

**Office of the President**

**TO MEMBERS TO THE COMMITTEE ON FINANCE:**

**ACTION ITEM**

*For Meeting of July 16, 2014*

**AUTHORIZATION FOR EXTERNAL FINANCING FOR UCPATH PROJECT**

**EXECUTIVE SUMMARY**

This item recommends approval of external financing for the University of California Payroll, Academic Personnel, Timekeeping and Human Resources (UCPath) project for an amount of \$220.5 million.<sup>1</sup> Up to now, the UCPath project has been funded through the CapEquip program, an internal loan program administered by the Office of the President. However, due to the extension of the project from its original timeline, and the CapEquip Program's short-term financing constraints, it is no longer a suitable financing vehicle for UCPath.

**RECOMMENDATION**

The President of the University recommends that the Committee on Finance recommend to the Regents that the President be authorized to approve and obtain external financing for the UCPath project in an amount of \$220.5 million. The President shall require that:

- A. As long as the debt is outstanding, the Systemwide Assessment (excluding funds from tuition and State operating appropriations) attributed to the UCPath project shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
- B. The general credit of the Regents shall not be pledged.
- C. The President be authorized to execute all documents necessary in connection with the above.

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<sup>1</sup> UCPath project leadership expects to present an updated project budget that will reflect the current project timeline and request approval for a budget augmentation in January 2015.

## BACKGROUND

UCPath is a multi-year business transformation initiative that will better meet UC's complex operational and workforce needs. The UCPath project includes three components:

1. Adoption of streamlined and standardized payroll, human resources and academic personnel business processes;
2. Centralized transactional business processes, such as payroll processing, within the newly created UCPath Center to provide consistent and efficient payroll and selected human resources/academic personnel support services to all UC employees; and
3. Replacement of the 11 different instances of the Payroll Personnel System (PPS) with a single, University-wide payroll and human resources/academic personnel system.

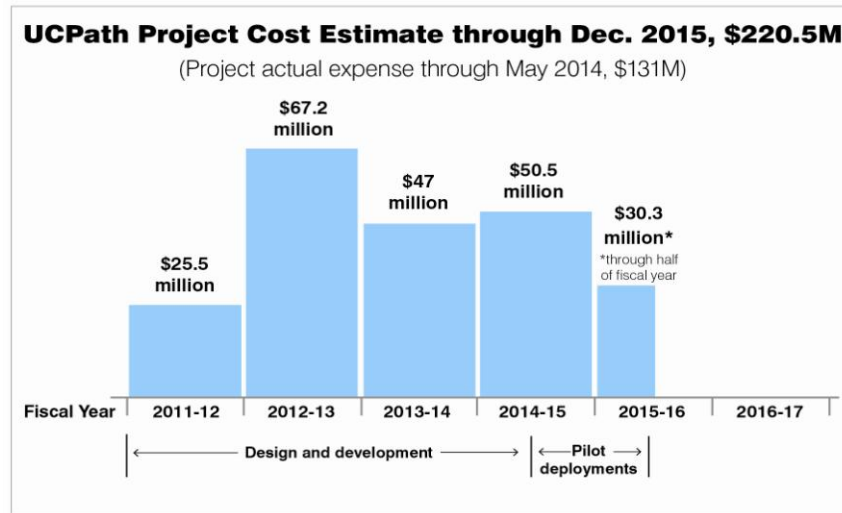
The existing legacy system, the Personnel Payroll System (PPS), is over 30 years old and increasingly difficult to update, maintain and use. The extreme frailty of PPS represents significant risk to effective payroll and HR operations and must be replaced as soon as possible.

In June 2014, the UCPath project completed the final steps of its design phase. All future business process designs have been approved by project governance groups, and the PeopleSoft HR/Payroll software application has been configured to reflect how users will interact with the system. Currently, project teams are completing development work and preparing for the first production deployment in December 2014 for the UC Office of the President (UCOP).

