The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
November 15, 2017

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

Members present: Regents Anguiano, Lemus, Makarechian, Park, and Sherman; Ex officio member Kieffer, Advisory members Anderson, May, and Morimoto; Chancellors Blumenthal, Gillman, Hawgood, Khosla, and May; Staff Advisor Valdry; Student Advisor Sands

In attendance: Regent-designate Graves, Assistant Secretary Lyall, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Special Counsel Drumm, and Recording Secretary Johns

The meeting convened at 1:35 p.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes the meeting of September 13, 2017 were approved.

2. **CONSENT AGENDA**

A. ***Approval of Preliminary Plans Funding, Emerson Hall Housing Replacement, Davis Campus***

The President of the University recommended that the 2017-18 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Davis: <u>Emerson Hall Housing Replacement</u> – preliminary plans – $3,396,000 to be funded from housing reserves.

B. ***Approval of Preliminary Plans Funding, Teaching and Learning Complex, Davis Campus***

The President of the University recommended that the 2017-18 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Davis: Teaching and Learning Complex – preliminary plans – $3.4 million to be funded from campus funds.

C. ***Approval of Preliminary Plans Funding, Kresge College Non-Academic, Santa Cruz Campus***

The President of the University recommended that the 2017-18 Budget for Capital Improvements be amended to include the following project:

Santa Cruz: Kresge College Non-Academic – preliminary plans – $9,661,000 to be funded from housing auxiliary reserves ($8,127,000), student fee reserves ($1.2 million), parking auxiliary reserves ($100,000), and campus funds ($234,000).

D. ***Approval of Preliminary Plans Funding, Kresge College Academic, Santa Cruz Campus***

The President of the University recommended that the 2017-18 Budget for Capital Improvements be amended to include the following project:

Santa Cruz: Kresge College Academic – preliminary plans – $3 million to be funded from campus funds.

E. ***Approval of Preliminary Plans Funding, Parnassus Heights Health Sciences Instruction and Research Buildings Seismic Improvements, San Francisco Campus***

The President of the University recommended that the 2017-18 Budget for Capital Improvements be amended to include the following project:

San Francisco: Parnassus Heights Health Sciences Instruction and Research Buildings Seismic Improvements – preliminary plans – $5.5 million funded from campus funds.

F. ***Acceptance of the University of California 2018-19 Budget for State Capital Improvements***

The President of the University recommended that the 2018-19 Budget for State Capital Improvements be accepted as shown below:

		State General Funds Financed ($000s)	Phase
Berkeley	Giannini Hall Seismic Safety Corrections	$35,950	Construction
Davis	Teaching and Learning Complex	$50,000	Construction
Riverside	Student Success Center	$50,000	Preliminary Plans Working Drawings Construction Equipment
San Diego	Ridge Walk Academic Complex	$50,000	Construction
San Francisco	Health Sciences Instructional & Research Life Safety Improvements	$10,000	Construction
San Francisco	Health Sciences Instructional & Research Buildings Seismic Improvements	$37,000	Construction
Santa Cruz	Kresge College Academic	$2,800	Working Drawings
Systemwide	Northern Regional Library Facility Phase 4 Expansion	$30,000	Construction Equipment
	Capital Projects Total	**$265,750**	
2018-19 Systemwide State Deferred Maintenance Program		$35,000	
	TOTAL STATE FUNDS FINANCED	**$300,750**	

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

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

3. **ADOPTION OF REGENTS POLICY ON REPORTING STANDARDS FOR UNIVERSITY OF CALIFORNIA SIGNIFICANT INFORMATION TECHNOLOGY PROJECTS**

The President of the University recommended that the Regents: (1) adopt Regents Policy on Reporting Standards for University of California Significant Information Technology Projects, as shown in Attachment 1; and (2) delegate to the President the authority to establish, implement, and modify specific project development and reporting guidelines to support compliance with the policy.

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

Executive Vice President and Chief Financial Officer Brostrom introduced this item, the proposed Regents Policy on Reporting Standards for University of California Significant Information Technology Projects. This policy was developed in response to the August 2017 State audit of UCPath and information technology (IT) contracts. Vice President Andriola explained that the policy would require reporting to the Regents of IT projects with an estimated or actual cost of $5 million or greater. In their response to the State Auditor, Chair Kieffer and Compliance and Audit Committee Chair Zettel had stated that the Regents would implement reporting standards for significant systemwide IT projects by December 2017. Under the policy, reporting would occur no less than three times annually. A single report would be presented for all UC locations, with a list of all projects at or above the $5 million threshold; for projects at or above $25 million, the report would provide an overview of project budget, scope, schedule, risks, and any material changes.

Regent Sherman asked if the University had made a single overarching deal for all UC medical centers to install the Epic electronic medical records system. Mr. Andriola responded that the Epic software application is used at all five UC medical centers. The University currently had five independent contracts with Epic Systems, but was in negotiations, seeking to have Epic Systems recognize UC Health as one organization. He anticipated that this would take some time.

Regent Sherman asked how the University had arrived at five independent contracts; he asked if this had been a sequential process, with medical centers adopting the Epic software at different times. Mr. Andriola responded in the affirmative. The UC Irvine Medical Center was the last medical center to adopt Epic, and it shares the same application, one instance of the software, with UC San Diego and UC Riverside.

Regent Anguiano asked how the threshold of $5 million had been determined, noting that this might place a burden on the campuses. Mr. Andriola responded that this threshold amount was a recommendation by the State Auditor, and the University had discussed this threshold with the State Auditor. Regent Anguiano observed that projects in the range of $5 million are less likely to go over budget; the Regents’ attention should especially be focused on the larger projects.

Regent Park requested clarification of delegation of authority under this policy. She asked if the language stating that the President's authority may be redelegated to an executive vice president referred to any executive vice president or a particular executive vice president. Mr. Andriola responded that since the report would be made to the Finance and Capital Strategies Committee, it was his understanding that authority would be redelegated to the Executive Vice President and Chief Financial Officer.

Regent Park requested examples explaining language in the policy regarding the authority delegated to "modify specific project development, management, and reporting guidelines to support University locations in complying with this policy." Mr. Andriola responded that the University was currently working with the campuses and medical centers to create a set of reporting guidelines that cover different elements of an IT project. The guidelines would include best practices and templates. Regent Park asked if these guidelines would be developed without further approval by the Board. Mr. Andriola responded in the affirmative. Mr. Brostrom added that the State Auditor had found that UC had inconsistent IT project management guidelines and wished to see more consistency across UC campuses in this area.

Chancellor Gillman concurred with Regent Anguiano's remark that $5 million was a low threshold, although not burdensome, and projects in the $5 million to $7 million range were not trivial. After receiving these reports, the Regents would need to determine on which projects their time and attention would best be spent. Most often, it would be larger projects that would merit review and Chancellor Gillman hoped that there would be a "proportionality of attention" based on project cost.

Regent-designate Anderson referred to the UCPath project and asked about the University's contracting approach for these projects, specifically how UC would avoid project budget increases and make its contractors shoulder project risk. Mr. Andriola responded that this matter had been raised in the State audit. The State Auditor recommended that UC adopt the "deliverable expectation document," used by the State to define deliverables when beginning work with an outside party. The document allows for testing of all deliverables before a contractor is paid. The University was working to customize a version of this document for UC purposes. Mr. Brostrom observed that time, rather than contracting, had been a significant concern in the UCPath project. The project software and hosting had not been the major reason for the increase in cost of UCPath.

Regent-designate Anderson asked who ultimately has accountability for the IT projects. Mr. Andriola responded that UC locations are responsible for their projects. Mr. Brostrom and Mr. Andriola noted that some IT projects are systemwide projects with executive sponsors at the Office of the President.

In response to a question by Committee Chair Makarechian, Mr. Brostrom confirmed that the progress of UCPath would be reported separately from other IT projects.

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

4. **APPROVAL OF BUDGET, SCOPE, AND EXTERNAL FINANCING, RIDGE WALK ACADEMIC COMPLEX, SAN DIEGO CAMPUS**

The President of the University recommended that:

A. The 2017-18 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: Ridge Walk Academic Complex – preliminary plans and working drawings – $12 million to be funded from campus funds.

To: San Diego: Ridge Walk Academic Complex – preliminary plans, working drawings, construction, and equipment – $118,138,000 to be funded with external financing ($68,138,000) and external financing supported by State appropriations under the process described in Sections 92493 through 92496 of the California Education Code ($50 million).

B. The scope of the Ridge Walk Academic Complex project shall provide approximately 128,000 assignable square feet, including academic and administrative offices, instructional and seminar spaces, areas to support scholarly activity, as well as conference and collaborative spaces.

C. The President be authorized to obtain external financing in an amount not to exceed $68,138,000 plus additional related financing costs. The President shall require that:

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

(2) As long as the debt is outstanding, general revenues from the San Diego campus shall be maintained in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

(3) The general credit of the Regents shall not be pledged.

