The Regents of the University of California

FINANCE AND CAPITAL STRATEGIES COMMITTEE
November 13, 2019

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

Members present: Regents Blum, Cohen, Estolano, Leib, Makarechian, Park, Sherman, Simmons, and Um; Ex officio member Napolitano; Advisory members Bhavnani, Mart, and Muwwakkil; Chancellors Christ, Gillman, Hawgood, and Khosla; Staff Advisor Jeffrey

In attendance: Regent Reilly, Secretary and Chief of Staff Shaw, Chief Investment Officer Bachher, Executive Vice President and Chief Operating Officer Nava, Executive Vice President Byington, Interim Executive Vice President and Chief Financial Officer Jenny, Vice Presidents Leasure and Nation, Interim Vice President Cianca, Acting Vice President Lloyd, Chancellors Block, Wilcox, and Yang, Chief of Staff and Special Counsel Drumm, and Recording Secretary Johns

The meeting convened at 11:45 a.m. with Committee Chair Makarechian presiding.

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

Upon motion duly made and seconded, the minutes the meeting of September 18, 2019 were approved.

2. **CONSENT AGENDA**

A. ***Approval of Preliminary Plans Funding, Hilgard Faculty Housing, Los Angeles Campus***

The President of the University recommended that the 2019-20 Budget for Capital Improvements be amended to include the following project:

Los Angeles: Hilgard Faculty Housing – preliminary plans – $4.74 million to be funded from housing reserves.

B. ***Approval of the Budget, Scope, and Design and Approval of Long Range Development Plan Amendment Following Action Pursuant to the California Environmental Quality Act, Ambulatory Care Center Expansion with Eye Center, Davis Health Campus***

The President of the University recommended that:

(1) The 2019-20 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: UC Davis Health System (Sacramento): Ambulatory Care Center Expansion with Eye Center – preliminary plans – $6,706,000 to be funded from hospital reserves.

To: UC Davis Health System (Sacramento): Ambulatory Care Center Expansion with Eye Center – preliminary plans, working drawings, construction, and equipment – $87.5 million – to be funded from gift funds ($19 million), campus funds ($19 million), and hospital reserves ($49.5 million).

(2) The scope of the Ambulatory Care Center Expansion with Eye Center project shall consist of construction of a 73,675-gross-square-foot expansion and renovation for outpatient clinical examination rooms, waiting areas, office and conference space, and all site work and associated utilities.

(3) Following review and consideration of the environmental consequences of the Ambulatory Care Center Expansion with Eye Center project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents 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:

a. Adopt the CEQA Findings for the Project, having considered both the 2010 Long Range Development Plan (LRDP) Environmental Impact Report (EIR) for the Sacramento campus and September 2019 Addendum for the Eye Center Project; and by adopting the CEQA findings, the Regents reaffirm the Statement of Overriding Considerations adopted in connection with certification of the final EIR.

b. Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of the Sacramento campus as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the 2010 LRDP EIR.

c. Approve the design of the Ambulatory Care Center Expansion with Eye Center project, Sacramento campus.

d. Approve the 2010 LRDP Amendment #1/November 2019/Eye Center Project Land Use Amendment.

C. ***Authorization of Medical Center Pooled Revenue Bonds Taxable External Financing***

The President of the University recommended that the Regents authorize the President to:

(1) Issue a taxable borrowing with a final maturity not to exceed 100 years and in an aggregate principal amount not to exceed $2 billion plus financing costs to be issued under the University's Medical Center Pooled Revenue Bond indenture. As long as the bonds are outstanding, the medical centers receiving such proceeds shall satisfy the following requirements:

a. The medical centers receiving proceeds, Davis, Irvine, Los Angeles, San Diego, and San Francisco (the "Medical Centers") shall maintain revenues in amounts sufficient to pay the debt service and to meet the related requirements of the authorized financing.

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

(2) Take all necessary actions related to the action approved above, including, but not limited to, approval, execution, and delivery of all necessary or appropriate financing documents.

D. ***Approval of Budget, Scope, External Financing, and Design Following Action Pursuant to the California Environmental Quality Act, UCSF Research and Academic Building at Zuckerberg San Francisco General Hospital, San Francisco Campus***

The President of the University recommended that:

(1) The 2019-20 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Francisco: <u>UCSF Research Building at Zuckerberg San Francisco General Hospital</u> – preliminary plans – $19.88 million funded from campus funds.

To: San Francisco: <u>UCSF Research Building at Zuckerberg San Francisco General Hospital</u> – preliminary plans, working drawings, construction, equipment, and interest during construction – $275,115,000, to be funded from external financing ($199,615,000), gift funds ($50 million), and campus funds ($25.5 million).

(2) The scope of the UCSF Research Building at Zuckerberg San Francisco General Hospital project shall consist of constructing a new research and academic building with approximately 135,000 assignable square feet (asf)

of space that would include office and dry research laboratory and support (82,000 asf); wet laboratory research and service (36,900 asf); a Patient Research Center (5,100 asf); education space (4,400 asf); and building support (6,600 asf).

