The Regents of the University of California

COMMITTEE ON FINANCE
January 20, 2016

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

Members present: Regents Davis, Gould, Island, Kieffer, Newsom, Ortiz Oakley, Reiss, and Ruiz; Ex officio members Lozano and Napolitano; Advisory members Hare and Ramirez; Staff Advisors Acker and Richmond

In attendance: Regents De La Peña, Elliott, Gorman, Lansing, Oved, Pattiz, Pérez, Sherman, Wachter, and Zettel, Regents-designate Brody and Schroeder, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, Senior Vice Presidents Henderson and Peacock, Vice Presidents Brown, Budil, Duckett, Humiston, and Sakaki, Chancellors Block, Blumenthal, Gillman, Hawgood, Katehi, Khosla, Leland, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 10:50 a.m. with Committee Chair Ruiz presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 19, 2015 and the minutes of the joint meeting of the Committees on Finance and Long Range Planning of November 19, 2015 were approved.

2. **UPDATE ON THE GOVERNOR'S PROPOSED BUDGET FOR 2016-17**

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

Executive Vice President and Chief Financial Officer Brostrom began the discussion by recalling that the Governor's proposed budget had been introduced a few weeks earlier. The results for the University were largely as expected, with a few positive additions.

The State's General Fund expenditures rose from $116 billion in 2015-16 to $122.6 billion in 2016-17, an increase of just over five percent. The Governor was maintaining a fund balance of $3.2 billion, but increasing the "rainy day" reserve from $4.5 billion to $8 billion. This would result in total reserves of $11.2 billion, roughly nine percent of expenditures. UC is particularly vulnerable to volatility in State revenues. The increase in these reserves was a positive development for the University and its long-term stability. One item of concern for UC in the proposed budget was the overall profile of the revenue mix. Seventy percent of the revenues in this year's General Fund would come from personal income tax, a much higher percentage than before. Many states seek to have a mix of revenue sources such that about one-third comes from property tax, one-third from sales tax, and one-third from income tax. The State of California was becoming disproportionately dependent on personal income tax.

Of the Governor's proposed expenditures from the General Fund, the largest share, more than 40 percent, would go to K-12 education. Health and human services represented roughly 20 percent of the budget. Expenditures for higher education were at 11.9 percent, down from 12.4 percent the previous year. These expenditures, totaling $14.5 billion, included $3.4 billion for UC. This would result in a net amount of approximately $3 billion in UC's operating budget, after excluding debt service for both outstanding general obligation bonds and lease revenue bonds. The State would provide roughly the equivalent amount for the California State University, about $6 billion for the California Community Colleges, and about $1.4 billion for the California Student Aid Commission.

Associate Vice President Debora Obley then discussed the Governor's budget proposal for the University specifically. The proposal included the four percent base budget adjustment the Governor had committed to in his budget framework agreement with President Napolitano. The Governor was again proposing one-time funds for deferred maintenance. For the current year, UC received $25 million in one-time funds for deferred maintenance; for the 2016-17 budget year the Governor proposed to increase this amount by $10 million, and the University was very grateful for this. The budget also assumed that UC would have met conditions for the release of Proposition 2 funding over three years to help address the unfunded liability of the UC Retirement Plan (UCRP). UC was to receive $95 million in the current year if changes were made to the UCRP, incorporating the same pensionable salary cap adopted by the State. The budget assumed that UC would receive this increment in the current year and proposed the second increment of $171 million in 2016-17, also consistent with the budget framework agreement with UC. The Governor was also proposing to make $10 million available to UC and other institutions for precision medicine through the Office of Planning and Research. This funding was not in the UC budget but might become available to UC. The University was supposed to receive $25 million in the current year in cap and trade funds for energy-related projects. The Governor's budget proposed to roll this amount forward to 2016-17, since the Legislature was still working on the cap and trade proposal.

