

The Regents of the University of California

**COMMITTEE ON LONG RANGE PLANNING**

July 16, 2014

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

Members Present: Regents Engelhorn, Gould, Kieffer, Lozano, Ruiz, Saifuddin, and Sherman; Ex officio members Napolitano and Varner; Advisory member Jacob; Staff Advisors Acker and Coyne

In attendance: Regents De La Peña, Island, Lansing, Makarechian, Reiss, Wachter, and Zettel, Regents-designate Davis, Gorman, and Oved, Faculty Representative Gilly, Interim Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Provost Dorr, Executive Vice President and Interim Chief Financial Officer Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Allen-Diaz, Andriola, Brown, Budil, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Dirks, Katehi, Khosla, Leland, Wilcox, and Yang, Interim Chancellors Gillman and Hawgood, and Recording Secretary Johns

The meeting convened at 10:15 a.m. with Committee Chair Gould presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of July 18, 2013 were approved.

**2. UPDATE ON LONG-TERM FINANCIAL PLANNING**

[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.]

Committee Chair Gould explained that one reason for convening the Committee on Long Range Planning at the present time was that there was now an opportunity to work with the President on reshaping the University's message about its financial condition, mission, and what it needs to fulfill its mission. At future meetings there would be discussions about UC's debt capacity, capital needs, alternative revenues, and innovative changes in business practices.

Executive Vice President and Interim Chief Financial Officer Brostrom began the discussion by underscoring that there is no single solution that would address all the University's long-term fiscal challenges. Any comprehensive solution would require a combination of four elements: achievement of administrative efficiencies, leveraging all

the revenue-generating activities at UC, stable and predictable funding from the State, and a moderate and stable tuition plan. The University is especially concerned about volatility in tuition levels.

The University has a diverse revenue stream. UC's core funds, about \$6.6 billion, represent about one quarter of the overall enterprise. The core funds come from tuition and fees, the State appropriation for UC, and UC general funds, which consist of nonresident tuition, indirect cost recovery, patent royalties, and a few other sources. One of the University's key objectives is to leverage the remaining 75 percent of its revenue sources.

Core funds are largely used to address labor costs. About 70 percent of core funds are used to support academic and staff salaries and benefits. If this figure is combined with the 18 percent used for student financial aid, almost 90 percent of UC's core funds directly support students, staff, and faculty.

The costs of higher education are constantly rising. UC costs have risen on a nominal basis but in fact have been going down. In 2007-08 UC's core funds were \$5.4 billion; in 2013-14 they amounted to \$6.8 billion. Nevertheless, if this amount is adjusted for inflation and one takes into account the resumption of contributions to the UC Retirement Plan (UCRP), the increase in financial aid, and the increase in the University's debt service, UC operating funds declined by five percent in nominal dollars. During this period the University also enrolled 22,000 more students. On a per student basis, operating funds declined by 15 percent. Mr. Brostrom stressed that UC operations are an exception to the overall national trend of rising costs in higher education.

Since 1990-91, UC's expenditure per student, adjusted for inflation, has declined by about 12 percent, and the sources covering the cost of this expenditure have also changed. In 1990-91, the State paid nearly 80 percent of this expenditure, while tuition and fees covered about 13 percent; at the present time the State contribution had been cut almost in half, while the percentage covered by tuition and fees had nearly tripled, to 46 percent. Mr. Brostrom recalled that more than half of UC students do not pay tuition.

Mr. Brostrom then presented a chart showing changes in State spending on various State agencies from 1990 to the present. State support for UC was overshadowed by spending on corrections, K-12 education, and health and human services. State support for UC over this period, not adjusted for inflation, rose 31 percent, while UC increased enrollment by 82,000 students. The chart did not include the contributions made by the State to pension and health benefits for the California State University (CSU) and the California Community Colleges.

