

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

November 16, 2016

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

Members present: Regents Elliott, Gould, Makarechian, Schroeder, Sherman, and Zettel; Advisory members Lemus and White; Chancellors Blumenthal and Hawgood; Staff Advisor Richmond

In attendance: Regent-designate Monge, Secretary and Chief of Staff Shaw, General Counsel Robinson, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice President Henderson, Chancellor Gillman, and Recording Secretary Johns

The meeting convened at 10:35 a.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of September 14, 2016 were approved.

2. **UPDATE ON STUDENT HOUSING AND PLANS FOR THE CONTINUED DEVELOPMENT OF THE WEST VILLAGE NEIGHBORHOOD, DAVIS CAMPUS**

[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.]

Interim Chancellor Hexter explained that the primary focus of the UC Davis housing and dining program was to provide transitional support to freshmen and transfer students. In the current year, approximately 11,500 students were being served by the program. Most of them were undergraduates living on campus, about 35 percent of UC Davis' undergraduate population. A key objective of the program is to meet housing guarantees. Students who live on campus during their first year tend to have higher grade point averages, shorter time to degree, and a higher second-year retention rate than students who do not. The Davis campus was in the process of updating its Long Range Development Plan (LRDP) for 2017 to 2027, including plans for housing. Discussion and approval of the LRDP and associated environmental documents would occur in 2018.

Senior Associate Vice Chancellor Kelly Ratliff observed that UC Davis' need for housing, like that of other UC campuses, was shaped by the city in which the campus is located. The City of Davis had an apartment vacancy rate of less than one percent. In the

context of the LRDP update, UC Davis has set a goal of housing 40 percent of its student body. It has been a longstanding practice for UC Davis students to transition from on-campus to community housing, and the City of Davis is very much a college town. While UC Davis offers a second-year housing guarantee, only about two to three percent of students accept this offer. About ten percent of Davis students live in surrounding communities such as Sacramento, Woodland, and Vacaville.

Ms. Ratliff displayed a map showing the six primary locations of on-campus housing. She emphasized that the campus has been forward-thinking in the management of its housing inventory, with a series of redevelopment and renovation projects to add capacity, and new residence halls and dining facilities. She reviewed the Leadership in Energy and Environmental Design certifications of these facilities and mentioned that the dining programs have sustainable business certifications. Ninety-six percent of freshmen and about 30 percent of new transfer students choose to live on campus.

Ms. Ratliff presented a chart of anticipated housing projects for the next several years. The campus would renovate housing with about 3,000 beds and add 1,600 to 1,800 new beds. The campus would also add capacity for about 500 dining seats during the same period. Between the current year and 2021-22 UC Davis would increase its on-campus housing capacity from about 33 percent to 37 percent of student enrollment. The campus was assuming modest rate increases, about three percent annually. Ms. Ratliff anticipated that with those increases, the campus would have sufficient funding available for its capital plans, facilities maintenance, and fixed costs for staff, and would sustain an appropriate debt service coverage over this ten-year period. She stated that overall housing and food costs for students on campus were similar to or slightly less than for students off campus. Ms. Ratliff concluded with a brief encapsulation of the West Village project, including plans to add faculty and staff housing and student beds.

Regent Sherman requested a definition of “redevelopment” as applied to these projects. He asked if this meant complete rebuilding or just remodeling of existing facilities. Ms. Ratliff responded that the term “redevelopment” referred to both activities mentioned by Regent Sherman. In the Tercero Student Housing Phase 4 project, the campus demolished old housing and rebuilt a new structure in its place. The project would provide 500 beds, of which 320 would be net new beds. In contrast, the redevelopment of Webster Hall and Emerson Hall would change these from three- to four-story buildings, with renovations and improved dining capacity.

Regent Sherman asked if there were significant savings gained by adding a story to an existing building rather than demolishing it, especially in the case of older buildings. Ms. Ratliff responded that the last two structures mentioned were built in the 1950s. The campus was trying to increase the density of the student population on this site. The plans for these facilities, and to build out this neighborhood, took into consideration the best value per bed.

Regent Sherman asked about the decision to build a residence hall versus an apartment building. Ms. Ratliff responded that the residence halls are for freshmen, while apartments are intended for transfer and graduate students and family housing.

Regent Sherman asked if these different products were built in response to a specific demand. Ms. Ratliff responded in the affirmative. Regent Sherman asked if there was a difference in cost per bed for these two kinds of facilities. Ms. Ratliff responded that the residence halls have a slightly higher cost per bed, due to amenities provided such as programs and event spaces, not included in apartment settings. Some residence halls also have classroom space. Residence halls had a higher cost, including some mandatory participation in a dining program.

Regent Sherman asked if students after their freshman year wish to move into apartments in order to lower food costs by preparing their own meals rather than participating in a meal plan. Interim Chancellor Hexter responded that the cost of housing, on campus and off, was one of the most serious issues for Davis students. Students reduced costs by cooking for themselves, but also by living in crowded conditions, two to three students in one small off-campus apartment.

Chancellor Blumenthal asked if the Davis campus would pursue public-private partnerships in its plans for student housing. Ms. Ratliff responded that the upcoming Orchard Park redevelopment project would most likely be a public-private partnership. For the Tercero Student Housing projects, located in the heart of the campus, UC Davis was using more traditional delivery and financing mechanisms. The campus had many years of experience with public-private partnerships and would consider this option for its projects.

Committee Chair Makarechian asked about the campus' long-term goals. He asked if the goal of housing a certain percentage of students was based on requirements in the Davis LRDP or on City requirements. Ms. Ratliff responded that to date, the campus had not had any formal requirement. As part of the LRDP process currently under way, the campus planned to adopt a goal of housing 40 percent of students, and to build housing to achieve that goal.

Committee Chair Makarechian asked if the 40 percent goal would be based on the future number of students. Ms. Ratliff responded in the affirmative. The student body was expected to grow to somewhat under 40,000 by 2027. Interim Chancellor Hexter added that the total number would include students living in Sacramento and attending the Schools of Medicine and Nursing. The housing plans would focus on 40 percent of the students on the Davis campus. Committee Chair Makarechian asked UC Davis to provide an inventory table or list showing number of student beds and units, and future goals.

Interim Chancellor Hexter emphasized the campus' wish to achieve the 40 percent goal, and possibly exceed this percentage in future years, given the fact that students were having difficulty finding affordable units in the City of Davis and more students were choosing to move further away, increasing traffic in the area.

Committee Chair Makarechian asked why students were choosing to live further away. Interim Chancellor Hexter responded that vacancy rates in the City of Davis were very low, sometimes quoted as low as 0.2 percent. More students were living in Woodland than had in the past, and more students needed to drive to and park on campus.

Committee Chair Makarechian asked who was setting the goal of 40 percent. Ms. Ratliff responded that the campus itself was setting that goal, given the constraints of local housing market saturation and the City's tendency to limit growth. The campus believed that this goal would reflect an appropriate balance between students living on and off campus.

Regent Gould asked if there were any key hurdles or issues of concern for the City of Davis community that needed to be addressed in order for the campus to pursue its housing plans. Interim Chancellor Hexter responded that UC Davis has generally enjoyed a friendly relationship with its community. In pursuing its LRDP process and capital program, the campus engages in an ongoing dialogue with the Davis community.

3. **UPDATE ON STUDENT HOUSING AND PLANS FOR MIDDLE EARTH EXPANSION AND EAST CAMPUS STUDENT APARTMENTS PHASE 4, IRVINE CAMPUS**

[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.]

UC Irvine Vice Chancellor – Student Affairs Thomas Parham began his discussion by describing the Irvine campus, at age 51, as being in a dynamic stage in its development. Over the previous eight years, enrollment had increased by nearly 5,000 students. The campus envisioned continued growth for a number of years. UC Irvine is located in an area with some of the highest rental rates in California. The campus was seeking to create living-learning communities for freshmen adjacent to the academic core area of the campus and to expand upper division undergraduate housing on the East Campus through third-party partnerships. Mr. Parham referred to UC's agreement with the State to enroll 2,500 additional California resident students in each of the next two years, and the Irvine campus' 2007 Long Range Development Plan goal of providing housing for 50 percent of undergraduate and graduate students. UC Irvine was currently housing about 44 percent of its total campus enrollment, or 14,000 students, while 2,200 undergraduate and graduate students were on a housing wait list. The demand for student housing was very strong.

UC Irvine planned to address this demand with the Middle Earth Expansion project, adding 495 beds for freshmen, with a target opening in fall 2019; the East Campus Student Apartments Phase 4 project, which would add 1,400 beds for continuing undergraduates, with the same target opening date; and renovation of 656 beds in Verano Place graduate and family housing. The Irvine campus was very mindful of the need to use space efficiently. Based on current enrollment and inventory projections, UCI would house 46 percent of its students by fall 2019-20. Mr. Parham presented a chart with an

overview of the campus' ten-year financial plan for debt service coverage and operations, pointing out that the debt service coverage ratio would consistently exceed the minimum requirement of 1.25, with the lowest ratio, 1.43, anticipated in 2021-22. He briefly described the Middle Earth Expansion project.

Vice Chancellor – Administrative and Business Services Wendell Brase recalled that 15 years earlier, UC Irvine had set a goal of increasing the percentage of students housed on campus from 28 percent to 50 percent. This goal has been addressed with a hybrid business model. Campus core housing for freshmen has been conventionally owned and financed, while the East Campus housing for upper division and graduate students is developed by third parties. The site being proposed for the East Campus Student Apartments Phase 4 project had the capacity for 2,300 beds, 1,400 beds in the initial phase, and 900 more when demand warrants building out the project. This would be the fourth phase of third-party-developed student housing. This part of the campus has been master planned as a student housing community, rather than developed as a series of independent projects.

Regent Sherman asked if, in 2024-25, when these projects would be fully built out, they would break even, with increased operating revenue covering the debt service. He asked why the debt service coverage ratios were projected to move in the direction indicated in the presentation materials. Associate Vice President Sandra Kim responded that the projected rates were fairly conservative and described the debt service coverage as healthy. Regent Sherman stated that the debt service increase would be covered, but not the maintenance and capital expenditures. Executive Vice President and Chief Financial Officer Brostrom responded that if the debt service were lowered, this would increase the amount of net reserves that would be spent on maintenance and capital improvements. Regent Sherman asked about debt financing. Mr. Brostrom responded that the Middle Earth Expansion project would be financed by UC's own debt, while the East Campus Student Apartments Phase 4 project would be financed privately, through the third-party partnership.

In response to questions by Committee Chair Makarechian, Mr. Brase and Mr. Parham averred that the Middle Earth Expansion project and its building towers represented an efficient use of land. Mr. Brostrom explained that the University anticipated that it would have to use a wide range of financing techniques for student housing projects on the different campuses, sometimes using third-party developers. UC Irvine was unique in having an existing partnership and it would continue to use that partnership.

Committee Chair Makarechian asked about the total number of units at UC that would be built by private developers. Ms. Kim responded that UC had a goal of 14,000 units, but this number would be readjusted as campus participation was defined. The University had just issued a request for information to almost 1,000 developers. UC Santa Cruz and UC Riverside would be the first participants in that proposal process.

Committee Chair Makarechian asked about the allocation of these 14,000 units among the campuses, and how they would be financed. Ms. Kim responded that the East

Campus Student Apartments Phase 4 project would be financed through a financing trust structure, and other campuses would use this mechanism.

Committee Chair Makarechian asked if UC provided information to developers about numbers and locations of units. Ms. Kim responded that developers were presented information on a systemwide initiative. Subsequent requests for proposals would include information on specific housing developments. In this initial request for information, the University was seeking general statements of qualifications from developers. Mr. Brostrom added that the University did identify the Riverside and Santa Cruz campuses as the first sites, and that requests for proposals would follow shortly.

Regent Schroeder noted that in the Mesa Court project, the campus was increasing triples to quadruples. She asked if this was a temporary or a permanent measure. Mr. Parham responded that the campus believed this to be a temporary measure, but this would depend on the campus' ability to build and increase capacity.

Regent Zettel asked if UC Irvine would open its projects up to other bidders with creative financing strategies. Mr. Brase responded that when UC Irvine awarded the East Campus Student Apartments Phase 3 project, the campus recognized the value of offering to the winner of a development competition the ability to develop remaining sites. Some real advantages of working with one partner include economies of scale; continuity in the design and planning process, in order to achieve the goal of a complete residential community rather than a series of unrelated projects; consistency in infrastructure design and ownership; a single investment trust structure; consistency in operations, marketing, pricing, staffing, and management; and low cost of capital and a strong reserve. Ms. Kim added that in connection with the current project, the University was issuing a tax-exempt bond, separate from the private developer.

Committee Chair Makarechian expressed strong approval for the construction of additional student housing by UC Irvine. In the high-priced housing market of Orange County, this was much appreciated by students.

4. **PRELIMINARY DISCUSSION OF THE 2017-18 BUDGET**

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

Executive Vice President and Chief Financial Officer Brostrom presented some key features of the 2017-18 budget, which were consistent with what they had been in the past. UC was supporting undergraduate and graduate enrollment growth, addressing mandatory costs, and investing in academic quality and deferred maintenance. Campuses grew by more than 5,900 students this fall, with anticipated growth of 2,500 California resident undergraduates in 2017-18, and 900 graduate students.