Ms. Obley outlined several requests articulated in the University's November 2015 budget plan that it must continue to pursue. One of the University's priorities is to ensure that there is sufficient graduate student enrollment to meet UC and state workforce needs. As UC would grow by 5,000 undergraduate students the following year, it would be critical that graduate enrollment at least keep pace with this. The University's budget plan included a request for $6 million to support an increase of 600 graduate students, but this was not included in the Governor's budget proposal. The University's plan also included a request for an increase from the State's public transportation account of $3 million, for each of the following three years, for UC's Institutes of Transportation

Studies. This too was not included in the Governor's proposal. The University also proposed a portfolio of energy-related projects to help meet its goal of climate neutrality by 2025, to be funded by cap and trade funds, which were not included in the Governor's proposal. UC intended to work through the remainder of the budget process to gain support for these UC budget priorities.

Ms. Obley expressed the University's pleasure that the Governor had shown confidence in its ability to meet the undergraduate enrollment goal established for 2016-17. His budget proposal assumed that UC would meet this goal and receive the $25 million in State funds in 2015-16 for enrollment growth. The proposal also assumed this as part of the base upon which the 2016-17 four percent budget adjustment would be calculated.

Capital projects included in UC's budget plan for funding beginning in 2016-17 were already approved by the State and would be implemented in this budget year. Debt service payments for them must begin in this year also. Ms. Obley explained that in the State's authorization process for the Merced 2020 Project, UC's only request for 2016-17, the Department of Finance was required to respond no earlier than April 1. The University expected to hear from the Department about the project in a few months.

Mr. Brostrom briefly remarked on topics the University would continue to discuss with the Legislature and the Department of Finance. UC needs to demonstrate that it would meet the target enrollment increase of 5,000 undergraduates in 2016-17 and to seek enrollment funding for later years. UC anticipated enrolling 10,000 additional undergraduates by 2018-19 and needed to ensure that the State would pay its share of the cost for this enrollment. UC would seek a guarantee of State support for the Merced 2020 Project. UC would continue to advocate for enrollment funding for graduate students, additional one-time cap and trade funds, and research initiatives.

Regent Ruiz asked about the $25 million in cap and trade funds that were to be moved forward to the next year, and if those funds would be available this time next year, or within the next six months. Ms. Obley responded that these funds, according to the proposal, would be available in July 2016. Mr. Brostrom added that the Governor had combined funding for 2015-16 with funding for 2016-17. Mr. Brostrom hoped that these funds would be allocated in one process.

In response to another question by Regent Ruiz, Mr. Brostrom confirmed that the $25 million in State funds for enrollment growth would be counted as part of UC's base budget. Although the additional students would not be enrolled until 2016-17, UC would receive this funding in the 2015-16 year.

Regent Ruiz asked if the University considered this proposed budget a good budget, and if there were pitfalls the Regents should be aware of. Mr. Brostrom responded that he considered this to be a solid budget, with an increase of $125 million in permanent funding and a significant amount of one-time funds to address unfunded liabilities in the UCRP, which is a major concern for UC. The University would like to restore the agreed-upon marginal cost of instruction to historic and necessary levels.

In response to a question by Regent Reiss, Mr. Brostrom confirmed that the $6 million request for graduate enrollment funding did not concern professional degree programs. She expressed her disappointment that the Governor and the Legislature wished the University to keep undergraduate tuition stable but accepted the idea of increases in Professional Degree Supplemental Tuition (PDST). She referred to the eight percent increase in PDST for nursing students to be proposed in the next item. This item would require Regental approval because it was an increase of over five percent. She asked about this additional three percent above the five percent threshold and what dollar amount it represented, and how much funding UC would need to keep from raising PDST, especially for nursing students. She emphasized the significant role of nurses in patients' lives. She voiced her discomfort with an increase in PDST for nursing students and stated that the State should contribute funding so that these increases would be more modest. President Napolitano responded that there were reasons for the proposed PDST increase, such as maintaining access and growth in UC's nursing programs. This would be discussed in the following item.