One of the University's responses to the reduction in State support has been to reduce the number of faculty and staff paid by core funds. This has had some positive results in better administrative practices, but also negative outcomes. The number of ladder-rank faculty was reduced by three percent from 2008 to 2013, even as the University increased student enrollment by 22,000. The number of other instructors, such as teaching

assistants, had declined by 13 percent. There was a total reduction of 17 percent in faculty and staff paid by core funds. Mr. Brostrom explained that not all faculty and staff included in this figure left the University; some positions were moved to more appropriate funding sources.

The student-faculty ratio has been increasing over the past 20 years, but rose especially during the fiscal crisis in 2008 as campuses stopped filling faculty positions. Inadequacy of core funds has affected other areas of the operating budget as well, with a direct impact on the University's academic program: graduate student support, instructional equipment and technology, library materials, building maintenance, and faculty and staff salaries. Mr. Brostrom indicated that some needs could be addressed with one-time funding.

The University remains concerned about the State's commitment to UC. The core funds are not adequate to meet UC's basic operating needs. The University has reduced its administrative costs and leveraged other revenues in order to redeploy resources for the academic mission.

Mr. Brostrom recalled the development of the Working Smarter initiative. In four years, the initiative had almost met its \$500 million goal in cost savings and revenue generation. About two-thirds of this amount accrues to the core fund budget. The UCRP was now on a stable path, thanks to measures taken by the University without the support or cooperation of the State. Contributions to the UCRP were resumed and increased. As of July 1, the University is paying a 14 percent employer contribution, while employees in the original tier are paying an eight percent contribution. UC introduced a new tier in July 2013 which lowered the UCRP normal cost by approximately 20 percent. The University has borrowed more than \$2 billion from internal and external funds for the UCRP. Later that day the administration would propose another borrowing; Mr. Brostrom anticipated that this would enable the UCRP to achieve a funded status in the next 15 to 20 years.

Health benefits are another significant cost for the University, annually about \$1.6 billion. UC has taken a number of measures to stabilize these costs. The previous year the University re-bid its health insurance packages. The rate increase was kept down to 3.1 percent, \$55 million less than anticipated. A family verification process saved an additional \$35 million. The current year was the first year of operations for UC Care, a self-insured health benefit program at UC medical centers. In the first year there are 22,000 employees enrolled and over 45,000 members. This plan might be expanded in the future.

UC medical centers play an important role in the University's academic enterprise. More than one half of their operating margin is used to support academic programs at the schools of health science. UC medical centers produce twice as much revenue for the medical schools as the State does. UC Health is taking measures to reduce costs in supply chain management, the revenue cycle, clinical laboratory expenses, and through best practices in information technology. The UCPath payroll system and the procurement initiative would be discussed later that morning.

The previous year, UC launched its own captive insurance company to provide enhanced coverage to the campuses and lower costs. This insurance would cover general liability, workers' compensation, and the UC fleet. The University was considering expansion of this program to cover medical malpractice for some affiliate physicians. The captive insurance company represented a significant opportunity to reduce the cost of risk management and generate additional revenue in insurance products.

The University has also enjoyed success in indirect cost recovery from federal contracts and grants. The UC system receives about \$5 billion in research funding every year. Sixty percent of that amount, about \$3 billion, comes from the federal government. UC campuses' rates of indirect cost recovery, at 52 percent to 56 percent, lag behind private universities; UC's competitors' rates are ten to 15 percent higher. Considering the base of \$3 billion, this represents a considerable amount of discretionary revenue lost to the campuses. The campuses have engaged in renegotiating rates. The rates for UC Berkeley and UCSF would increase by about 3.5 percent and three percent, respectively. Mr. Brostrom noted that although the rates were increasing, the overall level of federal research funding had gone down due to federal budget sequestration, and the overall amount of research funding to the campuses was eight percent lower than UC had projected.

