later are weighted as displayed in the table below.

Position	**Weighting for Entity Performance Objectives**	**~~Weighting for~~ Asset Class ~~and~~/ Sector/~~Functional Group~~ Performance Objectives, if applicable**	**Weighting for Individual/ Qualitative Performance Objectives**
Chief Investment Officer	~~80~~75%	0%	~~20~~25%
~~Associate CIO~~	~~65%~~	~~15%~~	~~20%~~
Senior Managing ~~Director~~Directors (Risk Mgmt and Chief Operating Officer)	~~80~~75%	0%	~~20~~25%
Senior Managing ~~Director~~Directors (Asset Class)	~~40~~50%	~~50~~25%	~~10~~25%
Managing ~~Director~~Directors (Asset Class)	~~40~~50%	~~50~~25%	~~10~~25%
~~Director~~Directors (Asset Class)	~~30~~50%	~~60~~25%	~~10~~25%
~~Senior Portfolio Manager~~	~~30%~~	~~60%~~	~~10%~~
Investment ~~Officer,~~Officers Asset Class	~~20~~50%	~~70~~25%	~~10~~25%
Investment ~~Officer~~Officers, Risk Management	~~70~~75%	0%	~~30~~25%
Managing Directors and Directors, Risk ~~Management Analyst~~	~~70~~75%	0%	~~30~~25%
~~Jr. Portfolio Manager; Jr. / Sr. Analyst~~Sr. Investment Analysts	~~10~~75%	~~70~~0%	~~20~~25%
Other Participants, including Operations Managers	~~20~~75%	0%	~~80~~25%

XI. Transitional Weightings for New Hires

In recognition of a participant's limited ability to affect attainment of ~~goals in the Plan~~objectives during the first two years of service, the following adjustments are made in the Weighting table for participants in their first three Plan years, as reflected in the following table.

Time Period	Weighting for Quantitative Performance Objectives (Entity, Asset Class, Sector/Functional Group)	Weighting for Individual/Qualitative Performance Objectives
First *partial* year	~~20~~50% / 1 year performance	~~80~~50%
Year 1 (first full year)	~~30~~75% / 1 year performance	~~70~~25%
Year 2 (second full year)	~~50~~75% / 2 ~~years~~years' performance	~~50~~25%
Year 3 (third full year)	Standard participation as provide by level under the Plan	

~~For the new employee, the relevant investment returns achieved during the transition period (up to 18 months) may be excluded from the three year rolling average.~~

In special cases, such as for a new participant charged with the restructuring of an entire asset class or strategy, the above weights may be modified at the recommendation of the CIO, subject to approval by the AOC. In such a case, the participant will be required to meet specific objectives ~~which~~that contribute to long-term performance.

The phase-in of new asset classes will be handled in a similar way, that is, performance for the first year of a new asset class will be based on a single year's return; performance for the second year of the class will be based on the first two years' returns. See the Administrative Guidelines for more details of specific circumstances.

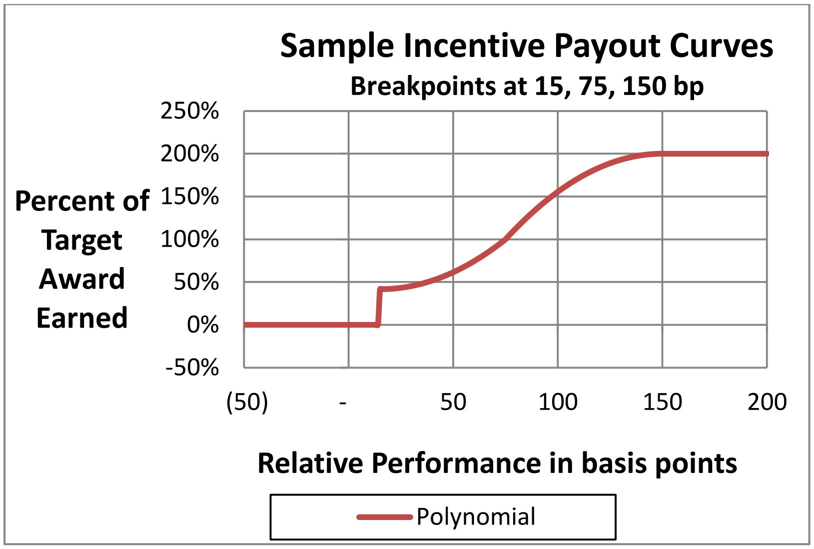
XII. Award~~Payout~~ Determination and Processing

