The Regents of the University of California

COMMITTEE ON FINANCE
September 13, 2000

The Committee on Finance met on the above date at UCSF–Laurel Heights, San Francisco.

Members present: Regents Atkinson, Bagley, Connerly, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, and Preuss; Advisory member Morrison

In attendance: Regents Khachigian, Kohn, Lansing, Leach, Montoya, and Sayles, Regents-designate Davis and Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gurtner, Hershman, and Saragoza, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 11:00 a.m. with Committee Chair Preuss presiding.

1. **APPROVAL OF THE MINUTES OF THE MEETING OF JULY 19, 2000**

   Upon motion duly made and seconded, the Committee approved the minutes of the meeting of July 19, 2000.

2. **REVISION OF THE MEMORANDUM OF UNDERSTANDING BETWEEN THE STATE BAR OF CALIFORNIA AND THE UNIVERSITY OF CALIFORNIA FOR JOINT SPONSORSHIP OF THE CONTINUING EDUCATION OF THE BAR**

   The President recommended that he be authorized to sign a new Memorandum of Understanding with the California State Bar for the joint sponsorship of the Continuing Education of the Bar (CEB), with the basic provisions of the agreement as follows:

   A. The University shall make available appropriate administrative services, retain authority to ensure that CEB operates in a financially responsible manner, ensure that CEB's operations and products conform to UC policies and purposes, and manage or dispose of CEB in a fashion that protects the assets of the University.

   B. The State Bar shall permit the use of its journal for announcements concerning CEB and the use of its name, mailing list, and similar facilities to promote CEB and facilitate its mission and encourage participation of its sections, of local bar associations, and of members of the State Bar in CEB activities and in facilitating CEB's mission.

C. CEB shall be budgeted on a self-supporting nonprofit basis, and title of all assets acquired through CEB, including copyrights, shall be in the name of The Regents.

D. A Governing Committee consisting of nine voting members shall consist of the University Provost (or designee) as Chair, an attorney in active practice in California appointed by the State Bar as Vice Chair, the Executive Director of the State Bar (or designee); two members who shall be attorneys actively practicing in California appointed by the State Bar; and four other members appointed by the University. Appointments shall normally be for renewable terms of two years.

E. The Governing Committee shall be responsible for review and approval of: (a) CEB's annual publishing and educational program; (b) CEB's updated strategic plans and objectives; (c) the annual budget; (d) recommendations of the Director on overall operation of CEB; and (e) CEB's long-term plans for investment and new products.

F. The Governing Committee shall meet as needed, but not less than quarterly, and shall submit to the University and the State Bar an annual report setting forth a review of operations of CEB for the preceding fiscal year and a statement of CEB's plans for the current year. It may create such advisory committees and procedures as it deems appropriate.

G. Either party may terminate the Agreement by giving the other party at least three months' prior written notice of such termination.

Provost King recalled that the University of California Continuing Education of the Bar was founded in cooperation with the State Bar of California to help meet the continuing education needs of California's attorneys. It was established in 1947 and operates under an agreement last revised and approved by The Regents in 1970. Following recent changes in the State Bar, the market for the continuing legal education and legal practice, and financial and administrative restructuring of CEB which points to continuing programmatic and financial health, both parties have agreed that a new agreement is needed in order to facilitate the objective of CEB, which is "to collaborate with lawyers, judges, and law processors to deliver the best current knowledge for the proficient and successful practice of law, thereby contributing to the betterment of the members of the legal profession, the public, and the administration of justice."

CEB keeps the members of the legal profession informed of changes and developments in the law through instruction, publications, and other services, provides continuing legal education to members of the legal profession in significant areas of legal practice, promotes greater efficiency in the practice of law, and presents courses and publishes materials concerned with the ethical and professional responsibilities of the members of the legal profession. The relationship with the State Bar is a crucial factor in CEB's ability to secure as volunteers the experts who contribute as authors and speakers.

In answer to a question from Regent Hopkinson, Provost King explained that, although the setting of individual fees is left to the Director, the Governing Committee is responsible for the overall budget.

Regent Bagley was opposed to continuing the CEB program. He believed that, rather than helping lawyers understand their profession, it produces masses of paper than no one reads. Regent Davies disagreed, stating that many members of the Bar look upon CEB as a valuable enterprise that helps them keep up to date on changes in the law. He noted that the program will be improved by the restructuring of its governance completed recently by Provost King. He stressed that CEB provides a valuable public service to the state.

Regent Connerly questioned the rationale for continuing to be involved in a program for professional enhancement. Provost King noted that, through its extension programs, the University has a broad continuing education role that covers nearly every field except law, which traditionally has been addressed through CEB. Lawyers in California are required by State law to spend a specified number of hours on continuing legal education. He believed that it was appropriate for the University to provide a means of fulfilling that requirement.

Regent Leach noted that CEB is designed to be self-supporting. He suggested that following any year in which it loses money, The Regents should be given the opportunity to decide whether the program should be continued.

At the suggestion of Committee Chair Preuss, President Atkinson agreed to a presentation at a future meeting that would provide more detail about the University's large, self-supporting program of continuing education.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regent Bagley voting "No."

3. **AUTHORITY TO ESTABLISH A STUDENT-OPERATED NONCOMMERCIAL LOW POWER FM RADIO STATION, SAN DIEGO CAMPUS**

The President recommended that he be authorized to submit on behalf of The Regents an application to the Federal Communications Commission for authority to operate a 100-watt, noncommercial, low power FM radio station to be constructed on the San Diego campus, said facility to be operated by the Associated Students of the University of California, San Diego (ASUCSD) under the supervision and control of the Chancellor or designee, with operating costs provided by the ASUCSD.

The Committee was informed that the addition of a low power 100-watt FM license will give the ASUCSD-supported radio station, KSDT, over-the-air capabilities. Currently, KSDT broadcasts over two San Diego cable companies and via carrier current to selected residence halls on the UCSD campus. Lazer Broadcasting in Oxnard, California granted permission to use the KSDT call letters only if the signal is transmitted via cable and/or carrier current. The station will change the call letters from KSDT to KSDX when the FM construction permit is approved.

KSDT has been a presence at UCSD for over 30 years. The ASUCSD has supported KSDT financially and is committed to supporting the FM license if granted by the FCC. With the addition of the 100-watt broadcast capabilities, the radio station's signal will have a broadcast radius of up to six miles and reach the entire campus and adjacent community.

The establishment of KSDX as a 100-watt low power FM radio station has the endorsement of Chancellor Dynes. The Vice Chancellor–Student Affairs and the President of the Associated Students have certified that the Senate of the Associated Students has allocated $18,000 for KSDX operations during fiscal year 2000-01 to commence construction and broadcast operation of the station.

The programming will be of specific interest and relevance to the campus and adjacent community. It shall be the policy of radio station KSDX at UC San Diego to provide music, news, and sports programming for the UCSD community. In addition, KSDX will provide a strong public service presence supporting the educational mission of the University, providing the opportunity for University departments, student groups, and student government to reach out on a consistent basis to the UCSD community. The student staff and personnel will be able to experience a more complete radio experience, especially for students in communication/visual arts, as well as develop leadership skills and management responsibilities. The following structure will be established to manage the station:

- The Regents of the University of California will own the license.