Regent Gould applauded the Governor's strategy and his conservative approach to the budget, putting money in reserves and emphasizing one-time costs. There would be a debate about the $2 billion in additional discretionary funds put into State reserves, above what was required by Proposition 2. The University must be assertive in this discussion. The University was only receiving a modest portion of the State's $3 billion cap and trade allocation. He asked how the University might receive more of that allocation. Mr. Brostrom responded that this would be an important focus for UC. The Statewide Energy Partnership Program represented State money UC receives, along with the investor-owned utilities. UC complements these funds with its own debt offerings. This is the best example of UC projects ready for implementation that can yield immediate results in carbon emissions reduction and energy efficiency. These projects include replacement of heating, ventilation, and air conditioning systems, upgrades to buildings, and development of solar power and biogas. He stated that UC had strong opportunities in this area.

3. **APPROVAL OF PROPOSED 2016-17 PROFESSIONAL DEGREE SUPPLEMENTAL TUITION FOR SIX PROGRAMS**

The President of the University, with the Provost's endorsement, recommended that the Committee on Finance recommend that the Regents approve the following actions related to Professional Degree Supplemental Tuition:

A. Authorize an increase in Professional Degree Supplemental Tuition of eight percent effective 2016-17 for the Nursing graduate professional degree program on all four campuses that offer the degree (Davis, Irvine, Los Angeles, and San Francisco). The increases are to be authorized as an exception to Regents Policy 3103, Policy on Professional Degree Supplemental Tuition, as in-state charges for the four Nursing programs are expected to exceed average charges for in-state students at programs in public comparison institutions.

B. Authorize initiation of Professional Degree Supplemental Tuition for two graduate professional degree programs – Biomedical and Translational Science at Irvine and Public Policy at San Diego – at the levels indicated in Attachment 1.

[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.]

In introducing this item, Provost Dorr explained that Professional Degree Supplemental Tuition (PDST) had been established in 1994, at a time of dramatic State budget cuts, in order to allow UC professional degree programs to continue. The programs charging PDST and the range of charges have changed since 1994, but the function of PDST is the same. PDST revenues remain with the degree program, providing broad-based program support, specific investments needed to maintain and improve quality, and return-to-aid. PDST is paid in addition to tuition and the Student Services Fee, and nonresident supplemental tuition in the case of nonresident students. In a November 2014 action, *Approval of Long-Term Plan for Professional Degree Supplemental Tuition and of Proposed 2015-16 Professional Degree Supplemental Tuition for Nine Specific Programs*, the Regents authorized the President to approve PDST increases for existing programs up to five percent. This authorization would continue through 2020. The Office of the President was currently developing proposals for those increases, which would be reported to the Regents.

The current item concerned six proposals requiring Regents' approval. Four nursing programs were requesting an eight percent increase and two programs were proposing to establish PDST for the first time. The four nursing programs were requesting an increase in order to maintain quality and enrollment levels to meet the state's workforce needs, while also addressing budget caps caused by unique historical circumstances. When the nursing PDST was first assessed in 1996, it was the lowest of all PDST levels. It was frozen or limited at the request of the then Governor, even as funding was cut and other programs' PDST levels increased. The University attempted to bridge the funding gap with federal Workforce Investment Act funds and a five-year funding plan from the State. Cuts in federal funding prompted the State to discontinue its plan, creating a yet greater gap for the nursing programs. The current proposal would help address this shortfall. The nursing programs would, however, be expected in the future to submit new multi-year plans reflecting more moderate increases than the one approved the previous year and the one now being proposed. New PDST was being proposed for two graduate professional degrees, one an existing program in biomedical and translational science at the UC Irvine School of Medicine, the other a newly approved program in public policy at UC San Diego.

