The Regents of the University of California

COMMITTEE ON FINANCE
September 20, 2006

The Committee on Finance met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Blum, Busamante, Dynes, Gould, Hopkinson, Island, Kozberg, Moores, Parsky, Preuss, and Wachter; Advisory member Oakley; Staff Advisors Brewer and Miller

In attendance: Regents Coombs, De La Peña, Johnson, Lansing, Ledesma, Marcus, Pattiz, Ruiz, Schreiner, and Varner, Regents-designate Allen, Brewer, and Bugay, Faculty Representative Brown, Acting Secretary Shaw, Acting General Counsel Blair, Chief Investment Officer Berggren, Provost Hume, Executive Vice President Darling, Vice Presidents Broome and Gurtner, Chancellors Birgeneau, Bishop, Córdova, Drake, Fox, Vanderhoef, and Yang, Acting Chancellors Abrams and Blumenthal, Executive Vice Chancellor Alley representing UC Merced, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 12:10 p.m. with Committee Chair Gould presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of July 19, 2006 were approved.

2. ESTABLISHMENT OF A NON-PROFIT 501(c)(3) CORPORATION FOR IMMUNE TOLERANCE NETWORK AND DIABETES CENTER, SAN FRANCISCO CAMPUS

The President recommended that the Committee on Finance recommend to The Regents that:

A. The Regents authorize the establishment of an affiliated, non-profit corporation to be called the Immune Tolerance Institute, Inc. (ITI) the purpose of which includes providing comprehensive research core support capabilities and facilities to support:

(1) Immunogenotyping and immunophenotyping.

(2) Bioinformatics.
(3) Development of intellectual property for the prevention and treatment of diseases caused by abnormal function of the immune system, and to accelerate the translation of discoveries into therapeutic treatments.

B. The Regents authorize the President, in consultation with the General Counsel, to execute all documents necessary to establish ITI and a Research Services (RSS) Agreement, such documents and agreement to include the following provisions:

(1) ITI shall be organized exclusively for nonprofit purposes; specifically, its primary purpose shall be to support, benefit, and further the charitable, scientific, and education purposes of UCSF by providing clinical trial support services for UCSF and its Immune Tolerance Network (ITN) and Diabetes Center.

(2) The University shall make initial working capital contributions to ITI, such contributions to be identified in the RSS Agreement.

(3) Strategic business decisions for ITI shall be prescribed by the Board of Directors. The ITI shall not have the authority to approve or amend its Articles of Incorporation, sell or exchange substantially all of its assets, or change its primary line of activity without the prior written consent of the President of the University.

(4) The Chairman of the ITI Board of Directors, as approved by the Chancellor of UCSF, shall be Dr. Jeffrey Bluestone, Director, UCSF Diabetes Center; A.W. and Mary Clausen Distinguished Professor of Medicine, Pathology, Microbiology and Immunology, UCSF; Director, Immune Tolerance Network.

(5) A President of the ITI will be appointed by the Chairman of the ITI Board of Directors, with the advice and consent of the UCSF Chancellor. The President will also be a Director of the ITI.

(6) There shall be no fewer than 7 and no more than 15 Directors of ITI, all of whom (other than as set forth above) shall be appointed by the directors of ITI, with the advice and consent of the Chancellor of UCSF.

(7) The Board of Directors, excluding the Chairman, shall be composed of 50 percent UCSF employees (UCSF Directors) and 50 percent persons other than UCSF employees. The UCSF Directors shall include at least one member from the Executive Vice Chancellor’s Office, at least one from the Senior Vice Chancellor Finance and Administration’s Office, and at least one from the School of Medicine’s Dean’s Office with academic standing.
(8) ITI will establish and maintain its own business procedures, processes, and administrative structure, subject to the RSS Agreement that defines the working relationship with the University.

(9) The initial term of the RSS Agreement shall be through January 31, 2014, or, if sooner, the final expiration of the ITN contract between UCSF and the National Institutes of Health. The RSS Agreement would be renewable thereafter for one year intervals by agreement of the parties. Either party could terminate the RSS Agreement at any time with 180 days’ written notice.

