

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

September 15, 2016

The Regents of the University of California met on the above date at the Luskin Conference Center, Los Angeles campus.

Members present: Regents Brody, De La Peña, Elliott, Gould, Island, Kieffer, Lansing, Lozano, Makarechian, Napolitano, Ortiz Oakley, Pattiz, Ramirez, Reiss, Schroeder, Sherman, Varner, and Zettel

In attendance: Regents-designate Lemus, Mancina, and Monge, Faculty Representatives Chalfant and White, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, Senior Vice Presidents Henderson and Peacock, Vice Presidents Brown, Budil, and Duckett, Interim Vice President Handel, Chancellors Block, Blumenthal, Dirks, Gillman, Hawgood, Khosla, Leland, Wilcox, and Yang, Acting Chancellor Hexter, and Recording Secretaries Johns and McCarthy

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

1. PUBLIC COMMENT

Chair Lozano 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. Hoan Pham, UC Riverside student, stated that private developers of UC projects on Regents' land must be required to maintain the University's affordability, to protect residents and student employees, and to meet UC and city sustainability standards.
- B. Mr. Parshan Khosravi, UCLA student, stated that reciprocal evaluation processes should be established between graduate students and their faculty mentors.
- C. Ms. Madina Thiam, UCLA student and member of Bruins Against Sexual Harassment, said that group advocates immediate removal of all serial offenders, clarification of UC's Title IX policy, and formation of a democratic community oversight board.
- D. Mr. Jason Rabinowitz, secretary-treasurer of Teamsters Local 2010, noted work done at the Luskin Center by union employees and stated that they should be paid a living wage. Many full-time workers are paid too little to afford the basic

necessities of life. Members in skilled trades have not had raises in as much as four years.

- E. Mr. Ali Tweini, member of Teamsters Local 2010 and UCLA employee, cited the hard and important work done on UC campuses by union members. These workers love their work and should be compensated fairly.
- F. Mr. Jay Hansen, chief strategy officer of the California Medical Association (CMA), said that CMA members could help expand UC philanthropy. He expressed support for Proposition 56 that would increase the cigarette tax.
- G. Mr. Matthew Gough, UC Santa Cruz alumnus, said he worked with California Student Public Interest Research Group, Inc. (CALPIRG) new voters project, which has the goal of making 50,000 voter registration contacts. He encouraged the Regents to support student voter registration. He thanked California Secretary of State Padilla for his support of student voter registration efforts.
- H. Mr. Charles Doan, employee at the Ronald Reagan UCLA Medical Center and member of Teamsters Local 2010 contract negotiations committee, stated that Teamsters' wages were 24 percent below prevailing wages. Teamsters members have continued to provide excellent work with no wage increases. He expressed his view that UCLA was not negotiating in good faith and urged the Regents to support a reasonable, fair contract.
- I. Mr. Matthew Simpson, UC San Diego employee and member of Teamsters Local 2010, expressed concern about the lack of raises and the Teamsters' expired contract. He stated that the Teamsters were hard-working and have made reasonable offers, but the University was not negotiating in good faith.
- J. Mr. Eduardo Rosales, 25-year UC employee and member of Teamsters Local 2010, stated that his benefits and wages have declined during his employment with UC. He expressed disappointment in the University's position in current contract negotiations and noted the importance of a defined benefit pension plan to union members.
- K. Ms. Linda Vasquez, director of regional affairs for The Campaign for College Opportunity, a broad-based coalition of business, civic, and education leaders working to support equal opportunity in access to college, emphasized the importance of students' obtaining bachelor's degrees. She commended the University for its commitment to enroll more California resident freshmen and transfer students.
- L. Mr. Liam Horstick, UC Santa Barbara student and vice chair of the CALPIRG board of directors, congratulated the Regents on their work with Secretary Padilla to promote voter registration on UC campuses. He emphasized the importance of reducing barriers to students' ability to register to vote.

- M. Ms. Julia Schemmer, UC Riverside second-year student, expressed displeasure at having to sit in the public seating section. She spoke in favor of increased student involvement in Regents' meetings.

President Napolitano introduced new UC Student Association president Ralph Washington, Jr., a National Science Foundation Graduate Research Fellow and third-year Ph.D. student in entomology and nematology at UC Davis.

Mr. Washington affirmed his commitment to working to improve UC, which has transformative capabilities. The University is fragile. He expressed concern about the oppression of women of color on UC campuses, the high cost of student housing, the lack of effective resolution of incidents of sexual violence, students' basic needs security, and student mental health. He urged the Regents to support UC students through action on these issues, which students have prioritized. He advocated for adequate support for graduate students, including support for increased diversity, with genuine recruitment and active retention efforts, and best practices for graduate students' relationships with their advisors.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 20-21 and the meetings of the Committee of the Whole of July 19, 20, and 21, 2016 were approved.

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

Chair Lozano stated that, in accordance with the new meeting format, 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.

A. **REPORT OF THE ACADEMIC AND STUDENT AFFAIRS COMMITTEE**

Regent Island expressed enthusiasm about the potential of the new meeting format, which allowed the Committee to have a deeper, strategic discussion of critical issues. He reported on the following three items:

Overview of Committee Responsibilities and Review of Committee Charter

It was suggested that the issue of prevention of sexual violence and sexual assault that affects students, faculty, and staff should be specifically included in the Committee charter. Possible topics for the Committee to address at future meetings included UC master's degree and Ph.D. programs, enrollment, time to degree, innovation partnerships with other private and public entities, UC education abroad programs, the role of student life, and the long-term effects of a UC education.

Progress on the Academic Elements of the Budget Framework Agreement

Provost Dorr and Vice President Brown provided an update on the substantial progress the University had made in implementing the academic elements of the budget framework. The framework included 13 performance-related academic provisions in three categories: enhancing the transfer function, promoting innovations to support student progress and improve time-to-degree, and continuing innovations in the use of technology and data analytics to understand instructional costs and improve student outcomes. The Committee was pleased to learn that UC had fulfilled the terms of the framework for seven of 13 academic elements and was on target to complete the remaining items.

An extensive discussion was held about the completed systemwide transfer pathways for the 21 most popular University majors. The Committee was enthusiastic about these pathways and discussed coordination of communication between UC and the California Community Colleges (CCCs). The Committee supported strengthening these communications through a more formal communication structure. The Committee saw the transfer function as central to UC's mission and anticipated that the pathways would streamline transfer students' paths into UC, helping students who have succeeded at the CCCs, and increasing student diversity at UC.

B. REPORT OF THE COMPLIANCE AND AUDIT COMMITTEE

Regent Zettel stated that the Committee welcomed the new meeting format that enabled more substantive discussions and particularly the addition of chancellors to the Committee. She reported on the Committee's four items.

Overview of Committee Responsibilities and Review of Committee Charter

The Committee discussed its responsibilities as outlined in its charter. The Committee retains its prior responsibilities and has several important additional ones, including responsibility for litigation and other legal issues.

Regent Zettel commented that the audit committees of most universities have a unique structure with a certain amount of autonomy. A question was raised about language in the Committee Charter relating to referral of matters to other committees given the unique nature of issues that arise in the Compliance and Audit Committee such as fraud. This issue was referred to the Office of General Counsel for follow-up.

Annual Report on Ethics and Compliance Activities 2015-16

Regent Zettel commented that the University operates in an increasingly highly regulated environment, making the risks numerous and continuing to increase.

Highlights among the outcomes of the annual Ethics and Compliance Program Plan in fiscal year 2015-16 included the implementation and support of the President's Steering Committee on Privacy and Information Security, certification of 120 new investigators through systemwide training, extensive in-person and webinar training provided to UC staff, and response to increasingly diverse and complex export control actions.

The Committee engaged in significant discussion on administration of compliance-related training, including methods for increasing completion rates, making training relevant and tailored to individual roles, and how to make best use of employee time as it relates to required training.

The following issues were identified to be of highest risk facing the University: research compliance, privacy, export control, governmental reporting regulatory activities, international activities, campus safety, sexual violence/sexual assault, and health sciences clinical research billing and coding.

UC Santa Cruz provided an excellent presentation on building a risk-intelligent organization.

International activities were an area of emphasis for the Ethics and Compliance Program in 2016. A demonstration was provided on the recently developed web portal to link people to tools, templates, and guidance on international activities.

The Committee discussed mechanisms in place to track international travel by identifying the location of faculty, staff, and students in the event of an emergency.

Internal Audit Activities Report

The Internal Audit program is in the process of building a centralized cybersecurity audit team. Internal Audit has obtained approval for three Full Time Equivalents for this team, including a Cybersecurity Audit Director and two Cybersecurity Audit Specialists. The director position was filled in August and Internal Audit is actively recruiting to fill the two specialist positions.

Audit and advisory services activity focused primarily on the key risk areas of healthcare revenue cycle, research, financial management, Information Technology (IT) security, human resources, payroll, and procurement.

Themes in internal control weaknesses observed in internal audit activity included financial management, IT security, medical billing and receivables, and governance and oversight.

Update on State Audit Activity

The California State Joint Legislative Audit Committee recently approved two audits, of (1) UC's contracted employees and contracting practices, and (2) administrative expenditures at the Office of the President.

The State Auditor is currently conducting an audit of "a-g" coursework offerings at a selection of high schools from three districts over the most recent three-year period. As part of this audit, the State Auditor has requested information from UC.

The following State audits over the past six years included several recommendations for UC: Budget, Enrollment, and Executive Compensation (March 2016 – UC provided a 60-day progress report in May 2016); Clery Act Compliance (2015 – UC provided a one-year progress report in July 2016); UC Davis Strawberry Breeding Program (2015 – UC provided a one-year progress report in June 2016); Sexual Harassment and Sexual Violence at California's public postsecondary institutions, including UC Berkeley and UCLA (2014 – UC provided a two-year progress report in June 2015); UCLA and UCSF Medical Center revenues and expenditures (2014 – The one recommendation provided in the audit has been fully implemented, so no additional progress reports are necessary); and Public Funds, Student Fees and Auxiliary Enterprises (2011 – UC provided a four-year progress report in September 2015.)

