The Regents of the University of California

**COMMITTEE ON FINANCE**
July 18, 2007

The Committee on Finance met on the above date at University Center, Santa Barbara campus.

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| Members present: | Regents Blum, Brewer, Dynes, Garamendi, Gould, Hopkinson, Island, Kozberg, Moores, Parsky, and Wachter; Advisory member Oakley; Staff Advisors Brewer and Johansen |
| In attendance: | Regents Allen, Bugay, De La Peña, Lansing, Lozano, Marcus, and Varner, Regents-designate Cole, Scorza, and Shewmake, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Broome, Foley, and Sakaki, Assistant Vice President Casey representing Acting Vice President Standiford, Chancellors Birgeneau, Drake, Fox, Kang, Vanderhoef, and Yang, Acting Chancellors Abrams, Blumenthal, and Grey, and Recording Secretary Bryan |

The meeting convened at 11:30 a.m. with Committee Chair Gould presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice was served in accordance with the Bylaws and Standing Orders for a Special Meeting of the Committee on Finance concurrent with the regular meeting for the purpose of addressing items on the Committee's agenda.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of May 17, 2007 were approved.

3. **ADOPTION OF POLICY RESTRICTING UNIVERSITY ACCEPTANCE OF FUNDING FROM THE TOBACCO INDUSTRY**

Regent Moores recommended that The Board of Regents adopt the following policy:

> The Regents will decline all new funding from the tobacco industry or agencies substantially controlled by or acting on behalf of the tobacco industry, unless the funding is for activities clearly unrelated to the health

effects of tobacco products, or to the promotion, regulation, or use of tobacco products. This should not be construed to prohibit the University from receiving funds from tobacco companies through programs that match individual employee philanthropic donations.

This policy will apply only to awards made in response to new proposals submitted after the date this policy becomes effective. Awards active as of the effective date of the policy will be allowed to continue, and acceptance of funds that may be awarded in response to proposals submitted prior to the effective date of the policy will be allowed.

Research at the University of California is funded by a variety of sources, including federal, State, foundation, individual, and corporate/industry support. Under current University policy, individual researchers are free to accept funding from any source, as long as the funds are otherwise in compliance with applicable University policy (for example, as long as the award does not give the sponsor the ability to control or restrict publication of research results). Individuals, foundations, and corporate/industry sources also provide funding to the University for purposes other than research (e.g., in the form of gifts to support arts and education programs, buildings, endowed chairs and professorships, student support, etc.). There are no restrictions on the University's ability to accept gift or endowment funding from any source, as long as the awards comply with University policies.

Over the years, critics of tobacco and of the tobacco industry have raised serious concerns about the University's acceptance of funding from sponsors with ties to the tobacco industry. While the amount of such funding received by the University is quite small in proportion to the University's total research funding, the concerns raised about acceptance of such funds center not on the amounts but on underlying principles and on the belief that such acceptance is inconsistent with the University's missions. From 1995 through 2006, UC researchers received approximately 108 awards totaling about $37 million from tobacco-related companies[1] for research, training, and public service. By comparison, the University received more than $4 billion in total contracts and grants revenue in FY 2006 alone.

As of January 2007, there were approximately 19 active grants at UC from sponsors with known ties to the tobacco industry. These grants, supporting research and related activities on the Berkeley, Davis, Los Angeles, and San Diego campuses, were all awarded by Philip Morris USA, and total approximately $15.8 million.

[1] In addition to tobacco companies like Philip Morris, there are other companies, like Kraft Foods, that are either parent companies, affiliates, or subsidiaries of tobacco companies. While UC does not maintain a comprehensive list of "tobacco companies," there are companies known to UC that have in the past been identified with the tobacco industry; this data shows funding that UC has received from companies that are known to be, or to have been, tobacco-related.

The University also has received gift funds from tobacco companies and sources related to tobacco companies. While comprehensive systemwide information is not currently available in the University's corporate databases, consultation with campus development offices identified gifts from a number of tobacco companies. Responding campus development offices reported receiving gifts from corporate donors such as RJR Nabisco, Kraft Foods, Brown and Williamson Tobacco Corporation, and Philip Morris, with approximately 11 gifts made from 2005 through 2006, totaling about $485,000. This is an extremely small proportion of the University's total receipt of gifts and pledge payments, which for FY 2006 alone totaled $1.29 billion.

A number of individuals and organizations have encouraged the University to adopt a policy prohibiting acceptance of tobacco industry funds. Proponents of such a ban have expressed the strong view that the tobacco industry has exerted a corrupting influence on research and that even though the tobacco industry does fund some meritorious basic scientific research, it also funds scientifically inferior proposals and uses the more meritorious research to lend credibility to its funding program while minimizing the risks of tobacco. Adoption of a policy banning such funding is seen as a way for The Regents to make a strong statement and to dissociate the University from an industry that has been deemed to engage in corporate actions antithetical to the University's core missions.

Proponents of a ban on acceptance of tobacco funding argue that the University should dissociate itself from an industry known to make a product harmful to human health and that has a history of attempting improperly to influence or misrepresent research results. A number of other highly regarded institutions have already adopted policies declining tobacco industry funding. These include Johns Hopkins School of Public Health, University of Arizona School of Public Health, Emory University School of Medicine, Harvard School of Public Health, Harvard Medical School, and Ohio State University School of Public Health.

Most recently, proponents of a ban have pointed to the August 17, 2006 federal district court ruling (*U.S. v. Philip Morris USA, Inc.*, U.S.D.C.D.C. Civ. No. 99-2496) that found defendant tobacco companies guilty of violating the Federal Racketeer Influenced and Corrupt Organizations (RICO) Act as evidence of the tobacco industry's fraudulent corporate actions and disingenuous relationship with academic research institutions. They particularly point to a concern that defendant Philip Morris, found to have engaged in fraudulent actions, funds research at the University of California. This decision is currently on appeal.

Opponents argue that an institutional policy prohibiting researchers from accepting tobacco funding would violate the academic freedom of individual faculty members. They argue that the University should reject the idea that accepting funding from a corporate sponsor connotes an endorsement of the corporate sponsor's products or corporate actions. They also argue that while the use (or misuse) of research results by tobacco companies may be objectionable, individual investigators are expected to ensure the integrity of the conduct of their research regardless of the source of its funding. The University's policy on Integrity in Research provides in part that "all persons engaged in research at the University are responsible for adhering to the highest standards of intellectual honesty and integrity in research." The University's Statement of Ethical Values, adopted by The Regents in May 2005, restates the University's expectation that all members of the University community engaged in research are to conduct their research with integrity and honesty at all times, and to meet the highest standards of honesty, accuracy, and objectivity. Opponents of a policy argue that restricting investigators' funding to ensure research integrity may be unnecessary and may undermine the ability of researchers to explore promising avenues of inquiry independent of political and moral judgments about the source of that funding.

Finally, opponents of a ban note that it is a dangerous "slippery slope" to adopt a policy of rejecting funding from certain types of industry sponsors whose products or corporate behaviors are objectionable to some, and caution that there are a number of other industries that some would argue should fall under such a policy. While acknowledging the legitimacy of concerns about tobacco and about the corporate behavior of some companies, opponents of a funding ban express the opinion that as long as a grant has no conditions that would prevent researchers from adhering to their obligation to engage in intellectually honest research and to release the results of such research, the sponsor's motivations should not preclude acceptance of funding.