(10) The Office of the President or UCSF would have the right to conduct both management and financial audits of the ITI's activities. The ITI will prepare and provide audited financial statements to UCSF annually.

C. The Regents authorize The President, in consultation with the General Counsel, to take such additional actions as shall be reasonably required to accomplish the actions referred to in paragraphs A. and B. above.

**Immune Tolerance Network**

Provost Hume informed the Committee that the Immune Tolerance Network is a sponsored research project at UCSF designed to advance the clinical application of immune tolerance therapies. The ITN conducts clinical trials and associated studies of the mechanisms of tolerance in kidney, liver, and islet transplantation, autoimmune diseases, as well as asthma and allergic diseases. The ITN is made up of leading scientific and medical faculty from over 50 institutions in 9 countries and employs approximately 70 full-time UCSF staff. The ITN is currently conducting approximately 25 clinical trials at more than 40 institutions around the world, each including an array of associated bioassay studies.

The ITN is headquartered at UCSF and also maintains major satellite offices in Bethesda, MD, and Pittsburgh, PA. The ITN is funded by the National Institute for Allergy and Infectious Diseases (NIAID), the National Institute for Diabetes and Digestive and Kidney Diseases (NIDDK) and the Juvenile Diabetes Foundation. A seven-year, $134 million contract funded by NIAID ends in September, 2007; a renewal proposal for an additional seven years has been submitted by UCSF with a very strong expectation of approval at a significantly higher funding level of over $200 million. Upon approval, the new contract will begin in February 2007, allowing for eight months of overlap with the existing contract.

The initial ITN contract, issued in 1999, was unique in the world of health sciences research. The NIH spelled out the deliverables of the contract but challenged Dr. Bluestone to establish the best and most effective way to run the contract. The NIH wanted him to develop a structure that identified and supported high quality, but broadly
based, clinical trials. The ITN's processes have evolved over the past seven years, based on what did and did not work well. To ensure standardization across the 25 clinical trials at 40 institutions in nine countries, ITN developed 160 standard operating procedures to be followed by ITN participants. It has established 12 different “cores” (a research support laboratory testing activity) that are subcontracted to various institutions for implementation, picking the best performer for each aspect.

**Problems with the Current Situation**

While the current ITN structure has produced gratifying results, it has been difficult to manage. Most of the “core” infrastructure is outside of UCSF, requiring a considerable time investment from Dr. Bluestone and other high-level scientific and administrative staff. Certain measurements and tests must be perfectly standardized so that data from different sites and different time periods can be compared and contrasted with confidence. At the same time, the subcontractors must be efficient, while still achieving rigorous quality control. Subcontractors do not always achieve these standards, thereby jeopardizing the research results. With such a large number of subcontractors, it is extremely difficult to provide the training and close oversight needed to ensure the quality and efficiency that NIH challenged Dr. Bluestone to achieve.

One additional problem relates to development of intellectual property. The ITN’s research combines large quantities of data from numerous sites. Very often the pieces of a potential invention come from different academic institutions. Different inventions, made at different academic institutions at different times, must be managed in an integrated fashion as a single portfolio in order to maximize their collective value and attractiveness for commercial licensing purposes. It is necessary to tie all ITN intellectual properties together to enable the ITN to take advantage of the recent federal CREATE Act. Without this Act, intellectual property developed under a formal collaboration agreement could be counted as prior art for patent purposes against other intellectual property developed by the consortium and thus preclude patenting the technology. Such a finding would diminish the value of the ITN’s intellectual property portfolio. In short, the maximum value in terms of patentability and licensure occurs when the intellectual property elements are combined and managed in an integrated manner at UCSF. Conversely, allowing each member institution to manage its own intellectual property rights and file patent applications separately is inefficient and runs the risk that the consortium's intellectual property portfolio will be fragmented and devalued as different institutions license their patent rights to different commercial development partners. The preferred model for ITN entails centralized, integrated intellectual property management, with license income distributed among the contributing institutions in proportion to their contributions.
Options for Solving the Problems

UCSF has considered and evaluated five potential options:

1. Contract outside - This option maintains the status quo, with a high administrative cost, and all the problems outlined above.

