**THE REGENTS OF THE UNIVERSITY OF CALIFORNIA**
**MEETING AS A COMMITTEE OF THE WHOLE**

January 17, 2001

The Regents of the University of California met on the above date at UCSF-Laurel Heights, San Francisco.

Present: Regents Atkinson, Bagley, Bustamante, Connerly, Davies, Fong, Hopkinson, O. Johnson, S. Johnson, Khachigian, Kohn, Kozberg, Leach, Lee, Marcus, Miura, Montoya, and Preuss

In attendance: Regents-designate T. Davis, Morrison, and Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Interim Treasurer Bowman, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gomes, Gurtner, Hershman, and Saragoza, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Nietfeld

The meeting convened at 8:30 a.m. with Chairman S. Johnson presiding.

1. **PUBLIC COMMENT**

Chairman Johnson explained that the Board had been convened as a Committee of the Whole in order to permit members of the public an opportunity to address matters on the morning's open session agendas. The following persons addressed the Board concerning the items noted.

A. ***Item 604, Committee on Investments: Adoption of Policy to Exclude Securities of Companies Manufacturing Tobacco Products from Index Funds and to Continue Existing Exclusion from Actively Managed Funds***

(1) Dr. Stan Glantz, a professor of medicine at the San Francisco campus, reported that the University had been sued twice by the tobacco industry as a result of his research activities. The University won both cases at the California Supreme Court. He did not believe that it would make sense for the University to invest in tobacco stocks.

(2) Ms. Marian Liu, a student at the Berkeley campus who works with the Berkeley Unified School District to inform children about the dangers of smoking, thanked the Regents for the decision not to invest in tobacco stocks.

(3) Ms. Ruth Malone, an assistant professor at the San Francisco campus, reported that a large number of faculty members would urge the Regents to vote not to include tobacco stocks in the University's investment portfolios. She noted that

California had been at the forefront of the tobacco control movement, having passed legislation to ban smoking in workplaces. The University should not abdicate its ethical leadership by investing in the tobacco industry.

(4) Dr. James Bristow, a member of the Board of Directors of the American Heart Association, urged the Regents not to include the investment in tobacco companies as part of the new investment strategy but rather to adopt a policy that specifically prohibits investing in tobacco stocks. The American Heart Association believes that investment in the tobacco industry would be in direct conflict with the mission and goals of the University. He stressed that cigarette smoking places an enormous burden on California's health care system.

(5) Mr. Nick Papas, ASUC external affairs vice president at the Berkeley campus, believed that the University had a responsibility to teach its students about the ethics of socially and morally responsible investing. He urged the Regents not to invest in tobacco stocks.

B. ***Item 605, Committee on Investments: Request for Proposals for Consulting Services to Conduct Review of Investment Program***

Mr. Charles Schwartz, a retired faculty member at the Berkeley campus, referred to his analysis of the Wilshire Associates' asset allocation plan. He alleged that the plan contained basic errors in arithmetic, logic, and objectivity and believed that, because the University administration had failed to respond to his criticisms, his conclusions must be valid.

The following persons addressed matters not on the morning's agendas: Ms. Joyce Schon, Mr. Hoku Jeffrey, Ms. Andrea Wilbon, and Mr. Doug Lenox.

## 2. REMARKS OF THE PRESIDENT

President Atkinson addressed the energy crisis faced by the state, recalling that the Governor, in his State of the State message, had announced a series of actions to respond to the situation. Among other things, Governor Davis called upon the State government to cut its energy consumption by at least eight percent, and he also asked the University of California, the California State University, and the Community Colleges to move toward energy independence through co-generation and other means. The President observed that the University has a wealth of knowledge and expertise to contribute. For example, the UC Energy Institute on the Berkeley campus is nationally recognized for its work on energy policy, while UC Irvine's National Fuel Cell Research Center is the Department of Energy's principal site for the development of fuel cell technology. The Lawrence Berkeley National Laboratory is the national leader in research on electricity reliability and energy-efficient technologies for buildings. UC experts have been advising the Governor's staff on ways to address both the short- and longer-term aspects of California's energy situation. The University of California plans to meet the Governor's request by reducing power use in every way possible. These efforts will include the expansion of energy-efficiency programs and participating in the State's program to reduce energy during peak periods.

In addition, the University will need to adopt strategies that will ensure a reliable supply of power. About one-third of the power UC uses is created through co-generation plants at UC Davis, the Sacramento medical center, the UCSF medical center, and the Berkeley and Los Angeles campuses. The President proposed the following immediate steps:

- Increase the capacity of the existing co-generation sites at the Los Angeles campus and the UCSF medical center by this summer and expand the San Diego co-generation plant that is now under construction.

- Begin analysis immediately for the rapid construction of new or additional co-generation plants at Davis, Irvine, UCSF's Mission Bay campus, and possibly Riverside over the next three years. This is an ambitious timetable that will require close working relationships and cooperation with government agencies to resolve quickly a broad range of economic and environmental issues.