(3) The President shall be authorized to obtain external financing not to exceed $199,615,000 plus additional related financing costs for the project. The President shall require that:

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

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

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

(4) Following review and consideration of the environmental consequences of the proposed UCSF Research Building at Zuckerberg San Francisco General Hospital project, as required by the California Environmental Quality Act (CEQA), including any written information addressing this item received by the Office of the Secretary and Chief of Staff to the Regents 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:

a. Make a condition of approval the implementation of applicable mitigation measures within the responsibility and jurisdiction of UCSF, as identified in the Mitigation Monitoring and Reporting Program adopted in connection with the Final Environmental Impact Report (EIR).

b. Adopt the CEQA Findings for the UCSF Research Building at the Zuckerberg San Francisco General Hospital, having considered the Final EIR, as updated by the November 2019 Addendum to the Final EIR. By adopting the CEQA Findings, the Regents reaffirm the Statement of Overriding Considerations adopted in connection with certification of the Final EIR.

c. Approve the design of the UCSF Research Building at the Zuckerberg San Francisco General Hospital, San Francisco campus.

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

E. ***Approval of Budget and External Financing, Roadway and Site Improvements at Zuckerberg San Francisco General Hospital, San Francisco Campus***

The President of the University recommended that:

(1) The 2019-20 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: 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.

To: San Francisco: Roadway and Site Improvements at Zuckerberg San Francisco General Hospital – preliminary plans, working drawings, construction, and interest during construction – $11,816,000 to be funded from external financing.

(2) The President be authorized to obtain external financing not to exceed $11,816,000 plus additional related financing costs for the project. The President shall require that:

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

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

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

F. ***Approval of UC San Diego 2019 Long Range Development Plan Following Action Pursuant to the California Environmental Quality Act, Hillcrest Campus, San Diego Campus***

The President of the University recommended that, following review and consideration of the environmental consequences of the proposed UC San Diego Hillcrest Campus 2019 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 to the Regents 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) Certify the Environmental Impact Report for the UC San Diego 2019 LRDP, Hillcrest campus.

(2) Adopt the Mitigation Monitoring and Reporting Program, and make a condition of approval the implementation of mitigation measures within the responsibility and jurisdiction of UC San Diego.

(3) Adopt the CEQA Findings and Statement of Overriding Considerations.

(4) Approve the UC San Diego 2019 LRDP, Hillcrest Campus, including the appended Greenhouse Gas Reduction Strategy.

(5) Approve demolition of buildings as outlined in the 2019 LRDP and analyzed in the 2019 LRDP Environmental Impact Report.

[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 briefly introduced the consent agenda items.

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

3. **UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2019**

The President of the University recommended that the Regents adopt the 2018-19 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers.

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

Associate Vice President Peggy Arrivas reported that the University's financial statements continued to show strong growth in UC operations and financial health. The most significant change in the financial statements was tied to the increase in the pension liability, directly due to changes approved by the Regents at the September meeting in the action item *University of California Retirement Plan – Proposal to Adopt Changes in Actuarial Assumptions and Authorization to Increase the Employer Contribution Rates*. There were three significant factors accounting for the increase in the pension liability: a reduction of the investment return assumption for the UC Retirement Plan (UCRP) from 7.25 percent to 6.75 percent, a change in the mortality tables, and the fact that there was a small difference between the six percent actual return for the year and the expected 6.75 percent. These three factors substantially explained the changes in the financial statements. The increase in the pension liability was $8.3 billion.

Committee Chair Makarechian requested clarification of the third factor. Ms. Arrivas explained that, this year, the investment return on the UCRP portfolio was compared to an assumption of 6.75 percent. She noted that the University's revenues continued to show strong growth, continuing the trend of the past several years. The most notable change was the change in the pension liability.

Committee Chair Makarechian asked why there were no graphs in the item showing the profitability of the medical centers. Ms. Arrivas responded that medical center profitability was indicated in the financial statements. There was a chart on page four of the agenda item showing the net revenues of all the medical centers combined; in response to a suggestion by Committee Chair Makarechian she stated that, in the future, this could be disaggregated by medical center.

Committee Chair Makarechian asked about the net position of the medical centers before payment of retiree benefits. Ms. Arrivas responded that the total net pension liability was almost $7 billion, and the liability for retiree health was $6 billion. There was $13 billion on the medical center balance sheet for retiree health and pension liabilities.

Committee Chair Makarechian asked about the difference in the medical centers’ net position from 2017 to 2019. This figure had moved from negative $1.729 billion to negative $1.855 billion. Ms. Arrivas responded that this was caused by a much higher pension expense, approximately $800 million. The pension expense was much larger than the cost of operations.

Committee Chair Makarechian observed that it was difficult to draw information from the item when many different expenses or revenues were bundled together and again asked that, in future presentations and items, the chart showing net revenues of the UC medical centers be disaggregated by medical center. Ms. Arrivas stated that future items would include more detail on the medical centers.