Ten years earlier, nonresident undergraduate enrollment was about four percent. This level has increased dramatically, reaching 11.4 percent the previous year, and it might approach 13 percent in the current year. Mr. Brostrom emphasized that nonresident undergraduate enrollment has enabled the campuses to maintain their enrollment of California students. Through the fiscal crisis, UC did not reduce the number of its California resident students, unlike CSU or the community colleges.

In response to a question by Regent Lansing, Mr. Brostrom recalled that the UC Commission on the Future had discussed a ten percent limit on nonresident enrollment, but this was never adopted by the Regents. Regent Gould noted that the Regents would like to keep nonresident enrollment at that level, but that absent State support, the University would consider alternative revenues, including out-of-state and international students.

Regents Reiss and Lansing requested information, broken down campus by campus, on California vs. out-of-state enrollment, and on the effect of increased out-of-state enrollment on numbers of in-state students. Mr. Brostrom stated that he would provide a campus-by-campus breakdown, noting that some of this information was contained in the UC Accountability Report. He observed that increased out-of-state enrollment does not reduce in-state enrollment, because UC campuses have extra capacity. Enrollment is limited by operating funds; if UC received more operating funds from the State, it could increase California student enrollment. UC is able to maintain the level of California student enrollment, and the campuses have the capacity to add more students. UC was educating about 9,000 California residents for whom it received no State funding, and nonresident tuition is one way the campuses have been able to accommodate this. The campuses fall into three broad groups by percentage of nonresident enrollment: Berkeley,

UCLA, and San Diego have close to 20 percent; Irvine, Santa Barbara, and Davis have from seven to nine percent; Riverside, Santa Cruz, and Merced have 2.5 percent or less. Mr. Brostrom noted that enrollment at some campuses is constrained by long range development plans.

Regent-designate Davis asked about the State's rationale for covering the pension expense for CSU but not for the UCRP. Mr. Brostrom responded that the State covered the employer contribution to the UCRP until 1990. UC differs from CSU in having its own independent pension program, which UC operates itself, with its own benefits and asset management program. CSU employees are members of the California Public Employees' Retirement System (CalPERS), the State pension system. In 1990, UC and its employees stopped making contributions to the UCRP. At that time the pension system was overfunded and the State found itself in a difficult fiscal situation. Over the intervening decade, due to market returns, the funding ratio grew to approximately 160 percent. Following the two market dislocations in the past decade, and with more UC retirees in the system, the funded status of the UCRP rapidly deteriorated. Former President Yudof assembled a task force to consider reducing pension expenses with a new tier and the resumption of contributions. These changes have been made in a dramatic fashion. In 2010 UC made no contributions to the UCRP; in the current year, UC would contribute 14 percent, or about \$1.3 billion, an expense UC did not have five years previously. About a third of this amount, or \$400 million, comes from UC general funds. The State has acknowledged its obligation to the UCRP, but has provided only one-time monies. The University receives roughly the same appropriation from the State as CSU, but the State also makes a separate payment into CalPERS for CSU staff and faculty. Vice President Lenz stated that there was not a rationale for the State's position. The University succeeded in having statutory language removed that precluded State funding for the UCRP and the State has provided funding on a one-time basis. The State Department of Finance has argued that it provided \$142 million for the UC budget as ongoing revenue; UC can determine how to use that revenue. The challenge in this case for UC is that its mandatory costs are greater than \$142 million; CSU receives \$142 million from the State as well as the pension contribution.

Regent Makarechian asked about a chart shown earlier indicating that 18 percent of UC's core funds were spent on employee and retiree benefits. Mr. Brostrom explained that this was the portion of the \$6.6 billion of core funds that goes toward the University's contribution to employee and retiree benefits. It did not include the employee contribution.

Staff Advisor Coyne asked about another chart shown earlier indicating a 24 percent decline in staff paid by core funds. She asked if this reflected a real reduction in staffing levels or just the source of payment. Mr. Brostrom responded that the overall level of faculty and staff had risen by about five percent over the previous five years, while the portion paid from core funds declined. This was due in part to a dramatic increase in research funding, with an increase in the number of staff paid from federal contracts and grants. A position that had been supported entirely by core funds might now be paid in part from contracts and grants. The decline in faculty positions paid from core funds

represented a significant decline in numbers and was alarming. Ms. Coyne requested information on change in actual staff numbers and change in staff workload.

