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

5. **APPROVAL OF BUDGET, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO CALIFORNIA ENVIRONMENTAL QUALITY ACT, SOUTHWEST CAMPUS APARTMENTS, LOS ANGELES 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: Los Angeles: Southwest Campus Apartments – preliminary plans – $4.3 million to be funded from housing reserves.

To: Los Angeles: Southwest Campus Apartments – preliminary plans, working drawings, construction, and equipment – $383.29 million to be funded from external financing ($303.29 million) and housing reserves ($80 million).

B. The Southwest Campus Apartments project shall construct approximately 591,100 gross square feet (gsf) of housing space, supplying approximately 2,279 beds, related commons space, and site improvements. The scope includes demolition of Warren Hall (102,200 gsf) and a modular research building (7,200 gsf), to create the site for the proposed residential facility.

C. The President be authorized to obtain external financing not to exceed $303.29 million, 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 Los Angeles 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. Following review and consideration of the previously certified *LRDP Amendment (2017) and Student Housing Projects Subsequent Environmental Impact Report* of which the proposed Southwest Campus Apartments Project is a part, including any written information addressing this item received by the Office of the Secretary and Chief of Staff no less than 24 hours in advance of the beginning of this Regents meeting, testimony or written materials presented to the Regents during the scheduled public comment period, and the item presentation, the Regents:

(1) Determine that no further environmental analysis pursuant to the California Environmental Quality Act is required and adopt and affirm the Findings for the UCLA LRDP Amendment (2017) and Student Housing Projects.

(2) Approve the design of the Southwest Campus Apartments project, Los Angeles campus.

E. The President, or designee, be authorized, in consultation with the General Counsel, to execute all documents necessary or appropriate 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.]

(For discussion, see item 2 above.)

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

6. **APPROVAL OF THE UNIVERSITY OF CALIFORNIA 2018-19 BUDGET FOR CURRENT OPERATIONS, TUITION, AND FINANCIAL AID, AND ADJUSTMENT OF THE EMPLOYER CONTRIBUTION TO THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN**

[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 explained that action on this item would be deferred until a special meeting of the Board following this Committee meeting.

7. **ADOPTION OF REGENTS POLICY ON A CENTRAL OPERATING RESERVE FOR THE UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT AND DISCUSSION OF GUIDELINES GOVERNING THE CENTRAL OPERATING RESERVE**

The President of the University recommended that the Regents adopt the Policy on a Central Operating Reserve for the University of California Office of the President, as shown in Attachment 1.

[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 Zoanne Nelson explained that in response to a recommendation made by the California State Auditor in April 2017, President Napolitano was proposing that the Regents adopt a policy governing a Central Operating Reserve for the Office of the President (UCOP). By April 2018, UCOP would develop an operating reserve policy that governs how large its reserves should be and the purposes for which they can be used.

The proposed policy requires a Central Operating Reserve that may only be used in the event of an unplanned revenue disruption and only to cover planned operating expenses, such as payroll. The reserve may not be used to fund new programs and initiatives, and before funds are drawn from the reserve, the Chair of the Board, the Chair of the Finance and Capital Strategies Committee, and the Chair of the Compliance and Audit Committee must be notified. The policy also requires that the President implement guidelines regarding the reserve target balance and funding mechanisms. In developing the reserve target, a reserve policy work group researched best practices from other institutions of higher education, municipalities, and organizations that set standards such as the National Association of College and University Business Officers. It is considered a best practice to have a reserve amount reflective of the size and volatility of revenue streams. Among the institutions reviewed, reserves ranged from as low as two percent to as high as 25 percent, depending on the organizations' risk profile. The Presidential guidelines recommend that a Central Operating Reserve of $15 million or 3.5 percent of covered funds and expenses, whichever is greater, be designated in the President's Endowment Fund for immediate availability should expected revenues be disrupted. The $15 million would provide approximately ten days of funding for operations. Should a funding disruption extend beyond ten days, the President may supplement the $15 million with an additional $100 million from other unrestricted sources, such as a loan from the Short Term Investment Pool, to cover up to three months of expenses. If more than $15 million is needed, the Executive Vice President and Chief Financial Officer would work with the President to determine the most appropriate funding method. Access beyond the $15 million would require approval from a majority of votes of the Chair of the Board, the Chair of the Finance and Capital Strategies Committee, and the Chair of the Compliance and Audit Committee. The Central Operating Reserve funding levels would be reviewed and reported each year as part of the UCOP budget presentation to the Regents.

