UNIVERSITY OF CALIFORNIA

Michael V. Drake, MD
President

Office of the President
1111 Franklin St.
Oakland, CA 94607

universityofcalifornia.edu

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DIVISION OF AGRICULTURE AND
NATURAL RESOURCES

October 27, 2023

The Honorable Nancy Skinner
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Senator Skinner:

Pursuant to Item 6440-001-0001 Provision 18 of the Budget Act of 2023 (SB101, Chapter 12, Statutes of 2023), enclosed is the University of California's annual report to the Legislature on UCPath.

If you have any questions, Interim Associate Vice President and Director Cain Diaz would be pleased to speak with you. Cain can be reached by telephone at (510) 987-9350, or by email at Cain.Diaz@ucop.edu.

Sincerely,

Michael V. Drake
President

Enclosure

cc: Senate Budget and Fiscal Review
        The Honorable John Laird, Chair
        Senate Budget and Fiscal Review Subcommittee #1
           (Attn: Mr. Christopher Francis)
           (Attn: Mr. Kirk Feely)
        The Honorable Kevin McCarty, Chair
        Assembly Budget Subcommittee #2
           (Attn: Mr. Mark Martin)
           (Attn: Ms. Sarah Haynes)
        Mr. Hans Hemann, Joint Legislative Budget Committee
        Mr. Chris Ferguson, Department of Finance
        Ms. Rebecca Lee, Department of Finance
        Ms. Jennifer Louie, Department of Finance
        Ms. Gabriela Chavez, Department of Finance
        Mr. Gabriel Petek, Legislative Analyst Office
        Ms. Jennifer Pacella, Legislative Analyst Office
        Provost and Executive Vice President Katherine S. Newman
        Executive Vice President and Chief Operating Officer Rachael Nava

Executive Vice President and Chief Financial Officer Nathan Brostrom
Interim Senior Vice President Michael Reese
Associate Vice President and Director Kathleen Fullerton
Interim Associate Vice President and Director Cain Diaz
Associate Vice President and Director Kathleen Fullerton

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2023 UCPath Legislative Report

AB 178, Chapter 45, Statutes of 2022, Budget Act of 2022, requires the University of California to provide the following report to the Legislature regarding UCPath:

> "By November 1 each year, the University of California shall report key information regarding UCPath to the Department of Finance and the Joint Legislative Budget Committee. At a minimum, the report shall include UCPath's staffing levels, funding by source, and spending by function. The funding source data shall summarize fund sources used by campuses to cover any campus assessment. The report shall include actual data for the prior fiscal year, budgeted data for the current fiscal year, and projected data for the coming fiscal year. The report shall include any cost savings resulting from the UCPath project at the campus level."
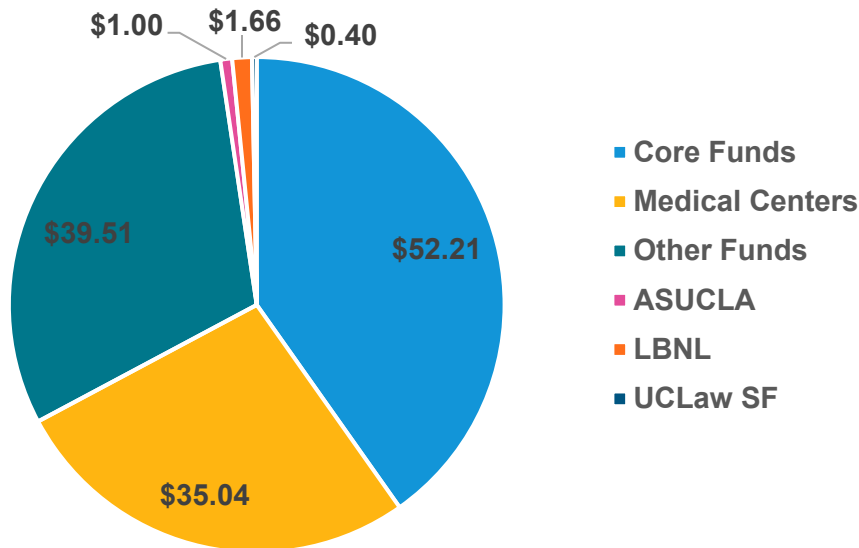
Overview

UC fully implemented UCPath in July 2020 to meet the complex needs of its large workforce through a shared services technology platform, operations center and employee contact center. The term UCPath contains an acronym of its core service components: **P**ayroll, **A**cademic personnel, **T**imekeeping and **H**uman resources.

