The Regents of the University of California

COMMITTEE ON FINANCE
July 16, 2008

The Committee on Finance met in open session on the above date at University Center, Santa Barbara Campus.

Members present: Regents Blum, Garamendi, Gould, Hopkinson, Island, Kozberg, Scorza, Varner, and Yudof, Advisory members Nunn Gorman and Croughan, Staff Advisors Abeyta and Johansen

In attendance: Regents Cole, De La Peña, Hotchkis, Marcus, Pattiz, Reiss, Ruiz, Schilling, Shewmake, Regents-designate Bernal and Stovitz, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Beckwith, Dooley, Foley, Lenz, and Sakaki, Chancellors Birgeneau, Bishop, Block, Blumenthal, Drake, Kang, Vanderhoef, and Yang, Acting Chancellor Grey and Recording Secretary Lopes

The meeting convened at 10:20 a.m. with Committee Chair Gould presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice was given in compliance with the Bylaws and Standing Orders for a Special Meeting of the Committee on Finance to accommodate a date and time change.

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

Upon motion duly made and seconded, the Committee and Joint Committee minutes of May 2008 were approved.

3. **UPDATE ON 2008-09 STATE BUDGET**

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Gould introduced this item as an opportunity to review the progress of the Legislature and the Governor on the 2008-09 Budget and preview and begin to prepare a budget for next year.

Vice President Lenz recalled that when the Regents met in May, the Governor had submitted his May Revision to the Legislature, restoring $98.5 million of the $108 million reduced from the University's budget in January 2008. However, the State still faces a $15.2 billion budget deficit, and the Conference Committee completed its deliberations last week with no State budget.

The Governor's May Revision proposed new revenue of approximately $8.1 billion with $9.1 billion in budget reductions, a State budget reserve of $2 million, and a call for a future State spending limit as well as across-the-board budget management authority for the Governor which would allow discretionary action earlier in the fiscal year. The Conference Committee approved a plan that included $9.3 billion in new revenue, a portion of which is one-time revenue from a tax amnesty plan of $1.5 billion. The plan included a budget reduction of $6.2 billion and a State budget reserve of approximately $1.8 billion. The Legislative Analyst alternately proposed an updated five-year plan to address the overall fiscal and structural deficit of the State versus across-the-board reductions. There was a call for realignment of State-funded programs. This plan added revenue through selective tax credits or exemptions but no general tax increase and no additional proposed borrowing or incurring of state debt.

Once the Conference Committee completed its deliberations and announced its overall plan for the budget, the Senate and Assembly Republicans came together to indicate there was still concern about and no support for a general tax increase. They recommended greater cuts in State spending and support for a spending limitation for future budgets. The University's budget, as part of the May Revise, restored $98.5 million and the Conference Committee supported that level of funding. The University will not receive funding for increased enrollment to the University, for faculty and staff salaries, for increasing costs of health benefits, or increased utility costs.

Both the University and the California State University system (CSU) had their capital facilities projects removed from the budget. The University is seeking an alternative funding source and a different plan to support those projects and is working with the Legislature and the administration on those matters as it enters the 2008-09 fiscal year. Severe cuts to other State programs included $400 million to the Medi-Cal and Healthy Families programs, funding for the aged, blind and disabled, and the California Work Opportunity and Responsibility to Kids (CalWORKS) program.

Mr. Lenz then turned to the University of California budget. At the end of the 2007-08 fiscal year, the University's operating revenue was just short of $5.3 billion. He noted that if one starts with the January proposed reduction of $108.7 million, offsets that figure with the May Budget Revise restoration of $98.5 million, and then factors in the 2008-09 revenue from University general funds and student fees, the University will have a net revenue in 2008-09 of $169.9 million. Mr. Lenz noted that the operating revenue for 2008-09 is just short of $5.4 billion.