Mr. Brostrom reviewed mandatory cost increases, such as collective bargaining agreements, and other elements of the budget. The University tries to fund as much as it

can from its own revenues and cost savings; it was projecting slower growth in both employee and retiree health benefit costs, budgeted at four percent. He noted that the University was reaching a limit in some alternative revenue areas. Campuses had been moving money from the Short Term Investment Pool (STIP) to the Total Return Investment Pool (TRIP), which outperforms STIP by about six percent, but this was slowing down as rating agencies were considering liquidity requirements.

In the context of the budget framework agreement with the Governor, UC was anticipating another four percent base budget adjustment. This year, one-time Proposition 2 funds for the UC Retirement Plan (UCRP) might total \$171 million. He recalled that cap and trade auction proceeds had been significantly less than anticipated by the State and others, so no funding would be forthcoming from this source.

Committee Chair Makarechian asked how the University would obtain more funding for UCRP, especially given negative returns this year. Mr. Brostrom acknowledged that UCRP had projected earnings of 7.25 percent but had actually earned negative two percent. Results are smoothed over a five-year period, and on an actuarial basis, UCRP funding was increasing. Internal borrowing has helped, moving \$3.3 billion from STIP into UCRP and increasing the funding rate by about five percent.

Committee Chair Makarechian asked about additional efforts to obtain State funding for UCRP. Mr. Brostrom responded that it was his hope that Proposition 2 funding would be continued on an annual basis.

Committee Chair Makarechian expressed concern about the magnitude of the University's deferred maintenance funding needs. Mr. Brostrom responded that UC was conducting a systemwide analysis and developing standardized comparison criteria in order to determine the systemwide need for deferred maintenance, and a similar analysis for seismic needs. He expressed his wish that UC and the California State University jointly advocate for a State general obligation bond on the ballot as soon as 2018.

Committee Chair Makarechian asked if UC was contemplating potential tuition increases in the future. Mr. Brostrom responded that the University had not yet precisely determined sources for closing its revenue gap. A tuition increase would likely be between 2.5 percent and 3.1 percent, but would depend on the level of State funding for needs like deferred maintenance and graduate student enrollment.

In response to another question by Committee Chair Makarechian, Mr. Brostrom recalled that UC had not received State funding for graduate student enrollment the previous year. UC would seek funding for these students at the same marginal rate as for undergraduates.

Chancellor Blumenthal emphasized that the allocation for UC approved by the Legislature this fall did not include full funding for the 5,000 student enrollment growth that the University agreed to. He stated that UC campuses had overenrolled this year by about 1,000 students, and the allocation for the next year did not take those

1,000 students into account. He estimated that the legislative allocation was roughly only one-third of full funding for all additional students that UC would take on. The funds that UC was able to find to fully fund these students could have been used for other purposes as well.

Regent Zettel asked if Proposition 55, the extension of the Proposition 30 income tax increase, might provide any grounds for the University to request more funding from the State to address the UCRP liability or graduate student enrollment growth. Mr. Brostrom responded that the revenue from Proposition 55 was turning out to be not as robust as projected. Many State budget expenditures are mandated and fixed; the University found itself in a small and dwindling part of the State's discretionary budget. He anticipated that UC would be more successful in obtaining one-time monies than ongoing permanent funding. Nevertheless, the University should make a strong case about how important graduate student enrollment is for the entire UC enterprise.

Regent Zettel asked if the University has discretion in its retiree health benefit program. Mr. Brostrom responded in the affirmative; this is not a vested benefit. The University can make plan design changes annually.

Faculty Representative White expressed the Academic Senate's support for internal borrowing to address the UCRP liability. The University's unfunded liability was growing at 7.25 percent, with serious implications for the future. He referred to Chancellor Blumenthal's comments on the number of additional students who were not being funded by the State, and observed that even if these students were funded at full marginal cost, this would not provide for the necessary new classrooms, laboratories, dormitories, and student support services.

In response to a question by Regent Sherman, Mr. Brostrom reported that UC had managed to keep growth in employee and retiree health benefit costs at four percent for the past several years, whereas the trend in the medical industry was nine percent. He attributed this to UC plan designs.

Regent Sherman asked if most employees and retirees use the UC medical centers. Mr. Brostrom responded that the University's own self-funded plan, UC Care, makes use of the UC medical centers. Some employee health plans, such as Health Net, contract with UC medical centers.

Regent Sherman asked about the overall trend of savings from UC's supply chain procurement initiatives. Mr. Brostrom responded that this program had been successful and was moving toward overall supply chain management. The administration was working with the campuses to study next steps.

Regent Sherman asked about the cost of educating students, per student, and how this compared to the amount of tuition paid by students. Mr. Brostrom responded that the University drafts a report every fall on the expenditure for instruction. The cost of educating an undergraduate was approximately between \$22,000 and \$25,000, depending

on discipline and whether the student is a freshman or an upper division student. The cost of educating graduate students and medical students was significantly higher. In addition to State support and net tuition, UC must provide a significant amount from its own resources to cover this cost.

Regent-designate Monge asked how the increased enrollment of 900 graduate students would be allocated across the campuses, and how housing would be provided for them. Mr. Brostrom responded that each campus was developing its own approach. Some campuses, such as UC Santa Cruz, were aspiring to enroll more graduate students. He acknowledged that the University must take into account graduate students' needs for family housing and childcare, and that graduate students often cannot afford to live in areas near UC campuses.

Regent Gould asked how the UC budget model considered nonresident enrollment, how nonresident enrollment would be distributed by campus, and if the University had any tuition plan for nonresident students in the offing. Mr. Brostrom responded that the University had been conservative in its budget model, assuming that campuses with more than 20 percent in nonresident enrollment would not increase this enrollment. UC was assuming some growth in nonresident enrollment for campuses below that percentage, and a total of about 1,000 additional nonresident students systemwide. The University was also projecting an increase in nonresident tuition of five percent.

5. APPROVAL OF THREE-YEAR FINANCIAL SUSTAINABILITY PLAN

The President of the University recommended that the *University of California Three-Year Financial Sustainability Plan* shown in Attachment 1 be approved, as requested in the California State Budget Act of 2016.

[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 explained that the University's financial assumptions, incorporated in this three-year financial sustainability plan, were those just discussed in the previous item. The University was experiencing a gap in revenue, which it would address with some combination of cost savings, alternative revenues, and potentially, a modest tuition adjustment. This plan also included enrollment and projections for graduation rates and degree completion.

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

6. UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2016

The President of the University recommended that the Regents adopt the 2015-16 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers.

[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.]

Associate Vice President Peggy Arrivas drew attention to several significant accomplishments reflected in the 2016 financial statements. UC received a four percent increase in State appropriations, \$25 million in funding for increased enrollment, and \$96 million for the UC Retirement Plan (UCRP). Future UCLA patent royalties were sold, netting \$520 million. This year, the University received over \$1 billion in gift revenue for first time. There were \$1.3 million in UC bonds issued, resulting in economic gains of \$31 million, and \$1 billion in medical center bonds were issued to finance construction projects and to refinance existing bonds, resulting in future cash flow savings of \$193 million. More than \$4.5 billion was contributed to UCRP. Financial performance was influenced by the University's investment results, and this was a difficult year in the equity and bond markets. Other universities in the U.S. experienced similar results this year due to the investment market.

This year, the University implemented seven new Governmental Accounting Standards Board (GASB) rules, two of which were very significant. One resulted in a change in how the Children's Hospital Oakland is presented in UC financial data, now combined with the University; the other concerned determination of fair values for the investment portfolio. The following year UC would implement another significant accounting rule which would require the entire liability for retiree health benefits to be presented in UC's financial statements. This liability in the financial statements for 2016 was \$10.5 billion; under the new accounting standard, this liability would increase to approximately \$21.8 billion.

Committee Chair Makarechian asked about projections for retiree health benefit liability. Executive Vice President and Chief Financial Officer Brostrom responded that retiree health expenditures are made on a pay-as-you-go basis. This expense in the previous year was about \$300 million. Other than a very small amount of pre-funding, no funds are set aside for this expense. The future liability for these benefit costs is projected on a medical trend line, at about seven percent. Under GASB requirements, the University's discount rate would be reduced to about 2.8 percent. Mr. Brostrom explained that if funding for retiree health were included in the UCRP, the UCRP discount rate could be used.

Regent Sherman asked about the overall ratio of faculty and staff to students which, based on the information on the "Facts in Brief" page of the UC Annual Financial Report, appeared to remain relatively constant over a number of years. Mr. Brostrom responded that the number of faculty has remained relatively constant. Staff numbers have grown at UC medical centers, while the number of staff supported by core funds has been reduced. Regent Sherman asked about the actuarial accrued liability of the UC Retiree Health Benefit Trust, which had remained at about \$14 billion for a number of years, and then increased to \$17 billion. Ms. Arrivas responded that the University estimates future retiree health premiums and sets an assessment rate for campuses. The value of the assets in the trust fluctuates year by year, based on the rate set early in the year.

Regent Sherman referred to data in the reports on operating expenses by campus. UC Santa Barbara stood out as a particularly efficient campus based on the number of students relative to the number of faculty and staff, even taking into account the absence of a medical center at this campus. Mr. Brostrom responded that UC Santa Barbara had always had a lean faculty and staff to student ratio. The Santa Barbara campus also does not have professional school programs, which are often staff-intensive.

Committee Chair Makarechian asked why instructional costs were higher at UCLA than at other campuses. Mr. Brostrom explained that this was due to the fact that UCLA has the largest medical center, and many more health sciences students than UC Davis or UC Irvine. Committee Chair Makarechian asked for a breakdown of the cost of instruction per student at the campuses, to show which campuses were efficient in this. Mr. Brostrom responded that UC has these data.

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

7. **AMENDMENT OF REGENTS POLICY 5305, UNIVERSITY OF CALIFORNIA MORTGAGE ORIGATION PROGRAM, AND REGENTS POLICY 5306, UNIVERSITY OF CALIFORNIA SUPPLEMENTAL HOME LOAN PROGRAM**

The President of the University recommended that:

- A. Regents Policy 5305: Policy on University of California Mortgage Origination Program be amended as shown in Attachment 2.
- B. Regents Policy 5306: Policy on University of California Supplemental Home Loan Program be amended as shown in Attachment 3.

[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.]

Regent Zettel asked if the Regents would receive reports about Mortgage Origination Program loans that exceed the Indexed Program Loan Amount, which require the approval of the President and the concurrence of the Chair of the Finance and Capital Strategies Committee. Director Ruth Assily responded that this information is included in the annual report on the program.

Regent Zettel asked how the University recovers losses in the rare cases of default and delinquency. She asked if UC would have a lien against the sale of a home. Ms. Assily responded that UC only has access to proceeds from a short sale or a foreclosure. The University's only security is the property, and any loss would be covered by a reserve UC maintains. Losses are included in the report. Executive Vice President and Chief Financial Officer Brostrom added that the delinquency and loss rate has been extremely low. Chancellor Hawgood expressed support for the proposed amendments, which would

be a positive benefit for the campuses, increasing their ability to recruit outstanding faculty and senior managers.

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

8. **ANNUAL ACTUARIAL VALUATIONS FOR THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN AND ITS SEGMENTS AND FOR THE 1991 UNIVERSITY OF CALIFORNIA-PUBLIC EMPLOYEES' RETIREMENT SYSTEM VOLUNTARY EARLY RETIREMENT INCENTIVE PROGRAM**

[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 Duckett presented data on UC Retirement Plan (UCRP) operations, including information on active members and annuitants, benefits, and plan changes. As of June 30, UCRP was 83 percent funded on an actuarial basis, and 78 percent funded on a market value of assets basis.

Executive Vice President and Chief Financial Officer Brostrom stated that contribution rates would remain the same in 2016-17, at 14 percent for the employer, and member rates ranging from seven to nine percent. The previous year, UC received a first infusion of Proposition 2 monies, \$96 million, and this year it anticipated \$171 million from the State. The University also transferred \$564 million from the Short Term Investment Pool (STIP) to the UCRP. The recent adoption of a new pension tier would reduce costs over time. He remarked that if UC simply maintained the 14 percent employer contribution rate and achieved expected investment returns, the UCRP's funding rate would remain at around 83 percent for the next 25 to 30 years. If this contribution rate were combined with internal borrowing, the funded rate might rise to 90 percent by 2025, and to over 100 percent by around 2040.

Segal Company representative Paul Angelo stated that the UCRP liabilities amounted to \$69 billion. With actuarial smoothing, the asset value of the UCRP was \$57 billion, leaving an unfunded liability of \$12 billion. On a market value of assets basis, the unfunded liability was \$15 billion. On a smoothed basis, the funding percentage had increased from 82 to 83 percent, but on a market value basis, because the market return was about a negative two percent this year, the funded ratio declined to 78 percent. Mr. Angelo described the market value of assets as a snapshot, while the five-year actuarial smoothing provides a better sense of direction and allows budgeting for short-term market changes. The Segal Company also examines the total funding policy contribution rate and compares it to funding sources routinely available. This total funding policy contribution rate was at about 28 percent of pay. Of this, two-thirds was the normal cost, the cost for active members for each new year of service, and the remaining one-third, or ten percent of pay, was the amount to pay off the unfunded actuarial accrued liability over an approximately 20-year period.