Regent Sherman asked about replenishing the reserve after a drawdown. Ms. Nelson responded that replenishment would be discussed in the following budget year.

Staff Advisor Valdry requested clarification of restricted versus unrestricted funding for the purposes of the proposed policy and guidelines. Ms. Nelson responded that most of UCOP's restricted funds have requirements for reserves of their own, and their revenue streams are different from the revenue streams for UCOP's unrestricted sources. The focus of the Central Operating Reserve is against disruption to UCOP revenues and unrestricted funding sources. In response to another question by Staff Advisor Valdry, Executive Vice President and Chief Financial Officer Brostrom explained that some UCOP funds are restricted in their use by law or regulation, such as a State contract or grant. In some cases, UCOP restricts or directs a fund through its own policy decision. This was the case of the Student Health Insurance Plan; excess funds are kept within the Plan.

In response to a question by Regent Anguiano, Ms. Nelson confirmed that the President's Endowment Fund was a set-aside, not an incremental $15 million.

Regent Park suggested that the terms "restricted funding" and "unrestricted funding" could be made clearer. One could explain that restricted funding is externally restricted. The term "designated funding" might be defined as "restricted by UCOP." Ms. Nelson responded that fund restrictions would be further discussed at the March meeting.

Committee Chair Makarechian asked if the Regents would receive reports on the reserves held for other UCOP restricted funds. Ms. Nelson anticipated that these reserves would be reported in the future. Mr. Brostrom concurred that it would be desirable to include reporting on these reserves in the report on the UCOP budget.

Regent Park referred to the following proposed policy language: "The President shall have the authority to establish and amend guidelines that specify the size and funding source(s) for the Central Operating Reserve." She asked if there would be notification to the Board in case of such changes. Ms. Nelson responded that this would be included in the annual UCOP budget proposal presented in May.

Committee Chair Makarechian asked if the Central Operating Reserve would be discretionary, and about how the use of reserve funds would be determined. Ms. Nelson responded that the Central Operating Reserve had been calculated based on UCOP daily expenditures, such as payroll, benefits, and other expenditures in the normal course of business, and it would be intended for these expenditures. If UCOP encountered a temporary problem with its revenue stream, it would use the Central Operating Reserve to address this. Mr. Brostrom added that these reserve funds were intended to be used to address unanticipated disruptions, such as extraordinary expenses related to a natural disaster or delay in grant payments due to a government shutdown. He recalled that access to the Central Operating Reserve required approval from a majority of the Chair of the Board, the Chair of the Finance and Capital Strategies Committee, and the Chair of the Compliance and Audit Committee.

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

8. **UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT FISCAL YEAR 2018-19 BUDGET PROCESS**

[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 Zoanne Nelson stated that in response to recommendations by the California State Auditor, the Office of the President (UCOP) was working to improve its budget process to increase consistency, transparency, and efficiency, solicit greater stakeholder input during the budget cycle, and deliver complete and transparent budget presentations.

The State Auditor had recommended that UCOP increase campus stakeholder feedback by reinstating the Executive Budget Committee, which includes representatives from the ten campuses, the Academic Senate, and UCOP. The Executive Budget Committee was reconvened in August 2017 and had been meeting monthly. Among other matters it considered, the Committee conducted three days of meetings with UCOP division leaders where division leaders presented their current-year budgets in detail. The State Auditor confirmed that UCOP has satisfied this recommendation.

UCOP was organizing its budget process and presentation in a phased approach. UCOP was working on incremental improvement of the 2018-19 budget process, enhancing the budget presentation to the Regents, incorporating State Auditor recommendations, implementing improvements to the existing budget system to increase data accuracy, transparency, and reporting capabilities, and considering the possibility of implementing a new, more robust budgeting system in the coming years.

