The Regents of the University of California

COMMITTEE ON FINANCE
November 16, 2005

The Committee on Finance met on the above date at the Clark Kerr Campus, Berkeley campus.

Members present: Regents Blum, Dynes, Gould, Hopkinson, Juline, Núñez, Parsky, and Preuss; Advisory members Ledesma, Schreiner, and Oakley

In attendance: Regents Island, Johnson, Kozberg, Lansing, Lozano, Marcus, Pattiz, Rominger, Rosenthal, Ruiz, and Schilling, Faculty Representative Brunk, Secretary Trivette, General Counsel Holst, Interim Treasurer Berggren, Acting Provost Hume, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gurtner, and Hershman, Chancellors Birgeneau, Bishop, Carnesale, Córdova, Denton, Fox, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 9:30 a.m. with Committee Chair Blum presiding.

1. **APPROVAL OF THE MINUTES OF THE MEETING OF SEPTEMBER 21-22, 2005**

   Upon motion duly made and seconded, the minutes of the meeting of September 21-22, 2005 were approved.

2. **APPROVAL OF UNIVERSITY OF CALIFORNIA 2006-07 BUDGETS FOR CURRENT OPERATIONS AND FOR STATE CAPITAL IMPROVEMENTS AND APPROVAL OF STUDENT FEE INCREASES FOR UNDERGRADUATE, GRADUATE ACADEMIC, PROFESSIONAL, AND NONRESIDENT STUDENTS FOR 2006-07**

   The President recommended that:

   A. The Committee recommend that the expenditure plan included in the document *2006-07 Budget for Current Operations* be approved.

   B. The Committee concur with the recommendation of the Committee on Grounds and Buildings that the *2006-2007 Budget for State Capital Improvements* be approved.

   C. The Committee on Finance recommend to The Regents that student fees be increased for 2006-07 as follows:

      (1) Effective Summer 2006, mandatory systemwide fees (Educational Fee and Registration Fee) be increased as shown in Table 1 (Attachment A).

These increases are consistent with the Compact with the Governor, which provides that undergraduate fees increase by 8 percent and graduate academic student fees increase by 10 percent in 2006-07. Mandatory systemwide fees for professional school students will increase by 5 percent.

An amount equivalent to an average of 33 percent of new revenue generated from the increases in mandatory systemwide fees for undergraduate and graduate academic students will be set aside to mitigate the impact of the fee increases on financially needy students. This average return-to-aid will be comprised of 30 percent of new revenue generated from undergraduate fee increases and 45 percent of new revenue generated from graduate academic student increases. For mandatory systemwide student fee increases for professional school students, a return-to-aid of 33 percent is planned.

(2) Effective Summer 2006, existing Fees for Selected Professional School Students be increased by 5 percent for all professional programs subject to the fee, except that increases in these fees for students in the business and law programs at the Berkeley and Los Angeles campuses and the law program at the Davis campus will be increased by 10 percent.

Table 2 (Attachment B) shows the increases planned for 2006-07 by program. An amount equivalent to 33 percent of new revenue generated from the fee increases will be set aside to mitigate the impact of the fee increases on professional school students.

(3) Effective Summer 2006, the Nonresident Tuition Fee be increased by 5 percent, or $864, for nonresident undergraduate students only, from $17,304 to $18,168. It is recommended that the Nonresident Tuition Fee for graduate academic students and for students paying the Fee for Selected Professional School Students remain at their current annual levels of $14,694 and $12,245, respectively, for 2006-07.

(4) Effective Summer 2006, the Nonresident Tuition Fee be waived for not more than three years for graduate academic students who are advanced to candidacy.

President Dynes read into the record the following change to the second paragraph under C.(1) of his recommendation:

Deletions shown by strike out; additions by underscore

> An amount equivalent to an average of 33 percent of new revenue generated from the increases in mandatory systemwide fees for undergraduate and <u>45 percent of new revenue generated from the increases in mandatory systemwide fees for</u> graduate academic students will be set aside to mitigate the impact of the fee increases on financially needy students. ~~This average return-to-aid will be comprised of 30 percent of new revenue generated from undergraduate fee increases and 45 percent of new revenue generated from graduate academic student increases.~~ For mandatory systemwide student fee increases for professional school students, a return to aid of 33 percent is planned.
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> [The *2006-07 Budget for Current Operations* and the *2006-07 Budget for State Capital Improvements* were mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

Proposed 2006-07 Expenditure Plan for Current Operations

It was recalled that the *2006-07 Budget for Current Operations* provides the basis for the recommendation that the 2006-07 expenditure plan be approved. A series of presentations related to the proposed budget for 2006-07 has been provided.

Acting Provost Hume discussed academic program priorities as they relate to the budget. He recalled that the Board had endorsed a statement of priorities that guided the work for the 2004-05 budget. President Dynes and the senior leadership have initiated efforts to make sure that the budget is planned strategically not just for next year but for the University's next 25 years. Academic planning never stops at the University, but it benefits from being focused and strategic. Steps have been taken to ensure that UC is positioned to take advantage of future opportunities to advance its mission. The specific planning elements systemwide are the Long Range Guidance Team, the Task Force on Planning for Doctoral and Professional Education, and the Health Sciences Strategic Planning Group working towards an academic strategic plan for the health sciences. These activities are in addition to all of UC's existing academic program, department, faculty, campus, and Academic Senate mechanisms for developing and guiding future academic decisions. All elements will be brought together into a comprehensive and comprehensible plan for the University as a whole.

Acting Provost Hume noted that there are areas in which the University continues to excel and areas in which it is nearing a tipping point. At the undergraduate level, the Master Plan promise of access for all eligible students is being met. Any high school graduate or community college transfer student who makes himself eligible and applies on time is offered a place. A key element of access is financial aid; the University has the highest proportion of low-income students in the nation when compared with other public and private research universities. As fees have increased in response to reductions in State support, UC's financial aid system has remained the best in the nation. UC undergraduates are engaged and satisfied with their undergraduate experience. Eighty-seven percent of all undergraduates report that they are satisfied or very satisfied with their overall UC experience, and 85 percent are satisfied or very satisfied with their academic experience. A large percentage of UC students participate in research experience alongside faculty and graduate students. Once a student matriculates at UC, the odds are very great that he will finish. Overall, 80 percent of incoming freshmen graduate within six years, and the gaps among different demographic groups are narrowing.

Mr. Hume turned to the University's faculty, graduate education, and research mission, reporting that graduate student enrollments had increased by 6,000 students in the last five years. UC succeeds in getting 89 percent of its first-choice faculty hires, up from 84 percent five years ago, but there is a cost. The University can offer competitive salaries and research startup funding only by cutting costs in other areas. UC research funding has topped $3 billion per annum due to the excellence of its faculty and their ability to compete for merit-based, peer-reviewed, federal research funding. The University continues to fuel California's innovation and economic development, creating new jobs and the highly skilled workforce to fill them. One in three United States biotech firms is within 35 miles of a UC campus, and one in three of California's biotech firms was founded by UC scientists. In communications, one in six California firms is founded by UC scientists, and 57 percent have UC alumni in executive positions.

Quality can be eroded, however, through ongoing resource reductions. Mr. Hume reported that the student-faculty ratio is too large and is growing. Despite investments in new instructional technologies, this makes it harder for UC students to learn. Faculty salaries are not staying competitive. Competitiveness for the best faculty, staff, and students is key to success. Despite the statistic about first-choice new hires, overall the faculty salaries are below market, and the University is losing excellent faculty to other universities, as it is difficult and expensive to compete with other institutions. Research by UC scholars benefits the State economy and the University's teaching programs, but those funds are unlikely to grow given the State and federal budget situations. The University's capital needs are enormous. It has decaying buildings and in many cases needs new state-of-the-art facilities for academic programs. There is concern regarding graduate education; lagging graduate student support and high nonresident tuition are affecting the University's ability to attract the best students.

Mr. Hume elaborated on the graduate student situation, reporting that the University is well behind its comparison institutions, not just the average of them, but every one of them, public or private, in its proportion of graduate students. The latest data show that the proportion of graduate students among the great private institutions has increased from 59 percent to 61 percent, while the University has remained at 23 percent. Of those, 17 percent are academic or professional, and 6 percent are in the health sciences. Graduate students create new industries and jobs, and they lead the state in the arts, government, and health care in all parts of society. Five out of six of the University's undergraduates wish to continue beyond the bachelor's degree, but California will lose many of these students to other states and countries if UC cannot provide more opportunities. There has been no growth in the number of health sciences professionals for decades, despite a doubling of the population, an aging population, and medical advances that require more, rather than fewer, individuals to lead in these fields. As the Regents' Commission on the Growth and Support of Graduate Education report in 2001 said, the University's graduate student support levels are behind the competition by over $2,000 in the net value of stipends offered to doctoral students. In addition, the University is losing some of the brightest from other states and countries. Between fall 2003 and fall 2004, both international student admissions and enrollments declined 16 percent, due partially to visa and security issues, although high non-resident tuition and lack of adequate graduate student support are major contributors.

Mr. Hume reported that there are initiatives in the budget to help address these matters. One is to provide more graduate student support through resources saved by other efficiencies. Another is to lessen the burden on nonresident tuition for graduate students. Measured adjustments to professional differential fees are proposed, consistent with Regental policy.

Acting Provost Hume reiterated that UC has remained the greatest university system in the world only through collective sacrifice and hard work. It has continued to grow its own talent while being an intellectual and entrepreneurial magnet to the best minds in other states and nations. Efficiencies have been created and private support has been increased. UC has managed to compete successfully for an increasing amount of federal funding awarded on merit. Auxiliary enterprises have been managed well to help the overall missions of the institution. He believed that the University was at a critical point in its history. In the past, when California has recovered from a recession, UC has done very well. There is no guarantee that will happen again. A case must be made to the State, its citizens, and elected officials that research universities are important net generators of revenue. The University brings in much more money to the State than it receives from the State. If the trends described are not reversed, the institution will be diminished, which will hurt its ability to serve California. It is a complex network of interactions; undergraduate teaching, graduate and professional instruction, faculty research, and a vast research infrastructure are all crucial to the University's mission of working for the economic, social, and cultural betterment of all Californians. The diminution of any aspect of the University's mission or core functions affects all the other parts. In the meantime, a budget is needed for the upcoming year. The Governor's Compact provides the stability to prevent further erosion. It is crucial that no more ground is lost. Adequate sources to perform its functions are critical to the University's ability to meet the high standards of quality that Californians have come to expect from their university. Quality must be protected if the University is to continue as an engine of economic growth for the state and the nation.

