The Regents of the University of California

COMMITTEE ON FINANCE
November 19, 2003

The Committee on Finance met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents Connerly, Dynes, Hopkinson, Lozano, Montoya, Moores, Murray, Preuss, and Sayles; Advisory members Novack and Pitts

In attendance: Regents Blum, Bodine, Davies, Huerta, Johnson, Kozberg, Lansing, Marcus, O’Connell, Pattiz, and Seigler, Regents-designate Anderson and Ornellas, Faculty Representative Blumenthal, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Doby, Drake, Gomes, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Chandler, Córdova, Greenwood, Tomlinson-Keasey, Vanderhoef, and Yang, Laboratory Director Anastasio, and Recording Secretary Bryan

The meeting convened at 9:28 a.m. with Committee Chair Hopkinson presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of September 17, 2003 were approved.

2. FINDINGS FROM THE UC IMPACT REPORT

Senior Vice President Darling recalled that two years previously the University had commissioned ICF Consulting to quantify the University’s impact on the state’s economy, on the health of its residents, and on the vitality of its communities. He introduced Ms. Rula Sadik, of ICF Consulting, to discuss the findings of the report.

Ms. Sadik stated that the University has the single greatest impact of any institution on California, its economy, and its quality of life. The impact of the spending by UC campuses on their surrounding regions and the state as a whole ranges between $14.3 billion and $16.7 billion. This includes direct spending by the campuses and the additional spending that these expenditures trigger but does not include the economic impacts generated by spinoff companies and UC-industry partnerships. The University is also a powerful magnet for federal research funds.

Ms. Sadik continued that UC spending is an economic sparkplug. The University’s payroll in 2001 totaled $6.5 billion, with almost double that for non-payroll expenditures. UC campuses attracted $1.8 billion from the federal government, including $712 million in non-wage expenditures. UC spending is also a stimulus for
growing California’s tax base: UC campus expenditures resulted in $4 billion to $5 billion in State and local tax revenues in 2002. Over the next decade, that figure is projected to be $56 billion. State and local tax revenues resulting from UC undergraduates entering the workforce are estimated at $2 billion through 2011.

Ms. Sadik observed that the University is a crucial instrument in creating jobs. There are more than 114,000 full-time campus faculty and staff, not including DOE laboratory employees, and there are another 255,000 to 319,000 non-University jobs supported through the impact of UC’s direct spending. More than 2 percent of all employment in California is directly dependent on UC expenditures. It is estimated that over the next decade, UC campuses will generate $144 billion in gross state product, $56 billion in State and local tax revenues, and 2.36 million new jobs statewide. The study also compiled data to illustrate the impact if the University’s enrollment and employment remained flat over the next decade. That simulation forecasts the loss of more than 110,000 jobs, $22 billion gross regional product, and another $22 billion in disposable personal income through 2011.

Expanding the perspective on the University’s impacts, Ms. Sadik noted that California is driven by key industry clusters that form links among UC research and workforce development and California’s economic future. The seven most critical clusters are agriculture, biosciences, computers and semiconductors, information technology, telecommunications, media/entertainment, and aerospace. While they represent only a small percentage of California’s total employment, these industries form California’s export base and contribute disproportionately to the state’s economic growth. Through its contributions to the growth and competitiveness of industry clusters, the University creates better paying and more productive jobs. The information technology cluster created more than 180,000 California jobs between 1991 and 2001, and the cluster’s productivity growth has risen by 6 percent per year. In telecommunications industries, the Bay Area, Sacramento, and San Diego experienced job growth between 1991 and 2001, and labor productivity in telecommunications equipment manufacturing exceeded 20 percent annually in San Diego and the Bay Area. The biotech cluster, which in 2001 employed 217,000 Californians, added approximately 46,000 jobs statewide during the past decade. A major employer and revenue generator in the state, agriculture accounts for 1.1 million jobs and more than $60 billion in personal income. The close interaction among growers, processors, county-based UC Cooperative Extension advisors, and scientists on UC campuses has allowed California to maintain a competitive advantage in national and world markets through early adoption of UC-developed technological advances. Between 1949 and 1985, the return on the public’s investment in California agricultural research and extension was 20 percent. Many California agriculture sectors, such as the $767 million strawberry industry and the multi-billion dollar wine industry, depend on UC research. The University also produced 3,000 undergraduates who entered cluster-related fields in California in 2002. The impact of UC graduates in these industry clusters together was $887 million in gross regional product for 2002 and will be $7.4 billion between 2002 and 2011.
In summary, the University contributes to economic vitality in three primary ways: it fuels the competitiveness of industry clusters by producing the innovation necessary to start and expand businesses and by training scientists and engineers who establish companies and train the next generation of innovators and skilled workers; it sparks new, emerging clusters that build future economic growth; and it is essential in maintaining the competitiveness of regions and communities by educating and training the workforce and upgrading the knowledge and skill sets of the labor force.

Ms. Sadik concluded her presentation with a note about the University’s economic contributions through its transfer of technology, which is critical to the production of innovations in the marketplace. The University is a global leader in technology transfer. In 2001-02, UC entered into more than 2,500 agreements with industry, valued at more than $221 million, $30 million of which was reinvested in UC research and education. Many of these R&D projects are in fields directly related to the knowledge industry clusters and thus amplify many of the productivity gains arising from UC research expenditures. Over 6,000 UC researchers have disclosed inventions since 1997, and over 1,100 received inventor share payments last year, indicating that inventions are being commercialized. More than 290 companies have been founded on UC technology. For the past nine years, the University has been the nation’s leading university in the number of patents developed. In 2002, it received $100 million in total licensing revenue.

Regent Montoya noted that California has 23 California State University campuses, 108 community college campuses, and private universities and colleges. She asked how the effects of these institutions were disentangled from the effects of UC on the economy. Ms. Sadik explained that the model developed by the consultant contains assumptions and factors that help to isolate factors related to the University versus other educational institutions.

Regent Preuss noted that the model of University of California research-based idea and job generation has always worked well and is being emulated by other states and university systems. Ms. Sadik reported that ICF Consulting Group, which has worked in over 50 regions worldwide, has observed that every region is trying to emulate the University. Some states are very aggressive in their efforts and threaten the University’s global competitiveness. She was concerned that insufficient attention is being paid to the long-term effects of limiting budgets and investment in research.

