THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
May 18, 2017

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

Members present: Regents Blum, Brody, De La Peña, Elliott, Kieffer, Lansing, Lozano, Makarechian, Napolitano, Ortiz Oakley, Pattiz, Pérez, Ramirez, Reiss, Rendon, Schroeder, Sherman, Torlakson, and Zettel

In attendance: Regents-designate Lemus and Mancia, Faculty Representatives Chalfant and White, Secretary and Chief of Staff Shaw, General Counsel Robinson, Interim Chief Audit and Compliance Officer Lohse, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Stobo, Senior Vice President Peacock, Vice Presidents Brown and Holmes-Sullivan, Chancellors Block, Blumenthal, Dirks, Gillman, Hawgood, and Yang, and Recording Secretaries Johns and McCarthy

The meeting convened at 9:05 a.m. with Chair Lozano presiding.

1. PUBLIC COMMENT

Chair Lozano explained that the public comment period permitted members of the public an opportunity to address University-related matters. The following persons addressed the Board concerning the items noted.

A. Ms. Susan Willats, UC Santa Cruz employee, stated that underfunding of UC Santa Cruz has led to unsustainable workloads and stagnant wages for nonrepresented staff. She cited examples of employees who had not been retained because of the high cost of local housing, higher salaries in Silicon Valley, and salary levels for high-quality, long-time employees that are sometimes exceeded by salaries of new hires. Ms. Willats requested that the Regents seed fund a comprehensive equity program to remediate wages of long-standing employees; re-bench the campus cost of labor calculation to address the actual local cost of living; and recognize that the campus is facing the growing liability of being unable to recruit, train, and retain replacement staff.

B. Mr. Parshan Khosravi, UCLA graduate student, expressed concern that external funding that supports many graduate students usually does not include Workers’ Compensation coverage; these students are not considered UC employees and so, in addition, do not qualify for UC benefits. Because of different funding sources, graduate students doing similar work in the same laboratory can have very different benefit coverage. He asked that the Regents take steps to rectify this situation.
C. Ms. Violet Barton, UC Merced graduate student, noted the importance of increasing diversity among graduate students who are mentors for undergraduate students and the source of future UC faculty. Ms. Barton noted the need for foreign language classes at UC Merced because these classes are required for Ph.D. students in the humanities.

D. Ms. Ifechukwu Okeke recalled that the Free Speech Movement began at UC Berkeley to uplift the voices of those who were marginalized. She said that claims of free speech are currently being used to oppress rather than to help the oppressed.

E. Ms. Danielle Bermudez, UC Merced graduate student, thanked Chancellor Leland for her leadership and her openness to students. She commented that Title IX staff should be diverse.

F. Ms. Elizabeth Milos, UCSF employee, said that protestors at Standing Rock, North Dakota, were exposed to hypothermia, tear gas, and rubber bullets. She urged UC to divest from companies that fund the Dakota Access pipeline.

G. Mr. Paul Medved said that he had filed a whistleblower complaint in November 2015 alleging misuse of student fees and fraudulent behavior by the administration of former UC Davis Chancellor Katehi. An independent investigation of the complaint by an outside law firm found the misuse of funds to be inadvertent, apparently harmless, and not a violation of UC policy. UC accepted these findings and considered the complaint closed. However, Mr. Medved said that UC had acted to limit the scope of the investigation. He urged the Regents to look into his complaint.

2. APPROVAL OF MINUTES OF PREVIOUS MEETINGS

Upon motion duly made and seconded, the minutes of the Special Meeting of February 23, 2017 and the meeting of March 16, 2017 were approved.

3. STATE AUDIT OF THE ADMINISTRATIVE FUNCTIONS OF THE UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT

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

Chair Lozano thanked State Auditor Elaine Howle for coming to this meeting to discuss the State audit report issued April 25 on the administrative functions of the Office of the President. The report had been distributed to the Regents, along with testimony from the March 2 presentation to the Joint Legislative Audit Committee of the Legislature. Chair Lozano said she had asked Ms. Howle to provide highlights of the audit report and any information related to either findings or recommendations that would add to the Regents’ deliberations. Chair Lozano stated that the focus of this meeting would be to
(1) understand the findings and recommendations made by the State Auditor; (2) become familiar with and agree to the actions underway at the Office of the President led by President Napolitano and her team; and (3) understand the recommendations made directly to the Regents, discuss them fully, and agree on the Regents’ response and associated actions. She reminded the Regents that at a special meeting the prior week Regents voted unanimously to authorize her, as Chair of the Board, to retain an independent consultant to help the Regents review facts related to the Office of the President’s alleged inappropriate interference with campus survey responses. That working group was already underway, with the goal of reporting to the Regents at the July meeting.

Ms. Howle reviewed key findings of the audit report, the first of which related to $175 million her team identified as being in surplus at the end of fiscal year 2015-16. Of that, $83 million was restricted funds and $92 million was discretionary money that the Office of the President could use for a variety of purposes. The Office of the President identified commitments for $54 million, such as initiatives that Ms. Howle characterized as reasonable. However, the audit report noted that decisions about those funds were not made by the Regents, but rather exclusively by the Office of the President, and the report indicated a need for greater transparency. The remaining $38 million of discretionary funds were not committed to any particular purpose. While there should be an appropriate reserve, the Office of the President had not established a reserve policy or an appropriate reserve amount.

Second, there were several weaknesses in the budgeting practices of the Office of the President. The State Auditor’s office uses National Association of College and University Business Officers (NACUBO) standards and recommended best practices, and Government Finance Officers Association (GFOA) best practices. In the budgeting practices of the Office of the President, the audit team did not see prior year expenditures, so it was unclear how much of the funds approved for the prior year had been expended and how much remained. Also, all funding sources for the variety of incoming revenues to the Office of the President were not shown. Stakeholder input on budget decision-making was limited. There was no long-term forecasting. Expenditures were monitored at the fiscal year’s midpoint, rather than quarterly or monthly. The Auditor expected to see more guidance and protocols for approval of expenditures. Her team examined a sample of $42 million in expenditures and could not find appropriate support for $34 million. Her team did not see anything nefarious in those expenditures, but could not find appropriate documentation and support for the decision-making and official approval for them.

Third, Ms. Howle said her office had concerns about the Office of the President’s systemwide initiatives, not necessarily their nature and purpose, but that it was difficult to determine the number of systemwide initiatives. In response to the State Auditor’s inquiry, the Office of the President indicated that there were 32 systemwide initiatives. However, the State Auditor’s staff was able to find 79 systemwide initiatives. The Office of the President’s budget that would be presented to the Regents at this meeting listed 35 systemwide initiatives. A definitive process should be developed to identify
systemwide initiatives, their purpose, their cost to the Office of the President and the campuses, and the benefit derived from these initiatives. Ms. Howle pointed out that some initiatives had become so successful they were essentially self-sufficient, such as UC Press.

Fourth, the Legislature had asked the State Auditor to review staffing at the Office of the President. Her team did not find sufficient support for decision-making on the number of staff at the Office of the President, currently slightly more than 1,600. Ms. Howle noted that President Napolitano, at the beginning of her tenure, requested a review of all operations of the Office of the President, including staffing. However, the audit team could not find follow-up to President Napolitano’s specific directive and staffing levels had increased. The audit report noted the importance of strategic workforce planning. The State Auditor uses the model of the California Department of Human Resources (CalHR) for State agencies.

Fifth, the State Auditor attempted to survey UC campuses to identify services provided by the Office of the President, how many of those services the campuses were actually using, campuses’ perspectives on the value of those services, and whether they should be continued. The State Auditor also sent the campuses a second survey to determine if the campuses understood the methodology for determining the assessment and whether campuses felt they received value for that assessment. Ms. Howle stated that, based on the evidence her office had, she saw enough interference by the Office of the President with the campus surveys that her office could not rely on the results and, under her office’s operating standards, she was required to disclose that in the audit report.

Ms. Howle reviewed the audit report’s recommendations to the Regents. She expressed appreciation to Chair Lozano and Regents Pérez and Zettel who met with her two or three times during the course of the audit to understand issues being raised and who were committed to addressing the recommendations. The audit report recommended that the Regents hire an independent third party to assist in monitoring and overseeing the corrective action plan, which included a three-year time frame for the Office of the President to address all of the recommendations. Another recommendation was that the Regents hold a public meeting to allow University stakeholders to discuss all systemwide initiatives. The audit report also recommended that the Regents continue to oversee the Office of the President to ensure that needed changes take place.

Ms. Howle discussed the report’s recommendations to the Office of the President. Her office developed a three-year corrective action plan, with items that her office would expect the Office of the President to complete by April 2018, April 2019, and April 2020. In the first year the Office of the President should identify existing initiatives, their purpose, how much is being spent on each, and improve the budget presented to the Regents including prior year expenditures and following some best practices identified in the audit report. During the second year the Office of the President would continue to make improvements and develop associated policies. By the third year, these procedures should become standard practices.
Ms. Howle acknowledged President Napolitano’s commitment to implement all 33 of the audit report’s recommendations, but expressed concern that, in its response to the audit report, the Office of the President had changed the first-year deadline for nine of the 33 recommendations from April until July. The April deadline was important to align with the budget cycles of the Legislature and the University. She pointed out that the audit report contained a recommendation to the Legislature that it directly appropriate the budget of the Office of the President. If the Office of the President did not implement some of the recommendations until July, that would be too late, as the State budget would already be completed. She expressed her strong view that an initial one-year deadline, with a three-year period for full implementation, was more than reasonable. Chair Lozano expressed her understanding that the Office of the President’s implementation would comply with the audit report’s timeline.

Regent and Assembly Speaker Rendon asked Ms. Howle to confirm that the audit report timeline for corrective actions by the Office of the President was achievable. Ms. Howle expressed her view that the timeline was more than fair.

Regent Pattiz expressed strong support for President Napolitano, who has a record as a visionary of great character. He pointed out that the audit report contained no accusations of malfeasance, only a lack of clarity in processes. He expressed confidence that the President would fulfil her commitment to accomplish all the recommended actions.

Regent Lansing expressed her view that these issues involved developing more clear and transparent processes. Complying with the auditor’s timeline had been resolved. She confirmed the Regents’ desire to fix any problems. She asked for Ms. Howle’s confirmation that, if the President had agreed to all 33 of the recommendations and the timeline, then the Regents’ obligation was to ensure that all the recommendations would be accomplished. There was no allegation of a lack of integrity. Ms. Howle responded that there were questions about items in the budget of the Office of the President that the Regents should consider. For example, some discretionary funds were allocated to operations, which should be in the operations budget. The proposed budget for the Office of the President that would be presented later in this meeting should be carefully reviewed by the Regents. Ms. Howle pointed out that, when the audit process began, the Office of the President took the position that $38 million was an appropriate emergency reserve in fiscal year 2015-16. In the proposed budget, that amount is reduced to $30 million in 2016-17 and $16 million in 2017-18. It would be important for the Office of the President and the Regents to determine an appropriate reserve policy.

Ms. Howle also emphasized the importance of the Regents’ engaging an independent third party to assist them in monitoring these corrective actions. She recalled that in 2006 the Regents directed the Office of the President to develop policies and procedures for its budgeting practices and procedures for the approval of expenditures, but those were never developed. She credited President Napolitano with developing a decision memorandum process for certain expenditures from discretionary funds, and in some cases reducing the amounts requested in decision memoranda.
Regent Lansing reaffirmed the Regents’ commitment toremedying these issues. Ms. Howle stated that her office would continue to work with the Office of the President. Sixty days after the April 25 date of issuance of the audit report her office would expect responses from the Office of the President and evidence of actions taken to begin implementing recommendations.

Chair Lozano affirmed that the Regents would ensure that the correct processes, procedures, systems, and controls are in place. The audit report’s recommendations to the Regents concerned oversight, transparency, and accountability.

Regent Ortiz Oakley expressed concern about the alleged interference with the audit’s campus surveys and asked for clarification of the interference cited in the audit report. He asked if the State Auditor and her team had conversations with the Office of the President about the alleged interference and the response of the Office of the President. Ms. Howle stated that the surveys sent to the campuses contained clear language specifying that the survey information should be kept exclusive to that campus and confidential. The State Auditor’s office had a conversation with the Office of the President’s liaison who stated that the Office of the President was receiving some logistical questions about the campus surveys. The auditor’s office responded that logistical questions were fine, but substantive questions should be directed to the State Auditor’s office. Her office concluded that some of the completed surveys were being sent to the Office of the President before they were submitted to the Auditor. After the UC Santa Cruz survey was submitted electronically to the State Auditor’s office, the campus asked that the survey be returned. It was resubmitted, but with significant changes. Some of the ratings had been changed from “poor” to a more favorable rating. In at least three or four campus surveys some narrative language in the original survey response sent to the Office of the President was removed and new language inserted in the version submitted to the State Auditor.

Ms. Howle explained that audit standards require that her office understand the protocols for the surveys’ responses, which are testimonial evidence. The State Auditor’s office told the Office of the President that it needed to understand the substance of communications between the Office of the President and the campuses. The Office of the President provided the auditor with e-mails showing that there were communications about the surveys between all of the campuses and the Office of the President. In fact, the Office of the President set up a conference call shortly before the surveys were due to discuss the surveys. The e-mails do not indicate the nature of that conversation, but clearly some of the e-mails referred to notes that were inserted into the survey by individuals who work at the Office of the President. From Ms. Howle’s perspective, experience, and understanding of audit standards, this represented a problem. She personally reviewed all these e-mails and instructed her staff to have the Office of the President provide all the draft surveys originally received, which were not among the materials provided in response to the auditor’s request for communications with the campuses about the surveys. Once the original surveys were provided to the auditor, her staff compared the originals with the versions ultimately submitted electronically by the campuses.
Another issue of concern was that after the conference call was scheduled, some campuses contacted the State Auditor’s office to request more time to respond to the survey, even though some had been ready to submit their responses earlier. These circumstances all contributed to the State Auditor’s conclusion that it could not rely on the surveys as being sufficient and competent evidence of the campuses’ perspective on the services that the Office of the President provides or on the campus assessment process.

Regent Ortiz Oakley noted the audit report’s recommendation that the Regents engage an independent third party to support the implementation of the recommendations and ongoing oversight. He asked how this third party would differ from the independent auditor already employed by the Regents to oversee the University and if the University’s current independent auditor could be asked to assume this function. Ms. Howle said that using the same auditor to assist with implementation of the corrective action plan would be within the discretion of the Regents. She expressed her understanding that the University’s existing independent auditor reviews the financial statements of the University system as a whole. The third party needed to be independent from the Office of the President and report to the Regents.

