









required to submit these statements to its bondholders every year. Rating agencies read the statements closely and put forward many questions. The State of California includes data from these statements in its Comprehensive Annual Financial Report. The statements are prepared following government accounting standards, which allow the University to compare its financial results with those of other public universities.

Regent Sherman noted that the obligation for retiree health benefits had decreased because the expected interest on earnings, the discount rate, had increased to 3.87 percent from 3.58 percent. He asked if this change was based on the increase in generalized interest rates. Ms. Arrivas responded that the University uses the Bond Buyer 20-year tax-exempt general obligation municipal bond index rate to determine this liability every year on June 30. The index had increased this year over the prior year, and this was a major reason for the decrease in the liability. In response to another question by Regent Sherman, she confirmed that if the index had remained level, the liability would have been higher.

Regent Sherman observed that if UC used the same discount rate for retiree health benefits that it used for its pension obligation, the liability would be lower by half. Ms. Arrivas confirmed that the liability would be substantially lower. The University was using a discount rate of 7.25 percent for the UC Retirement Plan (UCRP), the expected rate of return on the pension portfolio. The UCRP is substantially funded, and the University projects that moving into the future, there would be a period of about 100 years of expected payments from the UCRP. For this reason, UC is allowed to use this discount rate for future years. Executive Vice President and Chief Financial Officer Brostrom added that the University did not have similar funding for retiree health benefits, and must use the risk free cost of capital, the Bond Buyer index rate, to determine the discount rate.

Regent Sherman remarked on the inconsistency in these rates. Ms. Arrivas responded that there was consistency, because the discount rate language in the standards for the two programs is identical. To the extent that a program is funded, one may use the expected rate of return. If for some reason the University projected that it would run out of assets before it was finished paying UCRP benefits, the 3.87 percent discount rate would be used to calculate a blended discount rate for the UCRP by applying the lower rate in years when funds are not available to pay benefits.

Regent Sherman asked whether, if the University were a public corporation, it would use this 3.87 percent discount rate. Ms. Arrivas responded that the rate would probably be similar.

Committee Chair Makarechian referred to information in the 2017-18 Annual Financial Report for the University of California on operating expenses by function. A table in the section "Campus Facts in Brief" listed instructional expenses at the different campuses. The cost of instruction at UC Berkeley was approximately \$801 million, while the cost at UCLA was \$2.3 billion, and the cost at UC Irvine was \$722 million. He asked about the reason for these differences. Ms. Arrivas acknowledged that there was variation among the campuses on this point. One factor that would account for the variation was unfunded research. To the extent that there is funding for research, such as federal or State grants,

this appears in the line item for research. Unfunded research, research which is part of teaching, is counted in the total for instruction.

Committee Chair Makarechian observed that in spite of significant enrollment increases, the cost of instruction did not rise at the same rate from 2014 to 2018. He asked if this was due to the growing student-faculty ratio. Mr. Brostrom responded that the student-faculty ratio was the most significant contributor. If the University adds students, but not a commensurate number of faculty, the budget for instruction would not rise at the same rate.

Committee Chair Makarechian commented on the negative effects of a high student-faculty ratio on the quality of education and students' ability to communicate with faculty. He asked how the University planned to address this. Mr. Brostrom responded that student surveys indicated a high level of satisfaction with the University in general, but the number of students who cannot enroll in the major of their choice had increased dramatically, and the percentage of students who knew a faculty member well enough to ask for a letter of reference had decreased from about 80 percent to 60 percent. An important element of the University's multi-year budget plan would be replenishing faculty, replacing retiring faculty and adding new faculty to address this issue. At this point, the need to increase faculty should be a top priority for UC.

Committee Chair Makarechian asked about the reasons for the improvement in the University's financial position in 2018. Ms. Arrivas responded that the performance of the financial markets had an impact on UC's financial statements. There had been an 8.9 percent return for the General Endowment Pool, and a 4.5 percent return for the Total Return Investment Pool. The performance of the UCRP, at 7.8 percent, slightly exceeded the expected return, and the retiree health benefit liability was lower. All these factors contributed to an increase in UC's net position. In a year of strong investment returns, the University's net position tends to increase; in a challenging year it decreases. Mr. Brostrom remarked that the University had also performed a sound financial move in accelerating issuance of debt. UC issued a significant amount of debt in 2017, in advance of impending tax reforms in 2018, and during a time of low interest rates. UC issued approximately \$3.5 billion of debt in 2017, more than usual.

Committee Chair Makarechian remarked that in construction financing, the University issues bonds, and then places the proceeds in the Short Term Investment Pool (STIP), which earns a return of about 1.2 percent. He asked if this procedure could be changed in the future, issuing bonds and using the proceeds to avoid negative arbitrage, a situation in which the University would earn one percent but pay four percent to bondholders. Ms. Arrivas responded that the University usually uses commercial paper to fund construction for a period of time. UC finances projects with long-term debt when the projects are 40 percent to 50 percent complete. The University does not usually finance projects at the start of construction because its commercial paper rates are low, and so avoids negative arbitrage.

Committee Chair Makarechian asked why the University could not borrow from STIP. Mr. Brostrom responded that the interest rate on commercial paper was less than one

percent and lower than for STIP. The University waits until projects are substantially complete to issue long-term bonds in order to reduce negative arbitrage.

Regent Park observed that the University had benefited from favorable market circumstances that it could not rely on. The University's budget focused on rebuilding, but UC would rebuild in a time when circumstances would become less favorable. In the context of the University's budget, or another appropriate context, the Regents should discuss how UC could aggressively pursue doubling its endowment over the next ten to 12 years. Committee Chair Makarechian reiterated that the first steps for the University were to understand its needs and develop a timetable for those needs; then it would try to find a way to raise funds. Mr. Brostrom responded that in an environment of rising interest rates, UC makes campuses use a higher planning rate for projects. UC had been borrowing at a rate of about four percent, but used a planning rate of six percent in order to stress-test projects. The University was using very little variable rate debt, since rates had been low. Mr. Brostrom would propose that UC begin using more variable rate debt, managing that rate centrally and offering the campuses a single rate. This would reflect the University's strong credit.

Committee Chair Makarechian commented that the University could not raise funds for deferred maintenance without help from the State through general obligation bonds. The University could not simply borrow money without sources to pay interest. Mr. Brostrom responded that the University had debt capacity, but financing deferred maintenance does not raise additional revenues, which are needed for future debt capacity. This was also the case for seismic upgrades; UCSF would replace a hospital on the Parnassus campus, but with no additional beds and no additional revenue.