Annual incentive awards will be payable in cash, subject to appropriate taxes and pursuant to normal University payroll procedures. The participant's total salary (~~including~~which includes base salary~~,~~ and any stipends, ~~vacation pay, and sick pay,~~ but ~~excluding~~does not include any prior year incentive award payouts ~~and~~or disability pay) paid as of the end of the Plan year (i.e., as of midnight on June 30) will be used in the calculation of the award ~~payout~~amount. The current position held by the participant at the end of the Plan year or the applicable performance period will determine the award opportunity level in the calculation. For ~~participants at or~~Investment Officers and above, the ~~Investment Officer level (as reflected in the charts above), awards are~~award will be payable in three annual payments comprised of 50 percent paid ~~in~~after the conclusion of the current Plan year, 25 percent paid ~~in~~when awards are paid for the next Plan year and 25 percent paid ~~in~~when awards are paid for the Plan year ~~thereafter. Award payments will be made as soon as practicable following the end of the Plan year.~~ after that. For participants below the Investment Officer level (as reflected in the charts above), awards are payable in one lump sum; there is no deferral of any portion of their awards.

The deferred portion of ~~the award earns~~awards earn interest based on the ~~Short-Term Investment Pool (~~STIP~~)~~ rate of return~~.~~ during the period of deferral. Payments of the deferred portions of awards for prior Plan years are generally issued during the fall of each year when the non-deferred portion of awards are paid for the recently concluded Plan year. Accrued awards for participants on approved leave of absence will be paid according to the normal schedule.

~~Awards for participants below the Investment Officer level (as reflected in the charts above) are payable in one lump sum; there is no deferral of any portion of their awards.~~

A polynomial payout curve is used to determine actual ~~award payouts~~awards for performance levels between threshold and maximum and relative to Entity~~, Asset Class, and Sector/Functional Group~~ quantitative performance objectives. The chart below shows an example of the polynomial payout curve~~ for the US Equity asset class~~. In this example, the Threshold is 15 bp, the Target is 75 bp, and the Maximum is 150 bp.



The primary advantage of the polynomial curve is that it supports ~~the achievement of consistent and sustained~~higher proportional awards for better performance ~~over the longer term by~~thereby encouraging participants to achieve target level or higher performance.

XIII. Separation from the University

The table below indicates whether a participant who separates from the University will be eligible to receive partial awards and/or payout of deferred portions of the awards for prior Plan years and also specifies when forfeiture of such awards will occur. Payment of deferred portions of prior Plan year awards will be paid with interest, as described in Section XII. Retirement will be determined based upon applicable University policies. In order to determine the most accurate award for the current Plan year, partial payments will be calculated at the end of the Plan year and issued in accordance with the normal process and schedule. The table, below, provides an example of how separations will be handled.

Reason for Separation	Separation During Plan Year (i.e., on or before June 30, 2017)	Separation on or after July 1, 2017
Voluntary Separation for any reason other than retirement	• Forfeiture of award for 2016-2017 Plan year. • Forfeiture of deferred portions of awards from 2015-2016 and 2014-2015 Plan years.	• Payout of 50% of award for 2016-2017 Plan year; forfeiture of remainder. • Payout of half of deferred portion of award for 2015-2016 Plan year; forfeiture of remainder. • Payout of remaining portion of deferred award for 2014-2015 Plan year.
• Retirement • Medical separation due to disability • Death* • Involuntary Separation due to reorganization or restructuring	• Partial award for 2016-2017 Plan year. • Payout of all deferred portions of awards from 2015-2016 and 2014-2015 Plan years.	• Award for 2016-2017. • Payout* of all deferred portions of awards from 2015-2016 and 2014-2015 Plan years.
Involuntary termination due to misconduct or inadequate performance	• Forfeiture of award for 2016-2017 Plan year. • Forfeiture of deferred portions of awards from 2015-2016 and 2014-2015 Plan years.	• Forfeiture of award for 2016-2017 Plan year. • Forfeiture of deferred portions of awards from 2015-2016 and 2014-2015 Plan years.

* In such cases, payments will be made to the estate of the participant.

XIV. Extraordinary Market Environments

In periods of unusual market and economic stress, when the entity experiences negative investment returns, regardless of the entity's relative performance against benchmarks, the portion of the current Plan year awards that would normally be paid at the end of the current Plan year may be deferred. If this deferral mechanism is invoked, awards will be reviewed and approved in the usual manner. But, in conjunction with that review and approval process, deferral will be recommended by the AOC and then approved by the President and the Chairs of the Regents' Committee~~s~~ on Governance and Compensation and Investments Subcommittee. In such a case, the portion of the current Plan year awards that have been deferred will earn interest ~~at~~based on the ~~STIP rate~~actual quantitative performance of the entity during the period of deferral, as defined in Section XII, above. The portion of the current Plan year awards that have been deferred will be processed and distributed as soon as possible. However, in no event will they be deferred longer than one year.