On the expenditure side, Mr. Lenz noted continuation costs through October 1 of $32.4 million, academic merit increases of $27.5 million, health benefit cost increases at $37 million, enrollment growth of 5000 new students in 2008-09 at a cost of $78.7 million, increases in professional school fees totaling $12.1 million, $57.5 million reserved for student financial aid, student mental health at $8 million, graduate student support at $10 million and the purchased utility deficits at the campuses. The new 2008-09 expenditures total $303 million.

Mr. Lenz noted that even when offset with $170 million in new revenues and the $28.1 million saving to be achieved in the Office of the President restructuring, the campuses must still find $105.2 million to support the new expenditures. In addition, he noted that the two identified Regents' priorities – the accelerated faculty salary plan costing $20 million and the 5 percent increase in compensation for faculty and staff totaling $125 million – would push the total new expenditures to $250 million and the total 2008-09 operating expenditures to $5.65 billion.

Committee Chair Gould informed the Committee that once the final State budget is enacted, the Committee will return to adopt a final budget noting that choices regarding available resources will be difficult.

Chairman Blum affirmed the appropriateness of reducing expenditures in the Oakland administration and at the campuses to address the competitive faculty salary gap. The Regents had hoped to eliminate the gap in three years. Chairman Blum asked what progress could be made in addition to the $20 million already identified in the Office of the President restructuring.

Executive Vice President Lapp responded that there are two initiatives under way for further restructuring and reduction of expenditures. The President will present a new budget with significant associated savings at the November 2008 meeting.

Ms. Lapp reported that Provost Hume had charged Vice Chancellor Morabito of UCLA and a work group which includes other vice chancellors with identification of efficiencies across and among the campuses, initiatives that would save hundreds of millions of dollars over the course of several years. Some of the initiatives will require investment as well. A draft report has been presented to the President. He will be briefed in August, the report will be released, and the initiatives will then be implemented.

Chairman Blum reiterated the Regents' urgent need for a dollar amount for savings, and indicated that this request has been pending for over a year.

Regent Garamendi requested that Mr. Lenz reiterate the figures set forth in his presentation of funds available to operate the University, and sought confirmation that there will be $5,397 billion available to run the University, that the reductions manifested in restructuring at the Office of the President are, in fact, real reductions, and that there are $5,648 billion in expenditures, if all items are approved. Mr. Lenz confirmed these figures. Regent Garamendi asked how these expenditures will be funded.

Vice President Lenz stated that continuation costs such as health benefits cannot be avoided. Student financial aid is funded by fee revenue, but the revenue is insufficient to cover all costs, so that campuses will have to absorb $104 million and find efficiencies to fund financial aid. If the remaining high-priority items are approved, the campuses will have to absorb another $250 million to carry out those programs. Regent Garamendi said that to fund the UC programs, the Regents will have to prioritize, make cuts, shift monies or do without the programs.

Mr. Lenz stated that in the overall budget process, for every week that the State does not have a budget, the University becomes more vulnerable. To support the State budget, additional reductions have to occur. The University hopes to prevail in retaining the $98.5 million anticipated as part of the May Revise restoration, but the budget remains vulnerable.

Regent Garamendi observed that the only new revenue in the overall system is student fees, a tax on students. Regent Hopkinson asked if summer session and extension fees were considered in this budget and Mr. Lenz confirmed that they were. She indicated she has a separate calculation which totaled $1.9 billion in fees, including summer session and University extension, and requested a reconciliation of differences. She also requested an explanation of how patent income and other discretionary income are used. She requested a more comprehensive view of revenue and its flexibility. Mr. Lenz noted that these questions were also posed to the University by the Legislature.

Committee Chair Gould requested clarification of the differences between the Governor's plan and that of the Conference Committee noting that categories were not clearly defined. He added that the University cannot count on all the revenues identified by Conference Committee coming to the University.