Regent Anderson remarked that the investment market had helped the University's net position, and pension liabilities had decreased. UC enjoyed good liquidity and cash position, and a long duration of liability, but it was still thinly capitalized as an organization. The next five years would likely not be easier. He asked if the University had contingency plans for a less favorable funding situation, with less debt capacity. Mr. Brostrom expressed confidence in the University's net position, and reflected that the retiree health benefit liability was something of an artificial number. The University was paying \$330 million annually on a pay-as-you-go basis, but because UC did not prefund retiree health benefits, it must escalate this at the medical trend rate of seven to 7.5 percent, and discount back at three to 3.5 percent. He did not see this \$19 billion as a liability, but as a benefit that UC provides on a pay-as-you-go basis. The University was making all possible efforts to build more resilience into its financial system. At its meeting the previous day, the Investments Subcommittee had recommended establishment of the new Blue and Gold Endowment. One goal of this Endowment would be to optimize as much working capital as possible, providing more resilience in the event of a downturn in the coming years. The University had been fortunate in being able to leverage its own balance sheet. For the unfunded needs discussed in the context of the previous item, the 2018-28 Capital Financial Plan, the University would not have debt capacity in the future, and it would have to pursue a partnership with the State to fund new buildings and the upkeep of older buildings.

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 AND SCOPE, APPROVAL OF EXTERNAL FINANCING AND EXTERNAL FINANCING SUPPORTED BY STATE GENERAL FUNDS, AND APPROVAL OF DESIGN FOLLOWING ACTION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT, TEACHING AND LEARNING COMPLEX, DAVIS CAMPUS**

The President of the University recommended that:

- A. The 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

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

To: Davis: Teaching and Learning Complex – preliminary plans, working drawings, construction, and equipment – \$86,337,000 to be funded from external financing supported by State appropriations under the process described in Sections 92493 through 92496 of the California Education Code (\$50 million) and external financing supported by general revenues of the Davis campus (\$36,337,000).

- B. The scope of the Teaching and Learning Complex project shall provide approximately 65,200 assignable square feet (100,000 gross square feet) in a four-story structure. The facility includes approximately 2,000 general assignment classroom seats totaling approximately 41,500 assignable square feet (asf), as well as approximately 5,600 asf for student study and collaboration, approximately 12,700 asf of office space, and approximately 5,400 asf for building support space. The scope also includes plazas, bicycle parking, and the demolition of the Surge IV structures currently on the site.

- C. The President be authorized to obtain external financing not to exceed \$36,337,000 plus additional related financing costs. The President shall require that:

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

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

- (3) The general credit of the Regents shall not be pledged.
- D. The President be authorized to obtain external financing not to exceed \$50 million plus related interest expense and additional related financing costs. The President shall require that:
- (1) Interest only, based on the amount drawn, shall be paid on the outstanding balance during the construction period.
  - (2) The primary source of repayment shall be from State General Fund appropriations, pursuant to the Education Code Section 92493 et seq. Should State General Fund appropriation funds not be available, the President shall have the authority to use any legally available funds to make debt service payments.
  - (3) The general credit of the Regents shall not be pledged.
- E. Following review and consideration of the environmental consequences of the proposed Teaching and Learning Complex project, as required by the California Environmental Quality Act (CEQA), and including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents 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 Regents:
- (1) Adopt the CEQA Findings in support of the project.
  - (2) Approve the design of the Teaching and Learning Complex project, Davis campus.

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

Chancellor May introduced the item by explaining that the Davis campus was addressing one of its most pressing needs with the construction of a new classroom facility with spaces designed to support interactive learning. He recalled that the Teaching and Learning Complex project had been discussed at the September 2017 meeting, and the Regents had approved preliminary plans funding in November 2017. The project would redevelop an underutilized site on the core campus and deliver approximately 2,000 additional classroom seats, and was projected to address anticipated campus demand for classroom space through 2030.

Vice Chancellor Kelly Ratliff outlined some features of the 65,000-assignable-square-foot building and presented slides showing its location on campus, a floor plan, and an architectural rendering of the building's appearance. It would provide three floors of classroom space and a fourth floor with office space. Classrooms would range in size from

30 seats to 425 seats. In developing the floor plan, the campus studied capacity and utilization of existing classrooms and solicited the opinions of professors, teaching staff, and students. The proposed configuration and mix of classrooms would support interactive learning. This would be a design-build project. The campus had selected DPR Construction and as architect the SmithGroup. The project cost would be slightly above \$86 million, to be funded by about \$50 million in external financing supported by State appropriations and about \$36 million in external financing supported by general revenues of the Davis campus. The cost per square foot was \$590.

Committee Chair Makarechian asked if the contractor or team had a guaranteed maximum cost. Associate Vice Chancellor Jim Carroll responded in the affirmative. The maximum acceptable cost was \$71.4 million, and the contractor's proposal came in below that price. Committee Chair Makarechian asked if any cost increases would be covered by the contractor. Mr. Carroll responded that the campus did not anticipate any increase in cost, but there was still design work to be completed. Committee Chair Makarechian asked if this design work would be changes to the design. Mr. Carroll responded in the negative; the work to be done was finalization of the construction documents. The square footage and disposition of spaces would remain the same. Work remained to be done with the design-build contractor to ensure that everything would be ready for hard bid contracts.

Regent Anguiano asked about the building's planned auditorium and what kind of classes would be held there. She raised the question of student success in classes with hundreds of students. Chancellor May responded that the building would offer flexibility and some ability to reconfigure spaces and would be equipped with technology for remote learning. Ms. Ratliff noted that there are large classes in many different subjects and departments at UC Davis. The campus had insufficient space for large classes and was about to open a 600-seat classroom. Faculty had needs for large classrooms. Regent Anguiano asked if UC Davis was examining student outcomes, and whether large classrooms are effective. Ms. Ratliff responded that UC Davis does study this question.

Regent Sherman asked about the timeline for securing external financing, and the threshold before the University could go to market. Associate Vice President Peggy Arrivas responded that, as mentioned in the preceding discussion, the University usually finances projects with commercial paper until the projects are significantly complete, 40 percent or more. The University then groups projects together and goes to market. She anticipated that UC would go to market at some time in 2019, but the University had not yet made an assessment of all campus projects to determine which would be ready for financing. The University would monitor the interest rate market in making its decisions.

Regent Sherman asked about the grouping together of projects. He asked if, from the bondholders' standpoint, debt is cross-collateralized against the general revenues of the University. Ms. Arrivas responded in the affirmative. Limited project revenue bonds, used to fund auxiliary enterprise projects that are usually self-supporting, are also pooled. Regent Sherman asked about the critical mass or threshold that must be reached before going to market. Ms. Arrivas responded that the University monitors its commercial paper capacity. This is balanced against upcoming maturities that must be refinanced and the

interest rate environment. Executive Vice President and Chief Financial Officer Brostrom added that the University prefers to go to market with close to one billion dollars, not with amounts of \$200 million to \$300 million.