This year, UCOP was focused on providing a clear, transparent, and simplified budget presentation. A number of improvements had been introduced, including targeted, zero-based budgeting for travel, meetings, outside professional activities, and temporary labor; forecasting; and reporting enhancements. UCOP introduced a phased budget process in November 2017, developing baseline budgets, reviewing actual expenditures, and entering data into the budget system. The process of data entry had begun six months earlier than it had in previous years. This initial budget development phase would provide an overview of division and department priorities for the upcoming fiscal year and support budget trade-off decisions, with the goal of controlling operating costs. The second phase of the budget process would commence in the next few weeks.

A number of factors might affect the 2018-19 budget: Assembly Bill 97, which requires redirection of $15 million for undergraduate enrollment growth in the next year; guidance on the Governor's January budget, which proposed direct appropriation next year in place of campus assessments to fund UCOP; the financial impact of State Auditor recommendations; potential changes to UCOP's organizational structure; planned expansion of the UCPath Center; and unavoidable cost increases such as benefits rates and contractual increases.

In the 2018-19 budget, UCOP was making a significant shift in management of one-time funds. The State Auditor had recommended changing the past practice of using year-end unrestricted surpluses as one-time temporary funds. In response, UCOP proposed creating a Strategic Priorities Fund to address term-limited priorities and initiatives, which would emphasize the use of unrestricted endowment proceeds, interest income, and other unrestricted sources. The President's Initiative Fund, currently budgeted at $9.8 million, less $2 million per the AB 97 redirection, would be eliminated as a separate line item and incorporated into the Strategic Priorities Fund. Actual annual expenditures and commitments for the combined one-time and President's Initiative Fund funds over the past two years ranged between $50 million and $60 million. The proposed guidance recommended that the Strategic Priorities Fund be budgeted annually at $30 million per year, including the President's Initiative Fund; this would essentially cut the discretionary budget in half. A set of guidelines had been drafted to specify how the Strategic Priorities Fund commitments would be funded, tracked, and reported. UCOP was implementing more stringent reporting requirements to track spending against priorities. UCOP was tracking known commitments, which would be included as part of the annual budget presentation. Unallocated funds would be retained for potential opportunities that arise during a given year. Presidential approval is required for all expenditures from the Strategic Priorities Fund. Commitments or expenditures exceeding $5 million require approval by the Chair of the Board.

Regent Sherman asked about Strategic Priorities Fund monies that are not spent or committed. Ms. Nelson responded that monies that were committed but not spent by the end of the year would roll over into the next year, assuming that those monies were still needed. The Strategic Priorities Fund would still be capped at $30 million.

Regent Park remarked that terms like “uncommitted balances” could be better defined. She recalled that one-time and President’s Initiative Fund funds over the past two years ranged between $50 and $60 million. She asked if items funded by these funds came to the Board for approval, or were at the President’s discretion. Ms. Nelson responded that most of these items were discretionary for the President.

Regent Park asked about the difference between the $9.8 million President’s Initiative Fund, and the broader $50-$60 million, if all were discretionary funds. Ms. Nelson responded that the approximately $10 million of the President’s Initiative Fund was intended for initiatives launched by the President, while the other funds were to be used for items that were not initiatives but that required one-time funding; examples of the latter included UC projects for undocumented students or campaigns to increase transfer student enrollment. In a given year, most funding is likely to be used for projects other than Presidential initiatives.

Regent Park asked if the decision-making about the use of these funds rested with campus and UCOP leadership. Ms. Nelson responded that all these matters pass through the decision memo process, and are approved by the President.

Regent Park asked if these funds might be available as bridge funds to campuses with goals of increasing the ratio of transfer students, such as UC Riverside and UC Santa Cruz. Ms. Nelson responded that in fall 2017, UCOP contributed additional outreach funding for these campuses using one-time funds. Executive Vice President and Chief Financial Officer Brostrom clarified that transfer student enrollment would not be funded by this process, but through the “rebenching” process, in which campuses would receive a higher proportion of the State appropriation based on enrolling a higher number of undergraduate students. These funds would come from a State appropriation, not from the UCOP budget.

