

The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE

January 24, 2018

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

Members present: Regents Anguiano, Blum, Lemus, Makarechian, Park, Sherman, Varner, and Zettel; 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: Assistant Secretary Lyall, General Counsel Robinson, Chief Compliance and Audit Officer Bustamante, Executive Vice President and Chief Financial Officer Brostrom, Chancellor Wilcox, and Recording Secretary Johns

The meeting convened at 1:15 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 November 15, 2017 were approved.

2. APPROVAL OF AMENDMENT #6 TO THE UCLA 2002 LONG RANGE DEVELOPMENT PLAN FOR ADDITIONAL ON-CAMPUS STUDENT HOUSING FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, LOS ANGELES CAMPUS

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed Amendment #6 to the UCLA 2002 Long Range Development Plan (LRDP), 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 recommend that the Regents:

- A. *Certify the UCLA Long Range Development Plan Amendment (2017) and Student Housing Projects Subsequent Environmental Impact Report.*
- B. Adopt the CEQA Findings, Statement of Overriding Considerations, and Mitigation Monitoring and Reporting Plan.

- C. Approve Amendment #6 to the UCLA 2002 LRDP to add 1.5 million gross square feet to the campus development allocation.

[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.]

UCLA Vice Chancellor Steven Olsen explained that UCLA was presenting four items at this meeting. The first item, an amendment to the 2002 UCLA Long Range Development Plan (LRDP), would increase campus entitlements by 1.5 million square feet to accommodate five student housing projects, adding 6,900 beds for undergraduate and graduate students. The following three items concerned project approval, financing authority, and design approval for three of the five student housing projects: the Lot 15 Residence Hall, the 10995 Le Conte Apartments, and the Southwest Campus Apartments.

The overall goal of UCLA's program, embodied in these items, is to address an acute housing crisis for UCLA students. Housing affordability is a major problem. There had been substantial rent increases in the West Los Angeles area. Typical rent for a two-bedroom apartment within a reasonable distance of campus was between \$4,000 and \$4,500 a month; annual increases were in the range of ten to 15 percent. Students wish the University to act quickly to address this problem. UCLA's goal is to be able to provide a four-year housing guarantee to all entering freshmen, and a two-year guarantee to all entering transfer students. UCLA also has a goal, not quantified, to increase access to housing for graduate students and postdoctoral scholars.

Housing for undergraduate students was the area with the most critical needs. Through the projects presented in the following three items, UCLA would add approximately 5,200 beds, a 25 percent increase, to the existing inventory and, based on current and projected enrollment levels, UCLA anticipated that it would be able to offer a four-year guarantee for entering freshmen and a two-year guarantee for transfer students. There is abundant evidence that providing high-quality, affordable housing for students has a beneficial impact on their academic achievement.

UCLA has very little land available for development. UCLA is the largest UC campus by many measures, but it has the smallest land area of any of the nine general campuses. The three proposed projects were infill development in an existing area of the northwest campus in highly dense, urban sites. Two projects would be adjacent to commercial and residential areas in Westwood.

Mr. Olsen described the Southwest Campus Apartments location, an approximately four-acre site surrounded by existing graduate student housing. Warren Hall, a medical research building constructed in the 1940s, was currently located here. Warren Hall was obsolete and relatively underused, and research programs in Warren Hall were being relocated to more appropriate facilities. The project on this site would provide 2,279 beds in three mid-rise buildings ranging from eight to ten levels. Two of the buildings would provide apartment-style housing for upper-division undergraduates, and the third building would

provide apartment-style housing for graduate students, at a lower density. The budget for the project was \$383 million, with equity contributions from housing reserves. This was the case for all three housing projects being presented that day; 20 percent of project costs were being funded by equity contributions from the campus' housing reserves, and 80 percent would be financed by external debt. All three projects would be delivered via the "construction manager at risk" model, a model that had been successful for many recent projects at UCLA. Mr. Olsen presented site plans and architectural renderings of the buildings' external appearance. The typical plan for these buildings was a four-bedroom apartment, which would house eight undergraduate students or four graduate students. He emphasized the planned quality of these buildings, which UCLA expected would have a long life.

Mr. Olsen then described the location of the 10995 Le Conte Apartments, a one-acre site that was currently the location of UCLA's Extension program, a seven-story office building at the end of its useful life. The Extension program was being moved to a leased space adjacent to the campus. UCLA would construct a high-rise building at this location with 1,159 beds for upper-division undergraduate students. The project would have a high density and required a careful and well-planned architectural approach, given its proximity to Westwood Village. Mr. Olsen drew attention to height variations in the building, with a nine-story wing and a 17-story high-rise, and to the mix of materials being used. The height of the project would match building heights in the Westwood Village area. The apartments would have two bedrooms and two baths, housing six undergraduate students each.

