THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
July 13, 2017

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

Members present: Regents Anguiano, Blum, De La Peña, Elliott, Guber, Kieffer, Lansing, Lemus, Lozano, Makarechian, Mancia, Monge, Napolitano, Ortiz Oakley, Park, Pérez, Sherman, and Tauscher

In attendance: Regents-designate Anderson, Graves, and Morimoto, Faculty Representatives Chalfant and White, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, Vice Presidents Brown, Budil, Duckett, and Humiston, Chancellors Block, Blumenthal, Christ, Gillman, Hawgood, Khosla, Wilcox, and Yang, Interim Chancellor Hexter, and Recording Secretaries Johns and McCarthy

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

1. **APPROVAL OF MINUTES OF PREVIOUS MEETINGS**

Upon motion duly made and seconded, the minutes of the special meeting of May 11, 2017 and the meeting of May 18, 2017 were approved.

2. **PUBLIC COMMENT**

Chair Kieffer 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. Ms. Rachel Charime spoke of a housing crisis faced by low-income students at UC Santa Cruz. Food insecurity was also a problem for many students and more funding for food pantries was needed. The University must provide adequate resources for low-income students to flourish at UC in the areas of housing, food, and mental health services.

B. Ms. Mary Lyall, a staff member at UCSF, recounted that in fall 2017 plan administration for the UC Care health insurance policy changed from Blue Shield to Anthem Blue Cross, with OptumRx as the pharmacy provider. Patient prescriptions were to be carried forward to the new provider but this had not occurred. She stated that the University had been aware of this situation since January, expressed frustration that the problem had not yet been fixed, and asked UC to look into and address the problem.

C. Mr. Timothy Mathews, a representative of Teamsters Local 2010, commented on an item discussed the previous day by the Finance and Capital Strategies Committee, *Authorization to Increase the University Employer Contribution Rate and Make Additional Contributions to the University of California Retirement Plan*. He expressed gratitude for the fact that this item had been revised and that a section that would have affected retiree health benefits had been removed. Mr. Mathews stressed the Teamsters' and other unions' view that it would be reckless to propose to eliminate the University's commitment to fund retiree health benefits at the current floor of 70 percent, and that such an action would imperil health and lives. He stated that the new UC Retirement Plan tier provided a lesser benefit at higher cost.

D. Ms. Danielle Bermudez expressed students' condemnation of recent actions by the Merced Police Department, stating that this had been a case of police brutality toward black students.

E. Mr. Zhixun (Jason) He, an international Ph.D. student at UC Merced, described bureaucratic impediments that prevented him from registering for the fall semester and accepting a teaching assistantship, connected with a grievance regarding tuition and fees that was still being arbitrated. He requested assistance to address his situation.

F. Ms. Ifechukwu Okeke, a UC Berkeley student, reported that an incident of brutality by the Merced Police Department against black students had taken place on July 9 in a non-alcoholic, drug-free environment. This incident reflected larger problems of racism and police brutality in the U.S. and in the UC system. She expressed concern about a downturn in black student enrollment at UC Riverside.

The Regents recessed at 9:15 a.m.

……………………………………………………………………………………………………

The Regents reconvened at 9:20 a.m. with Chair Kieffer presiding.

3. **ANNUAL REPORT FROM THE COUNCIL OF UNIVERSITY OF CALIFORNIA STAFF ASSEMBLIES**

President Napolitano introduced outgoing Chair of the Council of University of California Staff Assemblies (CUCSA) Rejeana Mathis, Chair-elect Lina Layiktez, and 2018-19 Chair Jessica Potts to deliver CUCSA's annual report.

Ms. Mathis commented that CUCSA had recently conducted a staff engagement survey. Ms. Layiktez discussed CUCSA's work during the past year. CUCSA explored the potential role UC staff could play in UC advocacy, and found that staff generally lacked a distinct and coordinated voice in advocacy and government relations activities. CUCSA supports designating a CUCSA delegate to be a liaison between CUCSA and the UC Office of the President (UCOP) State Government Relations team, to establish links between CUCSA organizations and government relations teams at each UC location to develop a staff advocacy campaign.

CUCSA had a workgroup on staff awareness about retirement and financial recourses. A CUCSA survey showed staff concerns about emergency savings, retirement readiness, and meeting monthly expenses. CUCSA recommended that the University offer more programs or resources to help employees address debt, credit, and emergency savings. General workshops should include the broad spectrum of employees and retirement scenarios that address the cost of living, and reflect staff disparities in income and savings. The University should collaborate with CUCSA and local staff assemblies on communication about available financial planning resources and benefits.

CUCSA's work-life balance workgroup reviewed emotional health programs available systemwide and at each UC location, and found they varied greatly. CUCSA recommended leveraging these programs throughout the system. Its diversity committee recommended diversity training for personnel involved in hiring, initiation of an objective framework to inventory staff capabilities and experience, and using CUCSA as a resource for new ideas to promote diversity.

Ms. Mathis reported that CUCSA awarded its 2017 Outstanding Senior Leader Award to UC Merced Chancellor Leland for her commitment to staff. Winners of CUCSA's Kevin McCauley Memorial Outstanding Staff Award were Mark Brindle of UC Berkeley, Anna Spurlock of Lawrence Berkeley National Laboratory, and Shaun Travers of UC San Diego for their notable contributions to the University.

President Napolitano thanked CUCSA and its leadership. Chair Kieffer also expressed the Regents' appreciation.

4. REMARKS OF THE UC STUDENT ASSOCIATION PRESIDENT

President Napolitano introduced UC Student Association President Ralph Washington. He emphasized the urgency of concerns about graduate student well-being and suggested establishment of a presidential initiative to address these concerns. He said the addition of Student Advisor Sands would mean that the perspectives of both undergraduate and graduate students would be heard. Mr. Washington emphasized the importance of leaders' retaining a sense of empathy.

5. COMMITTEE REPORTS INCLUDING APPROVAL OF RECOMMENDATIONS FROM COMMITTEES

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

Report of the Academic and Student Affairs Committee

Regent Pérez reported that the Committee considered four discussion items and one action item.

A. ***Graduate Well-Being Survey***

Regent Pérez commented that, although the majority of respondents to the graduate well-being survey expressed satisfaction, some challenges were identified, such as mental health, dissatisfaction with mentorship and advising, financial confidence, food insecurity, and career outlook. Respondents prioritized additional resources for mental health, financial management, career development, and housing.

B. ***Accountability Sub-Report on Diversity: Graduate Academic Student Diversity Outcomes***

Regent Pérez noted that, while enrollment of underrepresented minorities (URMs) and female graduate students had grown over the past decade, the highest proportion of URMs by discipline was just 20 percent in the social sciences. In fields of science, technology, engineering, and mathematics, URM graduate students were only nine percent. Robust discussion involved ways to increase diversity.

C. ***Establishment of Policy on Augmented Review in Undergraduate Admissions***

The Committee recommended that the Policy on Augmented Review in Undergraduate Admissions, as shown in Attachment 1, be adopted.

Regent Pérez stated that this change to UC admissions holistic review, requested by the Academic Senate, would allow campuses to ask for additional information from some applicants in three specific forms. UC Berkeley had conducted a pilot program in this regard and the Committee recommended adopting this policy.

D. ***Update on Activity-Based Costing Pilot Studies***

The three UC campuses that conducted pilot studies had three distinct experiences. Concerns were expressed whether activity-based costing could fulfill expectations of some external observers and be instructive about the total cost of providing education.

E. ***Update on Regents Policy 3501: Student Athletes and Guiding Principles to Enhance Student-Athlete Welfare***

This item was deferred until September.

Upon motion of Regent Pérez, duly seconded, the recommendation of the Academic and Student Affairs Committee was approved.

Report of the Compliance and Audit Committee

Regent Elliott reported that the Committee considered two items for action and one item for discussion.

A. ***Approval of Ethics and Compliance Program Plan for 2017-18***

The Committee reported its approval of the Ethics and Compliance Program Plan for 2017-18.

Regent Elliott advised that key risk areas of focus would be cyber security, prevention of sexual violence and sexual assault, campus safety, compliance with the Americans with Disabilities Act, activities involving minors on campus, international activities, healthcare revenue cycle, and pharmacy services.

B. ***Approval of Internal Audit Plan for 2017-18***

The Committee reported its approval of the Internal Audit Plan for 2017-18.

Regent Elliott stated that the Internal Audit Plan would take into account plans developed by campuses and other UC locations, along with systemwide priorities.

C. ***Update on 60-Day Status Report on Implementation of Recommendations from State Audit of University of California Office of the President Administrative Expenditures***

Regent Elliott commented that the Office of the President was in the process of implementing all 33 recommendations of the State audit report and the Regents were implementing the report's seven recommendations to the Regents. Discussions focused primarily on the process for developing salary ranges at the Office of the President and its potential impact. The firm Sjoberg Evashenk Consulting, Inc., retained by the Regents to monitor implementation of the three-year corrective action plan, briefly presented to the Committee. In addition, the law firm of Hueston Hennigan LLP, in partnership with former California Supreme Court Justice Carlos Moreno, had been retained to perform fact-finding regarding allegations of interference by the Office of the President in the State audit campus survey responses.

Report of the Finance and Capital Strategies Committee

Regent Makarechian reported that the Committee considered seven items for action and three items for discussion.

A. ***Consent Agenda***

(1) ***Fiscal Year 2017-18 Budget for the University of California Office of the President***

The Committee recommended that the fiscal year 2017-18 budget for the University of California Office of the President, as shown in Table 1 below, be approved:

Table 1 – Total FY 2017-18 Proposed Budget

FY 2017-18 BUDGET SUMMARY OFFICE OF THE PRESIDENT ($ millions)	TOTAL Proposed Budget FY 2017-18	Expenses (Projected) FY2016-2017	TOTAL Budget FY 2016-2017	Var-FY17-18 Budget to Projection	% More / (Less) Budget vs Projection	% More / (Less) to Prior Year Budget
OFFICE OF THE PRESIDENT						
Central and Administrative Services	**277.77**	**249.82**	**267.70**	**27.96**	**11%**	**4%**
Academic Affairs	30.04	28.11	29.93	1.93	7%	0%
Innovation & Entrepreneurship	61.93	53.60	52.73	8.33	16%	17%
Finance	40.85	33.09	39.77	7.76	23%	3%
Operations	118.58	111.32	119.30	7.26	7%	-1%
President's Exec. Office	2.61	3.41	3.18	(0.80)	-23%	-18%
Health Sciences	4.16	3.69	4.17	0.47	13%	0%
Governmental Relations	5.44	5.07	5.41	0.37	7%	1%
Public Affairs	14.18	11.53	13.21	2.65	23%	7%
Regents Officers	**58.45**	**49.71**	**57.96**	**8.74**	**18%**	**1%**
General Counsel	12.49	10.91	11.65	1.58	14%	7%
Secretary of the Regents	3.08	2.76	2.91	0.32	12%	6%
Ethics & Compliance	7.54	7.34	7.67	0.20	3%	-2%
Investments Office	35.34	28.70	35.74	6.64	23%	-1%
TOTAL w/o UCPath Operations	**336.22**	**299.53**	**325.66**	**36.69**	**12%**	**3%**
UCPath Operations	**52.44**	**16.25**	**20.15**	**36.19**	**223%**	**160%**
Grand Total (including UCPath Operations)	**388.66**	**315.78**	**345.81**	**72.88**	**23%**	**12%**

FY 2017-18 BUDGET SUMMARY OFFICE OF THE PRESIDENT ($ millions)	TOTAL Proposed Budget FY 2017-18	Expenses (Projected) FY2016-2017	TOTAL Budget FY 2016-2017	Var-FY17-18 Budget to Projection	% More / (Less) Budget vs Projection	% More / (Less) to Prior Year Budget
SYSTEMWIDE ACADEMIC & PUBLIC SERVICE PROGRAMS						
Instruction	58.38	52.95	53.67	5.43	10%	9%
Research	172.28	106.68	108.58	65.60	61%	59%
Public Service	15.19	16.32	16.43	(1.13)	-7%	-8%
Academic Support	46.68	46.31	46.40	0.37	1%	1%
National Laboratories	4.27	3.59	3.94	0.68	19%	9%
Presidential Initiatives	9.77	5.57	9.77	4.20	75%	0%
TOTAL	**306.58**	**231.43**	**238.79**	**75.15**	**32%**	**28%**
Agriculture and Natural Resources	**102.27**	**100.82**	**101.08**	**1.45**	**1%**	**1%**
Grand Total (including ANR)	**408.84**	**332.25**	**339.87**	**76.60**	**23%**	**20%**
TOTAL OF BOTH TABLES (w/o UCPath)	**745.06**	**631.77**	**665.53**	**113.29**	**18%**	**12%**
TOTAL OF BOTH TABLES	**797.50**	**648.02**	**685.68**	**149.48**	**23%**	**16%**
Strategic Priorities Reserve Year End Projected						
Committed	38.7	57.1		(18.4)		
Uncommitted	16.2	29.9		(13.7)		

(2) ***Amendment of Regents Policy 6102: General Endowment Pool Statement Appendix 1 (Benchmarks)***

The Committee recommended that Appendix 1 of Regents Policy 6102: Investment Policy Statement for General Endowment Pool be amended as shown in Attachment 2, effective July 1, 2017.