In the proposed Presidential Guidelines Governing the UCOP Strategic Priorities Fund, Regent Park requested clarification or examples of a term in Section III.F.c, “Commitments to recipients outside the UC system.” Regent Makarechian suggested that Executive Vice President and Chief Operating Officer Nava, who was not present that day, could provide this information.

Regent Park noted that the Presidential Guidelines Governing the UCOP Strategic Priorities Fund required quarterly reports to UCOP leadership and to the Executive Budget Committee. She asked if this was excessive and would place an additional burden on employees. Mr. Brostrom responded that while UCOP was implementing a new system, it would be preferable to over-report and catch details. Reporting could become less frequent in later years.

Committee Chair Makarechian referred to the project timeline and asked why the phased budget process was taking so long. Ms. Nelson observed that the budget process itself takes about six months to prepare. While preparing the budget, UCOP was also trying to improve and transform the process. The work involved both systems and processes. UCOP was seeking to implement a great deal of change in a short period of time.

Regent Anguiano observed that proper stakeholder engagement takes time; it was appropriate for UCOP to have built this into the project timeline as part of its effort to improve the budget process.

9. **DEVELOPMENT OF DUNDEE RESIDENCE HALL AND GLASGOW DINING, RIVERSIDE 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 Wilcox recalled that the Riverside campus had presented an update on its student housing program in May 2017. On a map of the campus, he identified the North District, where UC Riverside anticipated construction of dormitory space for several thousand students over the next several years. He then drew attention to an adjacent parking area, Lot 22. The campus proposed to build freshman housing on this site, using the same partners and developers as it would for the North District.

Over the past ten years, student enrollment at UCR had increased from about 17,000 to 23,000. The percentage of students housed on campus had remained level during this period. The campus' Long Range Development Plan (LRDP) housing goal is to house 50 percent of its students, and UCR was still far from this target. The current project, Dundee Residence Hall and Glasgow Dining (Dundee-Glasgow), and three phases of development in the North District would move UCR closer to this target.

Chancellor Wilcox presented a chart with UCR housing rental rates for 2017-18, which compared favorably with UCLA. In the past, many UCR students had been able to live off campus because there was available stock and off-campus housing was relatively affordable. The housing pressures and demands felt in metropolitan areas of California had not been felt in the Inland Empire. This situation had now changed. Off-campus apartment rates had increased by 28 percent over the past seven years, and the vacancy rate was currently below 2.5 percent. UCR has a commitment to house all freshmen on campus, and it had struggled with recruiting transfer students in part because it could not guarantee them housing on campus. UCR needed to expand its housing stock in a way that would compete with the private market.

Chancellor Wilcox presented a site plan of the Dundee-Glasgow project. The Dundee Residence Hall would provide a minimum of 760 beds, perhaps ultimately more than 800. The Glasgow Dining Facility would have 830 seats. UCR intended to close the existing dining hall in the adjacent Aberdeen-Inverness Residence Hall, built in 1959. The Aberdeen-Inverness cafeteria area would require refurbishing, and it became clear in the planning process that construction of a new communal dining hall would be more cost-effective. This would allow UCR to convert the Aberdeen-Inverness cafeteria area into much-needed meeting space. The campus envisioned the Glasgow Dining Facility as two stories tall, with the second floor open only during busy times, such as dinner time. UCR projected that it could provide meals for 60 percent more students with only a five percent increase in staff through this consolidation in the Glasgow Dining Facility. UCR planned to develop this project through a public-private partnership, and hoped to have the facilities ready for occupancy by fall 2020.

In response to a question by Regent Zettel, Chancellor Wilcox stated that he would gladly increase the campus' goal for students housed on campus to a higher percentage, such as 75-80 percent. UCR had available land to develop but lacked funds and debt capacity. The proposed Dundee-Glasgow project was a big step for the campus. Even when more student housing is developed, some UCR students would choose to live off campus.