All six programs compete for students with public and private comparison schools. In all cases, the PDST level being proposed would result in total in-state student charges that were below the estimated overall average total charges among the public and private comparison schools combined. Current UC policy directs that the total cost should be at or below the average of public comparators only. The cost for the nursing programs would exceed that at the public comparison schools by about $2,000. The cost for the programs with new PDST would be within the average of public comparison schools, and approval of these PDST levels would not be an exception to policy. UC's graduate professional degree programs are and should be compared to those at both public and private institutions.

With respect to all other aspects of PDST policy, all six programs had met all terms and conditions. Each program submitted a multi-year plan, each consulted with faculty and students about the plan, graduate student leaders on the campuses had the opportunity to review the plans, and each proposal had the strong support of the campus' chancellor. All proposals considered diversity and students from low-income households, and how students with low-paying positions after completion of the degree would pay back their student loans. Every proposal met the Regents' financial aid requirements by supplementing financial aid resources by an amount equivalent to one-third of new PDST revenue, either by taking this directly out of PDST revenue or by an equivalent amount placed in student fellowships or financial aid. Ms. Dorr concluded by underscoring the funding needs of all six programs, the University's plans to mitigate the impact of PDST on students, and the fact that the competitors of UC nursing programs are both public and private institutions.

Regent Oved recalled that there had been an increase in nursing PDST the previous year. He stated that he could not support the recommendation. He requested more information on the process of how PDST recommendations are developed for individual schools and programs. Ms. Dorr responded that the history of the PDST levels for nursing was different than for other programs; the nursing programs found themselves with large funding gaps.

Associate Vice President Cathryn Nation explained that the deans who put forward this request did so with reluctance. She recalled that UC's nursing programs had experienced a difficult start, including a commitment to the State to increase enrollment with a promise of federal funds that was not realized, resulting in another $6 million cut. UC's nursing programs are unique and different from other professional degree programs. Forty percent of nursing students do not pay PDST, unlike UC medical or dental students. Students in baccalaureate nursing programs do not pay PDST. Those who pay PDST are advanced practice students, nurse practitioners, and clinical nurse anesthetists. These graduates are in high demand and ordinarily earn high salaries. Dr. Nation stressed that it had been difficult to weave together a better solution for putting these programs on solid financial ground.

Regent Zettel observed that the graduates of these programs were working for the public good, often at salary levels not commensurate with their skills and importance. She wished the proposed increase could be lower and stated that she could not support the recommendation.

Chairman Lozano expressed support for this proposed action, but observed that it would put UC at variance with its comparator group. If the administration came back to the Regents with proposals for regular increases in future years, that variance would continue to grow. She asked that the administration help the Regents to understand the needs of the campuses, but in the context of the marketplace and the competition for students. She encouraged UC to maintain a long-term perspective. She wished the Regents could avoid taking actions every year that were exceptions to policy. Ms. Dorr concurred that UC should either live with its policy or conclude that the policy was not appropriate and make changes to it. She remarked that every year it is possible for UC's programs to come in or out of balance with comparators, depending on what actions the comparison institutions take.

Regent Pérez expressed concern that the Regents misunderstand the reality of graduate professional students and the marketplace these students enter. The Regents' decisions might leave these students with a limited set of choices.

Regent Kieffer asked about those nursing students who pay PDST, and how the University determined that they would be capable of paying increased fees. He asked why UC's policy on PDST only considers comparison with public institutions.