Senior Vice President Mullinix reported that to achieve the University's strategic goals, all opportunities must be identified to reduce costs and streamline the delivery of the business services that support core teaching, research, and service programs. He discussed some of the initiatives of the past few years. He noted that efficiency must begin on the campuses, which have launched initiatives to reduce operating costs and streamline administrative processes. He recalled that in May, Vice Chancellor Vani had described how the Santa Cruz campus has reduced costs by rethinking how business services are delivered. In July, Vice Chancellor Brase described how UC Irvine has added significant administrative workload and increased the quality of its services over the last 14 years while maintaining the same staffing levels, for an overall increase in productivity of 81 percent. At the January meeting, Vice Chancellor Morabito will present a report regarding savings at the UCLA campus. In addition to short- and long-term declines in State support, several factors contribute to the challenge of reducing the costs of the University's business operations. The first is growth. While increasing enrollment has fueled much of the institution's growth, rising research funding and increased patient workload at UC hospitals have also contributed, with an impact on business operations. The University is also doing business in an increasingly complex business environment. One measure of this complexity is a growing regulatory burden. A UCI benchmarking study documented over a 14-year period a 96 percent increase in the number of regulations in four service areas: accounting, environmental health and safety, procurement, and human resources. The University faces growing demand for new and better services. Much of that demand is driven by evolving technologies. The University must provide an array of technical services that it did not provide even ten years ago, such as high-speed connections for every bed in its residence halls, that require support from Information Technology and functional areas. The challenge is to balance aggressive efforts to reduce costs and increase efficiency with the need to be responsive to the evolving expectations of students, faculty, staff, and others to whom the University provides services.

Mr. Mullinix mentioned several systemwide efforts to reduce costs. He reported that in the last two years, the University has refinanced $1.6 billion of bonds, generating over $65 million in present value savings over 30 years. The University has also taken advantage of historical low interest rates to issue new bonds for construction to be undertaken in the next two years to avoid future debt service costs. It has modernized its financing structure for instructional resource, auxiliary, and medical center projects to reduce financing costs and enhance long-term operating flexibility. It has revamped accounting systems used by the endowment and investment accounting group as well as by other Office of the President administrative units, including general accounting, human resources and benefit financial services, loan programs, and Treasurer's Office operations. In July 2005, the University moved the account of record-keeping services of the retirement savings program to a vendor. The master record keeper project has allowed expansion and has improved tools and services provided to faculty, students, staff, and retirees to help them take advantage of retirement programs and additional deferred tax benefits. These services have been added without adding costs and while avoiding investment in new technology. By renegotiating IT licensing and contracts, $25 million has been saved. The University's portfolio of risk management services has been examined and a two-year goal set of reducing the University's overall cost of controlling risk by 15 percent, for an estimated savings of $85 million, while improving coverage and enhancing service performance throughout the portfolio. To meet this demand, a number of initiatives have been implemented, ranging from improvements in the Workers Compensation program, which accounts for over 50 percent of the University's risk costs, to an accelerated claims closure project and training of occupational and health physicians.

Mr. Mullinix recalled plans to implement the recommendations of the Committee on Grounds and Buildings to streamline project delivery and reduce construction costs. The Regents approved UC's Green Building Design and Clean Energy Standards policy in 2003. Energy-efficient designs of new buildings and retrofitting and recommissioning existing buildings generate savings in avoided energy cost and reduce operating costs. UC benefits as well from the significant utility incentive program that helps subsidize these projects. Green building design and energy efficiency coupled with a recent transportation initiative advance UC's sustainability goals and reduce long-term energy and operating costs. He emphasized, however, that recent increases in the University's purchased utilities costs dwarf the savings that have been generated from these energy efficiency initiatives, and the efficiency savings do not address the substantial and long-term underfunding of the basic maintenance and systemic renewal of facilities. With nearly two-thirds of its State-supported space constructed before 1970, most mechanical and other building systems in these facilities are nearing or have reached the end of their useful lives.

Mr. Mullinix reported that strategic sourcing efforts are continuing to expand. Six contracts have been completed, with total annual savings estimated at nearly $14 million, and a consultant has been engaged to support and accelerate this initiative. The key to saving in strategic sourcing is to purchase off the contracts. By the end of September, three campuses and the Office of the President had achieved a compliance rate of over 80 percent for the Office Max contract; an additional four campuses were at the 60 percent to 80 percent range, and two others were drawing up plans to introduce new technology that would accelerate their compliance levels. University efforts to emphasize multi-campus collaboration and use of new technology to facilitate and expand the sharing of materials within the libraries exemplify how working smarter can pay off, in this instance by leveraging systemwide resources to gain efficiencies in the delivery of important services to the academic community. In the spring, there will be a presentation on the University's libraries that will provide more detail.

Mr. Mullinix noted that the University is facing an increasing number of unfunded statutory mandates. His office and those of Senior Vice President Darling and Assistant Vice President Arditti are working to move to a more pro active role in legislative advocacy to advance increased efficiency and cost effectiveness in the University's business and financial operations. Because of successful sponsorship of SB 439 this year, current law will be clarified to ensure that the University may continue to participate in profitable investment partnerships and the public is adequately informed regarding these investments. Over the past year, UC has worked to ensure that teaching hospitals are protected in the shift to a new Medicaid waiver which allows hospitals to draw federal funds to pay for the care of the poor and uninsured. The result is an opportunity to secure annual baseline federal funding under a new Medi-Cal waiver for the next five years, as well as additional stabilized funding. The University is sponsoring legislation to amend the University's competitive bidding requirements to provide greater flexibility in carrying out construction work and generate additional savings. The University will target opportunities in the future for legislative and regulatory change.

Mr. Mullinix concluded his remarks by stating that the University continues to identify and exploit opportunities for reducing the overall cost of doing business even as it accommodates institutional growth, navigates an increasingly complex business environment, and seeks to satisfy the demand for more and higher quality services.

Senior Vice President Darling underscored the point that the University's academic quality, institutional competitiveness, student access, and student affordability are dependent upon an integrated budget that relies on all of these revenue sources to achieve the Regents' objectives. He reported that, although the University has made a concerted effort to increase philanthropic giving, there is more to be done. In the past ten years the University's level of annual gift funding has increased from raising less than \$500 million to \$1.2 billion. The next goal is to increase the amount to \$2 billion per year. He indicated that at the January meeting he and a private consultant would discuss how the University has performed relative to other universities and lay out the steps needed to reach future goals. One of the highest priorities has been to increase private giving for student financial support, which has increased from just under \$40 million to almost \$120 million in the same time period. The rate of growth for private giving for student financial support has increased by over 200 percent, which is a much faster rate than for private giving as a whole.

Mr. Darling noted that a key element for any university is having a strong base of financial endowment support. The additions to endowment for the past year were almost \$200 million, compared with under \$75 million a decade previously. Slightly under 12 percent of the University's funding for core expenditures comes from philanthropy, which compares favorably to Yale and M.I.T. but less favorably to the University of Virginia, Harvard, and Stanford.

Mr. Darling noted that the University's federal support has increased at a very positive rate in the past several decades. Last year, UC received \$8 billion in federal funding. Half of that was for the national laboratories, \$2.6 billion was for research, \$1.4 billion for Medicare and Medicaid to support the teaching hospitals, and about \$250 million for student financial aid. Another \$700 million was provided directly to students in the form of loans. The outlook for federal funding is bleak, however, in the years ahead. Federal spending priorities are affected by the growing deficit. The Office of Management and Budget's projections for federal non-mandatory spending over the next five years show that defense and homeland security spending will increase by \$100 billion, whereas funding for non-defense domestic spending will remain flat. This budget does not include any funding for the military actions in Afghanistan or Iraq or the recovery efforts following recent hurricanes. Congress is attempting to reduce non-defense funding further. There may be a 1 percent to 2 percent across-the-board cut in non-defense discretionary spending to accommodate the other expenditures, which would affect research and education funding. At the same time, there is a plan to cut federal taxes by $70 billion over the next five years, which will have a further negative impact. Federal funding for non-defense research for National Institutes of Health and non-NIH funding have been declining slightly for four years. In addition, there are proposed cuts in mandatory spending of between $40 billion and $54 billion, which would affect teaching hospitals and student loans.

Mr. Darling noted that there were some bright spots. Funding for the National Ignition Facility at Lawrence Livermore National Laboratory will be only slightly less than the President's recommendation. In addition, the President's request for the National Science Foundation was increased.

Vice President Hershman then made a detailed presentation on the proposed 2006-07 budget.

It was noted that while State funding provides essential core support, the University's overall operating budget is funded from a variety of sources, including State General Funds, revenue from student fees, UC General Funds, federal funds, teaching hospital revenue, gifts and endowments, and income from self-supporting enterprises. The University's annual budget plan is based on the best estimates of funding available from each of these sources. Major changes projected for general support of the University's budget are discussed in detail in the budget document.

The Regents are being asked to approve the 2006-07 expenditure plan for core operations, which was developed based on the Compact with the Governor and includes the following:

- An average 4 percent compensation package including continuation costs for salaries and health benefits that were provided in the previous year but effective for only part of the year, merit salary increases for eligible employees, a cost-of-living adjustment effective October 1, equity increases, and health benefit cost increases. This funding is sufficient only to prevent further erosion in overall compensation, as faculty salaries currently lag the average of comparison institutions by 10 percent, and there is a similar lag with respect to staff salaries.

- Funding for enrollment growth of 5,000 students to both honor the University's commitment under the Master Plan and provide for growth of 1,000 graduate students. This level of growth is consistent with the University's enrollment plan. The funding level provided for enrollment growth is based on an agreed-upon marginal cost calculation. That calculation is in the process of being renegotiated with the Department of Finance and the Legislative Analyst's Office and should be resolved in the next few months. The budget plan for 2006-07 is based on the University's estimate of the renegotiated level of $9,500.

- A second increment in a multi-year plan to help restore the student-faculty ratio. A first increment of funding was provided in the 2005-06 budget to restore funding that has been cut from instructional budgets during the recent state budget crisis.

- Funding for several financial aid initiatives including, among others, an average return-to-aid of 33 percent (30 percent for undergraduates and 45 percent for graduate academic students). The undergraduate portion includes one-time grant assistance for needy middle-income students to help cover student fee increases. Other initiatives include redirection of internal resources (State funds, student fees, and UC General Funds) saved through the strategic sourcing initiative to be used to enhance graduate student support packages and waiver of nonresident tuition for students who are advanced to candidacy.

- Funding to make permanent the $17.3 million support provided from the State for student academic preparation programs, which when combined with the University's $12 million in funds for these programs would result in a total of $29.3 million for the programs. State funds provided for this purpose in the current year are one-time funds. The University is seeking stability in funding for these programs at the current level.

- Funding to provide the final increment for the initial infrastructure associated with the University's math and science initiative. State funding will be matched by University funds. Eight campuses are launching their programs this year; the ninth will launch in 2006-07. The goal is to help address the critical state shortage of math and science teachers by graduating 1,000 highly qualified students with degrees in science and mathematics who have also completed preparation for a teaching credential.

- Funding to restore support for labor research. State funds for this purpose were eliminated from the University's 2005-06 budget. To address concerns of the Governor's office and others, the University is reconfiguring the program to limit State support to research only. Campus activities related to labor issues that are not research are to be funded from other sources.