- The Chancellor, or designee, will have complete authority and control over the operation of the station.

- The ASUCSD will be designated as responsible for the operation of the station and will assume financial responsibility for the station and its operation.

- The format will be managed and approved by a staff station manager, funded through the ASUCSD and reporting to the Director of Student Activities and Governments.

- A governing board/oversight committee made up of students, staff, and faculty will monitor the station's operations and report on the operations to the Chancellor or designee on a quarterly basis.

The application for the low power FM construction permit was sent to the FCC on June 2, 2000. The FCC opened the application window for 100-watt low power FM radio stations in California on May 29, 2000 and closed it on June 8, 2000. It was necessary to submit the construction permit immediately during this application window in order to qualify for consideration by the FCC. Because the San Diego radio broadcast spectrum is currently very congested, it is unlikely that an FM channel would have been available in the vicinity of the campus at a later date for The Regents to apply for a 100-watt FM station if a construction permit application had not been submitted by June 8, 2000. After Regental approval of this station and FCC approval of the construction permit application, the KSDX low power FM radio station license application will be submitted to the FCC.

Finances

Capital and operating expenses will be provided from funds available to ASUCSD. If granted the FM license by the FCC, it is estimated construction for the antenna, transmitter, and studio upgrades will be between $20,000 and $25,000. Annual operating costs could reach $50,000. The ASUCSD has agreed to commit annual funds for the continued operation of KSDX.

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

4. **APPROVAL OF STUDENT-SPONSORED INCREASE IN UNDERGRADUATE STUDENT GOVERNMENT FEES, LOS ANGELES CAMPUS**

The President recommended that, effective fall quarter 2000, the Undergraduate Students Association Fee at the Los Angeles campus be increased by $1.09 per undergraduate student per quarter, from $23.00 to $24.09 per student per quarter, to support activities of the University of California Student Association (UCSA) and campus expenses related to UCLA student participation in the UCSA and the United States Student Association (USSA).

The Committee was informed that the UCLA Undergraduate Students Association Council (USAC) included in its May 10 and 11, 2000 election a ballot measure to increase the Undergraduate Student Association fee by $2.00 per student per quarter to support membership in the University of California Student Association and the United States Student Association. The ballot specified that of the $2.00 per student per quarter increase, $0.90 would be used to support the undergraduate association membership in the UCSA, $0.91 would go to membership in the USSA, and $0.19 would be used to fund programs, campaigns, and travel of UCLA representatives to UCSA and USSA meetings and conferences.

UCSA is the recognized voice of UC students to The Regents and the California legislature. UCSA works on systemwide issues such as student fees, increasing State funding to higher education, admission and retention of educationally disadvantaged students to the University of California, and the annual nomination of the student Regent.

USSA is a national student organization that works on issues of educational access, including increasing financial aid, recruitment, and retention of traditionally underrepresented students, and campus safety. USSA represents and advocates for students in Washington, D.C.

University policy permits the collection of mandatory student fees to support recognized student governments of the University. The proposed fee increase to support UCSA is consistent with the University's policy as it is an official University umbrella organization made up from the student governments at the campuses, and the University has determined that its educational purposes are served by allowing "official student government lobbying activities on student-related matters." Any objecting students are entitled to a refund of any portion of their fees spent for lobbying purposes. USSA also carries on lobbying activities, but at the national level; however, it is not a student government of the University. The proposed allocation to it, in particular for its lobbying activities, is not contemplated by current University policy, may not be consistent with the University's educational purposes, and may be more appropriately funded through voluntary contributions from students under procedures applicable to other independent organizations rather than through mandatory fees assessed against all students. In addition, there are complex legal issues concerning the associational rights of dissenting students when mandatory fees are used to fund political, ideological, and religious activities.

Accordingly, approval is recommended of an increase of $1.09 per undergraduate student per quarter in the Undergraduate Student Association Fee. Of this amount, $0.90 will be used to support UCSA and an additional $0.19 will be used to fund programs and other campus expenses related to UCSA, such as travel of UCLA student representatives to UCSA meetings and conferences. Action on the $0.91per student per quarter for UCLA membership in USSA will be deferred until the legal and policy issues regarding this portion of the proposed fee increase are resolved. The Office of the President will work with UCLA students and the campus administration to further examine whether all or a part of the allocation to USSA is an appropriate activity of the student government which can be funded in a way that protects the associational rights of dissenting students. A process also is under way to examine more broadly University policy applicable to advocacy activities carried out by student governments to assure that they are carried out only in accordance with the University's educational objectives and in accord with law.

Of the 23,445 undergraduate students eligible to vote, 5,512 (23.5 percent) voted in the election. Of the 4,325 undergraduate students voting on this particular issue, 2,655 (61.4 percent) voted to approve the ballot measure. These results satisfied the voter turnout and majority requirements for approval established by the campus administration in advance of the election. As specified in the ballot measure, continuation of the proposed fee increase must be reaffirmed by a majority vote every four years.

Regent Leach recalled a past experience where it was discovered that a substantial amount of a mandatory student fee was going to a well-known and controversial public figure. He sought assurance that groups using mandatory funds would be well monitored to prevent a repetition of that circumstance. Deputy General Counsel Morrison emphasized that the mandatory allocation of fees to USSA was viewed as not permissible by the University, and therefore the recommendation to adopt the students' proposal to do so was removed until the matter can be analyzed further in terms of its legality. He believed that the chancellors have practices in place for monitoring the use of fees by student groups. They have the authority under Regents' policy to assure the fiscal soundness of all student government.

General Counsel Holst suggested that the Office of the President prepare a report for the Regents on the issue of accountability and reporting requirements concerning the use of campus fees that could set the stage for broader action if it becomes necessary.

Regent Fong was concerned that in voting against student-supported issues the Regents may appear not to take into account the wishes of the student body. Regent Leach responded that he was concerned only that students be informed about where their money is being spent. Chairman Johnson shared his concern and was concerned also about the rights of dissenting students. She hoped that the President's report would address the complexities of the legal issues that are involved. General Counsel Holst emphasized that the reason for deletion of the portion of the recommendation concerning funds for USSA was to allow for consideration of the application of legal principles in terms of what a public institution may require in the way of a mandatory fee that is imposed on all students.

[For speakers' comments, refer to the minutes of the September 13 morning session of the Committee of the Whole.]

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

5. **MODIFICATION OF PROGRAM FRAMEWORK AND LOAN PARAMETERS FOR UNIVERSITY OF CALIFORNIA MORTGAGE ORIGINATION PROGRAM**

The President recommended that:

A. The Regents approve modifications to the Mortgage Origination Program Framework as detailed in Attachment 1.

B. The Regents approve modifications to the Mortgage Origination Program Loan Parameters as detailed in Attachment 2.

It was recalled that since 1984 The Regents has authorized the President to implement the University of California Mortgage Origination Program (MOP) and provide first deed-of-trust mortgage loans to eligible Faculty Senate members and members of the Senior Management Group using funds from the legally available cash balances in the unrestricted portion of the Short-Term Investment Pool (STIP). Over the intervening years, needed changes have been approved to MOP to make it a valuable recruitment and retention tool for the faculty and other key staff.