Dr. Nation responded that the nursing profession is complex in terms of educational requirements. Traditionally, nurses have had certificates. Two-thirds of the California Community Colleges train associate degree nurses, while two-thirds of the California State University (CSU) campuses train baccalaureate nurses. UC almost abandoned nursing education during the budget cuts of the 1990s, but was persuaded by the community colleges, CSU, and nursing programs across the country of its role as a research institution and of its role in preparing future nursing faculty. For many years, UC had no undergraduate nursing program at all. Demands and questions by students prompted UC to begin a nursing program at UCLA offering a bachelor's degree about a decade earlier. UC Irvine also offers such a bachelor's degree. These baccalaureate students at UCLA and UC Irvine do not pay PDST. There is a high demand for these students when they complete their UC education and earn their California registered nurse certification. UC's Ph.D. students, who are expected to become future nursing faculty, do not pay PDST. This is challenging for UC, as the instruction for these students is costly. It is the students in UC's advanced practice programs, programs that train nurse practitioners and clinical nurse specialists, who pay PDST. Considering the caliber of UC research, UC's reliance on faculty with doctoral degrees, and competition for faculty and students, UC's nursing programs are comparable to those at private institutions like Johns Hopkins University and the University of Pennsylvania. By contrast, CSU relies on part-time nursing faculty. The PDST level for UC's nursing programs was about $10,000 per year. The eight percent increase would amount to $800. Nevertheless, nursing PDST would still be lower than PDST paid by UC dental and medical students. Ms. Dorr stated her understanding that the policy to use only public institutions for PDST comparison reflected an amendment proposed by former student Regent Allen to a Regents' action in September 2007.

Regent Kieffer again asked about the capacity of those students who were paying PDST. He suggested that these students were comparable to students in both private as well as public programs. He agreed with Chairman Lozano's concern that this might put the

Regents in a position of approving actions as exceptions to policy on a continuing basis. He suggested that this item be brought back to the Board for further discussion. Ms. Dorr responded that PDST may only be charged for graduate degree programs oriented toward a professional career, a limited selection of programs. These programs are competitive with both private and public institutions.

Committee Chair Ruiz stated that this item would be brought back for further discussion.

Regent Reiss asked about UC plans for PDST increases in the future. The University seemed to be expecting automatic increases in future years. She expressed concern about the impact of increases on middle-class students. Ms. Dorr responded that when the administration asked graduate professional degree programs to forecast their needs for PDST in 2016-17, the programs received clear instructions to the effect that nothing would automatically be approved. Every request had to be justified and discussed. The programs also had to explain how they would respond if they did not receive the increase they were requesting.

Regent Reiss asked what dollar amount the University would need to keep PDST steady, noting that UC should consider asking for this investment by the State. Executive Vice President and Chief Financial Officer Brostrom responded that the overall dollar amount from the increased PDST for the nursing programs would be $800 per student or approximately $1.2 million across the UC system. If the increase were at the five percent threshold, this amount would equate to about $750,000. The three percent above the threshold amounted to about $500,000.

Chairman Lozano recommended that there be a discussion at a future meeting about the broader issue of how UC determines PDST levels. The proposed PDST increases needed to be understood within this broader context.

Regent Davis asked about the narrow group of students subject to the supplemental fees. He requested a clearer delineation of the subspecialties in nursing that this PDST would apply to, and the state of the marketplace for these subspecialties. He stated his inclination to vote against this action.

President Napolitano noted that important questions had been raised about PDST in general. She recommended that the Regents postpone action on this item. It could be presented within a larger PDST framework at a future meeting. Voting on the item at this time would be premature in the context of the questions raised.

Regent De La Peña asked about the implications of the fact that some higher-level nurse practitioners were subsidizing nurse training. He suggested that UC should perhaps focus on training higher-level nurse practitioners rather than the level of nurse training occurring at the community colleges. Another issue to be considered in a future discussion would be the levels of training UC should provide in its nursing programs.

Committee Chair Ruiz observed that this issue was broad and complex. The Regents would postpone action on this item. President Napolitano added that the matter would be discussed at a future meeting, including the question of whether the underlying policy should be reexamined.

4. **UCPATH PROJECT UPDATE**

[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 presented an update on the UCPath project, UC's initiative to implement a new single payroll and human resources system across all UC campuses and employees. Since the last update, the UCPath system had been deployed at the Office of the President in late November. The launch was successful. The system had processed five bi-weekly pay cycles and two monthly pay cycles, producing nearly 4,000 paychecks with only 28 errors, or an error rate of 0.7 percent. By contrast, the existing legacy PPS system had about a three percent error rate.