The 2006-07 expenditure plan would be funded consistent with the Compact. The budget is based on the following assumptions about State General Funds, student fee revenue, and UC General Fund income:

- State funds will be provided consistent with the Compact with Governor Schwarzenegger, which calls for a 3 percent base budget adjustment to help fund the general salary program as well as benefit and other cost increases. State funds will also be provided for enrollment growth. The Compact estimates enrollment will increase by 2.5 percent, or about 5,000 students per year.

- Student fees will increase consistent with the Compact, which calls for an 8 percent increase in fees for undergraduate students and a 10 percent increase for graduate academic students. Professional school fees will increase by 5 percent for most professional school students. Students in the business and law programs at the Berkeley and Los Angeles campuses and the law school at the Davis campus would pay higher professional school fees as outlined below. Fee increases and related financial aid proposals are discussed in more detail below.

- The UC General Fund income estimate reflects a 5 percent increase in nonresident tuition for undergraduate students and a decline in revenue related to an exemption from nonresident tuition for students who are advanced to candidacy.

Proposed Student Fee Increases

The *2006-07 Budget for Current Operations* includes a full discussion of the proposed student fee increases in the chapter titled "Student Fees," and a full discussion of student financial support is found in the chapter titled "Student Financial Aid." Proposed student fee increases and return-to-aid levels for 2006-07 are summarized below.

Fees for Undergraduate and Graduate Academic Students. Consistent with the Compact with the Governor, the proposed 2006-07 budget plan includes increases in mandatory systemwide fees of 8 percent for undergraduate students and 10 percent for graduate students. The University's average total fees (including mandatory systemwide student fees and campus-based miscellaneous fees) for resident undergraduate students as proposed for 2006-07 will be approximately $900 less than the average fees charged at the University's four public comparison institutions; fees for resident graduate academic students will be about $1,700 below the average.

Financial Aid for Undergraduate and Graduate Academic Students. For 2006-07, the University is proposing a plan for student support for undergraduate and graduate academic students that addresses the University's most pressing student support needs within the context of the full range of UC budgetary priorities. Under the plan, the University proposes to dedicate an amount equivalent to 33 percent of all new systemwide fee revenue to student financial aid in 2006-07. The University also plans to provide additional graduate student support funding using savings from General Fund-supported and student fee-supported programs produced by UC's Strategic Sourcing Initiative. These proposals, in conjunction with other measures described below, will allow the University significantly to augment student financial aid for undergraduate students and graduate academic students over 2005-06 levels.

At the undergraduate level, the proposal is to provide the equivalent of 30 percent of new revenue generated by the undergraduate fee increase to mitigate the impact of student fee increases for financially needy students. Together with Cal Grant award increases, enough additional funding will be provided to cover fully the systemwide fee increases of UC's grant eligible undergraduates along with some coverage of other cost increases.

The University also proposes to use a portion of new undergraduate fee revenue to mitigate the impact of proposed 2006-07 systemwide fee increases on financially needy middle-income undergraduates who would not otherwise be eligible for fee-paying grant assistance. This one-year program would cover half of the proposed 2006-07 fee increase (providing a grant of about $250) to undergraduates with financial need from families with income below $100,000. While there is no evidence at this point to suggest that middle-income students are finding recent fee increases a barrier to attendance (i.e., enrollment of these students has not declined), the deep concerns expressed by middle-income students and their parents that the burden of recent fee increases has been significant have led to a growing concern about the debt burdens these students are incurring and the *potential* loss of these students. This program is similar to the program adopted by the University for the 2003-04 academic year. The University will develop a longer term strategy for ensuring that access for middle-income students is preserved in subsequent years.

Together, the University's initiatives represent an increase of $31.1 million in funding for the University's undergraduate student aid programs, equivalent to 30 percent of new undergraduate student fee revenue.

At the graduate level, the University proposes to mitigate the impact of the proposed 2006-07 systemwide fee increases on graduate academic degree students with a return-to-aid from new fee revenue generated by these students of 50 percent; however, the University proposes to continue its five-year plan to restore the $5.4 million in undergraduate fee revenue temporarily budgeted for graduate student support in 2003-04, which will result in a net return-to-aid for graduate academic students of 45 percent. The return-to-aid would provide additional support for UC graduate academic degree students who receive fee remissions associated with their teaching or UC-funded research assistantships or who rely on UC fellowships to cover their fees.

The University also proposes to provide additional funds to graduate student support derived from savings from General Fund-supported and student fee-supported programs produced by UC's Strategic Sourcing Initiative. Strategic sourcing is a disciplined process intended to leverage the University's enormous buying power in the marketplace, increase purchasing efficiency in the organization, and lower the cost of goods and services in a large array of categories. The proposal to use savings achieved from General Fund and fee revenue for an initiative to increase graduate student support will begin to address the competitive disadvantage in UC's student support offers to graduate academic doctoral students, which was exacerbated by recent fee increases. It is anticipated that such savings could generate $10 million for graduate student support in 2006-07, growing to $40 million per year over time. Savings achieved in other fund sources will be needed to cover cost increases anticipated for programs funded by these sources.

Fees and Financial Aid for Professional School Students. Since the initial implementation of professional school fees, professional schools have been largely supported by a combination of sources including State General Funds, Educational Fee revenue, and professional school fee revenue, among other sources. The last four years of sustained budget cuts have resulted in a dramatic reduction in State support for the University's professional schools, and the ability of the professional schools to maintain the quality of their academic programs and to be competitive with other professional schools of comparable quality has been significantly affected. Because fee increases have been used to offset budget cuts and have generated little or no additional revenue for the schools, they have fallen further behind in their ability to offer competitive salaries to their faculty and staff. The financial circumstances of the schools are severely strained and will require a sustained program of fee increases over time.

It is within this context that the Regents have requested a longer-term plan for future increases in professional school fees. This is consistent with the provisions in the Compact which call for the University to develop long-term plans for increasing fees for selected professional school students. The Office of the President and the campuses have engaged in a series of discussions and analytical activities as part of the planning for increases in fees for professional schools over the next several years; however, a multi-year plan for fee increases for professional school students is not being presented at this time. Instead, fee increases for professional school students proposed for 2006-07 are presented for approval as part of the University's expenditure plan for 2006-07. Longer-term planning issues related to professional school fee increases for 2007-08 and 2008-09 are presented separately to The Regents for discussion at the November meeting.

For 2006-07, the *Educational Fee* charged to professional school students is proposed to increase by 5 percent. For the portion of the professional schools' budgets that are funded from the Educational Fee, the revenue generated from the Educational Fee increases would be used to cover salary increases and non-salary price increases, provide additional financial aid, and make modest program improvements.

In addition, for 2006-07 professional school students will pay a $1,050 temporary increase in the Educational Fee previously approved by The Regents to cover lost revenue associated with a lawsuit currently before the courts brought by professional school students who are seeking relief from recent fee increases. The court has issued a preliminary injunction preventing the University from charging professional school fee increases in 2004-05 and 2005-06 to the specified class of students. This lawsuit is discussed in more detail in the *Student Fees* chapter of the budget document.

For *professional school fees,* increases of 5 percent for most professional degree programs are proposed in the 2006-07 budget plan. For that portion of the schools' budgets that are funded from professional school fees, the revenue generated from professional school fee increases would be used to cover salary increases and non-salary price increases, provide additional financial aid including funding to develop new loan assistance programs or expand existing ones, thus helping the schools to stop further erosion to the academic program.

Because of disproportionate cuts in State General Funds to law and business programs in the last few years, the schools of law and business at Berkeley and UCLA and the law school on the Davis campus are finding it particularly difficult to remain competitive with their peer institutions without additional resources. Disproportionate cuts to these programs occurred as part of the negotiations on the 2004-05 budget. The Governor's

Budget presented in January 2004 assumed the University would develop a plan for achieving $42.2 million in new revenue from increases in professional school fees to be used to offset base budget cuts that otherwise would have been targeted at instructional programs; however, the University was asked to limit fee increases for students in health sciences programs. This meant the same amount of savings had to be achieved from fewer programs. As a result, State-funded budgets for law and business were disproportionately cut in 2004-05.

As noted previously, the University's professional schools are in danger of losing prominence among their peers. The disproportionate cuts taken in law and business have resulted in a number of deficiencies that must be addressed. For example, Berkeley's goal is to return the law school to its former ranking among the top five schools in the nation. To reach that goal, the school needs to address the following: the rising student-faculty ratio that has lead to increased class sizes; faculty salaries that are well below the average of peer public and private institutions; student services programs that have not kept pace with student needs; and financial aid programs that can ensure public interest options are available to students. If the law school is to reach its goal, additional funding beyond the minimum increases in professional school fees is needed. A similar situation exists at the UCLA and Davis law schools, and at the business schools at Berkeley and UCLA.

While the 5 percent fee increase proposed for other professional school programs in 2006-07 would provide funding for cost increases and some additional financial aid, it would not be sufficient to address the effects of the budget cuts applied disproportionately to these programs; therefore, the Regents are being asked to approve professional school fee increases of 10 percent for 2006-07 for the law and business schools at Berkeley and UCLA and for the law school at the Davis campus. It will be important to evaluate closely the impact of these higher increases on enrollments and the schools' ability to be competitive with their peer institutions.

An amount equivalent to a 33 percent return-to-aid from new fee revenue is proposed for both the Educational Fee and professional school fee increases in 2006-07.

Nonresident Tuition Increase

An increase in nonresident tuition of 5 percent, or $864, for undergraduate students is also proposed for 2006-07. Total fees and tuition charged to nonresident undergraduate students at the University are estimated to be about $2,913 above the projected tuition and fees at the public higher education institutions that are used by the University for faculty salary comparison purposes. Revenue from nonresident tuition is an important component in the sources supporting the University's budget, and as costs increase, so must the revenue sources supporting the budget. The inadequacy of graduate student support is a serious issue for the University, however; therefore, nonresident tuition for graduate students will not be increased in order to avoid exacerbating an already difficult problem. Similarly, it is proposed that there be no increase in nonresident tuition for professional school students.

Waiver of Nonresident Tuition for Graduate Academic Students who are Advanced to Candidacy

To encourage international students in doctoral programs to make timely progress towards their degree, the University proposes to eliminate the nonresident tuition charged to graduate academic doctoral students who have advanced to candidacy. A doctoral student has advanced to candidacy when he or she has completed all required coursework, but must still complete the dissertation for award of the degree. These students are charged 25 percent of the graduate nonresident tuition level for a maximum of three years. Eliminating nonresident tuition will provide a further incentive for these students to reach the advanced to candidacy stage. A three-year limit on the exemption will encourage them to complete their dissertation work promptly. The proposal will reduce nonresident tuition revenue by an estimated $8.8 million in 2006-07; however, it will also reduce the burden on research grants and other fund sources that are often used to fund this cost as part of a student's financial support package.

Proposed 2006-07 State-Funded Capital Outlay Program

The State-funded program is based on the Compact with the Governor, which specifies the Governor's support for $345 million annually for UC State capital outlay projects, to be funded through either general obligation bonds or State lease revenue bonds. The Governor has not yet indicated which fund source he will support for 2006-07. A decision about a GO bond measure needs to be made by summer of 2006 to qualify for the November 2006 ballot. The State capital budget document includes the projects and budget proposed for approval in 2006-07, along with future State funding plans by campus for the next four years, 2007-08 through 2010-11.