B. ***Approval of Budget and External Financing, Nuevo East Student Housing Project, San Diego Campus***

The Committee recommended that:

(1) The 2017-18 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: Nuevo East Student Housing – preliminary plans – $8,515,000 to be funded from housing reserves.

To: San Diego: Nuevo East Student Housing – preliminary plans, working drawings, construction, and equipment – $266.13 million to be funded with external financing ($247,115,000), housing reserves ($17,015,000), and campus funds from investment income ($2 million).

(2) The scope of the Nuevo East Student Housing project shall provide approximately 546,975 assignable square feet (ASF) of housing space, including approximately 1,414 beds to primarily support graduate and professional students, a student community center (approximately 14,450 ASF), and site improvements. The scope includes demolition of 22 existing buildings (consisting of 336 beds) and the removal of 224 surface parking spaces in the northern portion of Mesa Housing.

(3) The President of the University be authorized to obtain external financing in an amount not to exceed $247,115,000 plus additional related financing costs. The President shall require that:

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

b. As long as the debt is outstanding, general revenues from the San Diego campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

(4) The President be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

Regent Makarechian commented that this project would add a substantial number of beds in response to UC Irvine's need for student housing.

C. ***Approval of Budget and External Financing, North Torrey Pines Living and Learning Neighborhood, San Diego Campus***

The Committee recommended that:

(1) The 2017-18 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

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

To: (1) San Diego: North Torrey Pines Living and Learning Neighborhood – preliminary plans, working drawings, construction, and equipment – $509.45 million to be funded with external financing ($494.95 million), gift funds ($8 million), and housing reserves ($6.5 million); and

(2) Upon Regents' approval of the related concurrent item, *Approval of Preliminary Plans and Working Drawings Funds, Ridge Walk Academic Complex, San Diego Campus*, San Diego: Ridge Walk Academic Complex – preliminary plans and working drawings – $12 million to be funded from campus funds.

(2) The scope of the North Torrey Pines Living and Learning Neighborhood project shall provide approximately 644,000 assignable square feet in a mixed-use environment, including approximately 2,000 undergraduate beds, resident support space, and residential dining; lecture halls and classroom; residential life and administrative space for students and staff in UC San Diego's Sixth College; market and retail space; and approximately 1,250 below-grade parking spaces. The project shall also realign Scholars Drive, make improvements to Ridge Walk along the eastern edge of the neighborhood, and other site improvements to create a pedestrian- and bicycle-friendly community.

(3) The President of the University be authorized to obtain external financing in an amount not to exceed $494.95 million plus additional related financing costs. The President shall require that:

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

b. As long as the debt is outstanding, general revenues from the San Diego campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

(4) The President be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

Regent Makarechian stated that Committee recommended approval of this project that would add 2,000 new beds for undergraduates.

D. ***Approval of Preliminary Plans and Working Drawings Funds, Ridge Walk Academic Complex, San Diego Campus***

The Committee recommended that:

The 2017-18 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

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

To: (1) Upon Regents' approval of the related concurrent item, *Approval of Budget and External Financing, North Torrey Pines Living and Learning Neighborhood, San Diego Campus*, San Diego: North Torrey Pines Living and Learning Neighborhood – preliminary plans, working drawings, construction, and equipment – $509.45 million to be funded with external financing ($494.95 million), gift funds ($8 million), and housing reserves ($6.5 million); and

(2) San Diego: Ridge Walk Academic Complex – preliminary plans and working drawings – $12 million to be funded from campus funds.

E. ***Approval of Funding Reallocation for Housing Assistance***

The Committee recommended that:

(1) A one-time allocation of $27 million be provided as a source of funding for housing assistance for students, faculty, and staff.

(2) These funds will be reallocated from the Faculty Housing Programs Reserve, and will provide $3 million to each of the following campuses: Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz.

F. ***Authorization to Increase the University Employer Contribution Rate and Make Additional Contributions to the University of California Retirement Plan***

The Committee recommended that the Regents:

(1) Approve increases in the University contribution rate for the Campus and Medical Centers segment of the University of California Retirement Plan (UCRP), effective July 1, 2018, to 15 percent (from 14 percent) for all member classes other than Tier Two and 7.5 percent (from seven percent) for Tier Two members[1], and an increase in the employer assessment to seven percent (from six percent) for Savings Choice Participants in the Defined Contribution Plan, to help pay down the UCRP unfunded liability.

(2) Add Sections H, I, J and K to the Regents' November 2015 action, *Authorization to Fund University of California Retirement Plan Annual Required Contributions for Fiscal Year 2015-16, Fiscal Year 2016-17, and Fiscal Year 2017-18 with Contributions from Short Term Investment Pool*, as follows:

Additions shown by underscoring

H. <u>Transfer funds from STIP to UCRP in FY 2018-19, FY 2019-20, FY 2020-21, and FY 2021-22 in amounts equal to the difference between the approved total UCRP contribution and the ARC. Should STIP have insufficient funds, funds will be transferred from the Total Return Investment Portfolio (TRIP) to STIP. These transfers shall satisfy the requirements below and will not exceed $500 million in FY 2018-19, $500 million in FY 2019-20, $600 million in FY 2020-21, and $700 million in FY 2021-22:</u>

(1) <u>Maintenance of a minimum balance of STIP and TRIP liquidity of $5 billion at all times. STIP and TRIP liquidity is the sum of STIP and up to $1 billion of STIP-like investments in TRIP.</u>

(2) <u>The creation of an internal note receivable ("STIP Note") for the amounts above, owned by STIP participants.</u>

[1] The UCRP member class known as "Tier Two" is a frozen group. As of July 1, 2016, it had six active members.

(3) The ability to set the repayment terms on the STIP Note, which will have a final maturity no later than FY 2041-42.

(4) Assessment of all University fund sources making UCRP payments to include an additional amount for principal and interest payments on the STIP Note, divided proportionally based on covered compensation.

(5) For funding sources, such as federal contracts and grants, where interest payments for the STIP Note are not billable as direct program costs, the campuses will be required to pay these charges using non-federal sources.

I. Obtain external financing not to exceed $2.3 billion, plus additional related financing costs in lieu of or in addition to the STIP transfers, for the purpose described above if it is expected that this option could be accomplished at a lower cost or is more practical for the University. The repayment of external financing shall be from the same University fund sources that would be responsible for making payments on the STIP Note as outlined above.

J. The total amount of the STIP transfers and external financing shall not exceed $2.3 billion plus additional related financing costs.

K. Take all actions and execute all documents necessary in connection with Sections H through J above.

Regent Makarechian drew the attention of the Regents to this item. He displayed a graph showing projected increases in UC Retirement Plan (UCRP) benefit payments compared with employer and member contributions. He urged the University to advocate for the State to contribute to UCRP, as it does to the California State University employees' retirement fund. In the future UC would have a smaller proportion of active employees compared with retirees. This item would allow UC to borrow $2.3 billion from its Short Term Investment Pool to fund UCRP. He characterized this as borrowing from the campuses to backfill what the State was supposed to provide to UC retirees, reducing the campuses' liquidity. In addition, UC could have earned 8.2 percent on those funds, but instead would lend those funds at 1.3 percent to UCRP. This loan would benefit UC's retirees, but was in effect a tax on the campuses. Regent Makarechian emphasized the importance of this issue.

Regent Ortiz Oakley asked that a more complete discussion be held at a future Board meeting of the ongoing challenge of UCRP's unfunded liability, its impact on the University, and UC advocacy to the Legislature.

Regent Pérez agreed with Regent Ortiz Oakley's suggestion, adding that the costs and benefits of the second pension tier should also be discussed.

Regent Blum said a committee should be established to develop a solution to UCRP's unfunded liability. UC advocacy about this issue to the State legislature should be increased.

Regent Makarechian added that consideration of these issues should not be delayed.

G. ***Update on the University's Seismic Program***

This discussion item was not summarized at the Board meeting.

H. ***Update on the University's 2017-18 Budget***

This discussion item was not summarized at the Board meeting.

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

<u>Report of the Governance and Compensation Committee</u>

Regent Ortiz Oakley reported that the Committee considered three items for action and one item for discussion.

A. ***Appointment of and Compensation for Alexander Bustamante as Senior Vice President and Chief Compliance and Audit Officer, Office of the President***

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

(1) Per policy, appointment of Alexander Bustamante as Senior Vice President and Chief Compliance and Audit Officer, Office of the President, at 100 percent time.

(2) Per policy, an annual base salary of $350,000.

(3) Per policy, standard pension and health and welfare benefits and standard senior management benefits (including eligibility for senior management life insurance and eligibility for executive salary continuation for disability after five consecutive years of Senior Management Group service). Mr. Bustamante will not participate in the Senior Management Supplemental Benefit Program.

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

(5) Per policy, reimbursement of actual and reasonable moving and relocation expenses associated with relocating his primary residence, subject to the limitations under Regents Policy 7710, Senior Management Group Reimbursement.

(6) 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.

(7) This action will be effective on or about September 5, 2017.

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 Ortiz Oakley noted that the Committee was impressed with Mr. Bustamante's qualifications for this position.

B. ***Appointment of and Compensation for Michael Brown as Provost and Executive Vice President – Academic Affairs, Office of the President***

The Committee recommended approval of the following items in connection with the appointment of and compensation for Michael Brown as Provost and Executive Vice President – Academic Affairs, Office of the President.

(1) Per policy, appointment of Michael Brown as Provost and Executive Vice President – Academic Affairs, Office of the President, at 100 percent time.

(2) Per policy, an annual base salary of $379,000.

(3) Per policy, continued eligibility to accrue sabbatical credits as a member of tenured faculty, consistent with academic personnel policy. Mr. Brown will retain a tenured faculty appointment at zero percent time on the Santa Barbara campus. After stepping down as Provost and upon returning to UC Santa Barbara, Mr. Brown's step and academic salary will be determined by the academic process at the campus.

(4) Per policy, standard pension and health and welfare benefits and standard senior management benefits (including eligibility for senior management life insurance and executive salary continuation for disability after five

consecutive years of Senior Management Group service). Mr. Brown will not participate in the Senior Management Supplemental Benefit Program.

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

(6) Per policy, reimbursement of actual and reasonable moving and relocation expenses associated with relocating his primary residence, subject to the limitations under UC Regents Policy 7710, Senior Management Group Moving Reimbursement.

(7) 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.

(8) This action will be effective on or about September 5, 2017.

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.