The University foresees the need to recruit an estimated 7,000 faculty members (3,000 new positions and 4,000 retirement and turnover replacements) during the next decade to provide instruction to an anticipated 60,000 additional students. This recruitment is taking place at the same time as California residential real estate prices are escalating rapidly, particularly in the metropolitan areas surrounding University campuses. Between June 1999 and June 2000, for homes purchased under MOP, the average purchase price was $479,000 and the average loan amount was $342,000.

In light of the on-going housing market cost escalations and the University's projected hiring and retention needs, several changes to the MOP framework and loan parameters are being recommended. Some changes will serve to maintain the long-standing advantages of the MOP loans over conventional loans, while others will expand the definition of those served under MOP. A large percentage of the University's faculty are recruited from out of state, and many senior administrative and managerial positions also require national or out-of-area recruitment, making housing assistance a key component of many recruitment offers. The recommendations summarized below are intended to address these collective issues.

Proposed Program Framework Modifications

A. *Eligibility Criteria*

Changes are recommended to the current definition of those eligible for program participation. To facilitate the recruitment and retention of key University administrators, it is recommended that the President be authorized to grant case-by-case exceptions to the eligible categories, based upon essential recruitment and retention needs to meet institutional goals.

B. *Eligible Residences*

Program loans may be used to finance single-family residences, including condominium units. As housing prices have escalated, loan applicants have expressed interest in purchasing duplexes to provide them with rental income to offset home ownership costs and increase affordability. Some of these requests have been based upon the need to provide for special family living situations such as adult care giving. Most conventional lenders treat a duplex as a single family dwelling for many of their loan products. It is proposed that duplexes be added to the eligible property types of the program.

C. *Exceptions*

Currently, 10 percent of the cumulative program allocation for loans is available for granting exception loans. There are three categories of exceptions: (1) individuals who have owned a home in the vicinity of the campus within the prior 12 months; (2) individuals who have had a previous MOP loan; and (3) refinance situations. Requests for exception loans have been increasing over time. This need can arise from a change in family size or a desire to reduce commute times and can be coupled with a decision about remaining at UC or accepting a position at another university. Providing an MOP loan can be a key factor in the University's ability to retain these employees. Given the increased need for exceptions, it is recommended that the allocation for exceptions be increased to 15 percent.

Proposed Program Loan Parameter Modifications

A. *Maximum Loan-To-Value Ratio*

Before 1995, the maximum loan-to-value ratio (LTV) for all MOP loans, regardless of size, was 90 percent when the loan did not include financing of closing costs. If documented closing costs were included in the loan, the LTV could be increased to a maximum of 92 percent. In March 1995, in response to the rapid decline of property values in southern California in the early 1990s, resulting in a few principal losses to the program, The Regents restricted the LTV at various loan amount thresholds.

Based upon an annual study of home prices in the zip codes at and around each campus where UC faculty live, the median sales price for homes sold between October 1993 and October 1994 averaged $267,600 for all nine campuses. A similar study from October 1998 to October 1999 showed the campus average price rising to $357,100, an increase of approximately 34 percent. This growth in price, coupled with the LTV restrictions, has resulted in a significant increase in the amount of cash equity needed for down payment and closing costs. This growing down payment gap is having a negative impact on the University's ability to attract and retain faculty and staff, particularly those early in their careers with limited cash assets. Even senior faculty, especially those recruited from states where home prices are significantly lower, often have insufficient liquid assets to meet the down payment requirements in California's high-priced market.

To address this issue, it is proposed that the LTV thresholds be adjusted to keep pace with the growth in the average cost of housing, as the conventional market adjusts its conforming loan limits to recognize the impact of increased housing prices. Following an initial recommended adjustment to account for the growth in sales prices since 1995, the thresholds will be adjusted annually based on increases in the same home price study.

B. *Technical Corrections*

Several technical corrections are also recommended to better reflect current administrative practices regarding the locking in of interest rates and accounting for portfolio earnings.

For the discussion and vote of this item, refer to item 6.

6. **MODIFICATION OF PROGRAM ELIGIBILITY AND PARTICIPATION GUIDELINES AND PROGRAM PARAMETERS FOR UNIVERSITY OF CALIFORNIA SUPPLEMENTAL HOME LOAN PROGRAM**

The President recommended approval of modifications to the Supplemental Home Loan Program Loan Parameters as detailed in Attachment 3.

It was recalled that in March 1993 The Regents established the Supplemental Home Loan Program (SHLP) to replace the Short-Term Housing Program, which was first established in 1982 to provide first and second deed-of-trust mortgage loans to eligible Faculty Senate members and members of the Senior Management Group. SHLP loans are funded from a $2 million loan from the University Fund and the Educational Fund and from discretionary funds available to the chancellor of each campus. Over the intervening years, several changes have been approved to SHLP, and today it serves as a valuable recruitment and retention tool for the faculty and other key staff.

In response to the same projected growth-induced recruitment activity and the ongoing escalation of California residential real estate market prices presented in item 5 above, several changes to the SHLP parameters are being recommended to conform the SHLP parameters to the changes being recommended for the Mortgage Origination Program.

Proposed Program Loan Parameter Modifications

A. *Eligible Residences*

Loans may be used to finance single-family residences, including condominium units. As housing prices have escalated, loan applicants have expressed interest in purchasing duplexes to provide them with rental income to offset home ownership costs and increase affordability. It is proposed that duplexes be added to the eligible property types of the program.

B. *Maximum Loan-to-Value Ratio*

Before 1995, the maximum loan-to-value ratio (LTV) for all SHLP loans, regardless of size, was 95 percent. In March 1995, in response to the rapid decline in property values in southern California in the early 1990s, The Regents restricted the LTV at various loan amount thresholds.

It is proposed that the LTV thresholds be adjusted to keep pace with the growth in the average cost of housing, as the conventional market adjusts its conforming loan limits to recognize the impact of increased housing prices. The proposed methodology for determining the initial new threshold amounts, as well as the annual adjustments, is the same as described in item 5 above.

Committee Chair Preuss was opposed to including duplexes as residences that will be available for mortgage loans under the program. Regent Connerly shared his concern; however, he believed that as the housing crisis worsens, it may be necessary for the marketplace to consider new arrangements, and it might become common for conventional lenders and others to look at duplexes in the same way they now view single family structures. He suggested finding some way of retaining flexibility in order to facilitate assisting University employees' getting into the market. Senior Vice President Mullinix suggested returning to the Committee in the near future with a proposal for addressing Regent Connerly's concerns about keeping the program sufficiently flexible to address increasing demand.

Regent Hopkinson asked who is eligible for the program. Deputy Assistant Vice President–Facilities Administration Mathews responded that the group includes senior management and faculty who are members of the Academic Senate or who hold academic titles. Part of the recommendation is that the President be authorized to lower the eligibility by class at his discretion. Regent Hopkinson believed that because the program is not open to those teaching on campuses who are not Academic Senate members, it is too limited to address core needs. She asked that a presentation be made to the Regents on how the program could be made into a more valuable tool. She believed that the University should develop an equity participation program in which it shares ownership with eligible faculty and managers. Committee Chair Preuss noted that the program was developed primarily to attract outstanding faculty rather than as an across-the-board benefit.