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

4. **APPROVAL OF THE 2019-25 CAPITAL FINANCIAL PLAN**

The President of the University recommended that the University of California 2019-25 Capital Financial Plan be approved.

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

Interim Executive Vice President and Chief Financial Officer Jenny explained that, this year, the University had changed its Capital Financial Plan from a ten-year to a six-year plan. This was due to the fact that a ten-year horizon can become vague in the later years. The current plan represented approximately $53 billion in needs, $27.8 billion with identified funding and $24 billion without identified funding. Approval of this Capital Financial Plan by the Regents was not an endorsement of each individual project. Projects would be brought to the Regents for appropriate approval.

Associate Vice President Peggy Arrivas noted that, in past discussions of the Capital Financial Plan, there had often been questions about seismic retrofitting projects. The University was now proceeding with assessments of its seismic project needs, and many of these projects were included in the current plan. Many of the seismic projects did not yet have identified funding. Many deferred maintenance projects had also been added to the plan. The need had increased from $37 billion in the prior year to over $52 billion in the current year due to these two systemwide initiatives to identify seismic and deferred maintenance needs.

Committee Chair Makarechian asked what the University's real answer to this need would be. Seismic and deferred maintenance needs would only increase over time. Mr. Jenny concurred that $25 billion of need with no identified funding was more than problematic. There would be a variety of solutions. Assembly Bill 48, a general obligation bond measure which, if approved by the voters in March 2020, would provide $2 billion to UC, was a significant step. There might be more and new opportunities for philanthropic investment, and new, longer-term financing vehicles that could expand UC's debt capacity. There would not be a single solution.

Committee Chair Makarechian emphasized that available funds were not sufficient and asked how the University would maintain all its deteriorating buildings. Mr. Jenny responded that the Office of the President (UCOP) needed to partner with the campuses to take creative approaches and consider longer-term financing. There would be no magic solution, but it was important to make this need clear to the University's various stakeholders and to show how the infrastructure of the University was aging.

Committee Chair Makarechian stated his view that the University did not have a path to solving this problem. The existing funding was insufficient, and the State would not allow UC to use general obligation bond funds for seismic and deferred maintenance needs. He suggested that President Napolitano form a working group to find solutions. The campuses did not have the necessary funds. A funding solution would have to be found by UCOP. He emphasized the Regents' fiduciary responsibility for the University's infrastructure. Regent Blum expressed agreement with Committee Chair Makarechian about the need for such a working group.

Regent Leib also agreed and noted that the $2 billion in funding from the upcoming bond measure would only address a small part of the total need. He asked whether the University, when it receives gifts from donors for capital projects, factors in deferred maintenance. Mr. Jenny responded that each gift agreement for capital projects was different. Whatever the agreement, campuses include operations and maintenance expenses in their projections.

Regent Leib suggested that, in future agreements with donors, the University should seek funding not only to build a building but to maintain it.

President Napolitano suggested that a small working group would be appropriate to take a holistic, long-term view of this problem. She recommended the addition of some outside advisors who might be able to help UC think through new financing strategies. She would work with Mr. Jenny on the formation of a working group and report back to the Regents on this.

Regent Sherman asked about prioritization of projects for the $2 billion in funding, assuming that the bond measure was approved by voters. Mr. Jenny responded that he was in consultation with chancellors, vice chancellors, and campus chief financial officers to develop lists for each campus, and with General Counsel Robinson with regard to seismic policy. The University had provided the California Legislative Analyst's Office with a list of projects based on three criteria: seismic need, deferred maintenance, and capacity growth. He anticipated that there would be a presentation on this topic in January or March 2020. The University must present a finalized list of projects to the Legislative Analyst's Office 60 days after the March election. Mr. Jenny hoped that UCOP would have this list finalized by January. He stated that it was likely that the projects on that list would be the same as those in this current Capital Financial Plan.

Regent Sherman asked if the bond funding would be used to finance projects 100 percent or rather used as a down payment. Mr. Jenny responded that UC would try to leverage this opportunity and work with philanthropic partners. The $2 billion in general obligation bond funding might result in addressing $2.5 billion or $3 billion in capital needs. The campuses were very keen on pursuing this avenue.

Regent Cohen reflected that these problems had developed over decades and would not be solved overnight. It was appropriate for UC to put a plan in place. Unfortunately, many UC buildings were now reaching an end of life phase. The University was paying for decisions made in the past not to maintain certain buildings. This was a demonstration of why the Merced 2020 project was valuable; in that project, maintenance costs were built into the arrangement. For the coming decades, UC Merced would not have deferred maintenance needs. Regent Cohen referred to Assembly Bill 94 and debt capacity. He asked how much of this debt capacity the University had used and about UC's assumptions for further use. He explained that, several years prior, the State had provided room in the UC budget to pay for existing debt service. As that debt service falls off, there is new capacity for borrowing to pay for additional projects. He asked if this funding had already been allocated in the Capital Financial Plan. Ms. Arrivas responded that UCOP works with the campuses each year to determine what amount it can take from State appropriations and reallocate for capital projects. There is a delicate balance to be achieved with regard to what campuses can give up in operating funds in order to fund debt service. UCOP also works with the campuses on how this funding is allocated to projects. Over the past several years, the University had allocated about $1.4 billion. About half of this funding had been allocated to the Merced 2020 project and the rest had been spread across the campuses, for one or more projects, depending on the campus. This allocation is discussed each year. In the current year, the allocation was larger than normal due to deferred maintenance and seismic needs. UCOP was working with the campuses to determine which projects should be funded and campuses were developing plans for seismic building remediation. In response to another question by Regent Cohen, Ms. Arrivas confirmed that, for the upcoming year 2020-21, this funding capacity had been allocated, but that this had not yet been accomplished for years two through six of the plan.