Regent Sherman asked if the University would prefer to go to market sooner rather than later, given that interest rates were expected to rise in 2019. Ms. Arrivas responded in the affirmative. Some of the University's bonds would mature in July 2019 and had to be refinanced before then. Mr. Brostrom observed that the University must take the effects of negative arbitrage into consideration in decisions about when to go to market.

Committee Chair Makarechian requested clarification of the external financing for the project. Mr. Brostrom explained that the \$50 million in external financing supported by State appropriations would be provided through the AB 94 process. The University had pledged a portion of its State appropriation to debt service; these funds were allocated among the campuses. This \$50 million was a portion of that allocation to the Davis campus. This funding would otherwise flow to the campus as operating revenues.

Committee Chair Makarechian moved the item with the condition that there be no additional augmentations or increases to the budget for this project and that there be a guaranteed maximum with the contractor.

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

## 6. **CONSENT AGENDA**

### A. *Approval of the University of California 2019-20 Budget for State Capital Improvements*

The President of the University recommended that the 2019-20 Budget for State Capital Improvements be approved as shown below:

		<b>State General Funds Financed (\$000s)</b>	<b>Phase</b>
Berkeley	University Hall Seismic Safety Corrections	\$6,050	Construction
Irvine	Student Wellness & Success Center	\$13,000	Construction
Riverside	Pierce Hall Interiors	\$13,000	Construction Equipment
Santa Barbara	Classroom Building	\$79,787	Construction
Santa Cruz	Kresge College Academic	\$47,200	Construction Equipment

Division of Agriculture & Natural Resources	Facilities Renewal and Improvements	\$19,237	Preliminary Plans Working Drawings Construction
<b>Capital Projects Total</b>		<b>\$178,274</b>	
2019-20 Systemwide State Deferred Maintenance Program		\$35,000	
<b>TOTAL STATE FUNDS FINANCED</b>		<b>\$213,274</b>	

**B. *Approval of Preliminary Plans Funding, Classroom Building, Santa Barbara Campus***

The President of the University recommended that the 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

Santa Barbara: Classroom Building – preliminary plans – \$2.1 million, to be funded from campus funds.

**C. *Amendment of Preliminary Plans Funding, UCSF Research Building at Zuckerberg San Francisco General Hospital, San Francisco Campus***

The President of the University recommended that the 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: UCSF San Francisco General Hospital Research Building – preliminary plans – \$10.9 million to be funded from campus funds.

To: San Francisco: UCSF Research Building at Zuckerberg San Francisco General Hospital – preliminary plans – \$19.88 million to be funded from campus funds.

**D. *Approval of Preliminary Plans Funding, Scope, and Working Drawings Funding, Roadway and Site Improvements at Zuckerberg San Francisco General Hospital, San Francisco Campus***

The President of the University recommended that:

(1) The 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended to include:

San Francisco: Roadway and Site Improvements at Zuckerberg San Francisco General Hospital – preliminary plans and working drawings – \$3,711,000, to be funded from campus

funds.

- (2) The scope of the Roadway and Site Improvements at Zuckerberg San Francisco General Hospital (ZSFG) project shall provide a new east-west roadway on the ZSFG campus connecting the on-campus hospital loop roadway with Vermont Street; site improvements include: installation of landscaping, pedestrian pathways, drainage, accessible parking spaces, and utilities serving the roadway. The work includes the removal or relocation of existing utilities and parking spaces, relocation of a historic decorative fountain, and installation of underground utilities serving the new research building.

E. ***Approval of Preliminary Plans Funding, Hillcrest Campus Outpatient Pavilion and Parking, San Diego Campus***

The President of the University recommended that the 2018-19 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Diego: Hillcrest Campus Outpatient Pavilion and Parking – preliminary plans – \$20 million, to be funded from campus funds.

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

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

7. **UC SAN DIEGO 2019 LONG RANGE DEVELOPMENT PLAN, HILLCREST CAMPUS, SAN DIEGO CAMPUS**

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

Chancellor Khosla recalled that the Hillcrest hospital must be replaced by 2030 to comply with seismic safety requirements. Over the past six years, UC San Diego had spent about \$20 million acquiring small pieces of property in order to make the Hillcrest property contiguous. In this new Long Range Development Plan, the San Diego campus would take a fresh look at this property and redevelop it in a way that would change how UC San Diego provides medical care. He stressed the complexity of this task, of replacing a hospital with a new hospital of the same size, while keeping the first hospital running in order to avoid revenue loss. The project that the Committee had just approved, the Hillcrest Campus Outpatient Pavilion and Parking, was important because it would allow UC San Diego to begin adding revenue.

UC San Diego Health Chief Executive Officer Patricia Maysent remarked that UC San Diego Health began its academic and clinical career in 1966 through use of the County Hospital on the Hillcrest campus. In 1981, UC San Diego purchased the hospital and subsequently expanded its teaching, research, and clinical missions. Currently, UCSD was operating almost 40 clinical research and administrative buildings on the Hillcrest campus, most of which were obsolete. Hillcrest is a densely populated and fast-growing area. UCSD's clinical operations provide specialized and needed services, including the comprehensive Emergency Department, the Level One trauma service, HIV care, behavioral health, and the Regional Burn Center. Because UCSD took over the County Hospital, UCSD provides a disproportionate share of services to the most vulnerable patients in San Diego. Over 40 percent of the payor population is funded by Medi-Cal or not funded at all. The Hillcrest hospital provides a rich learning environment for medical students, residents, and fellows because of the diversity and complexity of the patient population.

In order to comply with seismic regulations, UCSD needed to replace the hospital by 2030. The hospital was an obsolete building for which renovation was not an option. This situation created two particular challenges. One was maintaining clinical operations for the next decade while the hospital was replaced. UCSD would address this through a complex set of project phases. The second challenge was paying for a replacement hospital, given that there would be little new revenue associated with replacement. UCSD would address this challenge in a number of ways. Campus leadership had demonstrated foresight in developing a community project, a housing project that would meet housing needs of the community and generate revenue for UCSD in order to rebuild roads, build new parking structures, make infrastructure changes, and add utilities needed for the hospital. UCSD would diversify outpatient services, which would add value to the project. UCSD was managing its growth, revenue, and cash, and examining debt financing, philanthropy, and service line programming to navigate this ten-year process.