Committee Chair Makarechian expressed misgivings about the University's assumption of a 7.25 percent return on the UCRP, how to achieve that return for the next three to four years, about losses experienced by the University, and about the unfunded liability. Mr. Brostrom responded that UC might consider a lower discount rate. He recalled that two years earlier, the UCRP rate of return had been 17 percent. He concurred that UC must develop a discount rate that is realistic. In order to address the unfunded liability gap, the University would continue to advocate for State funding and use internal borrowing.

Committee Chair Makarechian stressed that internal borrowing takes funds away from deferred maintenance, capital projects, and other needs. Mr. Brostrom acknowledged that repayment is made by a payroll assessment to each campus, but stressed his view that internal borrowing was a wise approach.

Committee Chair Makarechian asked what a realistic return assumption would be for the next two years. Mr. Brostrom responded that the administration would work with the Chief Investment Officer to develop a plan. There was a general understanding that the discount rate should be lower.

Regent Sherman asked about the University's plan to address returns less than 7.25 percent. Mr. Brostrom responded that UC had increased the employer contribution to 14 percent, while employees contribute between seven and nine percent, for a total of 21 to 23 percent. The funding policy contribution rate to be achieved was 28 percent of pay. In order to fill this gap of five or six percent, UC has borrowed that amount for the past few years. If the UCRP liability increases, this amount would increase, and the University was reaching the limits of its liquidity.

Committee Chair Makarechian expressed concern that the University might reach the limit of its ability to borrow money, and anticipated that UC would have to resort to external borrowing. Mr. Brostrom observed that increasing the contribution rate would represent a significant additional burden to the campuses. The administration was developing a plan to address these concerns about the UCRP; internal liquidity was an important factor to consider in this plan, and Mr. Brostrom would be having discussions with the rating agencies. Committee Chair Makarechian asked that there be a presentation at a future meeting about the University's plan and steps that would be taken.

Regent Gould also emphasized that the assumed rate of return on the UCRP of 7.25 percent would have to be changed. Internal borrowing had limitations. The University had benefited from Proposition 2 funds, but in case of a modest downturn in the California economy there might be a \$55 billion reduction in State revenues over two years, and consequently no Proposition 2 funds. The unfunded liability would increase in the next year due to the UCRP's underperformance in the current year. He requested a report with realistic assessments of expected earnings and what the discount rate should be. Mr. Brostrom noted that the funding status of the California Public Employees' Retirement System (CalPERS) was low, and that the contribution to CalPERS already represented six percent of the State budget.

Chancellor Blumenthal stressed that although the University was grateful for Proposition 2 funding, the State did not make regular contributions to the University's retirement system as it did for the California State University (CSU). Campuses currently contributed 14 percent of payroll to the UC retirement system. He asked what that contribution level would be if the State contributed to UCRP as it does for CSU. Mr. Brostrom responded that roughly one-third of UC revenues came from State General Funds. UC's total payroll was close to \$11 billion, and the University was contributing about \$1.4 billion to \$1.5 billion into its retirement system this year. He estimated the hypothetical State contribution to be one-third of this amount, or roughly \$450 million.

9. **ANNUAL ACTUARIAL VALUATION OF THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT PROGRAM**

[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 Duckett reported that the liability of the UC Retiree Health Benefit Program had increased substantially this year due to a decrease in the annual discount rate assumption from 4.5 percent to 2.85 percent, as prescribed by Governmental Accounting Standards Board (GASB) requirements. The actual pay-as-you-go costs were lower than expected in 2016. In order to contain costs, the University was following a schedule of three percent annual reductions to the maximum UC contribution to a floor of 70 percent.

Deloitte Consulting representative Michael de Leon informed the Committee that as of July 1, 2016, the program's unfunded liability was \$21.2 billion, compared to \$17.3 billion the previous year. This increase was primarily due to the change in the discount rate. If the discount rate had not changed, the unfunded liability would have decreased this year. He anticipated that the GASB rule changing the discount rate would also create more volatility in the unfunded liability. The actual pay-as-you-go cash costs were \$285 million in the prior fiscal year, and were projected to be \$301 million this year. The rates paid by the University were flat, and this approximately five percent increase was due to an increase in the number of retirees.

Committee Chair Makarechian recalled that retiree health benefits are not a vested benefit and asked what information newly hired UC employees are given. Executive Director Gary Schlimgen responded that the new retirement choice program offers retiree health benefits with a pension option and a savings choice option. A new graduated eligibility schedule became effective on July 1, 2013. To receive any UC contribution, new hires must be 56 years of age, with ten years of service, and they would not receive the maximum contribution until age 65 and 20 years of service.

In response to another question by Committee Chair Makarechian, Mr. Duckett stated that the University can change particulars of the program in any given year. UC makes annual changes in order to contain costs and had made changes in past years pertaining to

networks, coverage, and eligibility. The University carried out a family member eligibility verification program which reduced costs by about \$44 million.

Regent Sherman asked how important UC benefits are in hiring, and if the University would do better to offer commercial market salaries and benefits. Mr. Duckett responded that the University's retiree health and pension programs are important to current employees and important for UC's recruitment efforts. UC has made adjustments to the marketplace to recruit talented employees, but has not changed the basic profile of its benefit programs. Changing to an orientation toward more cash compensation would represent a significant shift for UC.

Regent Sherman asked if this would affect the level of employees UC attracts. Mr. Duckett responded that competing on the basis of cash compensation is difficult. In the San Francisco Bay Area, this would mean competition with companies like Google and Facebook, who emphasize cash compensation and short-term remuneration. It would take the University many years to shift to that compensation model and that type of employee population.

Regent Zettel asked if UC retirees are required to use Medicare. Mr. Schlimgen responded in the affirmative. UC retirees are required to enroll in Medicare when they become eligible, and UC insurance is then secondary.

10. **CONSENT AGENDA**

A. ***University of California Debt Policy***

The President of the University recommended that the Regents adopt the University of California Debt Policy, as shown in Attachment 4.

B. ***Approval of University of California 2017-18 Budget for State Capital Improvements***

The President of the University recommended that the *2017-18 Budget for State Capital Improvements* as shown in Attachment 5 be approved.

C. ***Approval of the Non-State Budget, External Financing, and Standby Financing, Interdisciplinary Sciences Building, Irvine Campus***

The President of the University recommended that:

- (1) Subject to the approval of the *2017-18 Budget for State Capital Improvements*, the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

Irvine: Interdisciplinary Sciences Building – design, construction, and equipment – \$120 million from external financing

(\$37.75 million), gift funds (\$30 million), campus indirect cost recovery reserves (\$2.25 million), and external financing supported by State appropriations under Sections 92493 through 92496 of the Education Code (\$50 million).

- (2) The scope of the Interdisciplinary Sciences Building shall consist of constructing an approximately 133,000-gross-square-foot (79,700 assignable square feet (ASF)) building that would provide approximately: 3,500 ASF of instructional laboratory and support space; 60,000 ASF of research and scholarly activity space; 12,000 ASF of academic and administrative office space; 4,200 ASF of shared assembly and colloquium space; and associated site development and utilities.
- (3) The President be authorized to obtain external financing in an amount not to exceed \$37.75 million plus additional related financing costs. The President shall require that:
 - a. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
 - b. As long as the debt is outstanding, the general revenues of the Irvine campus shall be maintained in amounts sufficient to pay the debt service and to meet the requirements of the authorized financing.
 - c. The general credit of the Regents shall not be pledged.
- (4) The President be authorized to obtain standby financing not to exceed \$30 million for the project, subject to the following conditions:
 - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
 - b. Repayment of any debt shall be from gifts funds. As gifts are received, the campus will reimburse the standby financing in a timely fashion. If gift funds are insufficient and some or all of the debt remains outstanding, then unrestricted campus funds shall be used 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.
- (5) The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

D. ***Approval of the Non-State Budget, Center for the Health Sciences – Neuropsychiatric Institute Seismic Correction, Los Angeles Campus***

The President of the University recommended that subject to the approval of the *2017-18 Budget for State Capital Improvements*, the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

- (1) Los Angeles: CHS-NPI Seismic Correction – preliminary plans, working drawings, and construction – \$40 million from external financing supported by State appropriations under sections 92493 through 92496 of the Education Code (\$25 million), campus funds (\$11 million), and hospital reserves (\$4 million).
- (2) The scope of the project shall include the seismic upgrade of the 292,300-gross-square-foot CHS-NPI facility from a performance rating of Level V to Level III. Code corrections triggered by the work would include disabled access upgrades and fire/life safety improvements.

E. ***Approval of the Non-State Budget and Approval of External Financing, Franz Hall Tower Seismic Renovation, Los Angeles Campus***

The President of the University recommended that:

- (1) Subject to the approval of the *2017-18 Budget for State Capital Improvements*, the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:
 - a. Los Angeles: Franz Hall Tower Seismic Renovation – preliminary plans, working drawings, and construction – \$50 million from external financing (\$25 million) and external financing supported by State appropriations under sections 92493 through 92496 of the Education Code (\$25 million).
 - b. The scope of the project shall include the seismic upgrade of the 123,723 gross-square-foot Franz Hall Tower from a performance rating of Level V to Level III. Code corrections triggered by the work would include disabled access upgrades and fire/life safety improvements.
 - c. The President be authorized to obtain external financing, not to exceed \$25 million plus additional related financing costs, to finance the Franz Hall Tower Seismic Renovation project. The President shall require that:
 - i. Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.

- ii. As long as the debt is outstanding, general revenues of the Los Angeles campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.
 - iii. The general credit of the Regents shall not be pledged.
- (2) The President, in consultation with the General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

F. ***Approval of the Budget and External Financing, Nuevo West Graduate Student Housing, San Diego Campus***

The President of the University recommends that:

- (1) The 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:
- From: San Diego: Nuevo West Graduate Student Housing – preliminary plans – \$7.56 million to be funded from UC San Diego Housing Auxiliary Reserves and Parking Reserves.
- To: San Diego: Nuevo West Graduate Student Housing preliminary plans, working drawings, construction, and equipment – \$178,292,000 to be funded with external financing (\$177,992,000) and Housing Auxiliary Reserves (\$300,000).
- (2) The scope of the Nuevo West Graduate Student Housing project shall provide approximately 325,000 assignable square feet of housing space. This includes a minimum of 800 beds to support graduate students and 15 two-bedroom suites with kitchenettes, 25 hotel-style rooms with a bedroom, bathroom, and support/administrative space for the UC San Diego Health Family House. The scope also includes a parking structure with a minimum of 1,200 parking spaces, site improvements, and demolition of seven existing buildings at Mesa Housing (consisting of 100 beds).
- (3) The President be authorized to obtain external financing in an amount not to exceed \$177,992,000 plus additional related financing costs. The President of the University 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, in consultation with General Counsel, be authorized to execute all documents necessary in connection with the above and to make changes in the terms that do not materially increase the cost of the project or the obligations of the Regents.

G. *Approval of Preliminary Plans Funding, North Torrey Pines Living and Learning Neighborhood, San Diego Campus*

The President of the University recommended that the 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

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

[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.]

Upon motion duly made and seconded, the Committee approved the President's recommendations and voted to present them to the Board.

11. AUTHORITY TO ENTER INTO A GROUND LEASE AND LEASE DISPOSITION AND DEVELOPMENT AGREEMENT FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT FOR CONSTRUCTION OF A RESEARCH BUILDING AT THE PRISCILLA CHAN AND MARK ZUCKERBERG SAN FRANCISCO GENERAL HOSPITAL AND TRAUMA CENTER, SAN FRANCISCO CAMPUS

[Other than certification of the Environmental Impact Report, action took place in closed session.]

The President of the University recommended that the Regents take the following California Environmental Quality Act (CEQA) action:

Certify the *Final Environmental Impact Report for the proposed UCSF Research Building and City Parking Garage Expansion at the Priscilla Chan and Mark Zuckerberg San Francisco General Hospital and Trauma Center* (State Clearinghouse Number 2015102010).

[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.]

Chancellor Hawgood explained that UCSF would request, in the closed session meeting of the Committee, approval for the terms of a 75-year ground lease and related lease disposition and development agreement as tenant to the City and County of San Francisco for an approximately 51,500-square-foot property. The site currently provided surface parking for 165 vehicles. UCSF was proposing to develop a 175,000-gross-square-foot building with wet and dry laboratories and administrative space on this site. Chancellor Hawgood recalled the long history of UCSF's affiliation with San Francisco General Hospital. This proposed research building would accommodate approximately 800 UCSF researchers and staff, including staff currently working in seven seismically compromised buildings. Approval of the ground lease and related lease disposition and development agreement would be the first of several discretionary actions related to the construction of the proposed research building; a design approval item would be presented to the Regents at a future meeting. UCSF was now requesting that the Regents take action to certify the Final Environmental Impact Report.

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

The meeting adjourned at 12:25 p.m.

Attest:

Secretary and Chief of Staff

University of California
Three-Year Financial Sustainability Plan

Introduction

The University of California has maintained a remarkable track record of access, affordability, and excellence during periods of both economic growth and crisis. This success is attributable to a historically strong and robust partnership between the State and the University.

- Despite shifting economic circumstances and competing priorities, the State of California continues to provide substantial support to the University's core budget. Combined with the State's commitment to the Cal Grant program and the Middle Class Scholarship program, State support remains critical to the University's ability to serve California resident students.
- The University has continuously sought to serve more students while maintaining and enhancing the quality of instruction that it delivers at a lower overall cost per student. Examples of these cost-saving efforts include employing alternative instructional delivery models, streamlining paths to graduation, achieving administrative efficiencies, optimizing the University's investment of financial assets, and the management of our debt portfolio.
- The University's financial aid programs, together with State and Federal programs, ensure that over one-half of California resident undergraduates have their systemwide tuition and fees fully covered by gift aid.