The Lot 15 Residence Hall would be located in the area of campus with the highest student housing density. This project would not involve the demolition of an existing building, other than a few temporary storage structures. Following discussions with the Westwood community, UCLA agreed to set the project 200 feet back from Veteran Avenue. The project would consist of two mid-rise buildings with eight levels, providing 1,781 beds in dormitory-style, triple occupancy rooms. There would be no dining facility; there was adequate dining capacity in other complexes in the northwest campus. A pedestrian bridge over De Neve Drive would also be built. UCLA intended to use materials that would make the project blend into the surrounding environment and have a low visual impact on surrounding residential areas.

Mr. Olsen observed that these housing projects were based on a stable level of undergraduate enrollment through 2022. Among other goals, UCLA wished to reduce the percentage of undergraduate students living in triple rooms, currently 81 percent, and in many cases in rooms not designed to accommodate three students. UCLA's goal was to reduce this number to 60 percent. Compared to undergraduates, a smaller percentage of graduate students are housed on campus, and they remain more dependent than undergraduates on the private housing market. The Southwest Campus Apartments would provide an additional 325 beds for graduate students.

Mr. Olsen compared private market rental rates to rates for UCLA-owned student housing. In off-campus housing, four UCLA students might crowd into a two-bedroom apartment at an average cost of \$1,200 a month. This would be an unfurnished apartment with no

associated services. A comparable UCLA student apartment would cost \$900 a month, but would be fully furnished, with utilities and residential life programs. The nine-month contracts offered by UCLA are not widely available in the private market. He concluded that the projects being presented that day were essential to meeting the needs of UCLA students.

Regent Sherman observed that one of the projects would have triple occupancy rooms although a stated goal of the campus was to reduce the percentage of triples. Administrative Vice Chancellor Michael Beck explained that an important issue was whether or not a building had been designed to accommodate a certain density. The Lot 15 Residence Hall would have an appropriate number of fixtures and amenities to accommodate that higher density.

Regent Sherman remarked that these projects did not include parking. Mr. Olsen responded that UCLA does not provide parking permits to undergraduate students unless they have a demonstrated need, and this reflected the campus' overall environmental strategy. The Los Angeles County Metropolitan Transportation Authority (Metro) would be extending its Purple Line toward UCLA in 2026, and the campus would arrange shuttle bus coverage between the Metro station and the campus. UCLA does not encourage students to bring a car to campus and wishes to avoid having students parking in adjacent residential areas. Since 1990, through van pooling and other measures, UCLA had reduced daily vehicle trips to campus by about 20 percent.

Regent Sherman asked about common kitchen facilities. Assistant Vice Chancellor Peter Angelis responded that UCLA has an extensive and robust dining program on campus. UCLA was planning to create a teaching kitchen in the Southwest Campus Apartments project.

Regent Anguiano asked if UCLA had carried out discussions with the Los Angeles community and with campus stakeholders about proposed changes to the campus LRDP, and when UCLA might consider a new LRDP. Mr. Olsen responded that the campus had fully complied with all California Environmental Quality Act (CEQA) requirements, including scoping meetings, public hearings, preparation of a draft Environmental Impact Report (EIR), and proposed LRDP amendment. UCLA accepted both oral and written comments and responded to all comments submitted within the legally mandated time frame in the final EIR. UCLA teams had extensive conversations with students, faculty, and community stakeholders about the individual projects and UCLA's overall housing program. In response to many of these comments, UCLA made changes in landscaping, lighting, choice of construction materials, and distance at which buildings are set back from the street. He expressed confidence that UCLA had achieved a balance between the needs of its students and the concerns of the public. In response to Regent Anguiano's second question, Mr. Olsen stated that he did not know when the campus might prepare a new LRDP. This 2017 amendment was focused solely on the housing program, and its purpose was to create building entitlements that the campus currently lacked in order to accommodate the housing program. In UCLA's view, this was a straightforward action.

UCLA views student housing as an environmental amenity. A future LRDP amendment might be motivated by growth of other programs.

Regent Anguiano asked about UCLA's projection that its undergraduate population would remain level through 2022 in relation to the University's need to increase its undergraduate population. Mr. Olsen responded that this projection was a planning construct. Based on current enrollment, UCLA would meet its two- and four-year housing guarantee goals if it built the proposed projects. If the University required UCLA to accept more students, it would not be able to achieve these goals. This would be an ongoing topic of discussion. Like other campuses, UCLA was a very crowded campus at this time, experiencing stresses on its ability to support students. The proposed building program was essential.

Regent Anguiano asked what an ideal situation would be over the coming five years in terms of undergraduate student population growth. Mr. Olsen responded that in order to maintain the overall quality of the student experience, UCLA would not increase enrollment. Chancellor Block observed that UCLA could not accommodate any more people on campus at any one time, although it could examine other mechanisms, such as increasing the number of its students in the Education Abroad Program or students graduating in three years.