C. ***Appointment of Regents, Regents-Designate, and Faculty Representatives to Standing Committees and Subcommittees for 2017-18***

(1) The Committee recommended that:

a. Regents be appointed as members of Standing Committees, effective immediately through June 30, 2018, as follows:

i. Regent Anguiano be appointed as a member of the Finance and Capital Strategies Committee and the Compliance and Audit Committee.

ii. Regent Park be appointed as a member of the Finance and Capital Strategies Committee and the Public Engagement and Development Committee.

iii. Regent Tauscher be appointed as a member of the Academic and Student Affairs Committee and the Compliance and Audit Committee.

b. Regents-designate be appointed as advisory members to Standing Committees, effective immediately through June 30, 2016, as follows:

i. Regent-designate Anderson be appointed as an advisory member of the Finance and Capital Strategies Committee and the Compliance and Audit Committee.

ii. Regent-designate Morimoto be appointed as an advisory member of the Finance and Capital Strategies Committee and the Public Engagement and Development Committee.

iii. Contingent upon his appointment as student Regent for 2018-19, Regent-designate Graves be appointed as an advisory member of the Academic and Student Affairs Committee and the Compliance and Audit Committee.

c. Faculty Representatives be appointed as advisory members of Standing Committees, effective September 1, 2017 through August 30, 2018 as follows:

i. Faculty Representative May be appointed as an advisory member of the Finance and Capital Strategies Committee and the Public Engagement and Development Committee.

ii. Faculty Representative White be appointed as an advisory member of the Academic and Student Affairs Committee and the Compliance and Audit Committee.

(2) The Committee reported its appointment of Regent Tauscher as a member, effective immediately through June 30, 2018, and Faculty Representative White as an advisory member, effective September 1, 2017 through August 30, 2018, to the National Laboratories Subcommittee, contingent upon their appointment by the Regents to the Academic and Student Affairs Committee.

(3) The Committee reported its appointment of Regent Anguiano as a member, effective immediately through June 30, 2018, and Regent-designate Anderson, effective immediately through June 30, 2018, and Faculty Representative May, effective September 1, 2017 through August 30, 2018, as advisory members of the Investments Subcommittee, contingent upon their appointment by the Regents to the Finance and Capital Strategies Committee.

D. ***Annual Reports on Compensated and Uncompensated Outside Professional Activities for Calendar Year 2016, and Semi-Annual Report on Outside Professional Activities Approved Between December 1, 2016 and May 31, 2017***

This discussion item was not summarized at the Board meeting.

Upon motion of Regent Ortiz Oakley, duly seconded, the recommendations of the Governance and Compensation Committee were approved, with Regent Blum abstaining.

Report of the Health Services Committee (meeting of June 21, 2017)

Regent Lansing reported that the Committee considered five items for discussion and one item for action under delegated authority.

A. ***Remarks of the Executive Vice President – UC Health***

Dr. Stobo reported on a May UC Health leadership retreat, at which it was decided that UC Health leadership would support the appointment by the President of the University of an ad hoc task force to develop within 90 days guidelines for the use of the systemwide clinical data in UC Health's clinical data warehouse. These data include clinical data associated with the approximately 16 million unique patient records collected by UC Health using electronic patient health records. Additionally it was agreed that UC Health staff would present to UC Health leadership by the fall of 2017 five areas that would be addressed systemwide by UC Health over the next three to five years. This is in addition to the five areas that were being addressed by UC Health as part of its leverage scale for value initiative.

B. ***UCSF Health Budget Overview, San Francisco Campus***

Chancellor Hawgood and UCSF Chief Executive Officer (CEO) Mark Laret presented an overview of UCSF Health's financial results and budget. Despite challenges associated with opening a new hospital at Mission Bay and acquisition of Children's Hospital Oakland, UCSF still presented a sound fiscal picture for the near future. At each of the upcoming Health Services Committee meetings the other medical centers would present detailed financial forecasts. Regent Lansing pointed out that the future of the Affordable Care Act is uncertain.

C. ***Student Health and Counseling Update***

Dr. Brad Buchman, Medical Director of Student Health and Counseling for UC Health, discussed a mental health staff hiring initiative, the results of a recent audit, and the progress of UC's student immunization plan.

D. ***Update on the Affordable Care Act Repeal and Replace Efforts***

This discussion item was not summarized at the Board meeting.

E. ***Clinical Quality Dashboard for University of California Medical Centers***

The Committee discussed the clinical quality dashboard that would be used to monitor the quality of health care provided to UC Health patients. The dashboard would include items such as actual versus expected mortality, readmission rates, and patient satisfaction. Discussions about quality metrics would occur quarterly at Health Services Committee meetings.

F. ***Approval of Proposal on Withdrawal from Corporate Membership in a Health Maintenance Organization, Davis Campus***

The Health Services Committee approved UC Davis Medical Center's withdrawal from Western Health Advantage and authorized the President, or her designee, after consultation with the Office of the General Counsel, to approve and execute any agreements reasonably required to implement the foregoing action.

UC Davis Health CEO Ann Madden Rice explained the rationale for UC Davis Medical Center's withdrawal from Western Health Advantage, a health maintenance organization. After a brief discussion, the Committee voted unanimously to approve UC Davis Medical Center's withdrawal from Western Health Advantage.

Report of the Investments Subcommittee

Regent Sherman reported that the Subcommittee considered five items for discussion and one item for action.

A. ***Update on Investment Products***

As of May 31, 2017, the Office of the Chief Investment Officer (CIO) managed $110.9 billion in assets, comprised of the General Endowment Pool (GEP) ($10.6 billion), the UC Retirement Plan (UCRP) ($61.4 billion), Working Capital ($15.9 billion, including the Total Return Investment Pool [TRIP] $9 billion and the Short Term Investment Pool [STIP] $6.9 billion), UC Retirement Savings Program ($22.1 billion), and the captive insurance company Fiat Lux ($0.9 billion). In the 11 months since June 30, 2016, total assets increased more than $13 billion with $9 billion from market gains, $3 billion in value added above the respective product benchmarks, and $1 billion in inflows, primarily from the new insurance product the Office of the CIO began to manage.

The overall cost of management of these assets by the Office of the CIO was just three basis points (bps). When combined with those internal management fees, external management fees were 37 bps for UCRP, 79 bps for the GEP, and 23 bps for TRIP. The Office of the CIO also paid the following incentive fees based on performance in addition to those management fees: UCRP 44 bps, GEP 100 bps, and TRIP four bps. The GEP and UCRP returned 13.6 percent for the fiscal year to date (11 months) ending May 31, 2017. TRIP gained 7.3 percent and STIP returned 1.1 percent for the 11 months ending May 31, 2017.

Regent Sherman commented that STIP's loan to UCRP was made at 1.1 percent and those funds would grow at UCRP's rate of return, which would help reduce UCRP's unfunded liability.

B. ***Regents Policy 6102: General Endowment Pool Investment Policy Statement Review***

The proposed framework discussed would separate the existing Investment Policy Statement (IPS) into standalone policies that would either be a part of the IPS, an asset and risk allocation policy, or an investment manual. A draft IPS was discussed which would include Purpose; Roles and Responsibilities (Governance); Investment Objectives; Sustainability; Portfolio Monitoring and Reporting; Total Return Expenditure Rate (Spending Policy); Endowment Administration Cost Recovery; and Policy Maintenance. There was discussion around sustainability and incorporating the Office of the CIO's Environmental and Social Governance Policy into the risk and return objectives in the IPS.

C. ***Amendment of Regents Policy 6102: General Endowment Pool Investment Policy Statement Appendix 1 (Benchmarks)***

The Investments Subcommittee recommended to the Finance and Capital Strategies Committee that the Regents amend Appendix 1 of Regents Policy 6102: Investment Policy Statement for General Endowment Pool as shown in Attachment 2, effective July 1, 2017.

Regent Sherman commented that the benchmarks would be used to evaluate performance and would be a factor in the compensation of Office of the CIO personnel. There had not been an effective benchmark for the private equity asset class, which would be a greater portion of the asset allocation in the future. The recommended benchmark for that asset class was the Russell 3000 index plus 300 basis points, which he said was a significant illiquidity premium.

Regent Sherman reported that the Investments Subcommittee voted to approve this recommendation and present it to the Finance and Capital Strategies Committee.

D. ***Review of Regents Policy 6106: Total Return Expenditure Policy on Regents' General Endowment Pool Assets***

This proposal, which would be brought for action at a future meeting, would provide that the Total Return Investment Pool payout rate be reviewed annually by the Regents to ensure its alignment with investment performance, rather than a set amount, such as the current 4.75 percent.

E. ***Review of Regents Policy 6107: Endowment Administration Cost Recovery on Regents' Assets (General Endowment Pool)***

This proposal, which would be brought for action at a future meeting, would provide for a 55 basis point fee to be taken from distributions from the General Endowment Pool to cover its administration. This fee would be reviewed annually.

F. ***Review of Regents Policy 6201: Investment Policy for the University of California Campus Foundations***

The ten campus foundations are included in PricewaterhouseCoopers' audit.

Report of the National Laboratories Subcommittee

Regent De La Peña reported that the Subcommittee considered one item for action.

Allocation of Los Alamos National Security, LLC and Lawrence Livermore National Security, LLC Fee Income to be Expended in Fiscal Year 2017-18

The Subcommittee recommended that the President of the University be authorized to expend an estimated $23 million from the University's net share of Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) income earned between January 1, 2017 and December 31, 2017, as projected by the LLCs, for the purposes and in the amounts described below:

A. The University's contractually required share of compensation costs for LLC employees in UC-designated Key Personnel positions under the LLC Agreements that is not reimbursed by the federal government under the prime contracts. Compensation for LLC employees in Key Personnel positions is paid by the LLCs as approved by the LLC Executive Committees. The amount of UC's contractual share of unreimbursed compensation for UC-designated Key Personnel positions for FY 2017-18 is estimated at $2.2 million ($2.2 million in FY 2016-17). Any unspent funds allocated for this purpose will be transferred to the UC Laboratory Fees Research Program (paragraph E below).

B. An appropriation to the Office of the President's budget for federally unreimbursed costs of University oversight of its interests in LANS and LLNS, paid or accrued July 1, 2017 through June 30, 2018, including an allocable share of the costs of the President's Executive Office, the Provost, the Academic Senate, Human Resources, Compliance and Audit, Financial Accounting, Office of the National Laboratories, Federal Government Relations, Office of Research and Graduate Studies, Office of the General Counsel, Office of the Secretary and Chief of Staff to The Regents, Office of the President facility charges, and the University-appointed Governors on the Boards of the LLCs, in the amount of $5.2 million for FY 2017-18 ($4.9 million in FY 2016-17). Any unspent funds allocated for this purpose will be transferred to the UC Laboratory Fees Research Program (paragraph E below).

C. An appropriation to the Post-Contract Contingency Fund (PCCF), in the amount of $2.9 million for FY 2017-18 ($3.1 million in FY 2016-17). Any income generated by the PCCF under the University's Short Term Investment Pool (STIP) shall be reserved exclusively for the PCCF. The balance in the PCCF as of April 30, 2017 is $11.8 million, which does not reflect the $3.1 million allocated in FY 2016-17. The target balance for the PCCF approved by the Regents in 2013 is $27 million.

In July 2016, the Regents approved the set aside of $5 million under the PCCF in FY 2016-17 for a Contract Bid and Proposal Reserve (CBPR), in order to enable the University to prepare for the anticipated Los Alamos National Laboratory contract competition, and further provided that unused CBPR funds in FY 2016-17 would be carried forward in the CBPR to FY 2017-18. No further funds would be added to the CBPR through approval of this Action Item. Any CBPR funds unused in FY 2017-18 would carry forward in the CBPR for FY 2018-19.

D. The Regents have approved a funding target for the LLC Fee Contingency Fund of $7 million. The LLC Fee Contingency Fund is currently fully funded with a balance of $7.7 million as of April 30, 2017. No allocation to the Fund is required for FY 2017-18. Funds remaining in the LLC Fee Contingency Fund will be carried over to FY 2018-19, to maintain the $7 million funding target. Any income generated by the LLC Fee Contingency Fund under the University's STIP shall be reserved exclusively for that fund.

E. An appropriation in the amount of $11.4 million for FY 2017-18 for the UC Laboratory Fees Research Program and other research relevant to the missions of the National Laboratories and the University, including the UC-National Laboratory Graduate Student Fellowship Program, subject to any reallocation up or down required after the end of CY 2017 as a result of reporting by LLNS and LANS of actual net fee income earned by the University in order to meet the ongoing appropriations under paragraphs A through D above and F below. In the event all or part of this funding for the UC Laboratory Fees Research Program is not needed in FY 2017-18, the funding will be carried over to FY 2018-19 for the same purpose.