The University is determined to sustain this tradition of providing a world-class education to an increasingly diverse and talented cross-section of California students.

Context for the University's Sustainability Plan

The Budget Act of 2016 calls upon the University to develop a sustainability plan and associated projections and goals for the years 2017-18, 2018-19, and 2019-20, based upon the long-term funding framework developed by the Governor and UC and endorsed by the Regents.

Financial sustainability at the University means having sufficient resources to support all three goals of access, affordability, and excellence. The long-term funding framework, together with funding provided in the Budget Acts of 2015 and 2016 for enrollment growth as well as other University resources, represents an integrated strategy to support all three goals. This strategy has enabled campuses to hire faculty members, to expand academic support services, and to provide other critical services associated with enrolling more California resident students. The University has built its three-year financial sustainability plan on the assumption that State support consistent with the current framework, State funding for further enrollment growth, and other University resources are available in future years.

The University has developed a sustainability plan that incorporates both the funding and the expected 2017-18 enrollment growth reflected in the Budget Act of 2016 while also sustaining expanded access in future years. The University's plan also includes modest growth in graduate student enrollment, consistent with UC's role as the primary research enterprise for the State and recognizing the essential contributions that graduate students make to undergraduate education. The University's plan reflects continued efforts to maximize operational efficiencies and to control costs as well as sufficient funding to support the University's commitment to providing the high-quality education students seek from UC.

SECTION A. FINANCIAL PLAN

In developing its long-range financial plan, the University has looked carefully at the basic cost drivers of the institution and the resources available to cover those costs.

Expenditure Assumptions of UC's Financial Plan

The University's plan includes projected expenditures based on the following baseline expenditure assumptions:

- an increase of 2,500 California resident undergraduate students in each of the three years of the plan;
- graduate enrollment growth of 900 students in 2017-18, 700 in 2018-19, and 700 in 2019-20 to support undergraduate enrollment growth and to maintain the University's ability to meet the State's need for both a highly skilled workforce and cutting-edge research;
- employer contributions to the University's retirement system at the current level, which is 14% of compensation over the three-year period;
- average annual increases in health benefit costs for active employees and retirees of 4% during the period covered by the plan;
- non-salary price increases of 2.5% in each of the next three years;
- funding for the Faculty Merit Program, which is based on a rigorous peer review of each faculty member every two to three years to ensure that UC retains the best faculty for teaching and research, and which remains a cornerstone of UC's compensation program to recruit and retain high-quality faculty;
- compensation increases that reflect existing collective bargaining agreements and an average increase of 3% each year for non-represented faculty and staff, which will help keep UC salaries from slipping further behind those of UC's principal competitor institutions as identified in the most recent UC compensation studies;
- funding to meet a portion of the University's deferred maintenance needs, which represent a growing life-safety and economic risk to the institution due to the deterioration of UC's aging buildings and supporting infrastructure;
- funding to support a modest capital program, consistent with the provisions set forth in AB 94 trailer bill language, to allow the Merced campus to continue to grow and to address critical capital needs at the other campuses; and
- annual investments in the academic program, including improving the student-faculty ratio; funding for startup packages for new faculty, which is a major obstacle for many campuses seeking to hire new faculty; augmenting graduate student support to ensure that the level of support offered by UC is sufficient to attract top graduate students; and enhancing undergraduate instructional support including instructional technology, libraries, instructional equipment replacement, and building maintenance.

Projections of Available Resources

The University's plan includes the following revenue projections, which reflect elements from the funding framework, the Budget Act of 2016, and the State's historic practice of supporting expanded access at UC for California resident students:

- an annual 4% base budget adjustment in State funding;

- \$18.5 million in State funding in 2016-17 to support an additional 2,500 California resident undergraduate students in 2017-18 compared to 2015-16 levels, consistent with the Budget Act of 2016;
- \$25 million in State funding for enrollment growth of 2,500 undergraduate students in each of the next two years (2018-19 and 2019-20);
- \$9 million in State funding for graduate enrollment growth of 900 students in 2017-18, along with comparable marginal cost support for growth of 700 graduate students in 2018-19 and 2019-20;
- annual increases of 5% in the Student Services Fee, with one-half of the revenue (net of aid) to be set aside for enhanced student mental health services; and
- annual increases of 5% in undergraduate Nonresident Supplemental Tuition, coupled with reduced growth in the University's nonresident undergraduate population each year.

The University's plan assumes additional resources from a combination of revenues, asset management strategies, and cost-saving efforts to include some or all of the following:

- Under the plan, funding from the University Student Aid Program (USAP) formerly awarded to financially needy nonresident undergraduate students will continue to be redirected to help support enrollment growth. (This change would not affect nonresident students who began to attend UC prior to this change, which first took effect in 2016-17.)
- Increases in philanthropic giving will remain part of the University's overall plan. While the University has been successful in increasing philanthropic giving, the vast majority of gifts to the University are restricted and not available to enhance the core operating budget. Achieving this goal will require the University not only to continue to increase existing levels of philanthropic support, but also to develop models that increase the fungibility of these funds.
- In recent years, the University's strategic sourcing initiative, also known as procurement reform, has delivered substantial cost savings (much of which accrues to non-core funds). The financial plan assumes additional permanent core fund savings from this systemwide initiative.
- The plan also assumes that the University will secure additional funding for operating budget purposes from liquidity management strategies, ensuring that the investment of financial assets is yielding as much as possible within the bounds of the University's prudent investment policies.
- Under the long-term funding framework, the University may consider an adjustment to Tuition beginning in 2017-18 pegged generally to economic indicators that reflect cost increases in the broader economy, a portion of which would be used to augment the University's undergraduate and graduate financial aid resources (i.e., 33% of new Tuition revenue from undergraduate students and students in professional degree programs, and 50% of new Tuition revenue associated with graduate academic students, would be set aside for financial aid).

The plan does not include projected increases in Professional Degree Supplemental Tuition (PDST). Any increase in PDST revenue resulting from enrollment growth in programs that charge PDST and/or from increases in PDST levels would cover cost increases associated with those programs and hence would not affect other aspects of the University's budget plan.

Other Efforts to Improve Student Access and Outcomes

Under the framework, the University committed to a number of key reforms that have the potential, over time, to improve student success, to expand the University's capacity to serve students, and to reduce elements of the University's cost structure. These include, but are not limited to, the following:

- an enhanced commitment to the transfer function, reflected in both enrollment goals and efforts to clarify and streamline the transfer function;

- innovations to support student progress and improve time-to-degree, such as reviewing the number of undergraduate upper division major units required for graduation across the system, identifying three-year degree pathways, and piloting alternative pricing models in summer sessions;
- continued development of online undergraduate courses, with funding priority for bottleneck courses;
- supporting the innovative use of data to identify students at risk, to explore different methods for assessing costs of instruction, and to support student learning; and
- developing new options for benefits under the University of California Retirement Plan (UCRP) for future hires that incorporate the pensionable salary cap reflected in State's Public Employee Pension Reform Act (PEPRA) for defined benefit plans.

Collectively, these far-reaching reforms represent a University-wide effort to rethink key elements of the educational and support services provided by the University to students and how those services may be delivered more effectively. Through the work of the faculty, campuses, and Office of the President staff, the University has made substantial progress on these initiatives.

Projections of Available Resources and Expenditures in 2017-18, 2018-19, and 2019-20

	Cumulative Change from 2016-17 Base (\$M)		
	University's Plan		
	2017-18	2018-19	2019-20
Revenue			
State General Funds	\$158	\$327	\$502
Tuition/Fees (Enrollment + 5% Student Svc. Fee incr.)	68	132	196
Redirection of Nonresident Aid	14	24	31
Nonresident Suppl. Tuition	71	140	207
Other Resources	70	140	228
Deferred Maintenance (One-time)	35	35	35
Enrollment Pre-Funding (One-time)	19	32	32
Total	\$434	\$830	\$1,231
Expenditures			
Employee & Retiree Benefits (incl. UCRP & health)	\$45	\$93	\$142
Academic Merit Program	32	64	96
Compensation	112	227	345
Non-Salary Price Increases	27	55	84
Enrollment Growth	80	156	232
Deferred Maintenance and Capital Program	65	90	115
Financial Aid	23	44	66
Academic Quality	50	100	150
Total	\$434	\$830	\$1,231

Source: UC Budget Office

SECTION B. ENROLLMENT PLAN

B.1 ENROLLMENT

Under the University's plan, UC will be able to enroll substantially more California resident undergraduates over the next 3 years.

Under the University's plan, the enrollment of California undergraduates would grow by 2,500 California undergraduates each year. By 2019-20 – the last year included in the plan – UC will enroll over 13,000 more California resident undergraduates than it did in 2014-15.

Graduate and professional student enrollment, essential for California's economy and societal needs and to support the additional undergraduates who would be enrolled under the University's plan, would grow by 900 students in 2017-18 and by 700 students in subsequent years, for a total growth of 2,300 between 2016-17 and 2019-20.

In contrast, enrollment growth among nonresident undergraduates would steadily decline throughout this period.

Enrollment Projections Under the University's Plan

FTE Enrollment	2015-16	2016-17	University's Plan		
			2017-18	2018-19	2019-20
CA res UG	174,121	181,164	183,664	186,164	188,664
Nonresident UG	29,233	32,271	33,271	34,071	34,671
Graduate/ Prof	44,417	45,502	46,402	47,102	47,802
% Nonresident UG (excludes summer)	15.5%	16.3%	16.5%	16.6%	16.7%

Note: 2016-17 are estimates. Figures are FTE and include summer, except for the nonresident calculation.

B.2 ENROLLMENT — UPPER DIVISION CCC TRANSFERS

Under the University's plan, the number of transfer students will increase.

Supporting California Community College transfers is fundamental to the University's mission. From 2008-09 through 2011-12, UC increased both the proportion and the number of new transfer students enrolled. This trend had reversed in recent years due to lack of funding for new enrollment as well as declining transfer applicants—which reflect enrollment reductions at the community college level during the state's economic crisis. Increased applications from transfer applications (which may be partly attributable to substantial new funding directed to the California Community Colleges in recent years), coupled with the University's overall plan for enrollment growth, should result in greater numbers of transfer students.

In recognition of the importance of providing access for CCC students to the UC system, President Napolitano launched a transfer initiative to identify ways to broaden access, ease the transfer pathways, and improve educational outcomes for transfer students. Under the University's plan, which allows for increased enrollment of new California students, UC would be able to make progress on these goals.

Upper-division transfer students enrolled annually from the California Community Colleges (CCC)

Academic Year FTE	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	University's Plan		
							2017-18	2018-19	2019-20
Number	34,041	33,807	33,615	34,086	34,197	35,837	36,449	37,033	37,589
% of all undergrads (FTE)	19.8%	19.4%	18.9%	18.5%	18.1%	18.1%	18.1%	18.1%	18.1%

Note: 2016-17 are estimates. Excludes the summer term. Source: UC Corporate Student System. Upper-division CCC transfer students are those who enter UC from a California Community College with junior or senior standing. Postbaccalaureate teaching credential students are not counted as undergraduates.

B.3 ENROLLMENT — LOW-INCOME UNDERGRADUATES

Under the University's plan, UC's commitment to access for low-income students will be undiminished, although enrollment of low-income Pell-eligible students may decline slightly as a result of changes in the economy.

The University's track record for enrolling low-income students is unmatched by other research universities and is a strong engine for social mobility and economic equity in the state. Growth in Pell grant recipients over the past decade at UC reflects a combination of admission policies that seek out highly talented students from disadvantaged backgrounds, a robust financial aid program which keeps UC financially accessible for low-income students, the poor economy (which lowered families' income and hence made more students eligible for Pell grants), and changes to the federal Pell program that expanded eligibility to more students.

Trends in the number of Pell-eligible students can reflect both changes in the economy and changes to Pell program requirements. As a result, change in the enrollment of Pell grant recipients *over time* is an imperfect measure of accessibility for low-income students. For example, UC projects that the proportion of Pell-eligible students will decline slightly at UC (and nationally) in the coming years. This change is due in part to the ongoing economic recovery, which should result in higher family incomes generally. This is good news and does not reflect any reduction in the University's financial accessibility for students from low-income families.

Enrollment of Undergraduate Pell Grant Recipients

Academic Year FTE	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	University's Plan		
							2017-18	2018-19	2019-20
Number	71,565	73,147	74,984	76,183	75,608	78,735	79,957	81,165	82,359
% of all undergrads (FTE)	42%	42%	42%	41%	40%	40%	40%	40%	40%

Note: 2016-17 are estimates. Excludes the summer term. Source: UC Corporate Student System.

B.4 ENROLLMENT — UNDERREPRESENTED MINORITY UNDERGRADUATES

Under the University's plan, UC will be able to enroll more California resident undergraduates, who are more likely to come from underrepresented groups. This enrollment growth will provide greater opportunities for populations like Latino students, who are growing rapidly in number and whose levels of academic preparation are also rising.

Undergraduate students from underrepresented minority groups (African American, Latino, and American Indian) have been steadily increasing in numbers and in share at UC. Under the University's plan, UC will be able to increase access for California students and hence enroll a higher number of students from underrepresented minority backgrounds.