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

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

Chancellor Khosla described the current context of UC San Diego's development. In the last five years, the campus had increased its student population by more than 6,000, to about 36,000 students, and it might increase to 40,000 in the coming five years. Housing and rental rates were increasing from eight to 12 percent annually in this region. Given these costs, the overall cost of education for students, and the responsibilities of a public university, it was Chancellor Khosla's conviction that UC San Diego should become a residential campus as far as possible, with below-market rental rates for students. He envisioned a four-year housing guarantee for undergraduates and Ph.D. students at 20 percent below market. Two of the San Diego action items to be considered by the Committee that day were the second and third parts of a grand housing plan. UC San Diego had just opened a new housing project with 1,350 new beds; when the campus publicized the availability of these spaces, it had a wait list of 3,000. The available spaces were sold out within 20 minutes, and the wait list again increased to 3,000. He expressed enthusiasm about the campus' housing strategy. In addition to the two housing projects, the campus was seeking approval for the Ridge Walk Academic Complex project to construct two academic buildings. This project also reflected the vision for the campus' future, with mixed-use buildings, classrooms, offices, and residential units distributed across the campus in a living and learning community.

Vice Chancellor Pierre Ouillet recalled that the Regents had approved the budget and external financing for the North Torrey Pines Living and Learning Neighborhood in July 2017. The campus had decided to separate a portion of this project into a separate project, the Ridge Walk Academic Complex, for which it would seek State funding as well as external financing.

Referring to the background materials provided, Regent Anguiano noted that the campus projected that its ratio of debt service to operations would rise to six percent in 2022, the threshold rate. She asked how high the ratio would be in the preceding and following years, and how this would affect the campus' future plans for debt financing. Mr. Ouillet responded that the six percent ratio was for the campus' entire capital plan, including projects for which the campus had not yet sought approval. The six percent ratio in 2022 would be a peak and the ratio would decline thereafter.

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

5. APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, NUEVO WEST GRADUATE STUDENT HOUSING, SAN DIEGO CAMPUS

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed Nuevo West Graduate Student 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 the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Finance and Capital Strategies Committee:

A. Certify the Environmental Impact Report for the project.

B. Adopt the Mitigation Monitoring and Reporting Program and CEQA Findings based on the analysis of environmental impacts presented in the Environmental Impact Report for the Mesa Housing Nuevo West and East Student Housing Projects.

C. Approve the design of the Nuevo West Graduate Student Housing Project, San Diego Campus.

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

Chancellor Khosla reiterated that UC San Diego had just opened 1,350 beds in the Mesa Nueva project. Nuevo West Graduate Student Housing and the following item represented two more phases of that project, adding approximately 2,000 more student housing spaces.

Upon motion duly made and seconded, the Committee approved the President's recommendation.

6. **APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, NUEVO EAST STUDENT HOUSING, SAN DIEGO CAMPUS**

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed Nuevo East Student 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 the Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Finance and Capital Strategies Committee:

A. Certify the Environmental Impact Report for the project.

B. Adopt the Mitigation Monitoring and Reporting Program and CEQA Findings based on the analysis of environmental impacts presented in the Environmental Impact Report for the Mesa Housing, Nuevo West and East Student Housing Projects.

C. Approve the design of the Nuevo East Student Housing Project, San Diego campus.

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

UC San Diego Vice Chancellor Pierre Ouillet stated that both the preceding item, the Nuevo West Graduate Student Housing Project, and this item, Nuevo East Student Housing Project, were consistent in design with the Mesa Nueva housing complex.

In response to a question by Committee Chair Makarechian, Chancellor Khosla explained that the three housing projects just mentioned by Mr. Ouillet together would provide a total of 3,500 student beds. Mr. Ouillet estimated that the campus currently housed between 35 and 40 percent of its students. With the completion of these two graduate housing projects, UC San Diego would house about 45 percent of its students, and when the North Torrey Pines Living and Learning Neighborhood was complete, including undergraduate housing, the campus would house around 50 percent. The campus' goal was to reach 60 percent and the four-year guarantee mentioned earlier by Chancellor Khosla.

Regent Sherman asked if the campus was receiving any quantity discounts or economies of scale for the hard costs of construction. Assistant Vice Chancellor Joel King affirmed that there were economies of scale. These projects were essentially three phases of one large graduate student housing project, which has been procured through a fixed price design build process, with favorable rates per square foot and per bed, relative to other projects.

Regent Sherman asked by how much costs had been reduced compared to the project for the first 1,350 beds. Mr. King responded that UC San Diego was experiencing project-to-project savings of just under five percent due to economies of scale, marginally lower than the escalation of labor and building material costs.

Regent Anguiano referred to the environmental impact of these projects and asked about the campus' relationship with the surrounding community and the community's reaction to these projects. Mr. King responded that UC San Diego had a good relationship with the community and the community planning group. The community had concerns about the impact on the local school district by the numbers of children who would be moving into the neighborhood, the children of graduate students. There had been a great deal of cooperation with the community on designing the bulk, scale, and color of the buildings.

Chancellor Gillman asked about the campus' promise to provide student housing at 20 percent below the market rate and how it had arrived at this number. He asked to what extent this percentage was determined by generic and scalable practices of design and construction that could be applied systemwide, and to what extent it was the product of a regional dynamic, in which the costs of construction may be the same, but markets are unique. He asked if the 20 percent promise was based on unique market circumstances that not every campus could duplicate. Committee Chair Makarechian stressed that UC San Diego had free land; land can represent 20 to 30 percent of the total cost of projects. Chancellor Khosla confirmed this last point. He emphasized that housing expenses are a large part of the total cost of education for students. Land was granted to UC San Diego as a public institution, and in his view the campus owes something to students and the community.

Student Observer to the Finance and Capital Strategies Committee Carey Hughes commented that students' debt on graduation in California may sometimes be higher than many families' mortgages in other states. Many students also need loans to cover their housing expenses. Some UC law students would graduate with $25,000 or even up to

$50,000 in housing debt. This amount of debt can limit a student's ability to pursue certain opportunities after graduation. Mr. Hughes asked that the Regents keep these considerations in mind as they evaluate future student housing projects. Committee Chair Makarechian responded that all members of this Committee were eager to lower the cost of housing for students.

Committee Chair Makarechian referred to floor plans for the Nuevo West and Nuevo East projects shown on slides, and asked why the amount of living room space was the same for units with different numbers of bedrooms, from one to four bedrooms. Executive Director Mark Cunningham responded that in general, graduate students do not spend much time in their living spaces. A goal incorporated in the architecture of these projects was to encourage students to spend time in common areas and socialize with other students in shared spaces, rather than remaining in their rooms. He acknowledged that this was a kind of social engineering, but expressed satisfaction in the fact that large numbers of graduate students gather together for events in these common areas.

Committee Chair Makarechian stated that based on the size of the living rooms, the construction costs should be much lower than the market, and the rates for students should be 25 to 30 percent below market, rather than 20 percent. Chancellor Khosla responded that UC San Diego was promising a rate of 20 percent below market, but that the units just released were more than 20 percent below market. Mr. Ouillet added that the monthly rental cost to students of $750 was significantly less than 20 percent below market in San Diego.

Regent-designate Anderson praised actions taken by UC San Diego to make student housing more affordable, actions that should be emulated in other UC locations. He asked about the maintenance contracts the campus would have for these housing projects. Mr. Cunningham responded that UC San Diego provides its own maintenance. Due to the coordinated, comprehensive approach taken to these housing projects, Housing and Dining Services had been able to downsize its staffing and was an efficient organization. Maintenance was based on regular work orders, and the campus had one- or two-year warranties with the contractor. When the campus took over maintenance, it would consider renovations between tenants and certain repairs on an eight-year schedule, a procedure comparable to the private sector. In response to another question by Regent-designate Anderson, he confirmed that the warranties continued for a negotiated period, even when the campus had taken over maintenance.

Upon motion duly made and seconded, the Committee approved the President's recommendation.

7. **TRITON PAVILION FOR STUDENT RESOURCES AND COMMUNITY ENGAGEMENT, SAN DIEGO CAMPUS**

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

Chancellor Khosla explained that this project, the Triton Pavilion, would be in a strategic location. It would serve as a gateway to the campus and bring together student services and UC San Diego's Extension program.

Committee Chair Makarechian asked why the project had a low floor area ratio but a high number of parking spaces, even though this location was close to a San Diego light rail station. Assistant Vice Chancellor Joel King responded that the parking spaces would be needed by Extension students. The number of parking of spaces, 300, was low relative to the total square footage. Campus planners were sensitive to the scale and bulk of new buildings in this part of the campus, which might compete with buildings like the Geisel Library.

Committee Chair Makarechian commented that building parking spaces underground as stated in the materials is more expensive than at ground level, and stressed that UC San Diego should encourage its visitors to use the city's light rail system rather than coming to the campus by car. Chancellor Khosla responded that the campus determined that it needed a certain number of parking spaces located directly here. The campus could reexamine the proposed number of spaces.

Committee Chair Makarechian urged the campus to explain its reasons for building this number of underground parking spaces when it presented this project again at a future meeting, as well as the low floor area ratio. Chancellor Khosla responded that the campus did not wish to build a structure that would overshadow iconic buildings in this area of the campus or create a concrete jungle. These questions would be addressed in a future presentation.

Regent Lemus referred to the earlier Ridge Walk Academic Complex item and complimented the campus on its efforts on mixed-use projects. He asked if the Triton Pavilion would include mixed-use elements. Mr. Ouillet responded in the affirmative. The project would include eateries, a clinical facility, and a revised version of the campus bookstore, and would serve as a welcome center for visitors.