Associate Vice President Peggy Arrivas affirmed that conversion to the UCPath system at the Office of the President went well, and better than expected. The UCPath project was currently in a transition process in which management of the system would move to the UCPath Center. Overall, feedback from users had been positive.

Executive Vice President and Chief Operating Officer Nava stated that the UCPath Center was now fully operational. Data were being gathered in a phased approach as the operation of UCPath was stabilized. In the first phase, UC would establish a baseline of operations over a three-month period. In the second phase, UC would develop this baseline, collecting data over a six-month period. These data would include the percentage of paychecks delivered accurately, the number and types of calls the UCPath Center receives, number of defects, and average response times. These data would indicate how the UCPath Center was performing and how UC was meeting operational needs. In the third phase, UC would focus on its communications strategy about the data.

Deputy Chief Information Officer Mark Cianca reported that the University had now built roughly 70 percent of the functionality that UCPath would need systemwide. The next deployment, referred to as the "campus pilot," would involve UC Riverside, UC Merced, UCLA, and the Associated Students of UCLA. Additional functionality would be built in partnership with these campuses to meet their payroll and human resources needs. In later deployments, the University would finish the development of UCPath, releasing software to support employee recruiting and performance management. The campus pilot was currently in the design phase. Mr. Cianca anticipated that this design work would be completed by the end of February 2016 and that deployment of the campus pilot would occur later in the year. There would be a six- to seven-month cycle between each subsequent deployment, to help campuses convert legacy data and make the final move into UCPath. Mr. Cianca emphasized that the transition to UCPath was a business transformation project requiring campus preparation and readiness, not merely a question of available technology. Currently there were three threads of work that the University must synchronize: maintaining the legacy system, maintaining the new payroll system, and continuing to build the new payroll system. In order to carry this out effectively, disciplined governance was required. The governance structure of UCPath was in large part responsible for the success of the deployment at the Office of the President and the University would rely on this structure for the remaining deployments. The campuses would receive guidance regarding additional functionality, to allow them to carry out appropriate planning. UCPath was functioning in a vendor-supported environment, and UC would be relying on the vendor for new functionality. Mr. Cianca stressed that there was a high sense of urgency about completing the UCPath project. He observed that UCPath would help campuses accommodate growth in student enrollment without growth in administrative costs.

Staff Advisor Acker communicated UC staff's excitement about the deployment of UCPath at the Office of the President and she looked forward to new functionality and process improvements that would be made possible by the UCPath Center.

President Napolitano observed that projects like UCPath which bring together massive data systems are more complex than they may seem at first. University payroll systems are not typical payroll systems, but have different types of payees and payment sources. Many entities have tried and failed to implement this kind of system, including the State of California and the Federal Bureau of Investigation. She expressed confidence in the success of this project at UC. UCPath would benefit employees by providing clearer pay information and would enable UC management to keep down administrative costs.

Regent Newsom praised the UCPath team for getting this project back on track. Large-scale information technology projects with legacy systems attached are notoriously difficult and expensive. He stated that the State of California had wasted more than $1 billion in taxpayer funds in the past seven years on failed large-scale information technology projects, including a $371 million payroll system upgrade which was now the subject of litigation. This type of project is difficult regardless of governance structure.