F. An appropriation in the amount of $300,000 for FY 2017-18, to fund an affiliation agreement between the University and the Livermore Lab Foundation, a 501(c)(3) nonprofit organization formed in 2016 to support Lawrence Livermore National Laboratory (LLNL) and other scientific and educational purposes. Unspent funds will be carried over to the next fiscal year for the same purpose.

G. An appropriation in the amount of $1 million for FY 2017-18 for the Accelerating Therapeutic Opportunities for Medicine (ATOM) collaboration. In May 2017, the Regents approved an amendment to the FY 2016-17 allocation of LLC fee income to appropriate $1 million to ATOM, the first of three anticipated annual appropriations to ATOM. This allocation provides essential foundational funding for the collaborative research space at UCSF's Mission Bay campus and other student, faculty, and clinical researcher participation to enable UCSF and LLNL to become full partners in ATOM.

Upon motion of Regent De La Peña, duly seconded, the recommendation of the National Laboratories Subcommittee was approved.

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

Regent Lozano reported that the Committee considered three items for discussion.

A. ***Discussion of a Public Outreach Campaign***

The Committee had requested this brainstorming session about a possible multi-faceted public outreach campaign. Interim Senior Vice President Holmes discussed UC's brand, and provided background information about best practices in communications and campaigns, highlights and results of past UCOP campaigns, and a preview of the types of investments required for campaigns to be successful. The Committee explored possible objectives of any effort and options for the most appropriate target audiences. It was agreed that UCOP would refresh market research to understand current perceptions, including among legislators, and report back to the Committee. In addition, it was determined that UCOP should consult UC campuses and other locations about approaches for engaging the Legislature and articulating the value of the system as a whole to increase support and advocacy. It was acknowledged that fundraising campaigns should remain the domain of campuses where the strongest alumni affiliations reside. It was strongly suggested that UC continue to pursue digital outreach efforts to reach legislators, their constituents, and UC supporters.

In addition, the Committee asked UCOP Public Affairs and State Government Relations to develop a targeted outreach strategy for Regents and other supporters to consider at the next meeting.

B. ***State Government Relations Update***

Associate Vice President and Director of State Government Relations (SGR) Kieran Flaherty gave an update on UC-sponsored State legislation. Terms of the State Budget including conditions to be met by UC were discussed. An update was provided about UC federal and State advocacy. The Regents requested a plan from SGR on how to structure their increased engagement in Sacramento including a calendar of key dates.

C. ***Community Outreach and Impacts, San Francisco Campus***

Chancellor Hawgood, UCSF staff, and students presented information about UCSF's outreach to its community. The presentation focused on three representative programs. The Science and Health Education Partnership is a collaborative program among UCSF scientists and educators in the San Francisco Unified School District to support high-quality science education for K-12 students. UCSF's Community Dental Clinic has been working to improve the health of San Francisco's homeless population for the past decade. Workforce development programs such as the Excellence through Community Engagement and Learning (EXCEL) Program, a clerical/administrative training program, aim to develop the potential workforce in UCSF's surrounding communities and provide San Francisco residents with access to employment opportunities in health-related fields.

6. **RESOLUTION IN APPRECIATION – AIMÉE DORR**

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

WHEREAS, the members of the Board of Regents wish to express their deep and abiding gratitude to Aimée Dorr on the occasion of her retirement, and in recognition of her 36 years of dedicated and steadfast service to the University and to its many constituencies as a gifted professor and dean of the Graduate School of Education and Information Studies at the Los Angeles campus, as a dynamic leader of the systemwide Academic Senate, and as the University's Provost and Executive Vice President since July 2012; and

WHEREAS, she served ably in many roles in the Senate, particularly as the Chair of the Academic Senate from 1998 to 1999 and as the author of the Compendium, which formalized and documented a review process for creating and modifying academic degree programs that is still in use today, and as Provost, she continued to be a strong partner with the Academic Senate, most notably leading the development of the Innovative Learning Technology Initiative (ILTI), which funds and facilitates the development of online courses offered across UC campuses, harnessing technology to enhance UC students' learning experiences; and

WHEREAS, a hallmark of her tenure has been her commitment to enhanced and meaningful student engagement, as demonstrated by ensuring a process providing unprecedented student feedback on Professional Degree Supplemental Tuition, as articulated in the policy recently approved by the Regents; and

WHEREAS, she has ardently championed diversity at UC, including unwavering support for multiple programs to diversify the academic pipeline to UC, such as the UC-HBCU initiative, which brings students from Historically Black Colleges and Universities to UC for summer research opportunities and preparation for UC doctoral programs, UC ADVANCE-PAID, which aims to bring minority and women faculty in the STEM disciplines to UC, and her career-long commitment to expanding K-12 academic preparation and outreach programs, and she has endeavored to ensure that the University's workforce reflects the rich diversity of California and experiences a positive and inclusive workplace climate; and

WHEREAS, she has been an advocate for research innovation and collaboration, most notably including the development of an open access policy, making UC research and scholarship available to the public through the California Digital Library, bringing the University of California to the forefront of the international movement to disseminate knowledge freely, and her leadership in revitalizing the Casa de California in Mexico City, providing greater opportunities for research collaboration between UC and Mexican scholars and graduate students;

NOW, THEREFORE, BE IT RESOLVED that the Regents of the University of California express to Aimée Dorr their warmest appreciation for a lifetime of achievement and service to the University and to the state, and their conviction that in her well-deserved retirement she will remain a vital part of the University of California family;

AND BE IT FURTHER RESOLVED that the Regents fondly wish Aimée the greatest happiness as she begins a new chapter in her life, and direct that a suitably inscribed copy of this resolution be presented to her with their admiration and affectionate best wishes.

Regent Pérez added that throughout Provost Dorr's tenure in the classroom, as an administrator, and as provost, she had consistently had a deep commitment to higher education and a student-centric approach. Provost Dorr had encouraged transparent consideration of issues facing the University and had advocated for student involvement in discussions involving policy changes that directly affect students. He commended her commitment to making progress on the most difficult issues facing the University, such as diversity and inclusion.

President Napolitano added that Provost Dorr deserved special recognition for her leadership with the various constituencies that comprised academic affairs including the Academic Senate and the campuses.

7. **FISCAL YEAR 2017-18 BUDGET FOR THE UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT**

The Committee on Finance and Capital Strategies recommended that the fiscal year 2017-18 budget for the University of California Office of the President as shown in Table 1 below be approved.

Table 1 – Total FY 2017-18 Proposed Budget

FY 2017-18 BUDGET SUMMARY OFFICE OF THE PRESIDENT ($ millions)	TOTAL Proposed Budget FY 2017-18	Expenses (Projected) FY2016-2017	TOTAL Budget FY 2016-2017	Var-FY17-18 Budget to Projection	% More / (Less) Budget vs Projection	% More / (Less) to Prior Year Budget
OFFICE OF THE PRESIDENT						
Central and Administrative Services	**277.77**	**249.82**	**267.70**	**27.96**	**11%**	**4%**
Academic Affairs	30.04	28.11	29.93	1.93	7%	0%
Innovation & Entrepreneurship	61.93	53.60	52.73	8.33	16%	17%
Finance	40.85	33.09	39.77	7.76	23%	3%
Operations	118.58	111.32	119.30	7.26	7%	-1%
President's Exec. Office	2.61	3.41	3.18	(0.80)	-23%	-18%
Health Sciences	4.16	3.69	4.17	0.47	13%	0%
Governmental Relations	5.44	5.07	5.41	0.37	7%	1%
Public Affairs	14.18	11.53	13.21	2.65	23%	7%
Regents Officers	**58.45**	**49.71**	**57.96**	**8.74**	**18%**	**1%**
General Counsel	12.49	10.91	11.65	1.58	14%	7%
Secretary of the Regents	3.08	2.76	2.91	0.32	12%	6%
Ethics & Compliance	7.54	7.34	7.67	0.20	3%	-2%
Investments Office	35.34	28.70	35.74	6.64	23%	-1%
TOTAL w/o UCPath Operations	**336.22**	**299.53**	**325.66**	**36.69**	**12%**	**3%**
UCPath Operations	**52.44**	**16.25**	**20.15**	**36.19**	**223%**	**160%**
Grand Total (including UCPath Operations)	**388.66**	**315.78**	**345.81**	**72.88**	**23%**	**12%**

FY 2017-18 BUDGET SUMMARY OFFICE OF THE PRESIDENT ($ millions)	TOTAL Proposed Budget FY 2017-18	Expenses (Projected) FY2016-2017	TOTAL Budget FY 2016-2017	Var-FY17-18 Budget to Projection	% More / (Less) Budget vs Projection	% More / (Less) to Prior Year Budget
SYSTEMWIDE ACADEMIC & PUBLIC SERVICE PROGRAMS						
Instruction	58.38	52.95	53.67	5.43	10%	9%
Research	172.28	106.68	108.58	65.60	61%	59%
Public Service	15.19	16.32	16.43	(1.13)	-7%	-8%
Academic Support	46.68	46.31	46.40	0.37	1%	1%
National Laboratories	4.27	3.59	3.94	0.68	19%	9%
Presidential Initiatives	9.77	5.57	9.77	4.20	75%	0%
TOTAL	**306.58**	**231.43**	**238.79**	**75.15**	**32%**	**28%**
Agriculture and Natural Resources	**102.27**	**100.82**	**101.08**	**1.45**	**1%**	**1%**
Grand Total (including ANR)	**408.84**	**332.25**	**339.87**	**76.60**	**23%**	**20%**
TOTAL OF BOTH TABLES (w/o UCPath)	**745.06**	**631.77**	**665.53**	**113.29**	**18%**	**12%**
TOTAL OF BOTH TABLES	**797.50**	**648.02**	**685.68**	**149.48**	**23%**	**16%**
Strategic Priorities Reserve Year End Projected						
Committed	38.7	57.1		(18.4)		
Uncommitted	16.2	29.9		(13.7)		

[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 Kieffer commented that the State audit report had raised some serious questions regarding the Regents' oversight of the budget of the UC Office of the President (UCOP). He expressed support for addressing those issues, noting that all of the report's recommendations had been accepted and were being implemented by UCOP. However, he expressed disagreement with the State auditor's recommendation to the Legislature to separate and directly allocate State General Funds for UCOP's budget. This provision would require the University to adopt substantial changes simply to ensure that UC campuses would be treated fairly. Most troubling was the incursion into the Regents' authority to manage the University, likely in conflict with the State Constitution. Chair Kieffer expressed hope that this would be a one-time occurrence that would be solved by the Regents' increased oversight of the UCOP budget and its priorities.

President Napolitano commented that budget issues addressed by the State audit report's recommendations had existed for years, back to previous UC presidents and Boards. The team led by Executive Vice President and Chief Operating Officer Nava had acted quickly to address many of the issues raised by the State Auditor to significantly improve the way the UCOP budget is presented. Refinements making the UCOP budget more clear and transparent were presented at the special meeting of the Finance and Capital Strategies Committee three weeks prior, including comparisons of budgeted to actual expenditures, explanations for proposed increases, and sources and uses of UCOP funds. President Napolitano noted the complexity of the UCOP budget.

Ms. Nava recalled that the proposed UCOP budget had been presented to the Regents at the May meeting. In response to questions raised in May, additional information was provided at the June special meeting of the Finance and Capital Strategies Committee. A few additions were made in response to suggestions made at the June meeting.

Ms. Nava explained that the UCOP budget has two parts: $408.8 million for systemwide academic programs and public service, and $388.7 million for central and administrative services. These figures were slightly adjusted from those presented in May because of the Legislature's direct appropriation, which is $16.1 million less than was anticipated through the campus assessment. Many UCOP systemwide programs are managed by the Provost and the Division of Academic Affairs, with 82 percent of that funding passing through from UCOP to program or grant recipients on UC campuses or at other California entities that receive grants.