At the time RE89 was originally proposed, President Dynes asked that The Regents be advised that the University's Academic Senate had considered this issue a number of times and that the University's Vice Provost for Research and the systemwide Council of Vice Chancellors for Research, which includes all the campus Vice Chancellors for Research, also have expressed their opposition to adoption of a University policy restricting faculty from accepting research funding from tobacco companies and have expressed the view that such a policy is likely to undermine researchers' academic freedom and set a troubling precedent for future consideration of restrictions on funding from other industries that may also be the subject of moral or political debate or that may be involved in litigation regarding alleged corporate misdeeds involving fraud or other illegal actions. Given that existing University policies require researchers to adhere to the highest standards of honesty, accuracy, and objectivity in their work, the President has expressed concern that a funding ban may be unnecessary and might unfairly impugn the integrity of the University's faculty.

***Academic Senate Consideration***

In 2004, the Academic Senate began what proved to be a long debate concerning restrictions on research funding from tobacco companies. In part the debate was a response to bans adopted by individual units of the University, including the UCLA School of Nursing, the UC Berkeley School of Public Health, the UCSD

Cancer Center, and the UCSF Cancer Center. Eventually, in May 2005, the Assembly of the Academic Senate adopted a Resolution on Research Funding Sources. That resolution provided that:

> [P]rinciples of academic freedom and the policies of the University of California require that individual faculty members be free to accept or refuse research support from any source consistent with their individual judgments and conscience and with University policy. Therefore, a unit of the University may not refuse to process, accept, or administer a research award based on the source of the funds; nor may such a unit encumber a faculty member's ability to solicit or accept awards based on the source of the funds, except as directed by the UC Board of Regents.

The resolution also expressed the Senate's view that "[o]nly the UC Board of Regents has the plenary authority to establish policies on the acceptance of research funding" and proposed that individual units might propose that the Academic Senate, through the President, request the Board of Regents to adopt a policy to refuse funding from a particular source.

In September 2006, following discussion of *Research Funding: Acceptance of Funding from Corporate Sponsors Associated with the Tobacco Industry*, The Regents asked the Academic Senate whether a policy banning funding from tobacco industry sources was justified in light of the August 17, 2006 federal district court ruling that found defendant tobacco companies guilty of violating the Federal RICO Act.

In response to this request, the Assembly of the Academic Senate debated the issue on October 11, 2006. The Assembly's actions consisted of passage of three resolutions:

> "The Academic Assembly instructs the Chair of the Assembly to advise the President that grave issues of academic freedom would be raised if The Regents were to deviate from the principle that no unit of the University, whether by faculty vote or administrative decision, has the authority to prevent a faculty member from accepting external research funding based solely on the source of funds. Policies such as the faculty code of conduct are already in place on all campuses to uphold the highest standards and integrity of research. The Academic Assembly believes that Regental intervention on the basis of assumptions about the moral or political standing of the donor is unwarranted."

> "The Assembly declares its deep disapproval of funding arrangements in which an appearance of academic freedom belies an actual suppression of academic freedom."

> and

> "The Assembly asserts its conviction that past funding arrangements involving the tobacco industry have been shown to suppress academic freedom."

***Academic Senate Response to Regental Request for Additional Input***

At its January 2007 meeting, The Regents requested that the Academic Senate further consider and provide a formal and unambiguous position on RE89, the proposed Policy Restricting University Acceptance of Funding from the Tobacco Industry. On May 9, 2007, the Assembly of the Academic Senate voted 44-5 (with 3 abstentions) against adopting RE89.

***Responses from Supporters of RE89***

Numerous organizations and individuals have written in support of RE89; their letters were provided to The Regents in advance of the meeting.

***Researcher Responses to President Dynes' Request for Additional Input***

On March 9, 2007, President Dynes wrote a letter to sixty UC researchers who had been identified as having received funding from the tobacco industry, noting some of the concerns that have been expressed about tobacco industry influence on research, and inviting their input on a number of specific questions regarding their experience with tobacco industry funders. These letters were provided to The Regents in advance of the meeting.

***Updated Information on Research Awards From Tobacco Industry Sponsors***

The original preparation of RE89 provided data on UC research funding from tobacco-related companies through the close of FY 2006. Updated data received from campuses was made available to The Regents at the meeting.

Chairman Blum introduced Ms. Sharon Eubanks, former Director and Lead Counsel for the United States Litigation Team that represented the United States in the case *U.S. v. Philip Morris USA, Inc.* She advocated that the University of California join other prominent institutions and ban tobacco industry research funding, based on the fact that the industry was found to be a group of racketeers that intentionally misled the public about the dangers of tobacco in order to increase profits. She asserted that the federal judge's findings of conspiratorial misconduct by the tobacco industry provide a compelling rationale for The Regents to decline money from these companies. She explained that the court found that tobacco companies furthered their illegal racketeering by creating research organizations that served as sophisticated public relations vehicles to deny the harms of smoking and reassure the public. The tobacco industry used university researchers as expert witnesses to support its position. The court found that the disbanded research organizations were merely morphed into newer organizations used for the same purposes, and that the actions of the industry continue. She noted that it is unlikely that the factual findings of the court will be overturned upon appeal.

Ms. Eubanks argued that the proposed policy would not infringe upon academic freedom, stating that a consideration of ethics and the potential for external interference are foremost in any discussion of academic freedom that involves the tobacco industry. She asserted that accepting funding from tobacco companies, which have a history of distorting science and were found to have engaged in fraudulent conduct through their research activities, is antithetical to the concept of academic freedom. Ms. Eubanks noted that the conduct of the tobacco industry with respect to the control of research findings was rarely placed in writing or openly agreed upon; because of this, its influence is nearly impossible to detect and eliminate by applying standard university policies. With respect to the "slippery slope" argument, Ms. Eubanks stated that tobacco companies are *sui generis*; no other industries have been judicially determined to be racketeers. She emphasized that the decision as to whether or not to accept tobacco funding was essentially an ethical issue for the University.

Chairman Blum noted that, based on his experience on the Board of the American Cancer Society Foundation, the tobacco industry commonly lists UCLA as one of its advisors in their reports, regardless if the report is related to the research done at UCLA. He also pointed out that the Academic Senate at UCSF voted in favor of a ban on accepting tobacco research funding. Chairman Blum suggested that one option available to the University is to allow individual units at the University to decide for themselves whether they choose to accept tobacco funding.

In response to a question from Regent Moores, Ms. Eubanks stated that the tobacco company relies upon university research to counter health claims, such as research on second-hand smoke, to affect policies and practices. Regent Moores asked Provost Hume if the University has any policies that restrict research funding from certain organizations. Mr. Hume stated that the question was difficult to answer, due to his inability to represent the entirety of the academic community at UC, and noted that the Academic Senate may wish to comment.

Provost Hume stated his belief that the community of scholars should, and has the capacity to, self-regulate. He expressed his hope that a resolution will be reached where the community of scholars continues to be permitted to do that. Regent Moores stated that many Regents have concerns about taking a position against the community of scholars, noting that they have demonstrated the standards of ethics and conduct that would allow them to self-police on this matter.

Regent Allen asked how the proposed policy would affect the UCLA Adolescent Smoking Cessation Center, which has received $6 million from Philip Morris U.S.A. Mr. Hume stated his belief that, under the circumstances of the proposed policy, the University would be required to decline the funding.

Regent Lansing observed that a central issue related to the proposed policy is the joint governance structure between the faculty and The Regents, which is the basis on which the University was formed. She pointed out that The Regents asked the Academic Senate to give their position on the policy, and the faculty voted in favor of self-governance. She expressed confidence that the Academic Senate has the ability to self-govern.

Regent Kozberg noted that the University does research in a number of heinous areas, and out of those heinous areas have come important science and the capacity to save lives. She stated her discomfort in closing scientific discovery, and her trust in the faculty to follow the University's code of ethics.