8. **AUTHORITY TO INDEMNIFY PIONEER HI-BRED INTERNATIONAL, INC. FOR POTENTIAL THIRD-PARTY CLAIMS ARISING FROM AGREEMENT IN WHICH PIONEER IS TO PROVIDE CORN AND SORGHUM MOLECULAR TRANSFORMATION SERVICE FOR PLANT PATHOGEN RESEARCH PROJECTS, DAVIS CAMPUS**

The President of the University recommended that the President be authorized to approve and execute a Service Agreement with Pioneer Hi-Bred International, Inc. which contains an indemnification provision by which the University would have to defend, indemnify, and hold Pioneer harmless for claims and expenses brought against Pioneer as a result of the University's provision of input material to Pioneer and University's use of the transformed material provided to it by Pioneer, except in the case of gross negligence or misconduct by Pioneer.

Due to the time involved in generation and analysis of transgenic plants, and the anticipation that the Michelmore Laboratory's research in this area will last at least through June 30, 2022, UC Davis respectfully requested that the permission granted in this item include permission to enter into future Service Agreements with Pioneer, with identical or substantially similar indemnification provisions, through June 30, 2027.

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

Committee Chair Makarechian asked about the total dollar amount involved in this proposed service agreement. Executive Vice President and Chief Financial Officer Brostrom explained that each procedure would cost approximately $12,000, a small dollar amount. The indemnification in this agreement required approval by the Regents. Mr. Brostrom suggested that the University develop a material threshold for indemnifications requiring Regents' approval.

Committee Chair Makarechian asked about risks in this agreement. UC Davis Senior Campus Counsel Kirsten Stevenson responded that in the campus' assessment there was only a very negligible risk in this agreement. Pioneer Hi-Bred International (Pioneer) would be providing a service that the campus regularly performs on its own for other plant species.

Committee Chair Makarechian asked about the total dollar amount of risk and of the indemnity. Ms. Stevenson responded that she did not know the dollar amount of risk; there was not a total indemnity amount.

Professor Richard Michelmore explained that the service to be provided was a procedure to generate transgenic plants. UC Davis researchers wished to place multiple different genes into corn and sorghum. UC Davis was not able to carry out this procedure on the campus for these plant species, although it can and does for other species, and Pioneer has efficient proprietary technology. This project would have tremendous humanitarian value and an impact on global food supply stability.

Committee Chair Makarechian asked about the term of the agreement. Mr. Brostrom responded that the agreement applied only to this one company and one procedure. It was not clear how a third-party claim could arise. Committee Chair Makarechian suggested that there might be future litigation about genetically modified foodstuffs. Ms. Stevenson responded that any genetically modified plants would have to undergo many years of testing and receive approval from the U.S. Food and Drug Administration before they became available in the food supply and could give rise to third-party claims.

Committee Chair Makarechian suggested a scenario of future litigation against Pioneer; in such a case, Pioneer would collect up to $10,000 from the University per procedure. Ms. Stevenson responded that to her knowledge, this was not what would occur. Mr. Michelmore added that Pioneer would simply be providing a service, analogous to car repair. The University would be indemnifying Pioneer for generating these plants.

Mr. Brostrom emphasized that in this case UC Davis would be outsourcing one service, and the service provider wished to be indemnified.

Regent Sherman asked if Pioneer could be liable for gross negligence. Ms. Stevenson and Mr. Michelmore responded in the affirmative. Mr. Michelmore stressed that this was a routine procedure and negligence was unlikely. Regent Sherman asked if other vendors receive similar indemnity. Mr. Michelmore responded that other service providers would not accept liability and that Pioneer's provisions were reasonable. Regent Sherman asked if there was a time limit for Pioneer to seek indemnity. Ms. Stevenson responded that there was not a limit, but that such an action would be subject to the normal statute of limitations, two to three years in the case of a negligence claim.

Staff Advisor Valdry asked why indemnification was needed for this vendor. Ms. Stevenson responded that this service provider was unique for its ability to provide this service. In the closed universe in which this service would be occurring, third-party claims were very unlikely.

In response to a question by Regent-designate Morimoto, Committee Chair Makarechian and Mr. Brostrom responded that indemnification matters are routinely brought to the Finance and Capital Strategies Committee.

Committee Chair Makarechian asked how often the procedure would be performed. Mr. Michelmore responded that it would likely be performed between ten and 20 times.

Regent Park asked if action on this item could be delayed until the next Regents meeting. Mr. Michelmore responded that this research project had been in preparation for at least a year and would be stalled without the Regents' approval.

Chancellor Hawgood expressed support for Regents' approval of this item, given that the indemnification appeared to be a standard requirement and risk seemed negligible.

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

9. ACCEPTANCE OF THE 2017-27 CAPITAL FINANCIAL PLAN

The President of the University recommended that the *University of California 2017-27 Capital Financial Plan* be accepted.

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

Executive Vice President and Chief Financial Officer Brostrom explained that this item concerned the University's ten-year capital program, but that the discussion would focus on capital needs over the five coming years. The University had identified a capital need of $27.6 billion for this time period, but had not identified a funding source for one-third of the need. About $4.5 billion in funding would come from public-private partnerships.

Associate Vice President Sandra Kim recalled that past UC capital financial plans generally presented the portion of the program for which funding had been prospectively identified. The current plan took a somewhat different approach, articulating the campuses' full capital need. The campuses' funded capital program for the five-year term amounted to $14.8 billion, three-quarters of the University's proposed capital plan. The two largest fund sources would be external financing and public-private partnerships. Funding identified for medical center projects for the same term amounted to approximately $4.4 billion, and relied primarily on medical center reserves and philanthropic gifts. The campuses currently estimated their unfunded need at about $8.5 billion. The amount of unfunded needs for the medical centers would be identified in future capital financial plans. In the current term, the medical centers showed fairly level investment using hospital reserves and some amount of external financing to address capital renewal, and some seismic improvements and program expansion projects. Increases in the medical centers' capital plans were related to expansion of some outpatient clinics.

Ms. Kim then compared the 2016 capital financial plan with the current plan. The previous year's plan included the landmark $1.3 billion Merced 2020 Project. She briefly reviewed figures for campus educational and general projects, campus auxiliary enterprises, and medical center projects.

As the UC system approaches capacity constraints, the public-private partnership delivery model has taken on a greater role in capital plan implementation. Public-private partnerships prospectively made up approximately 20 percent of UC's capital plan with identified funding sources. She presented a list of a number of public-private partnership projects to develop student housing at the Davis, Riverside, and Santa Cruz campuses that would likely be brought to the Regents for approval in early 2018.

Ms. Kim concluded by remarking on UC State-eligible capital needs that remained unfunded. The University was using a variety of funding strategies to fill the gap for State-eligible projects, but approximately half of this funding need still had no identified alternative funding source. Mr. Brostrom added that State-eligible projects made up nearly two-thirds of the approximately $8.5 billion of UC's capital projects for which no funding had been identified. He emphasized that in the case of projects funded with external financing due to lack of State support, chancellors are forced to decide to fund a capital project rather than using funds for other operating needs, such as faculty hiring or graduate student support.

Committee Chair Makarechian remarked on the sadness of this situation; State underfunding of UC's capital program was affecting the University's educational mission. Mr. Brostrom recalled that UC had not received general obligation bond support since 2006, and no lease revenue bond since 2011. During this time, the University had carried out about $3 billion in State-eligible projects using its own balance sheet, managing this effectively, but as a trade-off with its own operating budget.

Chancellor Hawgood asked about the percentage of external financing derived from Century Bonds. Ms. Kim responded that UC's Century Bonds totaled about $1.4 billion of $20 billion in primary credits outstanding. Chancellor Hawgood asked if all Century Bonds were being used for capital projects. Ms. Kim responded in the affirmative.

Chancellor Blumenthal observed that most campuses also rent space off campus and use operating funds to cover this cost. He asked about the amount of this expense annually for the UC system. Ms. Kim responded that capital leases are incorporated in the analysis of individual campuses' debt and affordability models. An aggregate number would be found in the financial statements. Mr. Brostrom added that figures for individual campuses could be provided. He recalled a strategy employed by UC during the economic downturn of buying buildings using tax-exempt finance. The overall occupancy cost would be lower than the lease cost, and the University would own the building after the term of the debt.

Regent-designate Morimoto referred to the $8.4 billion of UC's capital projects for which no funding had been identified. He asked if this was the largest the unfunded capital plan amount had been over the past five to ten years. Ms. Kim responded that previously, the University had not articulated this unfunded amount. The capital financial plan is meant to present capital projects with a corresponding funding plan. At this point, the University believed that it was important to identify this funding gap for the Regents and the public.

Regent Lemus asked if any of the unfunded projects might be candidates for public-private partnerships, and if there were any near-term opportunities. Ms. Kim responded that this might be the case for some projects. This was a challenging process, and an important factor was the campuses' debt capacity projections. Mr. Brostrom added that public-private partnership models are effective in terms of overall occupancy costs, but one must have a revenue source to make availability payments. He noted that Ms. Kim had undertaken a systemwide inventory of deferred maintenance needs, and this would allow the University to state the amount of these needs. UC would also be able to quantify its seismic needs. With these defined needs, the University would be in a better position to request funding from the State, perhaps in conjunction with other entities such as the California State University. In response to another remark by Regent Lemus, he confirmed that UC was using and would consider further using existing equity in parking, energy, or other enterprises to fund these liabilities.

Regent-designate Anderson referred to the lack of sufficient classroom and research space on campuses. He asked if any facilities could be repurposed, while recognizing that utilization rates were high. Mr. Brostrom responded that the campuses were reexamining their classroom needs in the context of changes in how education is delivered. There was a need for more classrooms and more teaching laboratories. With regard to utilization rates, he described most campuses as fully booked. Chancellor Blumenthal reported that current classroom utilization rates on the Santa Cruz campus were well over 100 percent; some large lecture halls had 140 to 150 percent utilization rates.