Faculty Representative Jacob drew attention to the reduction in core funds for the educational mission of the University and the seriousness of this issue. The University makes cuts not across the board, but to specific programs. Courses that in the past were taught to 100 students now have 400 students and teaching assistants have responsibility for many more students. Mr. Jacob emphasized that this was a painful slide and a bad outcome for the University. The increase in student-faculty ratio from 19 to 23 is significant. Mr. Jacob expressed concern that savings from the Working Smarter initiative are presented in UC's budget proposal as increases in revenue rather than as decreases in expenses. This might present a misleading picture to the Governor and the State. Mr. Brostrom responded that parts of the Working Smarter initiative do in fact bring in revenue, for example, the asset management program. In other areas, Working Smarter seeks to reduce the rate of growth of UC expenses.

Returning to the topic of nonresident enrollment, Mr. Brostrom pointed out that UC enrolls a far smaller percentage of nonresident students than its public comparison institutions or the Association of American Universities public average. This is a matter the University should follow closely, since California has a growing number of high school graduates.

Philanthropic support for the University remains strong. UC received more than \$1.6 billion in private support in fiscal year 2013. Mr. Brostrom emphasized the University's desire to increase the level of philanthropic support for its core mission. For example, the President's Endowed Chair, the Hewlett Chairs at UC Berkeley, and initiatives for student financial support reflect the donors' interests and help campuses fulfill the educational mission of UC.

Regent Ruiz expressed concern about the University's ability to meet the future requirements of growing numbers of California high school graduates.

President Napolitano observed that a long-term plan has many components. The administration has a long-term enrollment planning group that is working with the community colleges and CSU. Information presented by the Governor at an earlier meeting, to the effect that the numbers of California high school graduates were decreasing, differs from UC's own estimates. If, as is hoped, the quality of K-12 education improves, the number UC-eligible students will increase. The University is approaching a capacity problem. It wishes to balance its budget, but faces the challenge of doing this when there is no improvement in State support. At a certain point, the Regents might have to make a decision to limit enrollment. Chairman Varner added that questions like this one would be discussed by the Committee on Long Range Planning at future meetings.

Regent Kieffer noted that the Working Smarter initiative was introducing structural changes in systemwide and campus operations, seeking a balance between freeing up

chancellors to do the job they need to do and taking greater advantage of the size of the UC system. This was a change in the way UC does business. Mr. Brostrom stated that there is a constant dialogue between the Office of the President and the campuses about where functions are best located, systemwide, regionally, or on the campuses. A systemwide function would not necessarily be located in one center, but might be found at campus centers of excellence; this was the case of the UC procurement enterprise.

Regent Lozano recalled that the California Postsecondary Education Commission (CPEC) had provided basic assumptions to the higher education segments in California, on which basis the segments were collectively able to make long-term projections. Now that CPEC no longer exists, agreeing on growth assumptions with other segments is essential. She urged the University to ensure that its long-term planning is not done in isolation from the other segments, and that the impact of K-12 education and graduation rates is taken into account. President Napolitano responded that each of the three segments has designated individuals to work together on enrollment planning. The first phase of this planning would take place in the fall and be integrated into the University's budget request.

Regent Reiss cautioned that in spite of UC's outstanding efforts, State funding was unlikely to be restored to hoped-for levels in the future. She asked about other models for delivering education and the possibility of dramatic changes or alternatives that might change the cost equation for UC. The University might not be able to fulfill the mission it hoped and intended to fulfill. Mr. Brostrom stated that the administration would present a more comprehensive model at the September meeting that would consider the level of State support and a moderate tuition plan. Predictability in State support is essential. With this predictability, the University could still put together a tuition plan that would protect low-income and middle-income students and provide revenue for operations.

