The Regents of the University of California

COMMITTEE ON FINANCE
January 14, 2004

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

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

In attendance: Regents Blum, Bodine, Davies, Huerta, Johnson, Kozberg, Lansing, and Seigler, Regent-designate 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, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Córdova, Greenwood, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chandler, and Recording Secretary Nietfeld

The meeting convened at 1:35 p.m. with Committee Chair Hopkinson presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of November 19, 2003 were approved.

2. **REPORT ON THE 2004-05 GOVERNOR'S BUDGET**

Committee Chair Hopkinson explained that the objective for today's discussion would be to reach a consensus on priorities for the University's 2004-05 budget.

Vice President Hershman expressed his confidence that the University of California would survive these difficult economic times and noted that he expected Governor Schwarzenegger to support the institution. He recalled that, in a departure from past practice, The Regents had not adopted a budget at its November 2003 meeting but rather had confirmed a set of principles designed to guide the development of the 2004-05 budget. At the March meeting, The Regents will be asked to adopt a budget proposal, as well as any increases in student fees. Final action will be taken once a budget has been approved by the Legislature. Mr. Hershman noted that the intention of the Office of the President would be to consult with the various constituencies, including chancellors, students, faculty, and staff, with respect to the proposals contained in the Governor's budget. Discussions are also under way with members of the Legislature and their staffs, as well as with the Department of Finance, about ways to develop a multi-year strategy to address the University's budgetary shortfalls.

Mr. Hershman observed that the Governor's intention is to achieve a balanced budget for the state in 2004-05, partly through permanent savings and partly through the use of a bond fund which will be on the March 2004 ballot. The Department of Finance believes that over the coming years it will be possible to achieve a balance between revenues and expenditures. The Governor assumes that the economy will continue to improve and will not propose any tax increases, a move which will be controversial in the Legislature. Mr. Hershman stressed the importance of the bond measure, which will be critical to achieving the Governor's budget plan, and noted support for the measure within the University community. With respect to the cuts proposed in the budget, he pointed out that the Governor had not targeted discretionary programs only but rather a broad range of programs, including health and human services, Medi-Cal, social services, corrections, and State and local governments. The Governor has proposed that the contribution made to the State retirement system by employees be increased from five percent to six percent and that a two-tier system be instituted, with new employees receiving reduced benefits. The Governor's budget also includes $600 million in reserves.

Vice President Hershman referred to a set of displays which had been distributed to the Committee, the first of which outlined the primary principles and priorities for the University's 2004-05 budget. He recalled that the following principles had been endorsed by The Regents at the November 2003 meeting:

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.

In support of the first principle, the following priorities have been established.

- The University must maintain a viable student-faculty ratio to achieve its research and teaching mission and to attract high-quality students. In the short term, the University will not permit the student-faculty ratio to deteriorate further. The long-term priority is to achieve a student-faculty ratio of 17.6:1. The maintenance of this ratio is critical to the University's ability to provide students with the classes they need to graduate in four years.

- To attract personnel of the quality needed to maintain the effectiveness of the University and its ability to accomplish its mission, faculty and staff salaries must be competitive. In the short term, the University will continue to pay faculty merit increases, with the long-term goal of a return to paying competitive salaries. Even with merit increases, it is estimated that faculty salaries will lag those at comparison institutions by about ten percent.
- The University's basic mission is that of a research institution. Adequate support is essential for the University to be a high-quality research institution and to continue

to participate in the economic vitality of the state. To accomplish this goal in the short term, UC has set a priority that graduate student quality and ratios shall be maintained. The long-term objective will be to restore research funding and instructional support to previous levels. Additionally, the intention would be that the instructional support of the University be maintained at current levels, while in the long term it will be a priority, depending upon each campus' needs, to establish specific ratios and support levels for graduate students to advance the University's research mission.

The following four priorities have been established to achieve the goals stated in the second and third principles listed above.

- Enrollment levels shall match the resources provided. Enrollment reductions may be necessary in the face of reduced financial support from the State. Any actions to reduce enrollments shall be implemented in such a way as to minimize the effect on the University's commitment to the access goals of the Master Plan. In the long term, the University would continue to admit all qualified students in accordance with the Master Plan.