~~**Plan Administration**~~

~~The Plan will be administered by the Executive Director – Compensation Programs and Strategy consistent with the specific design parameters approved by the President and the Regents. The Plan features and provisions outlined in this document shall supersede any other Plan summary. Except as set forth below, all award amounts will be reviewed by and require the approval of the AOC in consultation with the President and Chairs of the Regents' Committees on Compensation and Investments. The AOC will consult the Chief Audit and Compliance Officer in an independent advisory capacity during its review of proposed awards. Evaluation of the CIO will be conducted by the Chair of the Regents' Committee on Compensation with input from the President and the Chair of the Regents' Committee on Investments. Any incentive~~

~~award for the CIO, the Assistant Treasurer, or any other Plan participant who holds one of the executive offices identified in section 92032(b)(7)(B)(i) of the California Education Code will require the approval of the Board in addition to the AOC.~~

XV. Award Approval Process

The AOC must convene to review all recommended awards within ~~60 days~~a reasonable time after the close of the ~~fiscal~~Plan year~~-end. ~~. The AOC will provide the President and the Chair of the Regents' Committee on Governance and Compensation with a listing of award recommendations before awards are scheduled to be paid. Payouts to individuals of approved awards ~~must be made within 90 days of the fiscal year-end~~will be processed as soon as possible unless the provision in Section XIV above regarding Extraordinary Market Environments applies.

~~Award amounts for Plan participants in the Senior Management Group will be reported annually to the Regents by~~On behalf of the AOC, the Executive Director – Compensation Programs and Strategy~~.~~ will provide the President and the Regents with the award details in the Annual report on Executive Compensation. The ~~reports~~AREC will ~~contain appropriate levels of detail, such as the range of~~also report awards ~~and the percentage and amount of the award granted for each Plan participant.~~ paid to non-SMGs whose compensation falls within the AREC's reporting criteria.

This Plan may be terminated or replaced at any time for any reason upon the recommendation of the President, in consultation with the Chairs of the Regents' ~~Committees~~Committee on Governance and Compensation and the Investments Subcommittee, and with the approval of the Regents. Reasonable efforts, given all circumstances, will be made to delay Plan termination until after the current Plan year has concluded. However, if the Plan is terminated during the Plan year, prorated awards for the current year will still be processed based on participants' performance during the portion of the Plan year prior to termination. Moreover, such termination will not affect awards earned by Plan participants for performance in prior Plan years.

The University may require repayment of an award that that was made as a result of inappropriate circumstances. For example, if there is an inadvertent overpayment, the participant will be required to repay the overage. If the participant has not made the repayment before the award or the employee for a subsequent year is approved, the outstanding amount may be deducted from the employee's subsequent award.

~~**Private Equity**~~

~~This asset class is not marked to market and its performance is meaningfully measured only over a long period using Internal Rates of Return (IRRs), not the time-weighted returns of marketable assets. Thus, special procedures have been implemented to fairly measure its performance and award those responsible for managing the assets. See the Administrative Guidelines for these detailed procedures.~~

Additions shown by underscoring; deletions shown by strikethrough

Regents Policy 1100: Statement of Expectations of the Members of the Board of Regents

Guidelines for Discharge of Regental Duties

The responsibility of individual Regents is to serve as trustees for the people of the State of California and as stewards for the University of California, acting to govern the University in fulfillment of its educational, research, and public service missions in the best interests of the people of California.

Recognizing the broad authority and responsibility vested in the Board of Regents for the governance and operation of the University of California, there is a specific expectation that members of the Board become knowledgeable regarding the educational, research, and public service programs of the University of California as well as the duties, responsibilities, and obligations of Regents.

Preparation

Members of the Board are expected to prepare themselves for the issues coming before the Board and to base votes on the information available and their best judgment. An orientation is mandatory for all new Regents.

Attendance and Participation

Members of the Board are expected to attend and participate in meetings of Board and committees to which they are assigned. Board members are also welcome to attend meetings of other committees to which they are not assigned, but they are not required or expected to do so. Board members are also encouraged to attend and participate in other events at which Board member participation is appropriate.