Regent Parsky explained that, while funds are accepted on behalf of the Regents, the Regents have delegated authority for evaluating and accepting research proposals to the President and Academic Senate. The Regents may wish to rethink that delegation, but he questioned whether they are in a position to exercise the oversight required. Regent Parsky suggested the possibility that the Regents be regularly notified, in the form of a report, as to how this delegation of authority is being exercised on their behalf.

President Dynes observed that no one has voiced support for the tobacco industry. What has been expressed is that the purpose of University research is to generate knowledge for beneficial purposes. He did not dispute that the tobacco industry has cited research in ways that are advantageous to it. President Dynes stated his belief that the faculty are the best judges of the quality, integrity, and assessment of misuse of research results. The faculty can, and should, be advising the deans, chancellors, and the President, regarding the quality of research, any misuse of research, and any research misconduct. Processes are in place to identify each of these. He believed that a solution can be reached that will satisfy the moral responsibilities of the University in dealing with this particularly egregious industry in a way that continues to allow faculty self-governance and that informs The Regents of the quality and use of the research in a timely manner.

Regent Island agreed that no one at the University embraces the tobacco industry. He stated that the University's scholars ought to be put in a position to make judgments as to research funding.

Faculty Representative Oakley emphasized that the faculty, along with the President, Provost, and The Regents, are heavily engaged in achieving a constructive outcome on this issue. He supported a compromise that would both accommodate the earnest concerns of members of the Board, who wish to attenuate the University's association with tobacco companies, and the view of faculty members, many of whom feel they have been unfairly abused and questioned as to their integrity for reasons they have had no direct opportunity to address. He suggested that the Board provide to faculty principal investigators who are receiving money from the tobacco industry an opportunity to address the Board, particularly on their perspectives of academic freedom.

Committee Chair Gould recognized that there was no consensus to move forward on the item before The Regents, and that an offer has been made by the President, Chairman Blum, the faculty, and the Provost to work on the issue and bring it back to The Regents. He suggested that the item be tabled, and brought back in September with some compromise.

Regent Moores stated that the move to table the item is appropriate, and some compromise can be worked out. He asked that, when the item comes before the Board in September, information be included as to whether University has ever declined tobacco industry funding.

4. **APPROVAL OF 2007-08 FINAL BUDGET**

The President recommended that the Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings that the State Capital Improvements Budget for 2007-08 be amended as follows:

A. Delete $625,000 for preliminary plans, working drawings, and construction for the Davis campus, Seismic Corrections Thurman Laboratory project.

B. Add $5,700,000 for construction for the Merced campus, Social Sciences and Management Building project.

C. Delete $11,980,000 for construction for the Riverside campus, Environmental Health and Safety project.

D. Delete $29,100,000 for construction and equipment for the San Francisco campus, Telemedicine and PRIME-US Education Facilities.

Executive Vice President Lapp recalled that the State has not yet adopted a final budget; therefore, a plan for the University's operating budget for 2007-08 would not be presented for approval. Instead, once the budget process is complete, a final budget plan will be presented to the Board for approval, either at a special meeting or at the September meeting.

Ms. Lapp updated The Regents regarding the status of the State budget. In May, the Governor issued the May Revise and indicated that the State's revenue is roughly $800 million lower than projected. While the University's base budget was included in the State's proposed budget, several issues remained. With respect to academic preparation programs, the Governor's budget eliminated the State's share of those funds, which is $19.3 million, but the Legislature restored the funding in its version of the State budget. Also, the Governor's proposed budget eliminated $6 million in funding for labor research; again, the Legislature restored the funding in its budget. Regarding funding for research initiatives, the Governor's budget included $15 million for the California Institutes for Science and Innovation and $5 million in matching funds if the University were to win the Petascale Supercomputing award; these funds were not incorporated in the Legislature's budget. The Legislature did take action to augment the University's budget for other high priorities, including $1.5 million for agriculture research, $1.5 million for the Scripps Institution of Oceanography, and $500,000 for the California State Summer School for Mathematics and Science.

Ms. Lapp reported that a few hours earlier she received an update that the Republicans have requested a $2 billion reduction in the State budget, including $400 million targeted to reduce cost-of-living awards within the K-12 budget, which is of great concern to the University.

Ms. Lapp explained that the 2007-08 State-funded capital improvements budget approved by The Regents in November 2006 was adjusted during discussions between the University and the Department of Finance. Since the Budget Conference Committee had taken action on all items of the UC capital budget on its agenda, it was proposed that The Regents amend the 2007-08 State-funded Capital Improvements Budget to reflect changes made in the legislative committees and the Budget Conference Committee. Total State funding of approximately $520 million includes $440 million of General Obligation Bond funds, $70 million of State Lease Revenue Bond funding for the Helios Energy Research Facility, and up to $10 million for a facility at the Charles R. Drew University of Medicine and Science contingent upon agreements establishing a joint nursing program. Any further changes made in the final 2007 State Budget Act approved by the Governor will be brought back to The Regents.

The 2007-08 Budget for Capital Improvements included $625,000 in State general funds for preliminary plans, working drawings, and construction for the Seismic Corrections Thurman Laboratory project at the Davis campus. The project would correct seismic deficiencies and improve the lateral-load-resisting system of the building to address life safety hazards. The facility houses diagnostic laboratories and support space, and office and conference space that are managed by the campus for the California Department of Food and Agriculture, which is the reason the University requested that the project be funded with State general funds rather than from Proposition 1D general obligation bond funds designated for the University. Given the limited availability of State general funds, this project was not included in the Governor's 2007-08 budget. This project remains a priority for the campus and the University, and is planned to be re-submitted for consideration in the 2008-09 budget.

State bond funding of $37,255,000 for construction for the Social Sciences and Management Building at the Merced campus was included in the 2007-08 Budget for Capital Improvements. In response to cost estimates received during schematic design that exceeded the previously approved budget, the campus implemented a variety of strategies to manage the project overage, including changing the design of the building to obtain more efficiencies and simplify the building systems. It was determined, however, that the budget overage could not be solved solely through design and value engineering measures. Both the campus and the Office of the President were reluctant to reduce the scope of the facility, as the space is urgently needed to support growth of the academic program. The campus requested an increase in funding for construction of $5,700,000 and a reduction of the future equipment budget by $2,000,000, resulting in a net increase of $3,700,000. The updated construction funding in the 2007 State Budget Act is $42,955,000; this results in a revised total project budget of $47,522,000. The campus will continue efforts to contain costs and support the program.

State funding of $11,980,000 was included for construction for the Environmental Health and Safety Expansion project at the Riverside campus. Time delays associated with environmental review requirements prevented the campus from being able to proceed to bid in FY 2007-08; therefore, the campus requested that the construction funding be removed from the 2007 budget request. The project remains a priority for the campus and the request for funding is expected to be included in the 2008-09 budget.

State funding of $35 million was included for preliminary plans, working drawings, construction, and equipment for the Telemedicine and PRIME – US Education Facilities at the San Francisco campus. The Legislature has allocated this funding similar to other State bond funded projects on a project-by-project basis. As a result, the San Francisco campus reduced its funding request for 2007-08 to $5.9 million for preliminary plans, working drawings, and a first component of equipment. The remaining $29.1 million for construction and the second component of equipment will be requested for 2008-09.