The Committee requested additional detail about the effort involved in responding to these numerous audits, the schedule and frequency of State audits, and whether any limits exist on the number of audits the State Auditor can perform.

Chair Lozano complimented Regent Zettel on the thoroughness with which she chairs the Committee, which has increasing numbers and areas of issues before it. Chair Lozano agreed that the Charter of the Audit and Compliance Committee should allow it to maintain full independence.

Regent Reiss noted that she had requested that the issue of prevention of sexual violence and sexual assault be specifically included in the charter of the Academic and Student Affairs Committee. She asked if that area should be in the charter of the Audit and Compliance Committee, or in both committee charters. Chair Lozano noted that it might be appropriate to both committee charters, but from the different perspectives of the student or compliance.

C. **REPORT OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE**

Overview of Committee Responsibilities and Review of Committee Charter

Regent Makarechian reported on the following discussion items and presented several items for action. The Committee's consensus was that the merger of the Committees on Ground and Buildings and Finance would reduce duplication of effort and allow for an integrated and efficient review of relevant topics.

University of California Debt Policy

Since the financial crisis of 2008 and the reduction in State funding, the University's debt had increased from \$6.7 billion to \$17.2 billion. The University had borrowed close to \$3.3 billion to backfill the UC Retirement Plan (UCRP), which he said was the obligation of the State. The University also had to borrow to construct new buildings, for maintenance, and for seismic safety retrofits. He emphasized that the University had borrowed out of necessity. A debt policy would set important guidelines for how and when the University should borrow or re-finance more expensive debt, when to borrow from UC cash reserves, and issues around UC's credit rating.

Certain criteria would set limits on UC debt. For instance, if UCRP's funding ration dropped below 70 percent, the University would incur no further systemwide borrowing. He expressed his hope that, in that circumstance, the University would not borrow from its own cash reserves to fund the retirement system, but instead would make the necessary changes to UCRP contribution levels or obtain more State funding.

Veterinary Medical Center Vision and Plans for Small Animal Clinic East Wing Project, Davis Campus

The Veterinary Medical Teaching Hospital had opened in 1970 and was designed to accommodate 3,000 animal patients per year. The existing facilities were not adequate to support the current annual caseload of approximately 50,000 animal patients. The facility's client base is expected to continue to grow.

Approval of Preliminary Plans Funding, Warner Graduate Art Studio Renovation and Addition, Los Angeles Campus

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

Los Angeles: Warner Graduate Art Studio Renovation and Addition – preliminary plans – \$2 million to be funded from gift funds.

Committee Chair Makarechian commented that the campus was reviewing what should be built on this site. The Committee encouraged the campus to consider developing some student housing on the site.

Authority to Indemnify the California Coastal Commission for Development Permit for the Main Campus Infrastructure Renewal Phase 1c Project, Santa Barbara Campus

The Committee recommended that:

- a. The President of the University or her designee be authorized to approve the terms and conditions of the California Coastal Commission's (Commission) approval of the Permit for the Main Campus Infrastructure Renewal Phase 1C Project (Project), including the Regents' assumption of the risk, and indemnification of and holding harmless the Commission from and against any liability arising from any damage due to hazards including bluff erosion, surf, storm waves, surges and flooding.
- b. The President, or her designee, after consultation with the General Counsel, be authorized to approve and execute any documents necessary in connection with the above.

Upon motion of Regent Makarechian, duly seconded, the recommendations of the Finance and Capital Strategies Committee were approved.

D. REPORT OF THE GOVERNANCE AND COMPENSATION COMMITTEE

Regent Reiss expressed the Committee's appreciation of having chancellors as Committee members.

Overview of Committee Responsibilities and Review of Committee Charter

The Committee discussed its responsibilities, as outlined in its charter, and issues and topics Committee members would like to take up in the coming months. Suggestions included reviewing the new meeting structure after six months or a year, having mentors for new Regents, and reviewing whether three percent merit increases for senior management group employees should be reviewed on an individual basis.

Approval of Appointment of and Compensation for Ralph J. Hexter as Interim Chancellor, Davis Campus

The Committee recommended approval of the following items in connection with the appointment of and compensation for Ralph J. Hexter as Interim Chancellor, Davis campus:

- (1) Appointment of Ralph J. Hexter as Interim Chancellor, Davis campus at 100 percent time, effective upon approval, and continuing until a new Chancellor is appointed.
- (2) Per policy, continued annual base salary of \$400,842.
- (3) Per policy, continued annual automobile allowance of \$8,916.
- (4) Per policy, continued eligibility to participate in the UC Home Loan Program, subject to all applicable program requirements.
- (5) Per policy, an administrative fund will be established for official entertainment and other purposes permitted by University policy. Adjustments may occur annually as allowed by policy.
- (6) Per policy, continued participation in standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance and executive salary continuation for disability).
- (7) Per policy, continued accrual of sabbatical credits as a tenured faculty member.

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.

Regent Reiss noted that Ralph J. Hexter had been serving very ably as Acting Chancellor of UC Davis. This action would make no change to Mr. Hexter's current base salary of \$400,842, which is 5.9 percent below the 25th percentile (\$426,000) of the Market Reference Zone (MRZ) for the position of Chancellor. Regent Reiss noted the Committee's enthusiastic support.

Update on Systemwide Implementation of the Revised Policy on Outside Professional Activities and Report on 2015 Compensated Outside Professional Activities: Incumbents in Senior Management Positions

Amendments to Regents Policy 7707: Senior Management Group Outside Professional Activities were approved by the Regents in July. These amendments changed some of the guidelines for review, adding requirements and levels of review for approval and reporting requirements to the Regents.

Members of the Committee discussed the implications of retroactively adjusting a Senior Management Group (SMG) member's contract agreement regarding the

permitted number of outside compensated boards and noted that this was discussed at past meetings. Regent Reiss said the Committee agreed that to apply the limit of participation on two outside compensated boards retroactively would be unfair to those SMG members who already served on three such boards, but it would apply to those who currently serve on up to two boards. Only four SMG members currently serve on three outside compensated boards. She stated that no other university has such strict guidelines on participation on outside compensated boards.

The following actions have been or will be taken: a communication will be sent to the State legislature summarizing the changes to the policy, per UC's obligations under the 2016 Budget Act to provide an update by January 1, 2017; detailed administrative guidelines, procedures and workflows had been established; and communication and training sessions were planned to ensure that SMG members understand the new policy requirements.

The Report on 2015 Outside Professional Activities reflects the individually certified declarations of every member of the SMG regarding their compensated Outside Professional Activities in calendar year 2015. SMG members who left the University before January 1, 2016 and those who served in SMG positions in an acting capacity are not included. This will be the last Report on Outside Professional Activities produced under the old policy.

Upon motion of Regent Reiss, duly seconded, the recommendation of the Governance and Compensation Committee was approved.

E. REPORT OF THE HEALTH SERVICES COMMITTEE

Regent Lansing reported on the following items from the Committee's August 11 meeting.

UC Health: Should We Do More as a System?

All of the medical centers operate in the black before accounting for academic support for the schools of medicine; after accounting for that support, three of the five medical centers are operating in the red. Revenues are decreasing, the healthcare environment is changing, and UC Health is not adequately addressing costs, a situation that must change in order to continue support for the academic mission.

UC Health functions as a system in being an obligate group for borrowing, managed care contracting, negotiating the California Hospital Fee and the Medi-Cal waiver, operating the UC Health Center for Health Quality and Innovation, operating some clinical programs together, systemwide Clinical Enterprise Management Recognition Program goals, and the Leveraging Scale for Value initiative.

There are also obstacles, and UC Health is missing some opportunities (in procurement, for example) due to a campus culture of independence and the fact that “systemness” is not recognized or rewarded at the campus level. Encouraging a systemwide approach would be an ongoing, long-term process.

A structural change would be implemented, with a dotted line reporting relationship from the medical center Chief Executive Officers (CEOs) to Executive Vice President Stobo to reflect the need to operate more as a system. A solid line reporting relationship between the CEOs and the Chancellors (or their designees) would be retained.

Salary Adjustments Using Non-State Funds for Mark Laret as Chief Executive Officer, UCSF Health and Ann Madden Rice as Chief Executive Officer, UC Davis Health System

The Committee approved merit-based salary adjustments, effective on or about July 1, 2016, consistent with local processing schedules, for Mark Laret as Chief Executive Officer, UCSF Health, and Ann Madden Rice as Chief Executive Officer, UC Davis Health System.

Salary Adjustment Using Non-State Funds for Barrie E. Strickland as Senior Vice President – Finance and Chief Financial Officer, UCSF Health, San Francisco Campus

The Committee approved a salary adjustment for Barrie E. Strickland as Senior Vice President – Finance and Chief Financial Officer, UCSF Health, San Francisco campus to an annual base salary of \$720,000.

All other aspects of Ms. Strickland’s compensation are within policy and will continue unchanged. Ms. Strickland will continue to be eligible to participate in the Clinical Enterprise Management Recognition Plan’s Short Term Incentive (STI) component, with a target award of 15 percent of base salary (\$108,000) and maximum potential award of 25 percent of base salary (\$180,000). Actual award will be determined based on performance against pre-established objectives.

Funding for this position will continue to come exclusively from medical center revenues. No State or UC general funds will be used. This action will be effective upon Regental approval.

Regent Sherman stressed the importance of UC’s medical centers’ operating as a system, rather than as five separate entities, to maximize the advantages of acting together to address continuing cost pressures.