Vice President Hershman indicated that he would provide an update at the January meeting, following the release of the Governor's Budget, and would provide further updates and a final budget proposal at the July meeting.

Regent Núñez applauded the University for embracing aspects of the budget, particularly relating to salaries, financial aid, and student-faculty ratios. He commented that the Legislative Analyst had recently disclosed five-year budget projections, which could provide context for the University's budget. He reported that for Budget Year 2004-05, $1 billion was generated in revenues that were unexpected and not accounted for in the previous year's budget. The Analyst believes these funds will be ongoing. For Budget Year 2005-06, State revenues are projected to increase by $2.8 billion; the same holds true for Budget Year 2006-07. Despite this fact, the State's budget gap will be about $4 billion in 2007-08, but by 2010-11, the structural budget gap in California will have been closed. He believed that when the Compact with the Governor was negotiated, that outcome was not anticipated. In last year's budget, revenues over and above the Compact were generated for UC. He was hopeful that the same thing will happen with this year's budget and that the Legislature will provide an opportunity for trying to keep the 8 percent increase in student fees from being implemented this year, because California has been able to balance the last several budgets. He suggested waiting until the Governor's budget has been released in January before approving the portion of the University's budget that calls for the 8 percent increase, particularly in light of recent accusations concerning senior leadership compensation levels, and working in the interim to secure more funding for the University.

Chairman Parsky commented that, while he appreciated Regent Núñez's offer to spearhead this approach, he would need assurances that the extra funds would be made available to the University. He recalled that the Regents had indicated in the past that they would be amenable to rescinding any fee increases that were put into place if the leadership in Sacramento decide to provide the funding to make that possible. In the absence of such assurances, the University must plan for the future based on the funds that have been offered. He noted that it may not possible for Regent Núñez to find the support in Sacramento necessary to effect the changes he seeks.

President Dynes agreed with Chairman Parsky, noting that parents need enough time to plan for fee increases. If between March and June the Governor and Legislature deliver enough funds to prevent the imposition of the fees, it will act as a bonus to those families who have planned to cover them.

Committee Chair Blum expressed the hope that Regent Núñez's quest for additional funds would be successful, but he agreed with Chairman Parsky and President Dynes that planning must proceed based on the funding available at present.

Regent Núñez commented that his goal would be more difficult to reach if the University went ahead with its current budget proposal.

Regent Hopkinson believed the Regents had little choice. It is not likely that any favorable decision could be made by the Legislature as early as January, and students would be left without sufficient notice to plan should the fee increase have to stand. She commented about parts of Vice President Hershman's presentation, noting that his statistics regarding the General Fund did not assume any increase in the student population at UC. She emphasized that there would be a shortfall in State funding per student. She commented that the reported student-faculty ratio of 17.6:1 was theoretical and that the number varies by campus; the Regents' goal had been 16.8:1. In order to understand why those increases are higher than for many other programs, she asked how the 4 percent increase for University Extension and the 5 percent increase for auxiliary enterprises were fixed. Vice President Hershman responded that on a per student basis, adjusted for inflation, including State General Funds, UC General Funds, and student fees, the funding gap totals about $2,500 a student. The University's educational program is underfunded by $500 million. Using the assumption that the State had funded a normal workload budget for the last four years and had not cut the budget with respect to student fees, the gap would be about $1.5 billion. Concerning the student-faculty ratio, the University has tried to hold to what is budgeted at 18.7:1; the State cut the budget by $70 million, and it is costing more to hire new faculty. The average ratio is about 19.7:1, and at the growth campuses it is over 22.1:1. Concerning University Extension, the budget increase was set to cover salary increases and a growth in student housing.

Regent Lansing noted that the decision the Regents make concerning the budget addresses the University's partnership with the Legislature. She believed that it was not inevitable that fees must be raised. She expressed faith in the Governor and Legislature to work to prevent fee raises and to so inform the Regents in January. If the Regents approve the proposed fee increase, there will be no incentive for the Legislature to find additional funds. She suggested setting aside approval of the student fee increase but indicating that if no further funds were made available in January, the fee increase would proceed.

Regent Pattiz believed that Regent Lansing's approach was reasonable. He acknowledged the student organizations for the work they had done concerning returning to a 33 percent return-to-aid and also those Regents who had supported the effort.

Vice President Hershman commented on the mechanics of voting on a budget without including the student fee increase. He recalled that several times in the past the Regents had reduced fees after having approved a budget. The complication is that the students have sued the University for not providing adequate notice and have prevailed. President Dynes did not believe it could be possible to obtain a definitive answer by January. Regent Núñez responded that the University did not have a definitive answer currently. The Compact negotiated with the Governor without the intervention of the Legislature called for an 8 percent increase in student fees for this year. He pointed out that the budget process in Sacramento does not involve only the Governor's Office. The Governor had made it clear that he wished to work with the Legislature on the budget in a cooperative fashion. Regent Núñez believed that the fee increases over the last four years have been sufficient and new increases should stop. He thought it logical to wait until the Governor's January budget to try to negotiate a better deal for the University than what is called for in the Compact.

President Dynes called upon University of California Student Association President Anu Joshi to present her comments. Ms. Joshi reported that students have become more concerned with paying for fees, textbooks, and rent than becoming involved in their campus communities. She noted that two out of three students work 11 or more hours a week and one in four works more than 20 hours. The hours of work and the salary level the University's model anticipates may be impossible for many to meet. The work burden prevents students from taking positions that would provide experience that is important for enhancing post-graduate opportunities. She noted that UC students must take out an average $22,855 in loans over four years. Middle income California families are finding themselves unable to contribute the expected amount to their children's education. She recalled that in the past the Regents had made a commitment to accessibility and quality by establishing institutional support for 33 percent return to aid in order to provide for low to middle income students over the life of every particular fee increase. UCSA maintains that to preserve affordability for all students, the University must return 33 percent of revenue from new student fees to financial aid; further, these funds should be used to augment the University's traditional needs-based grant programs. Revenue to fund any new program such as middle income grants should be considered additional and should not count towards the 33 percent; rather, increases to undergraduate student aid funds should be distributed among students with incomes supported by the education finance model. UCSA also supports a return to aid of 50 percent rather than 45 percent of all new revenues that result from the introduction of new fees for graduate students, and 33 percent for those in professional schools.

Senior Vice President Darling reiterated an earlier point that the University's academic quality, its institutional competitiveness with other leading public and private universities, student access, and student affordability are all closely linked with the University's financial health, which begins with the passage of a budget that incorporates every one of the revenue sources that Vice President Hershman discussed: State funding, federal funding, private funding, hospital revenues, and student fees, along with greater administrative efficiencies. He recalled that students and elected officials had raised legitimate concerns about the rising cost of a University education. Referring to the question of student affordability and whether it affects access, he reported that in 2003-04, just over half of graduating UC students had some debt; 49 percent had zero debt, a measurement which placed the University in the middle of its comparison institutions. On average, the debt was $14,000, which was lower than three of the four public comparison institutions. Thirty percent of students with family incomes of $40,000 or less graduate with no debt. For the same family income level, only 4 percent of the students graduate with debt greater than is manageable according to credit industry standards. Students who wish to reduce debt or not take it on have the option of working during the school year. Many students at every family income level choose not to work. At the lowest family income level, 38 percent of students do not work. About 15 percent of students work more than the recommended hours. The University enrolls a higher percentage of students from low income families than do other public and private universities, and the percentage has increased by 4 percent in the last four years even as fees were increasing. That is possible because of the University's return to aid, which goes disproportionately to low income families. For low income families there will be no increase in student fees because of financial aid. The total cost of education is higher than three of the four public comparison universities, but its financial aid programs reduce the $19,400 fee paid by low income families to $11,008. As a result, the net cost to needy families is $400 below the average of the four public comparison institutions. While fees and the total cost of education have been increasing rapidly, he noted that UC is less than half the cost of California's three private research universities.

Vice President Darling reported that all students regardless of income are expected to work either part time during the school year or to take out loans to contribute $9,500 for their education. Families with incomes of $40,000 or more are expected to contribute an additional amount ranging from $2,400 to $12,600, depending on their ability to pay. Those families least able to make a contribution receive grants from the University, from the State through Cal Grants, or through the federal government as Pell Grants. Federal tax credits reduce the family contribution of middle income families, offsetting their costs by another $500 to $1,200. In addition, across all income levels, one in five UC students receives a $3,400 scholarship, which lowers the $9,500 student work or loan requirement to $6,100. He underscored the fact that the University has made access and affordability very high priorities and has raised fees only because of reductions in State funding.

Mr. Darling discussed why student fees have increased. The State's spending decisions over the past 20 years have placed a low priority on higher education relative to other State programs. Higher education funding declined by 9 percent, whereas K-12 funding increased by 37 percent, health and human services increased by 31 percent, and prison funding increased by 165 percent. Elected officials have reduced the State's investment in public colleges and shifted more of the responsibility for paying for a college education from the taxpayer to the student, based on the belief that those who will attain a higher lifetime income because of their education should be willing to pay a fair amount for it. Even after raising fees, a gap of $2,500 per student remains and is eroding the quality of the University. Another effect of the decrease in State funding is a widening gap in UC's competitive position relative to the best private universities. UC's faculty salaries are well below those of other institutions, student-faculty ratios are double those of other universities, there is not the same level of academic support, and graduate student support has dropped to perilous levels. These problems are important to the state because its private universities are too small to provide a well-educated workforce, develop the innovations that fuel the economy and provide jobs, or advance medical science significantly.

In conclusion, Mr. Darling acknowledged that students and their families are being asked to make sacrifices in order to pay for higher fees, but he noted that others in the University also are making sacrifices. The faculty and staff have not had salary increases for three years, and a whole range of programs have been cut back to accommodate the State's budget cuts. At the same time, the University has offset the increases entirely for low income families and by half for middle income families. He stated that the University's quality, institutional competitiveness, student access, and affordability are dependent on the ability to put together a budget that combines State, federal, and private monies, hospital revenues, administrative efficiencies, and student fees.

Regent Marcus believed that the quality of public research universities had declined dramatically in the past twenty years. He believed that it was the Regents' responsibility to ensure that a UC degree continued to be valuable. He was dismayed that the discussion had focused on student fees, which represents less than 1 percent of the budget and is a political issue, rather than the 99 percent that is supposed to increase and enhance the quality of the educational experience and research mission. He supported Regent Núñez's proposal to delay until January the vote on student fee increases, as long as reasonable notification and predictability would be taken into account.

Regent Juline believed that the budget that has been presented provides a clear focus on the Regents' priorities and a better understanding of the magnitude of the gaps in funding. He noted that the Regents have a stated goal of establishing a student-fee-setting policy that is rational, stable, systematic, predictable, and fair so as to ensure that the fee issue is de-politicized and will not need to be addressed year after year. He believed that the University's methodology for calculating the number of students who graduate with high levels of debt produced a figure that was misleadingly low. He sought a better understanding of how the figures for debt load are determined. He noted that the budget being adopted is a balanced budget that provides for the spending of all available resources; however, two major areas of cost structure of the University are not covered by that budget – the pension cost, which continues to accrue every year and will no longer be covered through overfunding in prior years, and retiree healthcare obligations, which also accrue each year. These two elements pose a significant problem for the immediate future.