In answer to a further question by Regent Hopkinson, Mr. Matthews reported that his office administers the program and has a full-time staff of loan underwriters and loan service employees. He explained that the maximum amount of the interest rate adjustment up or down is 1 percent, based on the most recent Short Term Investment Pool rate available 12 months after the first loan payment.

Regent-designate Morrison asked how the program is sustained financially. Mr. Mathews explained that the program was set up to be funded out of a portion of the legally available cash balances of the unrestricted portion of STIP. The President may make allocations to the program on a two-year basis, as long as the portfolio balance does not exceed 25 percent of that portion of STIP. That limitation on funds is the mechanism for limiting the universe of potential borrowers.

Faculty Representative Cowan noted that the home loan program is of great interest to the faculty as a key recruitment tool. The Committee on Faculty Welfare has long considered the question of whether it is adequate as part of a portfolio of recruitment strategies. He believed that the faculty would welcome working with the Office of the President to examine options for making the program more effective.

Regent Connerly suggested postponing the item in the interest of further debate. He noted that raising the limits could have undesirable consequences. Chairman Johnson believed that the items, which are only a beginning in the attempt to address a looming problem, should be approved and that the subject should be presented to The Regents again once the proposals had undergone some refinements based on the Regents' comments.

Regent Leach noted that, although the program is a necessary tool for maintaining the quality of the faculty, it has been abused by individuals in the past. He suggested that, as a matter of prudence, consideration be given to requiring that loans of $1 million and above to a chancellor or senior vice president require approval of the Chairman.

Regent-designate T. Davis requested that the future presentation provide information about what faculty would like and what the University's competitors are offering.

Regent Hopkinson moved that the word "duplexes" be deleted from eligibility for mortgage loans under the Mortgage Origination Program framework and the Supplemental Home Loan Program loan parameters. Her amendment was duly seconded. The Committee then approved the President's recommendations, as amended, pertaining to items 5 and 6 and voted to present them to the Board.

7. **THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM: PROPOSED BENEFIT IMPROVEMENTS**

It was recalled that University of California Human Resources and Benefits (HR/Benefits) is evaluating several possible University of California Retirement Plan (UCRP or Plan) benefit improvements as part of an ongoing assessment of how UCRP serves the needs of both Members and the University, which is facing the tightest labor market in 30 years. Today's workers are highly mobile and cognizant of the components of their total compensation when evaluating employment opportunities. As a result, HR/Benefits is reevaluating the benefits that the University offers in order to recruit and retain qualified faculty and staff. This is critical in light of the expected 43 percent increase in the student population over the next 10 years and the corresponding need to recruit new faculty and staff to support the projected growth. Historically, the University of California Retirement Plan has been an effective tool in both recruiting and retaining individuals. HR/Benefits is evaluating whether there are changes that could be made to the University of California Retirement System (UCRS) to better compare with those entities with which the University competes for the best talent.

Various benefit improvement options are being evaluated based on their effects on the University's goals regarding the recruitment, retention, and renewal of qualified faculty and staff and on cost and other considerations. Aware that any changes will have impact beyond the financial considerations of the Plan, UC administrators have initiated consultations and discussions with various levels of management, relevant Academic Council committees, advisory groups, the unions that represent many of UC's employees, and others to assess the related needs and goals of various segments of the UC community. The preliminary results of this evaluation indicate that, in order to maintain a competitive position compared to other employers, benefit improvements may need to be implemented. Several benefit improvements are outlined below. Additional benefit improvements will be submitted for consideration at the November and January meetings. Some of these benefit improvements could be implemented in the short term, others after plan design and implementation issues are resolved, and in one case after Internal Revenue Service approval has been obtained.

University of California Retirement Plan

The University of California Retirement Plan is a defined benefit plan. University of California employees need five years of service credit to qualify for Plan benefits which are determined by defined formulas that vary according to the type of benefit eventually paid, not by the contributions made to the Plan. For eligible UC faculty and staff, the Plan provides several types of benefits: lifetime retirement income, disability protection, and a variety of death benefits. In addition, upon retirement, eligible Members may elect a lump-sum payment equal to the value of their accrued retirement benefit in lieu of lifetime monthly retirement income.

The Plan is a valuable component of the total compensation and benefits package provided to UC faculty and staff. As of July 1, 1999, UCRP had 147,122 Members consisting of 98,123 Active Members employed by UC; 17,103 Inactive Members entitled to UCRP benefits upon reaching age 50; and 31,896 retirees, survivors, and disabled Members who receive benefits.

UCRP Benefit Improvement Proposals

Age Factor Improvements: In late 1999, the Governor signed legislation that allowed the California Public Employees' Retirement System (CalPERS) to announce a number of benefit enhancements for certain members. Among the benefit improvements in this legislation were improved age factors, effective January 1, 2000, for CalPERS State Miscellaneous and Safety classifications.

Prior to the effective date of the new CALPERS age factors, UCRP age factors were equal to or greater than the CALPERS State Miscellaneous age factors at most ages; UCRP Safety classification age factors were identical to the CALPERS State Peace Officer and Fire Fighter age factors. In response to UC's need to remain competitive, to encourage retention, and to respond to requests by UCRP Members for improvements to the UCRP age factors, HR/Benefits is studying the feasibility of improving UCRP age factors.

Based on this consultation with the UC community and analysis, a proposal is under consideration to improve the UCRP age factors for Members with or without Social Security, and for Tier Two and Safety Members. For Members with and without Social Security, the factors would start at 1.1 percent at age 50, increasing in increments of .14 per year to 2.5 percent at age 60 and remaining constant thereafter. UCRP Tier Two age factors would be one-half of these factors. The UCRS Advisory Board has endorsed this proposal.

For Safety Members, an alternative considered was to match the new CALPERS State Peace Officer and Fire Fighter age factors that maximize at 3 percent at age 55. However, in consultation with the administration and with the union representing Safety Officers, it has been determined that many of the entities with which the University competes for talent have adopted or are considering adopting a higher set of age factors than the current CALPERS State Peace Officer and Fire Fighter age factors. Under the new CALPERS provisions, agencies have a choice of adopting the 3 percent at age 55 or a higher benefit of 3 percent at age 50. As a result, HR/Benefits is compiling total compensation market survey data. It appears that the higher age factor of 3 percent at age 50 may be necessary to respond to market competition and the collective bargaining process.

Shortened Vesting Period: Generally, a vested UCRP Member is one who has earned five or more years of service credit. The proposed Plan change is to reduce the vesting period from five years to three years and to apply it only to Active Members of UCRP as of the effective date. This proposal is not a benefit enhancement per se but rather a change in the eligibility requirements in order to receive certain benefits. It is being considered in an attempt to improve the recruitment of faculty and staff.

