

The Regents of the University of California

NATIONAL LABORATORIES SUBCOMMITTEE

July 18, 2018

The National Laboratories Subcommittee met on the above date at UCSF–Mission Bay Conference Center, San Francisco.

Members present: Regents Morimoto, Napolitano, Ortiz Oakley, Tauscher, and Zettel; and Advisory Member White

In attendance: Secretary and Chief of Staff Shaw, General Counsel Robinson, Vice Presidents Brown and Budil, and Recording Secretary McCarthy

The meeting convened at 3:50 p.m. with Subcommittee Chair Tauscher presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 23, 2018 were approved.

2. ALLOCATION OF LOS ALAMOS NATIONAL SECURITY, LLC AND LAWRENCE LIVERMORE NATIONAL SECURITY, LLC FEE INCOME TO BE EXPENDED IN FISCAL YEAR 2018-19

The President of the University recommended that the President be authorized to expend an estimated \$24.6 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, 2018 and December 31, 2018,¹ as projected by the Limited Liability Companies (LLCs), for the purposes and in the amounts described below:

- A. The University's contractually-required share of compensation-related costs for LLC employees in UC-designated key personnel positions that are not reimbursed by the federal government under the prime contracts, estimated at \$2.2 million (\$2.2 million in fiscal year [FY] 2017-18).
- B. An appropriation to the Office of the President's budget for federally unreimbursed costs of University oversight of its interests at Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), paid or accrued July 1, 2018 through June 30, 2019, including, but not limited to, an allocable share of the costs of the President's Executive Office, the Provost, the Academic Senate, Human Resources, Compliance and Audit, Financial Accounting, UC National Laboratories, Federal Government Relations, Office of Research and Graduate

¹ The University is also a member of Triad National Security, LLC, which was selected to be the follow-on contractor to LANS. However, due to the uncertainty regarding the timing of the transition from LANS to Triad, the estimated fee income for Calendar Year 2018 does not include any Triad income.

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 2018-19 (\$5.2 million in FY 2017-18). 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 \$3.5 million for FY 2018-19 (\$2.9 million in FY 2017-18). 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 May 31, 2018 is \$12.8 million, which does not reflect the \$2.9 million allocated in FY 2017-18. The target balance for the PCCF approved by the Regents in 2013 is \$27 million.

No further funds would be added to the Contract Bid and Proposal Reserve (CBPR) through approval of this action. Any remaining CBPR funds unused in FY 2018-19 would be returned to the PCCF.

- 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 \$8.1 million as of April 30, 2018. No allocation to the Fund is required for FY 2018-19. Funds remaining in the LLC Fee Contingency Fund will be carried over to FY 2019-20, 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 the LLC Fee Contingency Fund.

- E. An appropriation in the amount of \$12.4 million for FY 2018-19 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 adjustment up or down required after the end of calendar year (CY) 2018 as a result of reporting by the LLCs of actual net fee income earned by the University in order to meet the ongoing appropriations under paragraphs A. through D. above and F. and G. below. In the event all or part of this funding for the UC Laboratory Fees Research Program is not needed in FY 2018-19, the funding will be carried over to FY 2019-20 for the same purpose.

- F. An appropriation in the amount of \$300,000 for FY 2018-19 (\$300,000 in 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 LLNL and other scientific and educational purposes. Unspent funds will be carried over for the same purpose.

- G. An appropriation in the amount of \$1 million for FY 2018-19 for the Accelerating Therapeutic Opportunities for Medicine (ATOM) collaboration.

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

Vice President Budil recalled that a projection of UC's anticipated fee income from Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) is made in July so that the proposed budget can be coordinated with the UC budget cycle. At the end of the calendar year, the University would learn how much fee income it had actually earned and Ms. Budil would return to the Subcommittee with a proposed reconciled budget. Current projections were very good, with UC's fee income expected to be \$24.6 million for calendar year 2018, in almost equal portions from LANS and LLNS. The LANS fee would be a *pro rata* share, since that contract would terminate before the end of the calendar year.

Ms. Budil said the recommended allocation of fee income was consistent with that of prior years, with the largest portion of \$12.4 million going to the UC Laboratory Fees Research Program. If other budget areas had funds remaining at the end of the year, those amounts would also be swept to the Fees Research Program. A \$1 million allocation would be made for the third straight year to the Accelerating Therapeutic Opportunities for Medicine (ATOM) partnership among UCSF, Lawrence Livermore National Laboratory (LLNL), and GlaxoSmithKline. A \$300,000 allocation to the Livermore Lab Foundation would assist its development of philanthropic support for LLNL research priorities. The budget allocates \$3.5 million to the Post-Contract Contingency Fund reserve intended to cover any liabilities resident at the end of a contract. The budget also provides \$2.2 million for a component of compensation that is not reimbursable by the government to UC-designated key personnel. Finally, the budget includes \$5.2 million for federally unreimbursed costs of University oversight of its interests at LANL and LLNL by Ms. Budil's office and other divisions of the UC Office of the President.