Enrollment of Underrepresented Minority Undergraduate Students

Academic Year FTE	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	University's Plan		
							2017-18	2018-19	2018-19
Number	40,552	43,100	45,702	49,089	50,532	52,605	53,534	54,290	55,040
% of all undergrads (FTE)	24%	25%	26%	27%	27%	27%	27%	27%	27%

Note: 2016-17 are estimates. Excludes the summer term. Source: UC Corporate Student System.

SECTION C. PERFORMANCE METRICS

Introduction

The text and tables on the following pages display the outcomes the University projects would be associated with the financial and enrollment assumptions reflected in the University's plan. Most of these metrics move very slowly. For example, degree completions associated with enrollment growth generally will not be reflected until after two years for transfer entrants, and after four years for new freshmen. Similarly, program enhancements designed to increase graduation rates cannot show immediate results because the cohorts that benefit from these programs are often early in their student careers. In some cases, it is even possible that indicators will move in the opposite direction for several years after a positive change is implemented because earlier cohorts will continue to exhibit outcomes based on conditions that existed in previous years.

The University carefully tracks graduation rates and degree completions and works at all levels to produce improvements in these metrics.

C.1 STUDENT SUCCESS — FRESHMAN AND TRANSFER GRADUATION RATES

Graduation rates for both freshman and transfer entrants at UC have been rising steadily in recent years. UC expects the rate of increase to slow because several campuses have reached rates that leave little room for dramatic improvements, and the improvements that will be achieved will come more slowly. In addition, as noted earlier, most of the students who will graduate during this three-year period are already enrolled and recent improvements in the academic programs on the campuses will have a limited effect on their graduate rate or time-to-degree.

Nonetheless, UC's campuses continue to aggressively pursue new ideas and programs to improve student success. As a result of these efforts, UC projects that four-year graduation rates for freshman entrants and two-year graduation rates for transfer entrants for both Pell and non-Pell students will increase by about 1% per year.

In comparing graduation rates below for Pell grant recipients and non-Pell recipients, note that while freshman four-year and transfer two-year rates show differences between Pell and non-Pell students, these gaps largely disappear when comparing six-year (freshman) and four-year (transfer) rates. Put another way, Pell-eligible students graduate at roughly the same rate as non-Pell students, but their average time-to-degree is longer. These differences are associated with family education levels and high school preparation levels that are lower for Pell grant recipients, on average, than they are for students without Pell grants. Six-year freshman graduation rates and four-year transfer graduation rates are not included in the performance metrics requested for this report but can be found online at accountability.universityofcalifornia.edu/2016/.

Graduation Rates

	Entering cohort	F'07	F'08	F'09	F'10	F'11	University's Plan			
							F'12	F'13	F'14	F'15
4 yr grad rate, freshman entrants		60%	61%	63%	62%	64%	65%	66%	67%	68%
4 yr grad rate, Pell freshman entrants		52%	54%	57%	56%	58%	59%	60%	61%	62%
	Entering cohort	F'09	F'10	F'11	F'12	F'13	F'14	F'15	F'16	F'17
2 yr grad rate, Up Div CCC transfer entrants		54%	55%	55%	56%	55%	56%	57%	58%	59%
2 yr grad rate, Pell Up Div CCC transfer entr		47%	48%	51%	52%	51%	52%	53%	54%	55%

Graduation rates include UC-intercampus transfers. Students who graduate in the summer term are included with the prior year. Low-income Pell students are those who received a Pell grant during their time at UC.

C.2 STUDENT SUCCESS — DEGREE COMPLETIONS

Differences completions are expected to increase steadily.

Degree completions have risen steadily at UC, particularly among undergraduates from low-income households. Degree completions are influenced by changes in both the total number of students enrolled and completion rates. As with graduation rates, degree completions are lagging indicators that will not show dramatic change during the three-year horizon of this plan.

Degree Completions

	University's Plan								
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Freshman entrants	32,778	32,608	31,866	33,123	34,519	35,761	36,552	36,909	39,756
Up Div CCC transfer entrants	14,191	14,717	14,651	14,745	14,866	14,820	15,672	16,387	16,396
STEM freshman entrants	12,403	12,921	12,496	14,558	15,737	16,303	16,664	16,827	18,125
STEM Up Div CCC transfer entrants	3,724	3,961	3,831	4,482	4,766	4,751	5,024	5,254	5,257
Pell recipients	21,634	23,154	21,469	23,999	24,660	25,239	26,076	26,628	28,017
STEM Pell recipients	6,874	7,578	7,027	8,775	9,284	9,503	9,817	10,025	10,549
Graduate (excludes self-supporting)	14,290	14,579	14,322	13,976	14,497	14,768	15,038	15,309	15,580
STEM Graduate (excl self-supporting)	7,694	7,950	8,012	8,167	8,620	8,781	8,942	9,103	9,264

2016-17 is an estimate. Source: UC Corporate Student System. Graduate degrees exclude self-supporting programs.

C.3 ADDITIONAL METRICS — FIRST-YEAR UNITS

About half of new students take 45 units or more in their first year at UC and we do not anticipate changes in this metric.

In fall 2014, 52% of freshman entrants and 43% of transfer entrants took 45 units or more their first year. UC analysis of this indicator shows that whether or not a student has completed 45 units at the end of his or her first year is a poor predictor of eventual graduation or time-to-degree. Many students are eventually awarded units for courses taken elsewhere that have not yet been recorded at this point or earn units in later years through summer enrollment or by enrolling in a greater number of units during the academic year.

Percentage of undergraduates who take 45 units in their first year at UC

	F'14	F'15	F'16	University's Plan		
				F'17	F'18	F'19
% of freshmen completing 45 qtr units	52%	52%	52%	52%	52%	52%
% of UD CCC transfers completing 45 qtr units	43%	43%	43%	43%	43%	43%

Source: UC Corporate Student System. Transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units. Includes the trailing summer term.

C.4 ADDITIONAL METRICS — UNITS AT GRADUATION

Efforts to review major requirements may, over time, reduce UC students' total units at graduation.

A UC bachelor's degree requires a minimum of 180 quarter units (120 semester units). Transfer students use units transferred from community college to complete their degree requirements. Students pursuing majors with high unit requirements (such as engineering/computer science) and those pursuing multiple majors graduate with higher units, on average, than those in other majors.

As noted earlier, the University is engaged in a systemwide effort to review the major unit requirements for its most popular undergraduate majors with the goal of streamlining those requirements where possible.

Average number of UC quarter units at degree completion

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Freshman entrants	183	183	183	183	183	183
Upper-div CCC entrants	95	95	95	95	95	95

Source: UC Corporate Student System. Only UC units are shown. AP/IB/transferred units are not included. Semester units (Berkeley and Merced) are converted to quarter equivalents at the rate of 1 semester unit=1.5 quarter units.

C.5 ADDITIONAL METRICS — CORE FUND EXPENDITURES PER DEGREE AWARDED

Dividing total funding by degrees awarded does not result in a useful metric.

In its March 2016 Performance Indicators Report, the University described its concerns with using a ratio of total funding to degrees awarded as an indicator of institutional performance. Such a ratio is a poor indicator of either productivity or quality. Core funds support the tripartite mission of the University and include significant funding for non-instructional uses, specifically research and public service. In addition, over \$330 million of core funds were used to cover lease revenue and General Obligation bond debt service in 2015-16 and were not available for operating funds. Core funds also represent the primary fund source for student financial aid, which is effectively a pass-through to students. Also, such a measure cannot distinguish between reduced expenditures attributable to cost-cutting measures that should be applauded (e.g., operational efficiencies) and cost reductions that can reflect a genuine erosion of quality (e.g., a higher student-faculty ratio).

The University fully supports the goals of transparency and accountability in higher education. The University's *Annual Accountability Report*, for example, contains dozens of indicators that collectively provide insight into virtually every aspect of the University's mission – including student access, affordability, and success; undergraduate and graduate enrollment trends; faculty and staff demographics; student learning outcomes; research activities; and health sciences and services (along with many others). The most recent edition of the report is available at accountability.universityofcalifornia.edu/2016/.

Estimated Total Core Funds Expenditures (\$M) and Degrees Awarded

	University's Plan		
	2017-18	2018-19	2019-20
State General Funds	\$3,418	\$3,587	\$3,763
Tuition and Fees	3,523	3,664	3,810
NRST	1,106	1,178	1,250
Other Core Funds	378	389	401
Total Core Funds	\$8,425	\$8,819	\$9,223
Degree Completions	68,648	70,054	73,181

Source: UC Budget Office

C.6 ADDITIONAL METRICS — CORE FUNDS FOR UNDERGRADUATE DEGREES AWARDED

Estimates of core fund support for undergraduate education are now available.

In its *Expenditures for Undergraduate and Graduate Instruction and Research Activities* report, published in September 2016, the University reported on its methodology for allocating core fund expenditures for education between undergraduate and graduate instruction. For purposes of this sustainability plan, figures in that report have been adjusted to reflect projected changes in core funds and enrollment. Estimated core funds for undergraduate education are shown below, along with projected undergraduate degrees awarded, for the years 2017-18 through 2019-20. Expenditure figures are in millions of dollars.

***Estimated Total Core Funds Expenditures for Undergraduate Instruction (\$M)
and Undergraduate Degrees Awarded***

	University's Plan		
	2017-18	2018-19	2019-20
State General Funds	\$1,604	\$1,681	\$1,762
Tuition and Fees	\$1,652	\$1,718	\$1,784
NRST	\$519	\$552	\$585
Other Core Funds	\$177	\$183	\$188
Total Core Funds	\$3,952	\$4,134	\$4,319
Undergraduate Degree Completions	53,610	54,745	57,601

Source: UC Budget Office

APPENDIX 1

Provision 3 of Item 6440-001-0001 of the Budget Act of 2016 states the following:

2. (a) The Regents of the University of California shall approve a plan that includes at least all of the following:
 - (1) Projections of available resources in the 2017–18, 2018–19, and 2019–20 fiscal years. In projecting General Fund appropriations and student tuition and fee revenues, the university shall assume the availability of resources consistent with the framework for long-term funding endorsed by the Regents in May 2015.
 - (2) Projections of specific expenditures in the 2017–18, 2018–19, and 2019–20 fiscal years and descriptions of any changes to current operations necessary to ensure that expenditures in each of those years are not greater than the available resources projected for each of those years pursuant to paragraph (1).
 - (3) Projections of resident and nonresident enrollment in the 2017–18, 2018–19, and 2019–20 academic years, assuming implementation of any changes described in paragraph (2).
 - 4) The university’s goals for each of the measures listed in subdivision (b) of Section 92675 of the Education Code for the 2017–18, 2018–19, and 2019–20 academic years, assuming implementation of any changes described in paragraph (2) and an explanation of how these goals comply with the intent of the Legislature that the goals be challenging and quantifiable, address achievement gaps for underrepresented populations, and align the educational attainment of California’s adult population to the workforce and economic needs of the state.
- (b) The plan approved pursuant to subdivision (a) shall be submitted no later than November 30 to the Director of Finance, the chairpersons of the committees in each house of the Legislature that consider the State Budget, the chairpersons of the budget subcommittees in each house of the Legislature that consider appropriations for the University of California, the chairpersons of the committees in each house of the Legislature that consider appropriations, and the chairpersons of the policy committees in each house of the Legislature with jurisdiction over bills relating to the university.

California Education Code, Title 3, Division 9, Part 57, Chapter 6, Article 7.7, Section 92675: Reporting of Performance Measures

- (a) For purposes of this section, the following terms are defined as follows:
 - (1) The “four-year graduation rate” means the percentage of a cohort that entered the university as freshmen that successfully graduated within four years.
 - (2) The “two-year transfer graduation rate” means the percentage of a cohort that entered the university as junior-level transfer students from the California Community Colleges that successfully graduated within two years.
 - (3) “Low-income students” means students who receive a Pell Grant at any time during their matriculation at the institution.
- (b) Commencing with the 2013-14 academic year, the University of California shall report, by March 1 of each year, on the following performance measures for the preceding academic year, to inform budget and policy decisions and promote the effective and efficient use of available resources:

- (1) The number of transfer students enrolled annually from the California Community Colleges, and the percentage of transfer students as a proportion of the total undergraduate student population.
- (2) The number of low-income students enrolled annually and the percentage of low-income students as a proportion of the total student population.
- (3) The systemwide four-year graduation rates for each cohort of students and, separately, for each cohort of low-income students.
- (4) The systemwide two-year transfer graduation rates for each cohort of students and, separately, for each cohort of low-income students.
- (5) The number of degree completions annually, in total and for the following categories:
 - (A) Freshman entrants.
 - (B) Transfer students.
 - (C) Graduate students.
 - (D) Low-income students.
- (6) The percentage of first-year undergraduates who have earned sufficient course credits by the end of their first year of enrollment to indicate they will complete a degree in four years.
- (7) For all students, the total amount of funds received from all sources identified in subdivision (c) of Section 92670 for the year, divided by the number of degrees awarded that same year.
- (8) For undergraduate students, the total amount of funds received from the sources identified in subdivision (c) of Section 92670 for the year expended for undergraduate education, divided by the number of undergraduate degrees awarded that same year.
- (9) The average number of course credits accumulated by students at the time they complete their degrees, disaggregated by freshman entrants and transfers.
- (10) (A) The number of degree completions in science, technology, engineering, and mathematics (STEM) fields, disaggregated by undergraduate students, graduate students, and low-income students.
(B) For purposes of subparagraph (A), “STEM fields” include, but are not necessarily limited to, all of the following: computer and information sciences, engineering and engineering technologies, biological and biomedical sciences, mathematics and statistics, physical sciences, and science technologies.