Regent-designate Anderson asked about the costs of this project versus the costs of the UCLA projects discussed earlier, and why UCR would pursue a public-private partnership rather than the design-build process. Chancellor Wilcox responded that UCR's project costs were in a reasonable range. He observed that residence hall rooms were more expensive than apartments to build and maintain; residence halls require lobby areas with staff, and residence halls have communal bathrooms that must be cleaned by staff. In response to Regent-designate Anderson's second question, Chancellor Wilcox stated that UCR had evaluated a number of options for the project and found that the public-private partnership would provide the greatest return on investment. Executive Vice President and Chief Financial Officer Brostrom explained that the size of the revenue base was an important difference between UCLA and UCR. UCLA had greater capacity for on-campus debt. The University was satisfied with results of public-private partnership projects under the financing trust structure. Chancellor Wilcox noted that UCR was getting close to its financing limits with this project and other ongoing projects.

Student Advisor Sands reiterated a point made earlier, that the rate comparison of a nine-month campus rental period with a 12-month off-campus rental period might not accurately reflect the cost for students. Chancellor Wilcox responded that many students in off-campus housing have trouble subleasing over the summer.

10. **AMENDMENT OF THE BUDGET, JOAN AND SANFORD I. WEILL NEUROSCIENCES BUILDING, SAN FRANCISCO 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 Hawgood recalled that the Joan and Sanford I. Weill Neurosciences Building project at UCSF had been made possible by a generous gift from Joan and Sanford Weill in 2015. The Weill Neurosciences Building would be the home of the UCSF Weill Institute for Neurosciences and would include bench laboratory research programs in neurology, psychiatry, and other neurosciences, as well as desktop research, clinical service, and clinical research space. In May 2017, the Regents approved the project budget of $357.6 million, external financing, and design following action pursuant to the California Environmental Quality Act; $175 million of the project budget was to be funded by gifts, $141.6 million through external financing, and $41 million with campus funds. To date, $150 million of the gift funds had been raised, and UCSF was confident in its ability to raise the remaining $25 million.

UCSF needed to request an increase in the project budget. Additional costs had been identified since the May 2017 Regents meeting that could not be absorbed within the approved budget. There were a number of factors accounting for this projected budget increase. The extremely complex program and UCSF's commitment to high performance standards had resulted in costs higher than anticipated. The project combines clinical care and research spaces in one building. The clinical care spaces include examination rooms, non-oncology infusion suites, a compound pharmacy, and a patient MRI scanner. The research spaces include a complex vivarium and wet laboratory and dry desktop research spaces. Individually, each space type presents specific technical challenges; these challenges are multiplied when combined in a single building. This integration had taxed the design process to meet multiple licensing and regulatory requirements, such as isolation of building systems that require additional dedicated mechanical, electrical, and plumbing systems beyond those originally planned.

UCSF had increased design standards to meet Level 2 seismic performance, rather than the previously proposed Level 3. The concrete slabs of the building had been thickened to provide vibration performance higher than the industry standard, given the advanced microscopy and other scientific research to be carried out in the building. The mechanical, electrical, and plumbing systems were now designed for more robust, redundant, and predictable performance in a seismic event than was typically the case for a commercial laboratory building.

Another major factor influencing the budget was fluctuations in the San Francisco Bay Area construction market, greater than anticipated, which had affected the cost of labor and materials. The local market was overheated and would likely remain so for the foreseeable future, especially in downtown San Francisco and the Mission Bay area. UCSF had increased its projection for annual inflation in the labor market from 5.5 percent in May 2017 to the current 9.5 percent. The campus was also finding reduced interest in bidding for this public project, given the plethora of private projects competing for a limited group of high-quality subcontractors. There were 61 major construction projects currently in progress in the Mission Bay area. Major city infrastructure projects in the area were making transportation of materials and labor more difficult and expensive. The cost of steel was four percent higher than originally projected.