Regent-designate Anderson praised UCLA's program for its focus on affordability and student access.

Chancellor Khosla asked at what point UCLA would achieve its four-year guarantee, given the current enrollment plan. Mr. Olsen responded that this would occur when the last of the planned buildings was ready in 2022. This would be a guarantee for students who want UCLA housing; UCLA would not be housing 100 percent of its students.

Regent-designate Morimoto asked about a targeted discount relative to the market. Mr. Angelis responded that UCLA has a target for its inventory between ten and 30 percent below market. Mr. Beck added that some older UCLA properties are discounted almost 50 percent.

Regent-designate Anderson asked if student housing is in use or vacant during the summer months. Mr. Angelis responded that UCLA housing is in use almost 65 percent during this 90-day period. This percentage had been growing with the increased demand for summer sessions.

Regent Lemus asked about UCLA's current overall debt and financial situation versus the future status when the broad master plan for housing would have been implemented. Executive Vice President and Chief Financial Officer Brostrom responded that the University considers its debt capacity systemwide and at the campus level. For campuses, UC examines modified cash flow, debt service to operations, project-specific coverage, and enterprise coverage. The University is especially mindful of debt service to operations; UCLA was well within the six percent threshold. Each of these projects provided

substantial coverage. He explained that certain figures provided by the campus represented the worst points in a stress test.

Regent Lemus asked if there were any opportunities to increase the discount for students relative to the market. Mr. Brostrom remarked that UCLA's coverage amounts had to be sufficient not only for debt service but also for maintenance. Mr. Olsen responded that UCLA develops pro forma financial statements to guide its thinking about near-term decisions on affordability and debt coverage and about the long-term perspective, decades into the future. UCLA would be drawing down its overall reserves by almost \$180 million. UCLA was able to do this because of decisions made in the past, investments in the modernization and renovation of existing housing stock. Currently, on-campus housing had all been either constructed or renovated within the past eight years. The ability to pursue this strategy required a consistent approach to pricing, with consistent but moderate increases. UCLA can offer a broad range of price points for students. The health of the overall housing system was the long-term key that would allow UCLA to continue to provide adequate student housing. Mr. Beck drew attention to the fact that over the past five years, UCLA housing rates had increased by only 2.5 percent; UCLA was proposing to limit this to three percent in the future, even though labor and other costs for the program continue to grow. UCLA strives for affordability in all its housing inventory.

Student Advisor Sands stated that community involvement in the discussion of these projects had been extraordinary. Students appreciate UCLA's efforts. He noted that a nine-month versus a 12-month rental period changes the price for students. Mr. Beck responded that many students try to sublet their apartments to save money during the summer months. UCLA had calculated rental costs over a nine-month period for comparable apartments: \$10,890 for an off-campus apartment, assuming a student was able to sublet, versus \$8,100 for a UCLA apartment.

Committee Chair Makarechian expressed concern about what he perceived as very high costs per square foot for these projects. The construction costs should be much lower than a recent project at UC San Diego, to which they were compared in the background materials provided. He asked that the campus provide further justification of these costs to him, to Regent Sherman, and others. Mr. Olsen responded that the UC San Diego project had been for a fixed price, based on a design-build competition. UCLA had an estimate for its projects, but had not yet brought competitive pressure to bear on the cost. The construction market in Los Angeles had been volatile. There was a strong possibility that UCLA would receive a good market response, based on the scale of these projects. A number of large contractors had expressed interest in these projects and in UCLA's overall housing program.

Regent Blum suggested that these projects be delayed so the Regents could receive more information.

Regent Anguiano asked why UCLA was not pursuing a design-build approach, and about UCLA's staffing capacity to take on these projects simultaneously. Mr. Olsen responded that UCLA had a long-established and successful practice of using the construction

manager at risk delivery method. Building sites are directly adjacent to UCLA's neighbors. He suggested that using a design-build competition might drive costs in ways that affect these neighbors and that this could cause UCLA legal problems. Responding to Regent Anguiano's question about staffing, he noted that UCLA had had varying levels of project volume in past years. Typically, UCLA has between \$1 billion and \$1.5 billion in projects under management. Implementation of these projects would bring this volume toward the higher end of that range, but Mr. Olsen expressed confidence that UCLA had the overall capacity to manage this.

Regent-designate Anderson expressed support for the construction manager at risk process. UCLA could gain efficiencies through scale and multiple projects. The Regents should not delay these projects, and allow UCLA to evaluate costs further.