Regent Johnson congratulated the students and administration for coming to agreement on increasing return to aid to 33 percent. She reported that the Compact with the Governor was supposed to have provided a funding floor, not ceiling. She advocated putting aside the vote on student fees until January in order to have an opportunity to ask the Governor and Legislature to provide the funding necessary to prevent fee increases. She emphasized, however, that if no resolution is found in January, fees will increase. She urged students to lobby heavily in Sacramento concerning the fee issue.

Regent Lozano supported Regent Núñez's proposal concerning student fees. She noted that the State is being asked to make permanent its portion of the funding for academic preparation. She asked about the University's commitment. Vice President Hershman responded that the University had agreed to commit $12 million from its budget to add to the State's $17 million contribution. Regent Lozano asked about the disparity between CSU's commitment of $45 million and the University's. Mr. Hershman explained that CSU's contribution goes mainly to services for students already enrolled and not for K-12.

Regent Rosenthal applauded the decision to increase return to aid to 33 percent. He recalled that the Regents had never viewed Sacramento as a reliable partner. He was hopeful that Regent Núñez's proposal signified a positive change in that relationship and that it would be supported by the Committee.

Regent Blum commented that he viewed Speaker Núñez as a very reliable partner but one who may represent a minority position in Sacramento on the University's budget issues.

Regent Gould believed that the increase in return to aid was a strong step forward. He was pleased also to hear Regent Núñez's comments about the possible availability of additional State resources, although he noted that the numbers can change dramatically during the budget process. There will be competition for any extra resources not only by the University but by children's health programs, K-12 education, and other important public services. The Regents agreed to the Compact, which provides for a complement of fee increases and the Governor's commitment to general funding as a floor. He expressed the concern that if the University does not implement fee increases, the Governor and Legislature will determine that the 3 percent general fund support is sufficient. The budget process does not end in January; there will be a revised estimate in May of the resources available to the State, and as the process continues into August or September, the University could be left with no time to go to the students for help. He advocated proceeding with caution while also being pro active in declaring what resources are necessary to sustain quality and accessability.

Committee Chair Blum believed that Regent Gould's description of the budget process was accurate.

Regent Rominger noted that the State intended to provide support for only 1,000 new graduate students. Unless the University can add other funds, it will fail to meet its goals for increasing graduate education. He commented that during the past few months he had met with many students whose contributions to the deliberations of the Board he valued. He advocated keeping the pressure on the Governor and Legislature by delaying until the January meeting the decision to raise student fees.

Regent Marcus expressed strong opposition to increasing fees for graduate and foreign students, a sentiment shared by Committee Chair Blum. Regent Marcus recalled that at a previous meeting a Nobel Laureate professor had discussed the crisis in graduate education, particularly with respect to foreign students.

Senior Vice President Darling believed it was important to let the campuses know what the budget will be so that they can make commitments to faculty they wish to hire. Delays will cause uncertainty about the availability of funds to offer to new hires. Also, the University is obligated to notify students and parents sufficiently in advance. He believed it was important to note that if fees are not increased, because of the way financial aid is structured low and middle income families will be adversely affected. Further, if there were a fee buyout by the Governor and Legislature, that would shift the decision-making about University priorities away from the Regents, signifying an abandonment of the priorities they had voted on with regard to faculty salaries, the support of graduate programs, and other issues, and placing student fees at the top of that list. Vice President Hershman agreed that if more money were to become available, it would be advisable for the University to have the opportunity to negotiate with the

Governor and Legislature on how it should be spent, guided by established Regental priorities.

Regent Lansing believed that a difference of eight weeks concerning the fee decision would not be detrimental to a family's planning. She characterized it as foolish to raise fees and salaries while disregarding the possibility of obtaining better funding. If in January there were no additional money offered, the vote on fees could go forward. Senior Vice President Darling emphasized that the Governor will act in January, but the Legislature's activities will not begin until March. As each step takes place, if the desired action does not result, the Regents will be encouraged to delay until the following step.

Regent Preuss noted the political sensitivity surrounding the issue of raising fees. He encouraged the Board to consider Senior Vice President Darling's statements with regard to the effect on lower income families of raising fees. Well-to-do students have indicated a willingness to pay higher fees in order to attend UC. Because of the availability of financial aid, middle income students would pay about half the fee increase, and lower income students would not pay any of the increase. He did not believe that the fee issue should take precedence over other pressing issues that need relief from the government. He stressed the importance of maintaining the quality of the institution and not bowing to political pressure.

Regent Hopkinson believed that the Regents should follow through on the priorities they had set the year before. In addition, the Regents agreed to a Compact that sets forth certain parameters for student fees. She moved that paragraph A. of the President's recommendation be amended as follows:

Additions shown by underscore

> The Committee on Finance recommend to The Regents that the expenditure plan included in the document *2006-07 Budget for Current Operations* be approved; <u>however, that student fees as proposed will be reduced or rescinded prior to implementation if the Governor and the Legislature provide the funding to reduce or eliminate fee increases and the remaining portions of the Compact remain in place.</u>

The motion was duly seconded.

Regent Núñez offered an amendment to the amended motion – to approve paragraphs A. and B. of the President's recommendation but delay voting on any recommendation on student fees until after the Governor releases his budget in January in order to give The Regents time to eliminate or reduce the need for a student fee increase.

The amended motion was duly seconded.

Regent Lansing believed that approving the fees and agreeing possibly to roll them back would hurt Speaker Núñez's ability to negotiate in Sacramento. She asked whether the budget could be approved while withholding until January the student fee part, at which time if the money is not provided by the Governor and the Legislature, the fees will go into effect.

Chairman Parsky recalled that the Regents had a history of rescinding fees in this type of situation. He welcomed the leadership of the Speaker in this effort, but he emphasized that the complicated budgetary process will only begin in January.

Speaker Núñez noted that the new class of students who will be admitted to the University will not have been notified of their admission prior to action being taken on a student fee increase in January. He viewed the Compact as a floor from which further negotiation was possible. He hoped simply to gain time for that negotiation to take place.

The Committee disapproved the amendment to the amended motion, Regents Blum and Núñez voting "aye" (2) and Regents Dynes, Gould, Hopkinson, Juline, Parsky, and Preuss voting "no" (6).

The Committee approved the amended motion, Regents Blum, Dynes, Gould, Hopkinson, Juline, Parsky, and Preuss voting "aye" (7) and Regent Núñez voting "no" (1).

[For speaker's comments, refer to the November 16 and 17, 2005 minutes of the Committee of the Whole.]

3. **PLANNING FOR PROFESSIONAL SCHOOL FEE INCREASES, 2007-08 AND 2008-09**

Vice President Hershman reported that because professional school fees have had to increase significantly over the past few years to offset budget cuts, the Regents requested a longer-term plan for future increases in fees for professional school students. Historically, many of UC's professional schools have held a place of prominence in the nation, promising a top-quality education for a reasonable price. As discussed at previous Regents meetings, the cuts that have occurred, both in the early 1990s and during the more recent budget crisis, have devastated the resources available to the professional schools to such a degree that the schools are extremely concerned about their ability to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students – all of which are important components of excellence in these schools. The professional schools see the current circumstances as a crisis of quality and believe that significant steps, including raising student fees, must be taken to regain the excellence that recent budget cuts have threatened.

It is within this context that the University has engaged in near-term and longer-term planning for professional school programs, including consideration of fee increases in the Educational Fee and professional school fees. Longer-term planning will need to address the recruitment and retention of excellent faculty, including meeting salary and employer retirement contribution costs; ensure the development or maintenance of a high-quality curriculum; and improve the school's ability to recruit high-caliber students. At the same time, campuses are committed to providing additional financial aid to students, including funding to develop new loan assistance programs or expand existing ones. Longer-term planning for fee increases for professional school students has been undertaken to address three objectives: (1) to address ongoing needs for salary increases, employer retirement costs, other price increases, and provide funding for additional financial aid; (2) to stabilize funding for the schools so they can begin repairing the damage that has been sustained as a result of the cuts; and (3) to begin re-building high quality programs that are competitive with those offered at comparable public and private institutions. The planning assumes that fees for professional school students will be adjusted annually and that campuses will retain the revenue from professional school fees to cover salary costs, employer retirement contributions, and other cost increases, provide additional financial aid, and begin to make modest improvements to their academic programs. Rebuilding the quality of the professional programs and providing more financial aid will require a multi-year effort, including a sustained program of fee increases in the Educational Fee and professional school fee.

For 2007-08 and 2008-09, increases in the range of 7 percent to 8 percent in the Educational Fee and professional school fees are likely to be needed for most professional school programs to cover salary increases, employer retirement contributions, and other price increases. Additional revenue will be needed to fund increases in financial aid and to fund higher salary increases to begin addressing the chronic gap in salaries for professional school faculty. A sustained program of fee increases over and above the levels proposed for other professional schools is recommended for the law and business schools at Berkeley and UCLA to begin to restore excellence and ensure broad accessibility. Accordingly, just as the proposed fee increases for the law and business schools at Berkeley and UCLA for 2006-07 are higher than those proposed for other programs, increases for these programs in future years also are likely to be higher – at least 10 percent per year and perhaps more if additional funds are needed to restore quality to those programs, including hiring additional faculty, paying competitive salaries, and providing increased financial aid.

Some uncertainties exist, however. It is unclear how employer retirement contribution costs will be funded or when employer retirement contributions are likely to begin to be phased in over time, perhaps as early as 2007-08. Under the Compact, the Governor is committed to covering the portion of employer retirement contributions that is funded from State funds. Because student fees have increased dramatically in recent years to offset significant State budget cuts, it would be unreasonable to also raise fees to cover employer contributions to the retirement system for programs funded from student fees. Therefore, the University intends to seek funding from the State to also cover the portion of employer retirement contributions that is funded from student fees. It is not clear, however, whether that will be achievable. In the context of these uncertainties, the University is proposing specific increases in professional school fees for 2006-07 only at this time and will, instead, make specific proposals for 2007-08 and 2008-09 after more is known about funding for and timing of the reinstatement of retirement contributions.

The University's 2006-07 budget plan includes increases in the Educational Fee for all professional school students and professional school fees of 5 percent for most professional school programs to cover cost increases in programs funded from Educational Fee and professional school fee revenue. To address the effects of the State budget cuts applied disproportionately to programs in law and business in previous years, the 2006-07 budget plan includes professional school fee increases of 10 percent for the law and business schools at Berkeley and UCLA and for the law program at the Davis campus. The professional school fee increases will range from $161 for nursing students to $1,737 for business students.

The 2006-07 increases in the Educational Fee for professional school students will generate nearly $2.4 million in new fee revenue, and the professional school fee increases will generate approximately $9.4 million in new fee revenue. An amount equivalent to at least 33 percent of the new fee revenue generated from the increases in mandatory systemwide fees and professional school fees would be used for financial aid for professional students.