The 2007 Budget Act includes up to $10 million of State general obligation bond funds for preliminary plans, working drawings, and construction for the Life Sciences Research and Nursing Education Building on the Charles R. Drew University of Medicine and Science. This facility would support a joint nursing program between the University of California and Drew University. Use of the State funds requires a matching commitment of $10 million from non-State sources. In addition, these funds will not be available until formal agreements are signed between The Regents of the University of California and Drew University pertaining to the ownership and occupancy of the facility and the operation of a joint program in nursing. This project will be presented to The Regents for approval once the joint program and scope and budget of the project are defined. The provisional language expected to be included in the 2007 Budget Act for this appropriation was provided.

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

5. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2008-09 BUDGET AND INITIAL PLANNING FOR NEW PROCESS TO DEVELOP THE 2009-10 BUDGET**

Executive Vice President Lapp made an oral presentation on the University's 2008-09 budget and initial planning for a new process to develop the 2009-10 budget.

Planning for the University's 2008-09 budget is occurring in the context of The Regents' priorities set forth in November 2003, including honoring the University's commitment to access, improving the University's academic competitiveness, and maintaining its affordability to students. While State funding provides essential core support, the University's budget is funded from a variety of sources. Consistent with past practice, the University's budget plan for 2008-09 will incorporate projections for funds from all sources, including federal funds, student fee revenue, UC general funds, and State funds. It is expected that the discussion begun with this presentation to the Board will continue, ultimately leading to development of a budget document presented to the Board in November for approval. That document likely will reflect continuing constraints on federal funding brought on by the federal deficit and on revenue and reimbursements for academic medical centers.

In recent months, the Regents have expressed an interest in revisiting the budget priorities set forth in November 2003. At the same time, The Regents created a Task Force to Evaluate University Funding Options, co-chaired by Regents Moore and Gould, in order to better inform the University and The Regents of various potential strategies to ensure that the University has adequate funding to meet its mission. It is contemplated that as the work of the Task Force proceeds, it will help inform the content of the 2008-09 budget and perhaps suggest additional priority areas for consideration in the budget.

Similarly, the comprehensive and systemwide academic planning process launched by President Dynes last year has begun to synthesize the various long term academic planning goals of the ten campuses. This process will continue into the fall and winter of 2007 and will involve the budget and planning officials at the Office of the President as well as at the campuses so as to ensure that UC's academic goals are reflected in the budget and financial planning processes used in developing both the 2009-10 budget and a long term financial plan for the University into the next decade.

***Budget Priorities***

The University of California is a key part of the State's economic engine; yet, the University's ability to contribute to the State's economic recovery and prosperity has been severely affected by the State's fiscal crises over the past two decades. Without adequate resources, it is a difficult task to maintain academic quality and provide the educational and research experience that undergraduate and graduate students expect from UC. The erosion in UC's funding levels has been stemmed in part by the Compact with the Governor and the support of the Legislature for its funding principles. Halting the deterioration in the budget, however, is not enough if the University is to meet the State's expectations for academic quality and productivity.

The Regents first identified the University's highest priorities for restoring excellence at the November 2003 meeting. Those priorities have guided the development of the University's budget since 2004-05, and a benchmarking presentation was provided to the Board last March on the progress being made toward achieving the articulated goals. The following list of priorities endorsed by The Regents is divided into two categories, each guided by an articulated Primary Principle:

Primary Principle I : The quality of the University shall be maintained and enhanced – quality is basic to delivering its mission and is the most important asset that the University of California offers the state.

| SHORT TERM PRIORITIES | LONG TERM PRIORITIES |
|---|---|
| STUDENT/FACULTY RATIO | |
| *The University must maintain a viable student/faculty ratio to achieve its research and teaching mission and to attract high quality students.* | |
| 1. The University will not permit the student-faculty ratio to deteriorate further. | 1. The University will achieve a student/faculty ratio of 17.6:1. |
| FACULTY & STAFF SALARIES | |
| *To attract quality personnel needed to maintain the effectiveness of the University and its ability to accomplish its mission, faculty and staff salaries must be competitive.* | |
| 2. The University will continue to pay faculty merit increases. | 2. The University will return to paying competitive salaries for faculty and staff. |
| RESEARCH MISSION | |
| *The University's basic mission is that of a research institution. Adequate support of the research program is essential for the University to continue to be a quality research institution, to continue to stimulate the economic vitality of the state, and to provide the human resources to meet this goal.* | |
| 3. Graduate student quality and ratios that exist today shall be maintained. That means that the net cost to attend and related financial support shall be maintained. | 3. Restore research funding and instructional support to previous levels, and seek funding for new research initiatives that represent high priorities. |
| 4. The instructional support of the University will be maintained at current levels. | 4. Depending on each campus' needs, specific ratios and support levels for graduate students necessary to meet the University's quality and research missions will be established. |

Primary Principle II: The University shall maintain access and affordability, and honor the Master Plan. The State needs the highly skilled, well-educated graduates that are produced by the University of California.

| SHORT TERM PRIORITIES | LONG TERM PRIORITIES |
|---|---|
| ENROLLMENT | |
| 5. Enrollment levels shall match the resources provided. Enrollment reductions may be necessary in the face of reduced financial support from the State. Any actions to reduce enrollments shall be implemented in such a way as to minimize the impact on UC's commitment to the access goals of the Master Plan and our promise to young people of California. | 5. The University will adhere to the Master Plan, thus meeting its part of the promise to the youth of California. |
| FEES | |
| 6. As student fees rise, financial aid will rise accordingly to mitigate the impact of fee increases on needy students. The University will continue to use a portion of the revenue raised from any increases in student fees in 2004-05 as necessary to offset increases for needy students. | 6. A stable State funding formula shall be established that allows for the predictability of fees and revenues. |
| 7. The University's fee policy shall be based on established economic indicators, including State funding levels actually provided to the University, personal income growth, and other related items. | |
| STUDENT ACADEMIC PREPARATION | |
| 8. Cooperative efforts shall be made to achieve interim support. | 8. Key aspects of the University's outreach programs shall be restored consistent with priorities identified by the Chancellors. |

In last year's budget, the University identified the actual fiscal needs to begin to achieve the priorities articulated above. It was estimated at that time that the cost of funding the Regent's highest priorities totaled $500 million over and above a normal workload budget, which is about equivalent to the funding gap that has occurred in terms of State dollars per student over a 16-year period – funding per student in inflation adjusted dollars declined by 12.7 percent, from $19,500 in 1990-91 to $17,030 in 2006-07, resulting in a funding gap of $2,470 per student. The funding need is broken down by priority category as follows:

| *Priorities* | Funding Needed |
|---|---|
| Restoring competitive salaries (General Fund and Student fee-funded portion) | $290 million |
| Restoring unfunded price increases for non-salary Budgets | $40 million |
| Restoring the student-faculty ratio | $50 million |
| Restoring funding for core academic support (instructional technology, instructional equipment replacement, building maintenance, and library resources) | $100 million |
| Restoring student service reductions | $20 million |
| *Total* | $500 million |

***Progress in Addressing Priority Areas***

Since 2005-06, the University has been able to make investments in the priority areas identified by The Regents. For example, the 4 percent base budget adjustment scheduled in the Compact through 2010-11 will be combined with student fee revenue and UC General Fund income to help begin to address the need to return to paying competitive salaries at a rate of approximately 1 percent to 1.5 percent per year. Notably, in an item scheduled for discussion at the current meeting, Principles Underlying Proposed Adjustments to the Faculty Salary Scales, the University is proposing an aggressive four-year plan to eliminate the gap in faculty salaries as compared to the market – the gap is estimated to be about 10 percent before changes proposed for 2007-08 are implemented. If approved, the University will raise salary scales to meet the market and ensure faculty is paid on a competitive basis.