Faculty Representative Bhavnani suggested that the Academic Senate should be involved in the discussions of the proposed working group. This might help avoid feelings on the part of the campuses that they were in competition for funding.

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

5. **APPROVAL OF THE NEW HOSPITAL AT UCSF HELEN DILLER MEDICAL CENTER AT PARNASSUS HEIGHTS PROGRAM INTEGRATED FORM OF AGREEMENT AND PROCUREMENT STRATEGY, SAN FRANCISCO CAMPUS**

The President of the University recommended that:

A. The proposed Integrated Form of Agreement (IFOA) procurement methodology for the design, construction, and development of the New Hospital at UCSF Helen Diller Medical Center at Parnassus Heights Program, based on selection premised upon qualifications followed by competitive negotiation, be determined to be in the best interest of the University pursuant to Section 10503(e) of the California Public Contract Code.

B. The President be authorized, in consultation with the General Counsel, to approve and execute the IFOA and any other documents necessary in connection with the above.

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

Chancellor Hawgood recalled that there had been prior discussions of this item. The campus had provided additional documents to the Committee and answered questions about the proposed project. UCSF believed that the background information in the item, the research carried out, and the data provided made it clear that the Integrated Form of Agreement (IFOA) model was in the best interests of the Regents for this project.

In response to a question that had been raised during the earlier closed session meeting, Chancellor Hawgood informed the Committee that the inspector of record for the project was the California Office of Statewide Health Planning and Development (OSHPD), and OSHPD would be included as a member of the project management team. The general contractor was separately responsible for testing, inspection, and commissioning.

Committee Chair Makarechian thanked the campus for providing Committee members with the complete contract documents. He acknowledged that he had initially felt skeptical about the IFOA model due to possible liabilities. After speaking with campus representatives and reading the contract documents, he now believed that this model would be of benefit to UCSF in a number of ways. This process would lead to the creation of a realistic hard budget. All the entities involved would be part of one team. Committee Chair Makarechian had been concerned about liability related to disputes over change orders. He expressed approval for having OSHPD as the inspector of record, not the University, and for having OSHPD as a member of the team. With this action, the Regents were not approving a budget, contractors, or design, but asking the campus to use the IFOA model to secure contractors, subcontractors, and designers for future action. He noted that, for hospital buildings in particular, the design process is dynamic and the design can change. He was comfortable with the proposed action.

Regent Estolano stated that she had also read the contract and found it to be innovative. This would give UCSF the opportunity to deliver an excellent project.

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

6. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – MEMBER CONTRIBUTION CONSIDERATIONS**

The President recommended that:

A. An increase in UCRP member contribution rate(s) of 0.25 percent a year over four years for a total of 1.0 percent on covered earnings in excess of one-half of the indexed California Public Employees' Pension Reform Act (PEPRA) limit[1] be implemented effective July 1, 2022, as described in the schedule below.

Effective Date	1976 Tier* Members (less $19 monthly)	2013 Tier Members	2016 Tier Members / Savings Choice Participants	Modified 2013 Tier Members[2] / Safety Members
Increase Only Applies to Covered Earnings in Excess of One-Half of the Indexed PEPRA Limit				
July 1, 2022	8.25%	7.25%	7.25%	9.25%
July 1, 2023	8.50%	7.50%	7.50%	9.50%
July 1, 2024	8.75%	7.75%	7.75%	9.75%
July 1, 2025	9.00%	8.00%	8.00%	10.00%

*The contribution rate for UCRP 1976 Tier members is reduced by a monthly offset of $19.

The PEPRA limit is currently $124,180, so the increase would apply only to covered earnings above $62,090 currently. This amount would be indexed each year based on increases in the PEPRA limit.

As requested by the Regents, the Recommendation is designed to address cost-sharing while also mitigating the impact of the increase on lower-paid members. Additionally, by applying the rate increase only on pay over a certain limit rather than on all pay for members who earn more than the limit, the higher-paid are not subsidizing UCRP on behalf of lower-paid members. The Recommendation's effective date also coincides with the expiration of several long-term labor contracts covering many represented members. Although member contribution rate increases

[1] The PEPRA limit used will be the limit that applies to members who are in Social Security.
[2] Includes 1976 Tier Members covered by certain bargaining units.

are subject to collective bargaining for represented employees, as contracts open up, it is intended that increases in member rates for represented employees will become equivalent to those of policy-covered staff and faculty.