Regent De La Peña commented that the Charter of the Health Services Committee should include the requirement of a written report on the UC Health system’s

transactions of the past three years. General Counsel Robinson agreed that that addition would be made.

Regent De La Peña asked about an action item involving the debt of UCSF Benioff Children's Hospital Oakland. Executive Vice President Stobo stated that a written summary of this transaction and others was sent to the Regents every other month. A report on the year's transactions would be sent to the Regents after the end of the year. Regent De La Peña asked if the transaction involving the debt of Benioff Children's Hospital Oakland had been approved. Committee Chair Lansing responded that it had been approved under the Committee's delegated authority. Dr. Stobo confirmed that the item was approved by the Health Services Committee.

F. **REPORT OF THE PUBLIC ENGAGEMENT AND DEVELOPMENT COMMITTEE**

Regent Kieffer reported on the first meeting of this new committee.

Overview of Committee Responsibilities and Review of Committee Charter

The creation of this new Committee reflects the priority the Board places on the responsibility of the University and each of its campuses to the welfare of the communities and the constituencies they serve, both regionally and statewide. There would be a renewed focus by the Office of the President and the ten campuses to engage with the state, various communities and constituencies, and the public at large, to identify needs and challenges and to align University priorities with the needs the state and its diverse regions. While the University is justly proud of its record of service and contributions beyond the classroom, it could do better. The Committee Chair, Vice Chair, and members, President Napolitano, chancellors, and UC Office of the President (UCOP) staff will develop an agenda for the coming year. Regent Kieffer welcomed ideas for topics for the Committee's focus.

History and Overview of Philanthropy at the University of California

The University's current systemwide fundraising total is approximately \$2 billion in annual support from more than 300,000 donors. Fundraising varies widely by UC campus, generally with the age of the campus. Almost all fundraising takes place at the campus level through the campus foundations, assisted by the Office of the President, for example through the Presidential Match for Endowed Chairs.

Endorsement of Comprehensive Campaign, Riverside Campus

The Committee recommended the endorsement of the public phase of the Riverside campus fundraising campaign, *Living the Promise: The Campaign for UC Riverside*, with a total dollar goal of \$300 million.

Regent Kieffer stated that this is UC Riverside's first comprehensive campaign, with a goal of raising \$300 million by 2020.

Philanthropy at UCLA – Centennial Campaign Update, Los Angeles Campus

Regent Kieffer pointed out that UCLA, as an older UC campus, is more mature in its philanthropy, and is more than halfway to its \$4.2 billion *Centennial Campaign* goal. The campaign involves an enormous effort and is proceeding even better than expected.

Overview of Governmental Relations

This overview was given as a foundation to help the Committee determine how the University and the Regents could better engage in this area. The Committee heard a report on the extensive activities of the UC Office of Government Relations, State Government Relations, and Federal Government Relations. Development of a role for the Regents in assisting with government relations would be a priority. Chair Lozano and Regent Kieffer requested that the UC Office of Government Relations develop a plan for engaging Regents in legislative advocacy in Sacramento and Washington, and coordinating those efforts. Regent Kieffer emphasized the importance of the University's understanding the needs of the State Legislature.

2016 Ballot Propositions Overview

Four State ballot initiatives in the upcoming election are of interest of UC. The Regents rarely take a formal position on ballot initiatives and no official position is being recommended on these four measures. The Committee agreed that the Regents do not need to take a formal position on these measures.

Upon motion of Regent Kieffer, duly seconded, the recommendation of the Public Engagement and Development Committee was approved.

G. REPORT OF THE COMMITTEE ON INVESTMENTS

Regent Sherman reported on the Committee's meeting of September 9.

Update on Investment Performance for Periods Ending June 30, 2016

Chief Investment Officer Bachher updated the Committee on investment performance for the fiscal year ending June 30, 2016, and the challenging market environment for investors. Regent Sherman said that would be reflected in other institutions' returns as well as UC's. Since the end of the fiscal year, prior losses had been recouped. The Committee discussed whether the University's expected levels of returns, inflation, and the General Endowment Pool (GEP) payout are realistic given the market environment. The implicit UC Retirement Plan (UCRP)

earnings assumption is currently 7.25 percent. The Committee was of the view that that rate of return should be lowered, although it was not clear how quickly or by what amount. Regent Sherman stated that Mr. Bachher was in favor of lowering the expected rate of return to seven percent initially. Mr. Bachher also expressed his view that the GEP payout ratio of 4.75 percent should be lowered.

Investment Earnings Assumptions and Discount Rates of Pensions

The Committee discussed whether the UCRP assumed rate of return should be used as the discount rate for UCRP liabilities. Corporations generally use their borrowing rate as their discount rate. These rates have a dramatic effect on UCRP's unfunded liability and would require careful and thorough consideration.

Regent Gould agreed with the importance of setting a realistic earnings rate for UCRP. He expressed his view that this issue should be considered along with consideration of the University's debt policy.

Regent Ortiz Oakley noted that setting a lower discount rate would have a significant effect on many aspects of the University's finances. It would be important to communicate these issues clearly in understandable terms to the public. Regent Kieffer added that similar difficult discussions were being held with all public pension programs.

Regent Varner added that two critical issues are the assumption of the earnings rate of UCRP, its discount rate, and their relationship to UC debt. He said these should be addressed quickly.

Regent Pattiz said these issues should be considered by the full Board. Chair Lozano agreed.

UC Retirement Savings Program

Inclusive of their retirement through the UC Retirement Plan, 60 percent of UC participants in the UC Retirement Savings Program save at a rate that would enable them to replace 80 percent of their pre-retirement income in retirement; this is a healthy ratio. UC employees benefit from the high contribution rate, both of employees and the University.

The Office of the CIO would like to outsource management of the Target Date Fund series to a third-party manager. A Request for Proposals would be issued and it is anticipated that costs could be reduced.

Review of Regents Policy 6109: Short Term Investment Pool Investment Guidelines

A short discussion was held of proposed changes to the Investment Guidelines for the Short Term Investment Pool.

UC Ventures Program

UC Ventures would invest in ventures arising from the UC system. The Office of the CIO had identified and invested with key partners. In July 2016, the Office of the CIO invested \$100 million with Bow Capital of founder and Managing Partner Vivek Ranadivé, as founding limited partner of the new commingled venture capital fund, and \$75 million with another venture fund.

The Committee heard presentations from Mr. Ranadivé and Jeremy Fiance of The House Fund, a UC Berkeley-based venture fund. UC Ventures would be their key investor. In addition to investments in these funds, UC would have opportunities for co-investments at little cost.

H. REPORT OF THE NATIONAL LABORATORIES SUBCOMMITTEE

Update on the National Laboratories

Regent Pattiz provided an update on the three University-affiliated National Laboratories, including the historic context for current issues. Vice President Budil provided the Committee an update on recent activities at the Lawrence Berkeley National Laboratory. Ms. Budil also provided an update on the other current Department of Energy National Nuclear Security Administration contract competitions and their likely effect on the timing of the competition for the Los Alamos National Laboratory contract.

4. COMMENTS OF CALIFORNIA SECRETARY OF STATE ALEX PADILLA

Chair Lozano welcomed California Secretary of State Alex Padilla to discuss his campaign to encourage student voter registration and civic engagement of the state's young people.

President Napolitano also welcomed Mr. Padilla and noted that, in each election cycle, UC works to encourage students to register to vote and to vote. The University has a long history of working in partnership with the California's Secretary of State's office in these efforts. She announced that, with Mr. Padilla's leadership, the University has entered into a Memorandum of Understanding (MOU) with his office to strengthen UC's ability to encourage students to register to vote and to be able to vote on election day.

Mr. Padilla discussed his campaign to encourage students' civic education and responsibility. He reported that one of the greatest challenges his office encountered is

the low rates of election participation among young people in both registration and voter turnout. For instance, in the November 2014 general election, only eight percent of eligible 18- to 24-year-olds voted. He speculated that one reason could be the lack of resources devoted to civic engagement and education in California K-12 schools. He expressed appreciation to President Napolitano for her commitment expressed in the MOU, and also thanked the UC Student Association for its support. He noted that California now offered online voter registration and was moving toward instituting automatic voter registration that he said would be in effect in July 2017. These methods would help students, who are often living away from home. The MOU outlined the best practices proposed by the California Student Vote Project, including using student online portals during optimum time periods to ask them to register to vote, and using existing communication infrastructure such as campus e-mails to inform students of deadlines for registering to vote before elections and reminders to vote. Under the terms of the MOU, the UC system would pilot implementation of software that prepopulates online voter registration forms with as much campus-held student information as practical. The MOU commits the office of the Secretary of State to share its resources around student voter registration with college campuses. Mr. Padilla encouraged young people to be engaged in their democracy through the electoral process.

Regent Reiss thanked Mr. Padilla and recalled how UC students' work to register students to vote was crucial in the passage of Proposition 30. She requested a future report on the progress of Mr. Padilla's efforts.

Regent-designate Monge thanked Mr. Padilla for his willingness to partner with students in this effort. He said current procedures create some registration and voting obstacles for students, who move frequently. Mr. Monge expressed support for coordinating voter registration with university class registration. California would demonstrate national leadership by expanding voter registration.

5. **CAMPUS OVERVIEW, LOS ANGELES 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. Depreciation was an important non-cash item for the campuses. The figures shown for tuition were net of financial aid, not including return to aid.