Subcommittee Chair Tauscher expressed her support for the proposed budget, which was in line with prior years' budgets. She asked if Ms. Budil anticipated changes in these allocations under the new Triad National Security LLC (Triad) contract. Ms. Budil said the use of fee income from the Laboratories should remain basically the same, but the specifics of earned fee income would be different, since the fee offered was slightly less and the new partnership would have a different structure for allocating fee income across the partnership. She anticipated the continuance of a sizeable contribution from fee income for the Fees Research Program.

Regent Ortiz Oakley asked when the new Triad contract would affect the revenue, since this budget was for fiscal year 2018-19. Ms. Budil explained that the new Triad partnership would take over the contract on November 1, so the fee earned for the last two months of 2018 would be under the new contract. The full effect of the change would be seen in the 2019-20 budget. When her office presents its estimate of earned fee the following July, it would have a clearer understanding of the income level under the new Triad partnership. Regent Ortiz Oakley asked if Ms. Budil anticipated a major effect on current revenue projections. She said she did not. She emphasized that her office and the support it provides to the National Laboratories are fully supported by fee income from LANL and LLNL, and

proceeds from management of Lawrence Berkeley National Laboratory. Her office manages this budget very tightly to avoid any unintended effects on the University.

Subcommittee Chair Tauscher commented that UC's affiliation with the National Laboratories was self-sustaining and provided enormous tangential benefits to the University. She suggested a Subcommittee briefing early in the upcoming year on the effects of the new contract and ancillary benefits to the University.

Regent Zettel requested a future presentation about the ATOM program and other National Laboratory collaborations that improve the quality of life for so many.

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

3. **NATIONAL LABORATORIES 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.]

Vice President Budil said she was extremely pleased to brief the Subcommittee on the award of the Los Alamos National Laboratory (LANL) contract to the new Triad National Security LLC (Triad) and proud that the University would continue to play an important role at LANL. In the current year, UC was celebrating its 150th anniversary and LANL its 75th anniversary; the two institutions have been joined since LANL's beginning.

The new Triad partnership brings together three excellent nonprofit institutions: the University of California, the Texas A&M University System, and the Battelle Memorial Institute. The members of Triad have a strong commitment to the success of the Laboratory, the quality and integrity of its intellectual environment, and its continuing excellence in science, technology, and engineering in support of LANL's important national security mission. Triad is an equal partnership, with each partner bringing unique experience and expertise, but sharing the single purpose of the success of the Laboratory. Triad would be supported by two integrated subcontractors with extensive subject-matter expertise, Fluor Federal Services in capital project construction and Huntington Ingalls Industries in nuclear operations. Three small business subcontractors, Longenecker and Associates, Merrick Strategic Management Solutions, LLC, and TechSource, would support the Laboratory directly and facilitate the participation of other small businesses.

The Triad transition team had arrived in New Mexico the prior week to commence transition activities. The transition is scheduled to take four months and Triad would assume responsibility for LANL on November 1. The Triad team is led by LANL Director-designate Thom Mason, who would work closely with current LANL director Terry Wallace and his team to ensure a smooth and successful handover. Reports indicated the initial transition was going extremely well, The current LANL team is dedicated to the success of the Laboratory and is working effectively with the new team. The National Nuclear Security Administration is providing excellent support.

Mr. Mason brings extraordinary experience to this position, both as a researcher and a leader, having served for ten years as director of Oak Ridge National Laboratory and more recently as Senior Vice President for Global Laboratory Operations at Battelle. Mr. Mason would be supported by three deputy laboratory directors charged with bringing together the operational support, science, technology, and engineering foundations, and mission delivery activities at LANL, and driving needed change in operational culture, while preserving the science that has always been the hallmark of the Laboratory.

Robert Webster will serve as Deputy Director for Weapons. He currently serves as the Principal Associate Director for Weapons at LANL and brings unmatched experience to this role. John Sarrao would serve as Deputy Director for Science, Technology and Engineering; he currently serves as the Principal Associate Director for Science, Technology, and Engineering at LANL and is a very distinguished scientist. Kelly Beierschmitt would be Deputy Director for Operations. He currently serves as the Deputy Director for Science and Technology at the Idaho National Laboratory and has an extensive reputation for success as both a scientific and operational leader across several national laboratories. Ms. Budil said the University was fortunate to have brought this group together and that she looked forward to introducing Mr. Mason at a future Subcommittee meeting, so he could provide further insight into his strategy and vision for LANL.