Regent Reiss expressed the Regents' concern that there might not be predictability in State funding in the coming five to ten years.

Committee Chair Gould stressed that there was no magic solution for ensuring sustainable funding for the University. UC would have to work in numerous areas at the same time, such as philanthropy, technology transfer, and initiatives to adjust the spending model. The Regents were confronting the fundamental question of whether the University can carry out its core mission. The purpose of the present discussion was to outline the situation.

Mr. Brostrom completed his presentation by noting that UC had achieved dramatic successes in its asset management. He recalled that the University launched the Total Return Investment Pool (TRIP) in 2008, an alternative investment portfolio. TRIP had averaged more than eight percent above the returns of the Short Term Investment Pool (STIP). In the current year, this amounted to approximately \$6 billion. Measures like this and the University's efforts in philanthropy are long-term efforts that would take some time to produce results.

Regent Kieffer reflected that the University's efforts were made in a context of how UC had always operated. He asked if other research institutions across the country were reconsidering the model of education delivery. He requested information on how other institutions are addressing their challenges. There might be approaches other than simply reducing expenses while trying to restore funding.

Regent-designate Davis asked about the planning activities of the community colleges and CSU. Mr. Lenz responded that in addition to President Napolitano's meetings with the leaders of the other two systems, he and Mr. Brostrom are engaged in a coordinated effort with the community colleges and CSU regarding enrollment planning and administrative efficiency initiatives. There are discussions almost weekly about budget and planning. The community colleges enjoy Proposition 98 funding and are thus advantaged in a way that UC is not, but there are discussions of various issues of common interest.

Mr. Brostrom reminded the Committee that the administration carefully considers State funding and the University's tuition policy and seeks to leverage the remaining 75 percent of UC revenue sources, beyond core funds, more effectively.

Regent Makarechian asked that the University examine the limit or capacity of each campus to enroll new students. He also asked that the University examine its debt capacity, expressing grave concern about UC resources in the future and doubts about the proposed transfer of funds from STIP to the UCRP, to be discussed later that morning.

Committee Chair Gould noted that the Regents tend to examine UC initiatives and proposals on a transactional basis, rather than in the context of the implications these actions have for UC's credit rating and cost of borrowing. The Regents need to understand this context in order to make sound decisions for the long term.

### 3. **P200 STRATEGIC PLAN REVIEW**

[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 Interim Chief Financial Officer Brostrom began the presentation by recalling that the campuses and the Office of the President have engaged in strategic sourcing efforts for some years and with some success. Two years earlier, a new approach, the P200 program, was launched to optimize UC efforts and secure further savings for UC's academic mission. The program is data-driven. UC is making decisions and structuring contracts based on analysis of these data. P200 is comprehensive and integrated, examining all tools and technologies to drive down the cost of purchases. P200 is located throughout the University, with centers of excellence on the campuses.

Chief Procurement Officer William Cooper stated that the program's goal was to redirect \$200 million to UC's core missions of teaching, research, and public service. P200 was a change in how UC does business. Over the past 15 months, P200 had launched major



technology platforms to support sourcing, contract management, data analysis, and benefit tracking operations. Mr. Cooper outlined the shared governance structure of the procurement program. He reported that the University's amount of "addressable spend," or expenses that could be addressed by sourcing activities, was \$7 billion, or one-third of UC's operating budget. Two billion dollars of this amount was spending in traditional categories, and \$5 billion in nontraditional categories. The P200 program had achieved \$128 million in validated savings in fiscal year 2013-14, but must make inroads in sourcing for nontraditional categories to achieve the \$200 million goal.