2. Move the ITN to another academic institution - Of the eleven-member ITN Executive Committee, only Dr. Bluestone is a UCSF faculty member. Other members come from various academic and research settings including Harvard, Stanford, Duke, and the University of Pennsylvania. It would be possible to move the ITN to another academic setting, but this would produce no appreciable improvement to the administrative burden that accompanies this contract, and it would be a huge scientific and financial loss to UCSF. Conducting such a complex, high-quality, production-oriented endeavor would be an intrinsic challenge for any academic institution.

3. Move the ITN to an industry sponsor - This option would result in a loss of the academic oversight and input that is considered so crucial to the ITN's success. In addition, Dr. Bluestone has indicated that he would not be interested in remaining director of the ITN if this option is pursued.

4. Build the “core” laboratory and support structure within UCSF - To build such a structure within UC would require considerable resources, time, and would compete with other already committed UCSF capital and space priorities. It would not address the issues of separately owned intellectual property.

5. Establish a University-owned nonprofit organization to manage the “core” laboratory - The Immune Tolerance Institute, Inc. being proposed could operate and provide the “core” services for the ITN and its members from one central location and facilitate intellectual property development from all sites. UCSF believes this option encompasses the best chance for creating a service organization of the caliber required at an efficient cost.

Advantages of the Proposed Solution

Option #5, establishing a University-sponsored nonprofit organization to provide services to the ITN, would preserve the UCSF-ITN relationship and ensure that the expected $200 million plus contract renewal resides at UCSF. Over the seven-year life of the contract, UCSF projects to recover over $40 million in indirect cost income and would also fund approximately $160 million in direct expenses. ITI would be a research service organization to UCSF, and it would be providing services that are essential for its faculty researchers to survive and flourish. Once established, other UC faculty outside the ITN may also use ITI services. Investing a small amount of UCSF resources in the ITI would be the most cost-effective way to build the support organization needed, because ITI could leverage the UCSF investment with investments from organizations such as the Juvenile Diabetes Foundation. A RSS Agreement with ITI will allow ITN to pay lower indirect costs than would have to be paid to other academic institutions which are currently providing the core functions (UCSF’s indirect rate is usually lower than that of
other academic research institutions, particularly private ones). This would result in directing even more dollars to research goals.

Because it will be a nonprofit organization separate from UCSF, ITI would find some things, including negotiating indirect costs and intellectual property with other academic institutions, easier than if it were part of UCSF. Furthermore, UCSF would not have to carry the administrative burden of these activities.

**ITI Operations**

ITI will initially serve as a research service organization to ITN and UCSF and will hire the staff and develop the structure to provide core capabilities as requested by ITN and UCSF. These will include but not be limited to immunophenotyping and immunogenotyping, bioinformatics, and IP management. For each service provided, a separate contract, subcontract, or research service agreement will be established between ITI and UCSF. All contracts, subcontracts, and service agreements will be compatible with UCSF policies and applicable State and federal laws, regulations, or policies. Over time, the full scope of ITI activities is expected to include:

*Large-scale immunophenotyping and immunogenotyping laboratory facilities.* ITI will develop a single, highly efficient, dedicated facility to couple genomic technologies with evolving high-throughput immunophenome efforts in flow cytometry and immune proteomic analyses to realize a better understanding of the complex relationship between gene expression and function in clinical research.

*Clinical trial support.* ITI will support complex clinical trials, mechanistic assays, and integrated bioinformatics approaches to data analysis. This will be accomplished by the consolidation of internal laboratory cores, as well as Clinical Research Organization activities and bioinformatics.

*Sponsored Projects.* All of ITI’s Sponsored Projects will be in support of research, drug studies, clinical trials, or research training consistent with its nonprofit purposes. ITI expects it will have multiple Sponsored Projects funded by many different sponsors, including federal, State, or local government agencies, and private organizations or individuals.

*Services to Other Organizations.* ITI is authorized to engage in various partnerships and other business relationships with additional academic and corporate organizations through independently negotiated and maintained contracts and service agreements, to the extent that ITI is not materially hampered in meeting its obligations to UCSF.