Regent Ortiz Oakley commented that the $175 million reserve provided funding for many good initiatives and agreed that the use of those funds should be more clearly articulated to the Regents. He stated that some media had characterized this as a “slush fund” and asked if Ms. Howle would agree with that characterization. Ms. Howle stated that the words “slush fund” or “hidden funds” were not used in the audit report, which said only that much information had not been disclosed to the Regents. She noted that the Office of the President referred to a permanent budget and a temporary budget; the audit report used the terms “disclosed” and “undisclosed” budget. That terminology was used because the Regents make decisions based on information disclosed to them; however decisions about this significant amount of money were made by the Office of the President without the Regents’ input. The Office of the President’s view was that the Regents had approved those funds in the past, perhaps for the prior year. Ms. Howle expressed her view that the amount of discretionary funds available to the Office of the President at the end of the fiscal year should be fully disclosed to the Regents along with a proposal for their use. The Regents could then decide about that proposal.

Staff Advisor Valdry noted the dedication of staff at the Office of the President and on UC campuses. He asked if the audit had included an analysis of appropriate staffing levels. Principal Auditor Kathleen Fullerton of the California State Auditor’s office, and manager of the audit of the Office of the President, responded that the audit report did not state that staffing levels at the Office of the President should necessarily be decreased. The audit report indicated a workforce plan that would inform staffing levels should be completed, including appropriate staffing levels for systemwide initiatives. She noted that her office had intended to use the campus survey responses to help provide information, such as possible duplication of effort by the campuses and the Office of the President.
Regent Kieffer expressed his commitment to implementation of the audit report’s recommendations. He asked Ms. Howle for her opinion of an appropriate amount for a reserve fund for the Office of the President. Ms. Howle responded that her office had not determined a specific amount. She noted that GFOA and NACUBO standards provide guidance about reserve policy, which must include consideration of a variety of factors such as the volatility of revenue sources. GFOA best practices suggest a few months of an entity’s operations budget. She suggested that the University develop a reserve policy, using relevant guidance and taking into account specific circumstances relevant to the Office of the President. The reserve should be adequate, but not so high that the funds could be better used by the campuses or by the Office of the President for other purposes. She noted that many restrictions on funds were actually UC restrictions, rather than federal or State restrictions. While these funds may support worthwhile initiatives, Ms. Howle expressed hope that the Regents and the Office of the President would review them.

Regent Reiss affirmed the Board’s commitment to exercising its fiduciary duty to oversee implementation of the audit report’s recommendations. She asked if Ms. Howle recommended that systemwide initiatives have budgets. Ms. Howle answered in the affirmative. Regent Reiss expressed support for President Napolitano.

Regent Reiss noted that the University had responded in the past to the State’s request to include more State positions in its market reference zones for salaries. She asked for clarification of the audit report’s recommendation to establish a method to weigh public and private pay data in establishing salaries. Ms. Fullerton said her office had found that there were not enough comparable State positions used to establish the Market Reference Zones. More comparable State positions should be included and her office had been able to identify many State positions comparable to those at the Office of the President.

Regent Makarechian commented that, during the eight years he had been a Regent, he had served as the Chair of both the Committee on Grounds and Buildings and the Finance and Capital Strategies Committee, and member of the Compliance and Audit Committee. He had never felt that the Office of the President or any of the chancellors or chief executive officers concealed any information or tried to deceive the Regents. He pointed out that UC’s cash is reported annually on its financial statements and is listed by ratings agencies. All the University’s financial statements and Regents’ open meeting materials and videos are available to the public. He asked why the news media would choose to characterize the cash held by the Office of the President as a “slush fund” when that was not how it had been characterized by the State Auditor. He noted that UC is subject to many independent audits. Ms. Howle responded that the amount of the $175 million surplus as well as the determination of the $83 million in restricted funds and $92 million in discretionary funds were arrived at by her staff after consultation with the Office of the President. Ms. Howle’s staff then asked the Office of the President if the $92 million in discretionary funds was being used. The Office of the President responded that $54 million of those discretionary funds was committed.
Ms. Howle added that the University’s financial statements were of the system as a whole and did not show that the Office of the President had $175 million left over at the end of the fiscal year. The audit report recommended that a separate financial audit be conducted of the Office of the President. That audit did not have to be a Comprehensive Annual Financial Report, but could be an “agreed-upon procedures” financial audit to look at budget policies, practices, controls, and segregation of duties. The operations of the Office of the President would not be apparent in the financial statements of the entire University. Ms. Howle agreed that the cash held by the whole University would be reported on its financial statements. Regent Makarechian pointed out that the cash held by the University had to be reported to the ratings agencies, which had just rated the University AA- the prior week. He affirmed the soundness of the University’s financial management.

Regent Makarechian asked if the State Auditor had concluded that any of the systemwide initiatives were a waste of money. Ms. Howle stated that the audit report and her testimony to the Legislature indicated that her office was not opining on the value of the initiatives, only on the Regents’ need to know all of the initiatives they are funding, their purpose, and how much is being spent. She emphasized the Regents’ fiduciary responsibility to UC students, their families, and the people of California.

Regent Makarechian asked why the audit was directed only to the Office of the President. Ms. Howle stated that this audit and its scope was requested by Assembly members Phil Ting and Kevin McCarty. Their request was then reviewed and approved by a bicameral legislative committee. Once approved, the audit became a mandate for the State Auditor. In addition to the current audit, her office had conducted the audit one year prior on UC’s nonresident enrollment. Every three years her office does an audit of the Clery Act, a federal law related to campus crime reporting. That audit includes six campuses every three years, including some UC, California State University (CSU), California Community College, and private campuses. Her office also conducted the Title IX audit, which includes UC and CSU, to examine how well the campuses were implementing Title IX to protect students and inform them about sexual harassment and sexual violence occurring on their campuses.

Regarding Ms. Howle’s earlier comment that the appropriate size of reserves can depend on the volatility of revenue sources, Regent Makarechian commented that only ten percent of UC’s revenue comes from the State and the rest from revenue that can be volatile. The Office of the President funds the audit identified as surplus was a relatively small amount compared with the University’s funding. Ms. Howle clarified that those funds were a reserve for only the Office of the President. The campus assessments provide a relatively steady revenue stream. Chair Lozano commented that a reserve policy should be better defined and the reserve amount set at an appropriate level.

Regent Pérez appreciated the clarification that the audit report’s findings were about systems and policies, and not about impugning the character of President Napolitano. He expressed respect for Ms. Howle’s work as State Auditor. Regent Pérez disagreed with some of the audit report’s findings, conclusions, and recommendations to the Legislature,
as they would not be the most effective way to achieve the desired transparency and accountability. It would be essential that the Regents assume their role as a governing body to reinforce the accountability and transparency.

Regent Pérez expressed his understanding that a key driver behind the initial request for this audit was to examine possible duplication and inefficiency between the functions of the Office of the President and the campuses. Ms. Howle agreed. Regent Pérez asked if the potential interference with the campus surveys was an impediment to her ability to arrive at conclusions based on the evidence. Ms. Howle answered in the affirmative.

Regent Pérez commented that media accounts referred to other instances in which the State Auditor’s office asked the Office of the President for specific data, such as travel expenses, but received evidence about only 30 percent of actual travel expenses and the rest only after persistent follow-up. He asked if there were patterns of interactions between her office and the Office of the President where information was not as forthcoming as she would have expected when her office made inquiries. Ms. Howle answered in the affirmative with respect to travel expenses. Her office had asked for information about any and all travel and business expense reimbursements, and received information on approximately $10 million of expenses, while her office’s quality control review of budget data indicated $35 million in travel expenses. Her staff made a further inquiry of the Office of the President, which responded that it was unaware that the original request included foreign travel, even though the State Auditor’s original instructions were very clear.

Ms. Howle added that her office’s enabling statute gives it clear access to information, including confidential and privileged information. Understanding the decision memo process developed by President Napolitano was critical in evaluating decision-making about discretionary funds. It was very difficult for the State Auditor’s office to get access to that information from the Office of the President and the Auditor’s office did not always have access to Office of the President staff with the relevant knowledge. The Office of the President objected that some information was confidential, but State statute allows the auditor access to confidential information. Ms. Howle had her office’s attorneys work with the Office of the President. It took seven or eight weeks just to obtain access to the information. In fact, when the evidence was finally obtained, in some instances the decision memos showed President Napolitano declining or reducing spending requests, so the difficulty in obtaining the requested information was surprising. Ms. Howle characterized this interaction with the Office of the President as frustrating.

Regent Pérez asked if this interaction was different from Ms. Howle’s experience with similar types of audits. Ms. Howle acknowledged that her office could sometimes have initial difficulty in audits of institutions, such as local governments, unfamiliar with the State Auditor’s statutory authority and its protocols to protect confidential information.

Regent Pérez expressed his view that Board members who had met with the State Auditor had played a constructive role in the interaction with the Office of the President and were part of the reason for the acceptance of all 33 recommendations, which he viewed as a
positive example of the possibility of cooperation in the future. He asked Ms. Howle if she agreed with that characterization. She answered in the affirmative.

Regent Pérez commented that he saw some audit findings as substantive and some as salacious. For example, with travel, media coverage of a $350 hotel room instead of a $140 hotel room sounded terrible, when in fact it was a reasonable rate for a hotel in San Francisco. The dollar amount sounded salacious, but the substantive suggestion was that there should be an approval process for expenditures over a federal guideline. Ms. Howle agreed that, when a hotel expenditure was $350, her office looked for evidence of due diligence of attempts to stay within the federal or State limit as required by State rules. She agreed the process was more important than the suggestion that a $350 hotel room was always an inappropriate expenditure.

Regent Pérez affirmed that controls are the responsibility of the Regents. With regard to reserves, if there were carryover funds remaining from expenditures that were approved by the Board the prior year, it was the Regents’ responsibility to determine if holding the funds in a committed fund was the best use of the money. He asked Ms. Howle if this was her recommendation. She agreed, adding that her office had disagreed with the contention of the Office of the President that unspent funds approved by the Regents in prior years could be held in reserve discretionary funds and possibly used for another purpose. The audit report recommended that those unspent funds be reported so the Regents could determine their best use.

Regent Pérez asked if there was anything in this audit or prior audits suggesting that campuses did not have their own reserves and reserve policies, or that the $38 million reserve of the Office of the President was the only reserve available to the University system. Ms. Howle said she was unable to answer that question, as her office did not examine operations at each campus to determine whether they have their own reserves. She commented that a significant portion of the Office of the President’s $92 million discretionary reserve consisted of the campus assessment fee. Her office looked for trends over time and found that in a year when the Office of the President asked for a $17 million increase in the campus assessment, it ended the year with a discretionary reserve of roughly that amount, leading Ms. Howle to question if the increase in the campus assessment had been necessary. The audit report noted the need for full disclosure and discussion at the end of each year. The Regents need to know how much of budgeted funds were spent and the funding sources, in order to make fully informed decisions, for instance if funds put in reserves at the end of the year could have been used by the campuses for better purposes.

Regent Pérez said that future year budgets for the Office of the President being presented in subsequent items requested a 19 percent increase over the prior year’s allocation. He asked if there were NACUBO guidelines that the Regents should review in assessing that growth. Chair Lozano commented that this part of the discussion was to focus on questions about the audit report. The future budgets of the Office of the President would be discussed with the President and her staff during those items to determine if requests for increases were justified and would provide expected benefits.
Regent Brody asked if the State Auditor accessed the minutes of Regents’ meetings during which Presidential systemwide initiatives were discussed fully. Ms. Fullerton answered in the affirmative, adding that public discussion of the initiatives often included no associated budget and there was no systematic disclosure of the money associated with those programs. The Auditor’s office specifically asked the Office of the President to share ways in which it had disclosed the amounts related to this budget. The Office of the President provided the Auditor’s office many documents including Regents’ meeting minutes, but there were no dollar amounts associated with the initiatives. In some cases it was hard to identify whether an initiative was systemwide or a Presidential initiative, or part of regular operations. The Auditor’s recommendation is intended to streamline the clear documentation of all systemwide initiatives, including how long they are intended to operate, their purpose, and how much money is planned to be spent for the program.

Faculty Representative Chalfant asked how the Auditor would determine if there was duplication of effort between the Office of the President and the campuses. He commented on the dedication and hard work of staff at the Office of the President. He asked how the campus surveys would have helped determine areas of possible duplication and for any suggestion of ways in which the Board could evaluate whether there was any duplication of services. Ms. Fullerton responded that the surveys were intended to be a starting point. If surveys had indicated a possible duplication, both campus and Office of the President staff would have been interviewed by the Auditor to determine if the functions performed were the same. If multiple campuses were using a particular service, then the Office of the President would be concluded to be better suited to provide that service than the campuses. The surveys were intended to start that evaluative process. Mr. Chalfant asked if the auditor could not have conducted interviews without using the surveys. Ms. Fullerton said that it would have been difficult to determine where to begin in an organization the size of the University and under existing time constraints.

Regent Zettel thanked Ms. Howle for meeting with Chair Lozano, Regent Pérez, and her three times during the audit to answer their questions and review the audit process. As Chair of the Compliance and Audit Committee, Regent Zettel assured Ms. Howle that the Committee is fully committed to work diligently with the University’s internal audit unit, its external auditor, the independent fact-finder, and the independent operational monitor to implement all recommendations of the State Auditor’s report. She affirmed the Committee’s commitment, along with that of the entire Board of Regents, to excellence in fiscal operations and transparency.

Chair Lozano expressed appreciation to Ms. Howle and her team for their thorough work and willingness to speak with the Regents.

President Napolitano expressed her commitment to full implementation of all 33 recommendations made to the Office of the President, as she had also conveyed in her testimony to the Joint Legislative Audit Committee. She said the recommendations were constructive and in keeping with the Office of the President’s desire to improve, and to identify, conform with, and ultimately advance best practices in all aspects of its work.
The team appointed by the President to implement the recommendations, chaired by Executive Vice President and Chief Operating Officer Nava, had already begun its work. To maintain an open and transparent process, President Napolitano announced that a website had been developed to serve as central source of information about the implementation plans and progress. The website was in addition to, and not in place of, the important reporting the Office of the President would be doing to the Regents and the Office of the State Auditor.

President Napolitano reflected on the history that she said was a backdrop to the audit report and its findings. During the course of the audit, the State Auditor reviewed policies, practices, data, and other forms of information from as far back as 2007, if not before. That period was not without its changes and challenges. It included at least three UC presidents and the tenures of numerous Regents, two governors, and the worst recession since the Great Depression. The present time offered an opportunity to look forward and work together as a group to address the issues and provide a solid foundation for the future of the University.

The period covered by the audit was also one of the most successful and consequential in UC’s history. The University weathered devastating funding cuts during the recession, but did so with minimal impact on its core academic mission and its service to the students and citizens of California. Coming out of that recession, the University seized the opportunity to grow. As a result of the efforts of many and UC’s partners in the Legislature, UC had been able to increase the number of Californians enrolled to the highest number in the history of the University, 7,500 more than the prior year, the largest single-year increase since World War II. UC planned to enroll another 2,500 new California undergraduate students in each of the next two academic years. The University had also undertaken new efforts to increase faculty diversity, to increase innovation and entrepreneurship activities, and to boost support and access for Californians from all economic backgrounds. During this time, the University achieved a funding framework with the Governor and the Legislature providing predictable and necessary funding increases to the University.