Based on its design to lessen the impact of a rate increase on lower-paid members, the recommendation results in lower cost-sharing as compared to the member rate increase alternatives listed below. However, it is considered to be the least contentious member rate increase.

Should the Regents desire a different option for increases to the UCRP member contribution rates, additional alternatives are:

Alternative #1 – The UCRP member contribution rate(s) be increased, effective July 1, 2022, by 0.25 percent a year over four years according to the schedule in the Recommendation above. Since the increase would apply on all covered earnings, this alternative retains the familiar percentage of pay contribution formula and would increase the total member rate by 1.0 percent, achieving approximately one-third of the cost-sharing of the NC increase. While it achieves a greater cost-sharing than the Recommendation, unlike the Recommendation it does not lessen the impact of a cost increase on lower-paid members.

Alternative #2 – The UCRP member contribution rate(s) be increased, effective July 1, 2020, by 0.25 percent a year over six years for a total of 1.5 percent, as described in the schedule below.

Effective Date	1976 Tier* Members (less $19 monthly)	2013 Tier Members	2016 Tier Members / Savings Choice Participants	Modified 2013 Tier Members3 / Safety Members
July 1, 2020	8.25%	7.25%	7.25%	9.25%
July 1, 2021	8.50%	7.50%	7.50%	9.50%
July 1, 2022	8.75%	7.75%	7.75%	9.75%
July 1, 2023	9.00%	8.00%	8.00%	10.00%
July 1, 2024	9.25%	8.25%	8.25%	10.25%
July 1, 2025	9.50%	8.50%	8.50%	10.50%

*The contribution rate for UCRP 1976 Tier members is reduced by a monthly offset of $19.

This alternative would achieve the 50 percent cost sharing of the NC increase desired by the Regents, but would not lessen the impact on lower-paid members and could not be implemented effective July 1, 2020 for a significant number of represented members currently covered under long-term, closed bargaining contracts.

In light of the negative feedback received from faculty and staff and their consensus that UCRP member contribution rates should not be increased at this time, the President is putting forward the following additional alternative:

[3] Includes 1976 Tier Members covered by certain bargaining units.

Alternative #3 – An increase in UCRP member contributions *not* be approved or implemented at this time.

B. If the Recommendation, Alternative #1, or #2 are approved, authorize the Plan Administrator to implement the recommended changes.

C. A full experience study of both economic and demographic assumptions be completed every third year, rather than the current practice of every fourth year. Any more frequent reviews of the Plan's actuarial assumptions would be limited to the Plan's investment return assumption, which will be reviewed only when the Plan's asset allocation strategy is materially changed and that change would have a material impact on the investment return assumption.

[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 suggested, based on discussions with Regent Park and others, that this item be deferred until the July 2020 meeting. He reflected on the Regents' fiduciary responsibility to UC retirees and the need for retirement plan contributions and stressed his view that the State and the Legislature have a responsibility to contribute funds to the UC Retirement Plan (UCRP). He suggested that the University work with the Governor's Office and the Legislature on this matter through spring 2020. The University's talent in negotiating with the State government and assistance from the Regents might have an influence on the amount of State contributions. Regents Leib and Park expressed approval for deferring action on this item.

Regent Park stated that, while she did not like deferring a decision, the University might benefit from further discussion about requesting funding from the State. The proposed action raised many other issues. This action was aimed at the goal of full funding for the UCRP but raised important issues related to affordability and cost of living for UC employees, represented and non-represented.

Committee Chair Makarechian stressed that even a small contribution amount could be significant for lower-paid employees and that the University must work with its employees in seeking funding from the Legislature. He again emphasized the Regents' responsibility to ensure that UC retirees receive pension income.

President Napolitano stated her understanding that deferring this item until July 2020 would provide time for the University and its constituent groups to work with the State on receiving Proposition 2 funds to address pension plan costs. Committee Chair Makarechian confirmed that this was the case.

Regent Pérez expressed approval for deferring the item but drew attention to certain questions. The purpose of the deferral was to ensure that the Regents do not make a rash decision with a negative impact on employees who have a limited ability to absorb a 1.5 percent contribution increase. The Board had been thoughtful in its adjustment to the

UCRP discount rate. The Regents must ensure that appropriate contributions are made and must determine how the contributions are apportioned. He expressed concern that the Regents were not sending a clear enough message to UC workers that the Regents were aware of the difficulty that a contribution increase would present for these workers. He stated that he was optimistic regarding the availability of Proposition 2 funds.

Regent Leib stated that UC should be looking for other means of funding the UCRP and not shifting a greater burden onto UC employees, with the result of lower net pay.

Regent Cohen expressed approval for deferring the item but noted that more contextual information needed to be provided. The core of problem was that the retirement system currently cost three percent more than it had cost a year prior, as a percentage of payroll. This cost might be covered by Proposition 2 funds, but a funding shortfall was a serious concern. The Regents might have to consider creative solutions. If the University could not find an alternative funding source, it might consider different contribution rates based on employee income levels as a way to protect UC's lowest-paid workers.