Similarly, the $10 million targeted from within Compact funds to restore the cuts originally designated for increasing the student-faculty ratio included in the last three budgets will have contributed $30 million toward what was originally a $70 million gap, and will have a significant impact on the campus' ability to recruit and retain faculty (another increment of $10 million is currently planned for 2008-09). The provision in the Compact that calls for an additional 1 percent for core needs beginning in 2008-09 will provide over $30 million annually (growing to more than $90 million by 2010-11) to help address chronic shortfalls in key areas of the budget, such as instructional technology, instructional equipment, libraries, and ongoing building maintenance.

Progress is likely to be slower in other high priority areas if additional resources beyond the Compact are not secured. The Compact with the Governor provides that: "Depending on the State's fiscal situation, there may be initiatives mutually agreed upon by the segments, the Governor, and the Legislature, either through legislation or through the budget process, that may be funded in addition to the basic budget funds provided as part of the Compact to meet high priority needs of the University and the State." Consequently, as the State's fiscal situation improves, the University will be submitting budget requests to restore lost funds over time and help close the funding gap resulting from years of underfunding and devastating budget cuts.

While the University's top priority has been and will continue to be providing access for students to the high-quality education the University offers, the University is also strongly committed to its role in helping the State's economic development and prosperity. In order to continue to be able to enhance the contribution the University makes to the State's competitive edge in the global market, the University is in the process of identifying research initiatives for future years that will be targeted to areas of knowledge creation and workforce development that are key to California's future.

***State's Fiscal Outlook for 2008-09***

While the budget for 2007-08 was not yet completed at the time of the meeting, financial analysts estimated the State will retain an ongoing structural deficit in the range of $3 billion to $5 billion, constraining it from spending permanent dollars for new programs in 2008-09.

***2008-09 Budget Development***

*Budget Requests*

In order to meet The Regents' highest priority areas as well as reflect priorities starting to emerge from the systemwide academic planning process, it is the University's plan to achieve sufficient increases in revenue from State funds, student fee revenue, and non-State revenue, consistent with the terms of the Compact, to fund the following:

- *Salaries*: a compensation package of 5 percent that will be used to fund cost-of-living increases, merit salary increases, and cost increases in health benefits and non-salary budgets. A 4 percent adjustment is needed to stay even with inflation. The 5 percent package would provide a second increment of funding of approximately 1 percent for all faculty and staff to help address the salary gap estimated to be approximately 10 percent before compensation increases for 2007-08 are implemented. As indicated above, additional increases are planned from redirected funds to help close the faculty salary gap beginning in 2007-08 within a four-year period.

- *Student-Faculty Ratio*: funding to continue UC's multi-year plan to restore funds cut from the budget related to the student-faculty ratio. Support for this purpose in 2008-09 would constitute the fourth increment of funding directed toward improving the student-faculty ratio.

- *Core Needs*: funding for core needs where there exist chronic shortfalls in State funds, such as instructional equipment, instructional technology, libraries, ongoing building maintenance, and other academic support needs.

- *Enrollment Growth*: enrollment increase of 2.5 percent, or approximately 5,300 FTE, based on the revised marginal cost level.

- *Graduate Student Support*: additional funding for graduate academic student support including new funding provided under the Compact and, consistent with the initiative developed for the 2007-08 budget, redirection of funds from additional savings achieved through internal campus savings initiatives. This is necessary to regain our competitive position to attract the best academic graduate students.

- *Research Initiatives*: As indicated above, the University is in the process of identifying new research initiatives to propose in the upcoming 2008-09 budget. As part of this effort, campuses will be asked to use at least 50 percent to 60 percent of the funds for new research initiatives to help support graduate students as research assistants.

- *Merced*: Continuation of one-time funding for Merced will be requested for start-up costs as the campus continues to ramp up enrollments.

- *Deferred Maintenance*: The University also intends to request one-time funding for deferred maintenance. The Compact states that as the State's fiscal situation permits and one-time funds become available, the University may request one-time funds to address high priority infrastructure needs, including deferred maintenance. No funding has been provided for deferred maintenance since the State's most recent fiscal crisis began. Deferred maintenance backlogs for high-priority projects exceed $800 million.

*2008-09 Budget Funding Sources*

As noted previously, funding for the University's 2008-09 budget plan, consistent with the Compact, will come from a variety of sources:

- *Base Budget Monies*: the Compact provides base budget adjustment of 4 percent to be used to fund increases for salaries, employee health benefits, and other cost increases.

- *Additional 1 Percent Base Budget Monies*: the Compact anticipates an additional 1 percent base budget adjustment to be used to fund core academic needs, such as instructional equipment, instructional technology, libraries, ongoing building maintenance, and other core academic areas.

- *Enrollment Growth Monies*: the Compact provides enrollment funding growth of 2.5 percent, or about 5,300 FTE students, at the agreed-upon marginal cost of instruction. This rate of growth is consistent with the Master Plan goal of accommodating eligible students, and is sufficient to allow for planned increases of general campus and health sciences students.

- *Student Fee Revenue*: the Compact states the Governor's intent that increases in student fees should be based on the rise in California per capita personal income. However, in years in which UC determines that fiscal circumstances require increases exceeding that rate of growth, UC may, in consultation with the Governor, decide that fee increases of up to 10 percent are necessary to provide sufficient funding for programs and to preserve quality.

Regarding professional school fees, the Compact provides that UC is to develop plans for professional school fees while considering several factors, including average fees at other public comparison institutions, total cost of attendance, market factors, the need to preserve and enhance the quality of graduate academic programs, the State's need for more graduates in a particular discipline, and financial aid requirements of graduate academic students.

In 2006-07, the planned fee increases of 8 percent for undergraduates, 10 percent for graduate academic students, and 5 percent for students in most graduate professional fee programs were avoided with the provision of State funds to "buy out" the proposed student fee increases. This was welcome relief for students and their parents. However, no State funds were provided in 2007-08 for this purpose. Thus, The Regents approved fee increases of 7 percent for all students (undergraduate, graduate academic, and professional school students), as well as an additional 7 percent for students in most professional school programs. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to buy out proposed student fee increases either partially or totally, it is proposed that The Regents consider a budget plan for adoption in November that is based on an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January meeting when the Governor's Budget is released and more is known about the potential for another State buy-out of student fee increases.

The revenue from either a student fee increase or a state buy-out will be critical to the ability to fully fund the budget plan under development for 2008-09, particularly with regard to compensation increases. It should be noted that any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances.

*Capital Plan Funding*

The Compact specifies that the Governor will support $345 million per year for UC's capital outlay program, to be financed either through a new General Obligation bond, which will require a new bond measure on the ballot for 2008-09 and beyond, or lease-revenue bonds. A bond bill has been introduced, but has seen little debate while the Legislature and Governor secured a final budget for 2007-08. In developing the 2008-09 capital budget, the University will continue to include projects that address high priority needs for seismic and life-safety improvements, enrollment growth, modernization of out-dated facilities, and infrastructure.

*Reinstatement of Retirement Contributions*

In addition to the issues outlined above for consideration in developing the 2008-09 budget, the issue of restart of pension contributions will need to be addressed. The 2007-08 Regents' budget called for pension contributions to restart on July 1, 2007, assuming State funding for this cost were made available this year. However, the final State budget did not include funding for this purpose in 2007-08. As the 2008-09 budget is developed, issues of phasing in employer and employee contributions, when they begin, at what rate of increase they occur, and over what period of time, as well as the availability of funding to support the employer-paid contributions, will be the subject of collective bargaining negotiations and continuing discussion among the Regents, the administration, faculty, and staff. While these issues have yet to be resolved, it is clear they will need to be addressed in budget negotiations and any reinstatement of contributions will be subject to funding and completion of the budget process.