*Business development and intellectual property.* ITI will establish and manage its corporate and academic relationships, as well the management of its awards, as required by federal, State, or private grantors. ITI will function as an agent for
UCSF and other consortium partners to coordinate, integrate, and manage intellectual property from ITN activities, as specified in the RSS Agreement.

It is UCSF’s expectation that it will take several years for ITI to build up to full functionality. During that time there will be no risk to the ITN research, because ITN will continue to maintain its existing contractual relationships until ITN is confident of the quality and price of ITI services.

ITI will establish and maintain its own business procedures and processes with respect to (a) general accounting and financial management, including preparation of operating budgets and annual audits, (b) tracking income and expenses; (c) preparation of required financial reporting documents; (d) tax preparation and filings; (e) risk management and insurance; (f) contracts and agreements; (g) facilities and administrative cost calculation and negotiation; (h) human resources, including HR policies and payroll processing and employee benefits. UCSF will retain the right to conduct both management and financial audits. Under generally accepted accounting principles, it is expected that the ITI financial statements will be required to be included in the UCSF campus financial statements, and ITI will be required to provide audited financial statements annually.

Each ITI employee will be selected, employed, supervised, assigned, and compensated by ITI in accordance with its own procedures. All existing ITN/UCSF employees will remain with UCSF, and UCSF will not have responsibility for payment of any compensation to an ITI employee. No UCSF service credit will be available to ITI employees.

As provided in the RSS Agreement between UCSF and the ITI, UCSF will advance the ITI working capital and provide additional ongoing support services for a period of time that coincides with the term of the NIH-funded ITN contract. The source of the working capital advance will be largely from the indirect cost recovery from the ITN NIH contract that is paid to the University and returned to UCSF in the form of Opportunity Funds. These Opportunity Funds advanced by UCSF to ITI as working capital will be part of UCSF's annual budget and planning review process to support the ITI. The estimated amount of working capital advanced will average about $1 million a year over the period of the RSS Agreement.

No other UCSF resources except those described above will be used by ITI or on behalf of ITI without reimbursement to UCSF, unless agreed to by both parties. The mechanics of this and the advance of working capital will be spelled out in detail in the RSS Agreement.

The ITI expects to generate income from other third-party sources as a consequence of its operations. There is an expectation that over time this third-party income will become sufficient to fund both an expansion of activities as well as a contribution back to UCSF on account of the working capital advanced by UCSF. An annual review of the financial status of the ITI will be made jointly by UCSF and the ITI Board to determine the amount
of the ITI contribution, if any, that shall be made available to offset the initial capital investment.

The ITI will not seek debt financing, nor will it have any authority to do so.

**Operating Authorization and Reserve Powers**

In order to insure that the ITI effectively benefits UCSF, the ITI will be structured so that strategic decision making rests with the University, because a majority of the Board members will be appointed with the advice and consent of UCSF’s Chancellor and will be UCSF employees. There will be no delegation of Regental or Presidential authority to ITI. The Chancellor of UCSF, as the designee of the University, will have authority to initiate or approve ITI-related actions and key business decisions already within the Chancellor’s existing delegated authority.

To insure the foregoing, the RSS Agreement will be executed between UCSF and ITI. It will define operating procedures, procedures for development and sharing of intellectual property, repayment of working capital, conflict of interest provisions, financial reporting and record keeping, personnel management and contracting for goods and services, as well as reserved powers and obligations that are necessary.

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

3. **APPROVAL OF INDEMNIFICATION TERMS RELATING TO DATA LICENSED FROM THE NEW YORK STOCK EXCHANGE, LOS ANGELES AND BERKELEY CAMPUSES**

The President recommended that:

A. The President be given authorization to execute a license agreement with New York Stock Exchange, Inc. (NYSE) that contains indemnification language that might require assumption by the University of third-party liability, an action for which approval by The Regents is required under Standing Order 100.4(dd)(9).

B. The Regents authorize, retroactively, the execution of a NYSE–Haas School of Business, Berkeley campus agreement that was signed in August 2005.