Account Balance Feature: This proposal involves the addition of an account balance feature to UCRP for current Active Members and new Members. A major reason to add an account balance feature to UCRP is to increase the portability of benefits by offering a lump sum at the time of termination prior to eligibility for retirement. Individuals perceive it as advantageous to have a more portable retirement benefit. Another reason is to improve Members' understanding of the value of their benefits. Members may more easily understand the value of an account comprised of annual contributions plus interest than the value of a monthly annuity commencing many years in the future. While the current design of UCRP has served UC well in a time when individuals had long careers with a single employer, the current design alone will not meet the real or perceived needs of today's workforce.

Under an account balance benefit, an account would be established on behalf of each Active UCRP Member, comprised of contributions from the existing UCRP trust plus interest credited annually. If a vested Member were to separate from service prior to eligibility for retirement, the value of this account would be portable.

Should this proposal be considered for implementation, several design issues would need to be addressed, including ensuring equity for all Members, the cash flow implications of allowing Members to take lump sums at any age, and ease of communication. Also, Internal Revenue Service approval would be required.

UCRP Eligibility Expansion: UCRP requires that an employee be appointed to work for at least 50 percent time for one year or longer to qualify for membership. Based on this rule, certain employees are generally not eligible for UCRP benefits. The proposal would expand UCRP eligibility to include employees who work 1,000 hours during a 12-month period effective January 1, 2001, excluding certain classes of employees which include temporary pool, per diem, and student employees. Per diem and student employees are and will continue to be excluded from UCRP membership. The University will provide retroactive UCRP eligibility to individuals who were previously ineligible prior to January 1, 2001 as long as they meet the new criteria established by the Plan Administrator.

The proposal carries additional prospective costs for the University, including costs for items such as Social Security taxes, health and welfare benefit coverage, and administrative and systems charges.

UCRP Ad Hoc Cost of Living Adjustment: UCRP provides an annual Cost of Living Adjustment (COLA) to Members based on a formula tied to increases in the Consumer Price Index. The COLA for July 1, 2000 for all UCRP Members who retired on or before July 1, 1999 was 2 percent. Once the annual COLA is determined, a measurement of annuitants' purchasing power is performed to determine whether annuitants' benefits have been significantly eroded by inflation. The analysis, prepared by the Plan Actuary, Towers Perrin, indicates that as of July 1, 2000, purchasing power for Members who retired on or before July 1, 1981 has fallen below the 75 percent level of the original purchasing power.

Historically, The Regents has striven to protect annuitants' benefits from being significantly eroded by inflation, even though this is not a guaranteed contractual benefit. Former Presidents Gardner and Peltason and President Atkinson have endorsed a resolution to recommend, from time to time and subject to the availability of funds, to provide adjustments to approximate a 75 percent level of purchasing power. Ad hoc COLAs were given in January 1986 and July 1988 to restore annuitants' purchasing power to 75 percent. In January 1991, an ad hoc COLA increased retirement benefits to a floor of 80 percent of purchasing power.

The advantage to UCRP of a periodic ad hoc COLA over a guaranteed COLA that protects purchasing power is that the funding requirements of the Plan are lower. A guaranteed COLA, expressed in terms of inflation, produces significant costs and requires the creation of additional financial resources within the Plan which may or may not be needed depending on actual inflation. Alternatively, a periodic ad hoc COLA requires no advance funding and does not increase actuarial liability until the COLA is granted.

A recommendation was endorsed by the UCRS Advisory Board that would provide a one-time ad hoc COLA to restore purchasing power to the 85 percent level, effective January 1, 2001, for annuitants with retirement dates of July 1, 1985 and earlier. The 85 percent level is recommended so that it will not be necessary to provide additional ad hoc COLAs as frequently to bring annuitants to the 75 percent purchasing power level.

Estimated Cost of UCRP Benefit Improvement Proposals

The cost of UCRP benefits is identified in two parts:

<u>Actuarial Accrued Liability</u>: This is the portion of the Actuarial Present Value of Plan benefits and expenses allocated to years prior to the valuation date by a particular actuarial cost method, or the cost to provide the benefit improvement based on all service accrued to date by current Plan Members.

<u>Normal Cost</u>: This is the portion of the Actuarial Present Value of Plan benefits and expenses which is allocated to the current year by the actuarial cost method, or the permanent increase in yearly cost to provide the benefit improvement, expressed as a percentage of total covered pay for all Members.

In order to determine the impact on the Plan's funded status and to determine the probability of the need for contributions to the Plan, Towers Perrin calculated the probability of a zero contribution for every year for the next 20 years. For the current Plan design, the stochastic model, using probability to project a range of future events, indicates there is an 86 percent probability that no employer or employee contributions will be required in any of the next 20 years. Given possible variations in economic scenarios affecting future investment return, inflation, and salary increases, it is projected that based on the current Plan design and current demographic assumptions, including termination, disability, and mortality, there is an 86 percent probability that no contributions will be required to be made to UCRP in the next 20 years. For these cost projections, it was assumed that the UCRP active membership would increase at an annual rate of 2.5 percent until 2011 and 1.5 percent annually thereafter.

UCRP Annual Actuarial Valuation, Experience Study, Asset/Liability Study, Actuarial Bid

Actuarial Valuation: Each year, the University's consulting actuary performs a Plan valuation that determines the normal cost, actuarial accrued liability, asset valuation, and related present values for UCRP. These values are dependent upon economic and demographic assumptions and the actuarial method selected. Economic assumptions include the expected rate of investment return, the expected annual rates of increase in salaries, and the Consumer Price Index. Demographic assumptions include the expected incidence of mortality, termination, disability, and retirement rates, and other relevant factors. The valuation process is currently under way. The July 1, 2000 UCRP actuarial valuation will be presented at the November meeting.

Experience Study: Every 3 to 5 years a UCRP experience study is completed to compare UCRP's economic and demographic assumptions to actual Plan experience. The experience study for July 1, 1995 through June 30, 1999 is being completed and will be also be presented at the November meeting.

Asset/Liability Study: The Plan actuary has been asked to conduct an asset/liability study to obtain the necessary data, information, and understanding about how the economic and demographic assumptions used to determine the liabilities and project the assets interrelate. This study is intended to model these interrelationships and the impact any changes in those assumptions may have on the future funded status of UCRP. In addition, this type of study assists in performing fiduciary due diligence, identifying changes in asset allocation, addressing concerns over the effect of low interest rates on market value fluctuations and capital market relationships, and reviewing proposals for changes in benefit formulas and future cash flow needs.

Actuarial Bid: On July 1, 1993, The Regents approved the appointment of Towers Perrin as consulting actuary to UCRP. This appointment followed an extensive request for proposal (RFP) process. Thereafter, The Regents approved the recommendation of the President to undertake the RFP process every 5 to 7 years. Based on this recommendation, HR/Benefits issued an RFP for the consulting actuary to UCRP in June 2000.

A pre-qualification for the RFP was sent to four actuarial firms, and an advertisement for the RFP was placed in the *Wall Street Journal, Western Edition*. The RFP was designed to attract actuarial firms with experience in both qualified and statutory defined benefit plans for both the public and private sectors. The deadline for submitting bids was August 4. Members of HR/Benefits staff are evaluating bids from qualified respondents. Finalists will be selected for interviews with a selection committee that will include the Senior Vice President–Business and Finance and other Office of the President and campus staff. The selection committee will make a recommendation to the President, and the President will make a recommendation to The Regents at the November meeting. The consulting actuary awarded this contract will have an appointment beginning January 1, 2001.