REGENTS POLICY 5305

Policy on University of California Mortgage Origination Program

Proposed Amendments – November 2016

Additions shown by underscoring; deletions shown by strikethrough

A. ELIGIBILITY AND PARTICIPATION POLICIES

In all eligibility and participation policies described herein, it is understood that any appointee in a position specifically designated by The Regents as requiring Regents' approval for compensation-related matters, must be approved for Mortgage Origination Program participation by The Regents.

All references to MOP loan eligibility, participation policies, and loan policies also apply to GP-MOP, ~~IO-MOP~~ and 5/1-MOP loans unless otherwise described herein.

1. The eligible population for the Mortgage Origination Program (MOP) consists of full-time University appointees with positions in the following categories:
 - Academic Senate members;
 - Academic titles equivalent to titles held by Academic Senate members as specified in Section 105.1 and 103.3 of the ~~By-Laws and Standing Orders~~ of the Regents of the University of California or in successor Regents Policy;
 - Acting Assistant Professors;
 - Senior Management Group members;
 - UC Hastings College of the Law (UC Hastings) faculty members;
 - University or UC Hastings employees who will be appointed to any of these eligible categories effective no more than 180 days after loan closing;
 - Other appointees who have received required additional approvals to be eligible for participation.

2. From the eligible population, the Chancellor, Lawrence Berkeley National Laboratory (LBNL) Director, or the Dean of UC Hastings shall designate eligible individuals for participation in MOP based on each location's determination of its requirements for recruitment and retention. Additionally, the President is authorized to approve individuals not in the eligible population defined in Section A.1 for participation in MOP, based upon the essential recruitment and retention needs and goals of the institution. ~~Effective July 18, 2015, The University of California Delegation of Authority (DA) 2587, dated July 18, 2015, delegates this authority from the President~~ ~~has delegated this authority (DA2587)~~ to the Chancellors, LBNL Director, Executive Vice President – Chief Operating Officer, and the Agriculture and Natural Resources Vice President for specific titles as outlined in an Appendix to the University of California Home Loan Program Corporation – Program Lending and Administrative Manual.
3. A minimum of 60% of funds allocated for MOP is designated for participants who are purchasing their first principal place of residence within a reasonable distance of their work location. These loans are further designated for participants who have not owned a principal place of residence within a reasonable distance of their work location within the 12-month period preceding the closing date of their MOP loan.
4. Up to 40% of the allocation is available to address essential recruitment or retention needs for otherwise eligible appointees for one or more of the following purposes (Limited Purpose loans):
 - to refinance existing qualifying housing-related debt secured on a participant's principal residence, including related loan transaction expenses included in the prior loan balance or related to the MOP loan. MOP loans may not be used to pay off loans, secured or not secured, used for non-housing-related expenses or for any mortgages on other properties. For any debt secured on a participant's principal residence that was incurred during the five years prior to loan closing, the participant must document the purpose and use of funds as qualifying housing-related indebtedness associated with the subject property;

- to provide a new MOP loan to a current or prior MOP participant at the same work location; or
 - to provide a MOP loan to a participant who has owned a home within a reasonable distance of the work location within a 12 month period prior to the funding of a MOP loan.
5. MOP participation may continue for the term of employment by the University of California or UC Hastings, as long as the property securing the loan continues to meet the specifications outlined in Section B.1, it being understood that:
- if the property securing the loan no longer meets the specifications outlined in Section B.1, the MOP loan shall be reviewed for appropriate disposition; and
 - if University or UC Hastings employment is terminated or, in the case of academic appointees, there is a permanent change to an appointment status not considered to be in full-time service to the University or UC Hastings, the MOP loan is to be repaid within 180 days of such date of separation or change in status, with the understanding that:
 - participation can continue when separation is due to disability or retirement under the provisions of the University of California Retirement Plan or other retirement plan to which the University or UC Hastings contributes on behalf of the participant; or
 - in the event of the death of the participant, participation can continue for a surviving spouse or surviving Domestic Partner or, in the absence of a surviving spouse or surviving Domestic Partner, for a surviving Eligible Child (as the terms Domestic Partner and Eligible Child are defined by the University of California Retirement Plan); or
 - in hardship cases, reasonable forbearance beyond the 180-day required repayment period may be granted ~~for repayment~~, provided all other terms and conditions of the loan are satisfied.

B. MOP LOAN POLICIES

1. MOP loans shall be secured, using a recorded deed of trust for residences that are:
 - owner-occupied single-family residences, including planned unit development and condominium units, which may include one secondary unit that does not comprise more than one-third of the total living area of the home;
 - the principal place of residence for the participant, other than during absences for sabbatical leave or other approved leaves of absence;
 - used primarily for residential, non-income producing purposes; and
 - 50% or more participant-owned.
2. MOP loans may not be used for direct construction loans; however, MOP loans may be used to refinance commercial construction loans upon completion of a new residence or the completion of the renovation of an existing residence.
3. The maximum loan-to-value ratio (LTV) of a MOP loan is to be determined as follows:
 - for loans up to (including) ~~\$845,000~~ \$910,000 (indexed limit as of April ~~2016~~ 2015), the maximum LTV is 90% when the loan does not include any financing of closing costs and 92% with financing of documented closing costs;
 - for loans greater than ~~\$845,000~~ \$910,000 up to (including) the Indexed Program Loan Amount (~~\$1,330,000~~ \$1,430,000 as of April ~~2015~~ 2016), the maximum LTV is 90%;
 - for loans greater than the Indexed Program Loan Amount, the maximum LTV is 80%; and
 - MOP loan amounts greater than the Indexed Program Loan Amount shall require the approval of the President and the concurrence of the Chair of the Finance and Capital Strategies Committee. ~~the Chairman of the Board of Regents and Chairs of the Committees on Finance and Compensation.~~

An increase to the 80% maximum LTV for loans in excess of the Indexed Program Loan Amount to no more than 85% may be approved upon recommendation by the

President, with concurrence of the Chair of the Finance and Capital Strategies Committee. ~~Chairman of the Board of Regents and the Chairs of the Committees on Finance and Compensation~~. The value of the residence is, in all cases, defined as the lesser of the purchase price or current appraised value. The above dollar threshold amounts for determining the maximum LTV and for the Indexed Program Loan Amount reflect applicable levels in effect as of April ~~2015~~ 2016, which shall be adjusted annually each April, based upon any increases in the All-Campus Average Sales Price determined by the annual zip code study performed by the Office of Loan Programs.

4. The maximum term of a MOP loan shall be 40 years. Authorization by the Chancellor or other designated official is required when offering a loan with a term greater than 30 years.
5. The standard mortgage interest rate (Standard MOP Rate) will be equal to the most recently available average rate of return earned by the Short-Term Investment Pool (STIP) for the four quarters preceding the issuance of a loan commitment letter for the mortgage loan, plus an administrative fee component of 0.25%:
 - ~~the President shall determine the level of the administrative fee component of the rate up to an amount not to exceed 0.25%;~~
 - the Standard MOP Rate will be adjusted annually on the anniversary date of the loan;
 - the maximum amount of adjustment up or down of the Standard MOP Rate will be 1% per year;
 - for MOP, and GP-MOP ~~and IO-MOP~~ loans made on or after January 1, 2014, the overall cap on the adjustment of the interest rate over the term of the loan will be 10% above the initial interest rate for the loan;
 - effective with loans approved on or after ~~August 1, 2010~~ February 1, 2017, the minimum initial Standard MOP Rate shall be ~~3.0~~ 2.75%, and the annual rate adjustment on these loans will have a floor rate of ~~3.0~~ 2.75%;

- in the event a loan commitment letter is issued for a MOP or, GP-MOP or IO-MOP loan and the Standard MOP Rate subsequently decreases prior to the loan funding, the participant will receive the more favorable rate; and
- the difference between the ~~weighted average rate of return~~ earnings of the UC-Owned MOP; and GP-MOP; ~~and IO-MOP~~ mortgage portfolios versus the comparable earnings if the funds had been invested in STIP that of STIP will be calculated monthly, with any earnings shortfall in the combined MOP; and GP-MOP; ~~IO-MOP~~ portfolios being covered by the Faculty Housing Program Reserve. The ~~rate of return of the 5/1 MOP earnings mortgage loans~~ will not be included in this calculation during the Fixed Rate Term, as defined in this document. Following the Fixed Rate Term, the 5/1 MOP loans will be considered MOP loans for the purposes of the monthly calculation. Any earnings excess will be retained in the Faculty Housing Program Reserve.
- The Faculty Housing Program Reserve will reimburse STIP for any principal losses resulting from portfolio loan losses.

6. ~~Participants may request an Interest-Only MOP loan (IO-MOP) that has a temporary interest-only repayment feature for up to 10 years (IO-Period) with the following parameters:~~

- ~~the maximum overall term of the loan is 40 years and the minimum remaining term after the IO-Period is 30 years;~~
- ~~an additional interest rate margin of 0.25% will be added to the Standard MOP Rate during the IO-Period (IO-Rate);~~
- ~~the additional 0.25% margin amounts collected during the period of UC-ownership of any such loan shall be held in a separate loss protection account within the Faculty Housing Programs Reserve to offset any losses of principal attributed to this class of loans;~~
- ~~during the IO-Period, the maximum annual adjustment to the IO-Rate, up or down, is 1%;~~
- ~~after the IO-Period, the fully amortized payment will be calculated using the remaining loan balance and term at the underlying Standard MOP Rate in effect at~~

~~the end of the IO Period, subject to the maximum annual interest rate adjustment of the Standard MOP Rate, up or down, of 1%; and~~

- ~~▪ the IO Period is not renewable beyond the maximum 10 year IO Period term.~~

~~Beginning with the 2010-2012 MOP allocation and for all subsequent allocations, IO-MOP loans shall be limited to 15% of the cumulative allocation.~~

7.6. Each Chancellor, the LBNL Director, and the Dean of UC Hastings is authorized to designate eligible participants for participation in the Graduated Payment Mortgage Origination Program (GP-MOP) option, which provides for a reduction in the Standard MOP Rate in the manner described below:

- the maximum rate reduction in the Standard MOP Rate is 3.0% and the minimum resulting mortgage interest rate for such loans shall be ~~3.0~~ 2.75%;
- the rate reduction amount will be decreased by a predetermined annual adjustment (ranging from 0.25% to 0.50%) until the mortgage interest rate equals the Standard MOP Rate;
- for the time period in which the rate reduction is in effect for each GP-MOP loan, the work location shall provide for a monthly transfer of funds (from available funds, including discretionary funds, as well as unrestricted and appropriate restricted gift funds) to STIP or to a third-party investor, if the loan has been sold, to provide the same yield that would have been realized under the Standard MOP Rate; and
- the President is authorized to approve an initial rate reduction greater than 3.0% and an annual adjustment amount outside the standard range of 0.25% to 0.50% based upon the essential recruitment and retention needs and goals of the institution.

8.7. Participants may request a 5/1 ARM product (5/1 MOP) that has a temporary fixed-rate period (Fixed Rate Term), after which the loan converts to a standard MOP loan.

- The initial interest rate (Initial Rate) will remain fixed until the date that the 60th payment is due, resulting in a fixed payment amount for the first 60 monthly payments.
- The minimum Initial Rate will be ~~3.5~~ 3.25%.
- The overall cap on the adjustment of a 5/1 MOP loan's interest rate over the term of the loan will be 10% above the Initial Rate for the loan.

- After the Fixed Rate Term, the interest rate will adjust to the Standard MOP Rate in effect at that time, subject to a 5% interest rate adjustment cap, and a 3 2.75% minimum interest rate.
 - After the Fixed Rate Term and the initial rate adjustment at the end of the Fixed Rate Term, the maximum annual adjustment is 1%.
 - ~~There is no Interest Only option available under the 5/1 MOP.~~
 - The Fixed Rate Term is not renewable beyond 5 years.
- 9.8. The sum of monthly mortgage payments (principal and interest) of the MOP loan and all other loans secured by the residence may not exceed 40% of the participant's household income.
- ~~10.9.~~ When administratively feasible, MOP loan payments shall be made by payroll deduction while on salary status.
- ~~11.10.~~ MOP loans are not assumable.
- ~~12.11.~~ MOP loans carry no prepayment penalty.
- ~~13.12.~~ MOP loans carry no balloon payments.

REGENTS POLICY 5306

Policy on University of California Supplemental Home Loan Program

Proposed Amendments - November 2016

Additions shown by underscoring; deletions shown by strikethrough

Generally, Supplemental Home Loan Program (SHLP) loans are funded from available campus resources, which may include discretionary funds, as well as unrestricted and appropriate restricted gift funds. State funds (19900) cannot be used to fund SHLP loans.

~~Effective January 1, 2016, t~~ The President is authorized to designate a portion of the Faculty Housing Programs Reserve Fund (Reserve) as a centrally-available pool of funds to make SHLP loans that comply with the parameters outlined in Section C. below.