President Napolitano recalled that early in her tenure, leveraging excellent work already being done on many UC campuses, she developed a series of presidential initiatives to harness the power of the University of California to solve the most pressing challenges facing California and the world. Initiatives in areas such as carbon neutrality, global food safety and sustainability, campus security, and faculty diversity harnessed the power of UC’s ten campuses to advance key priorities of UC, the Board of Regents, and State leadership. In each of the last three years, UC has stood as a national leader on emergent issues facing its campuses, such as prevention of sexual violence and sexual harassment, cyber security threats, and efforts to limit or deny opportunities to UC’s undocumented students.

President Napolitano expressed her commitment to improving on issues raised by the audit report. While she did not underestimate the amount of work by the Office of the
President and the Regents that would be involved, this presented an opportunity to clarify and to streamline procedures and to exceed the audit report’s recommendations.

Ms. Nava discussed the State audit report’s 33 recommendations to the Office of the President. President Napolitano had instituted a task force, chaired by Ms. Nava, which was working rapidly to implement all 33 recommendations. The 11-member task force included UC’s subject-matter experts in the areas of budget, compensation policies, and related employee policies, including UC’s systemwide controller, director of executive compensation, director of human resources, and heads of the systemwide and Office of the President budgets. As it focuses on individual recommendations, the task force would proactively seek advice and counsel from the campuses, and input and guidance from the Board of Regents. The task force had already provided President Napolitano with a comprehensive plan, including milestones for each recommendation, in order to meet or in many cases exceed the audit report’s recommendations. The task force was meeting weekly and would provide regular updates to the Regents. Ms. Nava commented that, while the auditor’s findings were constructive, the Office of the President did not agree with every finding.

Executive Vice President and Chief Financial Officer Brostrom reviewed the audit report’s recommendations related to the budget that were systemwide in nature, including fund restrictions, development of a reserve policy, and systemwide and presidential initiatives. Regarding the audit report’s assertion of a $175 million Office of the President reserve, about $83 million were restricted funds from various sources. Some were based in law, such as an $18 million grant program on laboratory research funded by Department of Energy funds; some funds were restricted by gift agreements, such as the $13 million balance from the Gordon and Betty Moore Foundation for development of the Thirty Meter Telescope. Other funds were restricted by policy, such as the $7 million reserve on UC’s wholesale power program through which the Office of the President purchases power on behalf of five UC campuses and for which it was appropriate to keep a reserve to deal with volatility in that market. Nearly $15 million in building reserves were not required by law, but were prudent for maintenance and renewal of UC buildings in Oakland, Sacramento, and Washington, D.C.

The remaining approximately $87 million in unrestricted funds are used to support a wide range of UC priorities, such as support for undocumented students, the UC Riverside School of Medicine, UC Merced’s Environmental Impact Report mitigation efforts, preventing and responding to sexual violence and sexual harassment, and protecting critical UC data against cyber attacks. In 2015-16 these amounts totaled $49 million, leaving a reserve of $38 million, roughly five percent of the overall budget of the Office of the President and 11 percent of the unrestricted amount, a prudent reserve for an organization the size of the Office of the President.

Mr. Brostrom said the Office of the President would review its fund restrictions. Funding sources are frequently reviewed. President Napolitano had initiated a new review when she joined UC. It was important to ensure full coverage of all expenses and activities
funded by restricted sources, while also providing sufficient discretionary resources for the Office of the President to respond to urgent and emerging issues across the system.

Mr. Brostrom said the Office of the President agreed to develop a policy for an operating reserve for the Office of the President. However, he pointed out that some of the Office of the President reserves reflect an external regulation or policy decision made by the governing overseeing entity. For example, the UC Student Health Insurance Plan, which provides health insurance for nearly 100,000 UC students, has a governing board which sets two different reserves and their funding levels, one for claims stabilization and another to protect against public health emergencies such as the meningitis outbreak a few years prior at UC Santa Barbara. Similarly, the Mortgage Origination Program holds a reserve to guarantee against loan defaults. Fiat Lux, UC’s captive insurance company, is regulated by the District of Columbia Department of Insurance, Securities and Banking and has a stipulated reserve requirement. Mr. Brostrom stated that developing a reserve policy for the remaining operating reserves of the Office of the President budget had already begun. He agreed with the State Auditor’s recommendations to address factors including the volatility of revenues and the need to protect against unanticipated expenditures. The task force described by Ms. Nava would work according to its implementation plan to review peer universities’ policies, research best practices, and conduct stakeholder analysis. A proposed reserve policy would be brought to the Regents in early 2018.

Turning to the audit report’s recommendations relating to presidential and systemwide initiatives, Mr. Brostrom said there was some confusion, partly attributable to the University, as to which were truly initiatives and how many there were. This confusion stemmed partly from the way in which items were coded in UC’s budget system, an area which could be improved upon. The Office of the President listed 32 initiatives, of which 24 were currently active and considered presidential initiatives. The State Auditor found 79 systemwide initiatives; however Mr. Brostrom stated that the vast majority of those were not initiatives, but were ongoing academic programs, longstanding research projects, or operational expenses, all of which had been included in Office of the President budgets as long as they had existed. Some of these are academic programs in place for decades, such as the California Digital Library, UC Press, the Division of Agriculture and Natural Resources in existence since the inception of the University, the UC Education Abroad Program, and the UC Office of the National Laboratories. Others are longstanding research programs, including breast cancer research and tobacco-related disease research. Others cited by the State Auditor as initiatives were actually operational expenses such as funding the work of the Academic Senate or paying the debt service on the UCSF Fresno Center for Medical Education and Research.

Mr. Brostrom said the Office of the President agreed that it needed to provide more guidance and tracking of these initiatives. The initiatives would be refined and defined appropriately. The Office of the President agreed to review the initiatives with key stakeholders, particularly with campus leadership. Mr. Brostrom reported that he and Ms. Nava had just completed their divisions’ integrated strategic plan, which was shared
with the campuses to gain their feedback and prioritization, which was illuminating and constructive.

The Office of the President also agreed to set budget targets for the initiatives. Initiative budgets would be included in the Office of the President’s annual budget and annual budget-to-actual expenditures would be reported. However, he pointed out that many of the initiatives, such as support for undocumented students, cyber security, or prevention of sexual violence and sexual harassment, arose from emerging issues that occurred between budget years. If appropriate funds were available and the issues align with UC’s mission, the Office of the President recommends that it maintain appropriate flexibility to invest in these key areas as they arise between budget processes.

Regarding the audit report’s 18 recommendations related to the budget of the Office of the President, Ms. Nava said the subsequent agenda items containing the Office of the President’s proposed budget would demonstrate the seriousness of the University’s commitment to respond to the audit report’s recommendations regarding the presentation of the budget. The Office of the President had already begun to adopt many of the recommendations, including presenting a comparison of the proposed budget to actual expenditures of the prior year and providing more detail about fund commitments. The Office of the President would continue to align its processes to the recommendations.

Ms. Nava stated that many of the audit report’s recommendations regarding controls and processes relating to how the Office of the President forms its budget had previously been identified by her office as items to be implemented. The State Auditor recommended that campus input be increased in the Office of the President’s budget process, particularly in development of the campus assessment. The Office of the President would continue to leverage existing structures such as ongoing monthly meetings with the campuses. The Campus Budget Committee would be reinstituted to provide a forum for discussion of the Office of the President’s budget. In the areas of budgeting and financial analysis, the Office of the President would take steps to ensure that its budgeting processes align with NACUBO and GFOA standards. Ms. Nava’s team had already begun that assessment. The Office of the President had intended to move to multi-year budgets, which it considered an important best practice to adopt, and was working to move in that direction. Ms. Nava expressed her view that it was important to note the challenge of UC’s existing budgeting system, which limits its ability to move to a multi-year budget and leverage some of the financial analysis needed to meet the State Auditor’s recommendations. The Office of the President would request funds for a new budget system that could accommodate the recommended best practices. She summarized that the audit report’s recommendations for improvements to the budget process were very useful and the Office of the President would implement all of them.

Ms. Nava stated that the Office of the President agrees with the audit report’s set of recommendations that it further refine its approach to salary levels and ranges, and would begin its process of reviewing salary and market data to ensure that its salary ranges support both employee development and pay equity. The recommendations direct the Office of the President by 2018 to develop methods to weigh public and private sector
pay data when establishing its salaries for all positions. The Office of the President would find ways to include as much information as it can from the public sector. The primary focus would be to implement and set new targets for these ranges by April 2019 and adjust salary ranges accordingly, and to ensure that all aspects had been implemented by April 2020.

Regarding employee reimbursement and associated policies, the Office of the President agrees that it should compare its current practices with best practices of other comparable organizations, including State agencies. Any policy changes needed to ensure proper cost controls and safeguards would be implemented. Review of travel and entertainment reimbursement policies would be prioritized, and revisions would be implemented in the near term, since a comprehensive review had already begun. Any recommended changes would be brought to President Napolitano, then reviewed with the Regents.

The last set of audit report recommendations related to staffing involved workforce planning. Even before the audit began, the Office of the President had already initiated a strategic planning process, piloted in the Chief Financial Officer and Chief Operating Officer divisions, with plans for implementation in the rest of the organization. Some other departments had already implemented their strategic plans. Similarly, the Office of the President was committed to workforce planning aligned with CalHR best practices for workforce planning as recommended by the audit report. The Office of the President had already contacted the CalHR director and would adopt the CalHR workforce planning model practices into its own. The Office of the President would also review other workforce planning models from comparable institutions to ensure integration of best practices.

Chair Lozano expressed appreciation that the systemwide and presidential initiatives would be clarified. She agreed with Ms. Nava that resources should be devoted to obtaining the necessary budgeting technology and putting those systems into place. She also supported prioritizing certain audit report recommendations to demonstrate that the Office of the President was moving as quickly as possible.

Regent Ortiz Oakley asked about the decision-making process at the Office of the President around the alleged interference with campus surveys. From his perspective, this question of interference was a symptom of what seemed to be a difference between the expectations of the State Auditor and responses from the Office of the President. He asked how this communication could be improved. Regent Ortiz Oakley expressed hope that, whether it was confusion regarding the responses to the campus surveys or direct interference, there was not a culture in the Office of the President that discouraged staff from expressing concerns. He asked how the Regents could ensure that the communication between Sacramento and the Office of the President was robust and that there was an ability to express concerns within the Office of the President.

Ms. Nava stated that she had committed to both President Napolitano and to Chair Lozano an open and transparent process in addressing the audit report’s recommendations. Ms. Nava had reached out to the State Auditor to request a 30-day
meeting prior to the 60-day progress report, to ensure that the implementation plan aligns with the State Auditor’s expectations. Mr. Brostrom added his view that it would be beneficial for UC to spend more time engaging with legislators in Sacramento. Recent meetings he had with Assembly members Ting and McCarty had been helpful in finding common goals and establishing better communication channels.

President Napolitano commented that her office had already distributed guidelines for internal communications during State audits to ensure that, in the future, campus auditors would deal directly with the State Auditor if there were questions.

Regent Pattiz stated that the budget of the Office of the President should be in a format that was straightforward and easily understandable to auditors. He asked what mechanism existed to indicate what budgeted items were not spent during the year and if there was a policy clarifying whether unspent funds could be carried over to the subsequent year or should be returned. He noted that requiring the funds to be used in the budgeted year or returned could cause other problems. Mr. Brostrom commented that measures being undertaken by Ms. Nava and the task force would address many of these questions, such as comparing budgeted items with actual expenditures, developing a reserve policy, and attributing any reserve overage funds to the subsequent year’s campus assessments. He noted that some activities of the Office of the President were multi-year by nature. Having budgets for initiatives would also clarify their purpose and whether they eventually become part of ongoing operations. Regent Pattiz commented that sometimes the Regents were simply informed of actions taken by the Office of the President through discretionary funds rather than being asked to approve initiatives. He asked if this had always been the process.

Mr. Brostrom responded that generally UC had not had a policy similar to the federal or State government under which surpluses were swept and then re-appropriated the following year. UC’s practice was that if actual expenditures were less than budgeted amounts, which could occur frequently because of staffing vacancies, those funds were kept as carry forward funds and spent for primarily one-time uses. He noted that the process had become much more rigorous under President Napolitano, who instituted decision memo procedures for any expense over $20,000 and any contracting of outside vendors. Mr. Brostrom said that reporting on committed funds could be incorporated into the budget practice.

Regent Lansing thanked Mr. Brostrom and Ms. Nava for their presentation, adding that she had worked with some top staff of the Office of the President for more than a decade and vouched for the quality of their work and their integrity. Regent Lansing expressed her view that UC should build a closer relationship with the Legislature to improve communication and clarity. The reports at this meeting had cleared up media distortions of the audit report. She reiterated that there had been no allegation of criminal or “slush fund” activity, nor questions of a lack of integrity. Regent Lansing expressed her confidence that the Office of the President would implement the audit report’s recommendations within the prescribed time frame, thus improving the processes of the
She also expressed her admiration for President Napolitano, her leadership of the University through challenging times, and her integrity.

Regent Reiss expressed support for President Napolitano and Chair Lozano, and their acceptance of the audit report’s recommendations. She expressed hope that the media coverage would reflect the clarity of this presentation. Regent Reiss stated her view that it would be helpful for the Regents to look into possible duplications of functions at the Office of the President and the campuses, which was to be the purpose of the campus surveys. She noted that some issues, such as prevention of sexual violence and sexual harassment, required a centralized effort to ensure uniformity across all campuses. Mr. Brostrom noted that the Campus Budget Committee had been helpful in the past in determining functions best centralized at the Office of the President and those best handled locally on the campuses. This Committee would be reinstituted by Ms. Nava.

Chair Lozano observed that the Legislature shared this concern about possible duplication of services, which was clearly an intent of the campus surveys. Her commitment to the Legislature in her testimony to the Joint Legislative Audit Committee was that the Regents would try to assess levels of duplication and the quality of services provided. UC’s internal audit team could conduct that assessment in collaboration with other offices.

Regarding the Office of the President’s reserve, Regent Pérez commented that a reserve policy should include how funds are put into the reserve, what reserve funds could be used for, when they could be used, when they should be drawn down, and when reserve fund balances would be reported to the Regents. He said that the fundamental question raised by the State audit was the level of engagement and policy setting by the Board of Regents. The Regents would determine if certain initiatives, such as cyber security, would be part of operations, and the relative merits of other potential uses of funds held in multi-year commitments to the Office of the President and systemwide initiatives. The Regents should consider whether some initiatives would be short-term, while others would be incubated as initiatives and then converted to a more permanent structure. The question of possible duplication of services between the Office of the President and the campuses includes considerations of efficiency and proper sizing of the central operation. The audit raised significant questions about the size and growth of the Office of the President, but evaluation of that growth is not possible without more information, and in fact that growth may be the most efficient way to handle staffing. Regent Pérez expressed his view that the comparators used in the audit for salary comparisons were not true comparators of UC.