Defined Contribution Plan

In addition to the defined benefit plan, UC offers eligible employees a tax-advantaged retirement plan to provide supplemental retirement benefits. The plan is a defined contribution plan. Benefits from the Defined Contribution Plan (DC Plan) are based on participants' contributions plus earnings. The DC Plan has separate accounts for pretax and after-tax contributions.

DC Plan Proposal

<u>Proposal for DC Plan Contributions on Academic Appointee Summer Salary</u>: The compensation that many academic appointees receive for summer session teaching or summer research is not considered covered compensation for determining UCRP benefits. Since summer salary represents a significant portion of an academic appointee’s annual earnings, an employer and employee contribution to the DC Plan Pretax Account has been proposed.

To be eligible for the proposed contributions, academic appointees would have to be Active Members of UCRP, or a defined benefit plan to which UC contributes, who earn additional compensation for summer teaching, summer research, or summer administrative service which is not UCRP covered compensation. All eligible employees would be required to participate. Payments from University Extension would be excluded.

A total contribution of 7 percent of summer salary, based on an employee pretax contribution of 3.5 percent and an employer contribution of 3.5 percent, has been proposed. The employer contribution would be attributed to the same funding source that provides the academic appointee’s summer salary. The proposed implementation date is July 1, 2001. It is anticipated that 40 to 60 percent of the cost to provide this benefit will be attributable to federal contracts and grants. The annual cost to the University for the remaining 40 to 60 percent is estimated to be from $1.3 million to $1.9 million and will be paid from a variety of sources, including non-federal contracts and grants, summer session revenue, and State funds. The proposal is out for review and comment by the locations.

Based on the results of the discussion and continued review and evaluation of various benefit improvement proposals, additional items will be submitted to The Regents for consideration at the November 2000 meeting.

Associate Vice President Boyette and Consulting Actuary Catherine Cole responded to questions about the proposed changes to the programs and asked for comments in preparation for recommending final changes.

Regent Hopkinson expressed concern that changing the age factor would cause people to retire earlier. She and Committee Chair Preuss agreed that a balance must be found between the desire to attract employees and the need to retain them. She believed that a payout analysis should be included in the next presentation to show the impact of inflation and the decreased market value of the equity portfolio that might occur in a situation of deflation. She requested a description of the size and the profile of the current retirement program and the expected changes that will occur with the hiring of an additional 7,000 faculty members and associated staff. She asked how many people by year, in the next ten years at a minimum, will be eligible for retirement both with and without a change in age factors. That analysis should reflect the other proposed changes also.

Regent Montoya asked whether the faculty had taken a position on the proposed changes. Faculty Representative Cowan explained that early vesting was not a critical issue for them. In response to a request from Committee Chair Preuss, he agreed to discuss at the November meeting which measures the faculty considers to be necessities and advantages. Regent Kozberg suggested that the discussion include information about what other universities offer.

Regent-designate T. Davis asked for more information on the effect the changes could have on casual employees. Ms. Boyette agreed to present a cost analysis, noting that she was not at liberty to discuss issues that are subject to collective bargaining.

Regent Lee asked that the November presentation make it clear whether the University's motives for proposing changes are to discourage or encourage retirements.

Regent Davies commented that he supported liberalizing employee benefits in light of the fact that the retirement plan is well overfunded. He indicated that he was prepared to accept any recommendations that are based on a thorough analysis by the Office of the President and its outside consultants, the chancellors, and the faculty.

8. **PLANNING FOR AN AFFILIATION AGREEMENT TO FORM THE GLOBAL FILM SCHOOL, INC., LOS ANGELES CAMPUS**

The Committee was informed that the School of Theater, Film and Television at the Los Angeles campus proposes to enter into an affiliation agreement with the Australian Film, Television and Radio School (AFTRS) and the National Film and Television School of Great Britain (NFTS) to establish an inter-school consortium that will create the Global Film School, Inc., a multi-faceted, for-profit, distance-learning program in film, television, and new media. The discussions among these three schools began in May 1999, and the two other schools are now requesting a definitive answer as soon as possible as to whether the consortium will include the Los Angeles campus.

The Los Angeles Division of the Academic Senate supports the proposal, subject to a significant review role for the Senate. The proposal will be discussed by Committees of the Academic Council in September and October, and the Council expects to make a recommendation to the President as early as possible.

Goals and Objectives of the Global Film School

Each of the three proposed partners in the affiliation agreement is an internationally-renowned professional training institution for film and television. The new entity, the Global Film School (GFS), proposes to provide instruction over the internet at the highest level of excellence in all aspects of moving-image media for broadly diverse constituencies that include K-12 students, professional training for students of film and television, advanced training and retraining of media professionals, and lifelong learning for a broader public.

The development of the instructional program of the GFS is a matter for ongoing and original research in areas that include the study of pedagogical strategies specific to interactive online learning, maximum use of rapidly evolving technologies, and guidelines for the development of the instructional technologies of the future.

Reasons for the Partnership

Instead of disseminating global instruction from a central point, a collaborative origination of instruction from many sites will enable the Global Film School to embrace the advantages of culturally diverse ways of telling stories through media. Global collaboration can provide groundbreaking educational opportunities not easily attainable in bricks-and-mortar institutions. Examples might include a course on producing for the international marketplace co-taught by distinguished film producers in London, Sydney and Los Angeles or a collaborative movie project involving a writer in one country, the producer in a second, and the production team in a third. The combined resources of the three schools provide a greater ability to identify and secure support from suitable strategic and venture-capital partners; to facilitate access to internationally based cultural, educational, and governmental resources; and to enhance access to telecommunications and digital media technologies and delivery systems and a broader base of instructional talent situated in both the institutions themselves and their related media industries.

Choice of Partners: AFTRS and the NFTS

Both the Australian Film, Television and Radio School in Sydney and the National Film and Television School in London have firmly established international reputations for excellence on par with the UCLA School of Theater, Film and Television. Both AFTRS and NFTS rank as the most prestigious publicly supported moving-image media institutions in their respective countries, and they are the recipients of significant and generous support from their cultural ministries.

The Rationale for a "For-Profit" Entity

Neither the Los Angeles campus nor the other two schools has sufficient resources to provide the estimated $30 million needed to establish this program. Consequently, finding support from private-sector partners and investors in the world of media technologies and venture capital is proposed. Further, such private-sector partners frequently invest more than financial capital by contributing their knowledge of technologies, their organizational expertise, and their relationships with other experts in this field.

The Global Film School initiative is consistent with the mandate in recent years for academic units to seek public-private partnerships for entrepreneurial initiatives to enhance funding for support of ongoing academic programs. Any financial distributions from GFS to the School of Theater, Film and Television of the Los Angeles campus or realization on The Regents' equity interest would, in turn, be dedicated solely to this purpose.