Committee Chair Makarechian asked how utilization rates are defined. Chancellor Blumenthal responded that the rates are determined on the basis of a typical week.

Mr. Brostrom noted that the rates are based on a 35-hour-per-week standard, and that one of the motivations for the Merced 2020 project was that classes at UC Merced were being conducted from 7:00 a.m. until 11:00 p.m. and on Saturdays, and using spaces that were inappropriately sized for certain classes.

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

10. **UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2017**

The President of the University recommended that the Regents adopt the 2016-17 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers.

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

Associate Vice President Peggy Arrivas presented the 2016-17 annual financial reports for UC. A significant change in this year's financial statements was related to the adoption of a new accounting standard for retiree health benefits; the entire liability of approximately $19 billion was now reflected on the University's balance sheet. A second significant change was driven by investment market results. UC's financial position is closely correlated with its investment portfolio. Due to strong performance in the portfolio for both the University and its pension plan, results were positive for this year.

Committee Chair Makarechian observed that the expenses for salaries and benefits had decreased from 2016 to 2017. Ms. Arrivas explained that this decrease was mainly due to this year's return on the pension plan, 14.5 percent. The pension expense recognized under accounting standards decreased significantly, while there were increases in actual salaries and retiree health costs. In response to a question by Committee Chair Makarechian, Ms. Arrivas clarified that a chart in the background materials showing figures for "salaries and benefits" represented the total of salaries, pension costs, and retiree health costs.

Regent Sherman asked about changes to the University's position on a cash basis, noting that there were many non-cash items in the financial statements. Ms. Arrivas responded that the largest accrual in expenses was for retiree health, where the expense was five times the actual cost per year, while the contribution to the pension plan was close to the expense.

Regent Sherman asked if one could make a simple adjustment from the Governmental Accounting Standards Board (GASB) definition of changes in net position to determine cash flow. Ms. Arrivas responded that the GASB standard in this area is not easily understandable, and that GASB was reconsidering its guidance.

Regent Sherman asked if the University produces reports for rating agencies on cash flow, reports that would help prevent an unexpected cash emergency. Executive Vice President and Chief Financial Officer Brostrom responded that the University discusses this matter in depth with the rating agencies. Campuses set their own reserves, but the UC system also must maintain a certain amount of liquidity and working capital to maintain its ratings.

Regent Sherman asked if the University produces covenant compliance reports. Ms. Arrivas responded that UC only has a revenue covenant, not a debt service covenant, and the covenants require only an annual financial report. Mr. Brostrom added that UC has an internal covenant; both the medical center lien and the housing lien are systemwide liens. The University wishes to ensure that all campuses are in compliance so that they do not impinge on one another's debt service.

Regent Sherman asked how the University would avoid unexpected problems in the future, such as the deficit discovered at UC Berkeley, and what kind of information the Regents might receive to indicate developments of concern at one campus or for the system. Mr. Brostrom responded that UC was developing a dashboard report, broken down by campus, for presentation to the Regents a few times a year. He acknowledged that the UC annual financial reports present aggregate data and these data may not reveal issues on a particular campus. The Financial Accounting department at the Office of the President produces a report on revenues and expenses broken down by campus. Regent Sherman noted that the Health Services Committee was receiving somewhat similar reports for the medical centers. He suggested that the Regents receive a report like this for the campuses, with adjustments for non-cash items, given that there were probably significant accruals distributed to the campuses for non-cash items. Ms. Arrivas responded that the dashboard report would include a five-year trend, and the report could show totals without the large accruals for pension and post-retirement benefits.

Committee Chair Makarechian asked about the reason for the fluctuation in the net retiree health benefits liability over the three years from 2015 to 2017, from $18 billion to $21 billion to $19 billion. Ms. Arrivas responded that this was tied to the discount rate. Because the retiree health benefit plan is unfunded, the University uses a bond index rate rather than an investment portfolio rate of return, and the bond index rate fluctuates from year to year. In response to a question by Committee Chair Makarechian, she confirmed that this reflected a new GASB requirement. Committee Chair Makarechian asked if the discount rate for pension liabilities would be used for reserves set aside. Ms. Arrivas responded that UC would use the discount rate to the extent that it had assets sufficient to pay the liabilities. This would require a substantial amount of assets over a long period of time. Committee Chair Makarechian reflected that this fluctuation in the bond index rate from year to year could cause the University to move to a negative net position. Ms. Arrivas agreed that this was possible.

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

11. **UPDATE ON THE 2020 PROJECT, MERCED CAMPUS**

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

Chancellor Leland recalled that UC Merced had broken ground on its 2020 Project one year earlier. The 2020 Project would create a significant expansion of the campus, adding student housing, classrooms, research buildings, and roads. The 2020 Project was akin to building a small city, and it was being accomplished through a unique kind of public-private partnership. The project development structure was focused on addressing life-cycle costs. Since the groundbreaking, the construction site has been a place of dramatic transformation. Infrastructure, roads, and buildings were being developed simultaneously. More than 400 construction workers were working six days a week in order to complete the project on time. The campus' development partner was under an obligation to meet an aggressive, three-phase delivery schedule. Completion of a new dining facility and the first housing buildings would occur in time for the fall 2018 semester. One year later, in 2019, two academic buildings would be added, and by fall 2020 UC Merced would have achieved substantial completion of the project with additional classrooms and new student life facilities. The new buildings would be clustered to preserve a close sense of community, and every building would achieve at least a Leadership in Energy and Environmental Design (LEED) Gold rating for energy efficiency. Most buildings would have mixed-use programming. Currently, the project's primary focus was on delivering the first three facilities, which would provide more than 700 new beds and a 600-seat dining facility. As of October, the dining facility was 47 percent complete; it would be ready by July 2018. The six-story, 590-bed residential hall was 51 percent complete and would also be ready by July 2018. A second residential building with 120 beds was now 45 percent complete, and was anticipated to be ready by fall 2018. For every element of the project, the onsite campus-led project management team was tracking the developer's progress regularly.

Executive Vice President and Chief Financial Officer Brostrom drew attention to the fact that the budget and scope of the project had remained unchanged since Regents' approval in July 2016. At the suggestion of the Regents, the developer was required to post a 100 percent payment and performance bond for the construction costs. This requirement was satisfied as part of the execution of the project agreement. The University also required that the developer complete $150 million of work before UC began any progress payments. As of October, the University had made about 19 percent of the total progress payment commitment to the developer or $116 million using external financing and had expended just over $14 million in campus funds, while the developer had expended $235 million. Work on the ground continued to be tracked by the campus, the Office of the President, and the developer's lenders. Monthly progress reports were posted on the project website.

Chancellor Leland described the project's oversight and governance structure. The campus was drawing on the expertise of a firm with global experience in managing projects of this type. The internal governance structure included a board comprised of the Chancellor's entire senior team that meets weekly, onsite subject matter experts who act as liaisons to campus constituencies, particularly important during the design review phase, and a project team charged with day-to-day oversight. Any modification of the comprehensive contract or any changes to design must be approved by the Chancellor. The model had been effective so far in allowing UC Merced to honor the University's obligations under the agreement, to control the impact of change requests, and to respond in a timely manner to questions that have arisen during the design and construction. The campus was now considering how the new buildings would be used, and this required a reexamination of total use of campus space in order to determine which functions are best placed in which location.

Chancellor Leland recalled that initially, the Merced 2020 Project was conceptually although not financially tied to another project, the creation of a downtown campus center. This building would be open in January 2018 and house 300 staff. This project had already spurred some economic development in downtown Merced, including a new boutique hotel that would serve visitors to conferences and campus events.

Chair Kieffer described Merced 2020 as the most exciting project in the UC system at this time. Chancellor Leland emphasized that the campus' relationship with the development partner was of crucial importance. The campus has had disagreements with the developer, but these had been resolved. An essential condition for the campus was on-time delivery.

In response to a question by Chair Kieffer, Chancellor Leland identified Plenary Partners Merced as the developer, a subsidiary of the Plenary Group. The campus' relationship was with the developer. The developer has a relationship with its banks as well as with the construction component and the operation and maintenance component of the project. It is entirely the developer's responsibility to ensure that its contractors perform as specified. The construction contractor was Webcor Builders. She stated her view that Plenary was dedicated to the success of the project, since Plenary's reputation depended on it.

Committee Chair Makarechian reflected on the process and work leading to the development of the Merced 2020 Project. There was still a long path ahead, including operations.

Regent-designate Graves asked how students were engaged or consulted in the development of this project. Chancellor Leland responded that end users provide feedback in the design phase. A student committee worked with the Vice Chancellor – Student Affairs when the initial designs were produced for the residence halls. Students were also involved in the phase that the campus was now launching, determining the best locations for different functions. For example, students' concerns about the location of the multicultural center would be addressed in this phase. At the very beginning of Merced 2020, the leadership of every student organization was invited to take part in over two weeks of meetings. The student perspective was valuable regarding space needs and elements that students felt were currently lacking, such as informal meeting spaces. Mr. Brostrom added that the campus had designed and was carrying out this project in a way that had little impact on the existing campus and was not disruptive to current students.