Regent Parsky noted that the list of priorities presented are ones that The Regents would endorse, but going forward there may have to be choices in terms of what can be accomplished and what cannot. The Task Force is an important part of the process, in that one of the Regents responsibilities is ensuring that they fully understand spending priorities and the use of funds, especially in the context of increasing student fees. He suggested that the September meeting presentation should include extensive commentary about the choices that are being made by adopting the budget, and which of the priorities may fall away in the process.

Regent Hopkinson asked for information regarding what progress has been made on the priorities. She requested a report on the source and use of funds, particularly campus funds, noting that it may be appropriate to reactivate a more detailed discussion of campus plans and funding by source and use.

Regent Allen inquired about a reference in the item that indicated professional school fees will be used for financial aid to graduate academic students. Ms. Lapp stated that she would get back to him on the question. He suggested that a ballot measure should be considered, in conjunction with California State University and the K-12 school system, in order to better secure the University's financial stability.

Staff Advisor Brewer expressed concern about decoupling staff and faculty salaries, because it may jeopardize progress on closing the gap in staff salaries.

Chairman Blum reiterated that the University needs a strategic plan that allows the University to be less reliant on the State and that addresses cost reductions.

President Dynes called on former UCSA President Bill Shiebler and incoming UCSA President Oiyan Poon to address the Board on student issues. Mr. Shiebler stated that UCSA's three campaigns for the year encountered both successes and failures. Regarding the UC Study Group on Diversity, Mr. Shiebler was pleased that the initiative was moving forward, but stated his concerns about the progress of the study. He wanted to ensure that the student recommendations for diversity, admissions, and eligibility requirements were made vocal to the Board, and offered a set of recommendations for the final report to be released in September:

- Put forth an institutionalized commitment to fund academic preparation within UC, regardless of State budget climates.
- Ensure that eligibility requirements do not disproportionately affect certain student populations.
- Eliminate or decrease use of the SAT 1, SAT 2, and the GRE for eligibility requirements, in order to address racial and class disparities in UC enrollment.
- Annually increase the yield of underrepresented minority applicants, from admissions to enrollment.
- Put forth a clear commitment to bridge the gap between K-12 and higher education.
- Set benchmarks and provide incentives for faculty, graduate students, and administrators around diversity initiatives.
- Allow student representation in the implementation and evaluation of the study recommendations.

UCSA requested that, as the Regents set priorities for the next budgetary year, they rethink the priorities as they relate to the total cost of attendance and UC affordability. Mr. Shiebler stated that Regents should weigh the options of allocating $84 million to research versus increasing student fees by $71 million.

Ms. Poon informed the Regents of UCSA’s three campaigns for the coming year. UCSA’s message for the year is “California Dreams: Making the University Affordable for All Californians.” She asked for the Regents’ support for the passage of SB-65, The California Dream Act, which would allow State financial aid to provide support for undocumented students. UCSA is also campaigning around UC desirability, in order to improve upon the prestigious reputation of the University by addressing some its inequities. UCSA urges rethinking about how to fund permanently academic preparation programs at $33 million annually, adjusted for inflation. Finally, UCSA supports the need to better finance students by moving toward a 12-month financial aid model.

6. **OFFICE OF THE PRESIDENT 2007-08 BUDGET**

The President recommended that the Fiscal 2007-08 Office of the President Budget be adopted.

Executive Vice President Lapp recalled that at the May 17, 2007 Regents’ meeting, management presented to the Committee the 2007-08 Budget for the Office of the President (OP). At that meeting the Committee recommended that

OP have the authority to expend funds up to the date of the July 2007 meeting of the Board of Regents related to the operations of the OP for purposes and in amounts consistent with the prior fiscal year's level. Expenditures above prior fiscal year levels for the Systemwide Presidential Fellowship Program, the Office of the Ombudsman, the Office of the Secretary and Chief of Staff to The Regents, the Foundation Performance Reporting requirements, and the Business, Finance, and Compliance functions were permitted provided that prior approval was obtained from the Chair of the Committee on Finance or the Chairman of the Board of Regents. No monies were expended for these offices or programs above prior year levels in advance of the July meeting; therefore, approval has not been required.

In its recommendation, the Committee requested information on a formal OP budget process for the upcoming fiscal year, information on Laboratory Management staffing, and current restricted and non-restricted funding sources used for OP operations. Each of these areas is addressed below.

***New OP Budget Process***

The Committee on Finance directed the President and the Office of the President to develop and implement a formal budget process for the next fiscal year which would evaluate annually the fiscal needs of OP programs and to allocate resources in a manner which maximized the use of such resources in serving the mission of the University.

The Office of the President has begun implementing the budget process and has completed the budget steps proposed to be conducted in June and July. Proposed changes to departmental programs will be recommended by a Working Group comprised of representatives from various OP units to an Executive Council comprised of OP Senior Leadership in connection with the review of the departmental budget submissions and meetings. Additionally, some areas are currently being reviewed for potential cost savings and consolidation.

Even as the new OP budget process proceeds through the upcoming fiscal year, efforts will be undertaken by the Executive Vice President for Business Operations and the Vice President of Financial Management to identify areas of cost savings in the OP budget for FY 2007-08. That process will be informed by the Monitor Group project as well as ongoing consultations with units within OP to focus on new cost savings/efficiency initiatives. Reports will be provided to the Committee on Finance on a regular basis on the progress of these efforts.

***Laboratory Management Office***

The Laboratory Management Office has downsized its operation from a staffing level of 45 in FY 2004-05, 15.4 in 2007-08, and 14 in 2008-09. Similarly, annual costs have been reduced from \$8.4 million in 2004-05, \$3.8 million in 2007-08, and a projected budgeted annual cost of $3.4 million in 2008-09. In 2007-08, the Department of Energy will reimburse the University an estimated $1.8 million for lab management oversight/closeout, and it is proposed that the remaining costs (estimated at $2 million) will be paid from the projected earned fee from Lawrence Livermore National Laboratory and Los Alamos National Laboratory of $21.5 million.

The President and the Laboratory Management Office have determined that there is a continuing need for OP support in the execution of contract and proposal commitments:

- Coordination of roles, responsibilities, authorities, and accountabilities within the UC corporate structure.
- Support for the University's ownership interest and roles in the Limited Liability Corporation.
- Informational and fiduciary responsibilities serving the University's leadership, Board of Governors' representatives, and the University Board of Regents.
- Responsiveness to the Department of Energy and National Nuclear Security Administration requirements, including both programmatic and contract.
- Lawrence Berkeley National Laboratory contract assurance and administration.

The Laboratory Management Office will review the oversight plan for the Limited Liability Corporations in connection with the 2008-09 budget preparation and adjust as appropriate.

***OP Funding Sources***

The Committee on Finance also requested at the May 17, 2007 meeting information detailing the various funding sources for OP operations, including those sources which are restricted and unrestricted; these funding sources were provided. While the total funding is identical to the information reported in May, the details surrounding the underlying fund sources had been refined. As a result, the fund sources dollars and percentages vary slightly from the May report.