It was recalled that the proposed NYSE license will allow the University’s Los Angeles campus to access a database that contains “Trades and Automated Quotations” (TAQ). These data are of critical importance to the finance faculty and students at the Anderson School of Management at UCLA. The database consists of intra-daily trade quantities and price quotations for all stocks traded in the USA. The Anderson School of Management (Anderson) advises that virtually all top business schools have ongoing commitments to license TAQ data. In the past, NYSE has provided Anderson access to
the TAQ data free of charge and without a license agreement. This year the University is being required to pay for the service and to execute the NYSE license agreement.

One of the principal aims of the Anderson faculty as finance scholars is to study how prices are formed in the stock market. For example, an enduring question is whether the prices are set efficiently or whether they may be susceptible to waves of investor sentiment. To study this question, faculty must analyze the relation between prices and trading, and for this the TAQ database becomes a necessity. Another important question relates to the notion of how equity trading costs vary over time. For example, an issue of relevance to policy makers and academics is whether technological innovations like the advent of online trading have improved terms of trade for market participants. The TAQ database again is the only reliable source available for extracting trading cost measures.

Papers based on TAQ have brought much visibility to Anderson. Papers written at Anderson with accompanying honors, as well as research grant awards at the School, that involve projects using TAQ data include:

“Commonality in Liquidity” (awarded the Fama/DFA prize for the best paper published in the Journal of Financial Economics, 2000);

“Market Liquidity and Trading Activity” (awarded Roger F. Murray prize for the best paper presented at the Q-Group meetings, 2001);

“The Cross-Section of Expected Trading Activity” (awarded the prize for the best paper in market microstructure, Financial Management Association Meetings, Chicago, 2005);

Association for Investment Management Research grant for the study of long-term liquidity, 2000;

Q-Group grant to study speed of convergence of prices to market efficiency, 2001; and


In addition, there are several ongoing faculty projects at UCLA that are using TAQ data. Thus, it will be difficult for several faculty to function at Anderson if access to the TAQ data is not authorized. Moreover, several doctoral students are actively using these data, and a recent graduate from the Anderson Ph.D. program wrote her entire dissertation using the TAQ dataset. Anderson views the TAQ data as critical to its program. Failure to obtain a license for continued access would place it in a competitive disadvantage and impair the ability of key faculty to conduct research and afford educational opportunities.
The NYSE license is restricted to authorized users. The contract provides that UCLA use its best efforts to protect against unauthorized access or use of the database. It also provides that if an unauthorized user does gain access, UCLA shall pay the charges that would have been imposed if the use had been authorized, plus a 10 percent administrative fee and interest on unpaid amounts. This language, on its face, suggests that if there were a security breach, even without negligence on the part of UCLA, UCLA would have to pay certain charges. (The agreement provides for a flat fee of $200 a month for unlimited users. Given this fee structure, it is unclear what, if any, additional charges might be imposed for unauthorized users, but any charges are unlikely to be significant.) There is also language in the contract that can be read to limit the University’s obligation to pay to circumstances in which the University has acted improperly. This limiting language is subject to a determination within the “sole discretion” of the NYSE. Accordingly, it is possible, though unlikely, that the University would have to pay for a disclosure which, in the University’s view, did not result from any action by University personnel.

There is additional language in the contract that would oblige the University to defend and indemnify the NYSE in the event it were sued as a result of any use of the data other than as provided in the agreement. This language is ambiguous, but it could be read to create a financial obligation on the part of the University, even in cases in which misuse of the data did not result from any actions by University personnel.

In light of these provisions, the contract can be read to make the University responsible for the conduct of third parties. Standing Order 100.4(dd)(9) provides that the Board of Regents, not the President, must approve: “[a]greements by which the University assumes liability for conduct of persons other than University officers, agents, employees, students, invitees, and guests.”

While the contract terms require approval by the Board, their impact as a practical matter is small. The TAQ data are generally historical, delayed by at least four months, and are not likely to have any commercial value. The chances of a third party improperly accessing the database appear small, and the likelihood of any lawsuits against the NYSE resulting from such unauthorized access appears negligible. Also of note is a provision in the agreement that “reserves the right” of the NYSE to recover punitive damages for a “deliberate breach of good faith.” It is unlikely that this provision would be interpreted to create a right to punitive damages against the University that would not otherwise exist.