5. **UPDATE ON THE UNIVERSITY OF CALIFORNIA'S CAPTIVE INSURANCE COMPANY – FIAT LUX**

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

Executive Vice President and Chief Financial Officer Brostrom recalled that the Regents had authorized the formation of a captive insurance company in May 2012. UC is the sole owner and sole beneficiary of this insurance. Many institutions have captive insurance companies. The formation of this company, Fiat Lux, was a reflection of the size and scope of the UC enterprise, as well as the variety of insurance that UC needs to maintain and that may be difficult to obtain in the commercial market, or to obtain cost-effectively. The University has a better understanding of certain risks than the commercial market has. With its own captive insurance company, UC can purchase on the wholesale market rather than retail. Fiat Lux allows UC to offer insurance to University affiliates, such as a program for renter's insurance for students in off-campus locations. Fiat Lux is a wholly-owned, single-parent company. California does not have legislation to enable captive insurance companies, so Fiat Lux is domiciled in Washington, D.C. With Fiat Lux, workers' compensation and many kinds of liability are covered under one umbrella. Most of this insurance is purchased on the wholesale market. The Fiat Lux board of directors includes President Napolitano, General Counsel Robinson, and Mr. Brostrom; a campus representative, Steven Olsen, the UCLA Chief Financial Officer; and two independent directors with close ties to the UC system.

Fiat Lux had launched a risk retention group for UC Health, which would enable UC medical centers to offer medical malpractice liability for affiliated physicians and physician groups. All UC's reinsurance, currently in separate trusts, would be transferred to Fiat Lux.

Mr. Brostrom remarked on possibilities for better insurance and cost savings through Fiat Lux. Currently UC was using commercial insurance for voluntary benefits – dental, vision, and legal – for equipment and warranty insurance, and for the UC construction program. The University could save money and offer better insurance by bringing this under Fiat Lux. As mentioned earlier, UC would transfer all its existing workers' compensation and professional liability trusts' assets and liabilities into one blended insurance company financial statement. It would still require separate profit and loss statements for each area of insurance coverage, but UC could smooth underwriting results by using collateralized reserves from one line of coverage to another.

Fiat Lux currently had $26 million of direct written premiums and about $78 million in assets. The result of transferring trusts would be assets of $700 million, liabilities of $580 million, and written premiums amounting to more than $300 million. Given the size of Fiat Lux, Mr. Brostrom concluded that an annual update for the Regents would be appropriate.

Regent Island expressed concern that there was no one with significant experience in the insurance business on the Fiat Lux board of directors; it would be desirable to have such an individual. Mr. Brostrom responded that Chief Risk Officer Cheryl Lloyd and her team are involved in the work of the Fiat Lux board. The University was also working with outstanding legal and insurance providers and receiving a great deal of outside advice. The two independent directors on the board are in the insurance business. One of them, Mr. Max Jong, is an insurance broker. The other, Mr. Philip Super, has less direct insurance experience but has been involved in many affiliate programs.

Regent Ortiz Oakley observed that many self-insured pools had been developed at colleges and universities, some more successful than others. It was important to remain mindful of the self-retained limit vs. reinsurance. The more scrutiny Fiat Lux would receive from outside the better, in order to avoid future unforeseen liabilities. Mr. Brostrom responded that the University had been conservative with Fiat Lux. UC had taken only a small amount of excess retention, using the pricing of a reinsurer. He noted that UC had hired an executive director to run Fiat Lux, an expert who had launched many captive insurance companies. The work of this executive director would allow Fiat Lux to develop further.

Regent Gould suggested that future briefings on this topic would be helpful for the Regents. He asked about the rating agencies' view of this endeavor, and about the outside advice UC would receive about Fiat Lux, beyond its board of directors. Mr. Brostrom responded that most of the insurance coverage being discussed was insurance the University already had, such as separate trusts for general liability, workers' compensation, and medical malpractice. The University would not be adding a new level of risk but managing risk more effectively. UC would be offloading most of its insurance exposure through the wholesale market. The University's experience in this market has been access to a greater number of insurers and a reduction in premium. UC has negotiated participation agreements with the insurers, so that UC participates side-by-side with insurers, giving UC some potential upside. Rating agencies are aware that many organizations have stand-alone captive insurance companies or participate in pools. Mr. Brostrom stated his view that given the size and scope of UC, the University should have implemented this program earlier. Fiat Lux was being managed prudently and effectively.