Chair Lozano commented that the University’s work in response to the audit must include consideration of the governance structure for such decision-making. She expressed agreement with Regent Ortiz Oakley’s earlier comment that this work would change the culture of the institution. The Regents would increase the exercise of their fiduciary duty and have higher expectations of deliverables from those who manage the University.
Regent Pattiz agreed with the importance of the Regents’ exercising their fiduciary responsibility.

Regent Makarechian asked who would choose the independent third party who would oversee implementation of the corrective action plan. Chair Lozano responded that engaging the third party would be the responsibility of the Regents.

Chair Lozano reviewed the audit report’s recommendations to the Regents. First, the audit report recommended that the Regents require the Office of the President to implement the audit report’s recommendations and report periodically to the Regents. Chair Lozano suggested that the Finance and Capital Strategies Committee receive quarterly reports from the Office of the President on budgeted and actual expenditures, and biannual reports on the presidential initiatives’ budgets. Reports on the recommendations to the Office of the President on staffing would be to the Governance and Compensation Committee. The Compliance and Audit Committee would oversee the 60-day and six-month progress reports to the State Auditor and would report regularly to the Board.

Oversight of the overall work plan including all 33 recommendations would be governed by a working group comprised of the Board Chair and Vice Chair, and the Chairs of the Finance and Capital Strategies Committee, Compliance and Audit Committee, and Governance and Compensation Committee. The working group would bring information to the Board of Regents.

The audit report’s second recommendation to the Regents was to hold a public meeting to discuss the results of the Office of the President’s review of its fund restrictions and funding commitments. Chair Lozano said the Regents would review fund restrictions and commitments, consistent with the timeline of the State Auditor.

The third recommendation was that the Regents require the Office of the President to engage in a financial audit of only the Office of the President’s operations. Chair Lozano reported that PricewaterhouseCoopers (PwC) had committed to the Regents that it could conduct this review that would be initiated at the end of the current fiscal year. The audit results would be made available to the Regents in November.

The fourth recommendation to the Regents was to develop a contract for an independent third party to assist the Regents in monitoring implementation of the three-year corrective plan. Chair Lozano said that, within 60 days, the Chair of the Board and the Chair and Vice Chair of the Compliance and Audit Committee would retain a third-party expert to assist in both the planning and implementation of the recommendations to the Office of the President. Chair Lozano expressed her view that it would be most constructive to have the third party involved early in the process as an implementation partner to ensure that the work being conducted met best practice standards. The third party would report to and work for the Regents.
Regent Makarechian asked who was recommending this structure of response. Chair Lozano commented that she was recommending that the Regents consider the preliminary response she outlined. Regent Makarechian asked if the Regents would approve these proposals. Chair Lozano said her recommendations had been provided to the Regents that morning.

Regent Makarechian asked if PwC could be engaged to audit the operations of the Office of the President, since PwC was the University’s general auditor. Interim Chief Compliance and Audit Officer Lohse commented that the independent third party engaged to oversee implementation of the three-year corrective plan would not be PwC. The scope of the University’s general 2016-17 audit by the University’s external auditor PwC has been expanded to include a separate report on the operations of the Office of the President. UC’s internal audit office would support this review by conducting its own review of the Office of the President’s expenditures and PwC would issue an opinion on that report, showing the Office of the President’s expenditures and sources of funds used to pay those expenditures. PwC would present this report along with other external audit reports at the November 2017 meeting.

Regent Pérez asked if this third party was different from the fact-finder discussed at the special meeting the prior week. Chair Lozano answered in the affirmative.

Chair Lozano said the audit report’s final recommendation to the Regents was to hold a public meeting with University stakeholders to discuss the systemwide and presidential initiatives. This meeting would be scheduled prior to the March 2018 Regents meeting. Chair Lozano summarized that the audit report’s constructive recommendations to the Regents would enhance their oversight.

Chair Lozano noted that the audit report made two recommendations to the Legislature and asked Regent Rendon for his comments. Regent Rendon stated that the first recommendation was that the Legislature directly appropriate funds to the UC Office of the President and, as a condition of that funding, restrict the Office of the President from levying an assessment on UC campuses. The Legislature should evaluate the amount of the appropriation annually based upon UC’s actions as it implements the audit recommendations. The second recommendation would require the Regents to contract with an independent third party to assist the Regents in monitoring the three-year corrective action plan. The Legislature should hold annual meetings that include a status report by the independent third party regarding the Office of the President’s progress, challenges, and barriers to success in implementing the three-year corrective action plan.

Chair Lozano reiterated the Regents’ agreement and intention to move forward with the second recommendation to the Legislature. She recalled that in her testimony to the Joint Legislative Audit Committee she stated that the highest accountability to ensure implementation of the corrective action plan would be through the oversight of the Regents. She asked Regent Rendon for any comment on the recommendation that the Legislature directly appropriate funding to the Office of the President. Regent Rendon
expressed his strong support for the Regents’ engaging an independent third party to oversee implementation of the three-year corrective plan.

Given that these two recommendations were to the Legislature, Regent Pérez added that it would be important to clarify that, regardless of the actions of the Legislature, the Regents would retain an independent third party to assist in the planning and implementation of the State Auditor’s recommendations. He expressed his strong disagreement with both recommendations to the Legislature, as these were considerations for the Board of Regents. The first recommendation to the Legislature did not align with the challenge and the appropriate level of detailed oversight that was both constitutionally and functionally exercised by the Regents.

Regent Pérez suggested that the Regents notice for public debate and for potential action issues raised in the first recommendation to the Legislature: determining the appropriate funding level for the Office of the President, including whether there should be a cap on the campus assessments and, if so, at what level. This would be an important policy consideration for the Regents. Chair Lozano agreed.

Regent Kieffer expressed his agreement that the audit report’s first recommendation to the Legislature was inconsistent with the State Constitution.

President Napolitano reiterated the seriousness with which the Office of the President accepted the audit report’s recommendations and would undertake this work. She pointed out that the budget for the Office of the President that would be considered in the subsequent item proposed holding the campus assessment for the Office of the President flat. A separate UCPath assessment previously negotiated with the campuses would increase because more campuses would be converted to UCPath. Holding the campus assessment flat for the upcoming year would provide an opportunity to evaluate the campus assessment and how it is calculated.

Chair Lozano affirmed the Regents’ compliance and commitment to fulfilling the intent of the audit report’s recommendations, which would make the University stronger and strengthen the Regents’ oversight.

4. **FISCAL YEAR 2017-18 SYSTEMWIDE ACADEMIC AND PUBLIC SERVICE PROGRAMS BUDGET FOR OFFICE OF THE PRESIDENT**

The President of the University recommended to the Regents that the University of California Office of the President fiscal year 2017-18 budget for Systemwide Academic and Public Service Programs be approved, as outlined in Figure 1 below.
## Figure 1: Fund Sources and Uses: Systemwide Academic and Public Services Programs

<table>
<thead>
<tr>
<th>Sources:</th>
<th>TOTAL Proposed Budget FY 2017-18</th>
<th>FORECAST FY2016-2017</th>
<th>TOTAL Budget FY 2016-2017</th>
<th>Var-FY17-18 Budget to Forecast</th>
<th>Var-FY17-18 Budget to FY16-17 Budget</th>
<th>% More / (Less) Budget to Forecast</th>
<th>% More / (Less) to Prior Year Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Campus Assessment</td>
<td>$165.90</td>
<td>$165.85</td>
<td>$165.85</td>
<td>$0.05</td>
<td>$0.05</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other Unrestricted Sources</td>
<td>11.41</td>
<td>11.18</td>
<td>11.18</td>
<td>0.23</td>
<td>0.23</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>Subtotal - Unrestricted Sources</strong></td>
<td><strong>177.31</strong></td>
<td><strong>177.03</strong></td>
<td><strong>177.03</strong></td>
<td><strong>0.28</strong></td>
<td><strong>0.28</strong></td>
<td><strong>0.2%</strong></td>
<td><strong>0.2%</strong></td>
</tr>
<tr>
<td>State Funds</td>
<td>129.69</td>
<td>51.75</td>
<td>51.75</td>
<td>77.94</td>
<td>77.94</td>
<td>150.6%</td>
<td>150.6%</td>
</tr>
<tr>
<td>External Revenues</td>
<td>65.64</td>
<td>60.94</td>
<td>60.94</td>
<td>4.70</td>
<td>4.70</td>
<td>7.7%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>38.23</td>
<td>37.82</td>
<td>37.82</td>
<td>0.41</td>
<td>0.41</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Other Sources</td>
<td>13.87</td>
<td>12.32</td>
<td>12.32</td>
<td>1.55</td>
<td>1.55</td>
<td>12.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td><strong>Subtotal - Restricted Sources</strong></td>
<td><strong>247.43</strong></td>
<td><strong>162.84</strong></td>
<td><strong>162.84</strong></td>
<td><strong>84.59</strong></td>
<td><strong>84.59</strong></td>
<td><strong>51.9%</strong></td>
<td><strong>51.9%</strong></td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>424.74</strong></td>
<td><strong>339.87</strong></td>
<td><strong>339.87</strong></td>
<td><strong>84.88</strong></td>
<td><strong>84.88</strong></td>
<td><strong>25.0%</strong></td>
<td><strong>25.0%</strong></td>
</tr>
</tbody>
</table>

| Uses: | | | | | | | |
| Research | 186.68 | 106.68 | 108.58 | 80.00 | 78.10 | 75.0% | 71.9% |
| ANR | 102.27 | 100.82 | 101.08 | 1.44 | 1.19 | 1.4% | 1.2% |
| Instruction | 58.39 | 52.95 | 53.67 | 5.44 | 4.72 | 10.3% | 8.8% |
| Academic Support | 46.68 | 46.31 | 46.40 | 0.37 | 0.28 | 0.8% | 0.6% |
| Public Service | 16.69 | 16.33 | 16.44 | 0.37 | 0.26 | 2.3% | 1.6% |
| Presidential Initiatives | 9.77 | 5.57 | 9.77 | 4.20 | - | 75.5% | 0.0% |
| National Laboratories | 4.27 | 3.59 | 3.94 | 0.69 | 0.34 | 19.1% | 8.5% |
| **Total Uses** | **424.74** | **332.25** | **339.87** | **92.50** | **84.88** | **27.8%** | **25.0%** |

| Projected Year-End Favor/(Unfavor) | | | | | | | |
| $ | - | $7.62 | |

### Notes:
1. **Total General Campus Assessment for FY17-18 is flat to last year.**
2. **Other Unrestricted Sources include: endowment income from two central endowments and indirect cost recovery funds.**
3. **External Revenues include: patent royalties, tuition and fees, UC Press Income as well as sales and services revenues.**
4. **Other Sources include endowment and gift funds, cost recovery and bond management funds and Federal funds.**

[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.]

[See discussion in item 5, below.]

### 5. Fiscal Year 2017-18 Central and Administrative Services Budget for Office of the President

The President of the University recommended to the Regents that the University of California Office of the President fiscal year 2017-18 budget for Central and Administrative Services be approved, as outlined in Figure 2 below.
Executive Vice President and Chief Operating Officer Nava noted that the report of the State Auditor, just discussed, contained 18 recommendations related to the Office of the President (UCOP) budget presentation and practices. She emphasized that UCOP wishes to improve clarity in its budget process, and its approach is responsive to many of the recommendations made by the State Auditor a few weeks earlier. UCOP would continue to try to improve its practices in order to be able to provide the level of detail necessary, make good policy decisions, and provide transparency regarding how funds are being spent.

Ms. Nava presented a timeline for the development of the UCOP budget. The process begins each year in November and budget priorities are set at that time. For the 2017-18 budget UCOP focused on continuing support for the campuses by keeping the general
campus assessment at the same level as the prior year, at $312.4 million. The UCPath assessment, which funds the UCPath Center in Riverside, would increase by $30 million to support the inclusion of UC Merced, UC Riverside, and UCLA into the UCPath pilot program. UCOP had set guidelines for its divisions in order to maintain the flat general assessment amount and was able to absorb certain operational costs into this budget.

Ms. Nava discussed a chart displaying an overview of all UCOP budget funding sources. Funding for the total proposed budget of $813.5 million would include restricted funds of about $410.9 million, 51 percent of the overall budget. Examples of restricted funds are funds used for management of the University’s retirement program, federal government funding for UC involvement in the National Laboratories, and funding for other research programs of interest to the State and federal governments. Unrestricted funds, 49 percent of the overall UCOP budget, totaled about $402.5 million. This part of the budget is funded primarily by campus assessments. General campus assessments and the UCPath assessment amounted to $364.8 million, while $37.7 million of endowment income accounted for the category of “other unrestricted funds.”

The UCOP budget was presented in the form of two budgets, one for Central and Administrative Services and one for Systemwide Academic and Public Service Programs; this reflected the overall work of UCOP. There were three major factors accounting for the increase in the UCOP budget from the prior to the current year: UC received $78 million in new funding related to the passage of Proposition 56 for tobacco-related disease research; UC was expanding the UCPath program, a $32 million increase; and there were $8 million in increased expenses related to patent prosecution, funded from patent revenues. These three factors accounted for all but $10 million of the year-over-year budget increase.

The Systemwide Academic and Public Service Programs budget totaled $424.7 million, for programs which best lend themselves to being centrally administered. Eighty percent of this budget passes through to the campuses. Ms. Nava outlined the portions of this budget dedicated to research, Agriculture and Natural Resources (ANR), and instruction. The Central and Administrative Services budget totaled $388.8 million, one percent of the overall budget for the UC system. This budget funds the executive leadership role of UCOP and the provision of many services on behalf of the campuses, such as retirement program administration, investment management, and legal, procurement, finance, and information technology services. This budget also included the $52.4 million proposed to run the UCPath Center.

Ms. Nava highlighted the fact that 43 percent of the total 2017-18 UCOP budget consisted of campus “flow-through funds.” UCOP serves as an agent to dispense these funds for programs on campuses. The largest expenditure in this category was for disease research programs focused on tobacco-related disease, breast cancer, and AIDS, while the second-largest expenditure was for ANR. Another expenditure among the campus flow-through funds was for the Student Academic Preparation and Educational Partnerships outreach programs, which promote college readiness for K-12 students in California. The final flow-through funds category listed was titled “other,” with $11.5 million in funding.
This represented a number of smaller programs, such as $1.9 million for cancer research, $1.5 million for healthcare facilitator funding, $1 million for the Institute of Transportation Studies, $900,000 for the California Program on Access to Care, and 15 other smaller programs with an average of $400,000 each.