There were deed restrictions attached to the property, and UCSD had been working with the County for the past year to have the County remove those restrictions. The previous day, the County had communicated to UCSD that it would take up the matter of a deed restriction waiver at the County Board of Supervisors December 11 meeting. This would leave UC San Diego free to redevelop the property as outlined in the background materials provided.

Chair Kieffer praised UCSD's approach. The need for this project was great, and the positive response from the community was also significant. Regent Leib commended UC San Diego for its outreach to the San Diego community and elected officials.

8. **AMBULATORY CARE CENTER EXPANSION WITH EYE CENTER, DAVIS HEALTH 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 May introduced the item, noting that this project was part of an ongoing effort to improve patient access to services at UC Davis Health, and the first step in a comprehensive plan to consolidate, renovate, and improve the UC Davis Health clinics in Sacramento. The project had been discussed at the October meeting of the Health Services Committee. The proposed expansion would benefit from a generous gift from a grateful patient, Mr. Ernest Tschannen; it was the largest single individual patient gift to date to UC Davis.

UC Davis Medical Center Interim Chief Executive Officer Bradley Simmons noted that the main reasons to pursue this project were to mitigate seismic risk, improve patient access, and build an Eye Center with the support of the gift from Mr. Tschannen. The project would increase the number of examination rooms in the Ambulatory Care Center from 165 to 231. The campus anticipated that future expansion projects would further increase the number of examination rooms in this facility to about 400. Mr. Simmons presented a diagram showing the existing floor plan of the Ambulatory Care Center and the floor plan under the proposed renovation and expansion, which would increase the number of examination rooms, reduce the number of physician office spaces, and improve patient flow. In response to a question by Committee Chair Makarechian, Mr. Simmons explained that in the floor plan design, the clinical examination spaces were based on a pod model.

9. **REPORT OF BUDGET TO ACTUAL EXPENDITURES FOR FISCAL YEAR 2017-18 FOR THE OFFICE OF THE PRESIDENT; AND FIRST QUARTER FISCAL YEAR 2018-19 RESULTS**

[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 this item was aligned with the Office of the President's (UCOP) commitment to transparency, clarity, and accountability regarding the UCOP budget. There had been an important transition between fiscal years 2017-18 and 2018-19, marked by a number of accounting and budgeting presentation changes. The 2017-18 budget was retrospectively changed to the new format in preparation for 2018-19. Not all accounting changes would go into effect until 2018-19, and this would explain some differences.

The UCOP budget makes up about 2.5 percent of the total \$34 billion University of California budget. Ninety percent of the UCOP budget supports two areas: Programs and Initiatives, support for academic, research, and public service programs, and Central and Administrative Services, administered by UCOP on behalf of the UC system, such as the retirement and pension systems, risk services, employee benefits, and others.

Ms. Nelson outlined the major expenditure categories for the 2017-18 UCOP budget of \$891 million: Programs and Initiatives, Central and Administrative Services, UCPath Center, and the Strategic Priorities Fund, a new feature of the UCOP budget to address urgent and emerging needs and projects that arise during the course of the year. Fifty-eight

percent of the 2017-18 budget, or \$510 million, was for pass-through transactions or fees for services. Pass-through transactions represent a part of the UCOP budget that does not remain at UCOP, but flows to the campuses, California researchers, and the public. Pass-through funds accounted for \$343 million of this budget, while the fee-for-service component of the budget accounted for another \$167 million, fees for legal services as well as benefits and retirement administration provided by UCOP.

Ms. Nelson compared the UCOP budget and forecast to actual expenditures. For the \$891 million budget, UCOP had forecast expenditures of \$772 million, and actuals were \$737 million. She commented that two functions were being budgeted and accounted for differently in 2018-19 than in 2017-18; this should improve budget to actuals forecasting. In addition, several improvements to budgeting and accounting would better align forecast and actuals in the future.

There had been downward pressure on the UCOP budget in the current year. The 2018-19 budget was \$876 million; if one did not count the UCPath Center, this budget was \$33 million lower than the 2017-18 budget. She briefly described how two functions – patent royalties and tobacco-related disease research – would be budgeted and accounted for differently, and in a way that would align the budget more closely with the expected actual distribution of funds.

Executive Director David Baltaxe presented a chart showing UCOP fund balances and reserves at the end of fiscal years 2016-17 and 2017-18. The patent royalty balance of \$132.6 million was removed from the totals. UCOP expects to pass these funds back to campuses and third parties. Excluding the balance of the royalties, the overall fund balances decreased by \$116 million, or 27 percent. The two categories of “restricted” and “designated” funds combined decreased by \$61 million, with funds reallocated to campuses. “Unrestricted” funds decreased by \$55 million, and this change in unrestricted balances reflected uses for the Strategic Priorities Fund during the year. Mr. Baltaxe remarked that in order to safeguard against risk, UCOP was reviewing and considering reserves and reserve policies, and these would be discussed in a future presentation.

Regent Anguiano referred to information provided on a slide, according to which some of the \$55 million decrease in unrestricted funds was due to elimination of historical department deficits. She asked how much of the \$55 million reduction was due to this factor, and what these deficits were. Mr. Baltaxe responded that UCOP had historical deficits in information technology services and in the Office of the General Counsel (OGC). The total eliminated in this category was in the range of \$10 million. Regent Anguiano asked over what time period these deficits were accumulated. Ms. Nelson responded that the deficit in OGC dated back many years, predating the current General Counsel. OGC had been addressing this deficit at a rate of \$2 million annually, and UCOP decided to complete the payout of the deficit.

Committee Chair Makarechian referred to information on year-end fund balances in the background materials. The total of restricted and unrestricted funds at the end of fiscal year 2017-18 was about \$30 million higher than the previous year. He asked if this was due to

funds being moved from one category to another, among the categories “Unrestricted Undesignated,” “Unrestricted Designated,” and “Restricted.” Ms. Nelson recalled a discussion item at the March 2018 meeting on UCOP fund restrictions, which defined and explained these categories. These were the categories now being used.

Committee Chair Makarechian asked about \$15 million held in the Central Operating Reserve. Ms. Nelson explained that the California State Auditor had felt that UCOP needed a Central Operating Reserve to guard against fluctuations in revenue. UCOP set up this Reserve as a placeholder in the President’s Endowment Fund. UCOP has not needed to use the Reserve. The Reserve is available for use, with guidelines for when and how it may be accessed, and what approvals are required.