Regent Hopkinson stated that several offices – the Secretary and Chief of Staff to The Regents, the Chief Investment Officer, and the General Counsel – are more accurately under the auspices of The Regents and as such these functions should be separated from the OP budget. She noted that the General Counsel's office may be an exception due to their direct work and indirect reporting lines. Regent Hopkinson also asked that the new organizational structure within Business and Finance be reflected in the budget; Ms. Lapp noted that those structural changes will be incorporated in next year's budget. Regent Hopkinson expressed her hope that, while recognizing the appropriateness of automatic increases for certain functions, at some point a zero-based budget would be developed for OP, in conjunction with the work of the Monitor Group. She also requested more specificity in the summary of fund sources for OP, excluding the functions under the Office of the Regents, including laboratory fees, pension overhead, and grants and donations. Vice President Broome agreed to provide that information.

Regent Parsky stated the Regents need to have a much more detailed understanding of the sources and uses of OP funds, particularly in terms of the discretion for the sources – for example, money allocated from the State for one purpose that can be used for other purposes. He requested a more detailed presentation and analysis for the March 2008 meeting. Regent Parsky also asserted that the significant increase in fee income that will incur from the University's involvement in the LLCs of the national laboratories should be dedicated to science. He requested a separate presentation in September 2007 that would include: (1) clear identification of the exact amount of fee income that has been and will be received from the joint ventures – separating out Los Alamos, Livermore, and Berkeley; (2) a proposal by President Dynes regarding how science will be supported by the incremental fee income; and (3) a discussion as to whether the fee income is needed for the transition. Ms. Lapp assured Regent Parsky that she and President Dynes have agreed to prepare that discussion.

The Committee recessed at 1:15 p.m.

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The Committee reconvened at 2:20 p.m. with Committee Chair Gould presiding.

Members present: Regents Blum, Brewer, Dynes, Garamendi, Gould, Hopkinson, Island, and Kozberg; Advisory member Oakley; Staff Advisors Brewer and Johansen

In attendance: Regents Allen, Bugay, Lansing, Lozano, Marcus, and Varner, Regents-designate Cole, Scorza, and Shewmake, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Foley and Sakaki, Chancellors Fox, Kang, Vanderhoef, and Yang, Acting Chancellors Blumenthal and Grey, and Recording Secretary Bryan

7. **ORGANIZATIONAL ASSESSMENT AND RESTRUCTURING OF THE UNIVERSITY'S ADMINISTRATIVE FUNCTIONS**

Provost Hume recalled that the Monitor Group was chosen to provide an organizational assessment and restructuring of the University's administrative functions. In his progress report to The Regents, Mr. MacKenzie from Monitor

Group reminded them of the project's three primary goals: (1) assess and map the administrative and finance functions throughout the University in order to identify opportunities to improve effectiveness and efficiency; (2) clarify the respective roles and responsibilities of the Office of the President, the campuses, and The Regents with regard to administrative and finance activities and decisions; and, (3) pursue initiatives that will yield cost and/or service quality improvements, in order to reinvest those savings in the University's academic mission.

Mr. MacKenzie explained that phase one of the project is coming to completion. The objective of this phase was to assess the organizational effectiveness of administrative functions, identify initial improvement opportunities that may be made quickly and efficiently, and identify high-priority improvement opportunities for the longer term. Since April 2007, the Monitor Group has collected information from a variety of sources, including 100 in-person interviews with administrative and senate leadership teams at each of the ten campuses, the senior leadership of the Office of the President, Academic Senate leadership, and many Regents. The goal is to interview all Regents, and these interviews were currently being scheduled. The Group has also undertaken an analysis of financial and human resource data, the purpose of which is to understand how much effort is being expended against each OP core administrative and finance function, and to estimate the size of these functions on each of the campuses. They have also conducted a web-based survey to assess the importance and performance of UC administrative functions from a variety of viewpoints; more than 650 individuals responded to the survey, yielding a response rate of approximately 55 percent. Mr. MacKenzie noted that it would not have been possible to accomplish phase one in such a short period of time without the tremendous cooperation of the chancellors and their teams. He expressed his appreciation for making themselves available for campus visits on short notice, and to everyone spoken with for their openness and candor.

Mr. MacKenzie reported that the data is presently being analyzed, and that preliminary findings will be discussed with the Steering Committee the following week. The Steering Committee will then prioritize the potential initiatives that seek to improve systemwide effectiveness and efficiency, which include improving process and transparency in budgeting and capital planning, standardizing certain approaches to administration across the system, and changing approval and authority levels for salaries and facility decisions. In August and September, these initiatives will be analyzed in greater depth to clarify areas for potential improvement and to quantify the potential benefits more precisely. A cross-system working group will study and develop recommendations regarding the best respective roles for OP, the campuses, and The Regents, in terms of administrative and finance activities and decisions. A report will be presented to The Regents on these activities at a future meeting.

Regent Hopkinson expressed concern that a larger group of Regents is not involved in the Monitor Group study. Recognizing that it would be difficult for the Regents to concur on the priorities for implementation prior to phase two due to the schedule, she asserted that it is crucial that more Regents be involved in the process as it moves forward. Provost Hume stated that mechanisms by which the Regents can rapidly and more effectively be involved can be discussed at the Steering Committee meeting next week. Regent Hopkinson believed that that is not a subject for the Steering Committee to discuss.

Chairman Blum stated that Regents are invited to participate at any time, but suggested that such participation may be more constructive at a point in which the consultants have sufficiently progressed. He affirmed that those who have been involved with the effort feel that the Monitor Group has done a very good job and that conclusions and recommendations will be available soon to bring before the Board. Regent Hopkinson clarified that she was suggesting that more Regents participate on an ongoing basis, and that at the moment, it is not possible to have a report made to the Regents before phase two begins. Chairman Blum stated that if other Regents desire to be on the Steering Committee, attempts will be made to include them.

Committee Chair Gould noted that the other issue posed by Regent Hopkinson is the authorization to move forward to phase two. Executive Vice President Lapp clarified that the contract with Monitor Group could be terminated after phase one, but that approval was not required for the continuation of the contract.

Regent Hopkinson asked when a report will be made to the Regents regarding assessments and priority recommendations. Mr. Hume stated that a report can be prepared and sent to the Regents after the Steering Committee meeting.

Committee Chair Gould suggested that additional Regents be added to the Steering Committee. Regent Lozano agreed, with the caveat that the recommendations and findings that come out of the Steering Committee meeting be disseminated immediately to the Regents.

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

The President recommended that:

A. Service of Notice be waived.

B. Standing Order 110.2 – Matters Relating to Residency be amended to provide nonresident tuition waivers as a benefit to those employees of Lawrence Livermore National Security, LLC, and their dependents, spouses, and domestic partners, who may not qualify as California residents. Standing Order 110.2 would be amended as follows:

STANDING ORDER 110.2
MATTERS RELATING TO RESIDENCY

**Additions shown by underscoring; deletions shown by strikeout.**

Standing Order 110.2, section (d), is amended as follows:

110.2 Matters Relating to Residency

….

d. ~~Los Alamos National Laboratory and Other~~ Out-of-State Employees and Non-University Employees at Los Alamos and Lawrence Livermore National Laboratories (LANL and LLNL).

(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~~ So long as the University continues to participate as a member of a limited liability company holding the contract for ~~in~~ the management of LANL or LLNL ~~as a principal in a separate legal entity that is awarded the successor contract~~, an individual who is an employee of such ~~entity~~company, 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~~ a company described in (2) above 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 LLNL, 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 or LLNL expires and the University's participation in the management of LANL or LLNL ceases, shall be exempted from payment of nonresident tuition fees for the remainder of the current quarter or semester.

It was recalled that The Regents previously used the provisions of Section 68079 of the California Education Code to provide nonresident tuition waivers to University employees who reside and work outside of California, as well as to their children, spouses, and domestic partners.

By an action dated November 17, 2005, The Regents extended the same waiver to employees of Los Alamos National Security, LLC, the contractor awarded the contract for the management of Los Alamos National Laboratory.