7. **REPORT OF BUDGET TO ACTUAL EXPENDITURES FOR FISCAL YEAR 2018-19 FOR THE OFFICE OF THE PRESIDENT; AND FIRST QUARTER FISCAL YEAR 2019-20 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 is presented regularly in November, after the Office of the President (UCOP) closes its books for the preceding fiscal year. For fiscal year 2018-19, the UCOP budget was $876.4 million, while actual expenditures were $25 million under budget, or 2.9 percent. UCOP considers its fund balances as it prepares its budget but waits until the fiscal year close to make any decisions about allocations. The unrestricted fund balance was $500,000 higher than forecast, and this was applied to the $5 million gap in the current-year budget. All unrestricted funds were committed and UCOP had identified some additional funds to reallocate to the campuses. UCOP also reviews its reserves and had presented a new, more transparent way of managing its reserves earlier this year. One reserve balance, for the housing loan program, came in over the target. There is a policy governing minimum and maximum targets, and this target was adjusted slightly, resulting in $5 million in additional funds to the campuses. This year, the budget included Schedule G, a new feature. Because this was the third and final year in the three-year period following the California State audit of UCOP administrative expenditures, UCOP had now presented three budgets to the Regents as well as budget to actuals for three years. Seven of the State Auditor's recommendations to UCOP concerned reallocating funds from UCOP fund balances to the campuses and reporting on this. Schedule G reported the three-year accumulation of funds that had been reallocated directly and indirectly to the campuses, a total of $166.3 million.

The current report also included budget to actuals for the first quarter of fiscal year 2019-20; UCOP was on target with spending for the first quarter of the year. UCOP had a

$5 million gap for the current year. UCOP considered its fund balances as of the end of the preceding year and, through a combination of increasing revenues and reducing expenditures, most for one-time activities, UCOP had identified a way to close this gap.

8. **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.]

Interim Vice President Cianca reported that, since the last update to the Board, the University had successfully deployed UCPath at UC Davis, UC Davis Health, and for the Division of Agriculture and Natural Resources, bringing the number of employees served by UCPath to 138,000. The total number would be approximately 220,000, and UC expected to have completed the deployment of UCPath by May 2020. The next deployment, scheduled for December, for UC Santa Cruz, UC Irvine, and UC Irvine Health, would add about 30,000 more employees to UCPath. The UCPath team works through various test cycles at each location. UCPath leadership determined that UCSF would not be ready for deployment in February 2020 and a decision was made to move this deployment from February to May; deployment would take place at UCSF and UC San Diego at that time, and this would be the final deployment for UCPath. Mr. Cianca acknowledged that there had been an issue of concern with regard to the deployment at Lawrence Berkeley National Laboratory (LBNL). LBNL has payroll reporting requirements to the U.S. Department of Energy (DOE) that are different from UC's regular reporting to the federal government. The University has had to take a step back to see how it can meet DOE reporting requirements; this would likely require running a separate payroll for LBNL on a monthly basis. This approach was feasible but needed to be tested. By the time of the next update there would be a deployment date for LBNL, likely in March or April. At a high level, the UCPath team was pleased with the progress that had been made. Mr. Cianca praised the UC Davis deployment team for its agility in responding to issues in this deployment and resolving problems in a timely manner. He looked forward to the completion of the full deployment, after which point discussions could focus on the value of UCPath to the University.

Committee Chair Makarechian asked about the projected capital costs for fiscal year 2020. Mr. Cianca responded that these were self-reported figures from the campuses. The total project cost had not changed from $553.2 million. Committee Chair Makarechian asked about the forecast project office costs of $44 million and how this money would be spent by May. Mr. Cianca explained that there was still a large project team. Each deployment requires about 80 people, not only for the work of converting records but for ensuring that the campuses are supported in the initial pay cycles. These team numbers could not be reduced until the final deployment. The fact that there would be two large deployments in May meant that UCPath could not decrease these numbers as quickly.

Committee Chair Makarechian again asked about the reason for the forecast project office costs of $44 million and the campus costs of $59 million. Executive Vice President and Chief Operating Officer Nava responded that the UCPath team would provide a breakdown of these financial figures. She underscored the need to have appropriate staff in place for the two large final deployments.

Regent Cohen asked about problems that had arisen at the Davis campus and how these would be corrected. UC Davis Vice Chancellor Kelly Ratliff responded that the Davis campus acknowledged the frustration and anger expressed by some students, which was justified. In the aggregate, the deployment at UC Davis had been successful, with over 105,000 paychecks and direct deposits processed and an error rate of less than one percent. But there was a group of students, largely in a single department, who experienced a disproportionate error rate. Some of the errors predated UCPath and were due to hiring processes. UC Davis administrators met with students to discuss the problems and emergency payroll advance programs were put in place.