- As student fees rise, financial aid will be provided for needy students. The University will continue to use as necessary a portion of the revenue raised from any increases in student fees in 2004-05 to offset increases for students with financial needs. The University's fee policy shall be based on established economic indicators, including State funding levels actually provided to the University, personal income growth, and other related items. For the long term, the priority would be to establish a stable State funding formula that allows for the predictability of revenues and fees.

- Cooperative efforts shall be made to achieve interim support for outreach, with the long-term goal of restoring key aspects of the University's outreach programs, including MESA, community college counseling, and the Preuss School.

Vice President Hershman then turned to Display 2, the **University of California 2004-05 Governor's Budget**, which is shown in the Attachment. The University's total State-funded operating budget is approximately $2.9 billion. The Governor has proposed a series of actions to reduce that funding to $2.67 billion. Mr. Hershman summarized the various strategies proposed by the Governor, beginning with an increase in undergraduate student fees of 10 percent and an increase in graduate academic students fees of 40 percent, in both cases with a limit on the return to financial aid of 20 percent. There would be no increase in funding for Cal Grants. The administration is studying whether or not it will continue to be possible to offer some financial relief to undergraduate students from middle-income families. The Governor has proposed that fees for academic graduate students be 50 percent higher than those for undergraduates, based upon actual cost as well as the practices at comparison institutions. Mr. Hershman pointed out, however, that these institutions are also able to offer more generous financial aid packages. The Governor further proposes to reduce the State subsidy to professional schools by 25 percent, resulting in a $5,000 fee increase for students enrolled in fields such as law and medicine. For nonresident students, tuition would increase by 20 percent, bringing total fees to about $25,000 per year and making UC's nonresident fees among the highest in the nation. Vice President Hershman expressed his doubts that the University would be able to enroll a sufficient number of out-of-state students to generate the revenue that the Governor has projected. The budget includes a policy statement that would require the University to phase in an excess units fee, resulting in savings of $9.3 million. Mr. Hershman was doubtful that such a fee would in fact generate this amount in 2004-05.

A second component of the Governor's budget proposal for the University relates to a 10 percent reduction in undergraduate enrollment, to be partially offset by redirecting incoming freshman to community colleges. Under this proposal, each campus would reduce its freshmen enrollment by 400 students. The Governor has included a provision that eligible students who are redirected in this manner would not pay the community college fees.

Vice President Hershman outlined other budget cuts proposed for the University, as shown in the Attachment, noting that the campuses would be given the discretion to ensure that students get the classes they need. In light of reductions to institutional support, the Office of the President has been looking at ways to increase efficiencies. There is a line item in the budget which eliminates State funding for the Institute for Labor and Employment, a controversial issue with the Legislature. While the budget proposal eliminates all funding for outreach, Mr. Hershman expressed some optimism, based on recent conversations in Sacramento, that a compromise could be reached between the Governor and the Legislature to provide funding for the most critical outreach programs. He noted that the budget restores a one-time, unallocated cut of $80.5 million from the 2003-04 budget and provides $10 million for the Merced campus. This commitment will permit the campus to open in 2005 as scheduled, although some curtailments in spending will be required. Finally, Mr. Hershman pointed out that no Partnership funding is provided for the University in 2004-05, including funding for summer instruction at the four remaining campuses without year-round operations, a critical component in plans to accommodate enrollment growth.

Senior Vice President Darling presented an update on Proposition 55, which will provide $12.5 billion to build and renovate facilities at California's public schools, colleges, and universities. Of that, the University will receive $688 million over the next two fiscal years. He recalled that in 2002 the Legislature and the Governor had approved a large bond measure, the first half of which, Proposition 47, was approved by the voters in November 2002. Proposition 55 represents the second component of the measure. Mr. Darling noted that approval of the bond measure would be critical to the University's ability to accommodate enrollment growth and to train a well-educated workforce. It will also permit the undertaking of seismic and life-safety projects in older buildings. The political component of the campaign in support of Proposition 55 is being led by a coalition of business, education, parent, and labor groups, while the public information campaign is being conducted by the educational institutions themselves. Mr. Darling suggested that there were reasons for optimism with respect to passage of the measure, as education remains a priority for California voters. Low interest rates are favorable to passage due to the cost of repaying the bond, and the construction will provide a stimulus for the California economy. There are indications, however, that voters are nervous about passing both this bond measure and the Governor's $15 billion measure for deficit funding that will appear on the same ballot. In support of the initiative, meetings with editorial boards and news conferences are occurring throughout the state. The University is conducting an informational campaign within the community. Vice President Darling observed that the failure of Proposition 55 would have serious consequences for all of education and especially for the University of California.