Regent Park asked about the processing of patent royalties by UCOP, and if, when UC receives royalties, this functions like a rebate to the campuses. Ms. Nelson responded that patent royalties enter systemwide accounts, an accounting group determines how the royalties should be distributed, and the royalties are distributed to campuses and faculty members. In response to further questions by Regent Park, Ms. Nelson explained that the support for this accounting group is paid from patent royalties; the success of a patent is a windfall to the campuses.

#### 10. **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.]

Executive Vice President and Chief Financial Officer Brostrom reported that the University had successfully deployed UCPath at UCLA and UC Santa Barbara in September. One-third of UC employees had now been transitioned to UCPath, and UC planned to deploy UCPath at all remaining locations the following year.

Associate Vice President Mark Cianca acknowledged comments that had been made earlier that day during the public comment period about payment problems. He stated that one should be aware of the problems encountered in the deployment of UCPath as well as the success of UCPath, and keep these in the proper perspective. UCPath was roughly 99 percent successful in providing pay, benefits, and Human Resources services. He stressed the importance of identifying and resolving issues for the one percent of UC employees who had been affected by problems. The University had been working on a series of initiatives to better understand the nature of graduate students’ experience with UCPath. He thanked Regent Anderson and the UC Riverside Graduate Student Association for their assistance, which had helped UC gain a better understanding of the problems to be solved and would help ensure uninterrupted pay for these employee populations. This work was in progress.

The deployment to the Los Angeles and Santa Barbara campuses had been largely successful, relative to the size and complexity of these campuses. Several deployments up to this point had been regarded as test cases for UCLA. For the most part, UCPath had been

more successful than UCLA's own existing PPS payroll service. UCLA Vice Chancellor Michael Beck had documented off-cycle check requests in the legacy system in September, the last full month in which the legacy system was used, and during the first few payroll cycles using UCPATH. Off-cycle check requests decreased by about 40 percent during this time, a testament to the effectiveness of UCPATH software. Mr. Cianca stressed that the UCPATH system provides both software and services. The deployment of UCPATH included using the weeks and months after deployment to understand how to serve a new population, and to understand the nuances of a particular campus or a particular business model. No two campuses deliver payroll or Human Resources services in the same way. Deployment at every campus required some degree of customization.

Mr. Cianca observed that the UCPATH deployment strategy of starting small, then increasing in size and complexity, had worked well. Lessons learned had been applied to each successive deployment, and there had been continuous improvement in the deployment experience and in the operations of the UCPATH Center. UCPATH had responded to campus feedback on how it treated issues that had been escalated for individual employees, and had assembled a cross-functional quality service team, assigned to resolve complex cases and ensure pay to employees as quickly as reasonably possible.

The University had been tracking data on the deployments, in part to ensure that the right staff were doing the right work. Teams had been moved to respond to workload needs of locations in production, and this would continue through the business cycle throughout the year. The University had projected that the UCPATH Center's workload would increase in the weeks and months following deployment at UCLA and UC Santa Barbara, and this was the case. In the first few weeks, there was an 800 percent increase in call volume to the Center; this increase now appeared to be tapering off. Staffing at the UCPATH Center was slightly below 300 employees. The Center would carry out a final staffing increase in June 2019, three months prior to the last scheduled deployment.

UCPATH was in production for about 77,000 employees. The two remaining deployments would occur in March 2019 and September 2019, each deployment for about 73,000 to 75,000 employees. The locations scheduled for deployment in March 2019 were now halfway through a vigorous test cycle. Operational lessons learned from UCLA and UC Santa Barbara were being applied to ensure that these campuses were prepared to address complex situations such as pay submitted late or, for example, the situation of a student hired into multiple appointments, when not all appointments have been entered into the system. Significant preparatory work was being done with the campuses to address these kinds of complexities. The locations scheduled for the final deployment in September 2019 were completing internal preparations to enter testing in early 2019. Mr. Cianca stated that the most significant schedule-related risk was the short time frame between March and September 2019. With just six months between the last two deployments, the need for overlapping activities would affect certain project teams, such as the team responsible for converting legacy data to UCPATH. The University was actively monitoring this risk and moving resources as appropriate.

In August, UCPATH governance approved full participation in UCPATH by the Lawrence Berkeley National Laboratory (LBNL). Previously, LBNL had planned to retain its payroll and human resources system, and to interface with UCPATH only for benefits administration and open enrollment. Moving LBNL into UCPATH would reduce LBNL's cost overhead and would give LBNL a better footing with the federal government through leveraging the host institution's administrative systems and processes.

Implementation costs remained on track at \$547 million, including an \$18.7 million contingency. Campus forecast costs had increased by about \$16 million since the last reporting period. These were additional staffing costs that arose as campuses better understood and adjusted their staffing needs before and during UCPATH implementation.

Committee Chair Makarechian estimated that the cost of implementing UCPATH per employee was about \$3,000 and asked about operating costs. Mr. Brostrom responded that the operating cost would be \$80 million per year when the system was fully implemented.

Committee Chair Makarechian requested a cost-benefit analysis of the UCPATH implementation. He estimated that the operating cost per employee would amount to \$500 annually, and the State might not contribute to this cost. Mr. Brostrom responded that this was the forecast cost for the whole project. He recalled that the University had not wished the State to fund UCPATH. Earlier, the project was being funded through a payroll assessment. The State then funded UCPATH when it made a direct appropriation for the Office of the President budget. The University would prefer that the State direct these funds toward UC's education and research mission.

Committee Chair Makarechian recalled that the State had provided \$52 million in operating costs. Mr. Brostrom clarified that this was part of the Office of the President budget; but the University intended to fund these costs with a per-employee assessment from the campuses. Mr. Cianca explained that the assessment was based on the previous year's W-2 form count and the campus' portion of that count. This number was felt to be the best indicator of the life cycle cost of hiring, paying, and releasing employees. For example, if UCLA had 22 percent of the total number of W-2 forms to be processed, UCLA would bear 22 percent of the operating cost.

Committee Chair Makarechian asked about the operating cost for the old system, and stated that this should be presented to the Board, as well as other figures, such as a projection of how much the charge to the campuses might increase if the State did not provide funding for operating costs. Mr. Brostrom responded that a valid cost comparison could not be made with the older PPS system, which he described as a dying system that had to be replaced. The cost of implementing the single UCPATH system was substantially lower than the cost of replacing 11 systems, one at each location, would have been. The University had a rough estimate of this number and this could be presented. Beyond the cost savings in implementation, the University would also reap benefits from the standardization of business processes, since UCPATH might serve as a platform for other functions. Mr. Brostrom emphasized that the State appropriation was not to the University's benefit

in this case, because these were funds that used to flow to the campuses for teaching and research. UCPATH should be funded with a per-employee assessment.