Regent De La Peña asked if the Office of the General Counsel had been consulted to bring in experts to ensure that costs would be reduced. Mr. Brostrom responded that the University had begun by consulting a lawyer who is one of the top experts in the country on captive insurance entities. Partly due to cost, UC then moved to another law firm, and to in-house counsel. General Counsel Robinson added that his office has a lawyer on staff from the insurance industry who is assigned to this program. The University has expertise among its own staff to support Fiat Lux.

Regent Sherman suggested that in annual or other reports it would be helpful to include a line item indicating the savings gained from this program, compared to equity in the captive insurance program that is at risk. Mr. Brostrom responded that this information would be provided.

Regent Ruiz stated that there would be regular updates on this topic.

6. REMARKS OF THE UC STUDENT ASSOCIATION PRESIDENT

President of the UC Student Association (UCSA) Kevin Sabo reported on students' accounts of the real cost of attending UC, crowded dormitories, and the low availability and high cost of housing near campuses. Some students do not have enough money for food. One student was enrolled in a State Electronic Benefit Transfer (EBT) program but found that UC campuses do not accept EBT. Mr. Sabo expressed the hurt felt by low-income students who have worked hard in high school and community college in order to get a coveted seat at UC, but then lack the full resources and financial support needed to succeed. UC's financial aid system was barely meeting the demand of high tuition. These situations reported by students should be a matter of concern, given that in the next three years the UC system would accommodate 10,000 additional students. Increased enrollment might not improve the situation of UC students. The investment in accessibility must be matched by an investment in quality, such as growth in short-term affordable housing, increased graduate student enrollment, adequate mental health services, public transportation stipends, and reduced class sizes. Students would advocate in Sacramento for funding to address these needs.

Chairman Lozano expressed the Regents’ commitment to addressing these challenges and thanked the students for working with the Board and the UC administration in seeking support from the Legislature.

Regent Pérez asked if the situations described by students were anomalies or a growing pattern across UC campuses. He observed that discussions of affordability often focus on the cost of tuition, not the full cost of attendance. Mr. Sabo concurred that not enough attention was paid to controlling student costs other than tuition, such as textbooks and housing. He had heard from 300 students about problems with housing and food. This reflected a crisis, not individual anomalies.

Regent Lansing noted that many students had spoken to her about their difficulties with securing housing and food. These concerns might be a factor in some admitted students’ decision not to attend UC.

Regent Pérez hoped that the Regents would remain mindful of the total cost of attendance in future discussions.

Regent Newsom stated that these concerns should be considered in discussions regarding the use of Student Services Fee revenue.

Chairman Lozano emphasized that these were significant issues. The Regents needed data on the magnitude of this problem and a better understanding of how President Napolitano wished to address students’ food, housing, and mental health service needs.

The meeting adjourned at 12:30 p.m.

Attest:

Secretary and Chief of Staff

Attachment 1: 2016-17 Proposed Professional Degree Supplemental Tuition (PDST) Levels for Nursing Programs and New PDST Programs

Programs Proposing to Assess PDST Charge for the First Time

	Proposed 2016-17 PDST Charge Levels	
	Resident	Nonresident
Biomedical and Translational Science		
Irvine	$10,491	$10,491
Public Policy		
San Diego	8,376	8,376

Programs Proposing to Increase PDST Levels by More Than Five Percent

	Residents					Nonresidents			
	2015-16 Charge	Proposed Increase ($)	Proposed Increase (%)	2016-17 Charge		2015-16 Charge	Proposed Increase ($)	Proposed Increase (%)	2016-17 Charge
Nursing									
Davis	$10,029	$801	8%	$10,830	(a)	$10,029	$801	8%	$10,830
Irvine	10,029	801	8%	10,830	(a)	10,029	801	8%	10,830
Los Angeles	10,029	801	8%	10,830	(a)	10,029	801	8%	10,830
San Francisco	10,029	801	8%	10,830	(a)	10,029	801	8%	10,830

(a) Total charges for UC students who are California residents are expected to exceed the average of the projected in-state total charges for comparator programs in public institutions.