The NYSE has been unwilling to negotiate any changes in the language because of existing and pending contracts with many users. Negotiating with one potential user has implications for others.

In the course of discussing the agreement with UCLA, it was learned that the Haas School of Business at Berkeley had previously executed the identical agreement with the NYSE without recognizing that it contained provisions that required legal review, as well as Regental authorization. The Regents are requested at this time to authorize, retroactively,
the execution of the NYSE license agreement by the Haas School. The Haas School has not had any difficulties with the NYSE under the agreement, which was signed in August 2005.

As the University benefits greatly from access to the TAQ data and the risk of unauthorized access and resulting liability is small, it is proposed that The Regents grant the President authorization to sign the NYSE agreement that contains the indemnification and payment obligation for unauthorized users, with the option to re-delegate this authorization to the Chancellors.

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

4. APPROVAL OF EXPANDED USE OF STUDENT FACILITIES SAFETY FEE REVENUE, DAVIS CAMPUS

The President recommended that revenue remaining at the end of each fiscal year from the mandatory Student Facilities Safety Fee of $66 per student per year at the Davis campus, beyond the required debt service for the Memorial Union and North and South Halls, be used for other needed life safety improvements in student services facilities, and that 25 percent of the total fee be set aside for financial aid.

Chancellor Vanderhoef recalled that in 1995, The Regents approved a $66 per student per year Student Facilities Safety Fee on the Davis campus. The fee was to be used for the seismic renovations in North and South Halls and the Memorial Union. The fee was approved pursuant to the March 1988 Regents’ policy as follows:

Fee increase does not require a student referendum when the Chancellor determines that the increase is necessary for the maintenance of the safety of a building or facility funded wholly or in part by students. This Policy is applicable to fees for student fee-funded buildings such as student unions, student centers, and student recreational and sports facilities on all University campuses.

Because of favorable financing terms for the projects and enrollment changes since 1995, the Student Facilities Safety Fee generates more revenue than is needed to fund the debt service for the seismic renovation projects. The campus proposes that, at the end of each fiscal year, remaining revenue collected from the Student Facilities Safety fee after meeting debt service requirements be made available for additional life safety projects in student-fee funded facilities. This proposal will allow the campus to begin to address additional life safety needs at the Davis campus without establishing another mandatory student safety fee to meet these additional needs. The current $66 fee per year generates approximately $1 million per year after meeting debt service payments for seismic improvements in the Memorial Union and North and South Halls. This proposal is consistent with the Los Angeles campus' proposal approved by The Regents in September 1999 to use excess fee revenue generated from its Student Seismic Fee.
Though not required for existing campus-based fees under current Presidential policy, the campus also proposed to set aside 25 percent of the total annual fee as return-to-aid funds in response to recent concern about the lack of a financial aid component in campus-based fees. Approximately $500,000 from fee revenue would be set aside annually for financial aid.

As currently approved by The Regents, as long as the debt for the Memorial Union and North and South Halls is outstanding, the Student Facilities Safety Fee shall remain at a level sufficient to pay the debt service and meet the related requirements of the financing, including debt service coverage equal to 1.25 times the actual debt service. The campus would ensure that sufficient revenues are generated and available to meet all financing requirements for the outstanding debt. The debt for these projects will retire in 2029. Upon retirement of the debt, the campus does not intend to extend the length of the Student Facilities Safety Fee.

Life safety projects using this fee as a fund source will be approved in accordance with Regents’ policy for capital improvement projects. It is anticipated that revenue from the Student Facilities Safety Fee would first be used for health and safety projects in the Pavilion, a 150,000-square-foot arena. In subsequent years, as additional revenues are available, other life safety projects would be funded as appropriate.

UC Davis Student Affairs has conferred about the proposed extended use of the original fee with the elected officers of the three officially recognized student governments at that campus: the Associated Students, the Graduate Student Association, and the Law Student Association. All concur with the proposed action. The presidents of these recognized student governments have provided letters of support. These consultations have included the campus’ intention to engage students in an annual review of the health and safety projects through the campus’ Student Services and Fees Advisory Committee, and the relative priorities for use of this campus-based fee.