Committee Chair Makarechian remarked that the total cost of operating UCPATH would not decrease, whether or not the State provided funding. He reiterated his request for a presentation to the Board, a cost-benefit analysis of moving from an antiquated system to UCPATH.

Regent Park asked about the one percent of employees who had experienced problems with UCPATH. While it was to be expected that the implementation of a large system like UCPATH would not be 100 percent error-free, how one dealt with the errors was very important. She asked about the University's approach to addressing the problems of employees who did not receive paychecks. She noted that when there are State budget delays, banks are able to front the State money, and this allows the State to issue paychecks to State employees. Mr. Cianca responded that one challenge was to understand where this employee population seeks information and support. Although there is an online portal and a toll-free telephone number, many employees go to their department manager, who may or may not have expertise in helping employees navigate this issue. The UCPATH team could do a better job of working with the campuses to identify escalation pathways. In order to make employees whole, the University was releasing instant pay cards. When the University learns of a student employee or other employee with a pay problem, the first step is to resolve the pay issue, and the second step to solve the underlying problem. Different issues arise at the different campuses. Extra resources are retained at the UCPATH Center and on the campuses to help resolve these types of issues during the four months following deployment, when these issues are most likely to arise. Mr. Cianca observed that the first few pay cycles following UCPATH implementation generally run well. Employee data have just been reviewed carefully and converted, and no other changes have been made. In the first six weeks, campus employees are learning to implement UCPATH and adjust to changes in how data are entered. There is a reduction in the quality of data and an increase in problems a few months after the deployment. The situation improves as employees learn to use the system more effectively.

Regent Park asked about the number of employees affected by these problems. Mr. Cianca cited statistics from the most recent operations update. There were 20 student employees at UC Santa Barbara and 150 students at UCLA with outstanding pay issues. He did not have numbers for UC Riverside and UC Merced. Regent Park stated her understanding that in these cases, the employees had received their pay, but the underlying issues had not yet been resolved. Mr. Cianca confirmed this, noting that there might be extra steps needed to resolve the pay issue, such as examining past data to understand a change in appointment.

Faculty Representative Bhavnani recounted her personal experience, underscoring that UCPATH staff had worked hard to resolve a pay issue, and that the system appeared to be working well.

Regent Anderson praised the UCPATH team and the campuses for taking on the challenge of implementing this system. While implementation had not been entirely successful, it

was moving toward success. He stated that earlier, he had been a vocal critic of UCPATH, but that he now had more confidence in UCPATH leadership and the progress made. Graduate student employees were still the most likely to encounter problems with payroll, but the UCPATH team was working diligently to address this. He urged the chancellors to make maximum use of UCPATH to gain efficiencies. Regent Anderson thanked the UCPATH team and all the individuals involved for their work, and thanked students, faculty, and staff for their patience.

Regent-designate Um asked how the affected student employees at UC Santa Barbara and UCLA were identified. Mr. Cianca responded that these employees called the UCPATH Center or were reported to UCPATH by their campus payroll department. Regent-designate Um asked if there was a quality assessment process and a way to identify these problems even if an individual does not report an issue. Mr. Cianca responded that there is a period of time between payroll calculation and payroll confirmation. UCPATH issues reports for the campuses during this period, after payroll calculation but before payroll confirmation, and these reports are reviewed for errors or unexpected numbers. The UCPATH team also has weekly operations meetings with all the campuses, sharing operations statistics, and is careful to ensure that equal attention is paid to all locations.

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

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

Vice President Duckett outlined functions performed by the Office of Human Resources at the Office of the President related to day-to-day management of the University's retirement programs, to ensure that the UC Retirement Plan (UCRP) is operating correctly and that the qualified status of the Plan is consistently maintained. Human Resources staffs a retirement call center and operations center that serves 76,000 annuitants and 130,000 active members, distributes a variety of benefits exceeding \$3.6 billion annually, and processes 5,000 retirements annually. The Systemwide Labor Relations unit collectively bargains changes to UCRP, such as the 2016 Tier and the Retirement Choice program. Statistics for the first two fiscal years of the Retirement Choice program indicated that 62 percent of eligible employees elected or were moved by default to the Pension Choice option, the 2016 Tier of the University's longstanding pension program, while 38 percent elected the Savings Choice option, a 401(k)-style plan. On behalf of those employees who elect Savings Choice, the University contributes six percent of covered salary toward paying down the UCRP unfunded liability.

Executive Vice President and Chief Financial Officer Brostrom reported that as of July 1, UCRP was 87 percent funded on both an actuarial value of assets and market value of assets basis. This was a strong position to meet future commitments to current members and retirees. The 87 percent funding level was the overall valuation for the entire Plan. For

the campus and medical center segment of the UCRP, the funding level was 85 percent. The UCRP had somewhat less than \$67 billion in assets, and the market and actuarial value of assets were almost identical at this point. Assets included a contribution of \$392 million transferred from the Short Term Investment Pool in the past year to meet the contribution policy rate. The University also received \$169 million in Proposition 2 funds from the State for the UCRP. This was the third of three installments, resulting in a total \$436 million in one-time funding received from the State. Contribution rates to the UCRP remained 14 percent for the University, and seven to nine percent for members. In their July 2017 action, *Authorization to Increase the University Employer Contribution Rate and Make Additional Contributions to the University of California Retirement Plan*, the Regents approved internal borrowing to fund the total funding policy contribution rate for four years. The amount would be reviewed annually and determined based on liquidity and other factors. In 2019, the Regents would also receive a report on the results of a UCRP experience study, examining economic, demographic, and investment return assumptions.

Segal Consulting representative John Monroe commented that the 87 percent funding level of the UCRP on both an actuarial and market value basis was an increase over the prior year, and that this increase was mainly due to total contributions from all funding sources meeting the funding policy amount during 2017-18, as well as some investment gains during the year. The market value return during 2017-18 was 7.8 percent, which exceeded the 7.25 percent assumption. The actuarial accrued liability for all Plan members as of the valuation date was approximately \$77 billion. When this is compared to smoothed, actuarial value of assets of \$67 billion, the results is an unfunded liability of \$10 billion. Because the actuarial and market value of assets were roughly equal, the unfunded liability was also about \$10 billion on a market value basis. For the campus and medical center segment of the UCRP, the total funding policy contribution rate for 2019-20 was 26.33 percent of covered payroll. Two-thirds of this would address the normal cost, while the remaining one-third would be used to amortize the unfunded liability.