Chancellor Hawgood emphasized UCSF's commitment to this project, which would become an important destination at the heart of the Mission Bay campus. The UCSF Weill Institute for Neurosciences would serve to recruit outstanding neuroscientists from around the world, draw patients who seek access to cutting-edge clinical services and treatments, and attract additional philanthropy to UCSF's world-class neuroscience programs. Since the Weill gift was announced in April 2016, UCSF had raised over an additional $160 million for its neuroscience programs, bringing the total raised for neurosciences during the quiet phase of *UCSF: The Campaign* to almost $1 billion. UCSF was not making this request for an augmentation lightly, but following much deliberation and consideration of alternative approaches. UCSF had determined that it would be able to cover this augmentation without harm to other programmatic investments across the campus. Chancellor Hawgood concluded that fulfillment of UCSF's vision for a world-class neuroscience building for clinical care and research was critical to UCSF's future and justified greater investment in this project than originally anticipated. UCSF was working to refine the cost estimates for the project. Total completion of the project design was expected in August 2018. A request for budget augmentation would be presented at the March meeting.

In response to a question by Committee Chair Makarechian, Chancellor Hawgood explained that by March, the project design would be 60 percent complete. The project budget had undergone multiple reviews, including assessment by the general contractor and an independent assessment by an engineering firm. These assessments were close to the number projected by UCSF. UCSF would provide a detailed explication of the augmentation at the March meeting.

Regent Blum recalled that the first Neurosciences building at UCSF had been built about ten years earlier. The current project represented a second phase, and this new space would attract young researchers in this field.

11. **REGENTS POLICIES ON CAPITAL, EXTERNAL FINANCING, AND EMPLOYEE HOUSING ASSISTANCE PROGRAM MATTERS**

[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 explained that, as part of governance restructuring and in consultation with the Office of the General Counsel and the Office of the Secretary and Chief of Staff to The Regents, proposed revisions to Regents Policies were being presented for policies concerning capital, real estate, external financing, and the Mortgage

Origination Program. In July 2016, the Regents had adopted new Bylaws and Committee Charters, and a review of these policies had been anticipated.

The policies that the University was currently following existed in both Regents Policies as well as in action items that have been adopted over the years. The University was proposing to simplify and standardize a series of policies into a more concise form. The policies were being presented in draft form; changes could be made based on Regents' comments and feedback before the policies were adopted, as projected, at the March meeting. Ms. Arrivas presented a chart showing the proposed changes in approval threshold levels for capital projects, the level above which projects must be presented for Regents' approval. For budget augmentations, the current threshold was 25 percent, while the proposed threshold was 15 percent or an amount not greater than $20 million.

The University would reduce the number of items brought to the Regents for indemnification. For example, if UC were asked to indemnify a federal or State agency, this would not come to the Regents for approval. In each of the last two years, UC had presented one to two items of this kind to the Regents; authority for this kind of approval would be delegated to the President. Ms. Arrivas briefly outlined charts showing the proposed changes in Presidential authority level for real estate acquisitions, and similar thresholds for external financing. The separate policies on the Mortgage Origination Program and the Supplemental Home Loan Program would be combined into a single policy.

Committee Chair Makarechian recalled that the delegated authority for capital projects was a pilot program that had been extended. He asked about a report on the status of this program. Ms. Arrivas responded that this report would be presented at the March meeting. The University was seeking to make the pilot program permanent.

Committee Chair Makarechian recalled concerns of the Regents about project augmentations at the time when the pilot program was extended. Ms. Arrivas responded that augmentations were not to exceed $20 million.

Committee Chair Makarechian emphasized the need for control over and monitoring of cost increases. Ms. Arrivas responded by presenting and explaining a summary chart of standard and delegated project budgets over last three years; it included the sum of initial capital project budgets brought to the Regents for approval, the augmentations brought to the Regents for approval, initial budgets for projects that went through the delegated process, and augmentations for delegated process projects. The total of augmentations that did not come to the Regents for approval was small. She stated that the proposed approval threshold for augmentations, 15 percent or $20 million, could be lowered if the Regents determined that this was appropriate.

Regent Blum asked about the increase in approved projects between 2015-16 and 2016-17 from $3.4 billion to $5.4 billion. Executive Vice President and Chief Financial Officer Brostrom explained that part of this increase, $1.3 billion, was accounted for by the Merced 2020 Project.