UCPath provides payroll, HR systems, and benefits administration services to more than 240,000 employees at all UC campuses, medical centers, UC Office of the President (UCOP), the Associated Students of UCLA (ASUCLA), UC Agriculture and Natural Resources (ANR), UC College of the Law, San Francisco and Lawrence Berkeley National Lab (LBNL). In 2022, UCPath issued 4.8 million paychecks, totalling $22.4 billion. In January 2023, UCPath issued 329,000 W-2s.

UCPath Funding and Operating Costs

Between FY 2017-18 and FY 2020-21, UCPath was jointly funded from a direct appropriation of State General Funds and contributions from the campuses. Since then, UC locations fully fund UCPath operations via fee-for-service assessments based on W-2 count. Approximately two-thirds of this assessment comes from campus core funds and medical center sources, as shown below:

UCPath Sources of Campus Funds FY 2023-24
(Millions)

$1.00 $1.66 $0.40

$39.51

$52.21

$35.04

- ■ Core Funds
- ■ Medical Centers
- ■ Other Funds
- ■ ASUCLA
- ■ LBNL
- ■ UCLaw SF

UCPath actual expenses for FY 2022-23, budgeted expenses for FY 2023-24 and forecast expenses for FY 2024-25 are shown in the table below:

UCPath Operating and Financing Costs: FY 2022-23 – FY 2024-25

($ in millions)	FY 2022-23 Actual	FY 2023-24 Budget	FY 2024-25 Forecast[1]
OPERATIONS			
UCPath Operations	$100.9	$116.9	$123.0
PROJECT DEBT SERVICE			
Interest Payment	$3.3	$3.3	$3.2
Principal Payment	$4.3	$13.8	$13.9
Subtotal Debt Service	**$7.6**	**$17.1**	**$17.1**
Total	**$108.5**	**$134.0**	**$140.1**

Actual expenditures in FY 2022-23 were $4.5 million lower than the approved budget of $113.0 million. UCPath completed certain projects under budget and did not incur planned expenses for other projects due to changing priorities, contract delays, resource conflicts or other dependencies. Finally, the actuals reflect savings and lower-than-expected costs, such as lower

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[1] The forecast amounts are pre-decisional and do not reflect FY 2024-25 planning activities now underway.

unemployment insurance claims costs and savings in UCPath platform hosting costs. As a carry-forward, these savings partially offset FY 2024-25 campus assessments.

The FY 2023-24 budget of $134.0 million approved by the UC Regents in May 2023 includes provisions for:

- A planned headcount of 465 FTE, including contract and temp staff to backfill vacancies and overtime to support operational needs and COVID protocols
- Increased debt service for financed project expense that includes fully loaded principal effective FY 2023-24. Debt service payments remain relatively flat hereafter
- Adjustments for contractual and cost-of-living increases
- Temporary surge staffing to support peak workload periods, such as fall hiring, end-of-year processing and open enrollment
- One-time project costs to automate manual processes, increase operational efficiency and improve customer service
- Summer student internship program

The proposed FY 2024-25 budget of $140.1 million is preliminary and will not be finalized until May 2024 when the UC Regents consider the Office of the President budget. UCPath is currently planning system and operational projects for review and feedback by stakeholders through early 2024. Compared to FY 2023-24, this preliminary budget provides for:

- Level staffing and systems and operational project activity
- Operational processing optimization to increase efficiency and capacity
- A 3% general cost increase
- A 5% staff cost increase for contractual and cost-of-living adjustments

UCPath allocates operating and financing costs by service as follows:

UCPath Operating and Financing Costs by Service

($ in millions)	FY 2022-23 Actual	FY 2023-24 Budget	FY 2024-25 Forecast
Customer Facing Services	**$76.2**	**$88.3**	**$92.9**
HR Administration	$12.2	$14.2	$14.9
Payroll Processing	$12.2	$14.2	$14.9
Benefits Processing	$12.2	$14.2	$14.9
Absence Management	$10.9	$12.6	$13.3
Mass Update of Records	$7.2	$8.3	$8.8
Customer Support	$13.5	$15.6	$16.4
Records and Fulfillment	$8.0	$9.2	$9.7
Delivery Support Costs	**$24.7**	**$28.6**	**$30.1**
Subtotal Operating Costs	**$100.9**	**$116.9**	**$123.0**
UCPath Debt Service	$7.6	$17.1	$17.1
Total	**$108.5**	**$134.0**	**$140.1**

UCPath Headcount

Since FY2022-2023, budgeted headcount matches planned headcount for UCPath's scope of services and the UC employee population. While employee retention has improved year over year, recruitment remains a challenge in the current labor market. To mitigate the staff shortage, UCPath is leveraging contract and temp staff to backfill vacancies and support peak workload periods.

UCPath Headcount by Fiscal Year

Fiscal Year	Actual Headcount	Vacancies	Planned Headcount
2020	377	63	460
2021	381	29	460
2022	362	51	460
2023	369	96	465
2024	393	72	465