Regent Hopkinson noted that the item indicates that $1 million a year after meeting debt service payments will be used for seismic improvements and another $500,000 will be set aside annual for financial aid. She commented that student fees on the Davis campus are very high. She asked for an explanation of how the campus could have ended up with an excess of $1.5 million in fee income. Chancellor Vanderhoef explained that, despite its student fees, the campus ranks lowest among UC campuses in the amount of debt that students have accrued following graduation. He reported that since this fee was established in 1995, enrollment has increased more than was expected. The campus saved money by refinancing the loans that were taken out to support the projects that were funded by the fee. The campus had calculated that a fee of $22 a quarter would be needed to pay for the safety adjustments for the projects; now that there is excess money, the campus would like to use it to fund other safety projects in student-funded facilities that in the meantime have become necessary.
Regent Hopkinson expressed concern that students had been charged far more than was needed and was skeptical that refinancing could result in such substantial savings. Chancellor Vanderhoef noted that neither the refinancing nor the enrollment growth was predictable when the fee was established.

Chairman Parsky believed that the underlying issue was one of credibility. It is important to be able to understand how, if almost all of the fee has been saved, that could not have been predicted when the fee was established. Committee Chair Gould suggested that the campus return to the Committee with a detailed explanation of how that could happen. Chancellor Vanderhoef agreed to provide the data that justified the $22 a quarter fee in 1995 when it was approved and to explain why that fee now generates so much more money than was predicted.

Vice Chancellor Sakaki stressed the importance of addressing the serious health and safety issues in facilities that students are using. The campus would like to be able to provide the safest environment possible. Chairman Parsky suggested approving the recommendation with the understanding that further details would be provided by the campus.

Regent Hopkinson asked whether the University would have the ability to reduce the fees in such a situation. Acting General Counsel Blair agreed to review the legal aspects of such an action.

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

5. UPDATE ON DEBT CAPACITY RESTRUCTURING EFFORTS

Committee Chair Gould invited Regent Blum to discuss the efforts to restructure UC’s debt capacity.

Regent Blum recalled that a restructuring process was under way that covers several topics, among which the capital expenditure process and debt strategy are the most important. He commented that debt is the most important source of funding for UC capital. The University has been conservative with respect to the overall level of debt. A good debt strategy must carefully balance meeting capital needs with taking on debt risk.

Regent Blum reported that a small group at the Office of the President have controlled the process of allocating debt capacity, leaving the campuses and most Regents uninformed as to how it works. In financing, general strategy is important. Some of the frustrations that have been voiced about the process have to do with capital expenditure caps at different campuses. Most chancellors and others believe these caps to be arbitrary. Regent Blum believed that rather than caps there should be a program whereby the campuses inform the Regents what they want to have financed over a three or five
year period and each project is reviewed by the appropriate Regents’ Committee. In order to ensure that the University’s research scientists, clinicians, and other faculty are given the facilities they need, a capital expenditure program must be established that is understood by the Regents. With the help of Lehman Brothers, a rational process is being developed.

Regent Blum noted that the Committee on Grounds and Buildings is working to identify and implement cost-saving measures in the planning and construction process. There are estimates that construction costs for University buildings run from 20 percent to 100 percent above average. Finding ways to bring down these costs could save hundreds of millions of dollars. He noted that addressing cost savings issues involves a coordinated effort among the appropriate Regents’ Committees.

Faculty Representative Brown sought assurances that strategic decision-making and debt allocation would be based on systemwide academic priorities. Regent Blum responded that his goal was not to abandon the practices of getting administrative and Regental approval for the expenditure of capital, but to make the process more open, less bureaucratic, more time sensitive, and better understood by everyone involved. Academic priorities will still drive the process. The goal is to find the resources to fill them. He was hopeful that the effort will result in the demonstration that more capital is available than was thought previously.

Committee Chair Gould stressed the importance of the issue, commenting that there are likely policy issues embedded within the financial issues about how the University uses debt and how much capacity it actually has. The Regents will be kept informed as to the outcome of the restructuring efforts.

6. **REPORT OF NEW LITIGATION**

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

The meeting adjourned at 12:45 p.m.

Attest:

Acting Secretary