The University is also considering other options that will take longer than three years to complete:

- Create small co-generation systems using the latest technology available at Santa Barbara, Santa Cruz, the Irvine medical center, and the San Diego medical center.

- Incorporate the most advanced energy-efficiency features in new and renovated UC buildings. This will generate long-term energy savings and become increasingly important as the University moves toward year-round operation and the resulting heavy energy demands during the summer.

As one of the largest users of power in California, UC has long been committed to purchasing energy at the lowest cost. As the result of a four-year contract signed in 1998 with the Enron Corporation of Houston, the University has saved millions of dollars as electricity bills have skyrocketed in the wake of deregulation. For example, UC San Diego saved $12.3 million in electricity costs over the eight-month period between April and November, 2000. When the University signed the agreement with Enron, the campuses began developing formal strategic energy plans. These plans, which are assessed by the California Institute for Energy Efficiency, are intended to ensure that the campuses have a reliable supply of energy, are prepared for energy shortages or failures, and are making the most efficient use possible of their energy supplies. Every campus has, or soon will have, a strategic energy plan. The University's three Department of Energy Laboratories have also been asked to develop strategic energy plans.

President Atkinson then turned to important issues on The Regents' agendas, noting that the Committee on Investments will consider a recommendation to exclude from the University's investment portfolio companies that produce tobacco products. Investing in such companies entails an unusual combination of financial, legal, and health-related issues. The funds actively managed by the Treasurer's Office have not been invested in tobacco stocks for many years. This recommendation would exclude tobacco stocks from the index funds as well.

Negotiations with the Department of Energy resulted in a decision by the DOE last September to extend UC's contracts to manage the Los Alamos and Livermore National Laboratories for five years, to September 30, 2005. The University has reached an agreement with the DOE on the terms of the contract extension, which will be presented to the Committee on Oversight of the Department of Energy Laboratories, along with the annual report of the Los Alamos National Laboratory and the report from the chair of the President's Council on the Department of Energy Laboratories.

Vice President Hershman will give a presentation on the 2001-2002 Governor's Budget. The President highlighted the following elements of the budget:

- The budget allows the University to maintain quality, to pay competitive salaries to the faculty, to accommodate 5,700 more students, and to freeze student fees. This will be the sixth consecutive year in which fees are either frozen or reduced.

- The budget includes support for the initiative to establish four California Institutes for Science and Innovation.

- The Governor has proposed a $162 million allocation for the Merced campus. These funds will be used, among other things, to construct Merced's first buildings. There have been recent reports in the press about the possibility of locating the core of the campus on 200 acres of land currently being used as a golf course. It appears that from an environmental perspective the golf course is the best option on which to build the core of the campus. Chancellor Tomlinson-Keasey will report on the outcome of the site evaluation at the March meeting.

President Atkinson reported that next week the University would release undergraduate application numbers for fall 2001; applications from underrepresented minority students are up significantly for both freshmen and community college transfers. The final figures will be provided to the Regents as soon as they are available.

The President recalled that, upon his appointment in October 1995, he announced a set of goals for the University that he intended to pursue during his tenure. He stated his intention to send the Regents a progress report on those goals. He then called upon Chancellor Berdahl to introduce Professor Daniel McFadden, UC's third Nobel Laureate for 2000, who received the Nobel Prize in economics.

Chancellor Berdahl informed the Committee that Professor McFadden is the E. Morris Cox Professor of Economics on the Berkeley campus. In 1979 he moved to the Massachusetts Institute of Technology but returned to Berkeley in 1991, where he established the econometrics laboratory. The methods that Professor McFadden developed in the field of micro-econometrics and for which he won the Nobel Prize are widely used to study household group organizational choice.

Professor McFadden reported that the Greek origin of the term economics meant "of the hearth." Over time, it has come to address larger issues. He noted that he would classify himself as an engineer who builds machines that explain how people make choices. These machines are crafted with mathematics and live in computers. The work cited by the Nobel Committee was begun in 1965, when the development of the digital computer was changing the opportunities for economic science. It became possible to collect and process large data sets which described the behavior of individual economic actors. These data sets included information on whether or not people work, what occupation they choose, and how they commute to work. Traditional economic theory had no way to explain these discrete decisions. Professor McFadden explained that he developed practical procedures that extended economic theory to these discrete choices. This proved successful in an initial application, which was a study of the then-new BART system. Over the following decades, this method has become a mainstay in market research and is widely used in policy analysis and forecasting. He noted that he has continued to develop statistical and theoretical tools that have proven useful. Examples include an investigation of the economic theory of consumer behavior in light of the experimental evidence coming out of cognitive psychology and the development of methods for combining economic market data with data from psychological experiments and surveys. He has also worked on computer-intensive methods for the analysis of discrete response data and provided a statistical foundation for simulation-based methods for estimation and forecasting. His original research results are used by financial institutions to rate potential borrowers and by University admissions offices to predict which students will complete their degrees. Computers will be able to take human factors into consideration when designing new products.

The Regents conveyed their congratulations to Professor McFadden and their appreciation for his visit with them.

The meeting adjourned at 9:15 a.m.

Attest:

Secretary