Regent Huerta asked whether the study measured the social impact of the University on California. Ms. Sadik responded that many impact studies attempt to attach a dollar figure to social benefits. ICF Consulting tried to create vignettes which demonstrate some of the social impacts. She noted that, for instance, in agriculture, the University’s special programs that assist farmers have been critical to improving the health of farm workers. Also, each campus has many programs that provide community outreach. Senior Vice President Darling added that as UC Merced takes form, more programs to help farm workers will be established.
Regent Lozano asked for more information regarding the impact of growth versus no growth. Ms. Sadik explained that the consultants’ assumptions used the figures from the financial schedules for 2001 in terms of UC employment, expenditures, and other factors and assumed that there was a standard 3 percent growth projected through 2011. The assumptions were that there would be no increased investment in any area. From these assumptions, a simulation was generated to show what jobs would be lost.

Regent Marcus asked whether the impact of new campus initiatives had been considered and whether the dollar impact of all aspects of the University could be stated succinctly. Ms. Sadik believed that the ICF impact report was conservative and the impacts it documented were only the tip of the iceberg. If the impacts of initiatives too recent to be covered in fields such as nanotechnology could be added, they would be enormous. She believed that because there were so many links and activities underway, no model could do justice to the subject.

Senior Vice President Darling noted that the analysis did not include the impact of the national laboratories on the state, which would be a worthwhile exercise. They provide over $4 billion in direct expenditures and an employment base of over 20,000 employees plus thousands of additional contractors.

Regent Blum believed that, particularly in view of this study, the idea of delaying the opening of UC Merced for a year over the relatively small sum of $4 million was ridiculous. He urged the Board to reconsider the decision.

President Dynes emphasized that the importance of considering the long-term investment that must be made could not be understated.


The President recommended that the following principles be adopted for working with the Governor and the Legislature in developing the 2004-05 University of California State-funded budget:

A. Maintain and Enhance the Quality of the University – Quality is the most important asset the University of California offers the state.

B. Maintain Access and Honor the Master Plan – The state needs the highly skilled, well-educated graduates who are produced by the University of California.

C. Maintain Affordability – Ensure that the cost of attendance is reasonable and is not a financial barrier for needy students.
Vice President Hershman reported that the recommended principles were based on comments made by Regents previously. The principles were based on the following conclusions.

**Primary Principle: Maintain and Enhance the Quality of the University.**

Students seek admission to the University because of its excellence. They are the brightest students in the state and they work hard to become eligible for UC. Because the University is one of the finest higher educational systems in the world, it is able to attract eminent scholars whose teaching and research stimulate both educational opportunities and economic progress for the citizens of California. Faculty and students together create knowledge that translates into emerging industry and technology, which in turn fuels the economy by creating jobs, promoting trade and commerce, and improving the well-being of those who live in California.

The University’s public service programs also help improve the quality of life for the state and stand as models for others in the country to follow. The agricultural industry, consumers, and local communities rely heavily on the information and advice distributed through the University’s Cooperative Extension programs. K-12 education is benefitted greatly by the efforts of the University’s outreach and K-12 teacher professional development programs.

Any activity the University undertakes is born from an underlying principle of quality. The following support this primary principle:

- *The University will not allow quality to erode further.* Once lost, quality is not easily regained.

- *Market lags in faculty and staff salaries must not deepen. The University must return to paying competitive salaries.* Faculty and staff salaries lag the average of comparison institutions by approximately 9 percent. UC will be hiring 7,000 faculty over this decade as well as staff to support them. It is very difficult to recruit and retain high-quality faculty and staff while unable to pay salaries comparable to the market. This problem is exacerbated by unfunded health benefit cost increases.

- *The University must continue to pay faculty merit increases.* Paying faculty merit increases is key to maintaining quality. The University has a true merit system to reward the very best faculty and staff. Faculty are eligible for merit increases only every three years. Therefore, merit increases must be paid each year to avoid serious inequities from occurring.

- *The University will not permit the student-faculty ratio to deteriorate further.* During the budget cuts of the early 1990s, the student-faculty ratio deteriorated. The inability to pay competitive salaries already creates a
significant recruitment and retention challenge for the University. It would not be reasonable or practical to ask faculty to receive less pay and also work more, particularly given the fact that UC workload policies are on a par with those at other comparison institutions.

- **Research support must be maintained in order to maintain quality in the University’s academic program and to continue to help the economic recovery of the state.** The entire state benefits from the products of UC research. University research has created whole industries for California and is a primary reason California leads the nation in biotechnology, aerospace, computer and information science, agriculture, environmental technologies, and a variety of other fields.

- **The core infrastructure of the University cannot sustain further budget cuts and continue to support the academic programs of the University.** Reductions are occurring in programs that have a direct impact on the instructional program, such as instructional equipment and instructional technology. Historically, State funding has been inadequate for these programs, and now with additional cuts they are losing their ability to keep up with fast-paced changes. With inadequate funding for maintenance and no funding for deferred maintenance, the physical plant is falling into greater disrepair. Costs in other areas of the budget, such as health benefits and energy, are increasing significantly but are not being funded by the State.

- **The University will not further risk the quality of the institution.** Preserving the quality of the University is in the best interest of all Californians.

**Primary Principle: Maintain Access and Honor the Master Plan.**

For over forty years, the University of California has been committed to the tenets of the California Master Plan for Higher Education, which is the blueprint for higher education in this state. The Master Plan specifies the mission of each public higher education segment and defines the pool of high school graduates from which each segment is to admit its students. The Master Plan calls for the University to offer a place to the top 12.5 percent of graduating California high school seniors and all eligible California Community College students. Throughout its forty-year existence, UC has accommodated all eligible students wishing to attend. The Master Plan also calls for the State to provide adequate resources to accommodate enrollment. Language adopted as part of the 2003-04 budget package, however, states the Legislature’s intent that the Department of Finance is to include no funding for enrollment growth, salaries, or non-salary price increases as it develops the 2004-05 Governor’s Budget for UC. This is consistent with instructions issued by the Department of Finance for developing the 2004-05 Budget. The State appears to be sending a signal that it may not honor its commitment under the Master Plan to provide adequate resources to fund enrollments. If that point is reached, it is unrealistic to expect that the University can continue to honor the access guarantee of
the Master Plan in the same way it has done in the past. Decisions about enrollment reductions cannot be made until more is known about the level of funding the University is to receive from the State in 2004-05.

**Supporting Principles**

- *Enrollment levels in the University must match the resources provided.* Enrollment has increased by 18 percent over the last three years, while State funding has declined by 14 percent. Enrollment is 12,000 above the level envisioned by the last enrollment plan.

- *If actions are taken to reduce enrollments, they should be implemented in such a way as to minimize the impact on UC’s commitment to the access goals of the Master Plan and should be adopted temporarily until the State is able to fund the University’s basic needs.* Implementation of enrollment constraints or reductions would constitute a major change in policy resulting in turning away potentially thousands of students. If the State ultimately decides not to fund the education of these students, the University will endeavor to ensure that this is a short-term change and will mitigate as much as possible the impact on students.