Ms. Nava then presented a comparison of budget to actuals. The 2016-17 fiscal year budget for UCOP was $685.7 million. The projected actual expenditures for the end of the current fiscal year were $648.1 million, a $37 million difference or about 5.5 percent below the budget. She noted that $25.4 million of the difference came from one-time salary savings at UCOP. These salary savings resulted from turnover in existing positions, delays in hiring, and hiring lags in areas of strategic reorganization or growth. Hiring at the UCPath Center in Riverside was also proceeding more slowly than anticipated. Ms. Nava explained that the amount of one-time savings derived from vacancies at UCOP would have to be built back into the next year’s budget when those positions are filled.

Some of the one-time savings were not related to salaries, but largely from uncommitted Presidential initiative funding. This year, $4.5 million was not used and would be returned to the budget for 2017-18. $3 million was set aside for emergencies, and another $3 million in savings was due to timing of certain projects for which expenditures had been expected in the current fiscal year but would not be experienced until the following fiscal year. With regard to the likely lags in hiring, the UCOP budget takes account of this “vacancy factor.” In the 2016-17 budget process, UCOP budgeted $2 million for the vacancy factor and for the upcoming year UCOP was budgeting $7.8 million in order to continue to narrow the difference of budget and actuals.

Regent Makarechian asked about the amount of reserves being set aside. Ms. Nava responded that for 2017-18 UCOP was projecting $55 million in overall reserves, with $39 million of that amount committed and $16 million uncommitted.

Regent-designate Lemus referred to the increase of $32.3 million projected for UCPath in 2017-18, shown on a slide in the presentation. He asked if this was a one-time or an ongoing cost; if it were an ongoing cost, he asked if there would be an offset reflected somewhere else. Ms. Nava responded that this would be an ongoing cost. UCPath was preparing for the pilot deployment at UCLA, UC Merced, and UC Riverside, and there would be two further deployments. This expenditure would continue to be included in the budget and this assessment would have to grow to support UCPath operations. She underscored that UCPath is a business transformation project that would allow UC to improve its business processes.

Regent Pérez asked how this $32.3 million would be apportioned to the campuses and how long it would take for campuses to realize an economic benefit from this assessment. Ms. Nava responded that the general campus assessment would remain level from fiscal year 2016-17 to fiscal year 2017-18. The calculation for the assessment to campuses was based on the number of W-2 forms issued by each location.
Regent Pérez asked if campuses where the UCPath system had not yet been deployed were paying this assessment. Ms. Nava responded in the affirmative; this reflected an agreement made with the campuses.

Regent Pérez asked if UCLA, UC Merced, and UC Riverside would achieve savings earlier than campuses that would move to the UCPath system later. Ms. Nava responded that this was possible. Referring to Regent Pérez’s earlier question about how long it would take for campuses to realize an economic benefit from UCPath, she stated that the University projected that UCPath would be operating on all campuses by the end of 2018. The ability to begin realizing efficiencies would depend on stabilization and optimization. Executive Vice President and Chief Financial Officer Brostrom clarified that all campuses were paying costs for the existing payroll systems as well as new operational costs for UCPath and costs for capitalization. No campus would be penalized for adopting UCPath either early on or as part of the last deployment. Mr. Brostrom stated his view that the question about when economic benefits would be experienced was difficult. In its first analyses, the University believed that this would occur quickly.

Chair Lozano recalled that milestones had been established for UCPath and that the University had realized that deployment of the system was quite complex and would require additional resources. She asked that UCOP present a full business plan for UCPath, including achievement of milestones and projected costs and savings. Mr. Brostrom responded that this would be presented, including a cost/benefit analysis and its relationship to campus assessments.

Ms. Nava explained that the methodology for determining the general campus assessment is each campus’ pro rata share of three elements – expenditures, total number of employees, and total number of students. She presented a slide showing that the general campus assessment as a share of total UC revenues over the past seven years had declined from 1.08 percent to 0.95 percent.

Regent Pérez observed that the University had received $78 million in Proposition 56 funding; this increased the baseline of total UC revenues and necessarily decreased the percentage of total revenues represented by the campus assessment. The figures shown on the chart represented the point of view of the taxer rather than the entity being taxed. It would be helpful to examine the assessment as a percentage of campus revenues or as a dollar amount expense to the campuses.

Ms. Nava recalled that the State Auditor’s report had referenced $175 million in UCOP fund balances. This $175 million was made up of a strategic priority reserve of about $87 million in 2015-16 and about $83 million in restricted multi-year funds. UCOP’s practice has been to use the unrestricted portions of this funding to support emerging and critical projects. These unrestricted funds result from one-time savings and uncommitted funds that are not used over the course of the year, and include the ongoing $9.8 million allotted for the Presidential Initiatives fund and any interest income earned on unrestricted balances. Depending on the needs that arise during the year, UCOP uses these funds to address year-to-year or multi-year commitments, to fund limited-term...
projects, or to respond to one-time urgent issues. If a need arises that requires immediate attention, such as in the cyber security area, UCOP would leverage these funds to provide bridge funding. If there was a need to move a particular item into the category of ongoing costs, it would be transferred to the permanent budget; this has been the case for cyber security.

UCOP would work on improving its accounting for these commitments, which vary from year to year. Each year, UCOP fund balances at year’s end are carried forward. The projected needs for fiscal year 2017-18 included items traditionally funded by these savings. UCOP projected the year-end balance for 2016-17 at $87 million; the uncommitted portion of this balance would be $30 million. For 2017-18, the year-end balance was projected at $55 million, with $16 million of that amount uncommitted. Ms. Nava emphasized the need for UCOP to develop its reserve policy to ensure disciplined use of forecast and actual funds, and to ensure that UCOP has identified the appropriate mechanisms to fund emerging costs and to fund uncommitted reserves at a level that would help UCOP meet its budget priorities.

Ms. Nava then discussed the UCOP budget funding for initiatives and programs that benefit the UC system or specific campuses or programs, depending on need. These funds address initial funding requirements for programs. If the funding need for a program becomes ongoing, the item is moved to the permanent budget of UCOP or the relevant campus. The Presidential Initiatives fund mentioned earlier consists primarily of non-State endowment funds which give the President the opportunity to support initiatives with far-reaching benefits. Two important initiatives in this category are the Global Food Initiative and the President’s Public Service Law Fellowships. In 2017-18, UCOP would also provide funds to support the UC Riverside School of Medicine. UCOP expected that there would be other needs in the coming year that had not yet been anticipated.

The State Auditor had recommended a presentation format for the UCOP budget, reflecting budgeting best practices and to provide clarity and transparency. Ms. Nava presented a chart with 2017-18 data in that format, implementing the following best practices: including all budgetary allocations and adjustments to budget; displaying other expenditures separately, such as the restricted pass-through funds that UCOP sends directly to the campuses; providing budget to actual results; basing the proposed budget on projected actual expenditures; and providing reserve balances.

Regent Reiss suggested that UC budgets should be reviewed and discussed in detail by both the Finance and Capital Strategies Committee and the full Board. She requested clarification of figures presented in the Systemwide Academic and Public Service Programs item, $9.77 million in the proposed budget for Presidential Initiatives versus $9.5 million listed in a chart of funding detail for systemwide initiatives and programs. Ms. Nava explained that this difference reflected the fact that some initiatives are funded through the Presidential Initiatives fund, while other systemwide initiatives and programs are funded with uncommitted reserves. She asserted that UCOP would work to improve the transparency of its budget presentation and anticipated that issues would become
Regent Makarechian seconded Regent Reiss’ statement about the need for the UCOP budget to be reviewed and discussed in detail by the Finance and Capital Strategies Committee and expressed support for the current budget proposal.

In response to a question by Regent Elliott, Ms. Nava recalled that the UC fiscal year for the entire UC system including UCOP ends on June 30, and that the Regents take action on the systemwide budget and the UCOP budget separately. Mr. Brostrom added that the UC systemwide budget is usually reviewed and voted on in November before the Governor issues a State budget proposal in January; it reflects the University’s expectations or wishes for that budget and ultimately depends on actions of the State. President Napolitano observed that the Regents historically have voted on the UCOP budget later, closer the end of the fiscal year, so that the UCOP budget as presented is more closely aligned with actual expenditures from the prior year.

Regent Kieffer emphasized that there was no hidden funding at UCOP and his view that there were no monies available that should be moved elsewhere. The amount of discretionary funds used to fund programs and initiatives was relatively small, and these programs and initiatives were supported by the Regents. He suggested that in the future the Regents should vote on these initiatives specifically, and that the Regents should receive some reporting of the UCOP budget development, actuals and expenditures, around January. Ms. Nava stated that information on budget to actuals would be reported quarterly.

Regent De La Peña asked about a difference in the number of initiatives, about 35 identified by the University as opposed to about 70 identified by the State Auditor. Ms. Nava responded that the State Auditor had indicated that there were 79 systemwide programs. The University disagrees with this characterization and believes it is based on a misunderstanding of how UC categorizes its programs. Sixty-seven of the programs identified by the State Auditor were longstanding programs operated by the University for decades, like the California Digital Library, UC Press, and ANR, which are part of the permanent budget reviewed by the Regents annually.

Regent De La Peña suggested that the definitions of “programs” and “initiatives” could be made clearer. Ms. Nava responded that as UCOP works on implementation of the State Auditor’s recommendations, it would clarify these definitions and criteria, such as distinctions between ongoing versus short-term programs.

Regent Pattiz asked what the University would have to do in order to keep the proposed UCOP budget at the same level as the prior year budget. Ms. Nava responded that the unrestricted portion of the budget was consistent with the prior year. The restricted portion was growing, reflecting new monies UC was receiving for tobacco-related disease and other research. The only area that was growing in UC operations was UCPath. If the Regents wished to keep the entire UCOP budget flat, this would be a
policy question. The University would reject funds from the State for research and there would be no growth in UCPath. President Napolitano added that this scenario would not effectively work. The University does not control the additional funding from the State. The costs of UCPath have been discussed extensively with the campuses and agreed to by the campuses.

Regent Pérez expressed concern that the Board did not have enough time for a thorough review of the proposed budget to ask important policy- and values-based questions. He asked if the Regents could provide a two-month authorization based on the proposed budget numbers that would allow them to carry out a deeper review of the budget during those months. He cautioned that the Regents were in a position of either approving an item without enough discussion or putting the University in a precarious budgetary situation.

Regent Rendon expressed misgivings about the proposed budget in light of the State audit and the recent tuition increase.

Chair Lozano suggested that the Regents authorize this budget, contingent on further review by the Finance and Capital Strategies Committee, after which the budget would be brought to the Regents for a final vote at the July 2017 meeting. The Regents were seeking greater clarity about assessments to the campuses, funding for UCPath, and definitions of UC initiatives. At a future meeting there might be a discussion of the November and January timing of budget approvals by the Regents.

Regent Reiss stated that the Finance and Capital Strategies Committee and the Board should review every budget line item that proposed an increase.

Regent Makarechian suggested that the budget be approved based on the previous year’s numbers and that any increases could be authorized at the July meeting. Regent Kieffer stated his view that Chair Lozano’s recommendation would allow programs over which the University does not have control to continue without disruption.

Chair Lozano recommended that the Regents authorize the budget as presented. Between this time and July the Finance and Capital Strategies Committee would hold an off-cycle meeting, which any interested Regents could attend, to carry out a more thorough review of all line items in the proposed budget. At the July meeting, the Board would conduct a further evaluation of the budget including discreet issues such as campus assessments, UCPath, UC initiatives, and increases to line items. At that point, the budget could be modified based on the Board’s evaluation.

Upon motion duly made and seconded, the Board approved the President’s recommendations in items 4 and 5, contingent on further review by the Finance and Capital Strategies Committee, with recommendations of that Committee to be acted upon by the Board at the July 2017 meeting, Regents Blum and Rendon voting “no.”
Regent Blum expressed skepticism about how much difference an additional review would make, stating that the Board could not realistically pass judgment on all budget line items. Chair Lozano responded that the Board would seek to achieve a proper balance. The Board now had an obligation to take a closer look at this matter.

6. ESTABLISHMENT OF POLICY ON NONRESIDENT STUDENT ENROLLMENT

The President of the University recommended that the Regents adopt the Policy on Nonresident Student Enrollment shown in Attachment 1, effective beginning with the fall 2018 entering class.

[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 Associate Vice President David Alcocer recalled that the Policy on Nonresident Student Enrollment had been discussed at the March 2017 meeting. That discussion had helped in shaping the current proposed policy. The University had listened to the concerns of the Board, legislators, students, and faculty. Like the proposal discussed in March, the current proposed policy expresses UC’s commitment to its primary responsibility of serving California undergraduate students. The University would continue to meet its obligation under the California Master Plan for Higher Education to offer a place to every California undergraduate applicant who qualifies for guaranteed admission. The policy ensures that each campus at a minimum achieves its State-funded enrollment targets for California students and that nonresident undergraduate students will only be enrolled in addition to and not in place of California undergraduates. The policy acknowledges the key role of the Regents and the faculty in determining admissions policies and calls for periodic review to evaluate the effectiveness of the policy.

Several provisions of the policy had been revised since the March discussion. The most significant difference was a change in the proposed limit on nonresident undergraduates. Under the policy, any campus with nonresident undergraduate enrollment above 18 percent of total undergraduates in 2017-18 would be capped at its 2017-18 percentage in future years. The University expected the Berkeley, Los Angeles, San Diego, and Irvine campuses to fall into this category. At every other campus, nonresident undergraduate enrollment would be capped at 18 percent. The policy would be subject to review every four years. The policy includes important technical changes to clarify that AB 540 students should count as State residents for purposes of the policy, just as they do for purposes of California funding for enrollment growth and financial aid.

Mr. Alcocer presented a chart summarizing the estimated revenue impact of the policy against two reference points. One set of figures showed estimated revenue associated with allowing campuses to achieve moderate increases in the percentage of nonresident students they enroll above 2016-17 levels, subject to the proposed cap. Compared to 2016-17, these campuses could potentially realize $43 million in new revenue from
nonresident enrollment. A second set of figures acknowledged that for some campuses, the policy permits less revenue growth than would be the case under the 20 percent cap discussed in March; these campuses would probably have the potential to enroll more than 18 percent nonresidents over the next few years but would not be able to do so because of the lower cap.

Mr. Alcocer concluded by expressing the view that the proposed policy achieves several complementary goals that benefit California students. The policy allows campuses to provide California students with a more varied and less parochial learning experience that will prepare them for living and working in an increasingly global society. Nonresident students help keep UC affordable for Californians, contributing over $70 million in return-to-aid from tuition that directly benefits the University’s need-based financial aid program for California undergraduates, about $700 per year for every California aid recipient. Nonresident Supplemental Tuition allows campuses to make much-needed investments in student success during challenging fiscal times. Mr. Alcocer described the policy as a responsible and balanced approach to addressing a complex topic.