Vice President Hershman referred briefly to Display 3, which summarizes the shortfall in Partnership funding over the period 2001-02 to 2004-05, noting that the deficit totals $1.57 billion.

Mr. Matt Kaczmarek, chair of the University of California Student Association, presented some observations on the Governor's 2004-05 budget. The UCSA believes that the Governor's budget would affect the quality, accessibility, and affordability of a UC education. It represents an attempt to bypass both the legislative process and the constitutional autonomy of The Regents to implement broad policy changes within the University that will result in a reduction of the quality of education. Mr. Kaczmarek acknowledged some of the positive outcomes in the budget proposal, including funding for the Merced campus. The UCSA believes that the targeted cuts in the budget would change the culture of the University in a fundamental way. The Governor's proposal would effectively end the University's ability to provide financial aid for all eligible students. Graduate instruction is critical to the research mission of the University. A forty percent fee increase, coupled with a decrease in financial aid, cannot sustain the current graduate enrollment. Many graduate student associations are reporting the intention of students to take a leave of absence and pursue their research independently if a forty percent fee increase were imposed. Mr. Kaczmarek pointed out that the University has a responsibility to offer the best in professional education at a low cost to students who wish to use their credentials for public service. This role would be eroded by the reduction in State support for professional degree programs. Students are also concerned about the elimination of funding for outreach in the University's budget, believing that this step will end all efforts to achieve a diversified student body. The ten percent reduction in enrollment is critical to students. Combined with fee increases, cuts in financial aid, and the elimination of outreach, this policy will further prevent low-income students and underrepresented minority students from attending the University, and there will be a domino effect resulting in overcrowding at the community colleges and an increase in potential transfer students later in the decade. The proposed excess units fee will eliminate the ability of students to take courses they value, change their major field of study, or major in two fields. Mr. Kaczmarek drew attention to the services provided by the Institute for Labor and Employment, funding for which has been eliminated. UCSA will work with the Office of the President to advocate for the needs of the University. He called upon the Regents to contribute to this joint effort.

Regent Blum prefaced his remarks by noting that, because the Governor has proposed no new taxes, the budget does not truly represent "sharing the pain." He noted that the Legislature would have the discretion to impose further cuts on the University and stressed the importance of individual Regents' playing a role in Sacramento. He agreed with the observations that the constitutional autonomy of the Board should be protected; the University should determine how many students it will enroll. Regent Blum pointed out that the University had already received severe budget cuts. He believed that erosion in the quality of education was inevitable and called upon the University's leadership to develop a long-term strategy to address this problem.

In response to a question from Regent Montoya, Mr. Hershman explained that the faculty-student ratio is determined by dividing the total number of general-campus students by the number of faculty. Regent Montoya expressed concern for those faculty members who support their academic graduate students through the use of grant funding if graduate student fees increase by forty percent. Vice President Hershman acknowledged that this question represents one of the most difficult issues in the budget. Regent Hopkinson pointed out that the priorities presented by Mr. Hershman had made clear that this proposal was not acceptable.

With respect to outreach, Regent Montoya pointed out that federal funds are available under the No Child Left Behind program and suggested that the Office of the President be asked to provide oversight for competition for these funds. She was concerned that outreach would be outsourced to private corporations. Vice President Hershman pointed to the need for core support from the State in order to continue the University's outreach programs.

Regent Lee spoke of the contributions that the University makes to the state's economic well-being and asked that this message be communicated to the Governor and the Legislature. He was concerned that the University would be less able to compete for graduate students if fees were increased by forty percent. He suggested that the University attempt to enroll more out-of-state and foreign students, who pay the full cost of instruction. Vice President Hershman was concerned that further fee increases could result in a decline in out-of-state enrollment.