Regent-designate Anderson asked about the revenue sources for the project, such as housing, dining, and research. Mr. Brostrom responded that all three of these sources were being used. About 50 percent of the financing came from the developer for its own private development. The University was issuing general revenue and limited project revenue bonds for the auxiliary enterprises. The auxiliaries were supported by housing, parking, and other auxiliary sources. The general revenue bonds were backed by campus revenues and a systemwide pledge. The University uses approximately $15 million annually from its State General Fund appropriation to back these AB 94 general revenue bonds. State General Funds would be the source for debt service and for availability payments. After construction there would be a 35-year term during which UC would make availability payments to the developer for beneficial occupancy. The project would be supported by both campus revenues and systemwide support. In response to another question by Regent-designate Anderson, Mr. Brostrom explained that the proportion of these two sources of support would vary over time; on the whole, the campus would provide about 60 percent of the support, and the UC system 40 percent.

12. **REPORT OF BUDGET TO ACTUAL EXPENDITURES FOR FISCAL YEAR 2016-17 FOR THE 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.]

Regent Park referred to background materials provided for this item, specifically a chart showing figures for “Strategic Priorities Fund Balance Trends.” She asked about the reason for growth in the category of “multi-year commitments” from $39 million in the May 2017 projection to the revised projection for fiscal year 2017-18 of $50.6 million. Executive Vice President and Chief Operating Officer Nava explained that the category of multi-year commitments included support for the UC Riverside School of Medicine, a ten-year commitment, as well as shorter-term projects, and urgent funding needs. When the Office of the President (UCOP) moved to multi-year budgeting, tracking and accounting for these commitments would become easier. Executive Director David Baltaxe explained that when the UCOP budget was first presented, UCOP had $39 million in identified commitments. The revised projection included placeholder assumptions for projects whose costs needed to be better defined. Regent Park asked if these projects could be identified. Mr. Baltaxe responded that the placeholder assumptions were for financial systems projects concerning general ledger and budget development.

Regent Park asked about the scheduling of work on the UCOP reserve policy. Ms. Nava responded that this matter would be brought to the January 2018 meeting.

In response to a question by Committee Chair Makarechian, Associate Vice President Peggy Arrivas explained that a chart in the background materials, the “Comparison of audited statement of revenues and expenses to UCOP budget to actuals” for fiscal year 2016-17 showed the differences between the UCOP-only financial statement that was prepared and presented to the Compliance and Audit Committee and the UCOP budget as presented. Certain items in the UCOP-only budget are netted. All the revenues and expenses for these items were shown in the UCOP-only financial statement. The UCOP financial statement was prepared following Governmental Accounting Standards Board standards and presented on the same basis as the University financial statements. Items in the audited statement that were not in the budget reflected certain services performed at UCOP. In the future the UCOP budget would be more consistent with the audited statement. Committee Chair Makarechian emphasized the need for clarity and consistency in budgets and financial statements. Ms. Nava added that all these elements would be included in the UCOP budget presentation at the May 2018 meeting.

In response to a question by Regent Sherman, Ms. Arrivas confirmed that the same chart showed totals without the accruals for pension and post-retirement benefits, which amounted to about $25 million.

Regent Sherman then referred to the chart showing figures for "Strategic Priorities Fund Balance Trends." The revised projection for fiscal year 2017-18 showed a starting reserve balance of about $30 million, but interest income of $16 million. He asked why the amount of interest income was so large. Ms. Nava responded that the interest income was a reflection of the investment market. UCOP had not budgeted for this income at the beginning of the fiscal year because the prior year's returns had not been as favorable. In the future, UCOP would include interest income projections in its budget, adjusted when actuals are available.

In response to another question by Regent Sherman, Ms. Arrivas confirmed that this interest income was not related specifically to the Strategic Priorities Fund balance; it related to all the assets held by UCOP. Regent Sherman asked if, when a reserve for a certain program is not spent, the interest earned on those funds does not accrue to that program but is directed to a central pool. Ms. Arrivas responded in the affirmative. She noted that in the case of certain funds, interest must be credited back to these funds; this was the case for federal funds held by UCOP and funds with such a stipulation by the donor. Interest for all other funds without such a restriction are swept to the central pool.

Committee Chair Makarechian recalled that UCOP may have 500 line items for restricted funds. Ms. Arrivas explained that these 500 include both open and closed funds. The closed funds are no longer used, so the number was somewhat overstated. UCOP must have a separate fund for each contract or grant, because expenditures must be tracked separately. Separate fund numbers are also needed for donor gifts; in this way UCOP can track spending and ensure that it complies with donor requirements. Given these considerations, the actual number of restricted funds was smaller.

Committee Chair Makarechian asked how long UCOP maintains restricted funds with only a very small amount of money. Ms. Arrivas responded that UCOP keeps these until they are spent. A contract and grant fund typically covers a three- to five-year program; sometimes these are annual programs, with a new fund opened each year. Regarding gift funds, if UC receives an endowment, it is kept permanently until it is spent. She acknowledged that UCOP should work on ensuring that these funds are spent in a reasonable amount of time.

Committee Chair Makarechian asked if these funds would be included in the figure for UCOP reserves. Ms. Arrivas responded that these funds – contracts and grant funding, and donor funds – would be included in the restricted reserves. Committee Chair Makarechian asked about the total amount of these restricted reserves, and stated that this amount should be shown in future presentations. Mr. Baltaxe added that the balance of these restricted funds was about $108 million.

13. **UCPATH UPDATE**

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

Regent-designate Graves expressed concern that all Regents were not informed sooner about the plans to delay UCPath deployment at UCLA and asked that Regents receive email notification in the future about such matters. Executive Vice President and Chief Financial Officer Brostrom explained that the decision to delay deployment was subject to a governance process, with the decision made by President Napolitano and Chancellor Block in October.

Chancellor Block reported on the change in timeline for UCLA's deployment of UCPath. He recalled that UCLA had played an important role in the successful implementation of UCPath at the Office of the President (UCOP). The UCLA team was continuing to work closely with the UCPath team at UCOP to ensure successful implementation at UCLA and other pilot campuses. In September, UCLA realized that it was increasingly unlikely that the pilot campuses would be able to complete successful deployments by January 1 if UCLA, with its size and complexity, remained in the pilot group. UCLA has over 48,000 employees. The vast UCLA medical enterprise includes unique compensation structures not found at the other pilot campuses UC Merced and UC Riverside. The UCLA UCPath team identified data conversion defects in September and concluded that these defects could not likely be resolved within the implementation time frame. Delaying implementation at UCLA freed up the central UCPath project team to dedicate nearly all its resources, including some from UCLA, to resolve data conversion defects affecting the Associated Students UCLA (ASUCLA), UC Merced, and UC Riverside. The central team had already experienced faster testing runs and defect resolution with the smaller pilot data set. The UCLA team had proposed an implementation date of September 2018, which takes into account additional coding required to ensure an accurate and timely payroll for UCLA employees. This proposal would be vetted through the UCPath governance structure, along with a reevaluation of the implementation schedule for the remaining campuses. Chancellor Block emphasized UCLA's eagerness and need to implement UCPath, and the need to ensure that employees are paid correctly.

Associate Vice President Mark Cianca recalled that when UCPath was implemented at UCOP, roughly 70 percent of the functionality of the system had been designed and built, sufficient to address the employee payroll obligations at this location. When UCPath is implemented at the campuses, it would take on payroll issues associated with academic employees, student employees, and health sciences employees, and the complexity would increase, particularly with regard to how various fund sources are used for academic payroll line items. The pilot campus deployment had a dual purpose: moving legacy employee records from the existing PPS system into UCPath, and the careful building of new components of UCPath. Once UCPath had been implemented at the pilot campuses, the building of the system would be materially complete. The focus for the remaining campuses would no longer be on the “design and build” aspect, but on converting legacy records into UCPath and ensuring that these campuses can accept data feeds from UCPath. The work that remained to be done at UCLA mostly concerned conversion of complex legacy data rather than building and testing functionality. The UCPath team was discussing deployment strategies with other campuses in response to UCLA’s proposal for a new implementation date of September 2018, and seeking to understand if there were changes at the campus level that might affect the planned sequence of deployments. He anticipated that a revised timeline would be presented at the January 2018 meeting. Mr. Cianca noted that UCPath deployment was in the final phase for the Merced and Riverside campuses and described details of this timeline, including the expectation that the first paychecks through the UCPath system would be issued in early January.

Committee Chair Makarechian asked about the nature of the conversion defects at UCLA. Mr. Cianca responded that some of these defects were due to the complexity of records for employees who participate in the Health Sciences Compensation Plan. The records for this group of employees change significantly over time, and the data conversion also had to account for fund restrictions. This process was not converting static data, but a history of how funds had been managed. UCPath had to capture a certain amount of data to ensure successful conversion. He acknowledged that in this case at UCLA, it would have been more effective to convert these data by manual conversion rather than with software.

Committee Chair Makarechian stressed that the University must have known about this complexity in advance. Mr. Cianca observed that in converting data from 35 years of UC’s payroll processes, one discovers issues that may have been resolved but not documented in written form. One discovers errors and discrepancies between how data should have been entered and how data were in fact entered and managed.