President Napolitano noted that representatives of the State Assembly and the California Department of Finance were in agreement with the proposed policy. In her view, the policy strikes the appropriate balance between nonresident and resident enrollment.

Regent Makarechian expressed strong opposition to the proposed policy. He recalled that he had come to the United States as a foreign student in the early 1960s and emphasized the negative impact of this policy on foreign students. The policy would in effect build a wall around UC. The University should not place limits on foreign or out-of-state students. He underscored the value of foreign students to the U.S. and to the University. Executive Vice President and Chief Financial Officer Brostrom noted that as part of the Budget Act, State funding depended on pursuing this policy. Regent Blum expressed agreement with Regent Makarechian on this matter.

Regent Kieffer observed that this was a difficult question involving the issue of the University treating its campuses on an equal footing. He did not like the idea of a cap on nonresident enrollment but stated that the University must listen to the public and its concerns. The proposed policy was a balance between conflicting, competing interests.

Regent Pérez stressed the importance and complexity of this issue. There had been significant progress in development of the policy since the March discussion through deliberative, consultative work. UC campuses benefit from diversity, including the diversity of opinion and experience provided by out-of-state and international students. For too long, this had been a fiscal consideration for the University. He anticipated that the Regents would have to reexamine this matter in the future, distinguishing between fiscal considerations and educational benefits to students. The proposed policy was not a perfect solution but a good compromise.
Regent Schroeder commented on the variety and range of nonresident students and their circumstances. She expressed agreement with Regent Makarechian on the value of international and out-of-state students who contribute to California and its economy.

Upon motion duly made and seconded, the Board approved the President’s recommendation, Regents Elliott and Makarechian voting “no.”

7. COMMITTEE REPORTS INCLUDING APPROVAL OF RECOMMENDATIONS FROM COMMITTEES

Report of the Finance and Capital Strategies Committee

The Committee presented the following from its meeting of May 17, 2015:

A. Approval of Amendment #3 to the UC San Francisco 2014 Long Range Development Plan and Design following Action Pursuant to the California Environmental Quality Act, Child, Teen, and Family Center and Department of Psychiatry Building at 2130 Third Street, San Francisco Campus

Following review and consideration of the environmental consequences of the proposed Child, Teen, and Family Center and Department of Psychiatry Building project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Committee recommended that the Regents:

(1) Certify the Environmental Impact Report.

(2) Adopt the Mitigation Monitoring and Reporting Program, and the CEQA Findings including the Statement of Overriding Considerations for the significant and unavoidable impact.

(3) Approve Amendment #3 to the UC San Francisco 2014 Long Range Development Plan (LRDP) to include the project site in LRDP Chapter 9, Smaller Owned Sites.

(4) Approve the design of the Child, Teen, and Family Center and Department of Psychiatry Building project, San Francisco campus.

B. Approval of Budget, External Financing, and Design following Action Pursuant to the California Environmental Quality Act, Joan and Sanford I. Weill Neurosciences Building, San Francisco Campus

(1) The Committee recommended that:
a. The 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: Mission Bay Neurosciences Research Building (Block 23A) – preliminary plans – $21 million funded from campus funds.

To: San Francisco: Joan and Sanford I. Weill Neurosciences Building – preliminary plans, working drawings, construction, and equipment – $357.6 million, to be funded from external financing ($141.6 million), gifts ($175 million), and campus funds ($41 million).

b. The scope of the Joan and Sanford I. Weill Neurosciences Building project shall consist of constructing a new research and outpatient clinical building with approximately 208,000 assignable square feet (asf) of space that would include: wet laboratory (50,000 asf), office/dry laboratory (65,000 asf), clinical/imaging/infusion space (53,000 asf), clinical research (11,000 asf), a vivarium (16,000 asf), and building support (13,000 asf).

c. The President of the University be authorized to obtain external financing not to exceed $141.6 million plus additional related financing costs for the 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, the general revenues of the San Francisco 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) Following review and consideration of the environmental consequences of the proposed Joan and Sanford I. Weill Neurosciences Building, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Committee recommended that the Regents:
a. Find the project to be in conformance with CEQA as indicated in Addendum #4 to the UC San Francisco 2014 Long Range Development Plan Final Environmental Impact Report.

b. Adopt the CEQA Findings including the Statement of Overriding Considerations for significant and unavoidable impacts.

c. Approve the design of the Joan and Sanford I. Weill Neurosciences Building project, San Francisco campus.

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

C. Approval of Budget, External Financing, Amendment #4 to the UC San Francisco 2014 Long Range Development Plan, and Design following Action Pursuant to the California Environmental Quality Act, Minnesota Street Graduate Student and Trainee Housing, San Francisco Campus

(1) The Committee recommended that:

a. The 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: Minnesota Street Graduate Student and Trainee Housing – preliminary plans – $12.8 million to be funded from housing reserves ($7 million) and campus funds ($5.8 million).

To: San Francisco: Minnesota Street Graduate Student and Trainee Housing – preliminary plans, working drawings, construction, and equipment – $222.7 million to be funded from external financing ($205.3 million), housing reserves ($7 million), and parking reserves ($10.4 million).

b. The scope of the Minnesota Street Graduate Student and Trainee Housing project shall provide approximately 377,000 gross-square-feet (gsf) of space in two structures. The buildings will have approximately 595 units to house approximately 710 graduate and professional students and trainees, along with retail, community spaces, and building support. The scope also includes garage parking with approximately 127 spaces.

c. The President of the University be authorized to obtain external financing not to exceed $205.3 million plus additional related financing costs. The President shall require that:
i. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

ii. As long as the debt is outstanding, general revenues from the San Francisco 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) Following review and consideration of the environmental consequences of the proposed Minnesota Street Graduate Student and Trainee Housing project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Committee recommended that the Regents:


b. Adopt the Mitigation Monitoring and Reporting Program.

c. Adopt the CEQA Findings including the Statement of Overriding Considerations for significant and unavoidable impacts.

d. Approve Amendment #4 to the 2014 Long Range Development Plan (LRDP) to include the project site in LRDP Chapter 9, Smaller Owned Sites.

e. Approve the design of the Minnesota Street Graduate Student and Trainee Housing project, San Francisco campus.

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

D. Approval of Design following Action Pursuant to the California Environmental Quality Act, East Campus Apartments Phase IV-A, Irvine Campus

Following review and consideration of the environmental consequences of the proposed East Campus Apartments Phase IV-A project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony,
or written materials presented to the Regents during the scheduled public comment period and the item presentation, the Committee recommended that the Regents:

(1) Adopt the Initial Study/Mitigated Negative Declaration for the East Campus Student Apartments Phase IV project in accordance with CEQA.¹

(2) Adopt the CEQA Findings for the East Campus Apartments Phase IV-A project.

(3) Approve the design of the East Campus Apartments Phase IV-A, Irvine Campus.

E. Approval of Preliminary Plans Funding, Student Housing for Five Sites, Los Angeles Campus

The Committee recommended that the 2016-17 Budget for Capital Improvements be amended to include the following projects:

Los Angeles: Bradley South Residence Hall – preliminary plans – $2.3 million to be funded from housing reserves.

Los Angeles: Lot 15 Residence Hall – preliminary plans – $3 million to be funded from housing reserves.

Los Angeles: Drake Stadium Residence Hall – preliminary plans – $2.7 million to be funded from housing reserves.

Los Angeles: 10995 Le Conte Apartments – preliminary plans – $3.1 million to be funded from housing reserves.

Los Angeles: Southwest Campus Apartments – preliminary plans – $4.3 million to be funded from housing reserves.

F. Approval of Budget, Standby Financing, Interim Financing, and Design following Action Pursuant to California Environmental Quality Act, Warner Graduate Art Studio Renovation and Addition, Los Angeles Campus

The Committee recommended that:

(1) The 2016-17 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

¹ The East Campus Student Apartments Phase IV Initial Study/Mitigated Negative Declaration addresses potential impacts for both Phases IV-A and IV-B. Design approval is for Phase IV-A only, and adoption of the IS/MND does not constitute approval for Phase IV-B.
From: Los Angeles: Warner Graduate Art Studio Renovation and Addition – preliminary plans – $2 million to be funded from gift funds.

To: Los Angeles: Warner Graduate Art Studio Renovation and Addition – preliminary plans, working drawings, and construction – $30 million to be funded from gift funds.

(2) The scope of the Warner Graduate Art Studio Renovation and Addition project shall renovate and expand a 30,000-gross-square-foot (gsf) building at 8535 Warner Drive in Culver City for use by the UCLA Department of Art. The completed project will include studios; provide shops, labs, gallery, work areas and commons space; replace building systems at the end of their useful life; and improve lighting and ventilation in the facility. Upon completion, the facility will comprise approximately 43,700 gsf.

(3) The President of the University be authorized to obtain standby financing not to exceed $19.5 million for the project. 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. 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 the campus reserves 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.

(4) The President be authorized to obtain interim financing not to exceed $9 million for the project. The President shall require that:

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

b. To the extent additional gifts are received as documented by legally binding pledges, the interim financing will be converted to standby financing.

c. As long as the debt is outstanding, general revenues from 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.

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

(5) Following review and consideration of the environmental consequences of the proposed Warner Graduate Art Studio Renovation and Addition project, as required by the California Environmental Quality Act (CEQA), the Committee recommended that the Regents:

a. Find that the project is categorically exempt under Article 19, Section 15301, Class 1, Existing Facilities and Section 15332, Class 32, In-Fill Projects.

b. Approve the design of the Warner Graduate Art Studio Renovation and Addition project, Los Angeles campus.

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

G. Consent Agenda

(1) Approval of Short-Term Secured Working Capital Loan Agreement with Armand Hammer Museum of Art and Cultural Center, Los Angeles Campus

The Committee recommended that UCLA be authorized to establish a lending relationship with the Armand Hammer Museum of Art and Cultural Center, Inc. (AHMACC) in the form of a fully secured revolving credit agreement, pursuant to the following terms:

a. The revolving loan will be funded with campus funds and have a final expiration date not more than five years from the date a loan agreement is executed between UCLA and AHMACC.

b. Under the revolving loan agreement, funds will be available to access in multiple draws, provided the aggregate principal amount outstanding at any time does not exceed $15 million.

c. During the term of the revolving loan, interest on amounts outstanding will be paid in arrears on a quarterly basis.

d. Principal amounts borrowed under the revolving loan can be repaid at any time, and any outstanding amounts on the revolving loan on the expiration date of the revolving loan will be immediately due and payable.
e. The revolving loan will be secured by collateral of 150 percent of the maximum amount available under the revolving loan, or $22.5 million of AHMACC’s investment balance held by the UCLA Foundation.

(2) **Authority to Indemnify Los Gatos Homeowners for a License Agreement Related to Operation and Maintenance by the Berkeley Seismological Laboratory of an Unmanned Geophysical Seismic Observatory on their Private Property, Berkeley Campus**

The Committee recommended that the President of the University, or designee, be authorized to approve and execute a License Agreement between the University and the homeowners of private property that would allow the UC Berkeley Seismological Laboratory to operate and maintain a geophysical seismic observatory on private property located in Los Gatos, California for a term of five years from June 1, 2017 to May 31, 2022. The License Agreement includes provisions pursuant to which the University agrees to:

a. Indemnify, defend and hold harmless the homeowners and its officers, partners, agents, and employees, from and against any and all claims, actions, suits, procedures, costs, expenses, damages and liabilities, including attorneys’ fees arising out of or in any way connected with the License Agreement including, without limitation, claims for loss or damage to any property or for death or injury to any person or persons, and to reimburse the homeowners fully for any such expenses incurred.

b. Covenant not to sue the homeowners for liability from any and all claims, including negligence of the homeowners, resulting from personal injury, accidents or illnesses (including death), and property loss arising out of or in any way connected with the License Agreement.

(3) **Adoption of Expenditure Rate for the General Endowment Pool**

The Committee recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2017-18 fiscal year remain at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.
(4) **Adoption of Endowment Administration Cost Recovery Rate**

The Committee recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)\(^2\) and apply to distributions from the General Endowment Pool (GEP) to be made after July 1, 2017, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

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

**Report of the Governance and Compensation Committee**

The Committee presented the following from its meeting of May 17, 2015:

A. **Appointment of and Compensation Using Non-State Funds for Eduard van Gelderen as Senior Managing Director, Office of the Chief Investment Officer**

**Recommendation**

The Committee recommended approval of the following items in connection with the appointment of and compensation for Eduard van Gelderen as Senior Managing Director, Office of the Chief Investment Officer:

1. Per policy, appointment of Eduard van Gelderen as Senior Managing Director, Office of the Chief Investment Officer, at 100 percent time.

2. Per policy, an annual base salary of $393,000, using non-State funds.

3. Per policy, beginning in the 2017-18 Plan Year, eligibility to participate in the Office of the Chief Investment Officer Annual Incentive Plan (AIP) with a target award of 60 percent of base salary ($235,800) and a maximum potential award of 120 percent of base salary ($471,600). The actual award will be determined based on performance against pre-established objectives and may be pro-rated in his first year of participation based on the date of hire. The award is paid over a three-year period. The first half of the award is paid after the conclusion of the first plan year. The remaining half is paid in two equal payments when awards are paid in each of the next two plan years.

4. Per policy, standard pension and health and welfare benefits and standard senior management benefits (including eligibility for senior management

\(^2\) One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 55 basis points are the equivalent of $55 on endowment assets with a 60-month average market value of $10,000.
life insurance and eligibility for executive salary continuation for disability after five consecutive years of Senior Management Group service).

(5) Per policy, monthly contribution to the Senior Management Supplemental Benefit Program.

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

(7) Per policy, house-hunting trip reimbursement for Mr. van Gelderen and his spouse or domestic partner, subject to the limitations under policy.

(8) Per policy, reimbursement of temporary housing-related expenses actually and reasonably incurred, subject to the limitations under policy.

(9) Per policy, reimbursement of actual and reasonable expenses associated with moving Mr. van Gelderen’s household goods and personal effects from his former primary residence to his new primary residence, subject to the limitations under policy.

(10) This action will be effective no earlier than June 1, 2017.

The compensation described above shall constitute the University’s total commitment until modified by the Regents or the President, as applicable under Regents policy, and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

Background to Recommendation

The President of the University recommended approval for the appointment of and compensation using non-State funds for Eduard van Gelderen as Senior Managing Director, Office of the Chief Investment Officer, effective no earlier than June 1, 2017. This position will report directly to the Chief Investment Officer.