Committee Chair Makarechian asked about the effect on the projects if Regents' approval were delayed until the March meeting. Mr. Olsen responded that the impact on the schedule for a housing project would be greater than just the two months that elapse between Regents meetings; it would jeopardize the campus' ability to deliver a housing project in time to be open at the beginning of the academic year. There were substantial business risks of cost escalation and revenue loss. UCLA had an aggressive schedule for these projects and wished to move toward a bidding situation; there could be further discussion and refinement of cost estimates. If the Regents did not approve these projects now, the campus would have to reduce its activities considerably. Mr. Beck noted that every year of delay would equate to \$50 million in cost escalation.

Regent Anguiano asked if UCLA could continue with the planning process, given that it would be using campus housing reserves to fund 20 percent of the projects. Mr. Olsen responded that UCLA did not have the authorization to do so. Mr. Brostrom added that the campus would continue to seek opportunities for savings; these items would only be brought back to the Committee if there were an augmentation, if the projects exceeded the budgeted or external financing levels. He suggested arranging a meeting before the next Regents meeting to discuss project costs and possible efficiencies before UCLA began construction drawings and the bid process. Mr. Olsen explained that UCLA adopts a working budget for its projects based on actual results of the bidding. If UCLA were able to generate savings and lower costs, the Regents could reduce the budgets for the projects.

Regent Sherman stated that he was in favor of having these projects move forward, but remarked that value engineering still needed to be done. The Regents were not satisfied with the current cost per square foot. He asked that UCLA incorporate value engineering and design options that would result in lower costs per square foot. Mr. Olsen responded that construction managers were currently active in the design process. UCLA would not make any fundamental scope changes to any of these projects, such as lowering the number of beds. In some aspects, the project costs reflected the cost of doing business in Los Angeles, the site conditions, and the proximity of neighbors.

Committee Chair Makarechian stated that the Committee would approve these items on condition that he, Regent Sherman, and other Regents, if they wished, receive follow-up

information and if they were not comfortable with the costs, the University would renegotiate terms. Mr. Brostrom responded that he would arrange a phone call between meetings, and possibly an in-person meeting at UCLA, to review some of the factors contributing to project budgets and to receive an update by the UCLA teams about different options they had considered.

Committee Chair Makarechian stated that the Committee would like the option of rescinding these items. General Counsel Robinson explained that rescission would not be self-executing; it would require further action by the Regents. He clarified that the Committee would approve the Lot 15 Residence Hall, 10995 Le Conte Apartments, and Southwest Campus Apartments items, subject to further conversation and with the possibility of the Regents taking further action in the future. No conditions were attached to the current item, *Approval of Amendment #6 to the UCLA 2002 Long Range Development Plan for Additional On-Campus Student Housing Following Action Pursuant to the California Environmental Quality Act, Los Angeles Campus*.

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

3. **APPROVAL OF BUDGET, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO CALIFORNIA ENVIRONMENTAL QUALITY ACT, LOT 15 RESIDENCE HALL, 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: Lot 15 Residence Hall – preliminary plans – \$3 million to be funded from housing reserves.

To: Los Angeles: Lot 15 Residence Hall – preliminary plans, working drawings, construction, and equipment – \$237,449,000 to be funded from external financing (\$193,449,000) and housing reserves (\$44 million).

- B. The Lot 15 Residence Hall project shall construct approximately 343,600 gross square feet (gsf) of housing space, supplying approximately 1,781 beds, related commons space, and site improvements. The scope includes demolition of Ornamental Horticultural Buildings J and M, totaling approximately 12,000 gsf, to create the site for the proposed residential facility.

- C. The President be authorized to obtain external financing not to exceed \$193,449,000, 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 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 Lot 15 Residence Hall 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 re-adopt and affirm the Findings for the UCLA LRDP Amendment (2017) and Student Housing Projects.
 - (2) Approve the design of the Lot 15 Residence Hall 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.

4. **APPROVAL OF BUDGET, EXTERNAL FINANCING, AND DESIGN FOLLOWING ACTION PURSUANT TO CALIFORNIA ENVIRONMENTAL QUALITY ACT, 10995 LE CONTE 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: 10995 Le Conte Apartments – preliminary plans – \$3.1 million to be funded from housing reserves.

- To: Los Angeles: 10995 Le Conte Apartments – preliminary plans, working drawings, construction, and equipment – \$209.64 million to be funded from external financing (\$156.64 million) and housing reserves (\$53 million).
- B. The 10995 Le Conte Apartments project shall construct approximately 301,900 gross square feet (gsf) of housing space, supplying approximately 1,159 beds, related commons space, and site improvements. The scope includes demolition of the University Extension Building, a 93,500-gsf seismically deficient structure, to create the site for the proposed residential facility.
- C. The President be authorized to obtain external financing not to exceed \$156.64 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 10995 Le Conte 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 10995 Le Conte 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.

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.