Ms. Nava reviewed funding sources for UCOP's budget. Slightly more than half of UCOP's funding is from restricted sources. Over the next several months as part of UCOP's implementation of the recommendations of the State audit report, UCOP would conduct a significant review of its funding restriction process to evaluate the amounts and sources of existing restrictions, and to make any necessary adjustments. The majority of UCOP's unrestricted funds over the past several years had come from the general campus assessment and from the UCPath Center assessment. Those were being replaced by the direct appropriation from the State.

At the June meeting of the Finance and Capital Strategies Committee, Regents asked to be provided with more detail about the sources of UCOP's funding and its uses. Ms. Nava displayed a chart showing funding sources. UCOP restricted funds are used, among other things, for systemwide tobacco research, breast cancer/HIV research, and National Laboratory programs; in UCOP's central and administrative budget, restricted funds are used to fund royalty and investment shares, the retirement administration program, and investment management. Unrestricted funds are used for systemwide programs and general operations of the University, such as UCDC and UC Sacramento. In UCOP's administrative budget, unrestricted funds are used for UC marketing and central administration. All funding uses were being reviewed as part of the implementation of the State audit report's recommendations.

Ms. Nava explained the change in UCOP's funding since the State budget signed in June had directly appropriated State funds for the UCOP budget in place of UCOP's general campus and UCPath assessments. UCOP's proposed general campus assessment, held flat from the prior year, was $312.4 million. The State directly appropriated $296.4 million. The $16 million difference was for programs directly funded at the campuses so that funding was removed from the appropriation. UCOP's prior funding from the UCPath Center assessment of the campuses based on their number of W-2s issued was also replaced by a direct appropriation from the State for the UCPath Center assessment. Ms. Nava pointed out that the UCPath allocation would need to be increased in the subsequent fiscal year to support the additional campuses that would begin to use UCPath. The State budget also included a UC enrollment increase of 1,500 students for fiscal year 2018-19. The budget language specified that UC would share in the expense of funding that new enrollment growth, and that by December 2017 the State Department of Finance, the Legislature, and UC were to identify State funds in UC's budget to permanently fund and redirect to that enrollment growth. UCOP would work with the Department of Finance and the Legislature over the subsequent several months, and the resulting plan would be brought to the Regents.

Regent Pérez asked if those 1,500 students were part of the already anticipated enrollment growth or in addition to UC's enrollment growth of 10,000 California undergraduates. Ms. Nava said the 1,500 students would represent new enrollment growth in addition to the 10,000. Executive Vice President and Chief Financial Officer Brostrom added that the University would have already enrolled the 10,000 new California undergraduates by the upcoming fall, having enrolled 7,400 in 2016-17 and an anticipated 2,500 in fall 2017. The additional 1,500 students would be enrolled in 2018-19.

Ms. Nava recalled that of the 33 recommendations of the State audit report, 18 related to the UCOP budget process. UCOP was doing significant work in four key areas: fund restrictions and commitments, budget process, budget presentation, and reserve policy. UCOP was incorporating the State audit report's recommendations regarding budgeted and actual expenditures, and fund balances. UCOP was working on a reserve policy and had done a significant amount of benchmarking of other institutions' reserve policies and practices. A proposed reserve policy would be brought to the Regents.

Ms. Nava discussed the proposed UCOP fiscal year 2017-18 budget of $797.5 million. The 2016-17 fiscal year budget was $685.7 million and projected 2016-17 actual expenditures were $648 million. Of the proposed budget growth, 90 percent was attributable to three areas. UCOP would receive new State revenue from Proposition 56 for tobacco-related disease research. In addition, an increase of $33.3 million would support growth in UCPath for its implementation of the pilot that would include UCLA, UC Riverside, and UC Merced. One-time savings included salary resulting from turnover and time-to-hire, and other expenses because of timing. An $8.3 million increase in patent litigation related to two campuses would be funded by patent royalty revenues, and there was a budget adjustment of $4.5 million for UC's Education Abroad Program.

Ms. Nava reviewed UCOP's reserve fund balances, which were $43.4 million at the end of fiscal year 2015-16. That amount was the starting balance for fiscal year 2016-17. In 2016-17 UCOP had interest income of $7 million and one-time savings of $36.6 million, which increased the total reserve balance to $87 million. Multi-year commitments of $49.1 million and new commitments of $8 million for urgent and emergent issues left a projected ending balance of $29.9 million. That amount would be the starting balance for 2017-18. Interest income for 2017-18 was not yet projected; $24.8 million of one-time savings was anticipated. UCOP had $39 million in multi-year commitments for 2017-18. Assuming no new commitments for urgent issues, UCOP's reserve was projected to be $15.7 million at the end of the 2017-18 fiscal year. Ms. Nava anticipated that as UCOP became more sophisticated in its budgeting it would have less money remaining in one-time savings. Without the projected $24.8 million in operating budget one-time savings to fund its reserves, UCOP's reserves could show a deficit. As UCOP's reserve policy was developed, it would be important to include mechanisms to fund a reserve.

Ms. Nava stated that UCOP was implementing recommendations of the State audit report regarding UCOP's systemwide initiatives and programs. Key areas were the need for UCOP to clearly define initiatives and programs, particularly to distinguish systemwide programs from presidential initiatives, and to determine when one-time funds would be used, when funding would shift to the permanent operating budget, what features allow a program to be funded and for how long, sunsets for new appropriations, and requirements for reauthorization. UCOP would bring forward to the Regents clarified characterizations and procedures. Ms. Nava commented that several programs identified in the State audit report were actually longstanding academic programs in the UCOP budget, showing the need to categorize those programs more clearly. Mechanisms for funding around emergent issues and one-time needs for support for campus programs should also be clarified. Ms. Nava emphasized the importance of robust consultation with stakeholders, including campus leadership, the Academic Senate, and the UCOP Office of Academic Affairs.

Regent Makarechian noted the thoroughness of this report and others on the UCOP budget at recent meetings. However he expressed concern about the constitutionality of the State's direct appropriation of UCOP's budget, which he viewed as an erosion of the Regents' autonomy, and said the Regents should take steps to preserve their rights. Chair Kieffer expressed agreement with those concerns, noting that the Regents had sought an opinion from outside counsel. He expressed his view that no precedent had been established by the Legislature's appropriation. General Counsel Robinson agreed.

Chair Kieffer viewed the recommendations of the State audit report as constructive in pointing out areas for the Regents' increased attention. He recalled that some years prior UCOP instituted a campus assessment. However, any resulting perception that UCOP is a service center would be incorrect, as UCOP has key educational responsibilities. As the chief executive officer of the University, the President of the University requires flexibility to support the campuses when needed. However it is the responsibility of the Regents to understand the functions of UCOP, to provide that flexibility, and to understand UCOP's programs and initiatives and their funding. The Regents should understand why resources are being allocated to programs and initiatives, and how long that allocation should be.

Regent Lozano expressed appreciation for the progress made in this budget presentation. She asked about the sources of funding and the decision-making process for those increases in the UCOP operating budget that were not part of the 90 percent of the budget from the tobacco research funds, increases in UCPath assessment, and one-time savings. Ms. Nava explained that UCOP used an extensive process to develop its budget. Budget and strategic priorities are set during a budget call. Departments then develop their own budgets that are submitted to the UCOP budget office for evaluation. Department assumptions are tested and adjustments are made if needed. The budgets are then evaluated for affordability, and elements can be reduced, increased, or eliminated. After several months of further discussions and evaluation, discussions are held with the campuses about the campus assessment. Last, the budget is reviewed by the President and any further adjustments made. The Campus Executive Budget Committee had been revived to include campus leaders and representatives of the Academic Senate throughout the development and evaluation of the UCOP budget.

Ms. Nava discussed a few specific variances in the proposed budget. The Regents had been provided a detailed worksheet showing budgeted and actual expenditures for every program area in the UCOP budget. The National Laboratories' budget had a proposed increase of $330,000 to fund the establishment of the Livermore Lab Foundation. A $1.2 million increase for UC Division of Agriculture and Natural Resources' operations had been evaluated by the President in consultation with campuses that would be affected. Regent Lozano said it would be important for the Regents to understand UCOP's evaluation and approval process, and how proposals were weighed against one another.

Regent Lozano asked about proposed future enrollment growth of 1,500 undergraduates. The proposal by the Legislature that UCOP resources could be used to fund that enrollment growth had never been the agreement with the Legislature previously. State funding had always supported enrollment growth. She asked how and when the Regents would decide whether to agree to this proposal and what funds would be used. She affirmed the Regents' commitment to enrollment growth, but expressed concern that no State funds had been associated with this proposal.

Ms. Nava responded that she had a meeting a few weeks prior with staff from the State Department of Finance, the Assembly, and the Senate to begin to discuss a process to examine available funds in the UCOP budget to redirect to enrollment. She had called to that group's attention the State audit report's requirement that UCOP conduct a comprehensive review by April 2018 of all funds and associated restrictions, and all systemwide, public service, and presidential programs. Given the importance of this work, it would be important to devote sufficient time for an appropriate evaluation. There would have to be a parallel process to meet the State Budget Act's timeline, as the Department of Finance wanted UCOP to identify funds it could allocate to enrollment growth by December 1, 2017. Ms. Nava had expressed that concern to the group at the recent meeting.

Mr. Brostrom noted that many items in the UCOP budget had been earmarked for specific programs and even for specific professors, and it would be very difficult to move those to a broader use. If those funds were slowly cut or not cost adjusted, the resulting savings could possibly be used to fund enrollment growth. While he was not opposed to such redesignation, it would be very difficult, since each of the programs had constituent and often legislative support. Provost Dorr added that several programs had been judged by UCOP to be low value for funding. Several times in the past, these programs were recommended to be cut and the Legislature had wanted them funded. She expressed hope that the current review would offer the opportunity to re-evaluate some programs that had not met UCOP's expectations of systemwide programs.

President Napolitano commented on the two deadlines of April 2018 to comply with the recommendations of the State audit report and December 2017 to propose a plan for UCOP funding that could be redirected to enrollment growth. The State Budget Act included language indicating that the State would share in enrollment growth funding, but with no specified percentage or source of funds. With the leadership of Ms. Nava and Mr. Brostrom, UCOP would develop scenarios of UCOP funds that could be redirected to enrollment growth. For example, programs' cost adjustments could be diverted to enrollment growth. She characterized the proposal to fund enrollment growth with redirected UCOP funding instead of any new State funds as astounding. UCOP would have to demonstrate what the redirection of funds would be, and allow the Legislature and the State Department of Finance to decide if they would accept that redirection.

Regent Pérez expressed appreciation for the improvements made in the presentation of the UCOP budget; the increased transparency and appropriate categorization of funds would allow the Regents to make relevant judgements. He asked for clarification of the expenses in UCOP's Central and Administrative Budget categorized as Regents' Officers. Ms. Nava responded that those expenses included the Office of the General

Counsel, the Office of the Senior Vice President for Ethics, Compliance and Audit Services, the Office of the Chief Investment Officer, and the Office of the Secretary and Chief of Staff to the Regents. Regent Pérez commented that, other than the Secretary and Chief of Staff to the Regents, those offices were dual reports to the Regents and the President of the University. He suggested disaggregating that cluster to achieve greater clarity.

Regent Pérez asked for clarification of the prior budget year's $37.7 million in one-time savings compared with prior years' one-time savings. Ms. Nava responded that the one-time savings for fiscal year 2015-16 were $37.2 million and those projected for 2017-18 were $24.8 million. She anticipated that amount would be further reduced in 2018-19. As UCOP moved to multi-year budgets, Ms. Nava anticipated that the one-time savings would be more predictable and reasonably small.

Regent Pérez commented that a $149 million increase in the UCOP budget was difficult to explain publicly in a clear way. He suggested that in the future it might be preferable to segregate increases in funding from external sources such as the Proposition 56 funds for tobacco-related disease research, so that the increase to the UCOP budget would not be misleading.