- *Access under the Master Plan includes a commitment to diversity, and any actions to reduce enrollments should reflect that commitment.*

**Primary Principle: Maintain Affordability.**

Historically, student fees at the University of California have been very low, primarily due to the fact that the State has subsidized the cost of education. Students currently pay 25 percent of the cost of their education. In good economic times, student fees have been frozen or reduced. As State support declines, the price students must pay has tended to rise. Contrary to recent news nationally about the skyrocketing costs in higher education, the average cost of providing a UC education to a student has declined over the past 18 years by 12 percent, but the State subsidy toward that cost has declined by 32 percent.

Student fee increases have helped maintain quality during times of fiscal crisis. Over the last 18 months, student fee increases have offset reductions that otherwise would have been targeted at instructional programs.
Supporting Principles

- The University’s preference would be to have a fee policy accepted by both the University and those in State government that would provide for annual increases in student fees consistent with an economic measure, such as per capita personal income. Such a policy would be contingent upon the State’s being able to provide support for the University’s basic needs. The wide fluctuation in student fees tracks fairly closely with changes in the economy. If the State can afford basic support to ensure quality and access for the University, student fee increases should occur gradually, moderately, and predictably.

- As student fees rise, it is important to provide financial aid to mitigate the impact of fee increases on needy students. Nearly 50 percent of UC undergraduates receive grant and scholarship aid averaging $6,500 per student; about 62 percent of graduate students receive such aid, which averages $9,800 per student. A study completed in 2002 showed that UCLA ranked number one among top universities in terms of enrolling low-income students, with 34.8 percent of its student body identified as such; UC Berkeley ranked second with 30.1 percent; and UC San Diego, with 28.7 percent, ranked third. These ratings were significantly above other public institutions included in the list.

- The University would continue to use a portion of the revenue raised from an increase in student fees in 2004-05 to help ensure access for needy students. In the current year, the University provided grant aid to cover the full increase for low-income students and half of the increase for middle-income needy students. The University would do the same for student fee increases that occur in 2004-05.

Vice President Hershman recalled that the State is facing huge deficits. He noted that Governor Schwarzenegger has proposed a $15 billion bond measure for the March ballot, but if passed, the bond will be only a short-term measure to deal with previous problems. One of the critical elements of the Governor’s other proposals is that there be a spending cap. The Governor is required to submit a budget by January 10.

Vice President Hershman reported that, given the context in which the Governor’s Budget is being developed and the considerable uncertainty that exists associated with the transition to a new Governor, the size of the deficit the State is facing, and how the new administration will address these issues, the University is not submitting a normal budget request to the State for 2004-05. Instead, the University intends to develop its spending plan for 2004-05 once the Governor’s Budget has been issued. In the meantime, a set of principles has been developed that is intended to help guide negotiations on the budget. The principles express the priorities for which the Regents have indicated strong support: maintaining quality, access, and affordability. The University must work to ensure that decisions made to address the immediate crisis do not, in the long term, irreparably harm the University and its ability to maintain
excellence as it carries out its three basic missions of teaching, research, and public service.

Vice President Hershman recalled that the University had already sustained $424 million in base budget cuts, offset another $230 million in cuts with increases in student fees, and foregone salary and other cost increase funding totaling $424 million. The budget crisis shows no sign of abating in 2004-05. The State will begin the fiscal year with an ongoing structural deficit estimated to be at least $7.9 billion.

For illustration, the University put together a mock budget plan, based on a normal financial scenario, that does not ask for restoration of previous budget cuts but does ask that the University be made no worse off next year. The normal budget request would have been that the State increase its contribution to the University from the General Fund by $294 million.

Mr. Hershman recalled that the University received $8 billion in 2002-03 from the federal government. This represents over half of the University’s research money, a significant part of student financial aid, and one-third of hospital operations. It is doubtful that this portion of the University’s budget will sustain its customary 10 percent annual increase into the future. Private support, which has experienced major growth over the past decade, will become increasingly important. State funding over time has fluctuated during the past decade. He emphasized that University enrollment has increased 18 percent during the last few years, while State funds have dropped by 14 percent. The University’s share of the State budget for only education purposes is about $10 billion. During the economic depression of the early 1990s, the University made up for half of its funding deficit by cutting budgets, one-quarter by withholding salary increases, and about one-quarter by increasing student fees. UC’s share of the State General Fund has equaled about 4 percent in recent years.

Mr. Hershman recalled that as the State began an economic recovery in the early 1990s, the University made a compact with the Wilson administration which grew into a partnership agreement with the Davis administration. The partnership agreement was fully funded only for the first few years, despite the fact that the University had upheld its obligations. For 2003-04 the partnership was underfunded by $1 billion, which has resulted in over $400 million in general budget cuts, $230 million in fee increases net of financial aid, and over $400 million in actions mostly related to salaries not provided. If the University’s budget is cut by the proposed 20 percent in 2004-05, it will be 40 percent short of funding the partnership.

Mr. Hershman reported that State General Funds, UC General Funds, and student fees, which together provide basic support for core instruction plus some money for research and public service, had stayed relatively stable until the last few years, during which they have fallen dramatically. The economy has started to pick up, but expenditures are increasing. Mr. Hershman believed that if the $15 billion bond issue is approved, about $2 billion of mid-year cuts will need to be made in order to balance
the budget and leave a small reserve for this year. The Legislative Analyst predicts a yearly deficit of $15 billion in the State budget into the future.

Regent Hopkinson emphasized that if times had been good the University would have been requesting a budget of $1.57 billion for 2004-05. She advocated using that figure when illustrating to the Legislature and the Department of Finance the degree to which the University is underfunded.

Mr. Hershman focused on several critical areas of the budget. He noted that the category of faculty salaries was about 9 percent behind the average of the University’s comparison institutions. In response to a question from Regent Sayles about the level of attrition among faculty when salaries dipped in the early 1990s, Mr. Hershman reported that, although a large number of faculty opted for the early retirement program offered at that point, faculty overall have been loyal and have waited it out when salaries have fallen below the market. The real impact is felt when trying to recruit and retain new faculty. Regent Blum noted that in these situations the people likely to leave are the young, bright faculty members, who can find other jobs. Regent Bodine added that the early retirement program in many cases resulted in the retirement of every senior member of a department.