Regent Connerly agreed that the Board should resist attempts by the State to micro-manage the University. He observed that legislatures across the country are reducing their support for higher education because people are not convinced that they should be paying to educate the middle class. Regent Connerly believed that the University would have to undergo a basic restructuring, and he suggested that there was a need for an outside consultant to assist in addressing this issue, including what policies will be required to deal with the new fiscal realities. As the State of California reevaluates what it can afford to support, the constituent members will need to do the same.

Regent Huerta believed that the University's list of priorities should include a restoration of funding for the Institute for Labor and Employment, noting the lack of knowledge on the part of Americans about issues pertaining to labor.

Regent Davies expressed his support for the priorities outlined by Vice President Hershman, noting that they represent viewpoints which have been expressed by the Regents over the past few years. He believed that the Governor's proposed reduction in the student-faculty ratio and the increase in graduate student fees represented the most painful elements in the budget. Regent Davies believed that, in order for the University to maintain its ongoing, positive relationship with the executive branch, support for the Governor's budget should be emphasized. He agreed that a forty percent increase in graduate student fees coupled with decreased financial aid would undo the academic quality of the institution. Vice President Hershman concurred that the University's ability to work with the administrations of the last three Governors had been key to its success.

Regent Johnson suggested that the University's commitment to outreach was not presented forcefully enough in Priority 8 and asked that the language be strengthened. Mr. Hershman stressed that the University would try to work with the Governor and the Legislature to reach a compromise with respect to funding for outreach. He noted that President Dynes had joined with the heads of other higher education institutions in a letter which expressed their commitment to outreach.

Regent-designate Anderson was interested in specifics pertaining to the excess units fee, particularly in light of the fact that many students enter with college credits earned in high school. Vice President Hershman assured her that the fee would apply only to courses taken at the University. He acknowledged the need to work with the Academic Senate on how this would be implemented.

Regent Seigler asked for a description of the range in the student-faculty ratio in different programs across the University. Vice President Hershman explained that the medical schools are not included in the overall ratio but rather have their own standards according to school and program. Graduate education clearly has a lower ratio than undergraduate education, with lower division being less costly than upper division.

Regent Seigler expressed concern that fee increases would encourage students to enroll in private universities that offer scholarships, resulting in a loss of diversity at the University of California. Mr. Hershman commented that the Governor had proposed a reduction in Cal Grant funding for students at private universities, which would have an impact on their ability to provide financial support.

In response to a comment by Regent Murray, Vice President Hershman confirmed that the administration is working with the campuses to find ways in which to impose the enrollment cap called for by the Governor. Regent Murray hoped that the University would convey the existence of such an enrollment cap to the students whom the University is not able to admit for fall 2004. Mr. Hershman noted that they would be given the option of enrolling in a community college, with guaranteed admission to a UC campus at the time of transfer.

Turning to the issue of the fee increases proposed by the Governor, Regent Murray suggested that the University, when presenting its case in Sacramento, present information on the fact that fee increases represent a tax increase for those families who are affected and ask whether the revenue could be generated by a different type of tax increase.

Faculty Representative Pitts noted that the list of priorities addresses the issues that the Academic Senate believes to be of importance to the University. He supported the need to address these issues in both the short and the long term.

Regent Preuss believed that the list of priorities demonstrated the University's willingness to work with the Governor while spelling out the areas where compromises cannot be made.

In response to a question from Regent Huerta, Vice President Hershman recalled that the suggestion had been made that the University's outreach programs serve as recruitment tools for UC. University officials in their testimony before the Legislature made it clear that programs such as MESA are educational efforts that help students become eligible to attend college.

Regent Lansing believed that the most painful issue related to the budget cuts was the fact that qualified students will not be admitted to the University and asked for assurance that admissions would not drop below the 12.5 percent of qualified California high school graduates, as called for by the Master Plan. Vice President Hershman noted that the University's long-term priority with respect to undergraduate admission was to admit all qualified students, in accordance with the Master Plan. He pointed out the State's commitment to fund that enrollment.