Construction spending, about \$1.7 billion annually, is an important category. Best practice sourcing activities might lead to savings of five to eight percent in construction. Local campus procurement activities are expected to meet 40 percent of the \$200 million goal. Systemwide agreements would free up campus resources that could then be used for local purchasing. Campuses must maximize the use of systemwide contracts and reduce sole source agreements, which currently represented between 50 and 60 percent of local contracts. One-time, major purchases need to be effectively managed. Contracts are continually expiring, so the program must develop and expand new contract opportunities. Campus and client engagement is important.

Regent Ruiz observed that it might be difficult to secure support from the campuses for the program. Campuses might feel that they are losing independence, but Regent Ruiz stressed that the program would generate significant savings for UC. He encouraged the campuses to embrace the P200 program.

Regent Lozano expressed support for the program, and concern about the University's ability to continue supplier diversity and to ensure that minority- and women-owned businesses are not excluded. Mr. Cooper responded that federally sponsored programs include mandates regarding supplier diversity and assured Regent Lozano that the University takes this issue very seriously.

#### 4. **UCPATH PROJECT UPDATE**

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

Executive Vice President and Interim Chief Financial Officer Brostrom recalled that UCPATH was a single payroll, benefits, human resources, and academic personnel system for all UC employees. The UCPATH program was launched in 2011, with implementation at the Office of the President expected by the end of the current year and final campus deployment in early 2017. The initial project leader left the project the previous summer, and new leadership was put in place, Deputy Chief Information Officer Mark Cianca and Project Director Sabu Varghese.

Mr. Cianca explained that the name UCPATH was an acronym, standing for payroll, academic personnel, timekeeping, and human resources. The program would provide standardized, regularized business processes for those administrative transactions

systemwide. UCPATH seeks to reduce risk through compliance and accountability and through providing timely and accurate payroll services. The University aims to make a seamless transition to the new system with minimal disruption.

UCPATH would eliminate inefficiencies, such as the current situation of 11 separate payroll systems spread across the campuses, fragile and difficult to maintain. Early inventory and analysis discovered that there are 1,200 separate interfaces with campus systems, which are unique, costly, and susceptible to error. Since the last briefing to the Regents, the University has acquired and opened the UCPATH Center in Riverside, formed project teams on all the campuses, and conducted initial system design.

Mr. Cianca recalled that when he began work on this project, the UC system had more than 23 separate federal tax identification numbers for payroll reporting purposes. UCPATH would have a single tax identification number. The UC system had over 300 different ways to hire an employee; now the University would have a standard smaller set of processes to hire employees. These essential business transactions become very costly when they are excessively diversified.

Mr. Varghese outlined a comprehensive project assessment that was carried out over a 90-day period. Originally, Oracle had been engaged to oversee project management. A software company looks on this kind of transaction as software implementation, but in fact this is a business transformation involving people, processes, and shared services. The decision-making process for UCPATH has been streamlined and controls have been improved.

Regent Makarechian recalled that the initial budget for UCPATH had been approximately \$156 million. He asked if the University intended to seek a budget augmentation for the project. Mr. Cianca responded that the Regents had already provided an augmentation. UCPATH was working with an improved budget of \$220 million. A final budget would be proposed at the January 2015 meeting.

Regent Makarechian asked about the reasons for the increased project cost and the longer time period required for completion. He asked who was making decisions about changes in project scope. Mr. Cianca responded that the change in cost reflected the result of information gained during the assessment mentioned by Mr. Varghese. It became clear that the implementation partner had approached this solely as a software implementation project. A frequent comment from the campuses was that it was not clear how work would proceed between the campuses and the shared service center in Riverside, and that they had not been consulted regarding the business processes. Future configuration work had to be put on hold while project leadership worked with the campuses on determining how processes for human resources, payroll, and benefits transactions would be run. Mr. Cianca stressed that this represented a sea change in how UC does business. A wide range of practices among the campuses has had to be standardized, agreement had to be reached, and governance approval secured.