Over the past three years the three Department of Energy contracts for Lawrence Berkeley National Laboratory, Los Alamos National Laboratory and Lawrence Livermore National Laboratory (LBNL, LANL, and LLNL) have each been subject to competition. The University remains involved at each site, although in somewhat different circumstances.

At LBNL the University remains the contractor, as before, and this action is not necessary. At LANL and LLNL the University will participate as a part owner and member of two separate limited liability companies – Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) – which have been awarded the contracts for the management of those laboratories. Organizationally, LANS and LLNS are affiliates of the University. Former University employees at LANL and LLNL are or will become employees of LANS and LLNS.

By action of November 17, 2005, the Board of Regents approved an amendment to Standing Order 110.2 which continued the benefit of resident tuition to dependents, spouses and domestic partners of LANS employees. Since that time the competition for LLNL has been held and the contract awarded to LLNS. By this action the same benefit will be extended to future employees of LLNS.

At LANL the previous action affected virtually all former UC employees, as they were all non-California residents, being residents of New Mexico.
Because most LLNS employees are already California residents, this action will affect only a small number of employees at LLNL who are stationed in other states, as well as out-of-state dependents or spouses of such employees.

The financial impact of this amendment to the University is negligible; it is recommended so that employee benefits at LANL and LLNL can be maintained as nearly identical as possible.

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

9. **APPROVAL OF A SALE BY THE REGENTS OF THE UNIVERSITY OF CALIFORNIA ON BEHALF OF THE UCSF TISSUE BANK TO THE MUSCULOSKELETAL TRANSPLANT FOUNDATION, INC.**

The President recommended that The Regents approve the sale of the UCSF Tissue Bank to the Musculoskeletal Tissue Bank, Inc., which formerly managed the UCSF Tissue Bank on behalf of the Department of Orthopaedic Surgery at UCSF, pursuant to an Agreement of Purchase and Sale between The Regents and Musculoskeletal Transplant Foundation, Inc. on the terms described below, the form of which has been reviewed by the General Counsel and the effectiveness of which is contingent upon Regents' approval.

San Francisco campus Chief Counsel Canning recalled that The Regents own and control a tissue bank (Tissue Bank) which is operated by the University of California, San Francisco, through the UCSF School of Medicine's Department of Orthopaedic Surgery. The Tissue Bank provides for the recovery and distribution of human tissue for transplantation, research, education, and medical device testing. It was established in large part for the recovery of tissue (musculoskeletal allografts and bone, skin, heart valves and veins, ocular tissues and corneas) from the UCSF Medical Center and the supply of tissue to the Department of Orthopaedic Surgery; however, the Tissue Bank also provides tissue recovery and supply services to hospitals throughout the San Francisco Bay area. The UCSF Tissue Bank has recovery agreements with 43 affiliated Bay Area hospitals and 14 county coroners' offices in the Bay Area.

For at least the past decade, the Tissue Bank has been managed by an independent, non-profit management agent, Musculoskeletal Transplant Foundation, Inc. (MTF), pursuant to a management services agreement. UCSF, through the Department of Orthopaedic Surgery, has provided oversight. The Department provides MTF with leased space to operate the UCSF Tissue Bank, vehicles, and equipment. MTF pays the Department a standard acquisition fee for specimens recovered at UCSF or a UCSF Tissue Bank affiliated hospital. UCSF buys specimens for transplant purposes back from MTF at full market price.

In early 2005, in the context of University-wide concern over the University's Willed Body Program, the UCSF School of Medicine determined that, given the growth of the Tissue Bank and its complexity, that there was an unacceptable level of risk exposure in the following areas:

- The current informed consents were inadequate.
- The Agreement had not been bid for six years and was initially a sole source agreement.
- The UCSF Tissue Bank had no University employees and the oversight for such a complex entity had outgrown UCSF's capacity.
- The Tissue Bank was using the UCSF name and license.
- There were concerns about the adequacy of the governance structure, internal controls, sub-agreements, and fee reimbursements.

In view of these concerns, the School of Medicine (SOM) assembled a Task Force to consider the risks and benefits and determine whether it was better to submit a Request for Proposal (RFP) for the management of the UCSF Tissue Bank or for the sale. The Task Force assembled included:

- SOM Acting Vice Dean of Administration
- SOM Vice Dean for International Medical Services, Risk Management and Compliance
- UCSF Legal Counsel
- SOM Controller
- Former Chair of Orthopaedic Surgery
- UCSF Associate Director of Campus Procurement
- External legal counsel with expertise in the area of tissue banks
- External tissue bank industry expert consultant

After weighing the risks and benefits of continuing the management arrangement versus selling the Tissue Bank, UCSF decided that selling the Tissue Bank would be in the best interests of the institution. UCSF issued an RFP in late 2005 to interested and qualified organizations, including MTF, and engaged the services of an independent consultant and outside legal counsel to provide oversight and advice through the RFP and bidder response process.

In early 2006, UCSF received two bids for the purchase of the Tissue Bank which were evaluated in accordance with the following criteria: (1) compensation to UCSF, (2) assurances of continued preferential access to tissues, (3) minimization of risk to UCSF going forward, (4) ease and viability of transition of ownership and operations, and (5) the extent to which UCSF's name and reputation would be protected and enhanced through the sale of the Tissue Bank.

UCSF selected MTF's purchase proposal because it more closely met the evaluation criteria above, including significantly more financial consideration than the alternative bid. Additionally, given the role of MTF in managing the UCSF Tissue Bank, it was thought that the transition would be easily accomplished. Also, the MTF is a known quantity to UCSF, with a long relationship. Outside counsel provided an opinion regarding legal issues associated with the proposed sale by UCSF to MTF and represented UCSF in the negotiation and drafting of the definitive acquisition agreement. Negotiations concluded in May of this year.

UCSF and MTF have reached an agreement on the final terms of the acquisition agreement, expressly subject to the approval of The Regents. In conjunction with the sale, UCSF will enter into a binding Memorandum of Understanding pursuant to which MTF will provide UCSF with all of its tissue requirements in accordance with the same priority allocation system currently in effect. Therefore, the proposed sale will minimize risks to UCSF from the management and oversight of the Tissue Bank while preserving UCSF's right to access high quality tissue on a priority basis.

The purchase price of the Tissue Bank is structured as follows:

A. The amount of $1,440,600 will be paid at Closing for the purchase of the Tissue Bank and assets.

B. Buyer shall also pay to Seller $350,000 payable in three equal installments of $166,666 each, payable on the Installment Payment date, provided that a competitor in the field, California Transplant Donor Network, does not begin distribution or recovery of human tissue for transplantation and enter into a arrangement for such recovery and distribution with any member of the Hospital/Coroner/Medical Examiner Network (Contingency). Each installment shall be payable on the dates which fall one year, two years, and three years from the date of the Closing (Installment Payment Dates), provided that the Contingency has not occurred as of the then current Installment Payment Date.

C. There is also an agreement for Buyer to provide Seller guaranteed research funds in the amount of $750,000:

- $550,000 in guaranteed Peer Review and Career Development Grants over five years, provided that UCSF submits appropriate application for such grants.
- $200,000 in guaranteed MTF-directed research grants over three years.

D. The total offer price is $2,540,600.

Regent Lansing noted that she was not informed of this item until the previous day and requested that, since the item involves health services, in the future she be informed of such items earlier in the process.

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

10. **REPORT ON NEW LITIGATION**

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

The meeting adjourned at 2:45 p.m.

Attest:

Secretary and Chief of Staff