A. ELIGIBILITY AND PARTICIPATION POLICIES

In all eligibility and participation policies described herein, it is understood that any appointee in a position specifically designated by The Regents as requiring Regents' approval for compensation-related matters, must be approved for SHLP participation by The Regents.

1. The eligible population for SHLP consists of full-time University appointees with positions in the following categories:
 - Academic Senate members;
 - Academic titles equivalent to titles held by Academic Senate members as specified in Section 105.1 and 103.3 of the ~~By-Laws and Standing Orders of the Regents of the University of California~~ or in successor Regents Policy;
 - Acting Assistant Professors;
 - Senior Management Group members;
 - UC Hastings College of the Law (UC Hastings) faculty members;

- University or UC Hastings employees who will be appointed to any of these eligible categories effective no more than 180 days after loan closing;
 - Other appointees who have received required additional approvals to be eligible for participation.
2. From the eligible population, the Chancellor, Lawrence Berkeley National Laboratory (LBNL) Director, or the Dean of UC Hastings shall designate eligible individuals for participation in SHLP based on each location's determination of its requirements for recruitment and retention. Additionally, the President is authorized to approve individuals not in the eligible population defined in Section A.1 for participation in SHLP, based upon the essential recruitment and retention needs and goals of the institution. ~~Effective July 18, 2015, The University of California Delegation of Authority (DA) 2587, dated July 18, 2015, delegates this authority from the President~~ ~~has delegated this authority (DA2587)~~ to the Chancellors, LBNL Director, Executive Vice President – Chief Operating Officer, and the Agriculture and Natural Resources Vice President for specific titles as outlined in an Appendix to the University of California Home Loan Program Corporation – Program Lending and Administrative Manual.
3. SHLP participation may continue for the term of employment by the University of California or UC Hastings, as long as the property securing the loan continues to meet the specifications outlined in Section B.2, it being understood that:
- if the property securing the loan no longer meets the specifications outlined in Section B.2, the SHLP loan shall be reviewed for appropriate disposition; and
 - if University or UC Hastings employment is terminated or, in the case of academic appointees, there is a permanent change to an appointment status not considered to be in full-time service to the University or UC Hastings, the SHLP loan is to be repaid within 180 days of such date of separation or change in status, with the understanding that:
 - participation can continue when separation is due to disability or retirement under the provisions of the University of California Retirement

Plan or other retirement plan to which the University or UC Hastings contributes on behalf of the participant; or

- in the event of the death of the participant, participation can continue for a surviving spouse or surviving Domestic Partner, or, in the absence of a surviving spouse or surviving Domestic Partner, for a surviving Eligible Child (as the terms Domestic Partner and Eligible Child are defined by the University of California Retirement Plan); or
- in hardship cases, reasonable forbearance beyond the required repayment ~~180-day~~ period may be granted ~~for repayment~~, provided all other terms and conditions of the loan are satisfied.

B. SHLP LOAN POLICIES

1. SHLP loans shall be used primarily for the purchase of a participant's principal residence, ~~or to provide short-term bridge financing;~~ At the discretion of the authority designating participation, SHLP loans may also be used to refinance existing qualifying housing-related debt secured on a participant's principal residence, including related loan transaction expenses included in the prior loan balance or related to the SHLP loan. SHLP loans may not be used to pay off loans, secured or not secured, used for non-housing-related expenses or for any mortgages on other properties. For any debt secured on a participant's principal residence that was incurred during the five years prior to loan closing, the participant must document the purpose and use of funds as qualifying housing-related indebtedness associated with the subject property.
2. SHLP loans shall be secured, using a recorded Deed of Trust for residences that are:
 - owner-occupied single-family residences, including planned unit development and condominium units, which may include one secondary unit that does not comprise more than one-third of the total living area of the home;
 - the principal place of residence for the participant, other than during absences for sabbatical leave or other approved leaves of absence;
 - used primarily for residential, non-income-producing purposes; and

- 50% or more participant-owned
3. The maximum loan-to-value ratio (LTV) of a SHLP loan, either alone or in combination with other loans, is to be determined as follows:
- for loans totaling up to (including) the Indexed Program Loan Amount ~~(\$1,330,000~~ \$1,430,000 as of April ~~2015~~ 2016), the maximum combined LTV is 95%;
 - for loans totaling more than the Indexed Program Loan Amount, the maximum combined LTV is 90%;
 - SHLP loan amounts greater than the Indexed Program Loan Amount shall require the approval of the President and the concurrence ~~of the Chairman of the Board of Regents and the Chairs of the Chair of the Finance and Capital Strategies Committee.~~ s on Finance and Compensation

The value of the residence is in all cases defined as the lesser of the purchase price or current appraised value. The above dollar threshold amounts for determining the maximum LTV and for the Indexed Program Loan Amount reflect applicable levels in effect as of April ~~2015~~ 2016, which shall be adjusted annually each April, based upon any increases in the All-Campus Average Sales Price determined by the annual zip code study performed by the Office of Loan Programs.

4. The maximum term of a SHLP loan shall be 40 years, with repayment schedules designed to accommodate the needs of SHLP participants as well as any requirements of the funding source. Authorization by the Chancellor or other designated official is required when offering a loan with a term greater than 30 years.
5. Each location shall determine the mortgage interest rate to be charged on a given loan, with the understanding that maximum rates may be established to comply with federal and State lending and tax laws and regulations. All SHLP interest rates must include a service fee component of .25%. The minimum SHLP interest rate shall be 3.0%. ~~equal to the most recently available average rate of return earned by the Short-~~

Term Investment Pool (STIP) for the four quarters preceding the issuance of a loan commitment letter for the mortgage loan, plus a margin of 25 basis points (.25%).

6. For adjustable rate SHLP loans approved on or after February 1, 2017, the overall cap on the adjustment of the interest rate over the term of the loan will be 10% above the initial interest rate for the loan.

~~6~~.7. The sum of monthly mortgage payments (principal and interest) of the SHLP loan and all other loans secured by the residence may not exceed 40% of the participant's household income.

~~7~~.8. When administratively feasible, SHLP payments shall be made by payroll deduction while on salary status.

~~8~~.9. SHLP loans are not assumable.

~~9~~.10. SHLP loans carry no prepayment penalty.

C. CENTRALLY FUNDED SHLP LOAN PROGRAM

The parameters of the loans made from the Reserve will fall within the guidelines as outlined in Sections A. and B. with the following additional restrictions:

1. Loans must be in second position.
2. The maximum loan amount will be the lesser of 5.0% of the purchase price or \$75,000. The maximum loan amount will be indexed to any increase in the All-Campus Average Sales Price determined by the annual zip code study performed by the Office of Loan Programs.
3. The maximum term ~~for loan amounts up to \$25,000 will be~~ is 15 ~~10~~ years (~~120~~ 180 months).

~~4. The maximum term for loan amounts greater than \$25,000 will be 15 years (180 months).~~

5.4. The loans will have a fixed interest rate equal to the most recently available 4-quarter average rate of return of STIP, ~~plus a .50% margin~~, plus a .25% servicing fee. The minimum interest rate will be ~~3.0~~ 2.75%.

D. INTEREST-ONLY SHLP (IO-SHLP) LOAN PROGRAM

The Campuses have the option to offer IO-SHLP loans using authorized Campus funding sources. There are no central funds available for the IO-SHLP loans. All loan parameters must fall within the guidelines outlined in Sections A. and B., with the following additional terms:

1. The Interest-Only Term (IO-Term) is available for 5, 7 or 10 years. Following the IO-Term, the loan will convert to a fully amortizing loan with an overall term as follows:
 - 5 year IO-Term: 15 year fully amortizing (20 year total amortization)
 - 7 year IO-Term: 23 year fully amortizing (30 year total amortization)
 - 10 year IO-Term: 30 year fully amortizing (40 year total amortization)
2. The Chancellor or other designated official will be required to acknowledge and accept any regulatory risk or potential litigation associated with making IO-SHLP loans, which are non-Qualified Mortgages, according to the CFBP's definition.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA UNIVERSITY OF CALIFORNIA DEBT POLICY

I. Purpose/Objective of Policy

The University's Debt Policy (the “Policy”) governs the use and management of debt used to finance primarily capital projects as well as certain other uses across the University of California System (the “System”). As such, the Policy provides a framework that guides the capital market activities that are critical to achieving the University's mission of teaching, research, and public service. This framework ensures that the University can do so in an efficient and cost-effective manner while managing risk in the debt portfolio.

Specifically, this Policy seeks to achieve the following objectives:

- Outline the University's strategic approach to debt management;
- Establish guidelines for approving, structuring and managing debt;
- Identify roles and responsibilities for approving and monitoring debt post-issuance; and
- Set reporting standards.

With debt a precious and finite resource, this Policy provides a framework within which to evaluate and manage the tradeoffs between credit ratings, cost of capital and financial flexibility. It is the overarching goal of this Policy to ensure that the University maintains ready access to the debt capital markets to meet the University's financing needs. The active management of the University's credit profile, including the debt structure with respect to maturity and composition, will allow the University to achieve these objectives.

The University's credit strategy and strength are rooted in the System's scope and diversity; therefore, debt is a central function.

The Office of the CFO has oversight over all of the University's capital market activities. As such, the Office of the CFO is responsible for maintaining this Policy and will review it at least every two years and present to the Board of Regents, for approval, any proposed material changes, as appropriate. Nonmaterial changes to this policy may be approved directly by the CFO.

II. Use of Debt Funding

- A. Prioritization of Capital Needs. Campuses and medical centers prioritize their capital needs with respect to essentiality to the University's mission of teaching, research, and public service. Campuses and medical centers also prioritize with respect to affordability, with special consideration given to capital projects that are self-funding or revenue-generating. The Ten Year Capital Financial Plan, updated annually, lays out the capital plan for each campus and medical center. The Plan includes a general funding plan for each project.

- B. Approval Process. All University external financings must be approved by the Board of Regents, unless provided otherwise under the relevant University governing documents. The Office of the CFO coordinates the external financing approval process, which includes a review of the campus' or medical center's financial strength and ability to assume additional debt.

In addition to the guidelines below, external financing approvals will be considered in the context of the University's overall credit portfolio and any potential impact on the University's credit ratings. As described in Section IV below, the CFO, under the direction of the Board of Regents and/or the President, may delay or deny a request for external financing on the basis of a potential negative impact on the University's credit profile/ratings (even if the guidelines below are met).

The Office of the CFO has worked with the campuses and the medical centers to develop financial models that help assess the viability of future debt financings.

For the campuses, the Office of the CFO has developed the Debt Affordability Model to be used as part of the approval process. The model includes 10-year projections of the campus' operations and planned financings. The Debt Affordability Model produces certain debt metrics that are used in the external financing approval process. Campuses must meet the following requirements in order to receive approval for external financing:

1. Modified cash flow margin¹ $\geq 0\%$; *and*
2. Debt service to operations $\leq 6\%$; *or*
3. Expendable resources to debt $\geq 1x$.

In addition, for external financing of auxiliary projects, Campuses must also meet the following requirements:

1. Project debt service coverage $\geq 1.10x$; *and*
2. Auxiliary debt service coverage $\geq 1.25x$.

Medical centers shall provide 10-year projections, or projections over a shorter time horizon as deemed appropriate, of their statement of income available for debt service, statement of revenues and expenses, statement of net assets, and statement of cash flows, and meet the following requirements:

1. Net Income Margin² $\geq 0\%$; *and*
2. Debt service coverage³ $\geq 3x$; *and*
3. Days cash on hand ≥ 60 .

The Office of the CFO may review and approve exceptions for campuses and medical centers that are unable to meet the above requirements on a case-by-case basis. In order

¹ Modified cash flow margin is an income statement-based measure of a campus' debt service coverage, adjusted for certain cash and non-cash items.

² Net Income Margin is net income (net operating income + non-operating income) divided by total operating revenue. Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

³ Adjustments may be made for certain non-cash expenses related to UCRP and OPEB.

to be considered for an exception, the campus or medical center must submit a financial model that demonstrates its ability to service the debt and a plan for achieving the minimum requirements listed above over time.

In addition to funding projects for the campuses and medical centers, the University also uses debt financing for system-wide initiatives, such as pension funding and the restructuring of State of California Public Works Board debt. While these projects benefit campuses and medical centers throughout the System, the debt is held at the system-wide level and is not attributed to the individual campuses and medical centers in the aforementioned debt models or projections. In lieu of an approval process similar to that outlined for the campuses and medical centers above, external financing for system-wide projects will be reviewed by the CFO, under the direction of the Board of Regents and/or the President, within the context of the University's overall operating performance and balance sheet, and the potential impact to the University's credit profile/ratings.

- C. Execution of Debt Financing. The Office of the CFO coordinates financings for the University, working with internal University counterparts and external parties. Campuses and medical centers are involved in the months leading up to a financing as the Office of the CFO conducts due diligence on each project involved in a financing, which, along with the campus' or medical center's stated preferences, informs the sizing and structure of the bonds. The Office of the CFO also interacts with outside experts, including, but not limited to, financial advisors, financial institutions, the State Treasurer's Office, bond counsel, underwriters, rating agencies, and investors on the execution of the financing. The timing of a debt financing depends on a number of factors that include market conditions, need, and the status of projects in construction.
- D. Use of Proceeds. In order to ensure compliance with legal, regulatory, governance and policy matters, the Office of the CFO is authorized to oversee the proper use of the proceeds of debt financings throughout the System.