Regent Makarechian asked about the source of funding for UCPATH and requested a cost-benefit analysis of the program. Mr. Brostrom stated that the administration would present a complete pro forma report at the January meeting. Currently UCPATH was funded internally from a loan program. An item would be proposed later that morning to switch to funding through a commercial paper program which would provide more flexibility. The expense would be repaid from a payroll assessment, with a certain amount for the operating costs of the UCPATH Center and an amortization of the capitalized amount over ten to 15 years. A cost-benefit analysis would be provided. The old payroll systems are fragile, adding cost through monthly errors and accounting problems. Standardization would provide many benefits.

Regent Makarechian asked if the project budget represented payments mostly to third-party vendors or to UC staff working on the project. Mr. Brostrom responded that this amount includes external and internal payments, and allocations to the campuses for their expenses in preparing for implementation.

Regent Makarechian asked if some of the budget was thus allocated to staff already working at UC. Mr. Brostrom replied that the University is trying to maintain UCPATH as a discrete capitalized project, accounting for all time worked. In many cases, payroll experts on the campuses have worked on UCPATH, and their function has had to be filled by another individual to keep existing payroll systems going. The engagement of another individual in such a case is not allocated to UCPATH, but the time of the payroll expert working on UCPATH is allocated to the project.

President Napolitano stressed that Mr. Cianca and Mr. Varghese had successfully restarted the UCPATH project, which is complex and essential for the University.

Regent Ruiz stated his view that the fault for delay with implementing this kind of program at UC lay with the Office of the President rather than the campuses. Previously, the University did not have the leadership required to implement UCPATH. He anticipated that the campuses would accept this program when it is executed correctly. Mr. Brostrom responded that Mr. Cianca and Mr. Varghese had transformed UCPATH from a top-down initiative led by the Office of the President to one that is much more focused on the campuses.

Regent Ruiz remarked that this program should have been implemented ten years earlier. Mr. Brostrom replied that UCPATH was now in a good state, but that some valuable months were lost when there was not enough focus on the campuses.

Mr. Varghese stated that given the complexity of UCPATH, it was decided that implementation would take place in a series of pilot projects, beginning with the Office of the President at the end of the current year, and then moving to Santa Cruz, UCLA, and Merced. The UC system would learn from this deployment. Mr. Cianca described this approach as “crawl, walk, run.” The implementation would begin with the Office of the President because this is primarily a staff population. At UC Santa Cruz, the academic populations would be introduced, and at UCLA, health sciences faculty and employees.

Additional complexity would be introduced with each pilot project, and UC would learn from that complexity. Then there would be a rather rapid deployment of the remaining campuses. Mr. Cianca briefly addressed the anticipated risks and strategies to address risk in the aggressive deployment schedule for the large campuses, an integrated work plan of this size and complexity, and staffing the UCPATH Center in Riverside.

Mr. Varghese outlined current priorities for UCPATH: Office of the President deployment, UCPATH Center readiness, fine-tuning the deployment schedule for all remaining UC locations, business continuity planning, and change management and training preparation. Mr. Cianca concluded by stating that the presentation in January would report on the status of deployment, the schedule for the remaining UC locations, an updated project budget based on the final timeline, and a recommended schedule and method for project repayment.

Regent Engelhorn asked about the anticipated number of staff at the UCPATH Center. Mr. Cianca responded that UC had a working estimate of 483 employees. In the course of the pilot projects, the University would determine if the projected staffing number can adequately support the business processes that have moved to the Center.

Regent Engelhorn observed that the costs of UCPATH are virtually all labor costs. He anticipated that savings from UCPATH would not be realized immediately. UC would have to finance UCPATH over a long enough period so that the academic mission of the campuses would not suffer. This might be a 20-year period, and this would have to be reflected in the payback schedule.

Regent Makarechian asked what portion of the cost was paid to Oracle for its software. Mr. Cianca estimated an annual cost of \$4 million to \$5 million for hosted services and licensing fees.

The meeting adjourned at 11:55 a.m.

Attest:

Secretary and Chief of Staff