Mr. Hershman noted that the student-faculty ratio deteriorated in the early 1990s, never recovered, and is deteriorating further. Based on the level of State support that has been suggested, the ratio for 2003-04 is likely to be nearly 20 to one. Studies have shown that comparative private colleges average a ratio of 10 to one and public universities average 17 to one. Regent Montoya noted that it would be helpful to break down the gross average in order to account for the various types of courses taught by UC faculty.

Faculty Representative Pitts believed that if you have both a reduction in salaries and a rising student-faculty ratio, an unhealthy circumstance is created that may not become evident until it is too late to correct it. Major dislocations take a substantial amount of time to repair, a fact that must be brought home to the Legislature. Regent Blum agreed. He was concerned that the University could suffer the same deterioration in quality as the California K-12 school system has suffered.

Regent Lozano asked how much it would cost to use the campuses year-round and what the impact would be on the ability to accommodate more students and improve the student-faculty ratio. Vice President Hershman recalled that the State had funded four UC campuses to operate year round, but funding for any more has never been secured.

Mr. Hershman emphasized that the University’s cost per student, adjusted for inflation, has been reduced by about 12 percent since 1985, while State funds per students have fallen by 32 percent. Student fees have increased as a result. The average cost per student for 2003-04 is $15,360, of which the State is paying about $9,700. Regent Preuss observed that the fact that the University has reduced
educational expenditures should not be perceived as positive, as the reduction was achieved in large part by spending 9 percent less on faculty salaries.

Mr. Hershman observed that the University’s student fees remain about $1,300 below the average of its comparison institutions. The total tuition and fee charges for nonresident undergraduate students equal nearly $20,000 for 2003-04. The University has increased its contribution to financial aid from student fees by 65 percent in the past three years in order to protect access and affordability. Committee Chair Hopkinson requested that in January, the trend in the total cost of attendance, including housing, be illustrated. Regent Murray agreed that it was important for the public and the Legislature to recognize the total cost. He noted that the University’s comparatively low fees and its good financial aid had resulted in maintaining access for low-income students. Regent Huerta suggested including data concerning the population mix of these students.

Mr. Hershman reported that if the next two General Obligation bond measures pass, the University will be at about 90 percent of the California Postsecondary Education Commission’s recommended minimum higher education funding standard. If the measures do not pass, the growing campuses in particular will be affected adversely.

Mr. Hershman discussed the University’s performance measures with regard to its goals. He reiterated that while the University has met the commitments established under the partnership agreement with respect to undergraduate and graduate enrollments, graduation rates, and time to degree, State funding tied to the agreement has diminished severely, most seriously affecting academic support and outreach efforts. In response to a question by Regent Montoya, Mr. Hershman reported that the University is working with the Student Aid Commission on a three-year plan to attempt to replace some of the loss in outreach funding. Regent Kozberg noted that, although time to degree is good and has improved, it may not be sufficient given surging enrollments. She requested that the situation be analyzed with a view toward suggesting ways to improve the statistic. Mr. Hershman noted that little progress had been made in increasing graduate student financial support.

Committee Chair Hopkinson noted that the recommended performance measures and principles were intended only for short-term purposes. She reported that President Dynes intends to form a group to work with the campuses to develop longer-range performance measures and principles to be approved by the Regents at a future meeting.

President Dynes invited the Chair of the University of California Student Association, Mr. Matthew Kaczmarek, to address the Regents. Mr. Kaczmarek believed that the process of setting the University’s priorities resulted in recommendations that were prepared without formal input from the student constituency. He requested the Regents to adopt the primary principles as recommended by President Dynes but to reject their sub points and direct the administration to consult with students formally in order to produce a revised recommendation. The students would like that
recommendation to include language to support additional funding of student services; to preclude restricting enrollments, fund outreach, and reaffirm support for comprehensive review, all in order to assure diversity; and to freeze systemwide fees at their current levels.

Regent Huerta asked whether the administration was trying to negotiate with the State to garner funds from parts of the State budget other than education. Vice President Hershman responded that the University has avoided giving advice to the Legislature on anything but the budget for education, including K-12 and the California Community Colleges.

Regent Murray asked for clarification concerning the recommendation. He advocated giving attention to the students’ proposals for expanding the principles. He sought assurance that the recommendation was to approve the stated principles in the short term and ask the administration to get further input from the campuses in order to formulate longer-term principles and return to the Regents with an updated document. He believed that the University should take advantage of the political power of all of the University’s constituencies. Committee Chair Hopkinson explained that the Regents were being asked to approve the President’s principles as a short-term measure to use in working with the Governor and the Legislature. She reiterated that subsequently the principles and performance measures will be reviewed on the campus level and revised or expanded, and will be resubmitted to the Regents for approval.

Regent Marcus noted that one major issue of quality was offering competitive faculty salaries and support. He asked whether the University’s budget would offer any increases for faculty, whom he believed were critical in maintaining the University’s quality. Mr. Hershman recalled that no budget proposal is being submitted but that if the University hoped to make up for past cuts and prevent further erosion, it would need to request a 13 percent increase for faculty.

Regent-designate Novack commented that the University is already over $1 billion away from upholding its stated principles and is facing further cuts. He believed that decreasing access was the obvious choice if quality were to be maintained. Mr. Hershman reiterated that the University is committed to upholding the Master Plan’s provision for accepting a certain level of students, but only if the State is willing to supply the necessary funds. If the State declines to do this, the University will need to rearrange its priorities.

Regent Connerly was concerned that the item as presented did not provide sufficient direction for negotiating with the Governor and the Legislature, particularly as they are not in any position to negotiate. The document contains no reconciliation of the often conflicting goals of preserving quality, access, and affordability. At some stage the University will need to declare a principle that will override all others. Mr. Hershman noted that one message contained in the principles as submitted was that the University will not allow quality to erode further. Regent Connerly recalled that under the partnership the State agreed to provide a certain level of support but that
as times have changed the State has failed to honor its agreement and the partnership has become meaningless.

Following up on a comment by Regent Blum, Regent Pattiz commented that, after having listened to the presentation about the impact of the University on the State and to the UCSA Chair’s statement, it was more clear than ever that postponing the opening of UC Merced was a bad decision. He believed that every effort should be made to put UC Merced back on schedule. Mr. Hershman assured the Regents that the administration is pursuing that possibility vigorously.

Regent O’Connell, expanding on a previous comment by Regent Huerta concerning proposed reductions for other agencies, advocated keeping in mind the question of whether the size of the State’s budget is appropriate and where additional revenue sources might be found.

Regent Huerta commented that the Regents have influenced public policy in the past. She believed that as individuals they need to counter the notion that tax cuts are a good thing when in fact they are destroying the state’s public education and healthcare systems. The public may not realize how much the University is being hurt by budget cuts. Regent Blum agreed. He noted that reducing the number of students the University accepts will not reduce proportionately the University’s overall expenses.