Regent Pérez asked Ms. Nava if she thought UCOP's proposed 2017-18 budget and UCOP's 2016-17 budgeted versus actual expenditures would satisfy the relevant recommendations of the State audit report. Ms. Nava commented that basing the UCOP budget on actual expenditures was a positive step. The State audit team also expressed a preference for their budget presentation approach. She stated that UCOP was working on improving its budget presentation with the aim of satisfying the concerns expressed in the State audit report.

Regent Pérez commented that, given the more transparent budget presentation, the Regents' task would be to determine definitions and policies in these areas. He emphasized the importance of these decisions for the Regents' retaining their appropriate constitutional authority. Regarding the Legislature's direct appropriation of the UCOP budget, Regent Pérez expressed his view that the Regents, with the right information and challenging themselves with the right questions, were in a better position than the Legislature to oversee the UCOP budget.

Regent Sherman expressed agreement with Regent Pérez' comments. He asked whether the UCOP budget was developed by starting from the prior year's budget or if zero-based budgeting techniques were used. Ms. Nava responded that UCOP made adjustments to the prior year's spending and did not use zero-based budgeting, although various options were being evaluated. Regent Sherman encouraged consideration of other options.

Regent Sherman asked how Proposition 56 funding for tobacco-related disease research was spent. Ms. Dorr explained that this funding was allocated competitively based on criteria for the kinds of projects intended by the proposition. Any university, research organization, non-governmental organization, or other program, service-oriented as well as research-oriented, could apply for these funds on a competitive basis tied to particular topics of interest. An advisory group helps to determine topics and there is a rigorous review procedure. The majority of the funds would not be allocated to UC. Regent Sherman asked what would happen to unspent funds from Proposition 56. Ms. Dorr responded that had never happened in her experience, as this type of funding went to support many worthwhile programs. After allocating funding to research programs, UCOP billed the State and was reimbursed from Proposition 56 funds. Regent Sherman suggested tracking the balances of such research funds as separate line items in the UCOP budget.

Mr. Brostrom added that UCOP had several program-specific reserves that were not included in UCOP's budget. For example, Fiat Lux, UC's internal captive insurance company which was regulated by the District of Columbia, had nearly $1 billion in reserves, against which there were many liabilities, The Student Health Insurance Plan and the Mortgage Origination Program had their own reserves set by either policy or outside regulation.

Regent Lansing commented that funding for breast cancer research would be allocated to worthwhile research programs. Ms. Dorr confirmed that UC was increasingly entrusted with overseeing allocation of such research funding because of its excellent record of identifying worthy programs and allocating the funds wisely.

Regent Blum noted the high quality of this presentation. He commented that UC was a $30 billion institution and UCOP was only a small part of the University's wide-ranging endeavors, many areas of which deserve Regents' attention. Consideration of how enrollment growth should be funded deserved the Regents' attention. He emphasized the importance of segregating matters of true importance.

Regent Ortiz Oakley asked about the possibility that the $50 million of State funding withheld until UC met specified conditions would not be released. Mr. Brostrom responded that the $50 million was part of the four percent increase in UC's base funding and would be reflected in campus budgets. He expressed confidence that UC would meet all conditions for the release of the $50 million. Ms. Nava specified the three conditions for release of the funds: conducting the pilots of Activity-based Costing; achieving a 2:1 transfer student to freshman ratio; and implementing the 33 recommendations of the State audit report.

Regent Pérez asked that a discussion to determine the appropriate response if the $50 million were withheld be put on the agenda of a future meeting. He expressed his view that the campus budgets should not be reduced.

Upon motion duly made and seconded, the Regents approved the President's recommendation.

8. **2017 UNIVERSITY OF CALIFORNIA ACCOUNTABILITY REPORT**

[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 said this tenth UC Accountability Report was a user-friendly tool to learn more about UC, its reach and impact. UC enrollment had quadrupled over the past 50 years; UC currently has 250,000 students and 1.8 million living alumni. UC faculty have won 62 Nobel Prizes and 67 National Medals of Science. UC operates the fourth largest healthcare delivery system in the state and UC is the state's third largest employer. The Accountability Report and the interactive online UC Information Center enhance transparency and accountability by providing universal access to data showing both large and detailed perspectives.

Provost Dorr explained that the data underlying the Accountability Report could be downloaded from the Information Center and used for other purposes, providing a powerful transparency tool. This presentation would focus on the Accountability Report's section on UC's research activity. Vice President Brown commented that UC was designated in the California Master Plan for Higher Education as the primary State-supported academic agency for research. UC's research benefits the state and the nation by improving health, technology, and the quality of life. UC has more than 800 research centers, institutes, laboratories, and programs spanning its ten campuses, five medical centers, six medical schools, three National Laboratories, and numerous research facilities.

To describe the scale of UC's research enterprise, the Accountability Report has data about UC research expenditures, which totaled $4.4 billion in 2015-16, 48 percent of which were direct allocations from the federal government with another seven percent from federal government subcontracts. Ten percent of all academic research in the nation was conducted through the University of California. UC receives a larger amount of dollars per ladder-rank faculty than its Association of American Universities (AAU) peers. UC produces about nine percent of the nation's research publications. Global field-weighted citation impact, measuring how often UC research is cited by others in the field, shows the significant reach of UC research. An Accountability Report graph shows the number of worldwide downloads, almost one million in the past five years, of UC research from the online repository eScholarship, managed by the California Digital Library. All data visualizations in the Accountability Report could be copied to other materials. Within each chapter, the underlying data spreadsheet is provided along with internet links to sources of more information.

Ms. Brown reviewed one such link, a map with graphics showing the effects of UC research throughout California. The majority of the $4 billion spent on UC research comes from outside California into the state, and produces jobs and supports local spending. More than 27,000 full-time employees throughout the state are supported by UC research funds. The map also showed the amounts of local spending that resulted from UC research activity throughout the state. The number of UC startup companies and

UC technology licenses and their locations throughout that state were also shown. In 2014 California startups based on UC technology licenses employed almost 19,000 workers and generated nearly $14 billion in revenue.

The online UC Information Center provides even more information than the Accountability Report. Ms. Brown displayed the Information Center site for UC research award history, showing types of awards and amounts over time. It demonstrated the effects of the recession, followed by the period of federal stimulus, and the subsequent federal budget sequester. The information can be disaggregated by campus. The UC Undergraduate Experience Survey showed that attending a University where there were world-class researchers was important to UC's undergraduates. Over 90 percent of UC seniors indicate that they have participated in one or more research or creative activities with a faculty member. Ms. Brown noted that the Accountability Report is used as a primary source of information when her office responds to questions from the President of the University, the Provost, the Legislature, the media, or the public. The Report is increasingly used to support UC operations.

Regent Makarechian asked about UC graduation rates compared with AAU peers. Ms. Brown said that 64 percent of UC undergraduates graduate in four years, compared with 80 percent of AAU private university students. The average time-to-degree for UC freshmen is 4.1 years, with many graduating in just one term over four years.

Regent Makarechian asked about the high concentration of first-generation college students at UC Merced. Provost Dorr responded that UC Merced was established largely to draw students from the Central Valley, an area from which there were fewer students with college-educated parents. She noted that at many UC campuses 40 or 50 percent of undergraduates were the first in their families to attend college.

Regent Ortiz Oakley commented that an issue underlying UC's time-to-degree may be the number of units required of UC students compared with the number of units required by private institutions, particularly in fields of science, technology, engineering, and mathematics. He suggested that this issue be further explored, while recognizing that academic requirements are primarily the responsibility of faculty. Regarding the high proportion of first-generation college students at UC Merced, he noted that the University redirected some applicants not admitted to other campuses to UC Merced.

Regent Lozano commented that the information in the Accountability Report points out areas that warrant further attention.

President Napolitano commented that the breadth, depth, and scope of UC research and the ability of UC undergraduates to be exposed to UC research are differentiating characteristics of UC by design. The value of UC's research should be emphasized.

9. **UCPATH 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 updated the Regents on UCPath, UC's business transformation project to replace its aging payroll systems with new technology and to standardize key business processes across all locations through a shared service center in Riverside. UC had no choice but to replace its current Payroll Personnel System (PPS) that had been in operation for 35 years in 11 different variations across UC campuses and medical centers. That system was outdated, prone to failure, and insufficient to handle UC's complex operational workforce needs.

It was decided to replace the 11 systems with a single system because it would be less costly than replacing 11 individual systems and would also standardize business processes. At the project's start, the existing state of payroll functions was documented to define a baseline for future operations. It was found that UC was in the bottom ten percent of national benchmarks for efficiency. Several significant areas needed improvement. The legacy technology underlying PPS did not enforce data validation and 20 percent of the cost of supporting payroll was attributable to fixing errors. Most work in payroll, human resources, and benefits is high-volume, low-complexity transactions, which are ideal for standardization and automation. Much of this work had been performed by staff generalists as a small fraction of their workload, and many processes were inconsistent and fragmented. Eight UC locations had been calculating overtime pay inconsistently or incorrectly, which required significant time and expense to correct. This represented an opportunity to upgrade technology, standardize business processes, and develop efficiencies and economies of scale through establishment of a service center that would support high-volume transaction processing and customer support.

Associate Vice President Mark Cianca reviewed major milestones in the development of UCPath. After a 2010 study of existing systems and a competitive Request for Proposals process, in 2011 UC launched the UCPath project to replace PPS in partnership with Oracle Consulting using Oracle's PeopleSoft software as the replacement technology. UC took over management of the project in 2013 because of inadequate progress from the consulting firm. In 2014 UC campuses developed and approved more than 100 standard business processes, which were validated by an independent study. The study found that the standardization of UC's business processes across all campuses and the deployment of a shared services center would move UC into the top 25 percent of efficiency benchmarks compared with peer universities. In 2015, UCPath launched at UCOP; rollout dates for the launch of two groups of UC locations are targeted through 2018. The project is scheduled to be finalized in 2019.

Mr. Cianca discussed the UCPath business model, which is based on a service catalogue of standardized services and support available to UC locations and to UC employees. Primary units at the UCPath Center include a call center, production teams, and an information technology (IT) support team. As of early June 2017, the UCPath Center had hired 189 staff to support the December pilot campus deployment. The staffing target for the Center is 440 employees, based on process designs approved in 2014 and validated by the independent study. Staffing would be reassessed once UCPath moved into production with the campuses. The last ten percent of staff hired at the UCPath Center would be temporary staff to provide flexibility.

UC campuses provide governance oversight of UCPath, with governance groups that assess the effectiveness of services, to ensure continuous improvement efforts and to inform the evolution of UCPath over time. The UCPath Center would work with each campus to create an annual service partnership agreement in which both entities agree on mutual responsibilities, service levels, and expectations. For fiscal year 2018, the Legislature made a direct allocation of $52.4 million for the UCPath Center in lieu of the UCPath assessment that had been agreed to by the campuses. Mr. Cianca believed it would be more effective to maintain a fee-for-service funding mechanism for UCPath, since campuses could better inform service levels, which drive staffing levels and therefore the costs of the UCPath Center. Having funding decisions made closest to the campuses would best accomplish these goals.

Mr. Cianca described the services that would be available to campuses through the UCPath Center. Human resources administration would include transactions affecting employee status such as hiring, termination, promotion, transfers, and pay changes. Payroll services would include both pre- and post-payroll activities, such as W-2 calculations, deductions, tax reporting, and tax payments. Once UCPath is fully deployed, there would be additional opportunities for both campus-driven efficiencies and systemwide optimization.

Mr. Cianca discussed a five-year forecast of UCPath's operating expenses. The change from the $52.4 million fiscal year 2018 budget to the $72.1 million fiscal year 2019 budget would be a result of the final increase in UCPath Center staff and the transition of a number of project expenses to operating expenses, a difference in accounting rather than budget growth. The forecast of subsequent years assumed a three percent growth factor in labor costs and software escalation based on projected increases in UC staff. There would be some offset of these expenses once PPS was fully decommissioned and $16 million in system operating expenses from PPS and other legacy systems was retired. UCPath was initially funded through a $220.5 million bond, beginning in fiscal year 2016 with five years of interest-only payments, with the remaining 15 years through fiscal year 2036 being principal and interest. Repayment of $21.6 million annually including principal and interest would begin in fiscal year 2022.