Regent Kozberg referred to the effects of a five-percent cut to research. Faculty Representative Pitts observed that State-funded research is disproportionate in disciplines such as humanities and social sciences that do not have access to outside funding. Mr. Hershman added that research is an investment in the State's future.

Regent Hopkinson asked that the Board's support for Proposition 57 be conveyed to the Governor and the Legislature.

(For speakers' comments, see the minutes of the January 14, 2004 meeting of the Committee of the Whole.)

3. **AMENDMENT OF STANDING ORDER 103.8 - DEATH BENEFIT, TO ADD DOMESTIC PARTNERS**

The President recommended that:

A. Service of notice be waived.

B. The amendment of Standing Order 103.8 - Death Benefit be approved as shown below, effective March 1, 2004.

C. Implementation of the death benefit provisions be delegated to the President.

Deletions shown by strikeout; additions by underlining

STANDING ORDER 103.

SPECIAL PROVISIONS CONCERNING OFFICERS, FACULTY MEMBERS, AND EMPLOYEES OF THE UNIVERSITY

* * *

103.8 Death Benefit.

Upon the death of any Officer, faculty member, or regular employee of the University, or Officer or regular employee of the Corporation, who has been employed a minimum of six months, a sum equal to the salary of the deceased for one month will be paid to the ~~surviving spouse, or if there is no surviving spouse, to the decease's eligible dependent(s), or if there is neither a surviving spouse nor eligible dependent(s),~~ person or persons in the first of the following categories in which there is a survivor: legal spouse or domestic partner; child or children; parent or parents; or siblings. If there is no survivor in any of the foregoing categories, the benefit will be paid to the estate, or if there is no estate, to the individual designated as the beneficiary of the deceased's University-paid life insurance policy. This payment is in addition to any other ~~settlement~~ benefit provided under a pension or retirement plan in effect for the deceased person.

It was recalled that at the May 2002 meeting, the Board approved amendments of the University of California Retirement Plan (UCRP) to provide survivor benefits to same-sex and opposite-sex domestic partners of UCRP members, effective July 1, 2002, and delegated implementation of these provisions to the President. In June 2003, in an action under interim authority, "domestic partner" was approved for inclusion in the definition of beneficiary for the Tax-Deferred 403(b) Plan and the Defined Contribution Plan, effective July 1, 2003. In addition, "domestic partner" is being added to the beneficiary order of succession for life insurance, accidental death and dismemberment insurance, and business travel accident insurance.

Standing Order 103.8 - Death Benefit provides that upon the death of an Officer, faculty member, or regular employee of the University, or Officer or regular employee of the corporation, who has been employed a minimum of six months, the payment of a sum equal to the salary of the deceased for one month will be made to the surviving spouse, or if there is no surviving spouse, to the deceased's eligible dependent(s), or if there is neither a surviving spouse nor eligible dependent(s), to the individual designated as the beneficiary of the deceased's University-paid life insurance policy.

The proposed amendment of Standing Order 103.8 would add same-sex and opposite-sex domestic partner to the beneficiary provision and specify the beneficiary order of succession as the person or persons in the first of the following categories in which there is a survivor: legal spouse or domestic partner; child or children; parent or parents; or siblings. If there is no survivor in any of those categories, the benefit will be paid to the estate, or if there is no estate, to the individual designated as the beneficiary of the deceased's University-paid life insurance policy.

Under the proposed revision, same-sex and opposite-sex domestic partners of Officers, faculty members, or regular employees of the University, or Officers or regular employees of the Corporation would be eligible for the death benefit on the same basis that such benefit is currently provided to spouses. The revision also would align the death benefits beneficiary order of succession with the University's retirement plans and welfare benefits.

Application of this proposed amendment to employees represented by a union is subject to notice, consultation, and/or meeting and conferring as appropriate under the Higher Education Employer-Employee Relations Act.

The revision has the support of the Academic Senate.

In response to a question from Regent Connerly, Associate Vice President Boyette explained that the University was in the process of performing an inventory of all University programs, including tuition, with respect to domestic partners.