Regent Davies expressed satisfaction with the principles are presented. He commented that it was necessary at this time only to equip Vice President Hershman with some guidance so as to enable him to negotiate with the State immediately. There is no time to fine tune the recommendation. He believed that the recommendation provided sufficiently explicit guidance for Mr. Hershman to make it clear that the University intends to maintain quality no matter what and that if every other consideration must be re-prioritized because the State refuses to provide adequate funding, the Regents are prepared to do that. He recalled that the partnership and the compact were based on the assumption that sufficient resources would be available for the State to perform its part of the bargain. If the resources are not there, they cannot be created simply by agreement. He believed that those agreements provided predictability in good times but that it was implied that in bad times negotiations would have to be reopened. Although he regretted that students felt that sufficient input from them had not been sought, he emphasized that the Regents were up against a deadline and should approve the recommendation as submitted.

[For speakers’ comments, refer to the November 19, 2003 minutes 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, Regents Montoya and Murray voting “no.”
The Committee recessed at 12 noon.

The meeting reconvened at 1:40 p.m. with Committee Chair Hopkinson presiding.

Members present: Regents Connerly, Dynes, Hopkinson, Lozano, Montoya, Moores, Murray, Preuss, and Sayles; Advisory members Novack and Pitts

In attendance: Regents Blum, Bodine, Davies, Huerta, Johnson, Kozberg, Lansing, Marcus, Parsky, Pattiz, and Seigler, Regents-designate Anderson and Ornellas, Faculty Representative Blumenthal, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, and Hershman, Chancellors Bishop, Carnesale, Cicerone, Córdova, Greenwood, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chandler, Laboratory Directors Anastasio and Shank, and Recording Secretary Nietfeld

4. UNIVERSITY OF CALIFORNIA FINANCIAL REPORT, 2003

The President recommended that the University of California Financial Report for 2003 be accepted.

[The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

It was noted that the following reports had also been distributed to all Regents in advance of the meeting:

• The University of California Retirement System: Retirement Plan, Year Ended June 30, 2003
• The University of California Retirement System: Defined Contribution Plan and Tax-Deferred 403(b) Plan, Year Ended June 30, 2003
• University of California Medical Centers: Report on Audited Financial Statements, June 30, 2003

Vice President Broome recalled that, beginning in 2004, new accounting standards would require the University’s ten campus foundations to be presented discretely in the financial statements. She anticipated that the University would also be required to expand its investment disclosures. Ms. Broome reported that an exposure draft was being circulated pertaining to post-retirement benefits. The University may be required to record annuited payments to retirees on an accrual basis, consistent with generally accepted accounting principles followed in private industry. This could result in a cumulative charge to the University of $6 billion to $10 billion, depending upon how the calculations are performed.
5. UNIVERSITY OF CALIFORNIA RETIREMENT PLAN - ANNUAL ACTUARIAL VALUATION

It was recalled that each year, in accordance with actuarial reporting requirements of the Internal Revenue Code (IRC) and the University of California Retirement Plan (UCRP or Plan), the Plan’s Consulting Actuary, currently Towers Perrin, performs an actuarial valuation of UCRP. The valuation as of July 1, 2003 indicates that UCRP remains more than fully funded and requires no employee or employer contributions at this time.

In accordance with statutory disclosure requirements applicable to tax-qualified defined benefit pension plans, Towers Perrin performed a comprehensive actuarial valuation for UCRP as of July 1, 2003. The report is applicable to the 2003-04 Plan year. The Consulting Actuary’s statement shows that the value of UCRP assets is sufficient to maintain a 0 percent payroll employer contribution rate for the 2003-04 Plan year. This recommendation is in line with the full funding limitation described in IRC §412(c)(7)(A), as adopted by The Regents in 1990 based on amendments to IRC §412 through that date. Under Regental policy, the University will suspend contributions when the smaller of the market value or the actuarial value of Plan assets exceeds the lesser of the actuarial accrued liability plus normal cost or 150 percent of the current liability.

At the fiscal year end, June 30, 2003, the market value of assets of UCRP, after subtracting benefit claims currently payable and other current payables of the Plan, was $35,326,812,000 as compared to $34,441,805,000 as of the beginning of the Plan’s fiscal year. During the 2002-03 fiscal year the Plan experienced a 5.6 percent investment return on the market value of Plan assets.

The Plan’s surplus, the excess of the actuarial (smoothed) value of assets over the actuarial accrued liability, decreased during the 2002-03 Plan year primarily because the liability grew at approximately the rate expected but the smoothed value of assets earned 1.9 percent compared to the expected total return of 7.5 percent. As of July 1, 2003 the Plan remains over 100 percent funded on both a market value of assets and actuarial value of assets basis.

The Committee was informed that in a defined benefit pension plan, the employer promises employees certain benefits payable in the future. The cost of these benefits is generally funded incrementally over the career of employees as part of their total compensation package. This process involves the use of an actuarial cost method which assigns the value of promised benefits and anticipated expenses to individual plan years, as an annual cost. The Employee Retirement Income Security Act (ERISA) §3(31) specifically grants approval for six actuarial cost methods. One of these, the entry age normal cost method, has been used for the Plan for 25 years. It is the actuarial method used by 70 percent of public sector plans. The entry age method is considered a conservative actuarial cost method. Using this method of analysis, costs
are distributed over the entire length of an employee’s service beginning at the age of service entry and ending with the anticipated age at separation from service.

The “normal cost” of the Plan, as defined under ERISA §3(28), is the annual percent of payroll that must be accrued over the total career of each employee to provide fully for future UCRP benefits, measured as of the valuation date. Under the entry age normal method, as a percentage of covered payroll, the UCRP normal cost for the 2003-04 Plan year is 15.22 percent, or $1.18 billion, up from 15.15 percent in the previous year. The increase is due primarily to shifts in the profile of active members.

The actuarial valuation assumptions, which presume that the Plan will continue indefinitely, are provided to The Regents annually. The Actuary is recommending changes to these assumptions for the next actuarial valuation, to be presented at today’s meeting.

Supplemental Information

**UC-PERS Early Retirement Plan (UC-PERS Plan)**

In October 1990 The Regents approved an early retirement incentive program for University employees who were covered under the California Public Employees’ Retirement System (CalPERS) pension plan. The most tax-effective method to provide this group with a benefit generally comparable to the incentive offered to UCRP Members was to establish a “frozen” defined benefit plan under IRC §401(a). The UC-PERS Plus 5 Plan required campus and laboratory locations to fund their individual liabilities over no longer than five years. This Plan is a standard terminal funding arrangement under a wasting trust, which, in this instance, is obligated to make fixed lifetime payments under either a single- or joint-survivor benefit structure. The assets must remain in the Trust until all benefit promises have been satisfied. The assets are commingled with UCRP assets for maximum investment return without the loads, fees, or industry risk attached to an insurance contract.