Faculty Representative May referred to the percentages quoted of new employees who elected the Pension Choice and Savings Choice options, and asked how these percentages were distributed on the general versus health sciences campuses. Executive Director Gary Schlimgen responded that the University had relevant data for the campuses and medical centers, as well as data on age, demographics, and employee category. The election rate for the Savings Choice option was low for designated faculty and represented employees, at about 20 percent for some represented employees in closed groups. Many employees at the medical centers are represented by unions, and the current sample was not yet representative, because the University was still bargaining with represented groups, and a large segment of medical center employees were not yet in the Retirement Choice program.

Committee Chair Makarechian asked how the University was accounting for a future situation with a larger number of retirees and a smaller number of active employees. He expressed concern that the contribution rates might be too low. Mr. Monroe responded that when a new hire elects the Defined Contribution Plan instead of the UCRP, there is not a normal cost associated with this employee, and a six percent University contribution from this employee's payroll goes into the Defined Benefit Plan to help pay down the UCRP

liability. This six percent contribution is made regardless of which option the employee chooses. Committee Chair Makarechian asked about the source of the six percent contribution. Mr. Schlingens responded that the source is the University, and specifically the fund source that pays the employee's salary.

Committee Chair Makarechian reiterated his concern about the number of older employees who would soon be retiring. Mr. Monroe observed that when an employee retires, there is no longer a normal cost associated with that individual. The unfunded liability remains a concern, but as long as contributions come in to fund the unfunded liability from the payroll of new hires who enter the Plan, the UCRP would function. In a perfect situation, the entire unfunded liability would be paid off at some point in the future as members have retired. Mr. Schlingens added that while the rates of retirement were increasing, this was an expected development. Staff generally retire at age 60, and faculty at 65-66, and these trends were built into the University's assumptions regarding retirement rates. These rates are updated every four years with experience studies.

Committee Chair Makarechian underscored the market risk for the UCRP of returns lower than 7.25 percent. Mr. Schlingens concurred, noting that the Defined Benefit Plan faces a market risk and a longevity risk.

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

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

Vice President Duckett explained that the UC retiree health benefit program was administered on a pay-as-you-go basis, part of the University's overall benefits program. The program's cash costs for fiscal year 2017-18 were \$309 million, and the projected cash costs for fiscal year 2018-19 were \$334 million, funded with assessments to the campuses and medical centers at a rate of 2.7 percent of covered payroll. The assessment rate had been 2.8 percent in 2017-18; the decrease to 2.7 percent was due primarily to growth in the payroll base and lower-than-expected premiums for 2019. The University actively manages its program costs and evaluates its program, seeking more efficient ways to deliver these benefits. For 2019, the average retiree premium rate would increase only 1.5 percent over the prior year, much lower than expected. In January 2018, President Napolitano had convened a Retiree Health Benefits Working Group, charged with considering plan and program design strategies to sustain retiree health benefits. Membership of the Working Group included faculty, staff, and union representatives. President Napolitano agreed to the Working Group's recommendations for no funding or programming changes for 2019, and a gradual reduction in the UC contribution for non-Medicare-eligible retirees 65 and older to levels comparable to those for Medicare retirees. Mr. Duckett underscored that retiree health benefits are not accrued or vested benefit entitlements, and they can be changed by the University at any time.

Deloitte Consulting representative Michael de Leon observed that a number of factors can have an impact on long-range estimates of the program's liability. This year there was minimal change in the liability; in 2018 the liability remained relatively level at \$18.7 billion, when Deloitte had expected a \$1.1 billion increase. The lower-than-expected liability was due to two key factors: an increase in the discount rate from 3.58 percent to 3.87 percent, based on the Bond Buyer 20-year tax-exempt general obligation municipal bond index rate; and a lower-than-expected increase in healthcare premium rates of 1.5 percent in aggregate, versus an expectation of 5.8 percent.

Regent Park asked about the lower assessment and its relationship to the \$7 million line item for retiree health benefits in the 2019-20 Budget Plan for Current Operations. She referred to a chart included in the background materials with a trend line showing recent and projected pay-as-you-go cash costs, and asked about the assumptions inherent in that trend line. Executive Vice President and Chief Financial Officer Brostrom responded that the overall cost of retiree health benefits in core funds would increase by \$7 million due to growth in number of employees. Although the assessment was decreasing, overall payroll was increasing. With regard to the projected increase in pay-as-you-go cash costs, Mr. de Leon explained that two factors accounted for this increase. The number of retirees was projected to grow over time, based on assumptions about retirement rates and other relevant assumptions. Medical premiums were also expected to increase by about six percent in the short term and decrease to about five percent over a 15-year period.

Regent Park asked how these factors were likely to change the assessment, or asked if this could not be predicted, since it depends on the employee base. Mr. Brostrom responded that this depends on the employee base and changes in payroll. If payroll remained level, the assessment would increase; if payroll grew roughly at the same rate as the trend line, the assessment would remain level. Executive Director Gary Schlimgen observed that the assessment decreased slightly because premium rates for 2019 were low, and the balance of the pay-as-you-go trust was growing. He characterized this as a one-time event. The payroll base was growing faster than the expenses of the plan on a pay-as-you-go basis.

Committee Chair Makarechian recalled that actual University pay-as-you-go cash costs for fiscal year 2017-18 were \$309 million, and asked what accounted for the program's liability. Mr. Brostrom explained that retiree health benefit liability is calculated based on the current cost, and increasing at the medical trend rate of approximately six percent. Because the University has no funds set aside for retiree health, it must discount at 3.87 percent, the risk free cost of capital or Bond Buyer 20-year tax-exempt general obligation municipal bond index rate. Growing at six percent and discounting back at 3.87 percent results in liability. The expense was less than one percent of the University's overall budget, but represented a significant part of the University's liabilities.

In response to another question by Committee Chair Makarechian, Mr. Schlimgen confirmed that the University offers the same retiree health benefits to employees who have elected the Pension Choice and Savings Choice options. For the employees who have chosen the Savings Choice option, the University tracks the time worked and treats this as service credit, the same as it would treat pension service credit.

13. **APPROVAL OF THE UNIVERSITY OF CALIFORNIA 2019-20 BUDGET FOR CURRENT OPERATIONS**

The President of the University recommended that the Regents approve the proposed budget plan shown in Attachment 1, *University of California 2019-20 Budget Plan for Current Operations*.

[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.]

Student Observer Varsha Sarveshwar noted that the UC Student Association has monthly budget consultation calls with the Office of the President. Students should have the ability to communicate their views about the University's budgets and have a say in decision-making. Students advocate in Sacramento on behalf of the University, and it is difficult to advocate for a budget if one has no ownership of that budget. With regard to the UC 2019-20 Budget Plan for Current Operations, students were excited to see the University put forward an ambitious budget request to the Governor and Legislature and heartened to see a plan to invest \$15 million to assist students with food and housing costs. Students would like to see further support for campus organizations like food pantries that help students deal with food and housing insecurity. Students were also heartened to see a plan to invest \$60 million in hiring new faculty and academic advisors. Ms. Sarveshwar expressed students' deep concern about the need to continue to provide and to expand resources for undocumented students, including access to immigration attorneys.