Cooperation

It is expected that Board members will abide by Board decisions and policies in a manner consistent with the member's fiduciary duties. This is not intended to preclude either forthright expression of opposition or efforts to change such policies or decisions. Expression of opinion or position at variance with such policies or decisions should clearly indicate that it is not to be construed as a position of the Board and that the opinion expressed is that of an individual Regent. Board members should respect the opinions of other Board members, University officials, faculty, students, and staff. Consistent with the Regents Policy on the President as Spokesperson for the University (effective January 18, 1962), the President <u>of the University</u> shall be the spokesperson for the University with the Chair~~man~~ of the Board being the spokesperson for the Board.

Confidentiality

Board members are expected to maintain the confidential nature of Board deliberations held in closed session, including written and verbal communication.

Ethics

Regents are expected to serve the public trust and to fulfill their responsibilities ethically in a manner consistent with that obligation. This means that decisions are to be made solely to promote the best interests of the University as a public trust, rather than the interests of a particular constituency, and that Board members will disclose personal, familial, business relationships, or other potential conflicts of interest as appropriate. <u>Regents' conduct, whether in their official or private capacity, must be consistent with the University's Statement of Ethical Values and Standards of Ethical Conduct and the University's Sexual Violence and Sexual Harassment Policy. Failure to comply with these standards shall be a basis for appropriate action.</u>

Fiduciary Responsibilities

Regents are expected to accept responsibility for the integrity of the financial, physical, and intellectual resources of the University.

Policy Responsibilities

It is the responsibility of the Board to set policy and the responsibility of the University administration to implement and carry out policy, which includes responsibility for the day-to-day operations of the University.

Support for the University

Regents are expected to be active supporters and advocates for the University and to take opportunities to help with fundraising, legislative advocacy, and other efforts on behalf of the University.

Board Responsibilities

The Board is expected to:

A. Appoint, support, assess the performance of, and, if necessary, dismiss the President <u>of the University</u>.
B. Appoint the Executive Vice Presidents, Senior Vice Presidents, other Vice Presidents, Chancellors and Laboratory Directors upon recommendation of the President pursuant to Standing Order 100.2 (b).
C. Approve and periodically review the appropriateness and consequences of all major institutional policies and programs, including addition or discontinuation of major programs and services consistent with the institution's mission and financial capacity.

D. Ensure that good planning is done periodically, participate in the process as appropriate, assess the quality of the outcomes, and monitor progress against goals.
E. Fulfill fiduciary responsibilities by approving and monitoring the annual budget, protecting the institution's financial and capital assets, ensuring responsible and prudent investment of funds, and ensuring a comprehensive compliance program and annual audit process.
F. Ensure adequate resources and their effective management. This includes serving as advocates for institutional needs with external constituencies.
G. Interpret the institution to the public and defend the institution, when necessary, from inappropriate intrusion.
H. Ensure that the Board's reputation is exemplary in the course of meeting its responsibilities.
I. Ensure that the institution serves as a good citizen in its relationships with other social, educational, and business enterprises through appropriate collaborations and partnerships.
J. Assess the Board's performance periodically through an appropriate process.

Additions shown by underscoring; deletions shown by strikethrough.

Regents Policy 1101: Policy on Board Education and Assessment

1. A formal orientation program be established for newly appointed Regents to assist them to perform their duties. The program shall provide information regarding the University's history and structure, the individual campuses, the broad range of policy issues expected to come before the Board as well as the recent history of issues before the Board, and the laws and policies that govern a Regent's fiduciary duties. Orientation sessions also shall be open to continuing Regents as appropriate.

2. The Chair of the ~~Committee on~~ Governance and Compensation Committee, in consultation with the Chair~~man~~ of the Board, shall assign continuing Regents to act as mentors on an ongoing basis for newly appointed Regents. In addition, Committee chairs shall consult with Regents newly appointed to their Committees to determine if a committee mentor is appropriate.

3. The Board shall conduct periodic Board retreats to discuss governance and planning issues as needed. The Chair~~man~~ of the Board, after consulting with the President of the University and Board members, shall determine the timing, location, and agenda of the retreat. ~~It is anticipated that the first retreat shall be conducted by the end of the third quarter of 2008~~.

4. The Board evaluate Board performance through an appropriate process, determined by the ~~Committee on~~ Governance and Compensation Committee. The evaluation may be conducted in conjunction with a Board retreat or separately.

5. Regents shall take the University's sexual harassment and sexual violence prevention training for supervisory employees upon their initial appointment and thereafter on the same periodic basis as required for supervisory employees.