In Revenue Ruling 89-87, the Internal Revenue Service clarified that a wasting trust is subject to the standard pension qualification, funding, and reporting requirements, inclusive of an actuarial review under IRC §6059. As such, the Plan’s Consulting Actuary reviews the Trust’s fiscal position and funding status annually to assure that the UC-PERS Plus 5 Plan is adequately funded. As of July 1, 2003, the net assets of the wasting trust were $71.5 million and the actuarial liability was $49.3 million. The surplus remains approximately constant at $22 million because actuarial gains and losses offset each other during the 2002-03 Plan year.

Ms. Catherine Cole of Towers Perrin commented on a display which depicted the history of the funded status of the Plan, noting that it had improved over the past year due to an upturn in the market. She emphasized that retirement plans should be viewed over a fifty- to sixty-year period, as that represents the anticipated thirty-year career of an employee combined with twenty to thirty years of retirement. Ms. Cole
noted that the actuarial value of assets had increased from 107 percent in 1995 to a high of 154 percent in 2000; following declines since that time, the value is currently at 126 percent. She pointed out, however, that the market value of assets continued to decline through the first half of the fiscal year; she did not anticipate any contributions to the Plan would be required for the next two fiscal years.

Regent Murray recalled that in July 2002 the retirement plan was amended to provide certain benefits to the domestic partners but that these benefits did not apply to retirees with retirement dates of June 30, 2002 or earlier. He asked what the cost would be to include those people. Associate Vice President Boyette agreed to provide Regent Murray with that information.

6. UNIVERSITY OF CALIFORNIA RETIREMENT PLAN - EXPERIENCE STUDY: ADOPTION OF CHANGES IN ACTUARIAL ASSUMPTIONS

The President recommended that effective July 1, 2004, The Regents adopt changes to the Plan’s actuarial assumptions, as recommended by the Plan’s Consulting Actuary.

It was recalled that every three to five years the Consulting Actuary for the University of California Retirement Plan conducts an experience study to assess the following factors:

• The Plan’s experience with mortality, retirement, withdrawal, and disability rates;

• The Plan’s experience with merit, longevity, and promotional salary increases adjusted for inflation;

• The correlation between the Plan’s actual experience and the expected experience as reflected in the Plan’s current actuarial valuation assumptions;

• Whether the Plan’s actual experience as compared to the expected experience reflects a significant pattern or trend over a period of time that may indicate a need to change the Plan’s actuarial valuation assumptions;

• Whether external trends and factors or emerging internal trends may indicate a need to change the Plan's actuarial valuation assumptions.

Ms. Cole explained that the UCRP experience study report tracked actual experience during the period July 1, 1999 through June 30, 2002, and combined these results with the results from the prior four-year period to analyze demographic trends and experience among various employee groups over the entire seven-year period covering July 1, 1995 through June 30, 2002.

Changes in Assumptions
For the most part, the recommended changes to the assumptions represent minor fine-tuning to assumptions that have fit well with actual experience. The most significant change is in mortality, as the Plan experience shows that UCRP members, males in particular, are living longer than expected. This is also true for the general population and is reflected in a new standard mortality table, which is beginning to be used by plan sponsors.

The total effect of the most significant changes – mortality, retirement, and withdrawal – was calculated and reflected in the asset/liability modeling study presented to The Regents in May 2003. The anticipated effect of making all the recommended changes would be the following:

- As of July 1, 2004, an increase in the Plan’s normal cost (NC) rate as a percent of covered payroll from 15.2 percent to 15.3 percent and a slight decrease in the Plan’s actuarial accrued liability (AAL) of approximately 1 percent to 2 percent.

- During the period July 1, 2005 through July 1, 2007, a gradual increase in the NC rate to 16.1 percent of payroll and a 2 percent increase in the AAL, approximately $700 million in 2003 dollars.

In addition to these changes for the actuarial valuation, there will be a new mortality basis for the annuity option factors and Lump Sum Cashout (LSC) factors used to determine benefits payable under UCRP. The LSC methodology will be modified to a calculation based on monthly LSC conversion factors so that the calculation, which currently uses annual conversion factors, will conform with the monthly Basic Retirement Income (BRI) calculation, which uses monthly age factors. The combined effects of the change in the mortality basis and the switch to monthly factors result in an increase in the LSC factor at the majority of ages. Although switching to monthly factors does not, in isolation, reduce the Plan’s AAL, actual aggregate LSC disbursements will be lower over time as Members retire at “interim ages” and choose the LSC option.

A final recommendation is to reduce temporarily the average annual salary increase assumption from 5.4 percent to 3.4 percent for the three-year period beginning July 1, 2004, reverting back to the present salary scale thereafter, to model the effects of expected budgetary constraints. The total annual salary increase assumption is comprised of an inflation component and a merit and promotion component. Currently, the inflation component assumption is 4 percent at all ages and the merit and promotion component assumption, which varies by age, averages 1.4 percent, for a total average annual increase assumption of 5.4 percent. The recommendation is to use an inflation component assumption of 2 percent for fiscal years 2004-05 through 2006-07, with the assumption returning to 4 percent for fiscal year 2007-08.

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1 90 percent of the increase in the AAL is due to the change in the mortality assumptions.
For the July 1, 2004 valuation, this change would also have the effect of almost entirely offsetting the increases in normal cost rate and fully offsetting the increases in actuarial accrued liability brought on by the other changes in assumptions. The July 1, 2005 and July 1, 2006 valuation results would reflect gradually increasing normal cost and actuarial accrued liability as the temporary period for the lower salary increases is reduced over the three-year period and finally phased out for the July 1, 2007 valuation. The July 1, 2007 valuation results would reflect the full effect of the long-term assumption changes, without the offsetting savings due to the temporarily reduced salary increase assumption.

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

7. AMENDMENT OF TAX-DEFERRED 403(b) PLAN AND DEFINED CONTRIBUTION PLAN RELATED TO UC-MANAGED FUNDS TO PROVIDE MORE INVESTMENT OPTIONS FOR EMPLOYEES

The President recommended that the University of California Tax-Deferred 403(b) Plan and the University of California Defined Contribution Plan be amended as follows, effective April 1, 2004 or as soon as administratively possible:

- Revise the Multi-Asset Fund’s asset allocation and rebalancing policy and change the Fund’s name to the Balanced Growth Fund.