III. Financial Instruments/ Borrowing Vehicles

- A. External Borrowing. The University generally issues debt using one of three different primary credit vehicles: General Revenue Bonds, Limited Project Revenue Bonds and medical center Pooled Revenue Bonds. On select occasions and for specific purposes, the University has also utilized third-party debt through vehicles such as the Financing Trust Structure and other third party structures. The credit to be used to finance a particular project will depend on the nature of such project, its potential impact on ratings and market interest rates at the time of the financing. The University strives to make the most efficient use of its differentiated credit structure in order to preserve its primary credit for core projects essential to the University's mission of teaching, research, and public service.

The following paragraphs provide brief overviews of the University's primary credit vehicles.

The General Revenue Bond (GRB) credit serves as the University's primary borrowing vehicle and is used to finance projects that are integral to the University's core mission of education and research. The GRB credit is secured by the University's broadest revenue pledge. It was introduced in 2003 to replace and consolidate several purpose-specific credits. The broad revenue base captures the financial strength of the System and facilitates the capital markets' understanding of the University's credit. The GRB credit carries the highest credit ratings among the University's financing vehicles.

The Limited Project Revenue Bond (LPRB) credit, established in 2004, is designed to finance auxiliary service projects that are of a self-supporting nature, such as student housing, parking, athletic, and recreational facilities. The LPRB credit provides bondholders with a subordinated pledge of gross revenues derived only from facilities financed under the structure.

The Medical Center Pooled Revenue Bond (MCPRB) credit serves as the primary financing vehicle for the System's medical centers. These bonds are secured by gross revenues of the medical centers, which are excluded from general revenues pledged for GRBs. The MCPRB credit replaced the Hospital Revenue Bond credit in 2007. Previously, the medical centers issued debt on a stand-alone basis, secured by their individual revenue streams. The pooled credit lowers borrowing costs, facilitates access to the financial markets, and increases debt capacity for the medical centers.

Third-Party Financing Structures. At times, there may be compelling reasons for the University to pursue an alternative financing structure outside of the three primary credit vehicles described above. These situations will be evaluated on a case-by case basis, and should be supported by a business case analysis and financial feasibility study. The analysis must demonstrate that the project will be accretive to the University's financial position. While certain third-party financings may be off-balance sheet, depending on the specifics of the structure, they still impact the overall credit profile of the University. Therefore, the CFO, under the direction of the Board of Regents and/or the President, has the authority to deny a third-party financing depending on the nature of the project and its potential impact on the University. To the extent a third-party structure is deemed to be in the best interest of the University, the financing will be executed centrally through, or in close partnership with, the Office of the CFO. The Financing Trust Structure will serve generally as the University's third-party financing tool unless granted an exception by the Office of the CFO.

Commercial Paper and Bank Lines of Credit. The University manages a commercial paper program, which primarily provides interim financing for projects prior to a permanent bond financing. The University also utilizes bank lines to provide bridge financing for projects that are awaiting gifts or other sources of funds and for working capital. In addition, the University has dedicated and hybrid credit lines which support its commercial paper program and variable rate debt.

Derivative Products. The University maintains a separate policy guiding the use of derivative products.

- B. Internal Lending/Borrowing. The Office of the CFO manages the UC Strategic Investment Program (UCSIP), which is a suite of internal loans designed to leverage the University's strong credit rating to fund short-term financing needs. UCSIP is comprised of three loan programs: CapEquip, which funds capital equipment acquisition; C3, which funds operational efficiency initiatives; and STARs, which funds laboratory renovations and equipment purchases tied to faculty recruitment and retention. At times, loans are also made for certain system-wide projects. These loans are funded from the University's commercial paper program, and in the future may also be funded from the University's bank lines of credit. Depending on need, the Office of the CFO will periodically determine an appropriate amount of the University's commercial paper program and bank lines of credit to be reserved for the purpose of funding these internal loans.

IV. Financial Performance/Ratios and Credit Ratings/Debt Capacity

The System's credit profile, as viewed by the rating agencies and capital markets, is a function of a number of qualitative and quantitative factors, both financial and non-financial. These include market position, management and governance, state relations and support, as well as the financial strength of the University. Financial strength is a function of both income statement (i.e., operating performance) and balance sheet (i.e., financial resources) strength and is generally evaluated with certain key financial indicators serving as proxies for an institution's relative health. The resulting credit ratings, in turn, drive debt capacity and impact the University's cost of capital.

- A. Credit Ratings. As described previously, the GRB credit represents the System's senior most lien and is designed to support primarily projects that are core to the University's mission of teaching, research and public service. In order to ensure ongoing access to capital at attractive financing rates in support of its mission, the University will maintain credit ratings in the "AA" rating category for the GRB credit. In order to protect the "AA" ratings on the GRB credit – which will help ensure ongoing access to capital on favorable terms – the University will closely monitor debt affordability, as measured by certain financial metrics, including operating performance. The CFO, under the direction of the Board of Regents and/or the President, will slow down or deny any financings deemed to potentially have an adverse impact on the institution's overall credit profile or that might threaten the University's credit ratings.
- B. Affordability and Financial Equilibrium. The University monitors key credit ratios system-wide and individually for each campus and medical center. By exercising fiscal discipline, the University strives to achieve financial equilibrium, which is key to the long-term financial health and viability of the System. The University monitors its operating margin system-wide, while campuses are required to monitor their modified cash flow margin and medical centers must monitor their net income margin. Campuses must demonstrate positive modified cash flow margins and medical centers must demonstrate positive net income margin, with the goal of leading the University to a positive operating margin system-wide.⁴

The medical centers comprise a substantial portion of the University's operations, and their operating performance has a direct impact on the University's overall credit profile. As such, a deterioration of the medical centers' operating performance may have a negative impact on the ratings of all of the University's credits, not just the medical center Pooled Revenue Bonds. Should the medical centers' operations decline over time, thereby threatening the University's credit profile as a whole, the CFO, under the direction of the Board of Regents and/or the President, has the authority to reassess debt financings for system-wide projects or for future contemplated medical center projects. Still, the University's differentiated credit structure is designed to allow the ratings on the MCPRB credit to move without adversely impacting the GRB ratings.

The University also monitors its debt service burden, both system-wide and for the campuses. The University's debt service must not exceed 6% of its operating budget.⁴

The University also monitors leverage as measured by expendable resources-to-debt. The University is focused on its negative unrestricted net asset (UNA) position, and strives to improve it by addressing its pension and OPEB liabilities. In order to protect the System's credit, the University may consider deferring debt financing for system-wide initiatives while its UNA position remains negative. In addition, the University may also consider delaying debt funded system-wide projects if its pension liability ratio falls below 70% funded on an actuarial value of assets basis. At the direction of the Board of Regents and the President, external financings that would improve the University's pension funding status may be excluded from this policy. Campuses similarly monitor their expendable resources to debt ratios via their debt affordability models.

Irrespective of campuses and medical centers meeting certain thresholds and metrics, the CFO, under the direction of the Board of Regents and/or the President, has the authority to slow down or to deny projects if the financings jeopardize the University's credit ratings.

V. Structure

The issuance of debt entails a number of structural considerations that need to be evaluated on both an issue-specific as well as on an overall portfolio basis: tax-exempt versus taxable debt; fixed versus variable rate debt; amortization/final maturity; and ultra-long dated structures.

The structure of the System's overall debt profile has direct bearing on the University's credit profile. As such, structural decisions are a central function and are made by the Office of the CFO. Whenever possible and not to the detriment of the System overall, the campuses' and medical centers' preferences with respect to structure for a particular project/financing will be accommodated.

⁴ Also see Section II. B. Approval Process.

- A. Tax-exempt versus Taxable Debt. Given its status as a public institution, the University has the option to raise capital in the tax-exempt debt market, which generally offers a lower cost of capital than the taxable market. However, unlike taxable debt, tax-exempt debt is subject to certain restrictions, including, but not limited to, private use and useful life constraints. In addition, the University is required to monitor the use of assets financed with tax-exempt debt generally over the life of the debt to ensure ongoing compliance with legal requirements. This introduces a significant administrative burden as well as risk given the University's large, complex and stratified/decentralized operations. Therefore, especially as it relates to the research and medical services enterprises, which historically have seen the most private use, the University may at times opt to issue taxable debt for increased operational flexibility.

In addition, at times, market conditions are such that the yield/cost differential between tax-exempt and taxable debt is compressed, affording the University an opportunity to access less restrictive taxable capital at little to no incremental yield.

The University will evaluate the issuance of tax-exempt versus taxable debt in the context of the nature of the assets to be financed and prevailing market conditions.

- B. Fixed versus Variable Rate Debt. The issuance of debt across the yield curve can be valuable both from a portfolio management point of view as well as from an investor diversification perspective. Variable rate or short-term debt may provide a lower cost of capital, but introduces risk in the form of uncertainty from a rate reset and/or rollover/refinancing perspective. Fixed rate debt, meanwhile, offers budget certainty, albeit at a higher cost.

Long-term tax-exempt debt is most commonly issued with a 10-year par call option, whereas variable rate debt generally can be called on any interest payment date, either for refinancing or retirement purposes, offering additional optionality. The University may consider longer or shorter call options depending on market conditions and the characteristics of specific projects.

Long-term taxable debt is most commonly issued with make-whole call features. The University may consider issuing taxable debt with a par call option depending on market conditions and the characteristics of specific projects.

Most forms of variable rate debt afford investors the opportunity to put the debt back to the University upon a predetermined notice period. This feature requires the University to have liquidity support to provide a backstop in case investors exercise their option. The liquidity can stem from either internal sources (i.e., STIP/TRIP) or external lines of credit. Either way, the liquidity requirement carries a cost, implicit or explicit, that needs to be factored into the structuring decision. In addition, the University's liquidity is finite and serves many other purposes, placing a natural limit on the amount of variable rate debt in the overall debt portfolio.

The University will limit exposure to variable/short-term debt to a prudent percentage and diversify among short-term instruments. The University will not assume any additional variable rate or short-term debt that would require incremental external liquidity or an increase in the STIP and/or TRIP portfolios without properly evaluating the potential impact on credit ratings, cost, or implication for the STIP and/or TRIP portfolios.

In order to minimize debt service, the University may also choose to issue “put bonds” or other debt structures which either mature or require rollover prior to the anticipated final maturity of the debt. In these cases, the University will seek to diversify rollover and refinancing dates, taking into consideration the entire debt portfolio, in order to minimize rollover risk and maintain market access.

- C. Amortization/Maturity. The maturity and amortization of debt will be instructed by both the nature and the anticipated cash flow pattern, if applicable, of the project(s) being financed as well as by prevailing market conditions at the time of the financing. In addition, the University will evaluate financings within the broader context of the institution's overall debt portfolio to ensure that debt service payments are managed in aggregate.
- D. Ultra-Long-Dated Structures. At times, market conditions may provide for the issuance of ultra-long-dated debt (i.e., debt with a maturity of 50 years and beyond), affording the University the opportunity to lock-in capital at an attractive cost for an extended period of time. While such a structure can provide for valuable portfolio diversification, it demands prudence and internal discipline to ensure that future obligations can be met. As a result, the University requires internal borrowers to demonstrate a strategic need/rationale for these structures and to set aside funds at closing sufficient to accrete to the final principal repayment.

The availability of ultra-long dated debt is limited from both a market and credit perspective and the University will evaluate opportunities as they arise.

VI. Refinancing Opportunities

The University continually monitors its debt portfolio to identify potential savings opportunities that may exist through a refinancing of existing debt. The University works with its financial advisors to evaluate refunding opportunities within the context of market conditions, refunding efficiency, and overall level of rates. Refunding opportunities are evaluated on a net present value basis, taking into account all costs of issuance. Because tax law limits the number of refundings for tax-exempt issuances, the University's evaluation takes into account the amount of time to the call date and the time to maturity.

In addition, at times, the University may choose to refinance debt for non-economic reasons, including to restructure the debt portfolio or to address legal covenants contained in the bond documents.

VII. Reporting

- A. Internal Reporting. The Office of the CFO will be responsible for periodic reporting on the University's debt capital program. These updates will be made available on the Capital Markets Finance website or in the form of special reports to the Board of Regents, as appropriate.
- B. External Reporting. The University's annual financial statements are filed annually with the Municipal Securities Rulemaking Board's EMMA website, in compliance with the University's obligations under its various continuing disclosure agreements. The University is also responsible for providing notices of certain enumerated events under these agreements such as rating changes and bond defeasances.

Last revised August 8, 2016.

2017-18 BUDGET FOR STATE CAPITAL IMPROVEMENTS (\$000s)
CCCI 6566

		State General Funds Financed	Phase ¹
Berkeley	Evans Hall and Hearst Memorial Gymnasium	\$1,700	S P ²
Berkeley	2223 Fulton Seismic Demolition	\$3,050	C
Berkeley	Giannini Hall Seismic Safety Corrections	\$3,250	P W
Irvine	Interdisciplinary Sciences Building	\$50,000	D C
Los Angeles	CHS-NPI Seismic Correction	\$25,000	C
Los Angeles	Franz Tower Seismic Renovation	\$25,000	C
San Francisco	Health Sciences Instructional & Research Life Safety Improvements	\$3,000	D
Capital Projects Total		\$111,000	
Systemwide State Deferred Maintenance Program		\$50,000	
TOTAL		\$161,000	

¹ Refer to the Key for Acronyms.

² Seismic studies and design through the schematic level only.