Regent Pérez noted that he had received communications about problems with UCPath at UC Davis. He asked about the campuses' ability to issue paper checks and how long it takes to resolve a problem once it has been identified. Ms. Ratliff responded that much reporting of problems had occurred at the end of October and that the campus had issued 130 paper checks since November 5. About half of these checks were for amounts less than $100, while a few were for amounts as high as $2,000. Issuance of paychecks has sometimes been as quick as within a day, but sometimes it has taken closer to ten days. The speed of issuance depends on information received. Once the campus has information on hours worked and appropriate pay rate, it can issue a check the same day. Because of delays that have occurred, UC Davis had instituted a UCPath payroll advance program the previous week and 29 students had submitted applications. This would allow them to receive $1,000 and repayment would be deferred until January 15. All 29 students were notified that they were approved for this loan.

Regent Pérez asked what percentage these 29 students represented of the total number of students experiencing problems with paychecks. Ms. Ratliff responded that there were about 250 known problems. Eighty students had been hired through UCPath the previous day, and another 100 or more needed access to the timesheet system; in the meantime, the campus was able to use manual timesheets.

Regent Pérez observed that a private sector entity would be subject to penalties for this type of delay. He asked about the extent of this problem at other campuses. Mr. Cianca responded that UC would be subject to Senate Bill 698, signed into law this year and effective January 1, 2020, which would enable UC employees to petition the Department of Labor for fines, should UC fail to meet its obligation to pay employees in a timely manner. With regard to the extent of the problem, he remarked that, in a university setting, fall is the peak hiring period for student employees, with the largest volume of hiring. UCPath had discovered, through its campus-by-campus work, practices on some campuses that were not aligned with UC's compliance obligations, such as ensuring that students are fully hired before they are allowed to start working. In some cases, students had already begun working but were not registered in the system to get paid. It was important to ensure that campus department personnel understand the deadlines they must meet. Campuses that had already had fall deployments did not experience these same difficulties the following year in fall. This was a transitional issue.

Regent Um commented that the UCPath deployments had been scheduled in order for UC to learn from each deployment. He hoped that these same problems would not recur in the final deployments and noted that there might be some employees affected by these problems in addition to those who had complained.

Regent-designate Muwwakkil expressed students' frustration with these problems but stated that he was glad that measures had been taken to ensure that students can be paid in an expedited manner. He asked if there were still logistical or programmatic problems with UCPath, unrelated to user error, that were or would be repeated in different deployments. Ms. Ratliff responded that she did not believe this to be the case. Some of the most important lessons learned from the deployments at UCLA and UC Santa Barbara concerned graduate students. UC Davis had extra efforts in place, and, out of the 130 paper checks issued, only six were for graduate students. Most of these checks were for undergraduates. In a large campus unit, Student Housing and Dining Services, with about 1,000 student employees, only two errors were reported. In the Associated Students of UC Davis there was a larger cluster of errors. This is a large, complex campus with decentralized processes. The Davis campus was expediting student hiring sessions and would have processes in place in January for the effective hiring of large numbers of students.

Committee Chair Makarechian requested that there be a briefing at the January meeting on the benefits of UCPath other than issuing paychecks, such as data collection.

9. **COLLEGE OF CHEMISTRY EXPANSION BUILDING, BERKELEY 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.]

Regent Estolano commented on University construction projects in general. The University had ambitious climate goals. She encouraged the University to seek to eliminate the use of natural gas in any new construction. There were remarkable ways to use renewable natural gas, such as gas generated from landfills. Nevertheless, all new UC buildings should be constructed to run without natural gas in order to achieve UC's climate goals. Regent Estolano requested a briefing to discuss how this issue might be approached. The University should be a leader in electrifying all facilities and phasing out the use of natural gas. Interim Executive Vice President and Chief Financial Officer Jenny responded that a meeting would be scheduled to discuss this. Associate Vice President Peggy Arrivas added that this issue would be addressed in future items.

Regent Cohen asked about the proposed financing for the College of Chemistry Expansion Building. UC Berkeley Vice Chancellor Rosemarie Rae responded that the campus had received $40 million in philanthropy, and the campus would match this. In addition, the campus would extend a $20 million loan to the College of Chemistry and hoped to use some State funds if these were available.

Regent Cohen asked if this project would address seismic needs. Ms. Rae responded in the affirmative. There were three buildings with poor seismic ratings in the College of Chemistry complex. The campus planned to use this new building as a “surge building” while carrying out seismic retrofit work on the other buildings.

10. **INTERSECTION DEVELOPMENT DONATION, BERKELEY 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.]

This information item was not discussed.

11. **BIOLOGICAL AND ENVIRONMENTAL PROGRAM INTEGRATION CENTER ON LAWRENCE BERKELEY NATIONAL LABORATORY’S MAIN CAMPUS IN BERKELEY**

[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.]

This information item was not discussed.

12. **EAST CAMPUS APARTMENTS PHASE IV-B, IRVINE 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.]

This information item was not discussed.

13. **SCHOOL OF MEDICINE EDUCATION BUILDING II, 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.]

This information item was not discussed.

14. **DEVELOPMENT OF OCEAN ROAD FACULTY AND STAFF HOUSING, SANTA BARBARA 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.]