UC forecasts total project costs of $504 million to finish building UCPath. That figure includes approximately $55 million in reimbursed campus costs and a contingency reserve of just under $26 million, held in fiscal year 2019. Campuses have reported that they expect to spend an additional $164 million on local UCPath implementation activities, largely for aligning local databases, reporting, and reworking local business processes to leverage the design of UCPath. Mr. Cianca observed that the UCPath project was currently at its maximum monthly expense, simultaneously supporting production for UCOP, completing work to bring the pilot campuses live, preparing for the second phase of campus deployments, and initiating work on the final campus deployments.

Regarding UCPath's governance escalation thresholds, Mr. Cianca asserted that, since late 2013 when UC took over its project management, UCPath had a strong governance model, led by the campuses and coordinated by UCPath leadership. When UC took over the project, UCPath's governance was revamped with clear governance guidelines for how and when issues would escalate through governance. The Regents were added as a level in the escalation process, if unplanned costs exceeded $20 million. Mr. Cianca expressed his view that, at this point in the project, a change of that magnitude would occur only if there were a slip in the schedule.

Mr. Cianca reviewed UCPath's deployment timeline. The project is halfway through a yearlong testing phase for the pilot campus deployment that would bring 65,000 employees, including UCLA, UC Riverside, UC Merced, and Associated Students of UCLA, on UCPath. Deployments for UC Davis, UC Irvine, UC Santa Barbara, UC Santa Cruz, and the Division of Agriculture and Natural Resources would be in July 2018. The final deployment targeted for December 2018 would include UC San Diego, UCSF, UC Berkeley, Lawrence Berkeley National Laboratory, and Hastings College of the Law, and would bring the final 75,000 employees into UCPath.

Regent Makarechian commented that UCPath had grown to a $500 million project, with no end in sight and only the Office of the President, the smallest, most simple portion of the project, operational in UCPath after having spent $391 million. He suggested that UCPath be on the agenda of every Regents meeting to control continuing expenditures. He stated that every deadline and cost estimate had been exceeded, and no savings had been shown. He acknowledged that it would not be wise to stop the project at this point. The Regents should carefully oversee UCPath because it continued to be a huge drain on funds. He commented that perhaps engaging an external payroll service that charged a set amount per paycheck would have been preferable.

Mr. Brostrom commented that the initial estimates for UCPath considered it to be a technology project, but it turned out to be a business transformation and standardization project. Real progress in the project began under Mr. Cianca's leadership when 100 UC business processes were standardized across all campuses and medical centers. The original project cost of $200 million had risen primarily because the project time had been extended. Because the costs would be amortized over 20 years, it would be a small part of overall costs. The operating costs of the UCPath Center would be 75 to 80 percent of project costs. Mr. Brostrom expressed his view that optimizing UCPath would reduce work of campus staff and savings would be seen over time. More procedures could be moved to the UCPath Center in the future.

Regent Makarechian commented that the project scope had continued to change and that the Regents need to know where this project is heading.

Regent Lansing agreed that the Regents should be updated on UCPath regularly. She asked why the project could not be cancelled, delayed, or reduced in scope if it continued to be too costly in UC's difficult financial environment.

Regent Pérez expressed agreement with Regent Makarechian about the creep in UCPath's project scope. He found it difficult to accept that there would be cost savings and benefits for the campuses after the project is fully implemented, if there would be no reduction in campus staff. He asked how savings would be measured and whether there was a point at which the UCPath project should be stopped.

Executive Vice President and Chief Operating Officer Nava explained that the impetus for UCPath was the need to replace UC's existing legacy payroll systems that were no longer sustainable. To replace 11 systems separately would cost twice as much as UCPath. There had clearly been timeline and scope changes that merited discussion, but the operational need was clear.

Mr. Brostrom said the bulk of the cost for UCPath would be in operations, since the implementation cost had been financed over the useful life of the project. Therefore, the bigger issue would be staffing levels at the UCPath Center. He expressed his view that there would be savings over time. The current cost of re-working payroll mistakes was $100 million per year. Regent Pérez asked about cost savings for the campuses. Mr. Brostrom explained that cost savings would be in increased efficiency. For example, UC Riverside planned an 11 percent increase in faculty and students, and only a one percent increase in administrative staff. UC Merced had delayed many staff increases until it could determine needs following UCPath deployment. He noted that the cost of re-work had declined dramatically at the Office of the President following UCPath's deployment there.

Regent Anguiano expressed support for Mr. Brostrom's outlook. She commented that her experience at UC Riverside showed that UCPath had successfully gained momentum and was going well at this point. However, she commented that the Office of the President implementation costs were twice that of campus implementation costs. She asked if it might have been less expensive for campuses to implement their own system improvements. For future projects of this type, the Regents should consider if systemwide implementation would truly be more effective than individual campus implementations. She anticipated that UCPath would result in cost avoidance for UC Riverside, rather than cost savings.

Mr. Cianca commented that the cost of UCOP deployment was a function of its being the first deployment, involving 70 percent of the functionality and design of UCPath. The remaining 30 percent would be the most complex part of the work, such as functions supporting faculty and research payroll, and medical staff payroll, and would be accomplished in the pilot with the campuses. He confirmed that the scope of UCPath would not increase further. With the launch of the December 2017 pilot, UCPath would be 95 percent built. The subsequent two deployments would be a much more mechanical process of converting historical records.

Regent Blum expressed confidence in Mr. Brostrom's ability and support for UC's managing the project itself rather than through consultants.

Mr. Brostrom agreed that a turning point in UCPath was in 2013 when UC took over the project management from Oracle. Oracle had not realized the complexity of the campus implementations. In hindsight, the campuses should have been engaged in the project's governance from the project's start. Mr. Cianca's leadership was pivotal in regaining control of the project. Mr. Brostrom added that standard payroll services could not handle UC's complexity. Regent Makarechian cautioned that consultants must be closely overseen. At this point UCPath was too far along to be stopped, but it should not be an open-ended project.

Chair Kieffer asked about current control of UCPath. Mr. Cianca responded that since UC took over the project management in 2013, UC provides management and oversight. At the central office, UC has a team of contractors, along with certain lead positions from a consulting firm, operating under UC management at a negotiated hourly rate, with internal controls for hours and output. He added that in August the Regents would receive a report on UCPath from the California State Auditor.

President Napolitano commented that, while she came to UC after the decision to use UCPath had been made, UCPath would be less costly than rebuilding 11 payroll systems would have been. Going forward, it would be important to have proper controls in place and to ensure that UCPath would deliver what was needed by the University, with the proper governance and oversight of operational costs. She expressed her view that, once the decision was made to bring the project in-house, project management had steadily improved. She expressed confidence that UCPath was on track with campus pilot deployment, including at UCLA, UC's largest and most complicated campus. With each deployment, UC would gain expertise and confidence in completing this large project, which was needed for the future operations of the University. She expressed confidence that UCPath management was on a positive track to complete the project. Chair Kieffer agreed.

10. REPORT OF INTERIM, CONCURRENCE AND COMMITTEE ACTIONS

Approvals under Interim Action

A. The Chair of the Regents, the Chair of the Compliance and Audit Committee and the President of the University approved the following action:

Authorization to Use PricewaterhouseCoopers, the External Auditor, for Consulting Services, Los Angeles Campus

That the UCLA Medical Center be authorized to contract with PricewaterhouseCoopers to petition the Centers for Medicare and Medicaid Services to be reclassified from a metropolitan statistical area to a rural referral center hospital designation. The opportunity is expected to yield approximately

$75 million in incremental Medicare revenues over the next four years. The proposed consulting engagement will be solely for this one-time revenue opportunity.

Approval Under Health Services Committee Delegated Authority

B. The Chair of the Health Services Committee and the Executive Vice President – UC Health approved the following recommendation:

Establishment of an Accountable Care Organization and Clinically Integrated Network, San Diego Campus

(1) UCSD Health's management be authorized to create, and implement the operations of, an accountable care organization ("ACO"), subject to the following conditions:

a. Purpose: The purpose of the ACO is to function as an "accountable care organization" under the MSSP.

b. Structure, Ownership and Governance: The ACO will be formed by the Regents and operated as a California corporation; the Regents will its initial sole shareholder. The ACO Board will be comprised of between 9 and 25 directors, all of whom will be appointed by the shareholder. At least 75 percent of the directors will be "participants" in the ACO, including community physicians, UCSD Health representatives, faculty physicians and other participating providers.

c. Financial Terms: The Regents, through UCSD Health, will initially invest up to $8.5 million in the form of capital contributions to the ACO.

d. Exclusivity: Nothing in any agreement signed in connection with the ACO shall bind the University as a whole, UC Health, or any UC campus or medical center other than UCSD Health; and all definitive agreements shall preserve UCSD Health's right at all times to participate directly or through new companies in system-wide (i.e., UC Health) initiatives.

e. Dissolution: The definitive agreements shall either include appropriate provisions for termination or dissolution of the ACO or rely on the applicable provisions of California law that govern the dissolution of California corporations.

(2) UCSD Health's management be authorized to create, and implement the operations of, a clinically integrated network ("CIN"), subject to the following conditions:

a. Purpose: The purpose of the CIN is to create a network of healthcare providers, such as physicians, hospitals, and post-acute care treatment providers, in order to improve patient care and reduce overall healthcare costs.

b. Structure, Ownership and Governance: The CIN will be formed by the Regents and operated as a California limited liability company. The CIN will be operated by UCSD Health as the sole member through UCSD Health designees, although the UCSD Health may appoint an advisory board, it will have no governance authority.

c. Financial Terms: The Regents, through UCSD Health, will initially invest up to $8 million in the form of capital contributions to the CIN.

d. Exclusivity: Nothing in any agreement signed in connection with the CIN shall bind the University as a whole, UC Health, or any UC campus or medical center other than UCSD Health; and all definitive agreements shall preserve UCSD Health's right at all times to participate directly or through new companies in system-wide (i.e., UC Health) initiatives.

e. Dissolution: The definitive agreements shall include appropriate provisions for termination or dissolution of the CIN by UCSD Health as the sole member.

(3) After consultation with the Office of the General Counsel, the President of the University, or her designee, be authorized to approve and execute any agreements reasonably required to implement the ACO and the CIN, including any subsequent agreements, modifications, or amendments thereto; <u>provided</u> that such agreements, modifications, amendments or related documents are materially consistent with the terms above, and do not otherwise materially increase the obligations of the Regents or materially decrease the rights of the Regents.

C. The Vice Chair of the Health Services Committee and the Executive Vice President – UC Health approved the following recommendation:

Establishment of an Accountable Care Organization, Irvine Campus

(1) UC Irvine Health's management be authorized to create, and implement the operations of, an accountable care organization (the ACO), subject to the following conditions:

a. Purpose: The purposes of the ACO are (i) to function as an "accountable care organization" under the Medicare Shared Savings Program (the MSSP) established by the Centers for Medicare and Medicaid Services (CMS), (ii) to create a clinically integrated provider network, and (iii) to engage in any and all activities related or incident thereto.

b. Structure, Ownership and Governance: The ACO will be formed by the Regents and operated as a California corporation. The Regents will be the ACO's initial shareholder. The ACO will be governed by a Board of Directors, which will be comprised of between six and 25 directors, all of whom will be appointed by the shareholder, and which will comply with the requirements of applicable law.

c. Financial Terms: The Regents, through UC Irvine Health, will initially invest up to one thousand and 00/100 dollars ($1,000.00) in the form of an initial capital contribution to the ACO. After UC Irvine Health makes its final determination as to whether the ACO will submit an application to participate in the MSSP and completes the ACO's financial projections and illustrative pro formas, UC Irvine Health will seek approval for additional capital contributions to the ACO.

d. Exclusivity: Nothing in any agreement signed in connection with the ACO shall bind the University as a whole, UC Health, or any UC campus or medical center other than UC Irvine Health; and all definitive agreements shall preserve UC Irvine Health's right at all times to participate directly or through new companies in systemwide (i.e., UC Health) initiatives.

e. Dissolution: The definitive agreements shall either include appropriate provisions for termination or dissolution of the ACO or rely on the applicable provisions of California law that govern the dissolution of California corporations.