Chancellor Block began the discussion by extolling a defining strength of UCLA, namely, its location in the City of Los Angeles, a vibrant metropolis and meeting place of art, culture, science, and technology. He enumerated new building projects on the campus, including the Luskin Conference Center, two engineering buildings, the renovated South Tower, a new medical education building, and two new athletic facilities, the Wasserman Football Center and the Mo Ostin Basketball Center. UCLA began its history in 1919 as the Southern Branch of the University of California, offering

a two-year program; four-year degrees were awarded beginning in winter 1923. Since that time, UCLA has grown to one of the great research universities of the world, with nearly 30,000 undergraduates, 12,000 graduate students, and 1,400 medical residents. The campus' excellence is reflected in consistently high national and international rankings. UCLA is unique in achieving excellence in the sciences as well as in the arts and humanities. UCLA's continuing or adult education program serves as many students as there are in the regular student body on campus. That month, the campus would hold its eighth annual UCLA Volunteer Day, the largest student volunteer day in the nation. More than 6,000 students would perform volunteer work at locations throughout Los Angeles. UCLA also engages with the community through internships and service learning. Students have the opportunity to confront some of the most challenging contemporary societal issues. UCLA recognizes that technology has dramatically changed the teaching and learning environment, and is developing new methods to better teach its students. While student enrollment has grown, overall time to graduation has decreased. Like all the UC general campuses, UCLA stands ready to accommodate a larger undergraduate student body. The campus has increased its offerings in general education courses, added more teaching faculty, and hired more academic counselors. This has not been done without financial challenges, but Chancellor Block affirmed that UCLA remained in a strong financial position. Only through diversified revenue streams could UCLA continue to grow, and one important source is philanthropy. Now midway through its Centennial Campaign, UCLA had raised more than \$2.7 billion, more than 65 percent toward its goal of \$4.2 billion. The past fiscal year had been UCLA's best year ever for fundraising, with \$664 million in gifts and pledges. Chancellor Block concluded his remarks by noting that if Los Angeles were chosen to host the 2024 Summer Olympic Games, UCLA would be the preferred site of the Olympic Village.

Vice Chancellor Steven Olsen stated that UCLA was financially healthy, but observed that there were potential financial risks to the campus which would require monitoring and might require actions to mitigate them. UCLA's overall strategy over the past decade had been continued growth through conservative financial management. This involves revenue diversification, principally through the growth of nonresident student tuition revenue and growth in the UCLA Health System. UCLA has achieved a successful balance for investment of its working capital in the Total Return Investment Pool (TRIP) and the Short Term Investment Pool (STIP). UCLA works to ensure optimal utilization of its existing facilities, focuses on investments and philanthropy, and pursues commercialization of its intellectual property.

UCLA is the largest UC campus in terms of student body size, size of the academic and staff workforce, scale of the clinical enterprise, and overall financial activity. Nevertheless, UCLA has the smallest land area of any UC general campus, 419 acres, which presents both benefits and challenges. Since 2008, UCLA has used its liquidity to increase investments in TRIP and increase deferred maintenance projects. UCLA's current assets were substantially in excess of its liabilities; but the demands for liquidity, especially for the UCLA Health System, are such that the campus monitors its liquidity closely. The campus has 83 days' cash on hand. Mr. Olsen remarked that this was below the level the campus would like, but UCLA does have adequate liquidity to meet its

operating needs. The campus has moderate levels of capital debt. Annual debt service constitutes only 3.4 percent of UCLA's operating expenses, well within the six percent guideline established under UC policy for debt service as a proportion of operations.

Mr. Olsen presented a chart showing total UCLA revenues. More than half of these revenues came from medical center operations and "sales and service activity." About 90 percent of the latter category was non-hospital-based clinical activity, or physician practice. State funds represented seven percent of total revenues, student tuition and fees approximately 11 percent. Counted together, State funds and contract and grant support only make up about one-third of core revenues; UCLA is highly dependent on net tuition revenue, and on nonresident enrollment, to support its core activities. About 30 percent of net tuition revenue is paid by nonresident students. Nearly two-thirds of UCLA's operating expenditures are for salaries and wages, and employee benefits.

Mr. Olsen then presented figures for UCLA's operating results and projections for the years 2013 through 2020. He drew attention to the variability in net income. Over the last several years there had been revenues in excess of expenses. He explained this variability as a result of increases in depreciation and booking of certain pension obligations for the Medical Center only; certain accounting changes had not yet been accommodated on the general campus. The campus' projected figures for future years assumed that the University's budget framework agreement with the State would continue to be in effect, and that there would be no substantial changes in student enrollment, other than the increases in California resident enrollment that had been agreed to with the State.

Regent Ortiz Oakley noted that the campuses were assuming a 2.5 percent resident tuition increase, a five percent nonresident tuition increase, and returns on the TRIP of 4.9 percent and 5.2 percent. He asked how realistic these assumptions were. Mr. Brostrom responded that UC had agreed with the Governor that it would make low, predictable, and moderate increases in tuition beginning in 2017-18, based on the rate of inflation. UC was using a number of different models; one was a three-year rolling average. The administration would present a range of options to the Regents, and the midpoint was approximately between 2.1 percent and three percent. The University takes a long-term view of its investment returns. He acknowledged that the current-year return on TRIP had been barely positive, while in other years it had been much higher. The payout rate for TRIP is similar to that for the General Endowment Pool (GEP), smoothed out over a three- to five-year period. A return of 6.5 percent for the GEP was lower than past years, when it had risen as high as eight or 8.5 percent. The environment for investment returns was becoming more difficult, and the campuses were being conservative in their forecasts and estimates.

Regent Makarechian asked the administration to show how well UC was tracking its projected returns. He referred to information on one chart that showed the student-faculty ratio at UCLA as about 17 to one, and asked about the reason for this high ratio, even though UCLA has a high number of faculty and staff. Mr. Olsen explained that this reflected the scale of the UCLA Health System. The Office of the President had asked all the campuses to examine their staffing ratios, and there had been substantive discussions

about the methodology for determining these ratios. The University was focusing on recent historical trends for the ratio of students to faculty and staff supported by general funds, core revenues of State funds and net tuition. If one uses this criterion, there is a range of ratios among the campuses. UCLA's ratio is neither unusually high nor low, and the trend in staff numbers has been downward in the past decade. This was not surprising since for the last several years, UCLA has devoted new revenue, whether from nonresident tuition or increases in State funding, almost exclusively to its teaching program, increasing numbers of teaching staff, increasing the number of classroom seats, and ensuring that faculty are adequately compensated within competitive market parameters. UCLA has not had additional funds for the increased cost of benefits, and this has led to a decline in staff numbers.

Chair Lozano reflected on the fact that salaries and wages represented a large percentage of UCLA's expenditures. She asked how the campus considers its major cost driver, its employees, in assessing productivity and costs, and what kind of productivity the campus looks for in the context of activity-based costing. Mr. Brostrom responded that activity-based costing is applied mostly to the delivery of education, such as determining the cost of delivering courses. A large component of UCLA staff work at the Medical Center and in auxiliary enterprises, and their productivity and staffing ratios would most appropriately be measured using private enterprise criteria.

Regent Sherman asked about UCLA's operating results and projections if one subtracted medical center revenue net of expenses. He observed that the Medical Center is almost like a private commercial enterprise. Mr. Olsen emphasized the complexity of UCLA's financial operations, which are difficult to encapsulate in a report, chart, or statement. As shown on a chart, the Medical Center represented \$2.3 billion of activity on a base of \$6.5 billion, but this included only hospital-based inpatient activity, not outpatient activity in about 185 clinics throughout Southern California, and not academic activities at the School of Medicine. Vice Chancellor John Mazziotta estimated Medical Center activity at \$2.2 billion, faculty practice or outpatient activity at \$1.1 billion, and contracts and grants at the School of Medicine at \$500 million, and gifts and pledges at \$250 million.

Regent Gould referred to the booking of retirement costs for the UCLA Health System but not for the general campus. He asked about the rationale for this model and about the campus' exposure. Mr. Brostrom responded that in its audited financial statements, the University fully records its pension and retiree health expenses as required by the Governmental Accounting Standards Board (GASB). These expenses are held at the systemwide level and not passed down to the campuses. For this reason, the University's unrestricted net assets are negative and it has a negative operating position. The rationale for this model is that these figures are not meaningful for a chancellor or for campus administrators when running a campus on a cash basis. With its current level of contributions and other strategies, the University anticipated that it would achieve nearly full funding of the UC Retirement Plan (UCRP). While pension expenses are shown in UC financial statements, Mr. Brostrom opined that including them in the campus budget

would be artificial and not provide a clear picture for campus management about actions the campuses need to take.

Regent Gould asked if pension expenses were included for the health enterprise because this is an enterprise activity that must be self-funded. Mr. Brostrom responded that this is required under GASB Statement No. 68. Mr. Olsen added that the medical centers have their own financial statements. On a day to day basis, unfunded UCRP or other post-employment benefit liabilities would not affect how UCLA funds its academic departments over the next fiscal year, but donors and other external parties examine UCLA's financial statements and balance sheets and are aware of this issue. He anticipated that this question would become more important over time and a matter for the Regents' consideration. Dr. Mazziotta noted that the new GASB requirements would materially change the appearance of UC medical centers' balance sheets. He pointed out that the balance sheets do not provide a true picture of the medical centers' cash position or their annual cash flow. All UC medical centers would show significant negative figures for the category of other post-employment benefits in their financial statements in the following year. This was a complicated accounting issue. Mr. Brostrom observed that a different method is used to calculate retiree health liability versus pension liability. To calculate the pension liability, UC uses a discount rate of its expected earnings, while for retiree health UC uses a riskless cost of capital. The retiree health liability appears much greater than the pension liability, but the pension liability is a larger cash outflow.

Regent De La Peña asked if UC's outpatient services break even and if the debt from acquisition of new physician practices was reflected in the expenses on the balance sheet. Dr. Mazziotta responded that as UCLA acquires and develops outpatient practices, these practices at first use up subsidies, but ultimately become profitable and help to make up for decreasing revenue from inpatient care. It would be difficult to determine the impact of the outpatient services on the balance sheet at this point, because the profitability of the outpatient facilities varies, depending on their maturity and geographic location. Regent De La Peña stated his view that this element should be included in the debt on the Medical Center's balance sheet. Dr. Mazziotta agreed, remarking that the balance sheet should include debt and subsidies.