Committee Chair Makarechian asked if UCPath deployment could have been undertaken for the entire UCLA campus except the medical center. Delay would be costly, and there was no directive requiring that deployment for all of UCLA including the medical center be completed at the same time. Mr. Cianca responded that this bifurcated approach would have reduced risk. He commented on reasons for the original sequencing of the UCLA deployment; other campuses felt that if UCPath could successfully be deployed at UCLA, they would have confidence in deployment at their own locations. UCLA Administrative Vice Chancellor Michael Beck added that the campus had considered a separate deployment for UCLA’s medical enterprise. A tremendous effort would be required to separate these data. UCLA was working on separating UC Merced’s payroll, which was currently still managed at UCLA in the PPS system. This process took time, and UCLA felt that there was not sufficient time remaining to separate the medical enterprise data from the campus data.

In response to another question by Committee Chair Makarechian, Mr. Cianca explained that the UC system was using 11 versions of PPS. At the campuses with medical centers, the campus and medical center share the same PPS environment.

Committee Chair Makarechian asked why UCLA had been chosen for this stage of UCPath deployment. Mr. Cianca responded that UCLA was interested in being able to influence the design of the UCPath system and in ensuring that UCLA's large business enterprise would be effectively represented in the design. Mr. Brostrom added that UCLA was also preparing to adopt a new financial and general ledger system, and wished to begin implementing UCPath before the new financial system.

Committee Chair Makarechian asked if the proposed delay would use up the UCPath contingency. Mr. Cianca responded in the affirmative.

Regent Anguiano remarked that UC Riverside has a relatively small group of employees who participate in the Health Sciences Compensation Plan. She asked what percentage of UCR employees would be covered by the UCPath deployment in December and what percentage of paychecks would be accurate, in the University's estimate. Mr. Cianca responded that the deployment at UCR would be for 100 percent of employees and that he expected 100 percent accuracy. The University had an obligation to ensure that every employee's pay was correct. Data conversion complexity drove the cost of the project. As an example, UCR's past business practice included paying academic personnel on both a monthly and biweekly basis, and UCR did not want to change this practice until moving to UCPath. These records could not be converted with 100 percent accuracy unless they were corrected manually when UCR transfers to UCPath. There would be a period between conversion and running payroll for the first time when these issues would be corrected manually by staff at the UCPath Center and the campuses.

Regent Anguiano asked about the magnitude of the manual correction. Mr. Cianca responded that payroll accuracy for monthly paychecks was 88.1 percent at UCR; the remaining 11.9 percent would be addressed by manual updates before and after the conversion. He described the conversion as a highly scripted event with a checklist of over 850 items, for which the locations practice in advance. Manual data correction was included in this checklist.

Student Advisor Sands stated that reasons for the delay could have been presented more thoroughly in the background materials. Mr. Cianca responded that more detailed data could be provided. Payroll processes are complex, and because paychecks must be 100 percent correct, it was important that this project be carried out with care and accuracy, hence the detailed nature of some UCPath data and discussions. As is the case with any major software deployment, the University was doing all the planning it could with the understanding that errors might occur, and support processes were in place to address this. Staff at the UCPath Center had been increased to accommodate UCLA; due to the delay, for an interim period, UC Riverside, UC Merced, and ASUCLA and any issues at these locations would benefit from considerable staff attention.

Staff Advisor Valdry asked about the exhaustion of the UCPath contingency and the financial cost of the UCLA delay and delays with subsequent campuses. Mr. Cianca responded that the contingency in the $504 million allocated budget was about $26 million, roughly five-and-a-half months of time from a central, Project Management Office cost perspective. The contingency would have covered a six-month delay to accommodate UCLA. A September deployment would result in a nine-month delay. The UCPath team was examining what could be reconfigured to minimize any additional impact beyond the existing contingency, and intended to present this information at the January 2018 meeting.

Mr. Valdry asked about the magnitude and range of the costs due to delay of future deployments. Executive Vice President and Chief Operating Officer Nava responded that this depended on the sequencing of the remaining deployments, which was not yet determined. Mr. Brostrom added that the project run rate was $5 million to $6 million a month, and the contingency would cover about six months. Allowing UCLA to delay by nine months, as well as the other locations, would add three months beyond the contingency, or about $15 million to $20 million. It was imperative to determine the readiness of other campuses to join the UCLA deployment or reconfigured deployments in order to limit the additional expenses, and to ensure that campuses switch to UCPath as soon as possible, given that the existing PPS system was very inaccurate and in a state of decay.

Mr. Valdry asked about the costs of manual corrections at UCLA versus other options. Mr. Cianca responded that running a quick conversion of all the pilot locations including UCLA would take a full day. The same conversion process for all these locations except UCLA takes only two hours. Running the conversion process without UCLA had allowed the University to identify and resolve issues, and run the process again, and accelerate this cycle in order to lower the error rate. When UCLA is included, this correction process takes a full day or day-and-a-half. He anticipated that many issues concerning pay for UCLA medical center employees would have to be resolved manually.

Committee Chair Makarechian asked about the reason for the $5 million cost per month. Mr. Cianca responded that this cost was due to technical staff who would be involved until the completion of the pilot deployment and the "design and build" phase. At that point, technical experts could be released from the team, but there would still be a need for the functional team. When a new campus adopts UCPath, campus employees need help understanding the new system. There was not a one-to-one mapping between PPS data and UCPath data. The shift to UCPath also affects many local campus systems such as the parking system; deductions from employees' paychecks are used to pay campus parking fees. The data feed from UCPath to the parking and other systems would be different than when using PPS.

Committee Chair Makarechian observed that the UCPath project had grown into a bigger beast than originally intended. Mr. Brostrom countered that functionality such as feeding payroll data to parking systems was currently in the PPS system; this functionality needed to be translated into UCPath. He acknowledged that first and foremost, UCPath must provide accurate paychecks, but in quick succession it must also provide other functions already existing in the PPS system.

Committee Chair Makarechian asked how long support processes for the campuses to assist with the shift to UCPath would be in place. Mr. Cianca responded that this support was projected to last for two to three months per deployment group, a period of dedicated care to address problems that might arise in the change from PPS to UCPath.

Committee Chair Makarechian asked if this support included training. Mr. Cianca responded in the affirmative. Training was occurring before the deployments. In response to another question by Committee Chair Makarechian, he confirmed that training had already been included in the budget and did not represent an additional cost. Regarding the cost of the delay, he noted that the ultimate cost was a factor of the end date.

Regent-designate Graves expressed his understanding that there was a good rationale for the delay at UCLA. He asked that the Regents be notified if there were any further delays involving a significant cost.

Regent Park asked that details of the nine-month work plan leading up to the delayed implementation at UCLA be shared with the Regents. Mr. Beck responded that this work plan could be provided.

Regent Park asked if the nine-month schedule to execute these tasks was generous or if work would be rushed. Mr. Beck responded that UCLA had been trying to achieve a conversion by June 2018 in order to keep the other campuses on schedule. He stated his view that a September deadline was nevertheless aggressive. UCLA was identifying which items should not be included in the automatic conversion process but processed manually. For example, for a unique group of 1,000 employees, UCLA would prefer to have these data converted automatically, while for a group of 25 to 30 such employees this work would be performed manually.

Regent Park asked if the deployment schedule for other campuses seemed realistic in light of what was now known about the situation at UCLA. Each campus with a medical center might present the same challenges as UCLA, and might or might not be able to apply lessons learned at UCLA. The nine-month delay did not bode well for the remaining deployment schedule. Mr. Cianca responded that one of the objectives in the pilot deployment was to define a set of lessons learned. The UCPath team was applying the lessons learned and examining the possibility of restructuring some of the groupings in future deployments. There would be less need for iteration due to lessons learned. The project was striving to achieve a balance between cost, which is a function of time, and accuracy. He observed that if the UCPath project were fully serialized, with the conversions performed at each location individually, one after another, the implementation would take 20 years. The project team would consider various options and the associated benefits and risks.

Chancellor Gillman observed that it had been clear that the most challenging payroll conversion tasks would be for employees at the medical centers and for certain researchers receiving grants. The experience at UCLA appeared to indicate that automatic conversion would fail and that manual conversion was necessary for the more complex employee groups. If this was the case, no time would be gained for the future deployment locations, and implementation might take six to seven years. He asked if the work to be performed at

UCLA over nine months would be manual conversion, which indicated that the same manual conversion had to be contemplated for other locations, or if a more effective automatic conversion process would be developed. Mr. Cianca responded that the work would be some combination of these two tasks. He observed that no two versions of the PPS system were identical. UCLA's version of PPS was the most highly customized, and PPS at UCLA had been extended for many tasks that it was not originally designed for. The smaller campuses had more generic and straightforward versions of PPS.

Chancellor Gillman observed that the current moment was an appropriate time to reset expectations. He anticipated that even if the UCLA implementation were effective after nine months, this did not necessarily mean that implementation at other locations would fall into place smoothly as scheduled, especially for research-intensive campuses with medical centers. Mr. Cianca stated that he understood Chancellor Gillman's comment and that he would not attempt to make a prediction. He recalled that the State Auditor had found that the University's implementation schedules for UCPath were too aggressive.

Committee Chair Makarechian asked why the University had not chosen to undertake the first deployments at campuses with more generic and straightforward versions of PPS, and to leave the more complex deployments for later. Mr. Brostrom responded that the University felt that a combination in deployment groups of smaller campuses and larger, more complex campuses would be most desirable in terms of workload and demonstration of capability. In retrospect, he acknowledged that UC might have decided to implement UCPath at a few of the "easier" campuses first. Committee Chair Makarechian asked if UC would consider taking this approach now, pursuing deployments at UC Santa Cruz and UC Santa Barbara, for example. Mr. Brostrom responded that the UCPath team would consider this and might present revisions to the deployment schedule at the January 2018 meeting.