The Regents' Policy on Fees for Professional School Students is outdated and inoperative, given the deep cuts that have occurred to the professional school budgets and the University as a whole, which have resulted in changes in the proportion of fee revenue dedicated to financial aid and an expansion in the number of affected degree programs. The Office of the President in consultation with the campuses has developed draft guiding principles for setting professional school fees for The Regents' consideration. It is anticipated that these draft guiding principles would be reviewed over the next several months and approved by The Regents to replace the current Policy.

Chairman Parsky noted that in connection with longer range planning with respect to the professional schools, the Regents need to understand the position that is being advocated by the individual schools in connection with subsequent increases and get some assurance as to how the fee increases will be spent. It has been noted previously that the revenues from increases in fees for professional schools have not been used for those schools.

The Committee recessed at 12:25 p.m.

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The Committee reconvened on November 17, 2005 at 11:05 a.m. with Committee Chair Blum presiding.

Members present: Regents Blum, Dynes, Gould, Hopkinson, Juline, Parsky, and Preuss; Advisory members Ledesma, Schreiner, and Oakley

In attendance: Regents Island, Johnson, Kozberg, Lansing, Lozano, Marcus, Rominger, Rosenthal, Ruiz, and Schilling, Faculty Representative Brunk, Secretary Trivette, General Counsel Holst, Acting Provost Hume, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Foley, Gurtner, and Hershman, Chancellors Birgeneau, Bishop, Córdova, Drake, Fox, and Vanderhoef, Executive Vice Chancellor Ashley representing Chancellor Tomlinson-Keasey, Laboratory Director Anastasio, and Recording Secretary Bryan

4. **APPROVAL OF UNIVERSITY OF CALIFORNIA FINANCIAL REPORT, 2005**

The President recommended that the Committee approve the University of California Financial Report, 2005.

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

Vice President Broome discussed the University's financial position and the results of operations for the fiscal year ended June 30, 2005. She noted that the annual financial report covers the University, the retirement system, and the campus foundations through five primary financial statements and corresponding notes. She noted also that The Regents had received prior to the meeting the financial statements for the UC Retirement System and the audited financial statements of every plan in the system as well as the five medical centers.

Vice President Broome reported that the University's financial statements are prepared in accordance with the Government Accounting Standards Board (GASB). Every year, the University has been required to implement more GASB pronouncements. The first was Deposit and Investment Risk Disclosures. While this had no impact on the University's net assets, it did increase substantially the number of footnotes in the financial statements. Also implemented was accounting and reporting for the Impairment of Capital Assets. The annual financial report contains 85 pages of data, which, with the aid of slides, Ms. Broome synthesized into a discussion of the University's overall financial position and its results of operations for the year.

Vice President Broome noted that total assets of the University are over $34 billion, an increase of $1.3 billion over the previous year. The liabilities are over $15 billion, an increase of less than $100 million, driving the net assets to $18.9 billion, for an increase of over $1 billion. She commented on some significant assets and liabilities, starting with investments. She noted that the University has investments of over $12 billion, representing 35 percent of its assets, which grew by 4.5 percent, largely due to an increase in short-term investments but primarily due to an increase in the general endowment pool. Investment in cash collateral represents 8 percent of the University's assets. The University participates in a program to lend securities to select brokerage houses. At June 30 the amount was down 29 percent, primarily because State Street Bank, which selects the securities to lend, chose more domestic equity securities from the pension plan investment portfolio and the foundations than from the University. The corresponding liability is the obligation for the collateral. The University receives collateral in securities that are either equal to or greater than 100 percent of the value of the securities that are lent. The University's capital assets, which comprise 45 percent of its total assets, grew by over 9.5 percent because of the growth experienced by the University. This category includes land, infrastructure, buildings, library collections, and more. The next category of assets, representing 12 percent of the total, includes elements such as accounts receivable, receivables from the Department of Energy, investments held by trustees, pledges receivable, and notes in mortgages receivable. This category grew by 12 percent, mainly due to investments held by trustees attributable to proceeds from State Public Works Board bonds.

Ms. Broome turned to the University's liabilities, the dominant element of which is debt. The financing of capital growth is in this category, along with commercial paper of over \$500 million in short-term investment. This category grew by almost 15 percent. The University has just under \$8 billion of debt. It was an active year; there were \$370 million of new limited project revenue bonds, almost \$300 million of general revenue bonds, an LLC was entered into for student housing that added over \$100 million, over \$600 million of lease-purchase agreements with the State, and some restructuring and pay down of debt. Other liabilities, including accrued salaries and benefits, deferred revenue, and accounts payable grew only slightly.

Ms. Broome reported that the difference between the total assets and total liabilities was the net assets, which represent the financial condition of the University as of June 30. The largest category of net assets, capital assets net of related debt, grew by over 7 percent, driven by a growth in capital projects. The two categories of restricted assets, including the non-expendable, which represents the corpus of the endowments, and the expendable, which represents gifts and income from endowment that have been restricted by the donor, grew by over 5 percent, due to the underlying fair value of the investments. Under GASB, the University is required to classify as unrestricted any net assets which do not have externally imposed restrictions on them. The University has about \$5.5 billion of these which, while not externally restricted, are internally restricted to academic, research, and capital programs. In addition, over \$1 billion in funds function as endowments.

Committee Chair Parsky advocated attaching some adjective to the word "unrestricted" to differentiate between external and internal restrictions.

Ms. Broome addressed the financial results. She reported that the University had almost \$16 billion of operating revenues and operating expenses of \$18.6 billion, resulting in an operating loss of \$2.7 billion. She explained that the University will always have an operating loss because GASB does not allow it to categorize the State appropriation, private gifts, or investment income as operating revenue. "Income before other changes in net assets," which declined slightly from the previous year, is the important category in terms of indicating the true operating picture of the University for the year. The decline is the result of fluctuations in the net value of investments. The category "Other changes in net assets" includes State capital appropriations and endowments. She noted some of the other components of the operating revenues. Student tuition and fees of \$1.6 billion reflect an increase of 13 percent, or about \$180 million, which corresponds with the decline in the State appropriation. There was little change in student enrollment from 2004 to 2005. State, federal, and local grants, which represent 25 percent of operating revenues, increased by about 4 percent. Medical centers, educational activities, and auxiliary enterprises, which equal 37 percent or $5.9 billion, grew by 7.7 percent. The growth in the medical centers is due to better contracting prices and a slight increase in patient activity. Educational activities, which are primarily professional services, increased in line with the increase in patient activities. Auxiliary enterprises, which are primarily student housing, food, and parking, followed the general enrollment growth.

Ms. Broome noted that the University accounts for the Department of Energy laboratories with one line for income and one expense line. The individual income or expenses are not shown as an array. The assets and liabilities of the DOE laboratories are not included in the University's financial statements, as the University is responsible only for operations. The Berkeley and Livermore laboratories had slight increases, but these were offset by Los Alamos because of the shut down that occurred.

Vice President Broome reported that the University is required to show expenses by natural category rather than functional category. Salaries and benefits is the single largest item at 48 percent. This does not include the laboratories, which have over 20,000 employees. This category grew by 3.4 percent, due primarily to the increase in the number of employees in the academic and administrative areas necessary to accommodate growth and also because of changes in the nursing staff ratio required at the hospitals. There was some growth in benefits, but it was offset to a degree by reductions in Workers' Compensation costs. The University has an aggressive program under way to decrease its risk management costs, of which Workers' Compensation is the greatest. Supplies and materials expenses increased by over 11 percent, driven by inflationary pressure on medical supplies and laboratory instruments. Depreciation rose because capital projects increased. Other expenses include almost $3.8 billion for an array of items such as rent, self-insurance costs, utilities, maintenance, and scholarships. Total operating expenses amounted to $18 billion.

Ms. Broome reported that the University is required the include in its financial statements the statements of the ten campus foundations. Although they are governed by independent boards, they are affiliated with the University and their assets are dedicated to it. Ninety-seven percent of their assets are investments or related items. Growth took place primarily due to an increase in endowments of $122 million and an increase in the net appreciation and fair value of the assets. Liabilities increased somewhat. Operating revenues decreased from 2004, but they were particularly high that year because of the receipt of two major gifts. Non-operating revenues were $213 million.

Ms. Broome reported that the University's systemwide retirement plan had assets of over $65 billion. Growth took place as a result of the underlying increase in their value. Liabilities were about $11 billion, resulting in total net assets of about $53 billion. Plan expenses were lower, but all areas of payment to beneficiaries increased.

Vice President Broome concluded her remarks by reporting that significant GASB changes must be implemented in the future having to do with medical and dental payments to retirees, which previously have been on a pay-as-you-go basis. The University will be required to accrue these costs over the employment period of the employee. This change, which is effective for 2008, warrants examination of the plan design.

Committee Chair Blum recalled previous discussions about trying to remove from the balance sheet some of the debt securities related to housing. He asked what had taken place since the financial report was issued. Senior Vice President Mullinix reported that debt had been refinanced and has been drawn down for projects that are in the pipeline. Total debt issuance was about $1.4 billion subsequent to June 30.

Committee Chair Blum noted that the University could raise as much as $3 billion at advantageous interest rates but is not allowed to do so on a tax-exempt basis without defining how the money will be used. Obtaining the appropriate analysis of projects has been inconsistent. Mr. Mullinix recalled that there was a question as to how much should be borrowed to fund projects that have been approved. Because of the problems in estimating costs in a rising market, the University has been reluctant to move forward on some projects. More than a rough cost estimate is required when trying to raise new debt. There are certain tests on issuing tax-exempt debt and the recovery of arbitrage. Committee Chair Blum believed that if as much housing debt as possible were removed from the balance sheet and no further housing debt were added, the University would retain ample debt capacity. He advocated further analysis of the advantages of doing so.

Committee Chair Blum asked whether the University has cash flow that could be made available to offset fee increases, increase salaries, or enhance efficiencies. Ms. Broome responded that there was not an excess of cash available in relation to the operations of the University.

Regent Juline commented that the hospitals and auxiliary enterprises are generating positive operating results that provide some cash flow that can be used for adjustments to the budget, but there is a lack of operating free cash flows associated with the core academic elements of the University. Senior Vice President Mullinix added that most of those activities are capital intensive and have higher debt loads. There are cash requirements and needs to replace plants that are far in excess of the available money. There is no State support for those operations.

Regent Juline noted a reported drop in enrollment in 2005 based upon the fall quarter, which he found surprising. He suggested that if the FTE calculation presents a more accurate picture, it may be useful also to disclose that number. He believed that, despite that it is a general accounting term for reporting such matters, there is an opportunity to explain the components of unrestricted net assets better. These assets are spread over thousands of accounting units throughout the University; it is important to make sure annually that all the reserved uses of those funds are legitimate.

Regent Hopkinson believed the enrollment decline should be viewed in context, in that the Governor's Budget placed a requirement on the University to reduce enrollment that year. The Legislature later funded enrollment growth, but students had already decided to go elsewhere.