Regent De La Peña stated that medical school costs should also be reflected in the financial statements for UC Health. Dr. Mazziotta responded that the UCLA Health System transfers monies to the School of Medicine. It views this as an investment in outstanding faculty and intellectual property, which benefit the Health System in return, a vital part of the financial cycle. Separately, the School of Medicine generates funds as contracts and grants, gifts, and intellectual property. The Medical Center and the School of Medicine are interdependent entities. Dr. Mazziotta described them as a complicated organism, difficult to separate into pieces.

Regent-designate Lemus asked about the importance of UCLA's endowment payout to its financial operations. Mr. Olsen referred to a chart of UCLA's total revenues. Roughly 60 percent of the category of "other revenues," approximately \$340 million, represented the annual receipt of payout and current gifts. This was a large figure, but UCLA was not

as heavily dependent on endowment payouts as are some private universities, due to the scale of its health enterprise and to the amount of State and tuition revenue it receives.

In response to a question by Faculty Representative Chalfant, Mr. Brostrom noted that the employer contribution to the UCRP was in fact higher than 14 percent due to the repayment of borrowing costs. Faculty Representative Chalfant suggested that, if the University were to assign UCRP and retiree health liabilities to the campuses, the balance sheet should also reflect that they have some share of assets in UCRP. He expressed his view that this would be an unnecessary exercise.

Mr. Olsen concluded his remarks by noting that the campus' projections for future net income took into account depreciation, which amounted to about \$350 million. The projected operating margins from 2017 to 2020 were barely over one percent. Even with assumptions for revenue growth, UCLA was concerned that it would have inadequate resources for investments needed to develop the campus, maintain academic quality, and address deferred maintenance.

Executive Vice Chancellor Scott Waugh outlined UCLA's strengths and opportunities, including the ability to recruit and retain high-quality faculty, generate funding for research, and curtail costs, seeking efficiency in all its administrative systems. The UCLA Health System has been expanding its reach throughout Southern California and is outstanding in many areas, including translational research; private-public partnerships have been instrumental in making it thrive. Challenges for UCLA include its dependence on a variety of revenue sources, which are all uncertain in some ways. There are many rising costs, such as increasing costs of compliance, caused by the complex regulatory environment UCLA operates in. During the recent economic downturn, UCLA had reduced hiring of ladder-rank faculty by six percent and now needed to address this. There were costs pertaining to graduate student recruitment, campus infrastructure, information technology system renewal, cyber security, and sustainability. The UCLA Health System must navigate a changing healthcare environment.

Regent Makarechian asked what portion of UCLA's tuition revenue came from nonresident students. Mr. Olsen responded that 11 percent of UCLA's total revenues came from net student tuition and fees. Of that amount, about 30 percent was paid by nonresident students. He estimated this amount at somewhat less than \$200 million, a large increase since 2008. Nonresident tuition has replaced lost State funds. In response to further questions by Regent Makarechian, Mr. Olsen confirmed that athletic department revenues were included in campus financial statements, and that a significant reason for the depreciation experienced by UCLA was the fact that it had replaced both its hospitals since 2008.

The Regents recessed at 12:00 p.m.

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The Regents reconvened at 12:40 p.m. with Chair Lozano presiding.

Members present: Regents Brody, De La Peña, Elliott, Gould, Island, Kieffer, Lansing, Lozano, Makarechian, Napolitano, Ortiz Oakley, Ramirez, Reiss, Schroeder, Sherman, Varner, and Zettel

In attendance: Regents-designate Lemus, Mancina, and Monge, Faculty Representatives Chalfant and White, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice Presidents Henderson and Peacock, Vice Presidents Brown and Duckett, Interim Vice President Handel, Chancellors Block, Dirks, Gillman, Leland, Wilcox, and Yang, and Recording Secretaries Johns and McCarthy

6. **CAMPUS OVERVIEW, RIVERSIDE 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 Wilcox recalled that the overarching goal of the California Master Plan for Higher Education is to balance the competing demands of fostering excellence and guaranteeing educational access for all. This vision guides UC Riverside, which was now at an exciting time in its history, a campus unique in its combination of size, socioeconomic, racial, and ethnic diversity, academic excellence, and research and scholarly distinction. UCR was anticipating enrolling the largest freshman class in its history and increasing its total enrollment to more than 22,000 students, with a projection of 27,000 students by 2020. Twenty years earlier, UCR student enrollment was just over 9,000. UCR is a national model for student access. Fifty-six percent of its undergraduates are Pell Grant recipients, 16 points higher than the UC average and 34 points higher than the average among Association of American Universities (AAU) public universities. Fifty-six percent of UCR students are also the first in their families to attend college, 14 percent higher than the UC average and 20 percent higher than comparable public institutions. The undergraduate student body includes 10,400 Pell Grant recipients, and they graduate at essentially the same rate as non-recipients. Success in UCR student achievement has triggered greater demand for a UCR degree. The campus received more than 52,000 applications for the fall class this year, ten percent more than the previous year. Chancellor Wilcox stressed that UCR has too few faculty members. The student to ladder-rank faculty ratio was approximately 29 to one, compared to a UC average of 23 to one. UCR was in the midst of a major initiative to address this by increasing faculty by 45 percent or 300 scholars by 2021. At present, the campus was more than halfway toward meeting that goal.

Chancellor Wilcox reported that all the campus' key financial indicators were moving in a positive direction. UCR had \$566.4 million in cash on hand, about eight months in

relation to annual spending of \$800 million, a fairly healthy reserve. Capital assets, net of depreciation, were up nine percent or \$93 million since 2013. Campus and foundation endowments had increased 23 percent or \$35 million between 2013 and 2015. UCR was preparing for the public launch of its first-ever comprehensive fundraising campaign, with the goal of tripling the size of the endowment over nine years.

Chancellor Wilcox reflected on potential growth of the student body at UCR. He envisioned the campus at some point in the future with 40,000 to 50,000 students, the average size for AAU public universities other than UC, and expressed confidence about achieving this. The Riverside campus had physical space for expansion. The demand for places in entering classes at UCR had grown in part because of the increase in the number of high school seniors in California, 16 percent over the past ten years. That growth, combined with the continuing increase in the college-going rate for high school students in California, implied a likely future of increased demands for a UCR education. As UCR faces this future, arguably its biggest limiting factor is debt capacity. Currently, UCR's efficient management of its debt was indicated by a low debt service to operations ratio of 2.7 percent. Maintaining this low ratio would be a challenge in the coming years.

Chancellor Wilcox pointed out that 68 percent of UCR's revenue came from only two sources: student tuition and fees, and State appropriations. UCR was the second-most tuition-dependent campus in the UC system. Like other research institutions at a time of declining State support, the Riverside campus was seeking to increase fundraising and research grant support for its operations; however, this paradigm did not fit UCR very well at this moment. Historically, UCR has had a small faculty. Although the campus was benefiting from significant increases in federal research funding, and adding 300 new faculty members, it would take years for these investments to pay off in a fundamental way. UCR also faced obstacles in private philanthropy. Among its roughly 100,000 living alumni, 60,000 had graduated within the past 15 years, and about two-thirds of these had received Pell Grants. Thus, UCR's alumni base was relatively young and generally not very affluent. UCR would continue its efforts in fundraising and seeking research funding, but the campus must also identify upfront capital investment opportunities and ongoing resources. UCR's projections for revenue growth over the next few years were conservative, from \$800 million to somewhat more than \$1 billion by 2020. These projections included increased tuition revenue from enrollment growth as well as anticipated growth in faculty-driven research funding. The campus was projecting standard fixed cost increases and staff headcount growth of only one percent. Projected losses derived in large part from depreciation, a non-cash reduction to capital assets.

Provost Paul D'Anieri reported that the current UCR undergraduate student body was 84 percent students of color, including 42 percent underrepresented minority students. More than half of the incoming first-year class that fall were students from underrepresented minority groups. While these numbers were remarkable, it was the parity of success across groups that made UCR unique. The campus had raised its graduation rates by ten percent over the last three years. Turning to the achievements of UCR faculty, he noted that federal research awards to the campus had increased by 40 percent in the last three years, and that UCR was second in California after the

California Institute of Technology in the per capita number of National Science Foundation Early Career development awards. Of the 25 individuals in UCR's senior leadership team, 12 were people of color, and 12 were women. With this leadership team, the Riverside campus was reengineering its administrative operations for the sake of efficiency and a strong financial future. UCR has adopted a new budget model, a variant of responsibility-centered management that rewards units financially for teaching more students and for increasing retention and graduation rates. It also provides incentives for units and individuals to increase external grant support. UCR has implemented a bottom-up LEAN program, to eliminate unnecessary procedures and increase campus-wide efficiencies. Over 300 staff members at all levels have joined in teams to identify ways to simplify processes and save time and money, such as by eliminating submission of paper receipts for business travel. UCR has consolidated several distributed information technology operations.

Mr. D'Anieri discussed challenges for UCR. The campus has a narrow range of revenue streams and limited access to capital. In order to fulfill its role in the California Master Plan for Higher Education, UCR must continue to expand the physical footprint of its campus. He stated that the Riverside community was supportive of UCR's new physical master plan and that the only obstacles were financial. UCR's ability to fund debt service was constrained and it could not currently access the capital needed to accommodate increased student enrollment and faculty. The campus was pursuing several options, investing in its development operation and increasing the number of its development officers; working to increase the number of nonresident students; exploring new options for revenue-generating master's programs, and giving UCR's schools and colleges increased incentive to develop such programs; and studying the potential for public-private partnerships to address pressing needs, especially for housing. Chancellor Wilcox concluded the presentation by observing that UCR was at an inflection point in its history and was beginning to get national attention for its work.