Regent Makarechian requested clarification of information displayed for 2014-17 about the amounts and proportions of standard versus delegated capital projects. The Board should be advised of any augmentations or scope changes.

12. FIAT LUX – THE UNIVERSITY OF CALIFORNIA'S CAPTIVE INSURANCE COMPANY: A FIVE-YEAR UPDATE

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

Executive Vice President and Chief Financial Officer Brostrom introduced this update on Fiat Lux, the University's captive insurance company. The University originally created Fiat Lux in order to consolidate its risk finance activities. Fiat Lux has enabled UC to purchase risk insurance directly as a wholesale purchaser rather than a retail purchaser, and to fill in gaps in insurance needs. Fiat Lux provided over 23 lines of insurance and had proved to be a successful program, generating savings or creating new revenues in excess of $25 million annually.

Chief Risk Officer Cheryl Lloyd explained that use of a captive insurance company did not represent a change in risk retention for the campuses, but allowed for effective execution of the risk retention and risk transfer practices. There was no difference in the amount of coverage provided to the campuses, but Fiat Lux allowed UC to lower campus deductibles and provide broader coverage. Ms. Lloyd described regulatory and management aspects of Fiat Lux. The assets of Fiat Lux, as a nonprofit corporation, were irrevocably dedicated to the University's purposes. Fiat Lux had succeeded in buying down deductibles, and most lines of insurance were underwritten by reinsurers rather than excess insurers. Fiat Lux was able to obtain representations and warranty for the Chief Investment Officer on real estate purchases, and to carry out a loss portfolio transfer of the trusts for the University's medical malpractice program and workers' compensation program. The elimination of trust fees saved the University $700,000 annually. In calendar year 2016, UC Care used Fiat Lux as the insurer for its stop-loss coverage, resulting in savings of $1.3 million. Fiat Lux also provided insurance for the UC Student Health Insurance Plan at a cost $1.9 million lower than the renewal quote from a commercial carrier. Fiat Lux was working with the Office of the Chief Investment Officer to develop an investment portfolio.

Mr. Brostrom stated that Fiat Lux had about $1 billion in assets and liabilities of $820 million, and was seeking further savings. Fiat Lux might provide savings to UC and employees if it were to cover the University's voluntary benefits programs, life and disability insurance. Fiat Lux could provide renters insurance for students and equipment warranty. Other entities have expressed interest in participating in Fiat Lux. The California State University (CSU) has had discussions with UC about the formation of a cell insurance company within Fiat Lux, as have some school districts. UC could rent out a cell to these other California educational and municipal entities.

Regent Park asked if these proposed projects were within the original authorization for Fiat Lux and if Fiat Lux might become overextended at some point. Ms. Lloyd responded that the formation of an incorporated cell insurance company for use by third parties would be brought to the Regents for approval. With regard to Regent Park's second question, Mr. Brostrom observed that the University currently retained the same amount of risk as it did before the establishment of Fiat Lux. He acknowledged the possibility of overextending Fiat Lux's capacities and that this must be monitored. Fiat Lux's premium to surplus is closely monitored by its regulator. Ms. Lloyd added that in its last audit, PricewaterhouseCoopers advised Fiat Lux to hire additional employees to help run the company, which advice Fiat Lux followed.

Committee Chair Makarechian asked about Fiat Lux reserves and how losses were projected. Ms. Lloyd responded that the company domicile, the District of Columbia, requires Fiat Lux to carry reserves for losses and claims against insurance policies. These are determined by an actuary who examines Fiat Lux losses over a period of time. Losses could be open for multiple years depending on the line of coverage.

Committee Chair Makarechian asked if Fiat Lux's goal was to arrive at an unrestricted net cash position or to create income. Mr. Brostrom responded that Fiat Lux currently had a positive premium and surplus level, which allowed the company to try to reduce the cost to campuses as much as possible.