- Create a Treasury Inflation Protected Securities (TIPS) Fund.

- Merge the Money Market Fund into the Savings Fund.

- Implementation of these amendments to be delegated to the President.

The Treasurer’s Office offers six UC-managed investment funds to employees as options for 403(b) Plan and DC Plan contributions. The proposed changes to the UC-managed investment funds are designed to provide a more appropriate mix of investment options for employees saving towards retirement.
Multi-Asset Fund Changed to Balanced Growth Fund

The Multi-Asset Fund was created in 1990 in response to a need identified through a survey of participants in the 403(b) Plan and the After-Tax Contribution Plan. The fund’s objective is to strike a balance between seeking current income with protection of principal and obtaining long-term growth through capital appreciation. The current conservative asset allocation of the Multi-Asset Fund is not appropriate for those participants with a longer time horizon seeking to maximize principal growth to fund retirement. The Treasurer’s Office proposes adjusting the Multi-Asset Fund’s asset allocation to mirror more closely the asset allocation program currently employed in the University of California Retirement Plan (UCRP). This proposal substantially increases the allocation to the Equity Fund, introduces use of a new asset class by implementing a TIPS Fund, and eliminates use of both the Savings Fund and the Money Market Fund in the allocation. In addition, it is proposed that the fund adopt a rebalancing process identical to the rebalancing process in place for UCRP. This would offer participants an investment alternative that reflects the asset allocation of the UCRP portfolio. To help participants become aware of and better understand this allocation change, the Multi-Asset Fund will be renamed the Balanced Growth Fund.

TIPS Fund

TIPS, a new fund proposed by the Treasurer’s Office, would be composed of United States Treasury Bonds whose principal is adjusted by the Consumer Price Index inflation value on a monthly basis. The use of TIPS within a fixed income allocation would serve as a hedge against inflation and would be an attractive investment choice for participants approaching retirement age who desire to protect their accumulations from inflation. TIPS would be a component of the Balanced Growth Fund as well as a “stand alone” investment option. The Regents approved the addition of TIPS to the UCRP asset allocation at the May 2002 meeting. There is significant interest in a TIPS Fund among faculty members.

Money Market Fund

Along with the change in asset allocation, the renaming of the Multi-Asset Fund to the Balanced Growth Fund, and the creation of the TIPS Fund, the Treasurer’s Office is proposing that the Money Market Fund be closed. Due to the low participation rate in the Money Market Fund outside of the Multi-Asset Fund and in anticipation of the drop in the fund’s assets due to implementation of the proposed allocation adjustment, it is proposed that Money Market Fund shares be merged into the Savings Fund and that the Money Market Fund be closed. The UC-managed Savings Fund is an alternative investment option with a comparable historical rate of return.
Implementation

Multi-Asset Fund participants will receive ample notice that their shares are to be transferred into the Balanced Growth Fund on April 1, 2004, or as soon as administratively possible, unless they take action. Participants who wish to continue holding a higher percentage in fixed-income and short-term money market investments could achieve these allocations by contributing to the Bond Fund and the Savings Funds.

The TIPS Fund will begin operation on April 1, 2004 or as soon as administratively possible. The fund will be managed by the fixed-income staff in the Treasurer’s Office, and the expense ratio will be the same as the other UC-managed funds at 0.15 percent annually. The objective of the TIPS Fund would be identical to the objective of UCRP’s TIPS allocation of matching the performance of the Lehman TIPS Index.

Money Market Fund participants will also receive ample notice that their shares would be transferred into the Savings Fund with the closing of the Money Market Fund, unless they request that assets be transferred to a different fund.

Regent Johnson expressed interest in the performance of Treasury Inflation Protected Securities. Treasurer Russ explained that in general TIPS will rise with inflation. This investment vehicle has performed well for The Regents portfolio since it was added to the asset allocation plan. Associate Vice President Boyette continued that human resources was in the process of developing informational materials to assist employees with their investment decisions, and she offered to provide these materials to the Regents.

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

8. APPROVAL OF INCENTIVE PROGRAM ASSET CLASS INVESTMENT PERFORMANCE OBJECTIVES

The President recommended that the Committee concur with the recommendation of the Committee on Investments that the incentive program asset class investment performance objectives be modified as indicated in Attachment C (page 11).

[Note: changes are highlighted, and the previous FY 2002-03 objectives are also attached (page 10) for reference.]

Treasurer Russ recalled that at its November 5, 2003 meeting, the Committee on Investments had voted to present to The Regents a modification of the incentive program asset class investment objectives that were adopted for the 2002-03 fiscal year. The Committee on Finance is being asked to concur with this recommendation, which is based upon a number of changes that have taken place within the Office of the Treasurer over the past year. With the transfer of U.S. equity management to an
index fund, modifications of these objectives are necessary. Also, asset class performance standards have been developed for the new classes within the asset allocation plan, including TIPS, real estate, and absolute return strategies. The changes highlighted in the Attachment provide more detailed information about the proposed amended objectives.

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

9. APPROVAL OF MEMBERSHIP AGREEMENT WITH TESSITURA NETWORK, INC., BERKELEY CAMPUS

The President recommended approval for the University on behalf of Cal Performances-Student Musical Activities, Berkeley campus to participate in a nonprofit corporation, Tessitura Network, Inc., to permit the purchase of a software license for implementing the Tessitura Constituent Relationship Management System for ticketing and related purposes.

The Committee was informed that Cal Performances and Student Musical Activities (CP-SMA) is a division of the Berkeley campus that brings world-class artists to the campus to perform and participate in educational activities and outreach; manages facilities and event services for campus events, including lectures, graduations, student performances, and campus ceremonies; and provides university-sponsored non-academic student musical groups. In support of those activities CP-SMA maintains computerized ticketing, development, marketing, and e-commerce systems. Each year these systems sell approximately 250,000 event tickets and process approximately 2,000 donations for approximately $10 million in financial activity. Because the vendor that provides the current ticketing system has notified the Berkeley campus that it will cease all support for that system during the 2004-05 academic year, CP-SMA must move quickly to implement a new ticketing system in the next year.

After evaluating vendor proposals received through the RFP process, the project committee has identified the purchase of Tessitura Network, Inc. as the preferred solution. Tessitura is a performing arts constituent relationship management system that provides ticketing, fundraising, marketing, and reporting functions in an integrated product that was developed by the Metropolitan Opera. In 2000 the Opera began licensing the product to other nonprofit performing arts organizations in North America, and over 45 organizations are licensed to use it. Tessitura provides an integrated system that CP-SMA believes will allow significant process improvements, avoid duplication of data entry, provide a much better e-commerce solution for patrons, and increase security and privacy for patron information.