Following a worldwide open recruitment, Mr. van Gelderen emerged as the top candidate for this role. Consistent with policy, the proposed base salary being near the 75th percentile of the Market Reference Zone is reflective of the limited talent pool and competitiveness of the market for strong investment management expertise. Additionally, Mr. van Gelderen has deep and broad experience and a unique skill set in that he has directly managed three complex product types: pension, public equity, and real assets. As a point of comparison, the California Public Employees’ Retirement System (CalPERS) chief investment officer in 2016 had total pay of $768,309 and 15 CalPERS managing directors and directors
had total pay ranging from $416,000 to $626,000. The California State Teachers’ Retirement System (CalSTRS) chief investment officer had 2016 total pay of $650,971 and six other CalSTRS executives had total pay ranging from $440,000 to $638,000.3

Mr. van Gelderen has been a member of the Executive Board as Chief Investment Officer (CIO) of APG Groep N.V. since September 1, 2014. Mr. van Gelderen is also the Statutory Director and Chief Executive Officer of APG Asset Management, a pension fund investment management company representing $480 billion in assets. Previously, he held positions as Deputy-CIO at ING Investment Management and Head of Investments at Lombard Odier Darier Hentsch. During the first eight years of his career, he held different investment banking positions in Amsterdam and London. Mr. van Gelderen holds various ancillary positions. He is Chairman of the advisory board of the investment committee of the Instituut Gak, Chairman of Conspect Trust, and a member of the Advisory Council of the AQR Asset Management Institute at the London Business School. Mr. van Gelderen will comply with current Outside Professional Activity (OPA) policies. Mr. van Gelderen studied quantitative finance at the Erasmus University in Rotterdam and Asset Liability Management at the University of Maastricht. He also is a Chartered Financial Analyst (CFA) and Financial Risk Manager (FRM).

As Senior Managing Director, Mr. van Gelderen will report directly to the Chief Investment Officer. Mr. van Gelderen will have the following key responsibilities:

(1) Product Manager for the $56 billion UC Pension.

(2) Oversight of the $52 billion Public Equity program. This is the single largest asset class across the Office of the Chief Investment Officer and is a significant driver of added value. Mr. van Gelderen will apply his significant experience in leading and restructuring Public Equity portfolios.

(3) Oversight of over $1 billion in the Real Assets program. Mr. van Gelderen has a strong background and professional interest in Real Assets, which will contribute greatly as the University looks to expand this asset class.

(4) Growing the University’s investment portfolio. Mr. van Gelderen’s European investment relationships will be a key factor in achieving growth for the portfolio that is currently predominantly U.S.-based.

In light of Mr. van Gelderen’s deep experience and unique skill set, and because of the very scarce candidate pool and competitive market, the proposed base salary of $393,000 is necessary to attract him to the position. It is 0.4 percent below the 75th percentile ($394,000) of the Market Reference Zone (MRZ) for

3 Information taken from the online database Transparent California for 2016.
this position. The recommended base salary is consistent with Regents Policy 7701, Senior Management Group Appointment and Compensation. As indicated in Regents Policy 7701: “Salaries near the 75th percentile of the MRZ will be assigned to SMGs who are very experienced and have a unique skill set. In addition, a salary near the 75th percentile may be assigned where the SMG’s position is moderately broader or more complex in scope than that of peer positions or the benchmark position(s) used in surveys of the applicable market. A salary near the 75th percentile may also be assigned in situations where the talent pool for the position is limited and/or very competitive.” Mr. Van Gelderen’s H-1B non-immigrant visa has been approved, therefore he can be appointed following approval of this action.

B. Recommendations for Election of Officers and Appointments to Standing Committees and Subcommittees for 2017-18

(1) The Committee recommended that the following appointments of Board officers and Standing Committee Chairs, Vice Chairs and members for 2017-18 be approved:

a. Regent George Kieffer be elected Chair of the Board of Regents for the year commencing July 1, 2017.

b. Regent John A. Pérez be elected Vice Chair of the Board of Regents for the year commencing July 1, 2017.

c. Standing Committee Chairs, Vice Chairs and members, including non-voting advisory members, be appointed for the year commencing July 1, 2017 as shown in Attachment 2.

(2) The Committee reported the appointment of the following members of the Academic and Student Affairs Committee to the National Laboratories Subcommittee: Regents Pattiz (Chair), De La Peña (Vice Chair until March 1, 2018), Zettel (Vice Chair beginning March 1, 2018), Mancia, Napolitano, Newsom, and Oakley, and as non-voting advisory members Chancellors Block, Christ, and Yang for the year commencing July 1, 2017.

(3) The Committee reported the appointment of the following members of the Finance and Capital Strategies Committee to the Investments Subcommittee: Regents Sherman (Chair), Zettel (Vice Chair), Lemus, and Varner, and as non-voting advisory members Chancellors Hawgood and Khosla.

Upon motion of Regent Reiss, duly seconded, the recommendations of the Governance and Compensation Committee were approved.
Report of the National Laboratories Subcommittee

The Committee presented the following from its meeting of May 17, 2015:

Amendment to the Allocation of Los Alamos National Security, LLC and Lawrence Livermore National Security, LLC Fee Income to be Expended in Fiscal Year 2016-17

The Subcommittee recommended that the allocation of the University’s net share of Los Alamos National Security, LLC and Lawrence Livermore National Security, LLC fee income to be expended in fiscal year 2016-17 be amended, as shown in Display 1.

Display 1: Fiscal Year 2016-17 Fee Income Allocation:

<table>
<thead>
<tr>
<th>Estimated Funds Available</th>
<th>Original</th>
<th>Amended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Net Fee Income for Calendar Year 2016</td>
<td>$23.1 M</td>
<td>$26.5 M</td>
</tr>
<tr>
<td>Total Funds Available</td>
<td>$23.1 M</td>
<td>$26.5 M</td>
</tr>
</tbody>
</table>

Recommended Allocation

A. Contract Non-Reimbursable Compensation for LLC Employees in UC-Designated Key Personnel Positions | $2.2 M | $2.2 M |
B. UC Office of the President Oversight | $4.9 M | $4.9 M |
C. Post-Contract Contingency Fund | $2.3 M | $3.1 M |
D. LLC Fee Contingency Fund | $0 M | $0 M |
E. UC Laboratory Fees Research Program (including UC-NL Graduate Student Fellowships) | $13.4 M | $15.0 M |
F. Livermore Lab Foundation | $0.3 M | $0.3 M |
G. Accelerating Therapeutic Opportunities for Medicine | N/A | $1.0 M |
Total allocation 2016-2017 | $23.1 M | $26.5 M |

Upon motion of Chair Lozano, duly seconded, the recommendation of the National Laboratories Subcommittee was approved.

8. REMARKS OF THE UC STUDENT ASSOCIATION PRESIDENT

UC Student Association president Ralph Washington, Jr. reflected on the meaning of the word “accountability.” Fiduciary accountability is an important concept for the University, but there is another form of accountability, the University’s accountability toward students and their concerns. He spoke of the needs of various groups of students and how these students might offer perspectives on policies for the University – students who are survivors of sexual violence, undocumented students, African American students, and graduate students. There should be a culture of accountability at the University. UC should strive for a better future. He invited the Regents to visit the Bohart Museum of Entomology at UC Davis.
RESOLUTION IN APPRECIATION – HARVEY BRODY

Upon motion of Chair Lozano, duly seconded, the following resolution was adopted:

WHEREAS, Harvey Brody has provided distinguished and thoughtful leadership to the University as an Alumni Regent, and has made enormous contributions as a health policy advisor to the Office of the President, reflecting his extraordinary dedication to the University and its well-being; and

WHEREAS, as a graduate of the Berkeley and San Francisco campuses, he has served on the UCSF Alumni Association Board of Directors and achieved great professional distinction that included a more than 50-year career as a UCSF clinical professor of dentistry and serving as a health policy advisor to Senator Dianne Feinstein and the U.S. Assistant Secretary of Health; and

WHEREAS, he has demonstrated a lifelong commitment to diversifying the University and in particular, the health professions, and was a recipient of the UCSF Martin Luther King Award in 2006 for his leadership in promoting faculty and student diversity at UCSF, and, as a Regent, has encouraged support for the University’s diversity initiatives and has advocated for training and education on implicit and unconscious biases in executive level searches; and

WHEREAS, his commitment to underserved communities and social justice in his professional life has added immeasurably to the work of several Regents’ Committees, including Educational Policy, Health Services, and Compliance and Audit, and provided wise counsel to the Advisory Search Committee for a new Chancellor for the Davis campus; and

WHEREAS, in recognition of his devoted service as a member of the Board of Regents of the University of California, and in the hope of his continued contributions to the welfare and success of the University; the Regents do hereby confer upon Harvey Brody the title, Regent Emeritus;

NOW, THEREFORE, BE IT RESOLVED that the Regents of the University of California express their appreciation and admiration to Harvey Brody, who has enriched the University in countless ways from his days as a dedicated alumni volunteer to his service as a member of the Board of Regents;

AND BE IT FURTHER RESOLVED that the Regents extend to Harvey their affectionate best wishes for the future, and direct that a suitably inscribed copy of this resolution be presented to him as an expression of the Board’s profound gratitude and friendship.
10. **RESOLUTION IN APPRECIATION – NICHOLAS B. DIRKS**

Upon motion of Chair Lozano, duly seconded, the following resolution was adopted:

WHEREAS, Nicholas B. Dirks has devoted his outstanding skills and provided strong leadership to the Berkeley campus for the past four years as its tenth Chancellor; and

WHEREAS, his intellectual stature as a world-renowned historian and anthropologist has fortified UC Berkeley’s reputation for academic excellence as evidenced by the many honors and awards he has received, including a Guggenheim Fellowship, a MacArthur Foundation Fellowship at the Institute for Advanced Study at Princeton, and his appointment as a Fellow of the American Academy of Arts and Sciences and a Fellow at the Council of Foreign Relations; and

WHEREAS, his singular vision of a global University and the vital importance of research that crosses international boundaries led to the creation of the Tsinghua-Berkeley Shenzhen Institute, thereby enhancing the profile of UC Berkeley as a global leader, consistently rated as one of the top universities in the world; and

WHEREAS, he has been an ardent and devoted champion for high-quality, vibrant undergraduate education, and for innovations in the curriculum, such as the popular undergraduate data science curriculum that provides a foundation for students in all fields to engage critically with data and poses intellectually challenging and relevant learning opportunities in their areas of interest; and

WHEREAS, he convened a task force on athletics and academics to ensure that the University’s academic mission informed all intercollegiate athletic programs, resulting in significant and comprehensive reforms from admissions through graduation that improved the academic success of athlete-scholars and the quality of the campus and community experience for student-athletes;

NOW, THEREFORE, BE IT RESOLVED that the Regents of the University of California express their warm appreciation to Nicholas Dirks for his leadership of the Berkeley campus, his steadfast adherence to excellence, and his continued contribution to the life of the campus;

AND BE IT FURTHER RESOLVED that the Regents direct that a suitably inscribed copy of this resolution be presented to Nicholas Dirks as an expression of the Board’s enduring regard, respect, gratitude, and warm wishes for the future.
11. **RESOLUTION IN APPRECIATION – MARCELA RAMIREZ**

Upon motion of Chair Lozano, duly seconded, the following resolution was adopted:

WHEREAS, on June 30, 2017, Marcela Ramirez will complete her term as the 42nd student Regent, having carried out her Regent responsibilities with diplomacy, enthusiasm, and dedication; and

WHEREAS, she has advocated passionately on behalf of UC students to ensure a welcoming and inclusive climate throughout the University and brought to bear her considerable experience in multicultural services to promote culturally sensitive training, advising, mentoring, and professional development; and

WHEREAS, as a Regent of the University of California, she has shown strong and effective leadership in pressing for the development of programs to support graduate students and transfer students, and recruitment and retention efforts of low-income students to create a more diverse pipeline of graduate students and faculty at the University; and

WHEREAS, her unfailing efforts to ensure that the Board’s decisions benefit students has earned the respect and admiration of her fellow Regents as a member of the Regents Committees on Educational Policy, Finance, Compensation, Investments, and Public Engagement and Development, as well as on the Advisory Search Committee for a new Chancellor for the Davis campus; and

WHEREAS, in recognition of her devoted service as a member of the Board of Regents of the University of California, and in the hope that she will continue as an active and vital participant in the life of the University, the Regents do hereby confer upon Marcela Ramirez the title, Regent Emerita;

NOW, THEREFORE, BE IT RESOLVED that the Regents of the University of California express to Marcela Ramirez their thanks for her service as a member of the Board;

AND BE IT FURTHER RESOLVED that the Regents direct that a suitably inscribed copy of this resolution be presented to Marcela Ramirez as a symbol of the Board’s lasting friendship and esteem, and best wishes for success in her planned career in higher education administration.

12. **RESOLUTION IN APPRECIATION – CYNTHIA SO SCHROEDER**

Upon motion of Chair Lozano, duly seconded, the following resolution was adopted:

WHEREAS, Cynthia So Schroeder will complete her term as an Alumna Regent, having conscientiously exhibited deep understanding of the public mission of the University and an abiding concern for the needs of its students; and
WHEREAS, having received her Bachelor’s and Master’s degrees respectively from UC Berkeley and UCLA and having served with distinction as a member of the Board of Directors of the California Alumni Association at UC Berkeley since 2009, as its President from 2013 to 2015, and as a Trustee for the UC Berkeley Foundation; and

WHEREAS, her commitment to the well-being and success of students is chronicled through her dedicated service as a member of several Regents committees, most notably Educational Policy, Grounds and Buildings, and Public Engagement and Development, in addition to ably representing the alumni on the Advisory Search Committee for a new Chancellor for the Berkeley campus; and

WHEREAS, as an online community and social marketing executive with many years of experience in community development and engagement, she has brought great benefit to the University through her considerable professional expertise and her passion to expand the engagement of the alumni community with the University; and

WHEREAS, in recognition of her devoted service as a member of the Board of Regents of the University of California, and in the hope that she will continue as an active and vital participant in the life of the University, the Regents do hereby confer upon Cynthia So Schroeder the title, Regent Emerita;

NOW, THEREFORE, BE IT RESOLVED that the Regents of the University of California express their sincerest gratitude and admiration to Cynthia So Schroeder for her articulate and enthusiastic advocacy and guidance in the governance of the University;

AND BE IT FURTHER RESOLVED that the Regents direct that a suitably inscribed copy of this resolution be presented to Cynthia So Schroeder as an expression of the Board’s high regard, appreciation, and best wishes for the future.