Committee Chair Makarechian asked about calculations following the formation of a cell company for CSU. Mr. Brostrom responded that this would be a completely separate company. Ms. Lloyd explained that UC would provide a framework in exchange for a small renter's fee.

In response to a question by Regent-designate Anderson, Ms. Lloyd explained that the asset category of "incurred but not reported reserves" would result when reserves that had been set aside for possible losses were not used and returned to assets. Regent-designate Anderson asked if the University was working with the campuses to minimize exposure and risk. Ms. Lloyd confirmed that UC has risk mitigation programs on the campuses, such as the Be Smart About Safety program.

Regent-designate Anderson asked about the actuarial experience over the past few years, relative to projections. Ms. Lloyd responded that this varied by line of coverage. Mr. Brostrom added that the University has records of its risk experience over decades. Fiat Lux was a new development in addition to experience UC already had.

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.]

Associate Vice President Mark Cianca reported good news, namely that UC Merced, UC Riverside, and the Associated Students of UCLA had joined UCPath as production locations as of early January. The process had begun around Thanksgiving 2017, and the University worked over a six-week period to convert records from the legacy payroll system into UCPath. The first monthly payroll for these populations was issued on January 2, 2018, and the first biweekly payroll was issued on January 10. Payroll accuracy for these first pay cycles exceeded initial projections of 95 percent, with just over 98 percent accuracy. The change to the new system was smoother than expected, with no major concerns, but it required many staff members from the campuses, the UCPath Center, and the Project Management Office to work long hours over the holidays to achieve these results. To support the campuses and ensure long-term success, UCPath would keep project resources on site at these locations through April. UCPath was also gathering lessons learned from this changeover to improve work on the remaining deployments.

Mr. Cianca presented a slide showing the UCPath online portal as it appears to employees, with readily accessible information most often sought by employees. He reported that in late December 2017, UCPath governance approved an extended timeline for the remaining campus deployments. The new schedule took into account lessons learned during the pilot deployment and concerns expressed by the Regents and the California State Auditor. UCPath considered two alternate timelines, polling the campuses on their current state of readiness, staffing, and alignment in any particular sequence. The clear preference on the part of the campuses was to ensure that the UCLA deployment be next in the sequence and that it be successful, for those campuses with medical centers in particular.

Staff Advisor Valdry asked about the effect of this on the project budget. Mr. Cianca responded that the change in the project budget was from $504 million to $547 million. This was a factor of nine additional months in the project timeline. There were additional costs to the campuses as well of approximately $34 million related to the nine-month extension. More details would be provided at the March meeting.

Regent Makarechian asked that the March presentation on UCPath include information on the reserve and contingency.

The meeting adjourned at 4:00 p.m.

Attest:

Secretary and Chief of Staff

Regents Policy on a Central Operating Reserve for the University of California Office of the President (UCOP)

POLICY SUMMARY/BACKGROUND

This policy was developed in response to the recommendation made by the California State Auditor in April 2017 that the Regents adopt a policy governing the size of the reserve funds of the University of California Office of the President and the purposes for which they can be used.

POLICY TEXT

The Regents require that the University of California Office of the President (UCOP) maintain a Central Operating Reserve to support operations in the event of an unanticipated disruption in planned funding. The reserve funds may be used to cover ongoing budgeted expenses such as payroll and other operating expenses. The Central Operating Reserve shall not be used for other purposes. The President shall have the authority to establish and amend guidelines that specify the size and funding source(s) for the Central Operating Reserve. Access to reserves above the threshold stipulated in the Central Operating Reserve Guidelines shall require approval from a majority of the Chair of the Board, the Chair of the Finance and Capital Strategies Committee, and the Chair of the Compliance and Audit Committee.

COMPLIANCE/DELEGATION

Transactions that result in the flow of funds out of the Central Operating Reserve must be approved by the President or his / her designate. The President will notify the Chair of the Board of Regents, the Chair of the Finance and Capital Strategies Committee, and the Chair of the Compliance and Audit Committee before funds are drawn.

PROCEDURES AND RELATED DOCUMENTS

Presidential Guidelines Governing the UCOP Central Operating Reserve [Link to be included upon posting]

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.