Regent Makarechian referred to a chart showing projected income from 2016 to 2020, minus depreciation. He asked why income was projected to decrease from \$36 million to \$4.2 million over that period. Chancellor Wilcox responded that the \$566.4 million in cash on hand served as a cushion for the campus. He remarked that UCR has proceeded cautiously, investing mostly in the Short Term Investment Pool (STIP) rather than in the Total Return Investment Pool (TRIP). This investment profile would change. The campus' new budget model would encourage a different kind of participation on the part of deans in revenue generation. He stated that the projections presented that day were based on an old world, but that this world was changing quickly. Vice Chancellor Maria Anguiano added that one element of UCR's changing approach was investment in new researchers. This would increase UCR's research expenditure and income. By 2019-20, UCR would have two new research buildings, but not yet all the revenues associated with this new research. The decrease noted by Regent Makarechian represented in part the cost of investing in the campus and a conservative approach to revenue projections.

Regent Makarechian emphasized that the campuses should present realistic projections with good explanations. The figures presented might be understood as a negative picture.

Executive Vice President and Chief Financial Officer Brostrom noted development over a longer span of time was an important factor for this campus. New research buildings would increase indirect cost recovery dramatically for UCR.

Regent Ortiz Oakley asked if the responsibility-centered budgeting model that was described was unique to the Riverside campus, and if it might become more difficult to achieve gains as the campus expands in the future. Chancellor Wilcox responded that UC Davis also has a responsibility-centered budgeting system. These systems arose in higher education about 30 years earlier. The model developed at UCR was appropriate for the campus. Deans are rewarded not only for adding students, but for graduating students. UCR also has incentives in place to maintain its values regarding student diversity.

Regent Kieffer stated that campus financial projections should incorporate campus plans to address expected losses, noting that UCR projected a \$35 million loss in 2020. Mr. Brostrom responded that UCR was making a significant investment in 300 new faculty. The financial benefits of this investment would not begin to be felt until sometime after 2020. He acknowledged that this investment was not without risks, but that one should focus on the cash-based income estimate, \$4.2 million in 2020. Chancellor Wilcox reiterated that UCR was at an inflection point. The format of this presentation, meant to be the same as all the other campus presentations, did not include all the unique factors in UCR's situation.

Regent Lozano suggested that the statements of assumptions in the presentation include operating assumptions that drive revenue growth. Mr. Brostrom responded that potential revenue could be included. Mr. D'Anieri stressed that UCR was undertaking many measures to limit costs. It was difficult to represent the new UCR budget model, a qualitative change, in a set of financial projections.

Regent Brody asked about the social climate and cultural mix at UCR, at a time when student climate on many U.S. campuses is not especially positive. Chancellor Wilcox responded that surveys have shown a positive campus climate at UCR, but that there could always be improvement. He stated that faculty needed to be further diversified. Regent Ramirez stated that support services for students at UCR are unparalleled in the UC system. UCR was the first UC campus to institute cultural centers and programs for Chicano/Latino and African-American students in 1972.

Regent Elliott praised UCR's achievements in student diversity and success. He asked about the current state of plans to hire 300 new faculty and how they would address faculty diversity. Mr. D'Anieri responded that UCR had now hired about 160 of the 300 faculty. The campus made changes in its hiring process, such as cluster hiring. He described the cluster hiring approach, which involves recruiting a number of faculty at the same time from one field. This gives the campus more flexibility. Of the faculty hired the previous year who would begin at UCR in the fall, 22 percent were from underrepresented minority groups, a doubling of UCR's previous rate. The campus was taking many measures in hiring to promote diversity and avoid bias. Chancellor Wilcox

emphasized that UCR faculty are committed to diversity as well as being excellent scientists and scholars.

Regent Makarechian requested a table with figures for all the campuses of realistic revenue projections for the future. All the campuses should be compared in one presentation. Regent Lozano noted that there has been discussion about such a dashboard. She observed that some campuses are more dependent on tuition and State revenues than others; it would be possible to find a comparison basis for key indicators.

7. **CAMPUS OVERVIEW, IRVINE 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 Gillman began his presentation about UC Irvine by stating that its faculty had been outstanding since its inception, and was very instrumental in UCI's being the youngest campus ever offered admission to the Association of American Universities (AAU). For the second consecutive year, *U.S. News and World Report* ranked UC Irvine ninth among all public universities. Student interest in UCI has grown dramatically, demonstrated by 98,000 applications for the current year, a 50 percent increase over three years prior.

In fall 2015, UC Irvine enrolled more than 25,000 undergraduates, compared with more than 27,000 for the current academic year, reflecting the campus' enduring commitment to expanding access for California students. Chancellor Gillman highlighted an important change in the demographics of the student body in recent years. Currently, nearly 60 percent of UC Irvine students were either first-generation college students or from low-income families, up from 40 percent just five years ago. Currently, nearly 25 percent of UC Irvine students were Hispanic, up from 12 percent five years prior. The campus was just 0.01 percent short of being only the second AAU research university to be formally designated a Hispanic-serving Institution. Of its current freshman cohort, 30 percent were underrepresented minority students, the highest percentage among its peer AAU institutions. UC Irvine continued to retain and graduate its students at very high rates, with a four-year graduation rate of 71 percent, 16 percent higher than the average four-year graduation rate of other public universities in the AAU. The prior year UC Irvine was recognized by the *New York Times* as being first in the nation for combining academic excellence with access for low-income students. Of all UC Irvine freshmen, 47 percent were Pell Grant recipients, the highest percentage among AAU institutions by ten percent.

Chancellor Gillman emphasized the vital importance and continued growth of UC Irvine's medical enterprise. The UC Irvine Health Chao Family Comprehensive Cancer Center, recently renewed by the National Cancer Institute, was the only NCI-designated comprehensive cancer center in Orange County and treated more patients with cancer and more complex cases than any other healthcare provider in the region. Its outstanding Institute for Clinical and Translational Science was also the only such entity in Orange

County. The UCI Medical Center was among America's Best Hospitals for the 16th consecutive year.

Discussing the campus' balance sheet indicators, Chancellor Gillman said the campus' ability to increase its use of higher-yielding investments had important financial benefits for the campus. For the fifth consecutive year, UC Irvine had more than 100 days' cash-on-hand for its medical center. The campus' fiscal prudence has enabled it to make important strategic investments in the campus in areas of greatest impact such as hiring faculty, strengthening its research infrastructure, including its commercialization and technology-transfer functions, improving facilities and internet technology, and building a new student information system.

Regarding capital assets, Chancellor Gillman recalled that, following the 2008 economic crisis, UC Irvine had limited investment in its capital infrastructure. Currently the campus was in a position to embark on a six-year aggressive \$50 million program of deferred maintenance, in addition to the one-time funds provided by the State. The campus was soliciting bids for construction of an important new classroom building scheduled to be completed in fall 2018. A new student housing project, Mesa Court Towers, was completed and would house 800 students this fall. A planned interdisciplinary science building would leverage AB94 and campus funds with an important \$30 million gift, to address rising student demand in fields of science, technology, engineering, and mathematics.

Chancellor Gillman reported that UC Irvine had the best fundraising year in its history, doubling the prior year's contributions. Campus finances include more than \$410 million of debt for two important campus practices: third-party development of student housing, and faculty and staff housing as part of the Irvine Campus Housing Authority. The third-party developed student housing would be built in three phases and provide more than 5,000 beds under a ground lease. The campus was working on the next phase, which would deliver at least another 1,500 beds as soon as fall 2019. This innovative model held promise for the UC system as it works to accommodate increased enrollment and overall student demand for housing. The Irvine Campus Housing Authority, a 501(c)(3) corporation, developed more than 1,000 units of for-sale and 360 units of rental housing for UC Irvine faculty and staff, providing a unique and vitally important faculty recruitment and retention tool for the campus over the years. The Irvine Campus Housing Authority just broke ground for additional housing, anticipated to be available in fall 2017. As new capital projects were planned, the campus emphasized fundraising as an essential component, thereby limiting the impact on the campus' debt capacity.

Chancellor Gillman displayed a chart of UCI's revenue and expenses, illustrating the diversity of its revenue sources. The campus spent more than \$216 million annually in financial support for its students. All of the campus' planning was based on a willingness to make adjustments on its expenses in light of changes to its revenues. The campus planned to increase its revenues in all areas, fundraising, contracting, grant activity, professional and self-supporting programs, continuing education, and the Medical Center, while exploring all opportunities to achieve administrative efficiencies.

Chancellor Gillman stated the UCI had a unique advantage in that its Vice Chancellor for Health Affairs, who oversees the academic and research mission of its health programs, was also the Chief Executive Officer of the UC Irvine Health System, and was thus in a position to ensure that any investments made in academics and research were aligned with the strategic plans of the clinical enterprise.

UC Irvine had the advantage of having the ability and space to grow; the campus would explore opportunities to increase its number of students and the impact of its research and scholarship. UC Irvine Health was invigorating a unique College of Health Sciences as a central mechanism to ensure coordination of all the health professions' training, research, and clinical innovation. An aggressive regional clinical strategy reflected UC Irvine's unique status as the only academic medical center in the sixth most populous county in the nation. UC Irvine would continue to build on its national reputation for achieving outstanding student success for its diverse and inclusive student body. The campus had expertise in teaching and learning innovation, including new models of technology-enhanced learning. UC Irvine also had the advantage of its location in Orange County, a lively entrepreneurial and diverse region. UCI's strategic plan envisioned new community partnerships in health, the economy, arts, and K-12 education, among other areas. In the past two years, UC Irvine launched UCI Applied Innovation, a new commercialization and technology transfer institute, which had already established itself as a vital resource for the region.