In addition to the strong technical merits of the Tessitura product, the business model for the solution is also very attractive to CP-SMA. The product was developed by a leading nonprofit performing arts organization for its own use to solve problems with
other products on the market from for-profit vendors. All of the nonprofit arts organizations using the product support and enhance the product through a consortium called the Tessitura Network. This business model gives the nonprofit users of the product control over the direction of product changes and the ongoing support and development costs. It also eliminates the tension between a for-profit vendor trying to maximize its profits and the nonprofit arts organizations trying to best serve their patrons and reduce costs.

CP-SMA would like to move forward with implementing the Tessitura product for the 2004-05 academic year by purchasing the software license and joining the Tessitura Network consortium.

Membership Agreement Content

The Regents must approve the membership agreement in accordance with Standing Order 100.4(oo), which requires that “University participation in corporations, companies, and partnerships…for University related purposes” be approved by the Board. Tessitura Network, Inc. is a nonprofit corporation qualified as a tax-exempt organization. Its mission is to serve and support performing arts and visual arts organizations and to support, enhance, and improve the Tessitura arts organization enterprise software. Membership dues are paid in quarterly installments, and the dues structure is intended to cover all capital and operational requirements of the Tessitura Network. However, unforeseen circumstances may arise in which the Board of Directors determines, after taking into account all relevant factors, including the availability of annual membership dues, financial reserves, and other sources of revenue, that a special assessment is required of members. This special assessment may not exceed ten percent of the member’s annual dues for the calendar year in which the assessment is being made. A member may voluntarily withdraw and be removed from membership by giving notice as described in the agreement. The Tessitura support arrangement with CP-SMA is expected to last for at least five years.

Regent Preuss suggested that the Bylaws be amended to remove the requirement that The Regents approve this type of agreement. General Counsel Holst noted that Regental approval is required due to the provision in the Bylaws that The Regents must act on the corporation’s participation in other corporations. He concurred that the issue should be examined.

10. SALE OF 685 ACRES OF LAND, MORENO VALLEY, RIVERSIDE CAMPUS

The President recommended that:

A. The Regents accept the bid from Moreno Valley Properties, LP (“Bidder”), the high bidder pursuant to sealed bids opened October 22, 2003, to acquire approximately 685 acres located in the City of Moreno Valley, 12 miles east of the Riverside campus, and commonly known as the Moreno Valley Field
Station, a former agricultural research facility, for a purchase price of $55,101,000.99.

B. The Officers of The Regents be authorized to execute a deed for said land in favor of Bidder, reserving for The Regents the oil, gas, and other minerals and hydrocarbon substances below a depth of 500 feet without the right of surface entry.

C. The Officers of The Regents be authorized to execute other agreements and ancillary documents related to this sale.

The Committee was informed that The Regents owns approximately 685 acres of land in Moreno Valley, California. This property is one of three experimental farmland facilities managed by the Riverside campus: the 486-acre Citrus Research Center and Agricultural Research Station adjacent to the main campus, the 540-acre Coachella Valley Agricultural Research Station located in Thermal, and the Moreno Valley Field Station (MVFS), which is located approximately 12 miles east of the Riverside campus in the City of Moreno Valley. MVFS, which originally consisted of approximately 840 acres, was acquired through eminent domain in 1962 for approximately $795,000. Of that amount, approximately 81 percent came from State appropriations and the remaining 19 percent from University funds.

At the July 1989 meeting of the Committee on Grounds and Buildings, the Riverside campus presented an overview of the preliminary evaluations for the long-term use of MVFS. The Committee was informed that campus growth and recent urbanization of the area around MVFS warranted an evaluation of the campus’ long-term farmland needs. In the early 1990s the Riverside campus determined that MVFS was no longer appropriate for agricultural research. The two primary reasons for this determination were the fact that the area surrounding MVFS was rapidly changing in character and being developed with residential and other urban uses, and that the soils on the site, due to excessive concentrations of boron, were not suitable for certain types of agricultural research the campus was pursuing. Consequently, the campus has pursued the acquisition of replacement agricultural research facilities and explored alternate future uses for MVFS.

In March 1990, The Regents approved the sale of 80 acres of the original 840 acres to the County of Riverside, on which the Riverside General Hospital has since been built. Later in 1990, The Regents approved the acquisition of the approximately 540-acre Coachella Valley Agricultural Research Station. Also in 1990, the campus began the development of a specific plan for urban uses of the MVFS property. In 1992, an additional 25 acres of land were sold to the County of Riverside for future expansion of the hospital. In 1992, The Regents approved the sale of land to the Moreno Valley Unified School District (MVUSD) for construction of a new high school.
The specific plan and Environmental Impact Report for the development of the balance of the MVFS land, with 2,922 residential units and related community facilities, were completed and approved by the Moreno Valley City Council in 1998. All CEQA issues and legal challenges were subsequently addressed, and the Final Supplemental Environmental Impact Report was certified in May 2003. No additional environmental action under CEQA is required for the sale of this property.

Sale of Remaining MVFS Acreage

The residential real estate market in Southern California generally and in the Inland Empire in particular has rebounded very strongly over the past two years. The campus, working with Real Estate Services Group (RESG), determined in July 2003 that the current market environment was very favorable for a sale of the remaining MVFS acreage. In order to determine the minimum bid and other terms of a sale under the Stull Act, to which this sale is subject, the campus and RESG interviewed several brokers familiar with the southern California land market. Grubb & Ellis was retained by RESG to market the property; a minimum bid for the competitive sealed bid was set at $32 million, and a comprehensive marketing plan was developed and implemented. In addition to public advertising, more than 200 individuals and entities received information packages on the property.

Four bids were received by the deadline of October 21, 2003. The highest bid which met all requirements of the sealed bid process was received from Moreno Valley Properties, LP, with a bid of $55,101,000.99. The President is recommending that The Regents accept this bid and approve the sale of the remaining 685 acres of land at MVFS. If The Regents accept the bid and approve this sale, escrow is scheduled to close on or before January 7, 2004.

The University intends to negotiate with the State regarding the disposition of the proceeds from the sale of this property and to propose that the funds be used in connection with the UCR Genomics Building in the State Capital Improvement Program.

Regent Hopkinson suggested that Vice President Hershman report to the Regents on the outcome of these negotiations. Vice President Hershman anticipated being able to do so in January, based on the Governor’s budget.

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

11. REPORT OF NEW LITIGATION

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

The Committee went into Closed Session at 2:05 p.m.
The meeting adjourned at 3:45 p.m.

Attest:

Secretary