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

5. **THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN/UC-PERS PLUS 5 PLAN – ANNUAL ACTUARIAL VALUATION**

It was recalled that each year, in accordance with actuarial reporting requirements of the Internal Revenue Code (IRC) and the provisions of the University of California Retirement Plan (UCRP or Plan), the Plan's Consulting Actuary, The Segal Company, performs an actuarial valuation of the Plan to disclose the Plan's funded position as of the beginning of the current Plan Year, analyze the preceding year's experience, and recommend contribution rates for the upcoming calendar year. The results of the actuarial valuation as of July 1, 2005 are summarized and presented in the Executive Summary section of the actuarial valuation report. Mr. Paul Angelo, of the Segal Company, discussed the highlights of the report.

UCRP Valuation Results

The Segal Company continues to recommend a zero percent payroll contribution rate for the 2006 calendar year since the July 1, 2005 actuarial valuation results show that the value of Plan assets continues to exceed Plan liabilities by a sufficient amount. 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 Regents' 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 including normal cost or 150 percent of the current liability including current liability normal cost.

As of June 30, 2005, the market value of assets of UCRP, after subtracting benefit claims currently payable and other current payables of the Plan, was $41.9 billion as compared to $39.2 billion as of the end of the prior Plan Year. During the 2004-2005 Plan Year, the Plan experienced a 10.3 percent investment return on the market value of Plan assets.

When determining the Plan's funded status ratio, the Plan's actuarial accrued liability is compared to the actuarial (smoothed) value of assets. The "smoothing" method reduces the impact of market volatility by recognizing, in each year, only 20 percent of the investment gains and losses in each of the preceding five years. As of June 30, 2005, this five-year period includes three years of investment returns which were less favorable than the Plan's assumed 7.5 percent earnings rate. The result is a 2.7 percent investment return for the 2004-2005 Plan Year on an actuarial value of assets basis.

The Plan's surplus, the excess of the actuarial (smoothed) value of assets over the actuarial accrued liability, decreased during the 2004-2005 Plan Year primarily because the liability grew at approximately the rate expected, but the smoothed value of assets earned 2.7 percent compared to the expected actuarial total return of 7.5 percent. This resulted in an actuarial loss, despite a market value return of 10.3 percent for the Plan year.

The Plan's actuarial accrued liability increased from $35.0 billion as of July 1, 2004 to $37.3 billion as of July 1, 2005. The Plan's funded ratio decreased from 118 percent as of July 1, 2004 to 110 percent as of July 1, 2005 as a result of the investment loss on the smoothed (actuarial) value of assets and the fact that no contributions are being made to offset the Plan's normal cost. The "normal cost" of the Plan, as defined under ERISA §3(28), is the annual amount, expressed as a percent of payroll (the "normal cost rate") 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 payable at the beginning of the 2005-2006 Plan Year is 15.34 percent or $1.25 billion.

There were no changes in assumptions reflected in the July 1, 2005 calculations of actuarial accrued liability and normal cost; however, the normal cost rate reflects the first of three expected gradual increases. These increases occur as the temporary three-year reduction in the salary increase assumption that models the effect of current budgetary constraints is phased out. There will be gradual increases in the normal cost rate in the next two valuations as the remaining temporary reduction in the salary increase assumptions is phased out.

Evaluation of Sustainability of UCRP Funded Status

While the current valuation reflects that the Plan remains over 100 percent funded on both a market value of assets basis (112 percent) and an actuarial value of assets basis (110 percent) and that no University or Member contributions for the 2006 calendar year are required, it is clear from an actuarial standpoint that the current "contribution holiday" cannot be sustained. The funded ratio is expected to continue to decline unless contributions are restarted or extraordinary market gains were to occur.

The Regents have formed a Retirement Benefits Task Force to address the strategic positioning of the University's retirement programs as part of the competitive total remuneration offered to faculty and staff. The Task Force is expected to consider long-term strategies for resuming contributions to UCRP, potential retirement plan design changes for new employees, and related issues for retiree health coverage. UC HR/Benefits has retained Mercer Human Resource Consulting as the lead consultant for advising the University in this process. Potential design options will be discussed at future Regents meetings. The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer–Employee Relations Act.

More detailed schedules and descriptions related to the UCRP actuarial valuation are included in the UCRP Valuation Results, Supplemental Information, and Reporting Information sections of the actuarial report as of July 1, 2005.

Los Alamos National Laboratory Transfer of Assets and Liabilities

The University of California contract to manage the Los Alamos National Laboratory (LANL) is scheduled to expire May 31, 2006. Although, through a limited liability corporation with its industrial partners, UC has bid to retain management of LANL, regardless of who wins the competition for this contract, assets and liabilities will be transferred from the UCRP to the successor contractor's defined benefit plan for the LANL employees who transfer their participation to the new plan. Prior to such transfer, the necessary and advisable rulings on the plans and proposed transactions will be obtained from the appropriate regulatory agencies.

The amount of assets and liabilities to be transferred to the successor contractor's defined benefit plan will not be known until the transition process is completed, including approval from regulatory agencies and final decisions from LANL employees regarding continuation of employment at LANL under the new contractor. The Regents will be advised as this process progresses.

In response to a question asked by Committee Chair Blum, Mr. Angelo commented that with public sector plans, if market value were used as a basis for costs when regular contributions were being made to the plan, every time the market value swung up, the unfunded liability and the contribution rate would swing down; when the market value swung down, unfunded liability would swing up and amortization payments would swing up. That would result in a direct translation of the market value volatility to the contributions, which need to be budgeted. Short-term variations in market value are not relevant to the long-term funding of the plan; therefore it is legitimate to filter them out.

Regent Gould commented that the assumed rate of return of 7.5 percent is being lowered by many large institutions. Mr. Angelo responded that he tracked both corporate plans and public sector plans. On the corporate side, during the late part of the twentieth century assumed returns were much higher. The University is in the unique position of having been at 7.5 percent since at least 1990, taking a conservative stance relative to comparators. The University did not raise its rate when its comparators were making their numbers look better by going to higher interest rates. The systems that are lowering their rates are not lowering them below 7.5 percent, they are trying simply to get down to 7.5 percent. Committee Chair Blum acknowledged that conservatism has helped, but he disagreed that the University should not change to a lower rate going forward, because there is unparalleled worldwide liquidity, and Treasury and other high-grade bonds are yielding rates of 3 percent to 5 percent; therefore, 7.5 percent has become an aggressive position. Mr. Angelo commented that his analysis of asset allocations and long-term real rates of return by asset category show that, based on the model using the University's current asset allocation, a rate of return of between 7.5 percent and 7.67 percent is indicated. Chairman Parsky noted that it is all dependent upon the way in which the

University's asset allocation will be set in the future. Mr. Angelo advocated considering the duration of the forecast. The investment community tends to look at a five to ten year forecast, whereas the actuary's forecast is a fifty or sixty year projection. Relatively short-term, there is pressure on the 7.5 percent, but longer term there is the potential for more of a reversion to mean on inflation, which has been at historically low levels. He emphasized that the duration of the projection is a key factor in evaluating and assessing the 7.5 percent assumption.

6. **AMENDMENT OF STANDING ORDER 110.2 –MATTERS RELATING TO RESIDENCY: NONRESIDENT TUITION WAIVER FOR EMPLOYEES ASSIGNED TO WORK OUT OF STATE**

The President recommended that:

(1) Service of notice be waived.

(2) Standing Order 110.2–Matters Relating to Residency be amended as follows:

STANDING ORDER 110.2
MATTERS RELATING TO RESIDENCY

Additions shown by underscoring; deletions shown by strikeout

110.2 Matters Relating to Residency

a. The residence of each student shall be determined in accordance with the rules governing residence prescribed by the provisions of Sections 68000, 68010-68012, 68014-68018, 68022-68023, 68040-68044, but excluding the words "classified as a nonresident seeking reclassification" from Paragraph 1 and substituting the words "seeking classification" and excluding Paragraph 3 of Section 68044, 68050, 68060-68061, 68062 but excluding the words "including an unmarried minor alien" from 68062(h), ~~68070-68080,~~ <u>68070-68078, 68080,</u> 68083, 68130, and 68132-68134 of the Education Code of the State of California. Each nonresident student at the University of California shall pay a nonresident tuition fee for each term of attendance at the University, except that such fee, with the approval of the President of the University, may be remitted or waived in whole or in part in the case of any student who qualifies as a graduate student with a distinguished record, a foreign student, a teaching assistant or teaching fellow, or a research assistant; or in the case of a nonresident student who is an unmarried dependent son or daughter under age twenty-one, or a spouse or registered domestic partner of a member of the University faculty who is a member of the Academic Senate. A student who is a spouse or registered domestic partner or child of a resident law enforcement officer or fire fighter killed on active duty shall be exempted from nonresident tuition and mandatory systemwide fees in accordance with Section 68120 of the Education Code of the State of California. A student who is the child or dependent of a deceased or disabled veteran, or who is the dependent of or the surviving spouse who has not remarried or registered domestic partner (who has not subsequently married or registered as a domestic partner) of any member of the California National Guard who was killed or permanently disabled while in active service of the state, shall not be exempted from nonresident tuition fees, but may be exempted from mandatory systemwide fees in accordance with Section 32320 of the Education Code of the State of California. A student meeting the requirements of Section 68130.5 of the Education Code of the State of California shall be exempt from paying nonresident tuition. A student meeting the requirements of Sections 66025.3 and 68120.5 of the Education Code of the State of California shall be exempt from paying mandatory systemwide fees and nonresident tuition. For purposes of defining financial independence pursuant to Section 68044, a student shall be considered "financially independent" if the applicant: a) is at least 24 years of age by December 31 of the year the applicant requests residence classification; b) is a veteran of the U.S. Armed Forces; c) is a ward of the court or both parents are dead; d) has legal dependents other than a spouse or registered domestic partner; e) is married, or in a registered domestic partnership, or a graduate student or professional student, and will not be claimed as an income tax deduction by any individual other than his or her spouse or domestic partner for the tax year immediately preceding the request for residence classification; or is a single undergraduate student, and was not claimed as an income tax deduction by his or her parents or any other individual for the two years immediately preceding the request for residence classification, and demonstrates self-sufficiency for two years. The student is considered self-sufficient if he or she had total income and other resources of at least $4,000. The two years used to demonstrate self-sufficiency are the two years immediately preceding the request for residence classification. Nonresident tuition fees shall be payable at the time of registration.

* * *

d. Los Alamos National Laboratory and Other Out-of-State Employees.

(1) An individual who is a full-time University employee assigned to work outside the State of California, or the dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes.

(2) If, following the expiration of the longstanding University/DOE contract for the management of the Los Alamos National Laboratory (LANL), the University continues to participate in the management of LANL as a principal in a separate legal entity that is awarded the successor contract, an individual who is an employee of such entity, or a dependent child, spouse, or registered domestic partner of such an employee, shall be entitled to resident classification for tuition purposes to the same extent as if the employee were an employee of the University assigned to work outside of California.