Financial Planning

In recognition of the need to obtain financing for the distribution and marketing of an online film curriculum, the consortium of UCLA, AFTRS, and NFTS proposes to form the Global Film School as a for-profit corporation and to raise the necessary investment capital. The three schools in the consortium begin with an equal equity interest in the GFS, to be diluted equally as additional mutually acceptable strategic and financial partners are added. In developing the Global Film School, the partner institutions have agreed to engage the firm of Ziffren, Brittenham, Branca and Fischer (ZBB&F) of Los Angeles as special counsel and to issue to ZBB&F equity shares in return for services. In close association with the legal counsel for the individual schools, ZBB&F will be authorized to raise "soft seed money" for the development and formation of the GFS to pay for such activities as the development of the bylaws and a certificate of incorporation and the development and writing of a business plan. Additionally, ZBB&F will work to identify strategic partners suitable to the project and to negotiate with them on behalf of the GFS, with the goal of raising between $20 million and $30 million through the sale of shares. An effort will be made to seek partners who not only share the cultural objectives of the GFS but also reflect its global nature.

All expenses associated with the GFS will be covered by resources raised from outside constituencies. No University funds of any type, including State funds, will be used for the project, and any out-of-pocket costs spent to date in its development by the educational partners will be reimbursed. The financial liability of the consortium and of The Regents will be strictly limited.

All net financial benefits accruing to the School of Theater, Film and Television of the Los Angeles campus will be applied directly toward supporting its teaching, research, and public service objectives. The Los Angeles campus may also license or sell to GFS specific units of intellectual property owned by The Regents. The Los Angeles campus could also benefit, in a longer term, through appreciation in and realization of The Regents' equity interest in GFS.

A preliminary business plan has been developed for the GFS by Coursemetric Corp. of Berkeley. This company is an educational technology consultancy that provides strategic counsel, online education and technology expertise, start-up business planning, and information about education–industry relationships.

Administrative and Organizational Planning

The core constituent elements of the GFS include the following:

- The Board of Directors for the GFS will include representation of each of the three schools in the consortium plus those strategic partners that are unanimously approved by the consortium.

- The Curriculum Review Board with representation solely from the three schools will retain complete and autonomous control over GFS academic content and curriculum. All decisions must be unanimous, and thus UCLA will have *de jure* veto power.

- A Chief Executive Officer will be appointed by unanimous agreement among the representatives of the three schools. Other officers such as a Chief Operating Officer, a Chief Technology Office, and a Chief Financial Officer will be appointed by the GFS Board of Directors.

- A core administrative staff engaged by GFS will oversee student services, registration, accounting, record keeping, and certification.

- Producers are defined as those entities that deliver courses to GFS in a form suitable for internet distance education. Producers may include the three schools in the consortium but may also include relevant industry organizations, distance-learning consultancy groups, film schools outside the consortium, and others. Authors are those individuals who supply the content of these courses to the producers and may include faculty members from the three schools, industry experts, and others. The GFS will contract with producers who will establish the terms of the relationship with the authors. When the GFS contracts directly with an author, GFS will become the producer.

Intellectual Property: The University's Role as it Relates to Producers and Authors

In order to avoid even the appearance of interfering with the intellectual property rights of its own Senate faculty, the School of Theater, Film and Television of the Los Angeles campus will not play the intermediary role of producer for courses taught by ladder faculty. Rather, faculty authors will contract directly with the GFS by negotiating mutually acceptable terms dealing with intellectual property rights and obligations including terms for licensing, payments, royalties, and exclusivity. The School of Theater, Film and Television will provide assistance to faculty who choose to prepare content for on-line instructional purposes.

All University faculty participation in GFS activities will comply with University of California guidelines for employment outside regular classroom assignments.

Chairman S. Johnson noted that, because the initiative breaks new ground, the Regents will need to be kept informed as the project develops. Chancellor Carnesale emphasized that the enterprise is for profit and does not require any financial investment from the campus. Regent Lansing observed that the GFS represents what appears to be the wave of the future and that if that future does not materialize as envisioned, the University will not have lost any investment.

In response to a question by Regent Montoya, Mr. Robert Rosen, Dean of the School of Theater, Film, and Television, reported that neither The Regents nor the consortium will have any economic exposure. The consortium members will be shareholders of GFS and as such will be insulated from liability. He explained that the school will respond to what is perceived as a dramatic social change. In the past, anyone interested in specialized knowledge on creating moving images either apprenticed or went to one of the few film schools. Now that digital technologies are available to a wide public, there is a need to provide that education on a broader scale. The GFS will be an excellent way to provide that education in a form that retains full faculty oversight and quality control.

Chancellor Carnesale noted that discussions about the ownership of intellectual property have occurred with the Academic Senate. The language in the agreement makes it clear that the University is not going to be involved in negotiations concerning intellectual property that belongs to faculty but that it will be involved in negotiations concerning intellectual property that belongs to the University. He emphasized that this is in line with established policy.

In response to a question by Regent Preuss, Dean Rosen reported that, with Regental approval at the November meeting and the partnerships in place, the school could begin to offer courses in late winter.

Regent Hopkinson believed that the Regents should be involved in setting up policies to govern the kinds of ventures the University should engage in and what their criteria and their handling of intellectual property should be. She pointed out that, although the

University is not investing money in this initiative, it is lending the use of its name, which is a valuable commodity. Mr. Rosen explained that each of the three academic institutions in the initial formation will receive one-third of the equity. As investment capital is raised, the interest will be diluted in proportion. Chancellor Carnesale agreed that guidance may be needed in the future, as public-private partnerships become more common for the University. The issue of how to handle intellectual property matters will need to be analyzed further in order to assure that the University has sufficient flexibility in meeting the needs of a changing world. Regent Lansing emphasized that changes in the film industry are taking place extremely quickly. The ability to make films with hand-held cameras and have them distributed to local theaters will have an immense impact on film studios, which will benefit from being affiliated with leading film schools such as the one at UCLA. She believed the proposal offered an extraordinary opportunity to become involved in what may become a revolution in the industry.

Regent Hopkinson believed it would be prudent for the University to rely on the help of venture capital experts in the development of this and similar projects in order to assure that the University can retain sufficient control as the projects develop. Regent Lansing agreed that the University needs to be protected from financial loss, but she emphasized that the GFS cannot exist without the participation of the University.

9. REPORT ON NEW LITIGATION

General Counsel Holst presented his **Report on New Litigation**. By this reference the report is made a part of the official record of the meeting.

The meeting adjourned at 1:05 p.m.

Attest:

Secretary

(deletions shown by strike-out; additions underscored)

MORTGAGE ORIGINATION PROGRAM FRAMEWORK

10. The eligible population for the Mortgage Origination Program consists of full-time University appointees who are members of the ~~Executive Program~~ Senior Management Group; ~~or who~~ are members of the Academic Senate; or who hold academic titles equivalent to titles held by such members; or hold the title of Acting Assistant Professor; except that the President is authorized to make exceptions to the above categories based upon the essential recruitment and retention needs and goals of the institution.

2. The Program is further restricted to eligible appointees who do not currently own, and, within the 12-month period preceding the issuance of the loan have not owned, a principal place of residence within a reasonable distance of their campuses.