Executive Vice President and Chief Financial Officer Brostrom remarked on the University's budget situation in the current year. UC had received a permanent increase in its base budget of \$98 million or 2.9 percent. Much of the funding from the State had been one-time funding, such as \$105 million in one-time funds that had enabled UC to avoid a tuition increase, funded over-enrollment at UC campuses, and supported further enrollment growth of 2,500 students. If this funding were not made permanent, this would be equivalent to a cut to the campuses. The University had received a \$40 million one-time restoration of funds related to Proposition 56, which expanded graduate medical education; the University would like to see this made a permanent increase. The University had also received \$35 million in one-time funds for deferred maintenance, and almost \$70 million for specific research and other campus programs.

Associate Vice President David Alcocer outlined some salient features of this budget plan. There were a number of traditional requests to the State such as funding for enrollment growth and mandatory cost increases, as well as a request for continued investment in student mental health resources, expanding the availability of these resources at every campus. The University intended to make a \$60 million investment in degree attainment, part of a broader strategy and the first step toward a multi-year investment that would lead to improvements in student degree attainment and graduation rates, and shortening the time to degree. How the campuses would invest these funds would depend on the needs of each campus: increasing class availability by hiring additional faculty, increasing the number of student advisors, or alternative educational delivery methods such as online education. The

necessary substantial investments for meeting all these needs could easily reach \$240 million to \$250 million over a four-year period. The Office of the President would work with chancellors to determine more precisely what investments campuses need to make. The University would set aside \$15 million for basic student needs, to help address cost increases other than tuition. UC was seeking a buyout from the State to avoid increases to tuition or the Student Services Fee in 2019-20.

The University had received a large investment of one-time funds from the State, in recognition of the cost associated with current levels of over-enrollment. These were permanent needs that would continue into the following year, and the University needed to ask the State to convert this to permanent funding. In addition, the University had a number of needs related to enrollment growth, including permanent support for the PRIME medical education program, which trains medical students to serve medically underserved populations. There were currently more than 350 students in this program, and about 250 were not supported by State funds. The University would also ask for a base budget increase of 3.7 percent, roughly the average of State base budget increases over the preceding four years, and a \$100 million investment in deferred maintenance. As in past years, the University had contributions from its own cost savings efforts, optimizing use of UC working capital, and philanthropy. Enrollment growth would provide some increase in tuition and Student Services Fee revenues. The University would seek an inflationary adjustment for nonresident tuition of 2.6 percent.

Committee Chair Makarechian explained that a full presentation of this item to the Board and action by the Board would take place the following day.

The meeting adjourned at 4:10 p.m.

Attest:

Secretary and Chief of Staff

# UNIVERSITY OF CALIFORNIA

## 2019-20 BUDGET PLAN FOR CURRENT OPERATIONS

### 2018-19 CORE FUNDS FOR CURRENT OPERATIONS

Total 2018-19 Core Funds (State General Funds, Student Tuition and Fee Revenue, and UC General Funds) \$ 9,314.4

#### PROPOSED CHANGES IN EXPENDITURES

<b>Enrollment Growth at Marginal Cost</b>	\$ 86.3
<b>Mandatory Costs</b>	
Retirement contributions	\$ 20.2
Employee health benefits	\$ 21.1
Retiree health benefits	\$ 7.0
Contractually committed compensation	\$ 30.4
Non-salary price increases	\$ 41.0
Subtotal	\$ 119.8
<b>Degree Attainment &amp; Student Success</b>	\$ 60.0
<b>Student Mental Health Resources</b>	\$ 5.3
<b>Other High-Priority Costs</b>	
Faculty compensation (nonrepresented)	\$ 94.4
Staff compensation (nonrepresented)	\$ 42.6
High-priority capital needs (AB 94)	\$ 15.0
Deferred maintenance ( <i>one-time</i> )	\$ 100.0
Subtotal	\$ 252.0
<b>Financial Aid</b>	
Enrollment growth - Return-to-aid	\$ 19.3
Add'l aid for basic student needs	\$ 15.0
Subtotal	\$ 34.3
<b>TOTAL INCREASE IN EXPENDITURES</b>	<b>\$ 557.8</b>
<i>Ongoing</i>	\$ 457.8
<i>One-Time/Discretionary</i>	\$ 100.0

#### PROPOSED CHANGES IN REVENUES

<b>Cost Savings/Alternative Revenues</b>	
Asset management	\$ 30.0
Philanthropy	\$ 20.0
Procurement savings	\$ 10.0
Reallocation from nonresident aid	\$ 14.0
Subtotal	\$ 74.0
<b>State General Funds</b>	
State support base increase (3.7%)	\$ 127.9
Replace Tuition/Stud Svcs Fee incr. (2.6%/5.0%)	\$ 63.8
Financial aid for basic student needs	\$ 15.0
CA undergraduate overenroll. in 2018-19 (1,900)	\$ 21.9
PRIME MD enrollment	\$ 8.8
Enrollment growth 2019-20 (2,500 CA undergraduates / 1,000 graduates)	\$ 40.3
Deferred maintenance ( <i>one-time</i> )	\$ 100.0
Subtotal	\$ 377.6
<b>Tuition and Student Services Fees</b>	
Enrollment growth - Tuition & Stud Svcs Fee	\$ 34.7
Enrollment growth - Return-to-aid	\$ 19.3
Subtotal	\$ 54.1
<b>UC General Funds</b>	
Nonresident tuition adjustment (2.6%)	\$ 28.9
Nonresident enrollment growth (800)	\$ 23.2
Subtotal	\$ 52.1
<b>TOTAL INCREASE IN REVENUE</b>	<b>\$ 557.8</b>
<i>Ongoing</i>	\$ 457.8
<i>One-Time</i>	\$ 100.0

<b>MAINTENANCE OF 2018-19 STATE GENERAL FUND SUPPORT</b>	<b>\$ 145.0</b>
Convert one-time funds provided in 2018-19 for tuition/fee buyout, 2017-18 enrollment above funded levels, and 1,000 additional students in 2018-19 to permanent funding	\$ 105.0
Convert one-time funds provided in 2018-19 to replace Prop 56 funds for graduate medical education to permanent funding	\$ 40.0

Figures may not sum to totals due to rounding.