This information item was not discussed.

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

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

[See discussion in item 16 below.]

16. **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.]

Committee Chair Makarechian requested clarification, for the benefit of the general public, of the different discount rates used for the retiree health benefit program and the UC Retirement Plan (UCRP). Executive Vice President and Chief Operating Officer Nava responded that this was due to the pay-as-you-go component of the retiree health benefit program.

Deloitte representative Michael de Leon remarked that the simple answer to Committee Chair Makarechian's question was that the UC retiree health benefit program was not pre-funded as the UCRP was. Accounting standards require that a plan that is not pre-funded use a discount rate based on the 20-year bond index for the date the financial statements are released. As of June 30, 2019 that rate was 3.5 percent, and this was the rate that was used. The rate varies annually depending on the 20-year bond index. In response to another question by Committee Chair Makarechian, Mr. de Leon explained that any unfunded retiree health program would use the same discount rate. If the UC pension plan were unfunded, it would also use the 3.5 percent discount rate. Because the pension plan had assets, UC used the expected return on the plan as the discount rate.

Regent Pérez noted that the California Public Employees' Retirement System and the California State Teachers' Retirement System also used this 3.5 percent discount rate because both were not pre-funded.

Regent Cohen asked if the University had a plan to implement pre-funding of retiree health benefits in order to address this long-term liability. Executive Director Gary Schlimgen responded that UC's first priority was the pension plan. UC had operated the retiree health benefit plan on a pay-as-you-go basis since its inception. No work had been done to examine pre-funding because UC was focused on the unfunded UCRP liability.

Regent Cohen expressed concern about the lack of a long-term plan, stressing that retiree health costs would continue to take away from UC operating funds. He encouraged the University to explore options in this area. This issue would need to be discussed together with employee compensation in order to develop an overall strategy. Mr. Schlimgen responded that the University makes cost containment efforts for the retiree health benefit program every year and reviews its program offerings. Even with new retirees this year, the pay-as-you-go costs had increased by only 1.1 percent. The program experienced a loss due to a decline in the interest rate but a gain due to new programmatic features. The pay-as-you-go costs and the campus assessment had remained flat over the last several years due to the University's management of its program offerings for pre-Medicare and Medicare retirees year by year.

Regent Cohen observed that, if long-term costs remained at modest levels, less than inflation, it would be easier to address the unfunded liability. If the University could earn five or six percent on some investment, and if expenses remained relatively flat, it could address this liability. Mr. Schlimgen responded that one needs a certain magnitude of assets in order to be able to use a higher discount rate.

Regent Cohen expressed concern that the University was apparently not interested in eliminating the $1 billion liability. Mr. Schlimgen responded that the University looks at this as a different type of liability. For the past 20 years, UC had stated clearly that retiree health benefits are not a vested or accrued benefit. This was different from the pension liability.

Regent Cohen stated his perception that there was not solid case law supporting the position that this was not a vested benefit. General Counsel Robinson responded that the University had recently resolved a lawsuit at the Lawrence Livermore National Laboratory involving retiree health. Committee Chair Makarechian stated that the University operated this program on a pay-as-you-go basis and took the position that this was not a vested benefit so that it could stop this program at any time. If, in the future, the University did not have funds to pay for these benefits, it would not pay. Mr. Robinson noted that the University had modified its plan documents to make clear its ability to make changes on a prospective basis. Mr. Schlimgen added that UC had every intention of offering this program in the future; it was carefully managing the program year by year to keep the pay-as-you-go costs and liability down.

President Napolitano referred to Regent Cohen's concerns and suggested that there be a more detailed discussion of retiree health at a future meeting so that parameters and risks are understood.

Regent Sherman stated that UC should consider these costs together with its deferred maintenance and seismic needs, a problem totaling about $75 billion, and try to address this in a strategic manner. The University must consider financing structures in order to set money aside to address these liabilities. One of the reasons people come to work at UC is the UCRP and retiree health benefits. The Regents would not be doing their fiduciary duty if the University failed to satisfy this promise because programs were not properly funded. He suggested that a working group be formed to develop recommendations.

Regent Park observed that, while one could consider retiree health benefits as a topic in its own right, these benefits were related to the general issue of compensation.

Committee Chair Makarechian stressed that the cost of retiree health benefits represented a fluctuating but large number.

Responding to Regent Park, President Napolitano distinguished two topics. One was unresolved long-term liabilities, including deferred maintenance and retiree health. She wished to assemble a small working group, perhaps with outside advisors, to explore various options. In her view, compensation was a separate topic which raised questions of current employee salaries, how these salaries compared to the marketplace, how UC was judging the marketplace, and how UC was considering salaries in relation to the cost of living. This would merit a separate discussion and would perhaps be appropriately reserved for the full Board rather than assigned to a committee or working group.

Regent Pérez concluded that important questions had been raised in the discussion. He would consider which venues, whether a working group, committee, or the full Board, would be most appropriate for discussion of these various questions.

The meeting adjourned at 1:35 p.m.

Attest:

Secretary and Chief of Staff