Ms. Budil said the award of the LANL contract had required the effort of the whole University. The journey to the new LANL contract began more than two years prior, and would not have been possible without the support and participation of a wide range of UC leadership and stakeholders, including the Regents, President Napolitano, others in the Office of the President, the Office of the General Counsel, and the Office of Secretary and Chief of Staff to the Regents, who ensured that UC's efforts could be swift and decisive. This support made it clear to LANL employees that UC's commitment was strong and enduring. Ms. Budil thanked UC chancellors and faculty for highlighting the broad and deep connections between UC researchers and the National Laboratories, and the value these partnerships bring to both organizations. The advice and counsel provided by the Academic Senate was critical, particularly its Special Committee on Laboratory Issues. Ms. Budil thanked her team in the Office of National Laboratories for providing extraordinary service. Ms. Budil expressed great personal pride in this extremely rewarding effort to build a successful partnership to steward LANL into the future with all UC brings to its partnerships with the National Laboratories.

Subcommittee Chair Tauscher added that she had been involved with the National Laboratories for 22 years. She thanked President Napolitano for her steadfast leadership in this effort and praised the caliber of Ms. Budil's work to secure the new LANL contract, a difficult and complicated undertaking. Subcommittee Chair Tauscher expressed pride that the contract bid that was put together was worthy of the University of California. Ms. Budil said she looked forward to introducing UC's partners in this endeavor.

Regent Ortiz Oakley suggested publicizing the great value to the nation of UC's involvement in the National Laboratories. He asked what analysis of the strengths and weaknesses of the LANS partnership was being conducted to inform the new partnership.

Ms. Budil responded that a deep introspective review was conducted when UC learned that the LANS contract would be rebid, to evaluate the strengths and weaknesses of LANS. Some intended changes under the LANS agreement were effectively instituted and others did not fit well in the LANL environment.

Ms. Budil observed that two things were important in aligning with the positive culture at LANL and its foundational commitment to national service, high-quality science and technology, and excellent mission delivery. First, it was important to return to a partnership among nonprofit organizations that would commit to a shared fate and a shared sense of urgency in ensuring the success of the Laboratory, to be pursued with a common set of values. The three Triad partners share those values, being engaged to serve the Laboratory first and committed to bring their unique capabilities to bear in that effort. There would still be an appreciation of the role of industrial practice in improving the operations of the Laboratory. The Triad LLC was structured so that the private sector partners would be integrated subcontractors, giving them the ability to see the success of the Laboratory through the partnership's lens, rather than locally in different parts of the Laboratory. They would be full partners in the success of the entire Laboratory. Also, this structure would allow the partnership the flexibility to bring in the best people and new support from other companies with different types of expertise, if needed. The second important aspect learned from past experience was to create a partnership with an agreement that all positions at the Laboratory would be openly competed and filled with the best person available for the position. The Laboratory Director would develop a leadership team; the Board and the LLC would hold the team accountable to ensure success, but responsibility would clearly rest with the Laboratory leadership team. The organizational structure would have clear and simple lines of accountability and authority.

UC has experience managing three National Laboratories; Battelle has experience managing seven National Laboratories. Battelle is well known for its development and exercise of laboratory operational leadership, and uses its network of National Laboratories effectively to learn from one another. The Triad partnership would have full access to that community of experts and the training programs they have developed to build operational leaders. Texas A&M would bring very strong leadership in nuclear engineering, to fill an LANL workforce need for criticality safety engineers and staff in its nuclear facilities.

Regent Ortiz Oakley asked about lines of communication between UC and Texas A&M to ensure communication as one team. Ms. Budil said communication would be managed through the Triad governance structure. UC, Texas A&M, and Battelle would each have an equal number of seats on the Triad Board and a Board observer seat. UC and Texas A&M would have faculty members as their observers. Triad committee responsibilities have been divided so that the partners would work closely together. Working conflicts would be handled by the Laboratory Director. The partners have agreed to work with the Laboratory leadership on any partner's new programs or activities to ensure alignment with leadership's views of the larger Laboratory community.

Subcommittee Chair Tauscher added that the Triad partnership would have six in-person Board meetings and two phone Board meetings a year, compared with LANS' three in-

person meetings and one phone meeting. She expressed confidence and enthusiasm at the prospects of the combined expertise of the Triad partners.

Regent Zettel suggested future Subcommittee presentations on collaborations between National Laboratory scientists and UC faculty, including in agricultural research.

Ms. Budil commented that UC's relationship with its Lawrence Livermore National Security partners continued to be very strong and was anticipated to continue into the future.

Regent Morimoto said that during a visit to LANL he was impressed with the number of UC graduates working there and the training of scientists to continue the Laboratory's crucial national security work.

The meeting adjourned at 4:20 p.m.

Attest:

Secretary and Chief of Staff