Chancellor Gillman observed that UC Irvine faced the same challenges as all UC campuses. Uncertainty existed about securing a sustainable financial model within the University and with UC stakeholders. In an era of declining federal research funding, creating new models of support for research would be important. New strategies must be developed to invest in necessary infrastructure and to address deferred maintenance. The campus also must ensure that it serves its current students as it served its student body in the past. He affirmed that, as a campus with a relatively young medical center, UC Irvine was in the same position that UCLA and UCSF were early in their history. Chancellor Gillman expressed great optimism about the future of UC Irvine.

Regent Ortiz Oakley, a UC Irvine alumnus, commented on UC Irvine's responsibility to not only enroll Spanish-speaking students but to support their graduation. He noted that UC Irvine's impending designation as a Hispanic-serving Institution would be an opportunity to demonstrate national leadership in increasing Latino/a graduation rates. He asked Chancellor Gillman about existing data on Latino/a graduation rates. Provost and Executive Vice Chancellor Enrique Lavernia responded that those concerns were central to the strategic plan UC Irvine was implementing. The campus recently appointed a new vice provost for teaching and learning whose mission was dedicated to understanding how different campus groups learn and how to develop more effective instructional methods. Chancellor Gillman acknowledged that the campus was not free from a gap in graduation rates for various ethnic groups, but confirmed the campus' pride in the graduation rates of its underrepresented students, which he said must be tenaciously pursued.

Regent Makarechian asked if the debt of the private partners from developing student housing through private-public partnerships was included in the campus' expenses. Executive Vice President and Chief Financial Officer Brostrom commented that the University issued the debt of behalf of the private developer through the Financing Trust structures; the campus had the obligation to make the debt service payments based on their revenue. Associate Vice President Peggy Arrivas confirmed that the debt would be accounted for on the campus' balance sheet.

Regent De La Peña encouraged the campus to continue to pursue possible collaborations with the UCLA and UC San Diego Medical Centers to expand market share. Vice Chancellor of Health Affairs and CEO of UC Irvine Health Howard Federoff confirmed that strategy was being pursued by UC Health under the leadership of Executive Vice President Stobo. UC Irvine was also developing its electronic medical records in full collaboration with UC San Diego, and would develop a shared service model for procurement with UC San Diego. Dr. Federoff confirmed that the growth in the number of Medi-Cal patients has had an effect on both inpatient and outpatient entities at UC Irvine, which is a safety-net hospital in a county with no county hospital. UC Irvine Medical Center must secure additional commercially insured patients.

Regent Gould asked about campus plans to invigorate its local community through technology transfer from its research. Chancellor Gillman said that UC Irvine was currently well positioned with Orange County through increased outreach and communication. The work at UCI Applied Innovation positioned the University as the center for commercialization and technology transfer within Orange County and as an open-source model for commercialization. The campus had already created industry boards across more than 30 domains with more than 130 participants, who learn about the research enterprise of the University and can provide entrepreneurial advice. A venture fund starting with \$5 million had been created within the local community and would draw the attention of the local venture community. The campus had also created initiatives with the local community in the areas of arts and culture, sustainability, non-profit endeavors, and K-12 education.

8. **DEMOGRAPHIC TRENDS IN CALIFORNIA AND IMPLICATIONS FOR ENROLLMENT AND DIVERSITY**

[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.]

President Napolitano introduced this discussion of California demographic trends that would significantly affect enrollment growth and diversity at UC. This discussion would provide background for further consideration of the future of UC.

Provost Dorr began by stating that the data to be presented would be viewed from the framework of the University's responsibility to California as its public land grant university and under the terms of the 1960 California Master Plan for Higher Education. The Master Plan created a differentiation of functions among UC, California State

University (CSU), and the California Community Colleges (CCC), and reified the principles of universal access, choice, and differentiation of admission pools. Transfer was, and continues to be, an essential part of the commitment to access. The Master Plan established the percentage of California high school graduates who could be eligible for UC as freshmen and guaranteed a place to all those who applied and were eligible. The Master Plan also offered all eligible California resident transfer applicants the opportunity to complete a bachelor's degree at UC or CSU. Ms. Dorr emphasized that the Master Plan designated UC as the state's primary academic research institution with exclusive jurisdiction for research-oriented graduate degrees. UC was also given responsibility for graduate professional instruction in law, medicine, dentistry, and veterinary medicine. The likely future suggested by demographic data can be viewed in terms of its effect on UC's responsibilities under the Master Plan and how UC would meet its responsibilities to the California of the future.

Vice President Brown observed that data discussed at this meeting were also online at the UC Information Center. Data from the California Department of Finance indicated that between 2010 and 2040 the population of California is expected to continue to grow by ten million, to 47.2 million. The largest areas of growth would be in Los Angeles County, the San Francisco Bay Area, and in the Central Valley. The state's population was expected to age, going from 11 percent over 65 in 2010, to 21 percent over 65 in 2040, representing the aging of the "baby boomers," persons born during the demographic post-World War II "baby boom." The baby boomers are highly educated compared with the generations that follow. A large number of workers with college degrees would be leaving the workforce. The college-aged portion of the population would grow slightly, increasing 200,000 to 4.13 million from 2010 to 2040. Ms. Brown stated that these data indicate the importance of increasing the proportion of college-aged individuals who obtain a college degree.

In 1980 and earlier, more than half of Californians who had a college degree were born in another state. Since then, that proportion had decreased, while the proportion of foreign-born California residents with college degrees had increased and currently the largest proportion of Californians who have college degrees were born in California.

California is becoming increasingly diverse, with the majority of growth among the Latino/a population, projected to increase from 38 percent in 2010 to 45 percent in 2040. By 2040, almost half of college-aged Californians would be Latino/a.

Despite past projections, the number of California high school graduates had continued to increase. Prior Department of Finance projections were far too conservative and did not reflect the actual trend in high school graduates. For example, in 2011 the Department of Finance projected there would be almost 398,000 high school graduates in 2020, but there were already almost 427,000 high school graduates. By projecting existing improvements in high school graduation rates among particular racial and ethnic groups, the Office of the President predicted a continuing upward trend. From 2009-10 to 2014-15, the overall graduation rates for Californians increased from 75 percent to 82 percent. For Latinos/as, the group expected to be the majority of college-aged students

by 2040, the rate increased by 11 percent over the same period, from 68 percent to 79 percent. For the same time period, completion rates for “a-g” subject requirements, the best indicator of high school graduates who intend to go to college, have increased overall from 36 percent to 43 percent, and from 27 percent to 35 percent for Latinos/as.

Ms. Brown observed that California’s economy depends on having a highly skilled workforce, and education is an important strategy to address inequality and ensuring economic opportunity. The state would need a college-educated workforce to fill the jobs left by retiring college-educated baby boomers. Employers were increasingly reliant on workers with college degrees, particularly in growing sectors such as health care and information technology. College graduates have higher earnings and are less likely to be unemployed than those with just high school diplomas, important to both individuals and to the state. Lower unemployment rates would mean less reliance on public support programs and greater contributions to the state’s tax base.

Ms. Brown discussed data reflecting demand for a UC education. Since 2000, there had been a 79 percent growth rate in the number of California high school graduates who apply to UC, compared with a 36 percent growth rate in the number of California high school graduates. When the same data was disaggregated by race and ethnicity, the rate of growth in freshman applicants was more than twice as great as the growth rate in high school graduates for both African American and Latino/a students.

The transfer-ready pool, or those CCC students who have completed 60 transfer units with a grade of “C” or better and completed a transfer mathematics and English course, the best indicator of those who will apply to UC, increased from 2000 to 2015 at a growth rate of 74 percent, with applications to UC from CCCs increasing at a growth rate of 85 percent.

Three times more California residents applied as freshmen than as transfer students. In 2015, 100,000 Californians applied as freshmen, compared with 30,000 who applied as transfer students.

Over the last 50 years, UC enrollment had quadrupled, more than 80 percent of which was at the undergraduate level. The proportion of UC students who are graduate students had been declining over time. In 1968 that proportion was just over 30 percent and currently the proportion of graduate students had declined to just over 20 percent. Compared to its peer institutions, UC was well below the proportion of graduate students at other institutions. For example UC’s comparator eight institutions average 50 percent graduate students. UC’s public institution comparator schools average just over 30 percent graduate students. As the University plans for future enrollment growth, it would be critical to think of graduate enrollment, as those students support the University’s teaching and research enterprise, become future faculty and researchers, and make critical contributions to California industry.

Ms. Dorr summarized that the University could look forward to a larger California population, more high school graduates, a larger CCC transfer-ready pool, and nearly half

of the college-aged population being Latino/a. The University could expect strong demand for a UC undergraduate education and a narrowing of gaps among racial and ethnic groups in high school graduation rates, and some improvement in completion rates of “a-g” subject requirements. California would need more UC graduates at all levels. The implications of the demographic data and UC’s obligations under the Master Plan indicated that UC should prepare to serve more undergraduates, both freshmen and transfers. These future undergraduates should be provided the same high-quality education undergraduates before them have received. The University could anticipate more of the same challenges its campuses currently faced with enrollment increases. UC must ensure that it educates enough undergraduate, graduate academic, and graduate professional students, who would contribute to the state’s workforce, economy, health, and welfare. In order to remain the world-class public research university that California needs and wants, UC must sustain, if not increase, its research activity by increasing its research-oriented faculty and graduate students.

Regent Lansing asked why UC was falling behind in its proportion of graduate students. Ms. Brown responded that UC has had substantially more growth at the undergraduate level, without proportionate growth at the graduate level. Ms. Dorr added that UC had a clearly defined responsibility for undergraduate enrollment. The University’s limited resources have gone to fulfill that responsibility to a greater degree than to graduate education. Regent Lansing said this should be an area of attention for the Regents.

President Napolitano commented that UC had the potential to provide more master’s degrees, which would also fulfill a need in the state’s workforce. She anticipated increasing focus on provision of master’s degrees as well as Ph.D.s.