13. REPORT OF INTERIM, CONCURRENCE AND COMMITTEE ACTIONS

Approvals under Interim Action

A. The Chair of the Regents, the Chair of the Governance and Compensation Committee, and the President of the University approved the following actions:

(1) Appointment of and Compensation for Claire Holmes as Interim Senior Vice President – Public Affairs, Office of the President

The following items were approved in connection with the appointment of and compensation for Claire Holmes as Interim Senior Vice President – Public Affairs, Office of the President:

a. Per policy, appointment of Claire Holmes as Interim Senior Vice President – Public Affairs, Office of the President, at 100 percent time. This action will be effective March 27, 2017 through June
30, 2018, or until the appointment of a new Senior Vice President – Public Affairs, whichever occurs first. Compensation at the rate of the interim appointment may continue for up to a two-month transition period after the appointment of a new Senior Vice President – Public Affairs to allow for proper transfer of duties.

b. Per policy, an annual base salary of $320,000.

c. Per policy, continuation of standard pension and health and welfare benefits.

**Recommended Compensation**

**Effective Date:** March 27, 2017  
**Annual Base Salary:** $320,000  
**Target Cash Compensation:** $320,000  
**Funding:** Partially or fully State-funded

**Budget &/or Current Incumbent Data**

**Title:** Senior Vice President – Public Affairs  
**Base Salary:** $288,940  
**Target Cash Compensation:** $288,940  
**Funding Source:** Partially or fully State-funded

*Target Cash Compensation consists of base salary and, if applicable, incentive and/or stipend.

The compensation described above shall constitute the University’s total commitment until modified by the Regents or the President, as applicable under Regents’ policy, and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

**Background**

Action under interim authority was requested for approval of the appointment of and compensation for Claire Holmes as Interim Senior Vice President – Public Affairs, Office of the President. The current incumbent vacated the position on March 26, 2017. Presenting the request at the May 2017 Regents meeting would have caused a delay in ensuring that there is no lapse in the coverage of responsibilities for the Public Affairs office. Therefore, an action under interim authority was requested.

This action was effective March 20, 2017, to allow for a transition, through June 30, 2018, or until the appointment of a new Senior Vice President – Public Affairs, whichever occurs first. Compensation at the
rate of the interim appointment may continue for up to a two-month transition period after the appointment of a new Senior Vice President – Public Affairs (Communications) to allow for proper transfer of duties.

The Interim Senior Vice President – Public Affairs position is classified as a Level One position in the Senior Management Group (SMG). Funding for this position will come partially or fully from State funds.

The interim appointment of Ms. Holmes ensured that there was no lapse in the execution of the duties of the Public Affairs office due to the incumbent vacating the position on March 26. Ms. Holmes will begin her interim duties on a part-time basis on March 20 and will assume her interim duties on a full-time basis on April 12, 2017.

Ms. Holmes has extensive experience in all areas of communications, including brand strategy, marketing communications, media relations, and issues/crisis management. Since October 2016, Ms. Holmes has held the position of Associate Vice Chancellor for Strategic Communications and Marketing for UC Davis Health and is responsible for enhancing and expanding UC Davis Health’s reputation, outreach and brand through communications with internal and external stakeholders. As the institution’s chief communications officer, Ms. Holmes oversees a team of professional communicators who plan, develop, and deliver strategic, high-quality brand marketing and advertising campaigns, cultivate and develop news and media visibility, and operate and support robust digital platforms.

Ms. Holmes first joined the University in 2008 as the Associate Vice Chancellor of University Communications, Marketing and Public Affairs at UC Berkeley, where she was responsible for all strategic communications functions including marketing, brand management, media relations, internal communications, issues and crisis management, digital communications, visitor and parent relations, and executive support.

Prior to her appointment at UC Berkeley, Ms. Holmes spent ten years at Kaiser Permanente holding two executive positions where she led and staffed the national communications department which supported Kaiser’s Chief Executive Officer and the leadership team. She has built and directed corporate communications and public relations teams and rolled out systemwide communications campaigns and programs, including Kaiser Permanente’s highly successful “Thrive” campaign.

In 2010, Ms. Holmes was named PR Person of the Year by PR News, and has won a number of international awards from the International Association of Business Communicators, the Public Relations Society of America, and the Council for Advancement and Support of Education.
Ms. Holmes earned her bachelor’s degree in journalism from San Francisco State University.

Consistent with Regents’ Policy 7701, Senior Management Group Appointment and Compensation, based on the scope and complexity of duties, current market data and the qualifications of Ms. Holmes, the President proposes an annual base salary of $320,000, which is 8.3 percent below the 60th percentile of the Market Reference Zone (MRZ) for this position and 10.9 percent above the compensation of the current incumbent’s base salary ($288,400). The proposed compensation is 1.2 percent above Ms. Holmes’ current total cash compensation of $316,250, which is comprised of a base salary of $275,000 and a target award of $41,250 (15 percent of base salary) under the Clinical Enterprise Management Recognition Plan’s (CEMRP) Short Term Incentive (STI) component.

Funding for this position will come partially or fully from State funds.

(2) Establishment of New Senior Management Group Level Two Position, Vice Chancellor – Business Development, Innovation and Partnerships, San Francisco Campus, and the Corresponding Market Reference Zone for the Position

The following items were approved in connection with the establishment of a new Senior Management Group Level Two position, Vice Chancellor – Business Development, Innovation and Partnerships, San Francisco campus, and the corresponding Market Reference Zone (MRZ):

a. The establishment of the Senior Management Group position of Vice Chancellor – Business Development, Innovation and Partnerships, San Francisco campus. This position will be in Level Two of the Senior Management Group.

b. The establishment of the following MRZ for the position of Vice Chancellor – Business Development, Innovation and Partnerships, San Francisco campus: 25th percentile – $323,000, 50th percentile – $392,000, 60th percentile – $408,000, 75th percentile – $433,000, and 90th percentile – $581,000.

c. This action will be effective upon approval.

Background

Action under interim authority was requested for approval of a new Senior Management Group (SMG) Level Two position, Vice Chancellor – Business Development, Innovation and Partnerships, San Francisco
campus, and the corresponding Market Reference Zone (MRZ) for the position, effective upon approval.

The proposed new SMG Level Two position and its corresponding MRZ were presented at the March 2017 Regents meeting as a part of a full set of new MRZs to reflect the competitive market pay for UC Health SMG positions at each health system and the Office of the President. The Regents will review for approval the full list of UC Health MRZs at the May 2017 Regents meeting.

The San Francisco campus has identified a leading candidate for this position following an extensive national search. Presenting the request to approve the new MRZ at the May 2017 Regents meeting would cause a delay in the appointment of a Vice Chancellor – Business Development, Innovation and Partnerships, since the position and its associated MRZ must be approved before or concurrent with an appointment into this position. A delay until May would thereby jeopardize the campus’ ability to secure the leading candidate. Therefore, an action under interim authority was requested.

The proposed position of Vice Chancellor – Business Development, Innovation and Partnerships will report to the Executive Vice Chancellor and Provost, UCSF. This new position is a high-impact and high-profile position with the distinct opportunity to design, build, and lead an organization that interfaces with and serves as a bridge between UCSF’s researchers, medical philanthropists, and industry partners in an array of sectors ranging from biopharma to technology. The Vice Chancellor will lead UCSF efforts to expand opportunities for healthcare research, technology, and the delivery of highly advanced personalized medicine.

This position will be responsible for uniting transformational ideas, cutting-edge technology, and premier organizations to accelerate the transition of research discoveries to the market, to coordinate and develop existing entrepreneurial and educational programs, and to provide a seamless experience for faculty and UCSF partners – all with the end goal of making a transformative impact on health care. This office will build and guide the development of a highly innovative, and service-oriented portfolio that will establish UCSF as the clear and immediate ‘partner of choice’ to industry, known for its ability to bring in opportunities which expand the scope and impact of research to solve critical health issues.

In regard to the development of the MRZ, the Regents Health Services Committee and its UC Health Executive Compensation working group, comprised of Regent Reiss, Vice Chair of the Board of Regents and Chair of the Governance and Compensation Committee, Regent Sherman, Vice Chair of the Health Services Committee, and Health Services Committee
Advisory members Dr. Paul Ramsey and Steve Lipstein, supported the methodology used to create this proposed MRZ, which is also consistent with the underlying methodology adopted by the Regents in the creation and maintenance of the current MRZs.

Based on the work completed by the UC Health Executive Compensation Working Group, the benchmark percentiles for the proposed MRZ for the position of Vice Chancellor – Business Development, Innovation and Partnerships are as follows: 25th percentile – $323,000, 50th percentile – $392,000, 60th percentile – $408,000, 75th percentile – $433,000, and 90th percentile – $581,000. The source of the proposed MRZ is comprised of a targeted peer group of data from public and not-for-profit academic medical centers based on the methodology adopted by the UC Health Executive Compensation Working Group and compiled by the consulting firm, Sullivan Cotter.

This position will be funded with non-State funds.

**Approvals under Health Services Committee Authority**

**B. At its April 13 meeting, the Health Services Committee approved the following recommendations:**

1. **Endorsement of Request for Approval of the Joan and Sanford I. Weill Neurosciences Building, Previously Known as Mission Bay Neurosciences Research Building (Block 23A), San Francisco Campus**

The Committee endorsed UCSF’s proposed request to the Finance and Capital Strategies Committee at its May 2017 meeting for approval of the Mission Bay Neurosciences Research Building (Block 23A) project, to be named the Joan and Sanford I. Weill Neurosciences Building, San Francisco campus.

2. **Endorsement of Request for Approval of the Child, Teen and Family Center and Department of Psychiatry Building, San Francisco Campus**

The Committee endorsed UCSF’s proposed request to the Finance and Capital Strategies Committee at its May 2017 meeting for approval of the Child, Teen and Family Center and Department of Psychiatry Building, San Francisco campus.

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

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

A. From the President of the University, the Annual Report on Compensated Outside Professional Activities for Reporting Period July 1, 2015 through June 30, 2016: Deans and Certain Other Full Time Faculty Administrators. March 29, 2016.

B. From the President of the University, the Annual Report on Student Financial Support for 2015-16. March 29, 2017.

C. From the President of the University, an update on the status of the UCPath project. April 6, 2017.

D. From the President of the University, the Board of Admissions and Relations with Schools (BOARS) 2017 Annual Report on Undergraduate Admissions Requirements and Comprehensive Review. April 17, 2017.

E. From the Secretary and Chief of Staff, the Summary of Communications for March 2017. April 20, 2017.

F. From the Chair of the Board and the President of the University, an email regarding the California State Auditor’s final audit report on the UC Office of the President’s administrative expenditures, including a press release in response to the issuance of the final report and a letter to the State auditor from the Chair of the Board, Chair of the Compliance and Audit Committee, and President of the University. April 25, 2017.

G. From the President of the University, a response from the University to the assertions in the California State Auditor’s final audit report on the UC Office of the President’s administrative expenditures. April 25, 2017.

To the Members of the Health Services Committee

H. From the Executive Vice President of UC Health, an email announcing that UC Health was one of the recipients of the Emergency Care Research Institute (ECRI) 2017 Healthcare Supply Chain Achievement Award. April 17, 2016.

To the Members of the Public Engagement and Development Committee

I. From the Interim Senior Vice President of Public Affairs, an email announcing that UC and Vox Media have launched a six-part video series on climate change, “Climate Lab.” April 19, 2017.

J. From the Chair of the Public Engagement and Development Committee, an email forwarded from the UC Federal Governmental Relations Office containing UC’s Federal Investment in Research Advocacy Toolkit. April 26, 2017.
To the Members of the Investments Subcommittee

K. From the Chief Investment Officer, an update on the UC Ventures program. March 23, 2017.

The meeting adjourned at 10:05 a.m.

Attest:

Secretary and Chief of Staff
Policy on Nonresident Student Enrollment

As a public, land-grant institution, the University of California takes pride in its commitment to prioritizing the enrollment of California residents, consistent with the California Master Plan for Higher Education. It is a fundamental tenet of the University that the vast majority of undergraduate spaces on every UC campus should be reserved for California residents. At the same time, the University values highly the diversity of experience, cultures, and backgrounds that nonresidents provide and sees their presence on every UC campus as an important part of the learning experience for California students.

In furtherance of these principles, the University adopts the following policy:

1. The University of California will continue to offer a place on at least one of its undergraduate campuses to every California undergraduate resident applicant who meets the University’s requirements for guaranteed admission, consistent with Regents policy on admissions.

2. The University of California will continue to enroll a total number of California resident undergraduates equal to or exceeding the number of resident undergraduates for whom the University is provided funding by the State of California.

3. Nonresident undergraduates will continue to be enrolled in addition to, rather than in place of, funded California undergraduates at each campus. That is, campuses wishing to increase nonresident enrollment may not reduce enrollment of funded California students to accommodate this growth.

4. At each campus that in academic year 2017-18 enrolls fewer than eighteen percent of its undergraduates from outside California, California residents shall continue to represent a minimum of eighty-two percent of all undergraduate students.

5. At each campus whose nonresident undergraduate enrollment (including new freshman and transfer students and continuing students) in academic year 2017-18 exceeds eighteen percent of total undergraduate enrollment, the proportion of nonresident undergraduates enrolled in the future may not exceed the proportion in 2017-18. On these campuses, any growth in the number of nonresident undergraduates enrolled will be accompanied by, at minimum, a proportionate increase in enrollment of California resident undergraduates.

6. All decisions regarding the criteria and processes by which nonresident undergraduates are admitted will continue to be determined according to applicable Regents and Academic Senate policy regarding freshman and transfer admission.

7. To assess the efficacy of this policy in supporting a common standard for excellence across all campuses and enhancing the academic experience, access, and affordability for California resident students, the policy shall be reviewed by the Regents periodically, but
at a minimum once every four years, and within the context of State General Fund per student support for the University.

For purposes of this policy, “nonresident undergraduates” shall not include students who are exempt from paying Nonresident Supplemental Tuition under Regents Policy 3106: Policy on Waiver of Tuition and Fees.

The President, in consultation with the General Counsel, shall implement this policy by establishing any necessary regulations.

This policy is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by any party against the University of California, its officers, employees, or agents.
### STANDING COMMITTEE ASSIGNMENTS FOR 2017-18

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**Chancellors**

Block
Christ
Leland
Wilcox
Yang

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**Chancellors**

Blumenthal
Gillman
Hawgood
Khosla
May/Hexter

Chancellors

Blumenthal
Gillman
Khosla
Yang
Health Services

Regents
Lansing (Chair)
Sherman (Vice Chair)
Blum
Makarechian
Reiss

Chancellors
Block
Hawgood

Outside Advisors
Joel Dimsdale (Academic Senate appointee)
Sandra R. Hernández
Steven H. Lipstein
Paul G. Ramsey
Mark D. Smith

Note: The President of the Board, the Chair of the Board, and the President of the University are ex officio members of all Standing Committees, except the President of the University is not a member of the Compliance and Audit Committee. The Chair of the related Standing Committee is the ex officio member of the relevant Subcommittee. The Superintendent of Public Instruction is an ex officio member of the Academic and Student Affairs Committee. The Executive Vice President – UC Health is an ex officio non-voting member of the Health Services Committee.