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

4. **PROPOSED PLAN AMENDMENTS OF THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN, THE 403(B) PLAN, AND THE DEFINED CONTRIBUTION PLAN CONCERNING BENEFIT ELIGIBILITY AND SERVICE CREDIT BUYBACK FOR VESTING PURPOSES**

The President recommended that:

A. The University of California Retirement Plan (UCRP) be amended, effective January 1, 2004, to make the eligibility requirements for adopted children more closely conform to the eligibility requirements for natural children.

B. The UCRP, the University of California Tax-Deferred 403(b) Plan, and the University of California Defined Contribution Plan be amended, effective January 1, 2004, to include siblings in the definition of Beneficiary.

C. The UCRP be amended to allow non-vested UCRP Members who are separating from service to make a payment to establish or reestablish Service Credit needed to vest.

D. Implementation of the above amendments be delegated to the President.

The Committee was informed that University of California Human Resources & Benefits (UC HR/Benefits) is proposing two plan amendments designed to clarify family member eligibility for benefits and to bring UC plans into conformity with common practice. Additionally, a plan amendment is proposed which would provide a limited UCRP Service Credit buyback option.

<u>Amend UCRP: Adopted Children Eligibility for Benefits</u>

In certain instances, UCRP pays survivor benefits to eligible children of deceased members. The definition of eligible child includes a requirement that the child must be receiving significant support from the member for one year preceding the member's death, disability date, or retirement date. This requirement does not apply if the child is the natural child of the member born following the disability date, or within ten months following the death of an active or disabled member, or less than one year before such member's date of death, disability date, or retirement date.

UCRP does not provide a similar exemption from the one-year support requirement for the adopted child of the member. Establishing eligibility for an adopted child is different than it is for a natural child due to the legal process necessary to complete an adoption. HR/Benefits requires adoption papers for verification; however, according to the Alameda County Adoption Agency, support for an adopted child can begin as early as six months before the adoption becomes final.

The California Public Employees' Retirement System (CalPERS) does not distinguish between an adopted and a natural child with respect to eligibility for, and payment of, survivor benefits. CalPERS considers an adopted child eligible as long as the adoption was complete as of the member's date of death.

It is recommended that the Plan be amended to eliminate the one-year support requirement for an adopted child of a member when such adoption by the member is finalized. This change would make the eligibility requirements for adopted children more closely conform to the eligibility requirements for natural children. Towers Perrin, the Plan's consulting actuary, estimates that amending the benefit eligibility requirements for adopted children as described above would not result in a material cost to UCRP.

Amend UCRP, the 403(b) Plan, and the DC Plan to Add Siblings as Eligible Beneficiary

These proposed amendments would align the University's retirement plans with the other benefits offered by the University by making uniform the line of succession for the disbursement of benefits. The default beneficiary provisions of several other UC benefits include siblings. Under this proposal, if the member or participant does not name a beneficiary, or the beneficiary designation is no longer effective, the person or persons (on a share and share alike basis) in the first of the following categories shall be the beneficiary: legal spouse or domestic partner; child or children; parent or parents; sibling or siblings. There is no cost associated with this proposal.

Amend UCRP to Allow Lump Sum Payment for UCRP Service Credit Buybacks to Vest

Because of the current budget situation, HR/Benefits is concerned that layoffs may affect more members in the near future than under other circumstances. There is particular concern that individuals who may be affected by layoffs related to the current significant budget restrictions be able to complete buybacks necessary for vesting. A vested member is a member with at least five years of retirement service credit. A vested member retains a right to benefits accrued even if employment terminates before retirement.

Eligible UCRP members may elect to establish service credit for a period during which a member was on a leave of absence or to reestablish service credit for periods of prior membership for individuals who terminate, take a refund of accumulations, and become reemployed by UC. Current Plan provisions require that a member elect the buyback option within three years of returning from the leave or returning to UCRP active membership and that they pay for the buyback through pre-tax payroll deductions. It is recommended that non-vested UCRP members who have an eligible leave of absence or a prior refund of accumulations, who are separating from service and who could satisfy the vesting requirement through a service credit buyback, be allowed, on an on-going basis, to initiate and pay for the buyback with a lump sum, after-tax payment.