The UCOP deployment is the first of four scheduled pilot deployments; UC Santa Cruz, UC Merced and UCLA will move from PPS to UCPath during calendar year 2015. Subsequent campus deployments will occur in continued waves after the pilot deployments. UCPath project leadership will re-baseline the project based on this new deployment schedule, and will return to the Regents in January 2015 with revised dates for completing the project and a budget augmentation based on that timeline.

Current estimates are that the project will extend through the end of FY2016-17 as the project is moving from a 48-month original timeline to the extended 72-month timeline. This timeline increase is the primary driver behind the proposal to move out of the CapEquip funding mechanism. Additional information will be provided via a companion item being presented to the Committee on Long Range Planning to update the Regents on the UCPath project.

Current estimates of total project spend appropriate for capitalization are \$220.5 million.



Since FY2011-12, the UCPATH project has been funded through the CapEquip program, an internal loan program administered by the Office of the President. Through the end of March 2014, the UCPATH project has drawn approximately \$126.5 million from the CapEquip Program, and expects to draw an additional \$4.5 million for expenditures through May 2014, for a total program borrowing of \$131 million.<sup>1</sup>

The CapEquip Program is no longer an appropriate financing vehicle for the UCPATH project for the following reasons:

1. Loan tenor – CapEquip is a short-term financing program consisting of loans that have a maximum maturity of seven years. Given the project’s timeline extension, the UCPATH project requires a longer repayment period than the current CapEquip timeline and structuring parameters allow. The external financing was expected to be structured with level debt service payments of approximately \$25 million per year (based on budget constraints), on a \$220.5 million project budget.<sup>1</sup> This structure would have resulted in a repayment period of approximately 12 years.
2. Structuring limitations – CapEquip has a one-year limit for principal deferral and structured repayment terms. The UCPATH project requires greater structuring flexibility. Based on a project budget of \$220.5 million, the loan was expected to be structured such that amortization would commence beginning FY2015-16. However, financing the project externally will provide flexibility to delay amortization and capitalize additional interest, if necessary. Capitalizing additional interest will increase the project budget.

Therefore, this item seeks approval to refinance the UCPATH loan out of CapEquip and into external financing to achieve the financing customization required.

As indicated above, the original repayment plan based on the \$220.5 million budget was expected to have been repaid with annual debt service of \$25 million. This would have resulted in a 12-year loan term once principal was to be repaid. In January 2015, UCPATH project

<sup>1</sup> The \$10 million in tenant improvements approved for the UCPATH Center Riverside site as well as the \$17.4 million purchase of the facility (UCPATH is currently projected to use no more than 50 percent of the building) are not included in the figures above.

leadership plans to present a revised project timeline, a revised project budget and a revised estimated loan repayment schedule. Project leadership will work with the campus budget officers (and campus budget department staff) to develop: (1) an appropriate campus cost allocation strategy; (2) an estimated repayment schedule that will reflect commencement of principal repayments in conjunction with the final campus deployment (estimated to be early 2017); and (3) an estimated 15-20 year loan repayment period.

**SUMMARY OF EXTERNAL FINANCING AND SOURCE OF REPAYMENT**

<b>Summary of External Financing – UC Path</b>		
<b>Current Estimated Project Costs/ Proposed External Financing</b>	<b>Project Cost Components</b>	<b>Duration</b>
\$220,500,000	Software, Hardware, Consultants, etc.	Project funding is expected to cover the four pilot deployments

<b>Summary of Repayment Source</b>		
<b>Annual Portion of Systemwide Assessment Pledged for UC Path</b>	<b>Commencement of Loan Principal Repayment</b>	<b>Pending Items</b>
Originally estimated at \$25 million per year (based on budget constraints) on \$220.5 mil. project budget. Will be revised and presented to the Regents in January 2015. Repayment will be from the Systemwide Assessment (excluding funds from tuition and state operating appropriations)	Originally to be FY2015-16. Will be revised to coincide with final campus deployment (estimated to be January 2017)	Strategy for campus cost allocation being developed that will, in part, determine annual repayment amount and start of loan repayment and loan tenor. Expected to be 15-20 years.