(2) After consultation with the Office of the General Counsel, the President of the University, or her designee, be authorized to approve and execute any agreements reasonably required to implement the ACO, including any subsequent agreements, modifications, or amendments thereto; provided

that such agreements, modifications, amendments or related documents are materially consistent with the terms above, and do not otherwise materially increase the obligations of the Regents or materially decrease the rights of the Regents.

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

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

To the Regents of the University of California

A. From the Chair of the Board, a press release from the Governor's Office announcing the appointments of four new Regents. June 2, 2017.

B. From State Governmental Relations Associate Vice President and Director, an email providing an update on the State budget. June 12, 2017.

C. From the President of the University, a letter regarding the State Budget Act of 2017. June 27, 2017

D. From the Secretary and Chief of Staff, the Summary of Communications for the month of May, 2017. June 30, 2017.

To the Members of the Finance and Capital Strategies Committee

E. From Executive Vice President and Chief Financial Officer, an email providing additional information addressing concerns raised at the May Regents meeting regarding the proposed acquisition and external financing of a commercial building in downtown San Diego.

To the Members of the Investments Subcommittee

F. From the Chief Investment Officer, the *UC Annual Endowment Report for fiscal year ended June 30, 2016*. June 14, 2017.

The meeting adjourned at 1:00 p.m.

Attest:

Secretary and Chief of Staff

Policy on Augmented Review in Undergraduate Admissions

Overview of the Augmented Review Process

The augmented review process is designed to provide additional review for a select pool of applicants who fall in the margins for admission, but whose initial application yields an incomplete picture of their qualifications, or presents extraordinary circumstances that invite further comment. Applicants, for example, might demonstrate special talents, potential, or accomplishments in specific areas that promise to contribute to the educational environment of the campus, but may require further explication. Or, the information provided on an application may fail to adequately explain the impact of what appear to be major disadvantages that the applicant has encountered. A range of potential selection criteria for Augmented Review are described in the "Criteria for Referral" section below. Consistent with the Guiding Principles[2] the faculty have articulated for undergraduate admissions, applicants referred for the Augmented Review process must demonstrate levels of academic preparation and personal qualities that indicate a reasonable chance for academic success given the available support services on the admitting campus.

Admissions readers and officers should use their professional judgment to identify potential candidates for Augmented Review during the initial review process. They should also select from among the candidates a pool of applicants from whom supplemental information items can be solicited to better inform an admissions decision. The Augmented Review pool should be limited in size to no more than 15 percent of all applicants. Candidates are invited to submit one or more of the following supplemental information items:

1. A questionnaire that requires paragraph length narrative responses and that allows Augmented Review candidates to provide additional details concerning their special talents and accomplishments, extraordinary circumstances, and school and home environment.

2. Seventh-semester high school grades, or equivalent most recent grades.

3. Up to two letters of recommendation, or other input from third parties, such as a teacher, counselor, coach, program coordinator, or anyone familiar with the candidate's academic background and extracurricular skills/talents. Letters of recommendation should focus on both cognitive and psycho-social abilities of candidates.

Note: Letters of recommendation can be requested only for applicants selected for augmented review, and applicants considered for admission by exception, and/or applicants given a special review.[3]

---

[2] The most recent version of the "GUIDELINES FOR IMPLEMENTATION OF UNIVERSITY POLICY ON UNDERGRADUATE ADMISSIONS" can be found on the Senate's web site.

[3] Students applying to a major, school, or college that already has a long-standing supplemental application requirement, may be required to submit a letter of recommendation, in addition to the general application for undergraduate admission. Such supplemental applications have also included questionnaires, transcripts, narrative statements, interviews, auditions, and/or portfolios, but only very rarely require letters of recommendation. Such programs typically focus on the creative arts, performance arts, and nursing.

Criteria for Referral to Augmented Review

If Augmented Review is to be used, admissions readers and officers should depend on their professional judgement to evaluate each applicant on a full range of selection criteria, using all of the application information available in the context of opportunity and demonstrated capacity to contribute to the campus. While the referral criteria for Augmented Review outlined below aim to cover likely circumstances that admissions readers and officers might encounter, they may not capture every possible applicant experience that might warrant an additional review. It is therefore imperative that admissions readers and officers use their professional judgement in these circumstances. The criteria for referring an applicant for Augmented Review include the following:

1. Evidence of focus on an area of special talent which may have limited a student's time to participate in a broader range of activities.

2. Evidence of character traits that imply a strong likelihood of making a significant contribution to campus life.

3. Evidence of significant academic achievement or the potential for academic achievement at the University in spite of extraordinary or compound disadvantage or learning difference, or physical disability or other unusual circumstances.

4. Evidence of significant improvement in the academic record accompanied by one or both of the following: (1) reasons for the initial poor performance; and (2) sustained and in-depth participation in educational outreach programs, which demonstrate the applicant's commitment to succeed academically within a challenging environment.

5. Evidence of relative lack of access to, counseling about, or support to take college preparatory, honors, Advanced Placement (AP) or International Baccalaureate (IB) classes or required college entrance examinations.

This policy will take effect for the 2018-19 admissions cycle.

APPENDIX 1
Effective: July 1, 2017
Replaces Version Effective: May 12, 2016

ASSET ALLOCATION, PERFORMANCE BENCHMARKS, AND REBALANCING POLICY

Based on the risk budget for the GEP, the Committee has adopted the following asset allocation policy, including asset class weights and ranges, benchmarks for each asset class, and the benchmark for the total GEP.

Criteria for including an asset class in the strategic policy include:

- Positive contribution ~~positively~~ to the investment objective of GEP
- Widely recognized and accepted among institutional investors
- ~~Has~~ Low cross correlation with other accepted asset classes
- ~~Has a~~ Meaningful performance history
- ~~Involves a unique set of investors~~

The allowable ranges for each asset class and in total have been chosen to be consistent with budgets and ranges for total and active risk.

[This space intentionally left blank.]

A. Strategic Asset Allocation and Ranges

	Target Allocation	Allowable Ranges	
		Minimum	Maximum
Global Equity	30.0%	20.0	52.5
US Equity	15.7		
Developed Non US Equity	11.0		
Emerging Mkt Equity	3.3		
Private Equity	22.5	10.0	32.5
Absolute Return (Strategic Opportunities)	25.0	15.0	32.0
Real Assets	12.5	3.0	17.5
Liquidity (Income)	10.0	0.0	17.5
TOTAL	100%		

B. Asset Class Performance Benchmarks

The Committee has adopted the following performance benchmarks for each asset class. Criteria for selection of a benchmark include:

- Unambiguous: the names and weights of securities comprising the benchmark are clearly delineated
- Investable: it is possible to replicate the benchmark performance by investing in the benchmark holdings
- Measurable: it is possible to readily calculate the benchmark's return on a reasonably frequent basis
- Appropriate: the benchmark is consistent with The Committee's investment preferences or biases
- Specified in Advance: the benchmark is constructed prior to the start of an evaluation period
- Reflecting Current Investment Opinion: investment professionals in the asset class should have views on the assets in the benchmark and incorporate those views in their portfolio construction

Asset Class	**Benchmark**
Public Equity	MSCI All Country World Index IMI Tobacco Free
~~US Equity~~	~~Russell 3000 Tobacco Free Index~~
~~Non US Eq. Devel.~~	~~MSCI World ex-US Net Tobacco Free~~
~~Emerging Mkt Eq.~~	~~MSCI Emerging Market Free Net~~
~~Fixed Income~~	~~Barclays US Aggregate Bond Index~~
~~High Yield Fixed Income~~	~~Merrill Lynch High Yield Cash Pay Index~~
~~Emg Mkt Fixed Income~~	~~Dollar Denominated: JP Morgan Emerging Markets Bond Index Global Diversified~~
~~TIPS~~	~~Barclays US TIPS Index~~
Private Equity	~~N/A~~ Russell 3000 Index + 300 basis points (See below note 2.)
Absolute Return	~~Diversified: HFRX Absolute Return Index~~ HFRI Fund of Funds Composite
Real Assets (non-Real Estate) Real Estate (Real Assets)	~~N/A (See below note 3.)~~ Actual Real Assets Portfolio Return NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 months
~~Real Estate~~	~~NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 months~~
Liquidity (Income)	Barclays US Aggregate Index

Notes on asset class benchmarks:

1. Global Equity: The Chief Investment Officer will determine what constitutes a tobacco company based on standard industry classification of the major index providers (e.g., Russell, MSCI) and communicate this list to investment managers annually and whenever changes occur.

2. Private Equity: As we transition the benchmark into the portfolio we will use 150 basis points illiquidity premium for the first year. ~~*Long term* portfolio returns will be compared to investable public equity alternatives as well as non-investable peer group indices. There is no appropriate market benchmark to use for *short term* performance evaluation or decision making.~~
~~3. Real Assets (all strategies ex-commodities): similar to Private Equity~~

C. Total GEP Performance Benchmark

This is the composition of the total GEP performance benchmark referred to in the Investment Policy Statement, Part 4(b). The percentages below add to 100%. Until GEP reaches its long term targets the performance benchmark will reflect the glide path framework and interim weightings, which will differ from the long term policy approved in the Strategic Asset Allocation and as noted below

Percentage	Benchmark
30.0%	× MSCI All Country World Index IMI Tobacco Free
~~21.0%~~	~~× Russell 3000 Tobacco Free Index~~
~~14.0%~~	~~× MSCI World ex-US Net Tobacco Free~~
~~7.5%~~	~~× MSCI Emerging Market Free Net~~
~~5.0%~~	~~× Barclays US Aggregate Bond Index~~
~~2.5%~~	~~× Merrill Lynch High Yield Cash Pay Index~~
~~2.5%~~	~~× JP Morgan Emerging Market Bond Index Global Diversified~~
~~2.5%~~	~~× Barclays US TIPS Index~~
~~11.5~~ 22.5%	× ~~Actual return of private equity portfolio~~ Russell 3000 Index +300 basis points
~~23.0~~ 25.0%	× ~~HFRX Absolute Return Index~~ HFRI Fund of Funds Composite
~~3.0~~ 12.5%	× ~~Aggregate Real Assets benchmark (see section B), with components weighted by their actual weights within the total real assets portfolio~~ NCREIF Funds Index – Open End Diversified Core Equity (ODCE), lagged 3 Months Actual Other Real Assets Portfolio Return
~~7.5~~ 10.0%	× Barclays US Aggregate Index

Notes on Total Fund benchmark:

~~1. The benchmark for private equity is replaced by the private equity portfolio's actual performance. This has the effect of neutralizing the active performance of this class for purposes of total fund performance evaluation.~~
1 ~~2~~. The calculation of the Total Fund benchmark will assume a monthly rebalancing methodology.
2 ~~3~~. In the event of a significant change in asset allocation, the Chief Investment Officer in consultation with the Subcommittee may specify an alternative weighting scheme to be used during a transition period.

D. Rebalancing Policy

There will be periodic deviations in actual asset weights from the long-term/current policy asset weights specified above. Causes for periodic deviations are market movements, cash flows, and varying portfolio performance. Significant movements from the asset class policy weights will alter the intended expected return and risk of the GEP. Accordingly, the Investment Committee authorizes the Chief Investment Officer to rebalance the GEP when necessary to ensure adherence to the Investment Policy.

The Chief Investment Officer will monitor the actual asset allocation at least monthly. The Committee directs the Chief Investment Officer to take all actions necessary, within the requirement to act prudently, to rebalance assets to within the policy ranges in a timely and cost effective manner when actual weights are outside the prescribed ranges. The Chief Investment Officer may utilize derivative contracts [in accordance with Appendix 4] to rebalance the portfolio such that the portfolio's net exposures are consistent with policy ranges.

The Chief Investment Officer shall assess and manage the trade-off between the cost of rebalancing and the active risk associated with the deviation from policy asset weights. With approval from the Chair of the Committee, the Chief Investment Officer may delay a rebalancing program when the Chief Investment Officer believes the delay is in the best interest of the GEP. Results of rebalancing will be reported to the Committee at quarterly meetings.