During the 2002-03 fiscal year, approximately twenty non-vested UCRP members who separated from service were eligible for service credit buybacks that would have allowed them to be vested in UCRP. UC HR/Benefits is confident that this buyback option would not affect many members, and Towers Perrin has estimated that if twenty members per year with average age and pay levels choose to establish or reestablish UCRP service credit at termination in order to become vested, the additional cost to UCRP is estimated to be less than $1 million per year in 2003 dollars. This is a *de minimus* additional cost relative to the total actuarial accrued liability and normal cost of UCRP.

In response to a comment by Regent Hopkinson, Associate Vice President Boyette explained that the proposed amendment to include siblings in the definition of beneficiary applies when a member dies without naming an eligible beneficiary for the three separate retirement plans. She continued that the amendment with respect to non-vested members would allow them to purchase the service credit necessary for vesting.

Senior Vice President Mullinix confirmed that only employees with five years of service would be eligible for this buyback program.

In response to comments by Regent Montoya, Mr. Mullinix emphasized that the proposal was intended to benefit employees who are laid off.

(For speaker's comments, see the minutes of the January 14, 2004 meeting 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. **PROPOSAL TO DELEGATE AUTHORITY TO THE PRESIDENT TO AMEND THE UNIVERSITY OF CALIFORNIA RELOCATION REGULATIONS FOR UNIVERSITY-OWNED PROPERTY AS NECESSARY**

The President recommended that he be delegated authority to update and amend from time to time as necessary the revised University of California Relocation Regulations that were adopted by The Regents in June 1977, such revisions to be undertaken consistent with the California Relocation Assistance Act, as required by Government Code §7267.8.

The Committee was informed that in 1969, the Legislature adopted the California Relocation Assistance Act (Government Code §7260 et seq.). The Act generally requires that public entities provide assistance and financial payments to persons who are displaced as a result of the acquisition of property for a public use. Financial assistance that may be required would include moving expenses, business reestablishment expenses, and temporary rent subsidies. The Act expressly applies to The Regents.

Government Code §7267.8 requires that public entities subject to the Act adopt rules and regulations to implement the Act. Such rules and regulations are required to be consistent with both the Act and with implementing regulations adopted by the State of California Department of Housing and Community Development. Consistent with this statutory mandate, The Regents adopted policies to implement the Act in 1976, and then revised those polices in response to regulatory changes in 1977. The polices have not been revised or updated since and are therefore inconsistent with subsequent statutory and regulatory changes adopted by the State. For example, the maximum amount of the financial benefit to which a claimant may be entitled must be adjusted upward in the University's polices to reflect statutory changes that have been made by the Legislature in response to inflation.

The University engages in limited acquisition activity that is subject to the Act. From time to time, however, the University acquires occupied property that it would like to dedicate to a public use. In such situations, the University is required to, and does, provide relocation assistance as required by the Act. Consistent with the requirement set forth in Government Code §7267.8, the University's policies with regard to implementation of the Act should be updated and revised to reflect the current provisions of the Act and of the Department of Housing and Community Development regulations.

Delegating authority to the President to update and amend the regulations necessary to implement the Act will allow the Office of the President to proceed with necessary revisions to the University of California Relocation Regulations. It will also allow the Office of the President to respond to future revisions to the Act and State regulations without the need to have each conforming policy change approved by The Regents.

Regent Connerly was concerned that the recommendation would empower the President to set University policy.

Regent Hopkinson pointed out that it was difficult to understand the recommendation because the University's current policies are not spelled out. She believed there should be some type of reporting to the Committee on any policy changes that are adopted.

Senior Vice President Mullinix noted that, for the University, the Act primarily applies to property that is acquired by eminent domain, which happens only on rare occasions. The proposal is to bring the University into conformance with the State.

Regent Connerly believed that this authority should remain with The Regents.

Committee Chair Hopkinson moved that the President's recommendation be amended to include the provision that such amendments by the President would be subject to the approval of the Chair of The Regents and the Chair of the Committee on Finance.

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

6. **REPORT OF NEW LITIGATION**

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

The meeting adjourned at 3:45 p.m.

Attest:

Secretary