(3) An individual who is a full-time employee of the University assigned to work at LANL or elsewhere outside of California, or who is a full-time employee of a successor LANL contractor in which the University is a principal, and who transfers without a break in service to full-time University employment within the state of California, shall be entitled to resident classification for tuition purposes. Any dependent child, spouse or registered domestic partner of such an employee also would be entitled to resident classification for tuition purposes.

(4) An individual who is a full-time University employee at LANL, or any dependent child, spouse or registered domestic partner of such an employee, and who is enrolled as a student in a degree-granting program at a UC campus at such time as the University contract to manage LANL expires and the University's participation in the management of LANL ceases, shall be exempted from payment of nonresident tuition fees for the remainder of the current quarter or semester.

~~d.~~e. The General Counsel of The Regents may implement this Standing Order by promulgating regulations in accordance therewith.

It was recalled that the University has joined with Bechtel National, Inc., BWX Technologies, Inc., and Washington Group International, Inc. (the UC/Bechtel team) to compete for the DOE/NNSA contract for the management and operation of the Los Alamos National Laboratory. The UC/Bechtel team is organized as a limited liability company known as Los Alamos National Security, LLC (LANS). If the UC/Bechtel team is successful, the University, as a principal in LANS, will continue to perform its public service mission to the nation through its participation in the management and operation of LANL, and in particular through its lead responsibility for the research and development programs at LANL. Further, if the UC/Bechtel team is successful, virtually all University employees currently at LANL will be offered continuing employment with the new LLC.

Consistent with Section 68079 of the California Education Code, the University has long offered the benefit of nonresident tuition fee waivers to University employees who reside and work at LANL or elsewhere outside of California, as well as to their children, spouses, and domestic partners. This benefit has been valuable to the University in its efforts to recruit and retain the most talented scientists to work at LANL, and to UC LANL employees and their dependents who have been able to attend UC at an affordable price. The increased fees payable to LANS under the new contract, and thus payable to the University indirectly, are likely to outweigh the revenue that the University foregoes in providing the nonresident tuition fee waivers.

The Regents previously adopted Section 68079 of the California Education Code, which authorizes nonresident tuition waivers for University and other State employees who are assigned to work outside California; however, the Education Code does not address the specific needs currently confronting the University with regard to its employees who are assigned to work outside of California, and in particular does not address employees of a University-affiliated organization such as LANS.

With the contract for LANL being competed and the outcome being uncertain, UC employees at LANL, particularly those with children, spouses, or domestic partners already enrolled or considering enrolling in degree programs at UC campuses, face considerable uncertainty as to what the future holds for them with regard to the costs of enrolling in UC degree programs. This uncertainty exists whether the UC/Bechtel team wins or whether it loses. If the UC/Bechtel team wins the contract, LANL employees will become employees of the new company, LANS, and will no longer be employees of The University. If the UC/Bechtel team loses the competition (to the Lockheed/ University of Texas team, which is the only other competitor), LANL employees will no longer be UC employees. Under either circumstance, Standing Order 110.2 in its current form would no longer authorize the nonresident tuition waiver that LANL employees presently enjoy. The University will be well served by providing clear policy guidance regarding the payment of nonresident tuition fees by LANL employees and their children, spouses and domestic partners, in order to help families plan for their educational expenses, to support workforce retention, and to maintain morale at LANL during this transition period as well as in the future.

The ability to provide nonresident tuition waivers as a benefit for the employees of the winning team is seen as a significant element of a competitive bid package for the DOE/NNSA contract. In this regard, the State of Texas has already enacted legislation to enhance its competitiveness in the bidding process by waiving out-of-state tuition fees at the University of Texas for employees and their dependents at LANL in the event the Lockheed/Texas team is awarded the LANL contract. A similar action by the Regents would be seen as a welcome gesture by the LANL workforce and would not go unnoticed by the Department of Energy and its National Nuclear Security Administration, yet at the same time would be consistent with (and no more costly than) the longstanding policies and practices of the University at LANL.

The Regents are being asked to waive the service of notice and act on this proposal now because a decision on award of the contract is expected by December.

Accordingly, it is proposed that the reference to Section 68079 be deleted in paragraph (a) of Standing Orders 110.2, and that new paragraph (d) be adopted in its place to articulate how University of California employees who are assigned to work outside of the state will be treated for tuition purposes.

Under the proposed amendment:

First, students who are full-time UC employees who are assigned to work outside of California, or the spouses, registered domestic partners, or dependent children of such employees, will continue to be entitled to resident classification for tuition purposes.

Second, in the event the University/Bechtel team is awarded the contract for the management of LANL, waivers of nonresident tuition fees for full-time employees of Los Alamos National Security, LLC, and their children, spouses, and domestic partners, would be provided in accordance with policies and practices currently in effect and applicable to University employees who are assigned to work outside of California.

Next, the proposed amendment also would address a problem that is not a direct result of the LANL contract competition, but which is related to nonresident tuition waivers normally enjoyed by UC employees who are assigned to work outside of California and who transfer to UC employment in California, either at a UC campus or at the Lawrence Livermore or Lawrence Berkeley National Laboratory. In the absence of a change in the University's residency policies, such an employee, and his or her children, spouse, and/or domestic partner, currently suffers the hardship of being treated as a non-resident for his or her first year of employment in California. Where such an employee has served continuously as an employee of the University (or, in the future, as an employee of LANS), this result is unanticipated and contrary to the result that obtains for an employee transferring in the opposite direction, i.e., from California to an out-of-state University position (or, in the future, a LANS position). This action will correct this unintended inequity by classifying employees who transfer without a break in service from Los Alamos or other UC employment outside of California to UC employment anywhere in California as California residents immediately upon their transfer.

Finally, in the event the University/Bechtel team is not awarded the contract for the management of LANL, this amendment would confirm existing University policies and practices, which extends the waiver of nonresident tuition fees only for the remainder of the current academic quarter or semester for students who are no longer eligible for the waiver.

In response to a question asked by Regent Johnson, Senior Vice President Mullinix reported that tuition remission programs had been discussed from time to time, but in light of the rising costs of benefits, adding another benefit has been determined to be too expensive.

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

7. **PROPOSED AUTHORIZATION OF THE PRESIDENT TO INDEMNIFY INDIVIDUALS PROVIDING SERVICE IN AN ADVISORY CAPACITY AND AMENDMENT OF STANDING ORDER 100.4(dd) – DUTIES OF THE PRESIDENT OF THE UNIVERSITY**

The President recommended that:

A. The President be authorized, in consultation with the General Counsel, to provide defense and indemnification in the event of claims or litigation related to service to the University, to individuals serving as advisors to the University in response to University requests for their services, the terms thereof to be acceptable to the President and General Counsel.

B. Following service of appropriate notice, the Committee on Finance recommend to The Regents that Standing Order 100.4 be amended as indicated in the Attachment.

It was recalled that the proposed action would authorize the President to agree on behalf of the University, following consultation with the General Counsel, to provide defense and indemnification to non-University individuals appointed to serve in an advisory role to the University. Such an individual would be indemnified and defended against civil claims, litigation, and liabilities that might arise as a result of acts or omissions committed by the individual in the course and scope of his or her service as an advisor other than as to matters involving fraud, corruption, or actual malice by the individual.

Standing Order 100.4(dd)(9) prohibits the University from accepting liability for conduct of persons other than University officers, agents, students, invitees, and guests without specific approval by the Board of Regents; the proposed amendment would permit acceptance of liability for advisors appointed by the University where the President and the General Counsel concur.

The Regents have previously approved indemnification of third parties under various circumstances; primary examples are indemnification of members of the Continuing Education of the Bar advisory board (January 21, 1994); members of the President's Council on the National Laboratories (July 15, 2004); campus foundation trustees (July 18, 2002); the public member of the Merced Community LLC (September 18, 2002); and the UC Press Board as well as advisors to the Board itself or to one of its committees (May 26, 2005). Community members and experts providing advisory services have expressed heightened concern about the potential for personal liability although otherwise being willing to serve as advisors for various purposes. It is anticipated that such concerns will continue to be a factor in voluntary service. For example, as indicated in the January 2005 report to the Committee on Health Services, the President recently established a Health Services Advisory Group. That group is preparing for its inaugural meeting. The course and scope of the group's advisory duties support providing defense and indemnification in connection with issues that may arise related to their services. The President would provide the commitment to defend and indemnify following consultation with the General Counsel.

Rather than bring individual proposals for defense and indemnification of individual advisors or members of advisory groups to the Board for authorization, it is proposed that authority in this regard be placed with the President acting in consultation with the General Counsel.

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

8. **RESOLUTION TO ADOPT CALIFORNIA EDUCATION CODE SECTION 92630 DEALING WITH DISTRIBUTION OF ALUMNI INFORMATION TO UNIVERSITY AND ALUMNI ASSOCIATION AFFINITY PROGRAMS**

The President recommended the adoption of California Education Code Section 92630 to permit the University of California and the campus alumni associations to continue their affinity programs.

Universities and alumni associations throughout the country participate in so-called "partnerships" with commercial vendors, often called "affinity programs," pursuant to which alumni and friends are offered certain financial services by the commercial vendor and the related university or alumni association receives a fee from the vendor. Examples of the services provided to alumni and friends through these affinity partnerships include travel programs, credit cards and other financial services, group rates and discounts for home and auto insurance, student-loan consolidation, and mortgage programs. The fees paid by the vendors provide revenue to the affinity partner. At UC, this affinity-agreement fund source supports alumni association administration, membership services, support for alumni scholarships, student mentoring, and career advising and placement. On some campuses this fund source has provided up to 40 percent of the operating budget of the campus alumni association. The annual income generated for UC alumni associations from such affinity programs is approximately $5 million a year.

Since the late 1970s, UC and its UC alumni associations have entered into affinity agreements, primarily performing in-house mailing or using a third-party mailing house rather than distributing mailing lists. Recently, some affinity partners questioned whether these processes are permissible under California's Information Practices Act (IPA) (Civil Code Section 1798.60). The IPA prohibits public institutions, including UC and CSU, from distributing the name and address of any individual for a commercial purpose, unless expressly authorized by law; therefore, UC joined with CSU to sponsor SB 569 (Torlakson) to eliminate any ambiguity regarding the use of affinity programs by agencies subject to the IPA.

A formal resolution by The Regents is required to adopt Education Code Section 92630, which carries the provisions of SB 569, to make its provisions applicable to the University of California and the campus alumni associations so that they may continue the affinity programs. Education Code Section 92630 remedies the inequity between California's public universities and other institutions, including California's private universities that participate in affinity programs.

Section 92630 also sets a high standard for privacy by requiring that affinity contracts contain a confidentiality clause prohibiting reuse of names and addresses, and that alumni and friends are expressly notified regarding their ability to opt out of disclosure of personal information, at no cost. Further, alumni and friends who have opted out of release of personal information under the Family Educational Rights and Privacy Act (FERPA) will not have their names and addresses disclosed to affinity partners.

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

The meeting adjourned at 12:25 p.m.

Attest:

Secretary