Regent Ortiz Oakley encouraged the University to take action to accommodate growth predicted by these demographics, particularly considering the pipeline of students in CCCs. He stated that the CCC population had plateaued and would be declining in upcoming years. CCC growth, particularly in urban areas, was in decline, affected by a decline in K-12 enrollment and a decline in unemployment. It would be critical for UC to continue to improve its transfer function. Transfer students could also help provide UC with more graduate students, since they usually are focused on a major when they arrive at UC. Engaging these students early about graduate school opportunities would be beneficial for them and for UC. He added that a lack of diversity was even greater among graduate students and professional graduate students, and should be a focus of efforts.

Regent Ramirez noted UC’s importance for graduate education under the Master Plan. The decline in the proportion of graduate students at UC is not aligned with the workforce needs of the state. She expressed support for further attention to increasing graduate student enrollment and diversity. Student support services should be used to encourage CCC and UC undergraduate students to see themselves as capable of graduate school.

Regent Reiss asked what proportion of California high school graduates want to attend college and have completed the “a-g” subject requirements. If its future enrollment

increases, UC would also have to increase student housing and its number of faculty. She asked for clarification of projected UC enrollment increases if K-12 enrollment was declining.

Ms. Brown responded that demographic trends indicate future population growth in the Bay Area and in some inland areas, such as Riverside, the Central Valley, and Sacramento. Regent Reiss asked for data about the grade point averages (GPAs) of various ethnic groups of high school graduates, and a list of California high schools and their average family income levels. Ms. Dorr added that eligibility for UC is determined either within the context of the high school the student attended or within the context of the entire state. Ms. Brown pointed out that the Information Center website includes data on the number of UC applicants, admittees, and enrollees from all California high schools and CCCs and their average GPAs. Ms. Dorr added that UC has a variety of preparation programs targeted for low-income students and there are schools on several UC campuses for low-income students in their communities; these programs have been effective in changing student preparation for UC.

Regent-designate Lemus expressed his understanding that net migration to California was in decline, immigration to California was in decline, and birth rates for Asian and Hispanic populations were in decline, and questioned the projected population increase for the state. He asked if there was a wider range of possible outcomes. Ms. Brown responded that the projections were for the overall state population. Mr. Lemus observed that the projections could change. Ms. Brown discussed some factors substantiating the projections. Ms. Brown reiterated that the number of high school graduates prepared to go to UC was expected to increase.

Regent Schroeder asked if the relationship between UC's obligation to admit the top 12.5 percent of high school graduates and the University's systemwide capacity was tracked. Ms. Brown commented that UC's capacity for enrollment was currently being considered. Ms. Dorr agreed that UC's capacity was a relevant question, as can be seen with the campuses' incorporation of recent enrollment increases. Various ways to meet UC's commitment were being considered. It would be important for the University and the Regents to take actions that would position the University optimally for the future.

Regent-designate Monge commented that some high students do not have access to "a-g" subject requirements. He asked if a study had been conducted of the availability of those courses at California high schools and whether school districts could be compelled to offer the courses. Interim Vice President Handel responded that the availability of "a-g" subject requirements was being reviewed and he would provide a written report. Chair Lozano said this would be an appropriate subject for the Academic and Student Affairs Committee.

9. **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.]

Chair Lozano stated that this discussion item would provide background for consideration of return expectations.

Chief Investment Officer (CIO) Bachher reported that the Office of the CIO currently managed \$102 billion for UC, up from \$97 billion as of June 30, 2016. The past fiscal year was difficult for investments, but the losses had been recouped in market value since the end of the past fiscal year. He emphasized the importance of focusing on long-term returns. Over 20 years, the UC Retirement Plan (UCRP) returned 7.2 percent annually. As the University plans for the upcoming 20 years, it must consider that returns for the past 20 years had not met the discount rate, currently 7.25 percent. He suggested UCRP return expectations should be gradually set to a realistic level, close to seven percent and possibly even lower over time, based on long-term inflation expectations and expected investment returns.

The General Endowment Pool (GEP) currently had assets of \$9 billion. Its 4.75 percent payout rate plus higher education inflation of four percent results in a nominal expected return of 8.75 percent. Over the past 20 years, the GEP had earned 7.7 percent annually. He suggested that, given the global low-growth, low-inflation environment, the University should be financially prudent and consider reducing the payout rate, which had not been changed in the past 18 years, possibly to four percent.

Chair Lozano asked what further information would be provided from the Office of the CIO for future consideration of these issues. Mr. Bachher responded that he could provide information about expected earnings. That information would be interconnected with information about the University's liabilities, UCRP contribution rates, and the University's broader financial stability. He stated that he would work with Executive Vice President and Chief Financial Officer Brostrom and others to present a collective discussion about expected returns and their implications for the broader health of the University's financial system at a future meeting. Chair Lozano said this would be considered by the full Board and possibly previewed by the Finance and Capital Strategies Committee.

10. **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 Compensation, and the President of the University approved the following item:

Extension of Paid Administrative Leave Beyond 90 Days for Linda Katehi, Chancellor, Davis Campus

Extension of paid administrative leave for Linda Katehi as Chancellor, Davis Campus, to September 1, 2016 or until other action by the Regents, whichever occurs first.

- B. 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 Agreement with the California Science Center of Los Angeles, Los Angeles Campus

The Los Angeles campus be authorized to execute an agreement for an event at the California Science Center in Los Angeles, California on November 2, 2016, that contains an indemnification provision by which the University would assume third-party liability for the event, indemnifying and holding harmless the California Science Center from any and all liabilities, claims, and losses resulting from the use and occupancy of the premises.

Approvals Under Concurrence Action:

- C. The Chair of the Board, the Chair of the Committee on Compensation, the Chair of the Committee on Finance, and the President of the University approved the following items:

- (1) ***Approval for a Mortgage Origination Loan for Manish Butte as Associate Professor and Chief of Pediatric Allergy/Immunology/Rheumatology, Los Angeles Campus***

Authorization for a Mortgage Origination Program (MOP) loan in the amount of upto \$1.8 million to Dr. Manish Butte, Associate Professor and Chief of Pediatric Allergy/Immunology/Rheumatology, Los Angeles Campus.

- (2) ***Approval for Participation in the Mortgage Origination Program with a Proposed Loan Amount in Excess of the Indexed Program Loan Amount for Dino di Carlo, Professor, Los Angeles Campus***

Authorization for a Mortgage Origination Program (MOP) loan in the amount of up to \$1.8 million to assist in the retention of Dino Di Carlo as Professor of Bioengineering, Los Angeles campus.

Approvals Under Committee on Health Services Authority

- D. At its August 11 meeting, the Committee on Health Services approved the following recommendations:

- (1) ***Salary Adjustments Using Non-State Funds for Mark Laret as Chief Executive Officer, UCSF Health and Ann Madden Rice as Chief Executive Officer, UC Davis Health System***

Approval of merit-based salary adjustments, effective on or about July 1, 2016, consistent with local processing schedules as shown below:

Last Name	First Name	Working Title	Current Annual Base Salary	Proposed Salary Increase %	Appointed On/After 1/1/2016 (Y/N)	Proposed Annual Base Salary	Funding Source
*Laret	Mark	Chief Executive Officer	\$991,946	5%	N	\$1,041,543	Non-State
*Rice	Ann Madden	Chief Executive Officer	\$848,720	3.5%	N	\$878,425	Non-State

* These positions are eligible for incentive pay authorized by the Regents.

The base salary described above shall constitute the University's total commitment for base salary 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) ***Salary Adjustment Using Non-State Funds for Barrie E. Strickland as Senior Vice President – Finance and Chief Financial Officer, UCSF Health, San Francisco Campus***

Approval of the following item in connection with the salary adjustment for Barrie E. Strickland as Senior Vice President – Finance and Chief Financial Officer, UCSF Health, San Francisco campus:

Per policy, an adjustment to Ms. Strickland's annual base salary to \$720,000.

All other aspects of Ms. Strickland's compensation are within policy and will continue unchanged. Ms. Strickland will continue to be eligible to participate in the Clinical Enterprise Management Recognition Plan's Short Term Incentive (STI) component, with a target award of 15 percent of base salary (\$108,000) and maximum potential award of 25 percent of base salary (\$180,000). Actual award will be determined based on performance against pre-established objectives.

Funding for this position will continue to come exclusively from medical center revenues. No State or UC general funds will be used. This action will be effective upon Regental approval.

The compensation described above shall constitute the University's total commitment for base salary 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.

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

To the Members of the Committee on Investments

- A. From the Chief Investment Officer, the Annual UC Investment Office Sustainability Report, Fiscal Year 2015-2016 Achievements. August 4, 2016.
- B. From the Chief Investment Officer, the Annual Update on the UC Retirement Savings Program and an Update on Managing Assets for Fiat Lux Risk and Insurance Company (Fiat Lux). August 17, 2016.
- C. From the Chief Investment Officer, an Update on the UC Ventures Program, the Annual Update of the General Endowment Pool (GEP) Investment Product for fiscal year ending June 2016, the UC Retirement Pool (UCRP) Investment Product Update for fiscal year 2015-16, and the Annual Update of Working Capital Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) for fiscal year ending June 2016. August 19, 2016.

To the Regents of the University of California

- D. From the President of the University, the Executive Summary of the Accountability Report for fiscal year 2016. July 22, 2016.

- E. From the Secretary and Chief of Staff, the Summary of Communications for July, 2016. August 5, 2016.
- F. From the President of the University, an email announcing the resignation of the UC Davis Chancellor. August 9, 2016.
- G. From the Secretary and Chief of Staff, the Summary of Communications for August, 2016. September 2, 2016.

The meeting adjourned at 3:00 p.m.

Attest:

Secretary and Chief of Staff