3. From the eligible population, the Chancellor's Office will select eligible individuals for participation in the Program based on each campus' determination of its requirements for recruitment and retention.

4. Mortgage loans under the Program will be available for residences that are:
   - owner-occupied, single-family residences, including condominium units;
   - the principal place of residence for the participant;
   - used primarily for residential, non-income-producing purposes; and
   - 50% or more participant-owned.

5. Because the Program is designed to help eligible appointees enter the housing market near their campuses for the first time, refinancing loans are not part of this Program, except for loans made to repay short-term construction or bridge loans.

6. Direct construction loans are not eligible under this Program; however, Program loans may be used to refinance commercial construction loans upon completion of the residence.

7. In order to maximize the number of loans available, an individual may receive only one mortgage loan under the Program.

8. Program participation may continue for the term of employment by the University of California:

    -- When the University employment is terminated or, in the case of academic appointees, there is a permanent change to an appointment status not considered to be in full-time service to the University, the mortgage loan is to be repaid within six months of such date of separation or change in status, except that

        -- participation can continue when separation is due to disability or retirement and
        -- participation can continue for a surviving spouse (or, in the absence of a spouse, for an eligible child, as that term is defined by the University of California Retirement Plan Plan Document) in the event of the death of the participant.

9. Exceptions, in an amount not to exceed 10% of a campus's cumulative allocations for all allocation periods beginning with July 1, 1988 <u>through June 30, 2000, and not to exceed 15% of all cumulative allocations for allocation periods beginning with July 1, 2000</u>, may be made under items 2, 5, and 7 for otherwise eligible appointees who are unable to retain ownership of a current residence as a result of medical circumstances, natural disaster, a qualified domestic relations order or other judgements rendered by a court of law, or for other reasons which, in the judgement of the Chancellor, warrant such an exception based upon the essential academic recruitment or retention needs of the campus. With respect to an exception for refinancing, the loan cannot be for an amount greater than the outstanding balance of the prior loan and accrued expenses nor can the loan be used to pay off loans secured by second trust deeds if those loans were used for non-housing-related expenses or mortgages on other properties.

(deletions shown by strike-out; additions underscored)

MORTGAGE ORIGINATION PROGRAM LOAN PARAMETERS

1. A minimum down payment of 10% is required to be provided by the participant; however, the maximum loan-to-value ratio (LTV) of a Program loan is to be determined as follows:

-- for loans up to ~~$250,000~~$350,000, the maximum LTV is 90% when the loan does not include any financing of closing costs and 92% with financing of documented closing costs;

-- for loans greater than ~~$250,000~~ $350,000 up to $~~400,000~~$550,000, the maximum LTV is 90%; and

-- for loans greater than ~~$400,000~~$550,000, the maximum LTV is 85%.

– loans greater than $1,000,000 shall require the concurrence of the Chairman of the Board.

An exception to the 85% maximum LTV for loans in excess of ~~$400,000~~$550,000 to no more than 90% may be granted upon recommendation by the President, with approval of the Chair of the Committee on Finance and the Chair of the Board of Regents. The value of the residence is, in all cases, defined as the lesser of the purchase price or current appraised value. The above dollar threshold amounts for determining the maximum LTV shall be adjusted annually based upon increases in the all-campus average sales price from the annual zip code study performed by the Office of Loan Programs.

2. Up to a 30-year mortgage amortization term.

3. The mortgage interest rate will be equal to the base rate, defined as the most recently available average rate of return earned by the Short-Term Investment Pool (STIP) for the four quarters preceding the issuance of a loan commitment letter for ~~funding of~~ the mortgage loan, plus an administrative fee component:

-- the President shall determine annually the level of the administrative fee component of the rate up to an amount not to exceed 0.25%;

-- the mortgage interest rate will be adjusted annually on the anniversary date of the loan;

-- the maximum amount of adjustment up or down of the base rate will be 1% per year;

-- there will be no cap on total amount of adjustment over the term of the loan; ~~and~~

-- in the event a loan commitment letter is issued and the base rate subsequently decreases prior to the loan funding, the borrower will receive the more favorable rate; and

-- the difference between the weighted average rate of return of the Program mortgage portfolio versus that of STIP will be calculated monthly ~~annually~~, with any ~~cumulative~~ earnings shortfall in the Program portfolio being covered by the Faculty Housing Program Reserve, ~~after taking into account any prior years' excess earnings~~. Any earnings excess will be retained in the Faculty Housing Program Reserve. The Faculty Housing Program Reserve will reimburse STIP for any principal losses resulting from portfolio loan losses.

4. Monthly mortgage payments may not exceed 40% of the participant's household income.

5. When administratively feasible, mortgage payments will be made by payroll deduction while on salary status.

6. Mortgage loans under this Program are not assumable.

7. Mortgage loans under this Program carry no prepayment penalty.

8. Mortgage loans under this Program carry no balloon payments.

(deletions shown by strike-out; additions underscored)

SUPPLEMENTAL HOME LOAN PROGRAM LOAN PARAMETERS

1. Program loans shall be used primarily for the purchase of a participant's primary residence, or to provide short-term bridge financing; however, at the discretion of the Chancellor or DOE Laboratory Director, Program loans also may be used for:

   -- renovation;

   -- refinancing of existing housing-related debt secured by the primary residence;

2. Program loans shall be secured, using a recorded Deed of Trust or other appropriate recorded document, for residences that are:

   -- owner-occupied, single-family residences (including Planned Unit Development and condominium units), or cooperatives;

   -- the principal place of residence for the participant;

- -- used primarily for residential, non-income-producing purposes; and
- -- 50% or more participant-owned.

3. The maximum loan-to-value ratio (LTV) of a Program loan, either alone or in combination with other loans, is to be determined as follows:

   - -- for loans totaling up to $~~250,000~~350,000, the maximum combined LTV is 95%;

   - -- for loans totaling more than $~~250,000~~350,000 and up to $~~400,000~~550,000, the maximum combined LTV is 90%; and

   - -- for loans totaling more than $~~400,000~~550,000, the maximum combined LTV is 85%.

The above dollar threshold amounts for determining the maximum LTV shall be adjusted annually based upon increases in the all-campus average sales price determined by the annual zip code study performed by the Office of Loan Programs.

Exceptions to increase the maximum combined LTV of 90% and 85% for loans in excess of $~~250,000~~350,000 and $~~400,000~~550,000, respectively, to a maximum of 95% may be granted upon recommendation of the President, with the of the approval of the Chair of the Committee on Finance and the Chair of the Board of Regents. The value of the residence is in all cases defined as the lesser of the purchase price or current appraised value.

4. The maximum term of a Program loan shall be 30 years, with repayment schedules designed to accommodate the needs of the Program participant as well as any requirements of the funding source.

5. Each location shall determine the mortgage interest rate to be charged on a given loan, except that minimum or maximum rates may be established to comply with federal and State lending and tax laws and regulations.

6. The sum of monthly mortgage payments (principal and interest) of this and all other loans secured by the residence may not exceed 40% of the participant's household income.

7. When administratively feasible, mortgage payments shall be made by payroll deduction while on salary status.

8. Mortgage loans under this Program shall not be assumable.