Regent Lemus asked when the need for a nine-month delay at UCLA became apparent and when this was communicated to the Board, and how important developments would be communicated to the Board. Mr. Cianca responded that there were communication vehicles for campus stakeholders. It would be easy to share materials with the Finance and Capital Strategies Committee. He drew attention to the fact that while implementation work was going on at UCLA, the other campuses were not inactive. For the past five weeks, campuses scheduled for deployment after UCLA were familiarizing themselves with the pilot deployment software. These campuses had the design information necessary to update local systems. Connectivity from UCPath to the campuses in the Deployment 1 group had already been established. There is roughly a seven-month period from the point of beginning to work on conversion and reconciliation of issues at a campus to the point of implementation; this includes six weeks from the time of actual conversion to the first payroll run.

Regent Lemus stressed that there should be some mechanism for the Board to be informed of potential problems identified during this seven-month process as early as possible. Mr. Brostrom responded that UCPath had now entered a critical phase, and suggested that the UCPath team present a briefing at every Regents meeting.

Committee Chair Makarechian requested a realistic timetable and budget for UCPath. If UC changed the order of implementation at various locations, it should be able to demonstrate the benefit of making these changes.

Regent-designate Anderson observed that UCPath implementation was a high-profile event that would be subject to critical review. He asked about the business transformation that would result from UCPath and how campuses would benefit. Mr. Beck responded that the standardization of UCPath across the campuses would lead to increased productivity and the ability to generate new reports with better analysis. He emphasized that the PPS system was very fragile; in the past 12 months UCLA had come close to failing its payroll, and this was a cause for concern every month. The most significant achievement would be stability and the confidence in ability to pay employees accurately. Many transactions for employees would be moved to an online portal.

Regent Anguiano asked about the technical training employees would receive for UCPath. She asked how much of the conversion to UCPath would be technical versus a business transformation process. She asked if work could be done in advance on business transformation. Mr. Cianca responded that he would provide examples at the January meeting of this work at UC Riverside and how UCR had made this migration.

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

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

Vice President Duckett recalled that the University's Retiree Health Benefit Program is administered on a pay-as-you-go basis. Actual cash costs were $290 million for 2017 and projected cash costs were $315 million for 2018, funded through assessments to the campuses and medical centers at a rate of 2.8 percent of covered payroll for fiscal year 2017-18. The increase was primarily attributed to growth in the number of covered retirees as more and more faculty and staff reach retirement age, and to a 7.2 percent increase in rates, on average, for the UC contribution.

Deloitte Consulting representative John Kessler explained that a number of factors can have an impact on long-range estimates of the Program's liability. This year there was a decrease in the Program's liability as of July 1, 2017; the liability was $18.7 billion, compared to $21.2 billion from the previous year's valuation results. This $2.5 billion decrease was primarily due to the increase in the discount rate from 2.85 percent to 3.58 percent, which is based on a 20-year bond index as required by new accounting standards. Since the Program is funded on a pay-as-you-go basis, the liability fluctuates each year based on the bond index rate as of the valuation date. Mr. Duckett added that Deloitte's work in preparing the actuarial valuation for 2017 was audited by an independent actuarial consulting firm, Cheiron, Inc, and no significant issues were identified.

Mr. Duckett commented on the University's cost containment measures for retiree health benefits beginning in 2009. UC had been following a schedule of three percent reductions annually in the maximum UC contribution to the current floor of 70 percent. The 70 percent floor refers to the determination of the most that UC will pay overall, 70 percent of the aggregate premium costs. The percentage for an individual retiree may be greater than or less than 70 percent, depending on the health plan elected, with some offerings more expensive than others. As one example, the Kaiser Medicare Senior Advantage option is offered at no cost to retirees. The University had also changed its eligibility rules. UC faculty or staff members hired on or after July 1, 2013 must attain age 65 with 20 or more years of service to receive 100 percent of the UC contribution amount toward retiree health. Of UC's 73,000 annuitants receiving pension benefits, about 42,000 were eligible for a UC contribution to retiree health benefits.

President Napolitano would convene an advisory work group charged with exploring strategies and developing options for UC to manage costs and ensure the continued value and effectiveness of the benefits provided. The work group would evaluate the implications of different options for UC and retirees. The work group was expected to begin its work early the following year and deliver its options by June 2018. No funding or programming changes would take place until 2019. Mr. Duckett concluded by noting that, as has been communicated to employees and retirees over the years, retiree health benefits are not accrued or vested benefit entitlements and can be changed by the University at any time.

Faculty Representative May asked how UC retiree health benefits compared to other benefit systems, in particular the California Public Employees' Retirement System (CalPERS). Mr. Duckett responded that in general, CalPERS provides a higher level of support or contribution. Mr. May observed that CalPERS provides fewer options but contributes a higher percentage, and asked what that percentage was. Executive Director Gary Schlimgen responded the CalPERS contribution was 85 percent.

Regent Anguiano asked how these benefits at UC compare to similar Association of American Universities (AAU) institutions. Mr. Duckett responded that benefits offered by AAU institutions vary greatly, and many institutions do not offer retiree health benefits; he estimated that only about one-quarter of the AAU members offered such benefits.

Committee Chair Makarechian recalled that a new accounting standard required the University to book the liability for retiree health benefits. Because this was not a vested benefit, he asked if the University could simply not book the liability and pay as it goes. Associate Vice President Peggy Arrivas responded that UC's Retiree Health Benefit Program is published in its group insurance regulations, and the University has a practice of offering these benefits; under accounting standards, this is sufficient to require UC to book the liability for retiree health benefits. The University would have to amend or cancel the program in order not to book this liability. Mr. Schlimgen added that UC must book the liability for retirees because they are in benefit status.

Committee Chair Makarechian asked how the University could save money in this area. Mr. Duckett responded that the University was reviewing all its health benefit programs and considering changes to plan design and contributions. Executive Vice President and Chief Financial Officer Brostrom remarked that the University must consider its employees and their reasons for choosing to work and remain at UC. Retiree health benefits are a factor in retention. If the University were to take measures to reduce the cost of retiree health benefits and make significant changes, it might lose valuable faculty members. The potential loss of faculty could be more damaging financially and in terms of reputation than the savings gained.

Committee Chair Makarechian stressed that he did not wish the University to reduce benefits to retirees, but to reduce costs, such as hospital costs. Mr. Brostrom responded that the work group would be examining options to reduce costs and would bring recommendations to President Napolitano and to the Board. Mr. Duckett recalled that the University had narrowed its network of Health Net physicians to the most efficient doctors and had been able to cut costs in this manner, an example of a plan design change.

Mr. May observed that while there are economies to be gained by narrowing networks and other measures, there would ultimately be only two options: a plan design that was less generous, or cost shifting, moving more of the premium cost from the University to the employees. He described both these options as worrisome. Possible changes to plan design were worrisome because they would affect the most vulnerable population with the greatest medical needs, while cost shifting was also worrisome because it would affect lower-income employees. Mr. May emphasized the complexity of this issue and that it was not clear how economies would be achieved. He urged the University to proceed with caution in order to avoid ending up with an inadequate program. Mr. Duckett acknowledged that solutions would not be easy, but expressed confidence in the University's ability to implement a valuable, cost-effective program for UC and its employees.

Committee Chair Makarechian asked about retiree health benefits at the National Laboratories. Ms. Arrivas responded that the University has a receivable from the U.S. Department of Energy for its portion of the liability of approximately $600 million.

Regent-designate Anderson asked what percentage of UC retirees receive care at UC medical centers, and what could be done to encourage them to do so. Mr. Duckett responded that this percentage was small, but UC Health was considering how to increase it. Mr. May observed that UC medical centers were the most expensive providers of health care in California. Trying to keep costs low in the context of medical centers that charge the most for care was challenging.

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

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

Vice President Duckett recalled that the Office of Human Resources at the Office of the President runs the University's centrally-managed retirement benefit programs on a day-to-day basis, ensuring that the UC Retirement Plan (UCRP) is operating under its terms and that the qualified status of the plan is consistently maintained under Internal Revenue Code rules. The University's retirement call and operations center services 73,000 annuitants and 129,000 active members, distributes a variety of benefits exceeding $3.3 billion annually, and processes 5,000 retirements annually. The Office of Human Resources also negotiates changes to UCRP, such as the Retirement Choice Program that became effective July 1, 2016. Mr. Duckett presented Retirement Choice Program election statistics for the first fiscal year; these showed that 65 percent of enrollees elected or were moved by default into "Pension Choice" under UCRP and 35 percent elected "Savings Choice," a defined contribution plan with an employer contribution. For those who elect Savings Choice, UC contributes six percent of covered salary toward paying down the UCRP unfunded liability. As of June 30, UCRP was 85 percent funded on an actuarial and market-value basis and was well positioned to meet future commitments to members and retirees.

Executive Vice President and Chief Financial Officer Brostrom reported that the UCRP currently had assets of $62 billion on a market-value basis, including $481 million borrowed over the past fiscal year from the Short Term Investment Pool (STIP) to assist in funding the UCRP's total contribution policy rate and $171 million received from the State in Proposition 2 funds, the second of three annual installments, eventually totaling $436 million to help meet the UCRP unfunded liability. Contribution rates during 2017-18 would remain at 14 percent for the University and the member rates would continue to range between seven percent and nine percent depending on retirement tier and represented status. At the July meeting, in the *Authorization to Increase the University Employer Contribution Rate and Make Additional Contributions to the University of California Retirement Plan*, the Regents adopted two measures to sustain UCRP. The first was an increase in the UC contribution rate effective July 1, 2018 for the campus and medical center segments of UCRP from 14 percent to 15 percent. There would also be a corresponding increase in the UC contribution rate toward paying down the UCRP unfunded liability for employees who elect Savings Choice under the Retirement Choice Program from six percent to seven percent. The second measure was authorization for the University to continue to carry out internal transfers from STIP to fully fund the UCRP total contribution policy rate for the next four fiscal years, from fiscal year 2018-19 through fiscal year 2021-22. UC had carried out internal transfers and external borrowing totaling $3.8 billion. This had been a successful initiative, improving UCRP's funded status by about eight percent on a market-value basis.

Segal Consulting representative Paul Angelo stated that the UCRP was 85 percent funded on an actuarial and market-value basis, an increase from the previous year. The increase was mainly due to total contributions from all sources equaling the funding policy amount for 2016-17. The "total funding policy contribution" amount is determined on an actuarial basis, and it was completely covered by a combination of the 14 percent contribution and the borrowing mentioned by Mr. Brostrom. Investment returns were good, about 14.5 percent on a market-value basis; even after actuarial smoothing, this was eight percent, greater than the assumed rate of 7.25 percent. Even though not all this gain was recognized in the current year, positive investment return contributed to an improvement in funded status. The actuarial accrued liability for all plan members as of the valuation date was $73 billion, the actuarial value of assets was $62 billion, and the unfunded liability was approximately $11 billion. The total funding policy contribution rate for 2018-19 was approximately 27 percent of covered payroll, two-thirds of which was for the Normal Cost and the remaining one-third for the unfunded liability amortization. Mr. Angelo concluded by emphasizing that it was important to contribute toward the unfunded liability, even for members who elect the defined contribution option; this was a crucial part of maintaining the funding of the defined benefit plan.

Committee Chair Makarechian asked what advantage there was for UC in declaring that the UCRP unfunded liability was approximately $11 billion and that the UCRP was 85 percent funded. The discount rate was arbitrary. It might be prudent to make more conservative declarations. Mr. Angelo responded that the Governmental Accounting Standards Board (GASB) had considered these points when determining new accounting rules to measure liability. GASB decided that readers of financial statements wish to know the expected net cost of the retirement plan to the employer. Based on UC's asset allocation, a return of 7.25 percent was a reasonable long-term expectation. It represented a best estimate, neither aggressive nor conservative. Mr. Brostrom added that this estimate has an impact on the University's operating budget in that it determines the level of the employer contribution. If the assumed rate of return were raised to 8.5 percent or 8.75 percent, the UCRP would be 100 percent funded. The University's contribution of 14 percent of payroll could then be reduced to nine percent. Overall, it was important that the University work with realistic assumptions and make adequate contributions.

Committee Chair Makarechian cautioned against expectations of high returns that might not be realized. Mr. Brostrom remarked that the University was meeting the Annual Required Contribution. Historically, UC's assumed rate of return has been conservative relative to other institutions. It was only in recent years that other entities such as the California Public Employees' Retirement System and the California State Teachers' Retirement System had changed their assumptions to become more conservative than UC. The University carries out an experience study every four years, considering the UCRP discount rate, actuarial returns, and longevity. The unfunded liability is adjusted based on a combination of these factors.

Regent Sherman asked how the University's annual required cash contribution would change if the discount rate were changed. Mr. Brostrom responded that lowering the discount rate to seven percent would add $2 billion to the UCRP liability and result in a lower level of funding. In response to another question by Regent Sherman, Mr. Brostrom explained that UC has chosen to fund up to the Annual Required Contribution.

Regent Sherman observed that all these matters were really questions of UC policy and of what the University decides to fund. Mr. Brostrom responded that in a situation of excess liquidity, the University's internal borrowing was appropriate.

Regent Sherman stated his understanding that this was an accounting matter, while the actual cash requirement did not change. Associate Vice President Peggy Arrivas responded that the Annual Required Contribution is calculated by the University's actuaries, based on assumptions that have been approved by the Regents. The University is not required fund it. Mr. Angelo observed that in practice, the Annual Required Contribution has served as a funding goal. If the University lowered the UCRP discount rate by 0.25 percent, the Annual Required Contribution would increase by roughly two percent of covered payroll and raise the bar for internal borrowing. Mr. Brostrom estimated that this would represent approximately $220 million in additional borrowing. Regent Sherman stated that many of UC's assumptions would likely change at the time of the next experience study. The discount rate should take the preceding few years into account, but the UCRP might not achieve returns of 7.25 percent in the coming years.

In response to a question by Committee Chair Makarechian, Mr. Angelo explained that in addition to setting assumptions, the University has a funding policy that determines the period and rate of paying off the unfunded liability. This policy would lead UC to 100 percent funding if assumptions come true. Committee Chair Makarechian observed that if the University had to increase its UCRP contribution this would not be only an accounting matter, and asked what would happen if UC did not receive additional funding from the State, and what UC had assumed in this regard. Mr. Brostrom responded that UC had not assumed any more Proposition 2 monies. UC would continue to work with the State Department of Finance and the Governor's Office.

Faculty Representative White emphasized that a fully funded plan is less expensive to operate, and this was an impetus to reach 100 percent funding as quickly as possible, with as little harm as possible to day-to-day operations. For every dollar of underfunding, the University was effectively borrowing at 7.25 percent, an expensive drain on UC's operating budget. Mr. Brostrom concurred that a gap in assets meant that the University was not earning this return.

Mr. White stated that it would be desirable for UCRP returns to pay for the bulk of the UCRP. Committee Chair Makarechian asked him if the employee contribution should be increased. Mr. White responded that many UC employee segments are at the level of or below employees at comparator institutions with respect to benefits and pay. The University should not move from being marginally competitive to being under-competitive.

Staff Advisor Valdry asked if there is a cost to the employee or a benefit to UC when new employees do not make a choice of either the defined benefit plan or the defined contribution plan or delay that choice until the end of the initial 90-day period. Executive Director Gary Schlimgen responded that the University pays 14 percent in either case. If the employee selects or is moved into the Pension Choice option by default, the 14 percent goes into the UCRP. If the employee selects the Savings Choice option, the University pays an eight percent contribution to the employee's defined contribution plan and six percent toward the UCRP unfunded liability. If the employee makes no selection, no contributions are made by the University or the employee during the 90-day period. In its communications with new employees, the University makes clear the need to select an option right away.

Mr. Valdry observed that when a new employee fails to choose one or the other option during this 90-day period, it is a loss to the employee and a gain to the University. Mr. Schlimgen responded that this was not the intention in establishing the 90-day period, but to allow employees time to make a decision. He acknowledged that employees lose money and service credit if they do not make a decision right away. Vice President Duckett emphasized that the University established this program because it believes it will help attract and retain employees, and that the 90-day period was established with employee considerations in mind.

Mr. Valdry agreed that it was important to offer choice to employees, but stressed that there was a disadvantage to employees in this situation. Mr. Duckett responded that there are many cases of new employees who are moved by default into the Pension Choice option.

Mr. Valdry asked if the University knew the dollar amount associated with the employees who are moved by default into the Pension Choice option. Ms. Arrivas noted that during the initial 90 days, these employees take their seven-percent contribution home as take home pay, while not receiving the University contribution.

Committee Chair Makarechian asked when the University would reconsider its UCRP assumption. Mr. Brostrom responded that UC would use the following year's valuation to determine a discount rate to go into effect in July 2019.

The meeting adjourned at 5:15 p.m.

Attest:

Secretary and Chief of Staff

Regents Policy on Reporting Standards for University of California Significant Information Technology Projects

POLICY SUMMARY/BACKGROUND

In response to the August 2017 State audit of UCPath and campus information technology (IT) contracts, the Regents committed to establishing standards that require all University locations to report on significant IT projects with an estimated or actual cumulative cost of $5 million or more. The University of California Board of Regents provides oversight for significant decisions and initiatives that affect the operations and finances of the University. This policy establishes reporting standards for all University locations for significant IT projects to ensure that the Board of Regents is fully apprised of project performance, major issues, and changes in scope, and is able to provide effective high-level oversight for these projects.

POLICY TEXT

A. Reporting Standards

1. All University locations – the Office of the President, campuses, medical centers, and Agriculture and Natural Resources – must report regularly to the Regents on any significant IT projects with an estimated or actual cumulative cost of $5 million or more.

2. A report covering all University locations will be provided to the Regents no less than three times a year, including at least one presented at a regular Regents meeting. The report will itemize all IT projects costing $5 million or more, and for those IT projects costing $25 million or more, will provide an overview of project performance and include up-to-date information on changes in project scope, projected costs and schedule, as well as significant project risks and related risk mitigation activities.

COMPLIANCE/DELEGATION

The Regents delegate to the President of the University the authority to establish, implement, and modify specific project development, management, and reporting guidelines to support University locations in complying with this policy. This authority may be redelegated to an Executive Vice President.

PROCEDURES AND RELATED DOCUMENTS

See *University of California Significant IT Project Management and Reporting Guidelines*.

Changes to procedures and related documents do not require Regents' approval, and inclusion or amendment of references to these documents can be implemented administratively by the Office of the Secretary and Chief of Staff upon request by the unit responsible for the linked documents.