Mr. Lenz explained that the Governor's May Revise included a proposal for use of lottery funds to generate additional lottery revenue, and to make the state more competitive. The May Revise proposal also included borrowing against the lottery fund, approximately $15 billion over a three-year period, using over $5 billion for the 2008-09 fiscal year in an attempt to balance the budget. This proposal was not well received by the Legislature who deemed it risky. The Legislature also considered increasing personal income tax and making a corporate net operating loss adjustment, and, ultimately, the lottery proposal was rejected. The Governor proposed counting revenue in the 2009-10 fiscal year using an accrual accounting mechanism applied to the 2008-09 year (approximately $169 million in revenue). The Legislature rejected that proposal because it would continue the structural problem into the 2009-10 fiscal year. Though all of the proposals are tenuous, they reflect the overall options in an attempt to balance the budget and all currently preclude additional reductions to the University budget.

Faculty Representative Croughan noted that faculty salary data available to the Regents accurately reflects the discrepancies between University faculty and the comparator rate. The data has been updated further with recent California Postsecondary Education Commission figures. The original faculty salary plan was ten to twelve years to bring faculty salaries to the level of comparison institutions. Last year the Regents agreed to change the plan to a four-year plan because the ten-year plan was insufficient to allow the University to mitigate the discrepancy due to the lag in salaries and inflation. This is not an accelerated plan. It has been determined, over the last year, that even the four-year faculty salary plan does not achieve faculty parity. Given the State budget crisis, an accelerated plan is not feasible. The possibility of $20 million for the faculty salary plan implementation would still fall short of the cost of year two of the plan. Professor Croughan stated that she could provide the actual projected cost for the year. Year one of the plan worked as hoped with the University able to lower, to within 0.1 percent, the number of off-scale faculty as originally projected. Without implementation of year two, the University will face difficulties as there are some faculty who gave up any increase for the benefit of the faculty's overall good.

Regent Island sought clarification of the terms "student access" and "student outreach funding." Mr. Lenz defined student access as enrollment growth – the additional 5,000 students approved by the Regents. He noted that student outreach funding is in the base budget and is fully funded.

4. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2009-10 BUDGET**

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Indicating that the 2008-09 budget was not complete, Vice President Lenz presented the 2009-10 budget issues. He anticipated that more precise numbers will be available by September when the status of the 2008-09 budget should be known, and the figures will be further refined for the November Regents meeting.

Mr. Lenz stated that in September he would present more comprehensive data on revenue. The significant sources of revenue are the State General Fund, UC general fund, student fees, and University efficiencies, most notably from the Office of the President but also from the campuses. The impact of the 2008-09 campus budget is crucial in understanding how the 2009-10 budget will be affected. Priorities remain student access through enrollment growth, compensation, health benefits, utilities, retirement contributions, campus budget priorities and capital facilities projects.

Relative to enrollment growth, in 2007-08, the University of California served 4,200 more students than were funded by the State, at a cost of $44 million. The Regents decided to enroll an additional 5,000 students in the 2008-09 academic year. Campus enrollment numbers reflect the University will be over-enrolled by approximately 8,000-10,000 students at a total cost of about $97 million, which will not be provided by the State. This represents 2.5 percent enrollment growth consistent with the Governor's Compact. In September, the Regents will have to decide whether the University can sustain the 2.5 percent enrollment growth and any additional students with available State resources in 2009-10.

Compensation costs for merit collective bargaining agreements, which are measured from October to October, will be required. Academic salary increases will likely be a priority. A plan to restore staff competitive salaries will need to be examined. But for the 2008-09 budget, the State is not providing funding for any of these priorities. Health benefits for 2009-10 will increase 10 to14 percent, costing between $30 and $37 million. The actual costs are subject to collective bargaining. Campuses already have an accumulated deficit of $35 to $40 million for utilities, as noted in the outline of the 2008-09 budget. The cost of natural gas and electricity will increase10 to 30 percent with a cost of $25 to $40 million. If employer and employee contributions to the retirement system are restarted, there will be a cost. There have not been contributions by the State or UC employees for the last 18 years. The University will need to request a portion of these costs from the State, up to $250 million in the first year alone. President Yudof has sent a letter to the campuses asking them to prioritize their budgets. Campuses have identified health sciences, student financial aid, and graduate student support in the past as the campus priorities for the Regents' budget.

Finally, the University will need funding for enrollment growth, seismic safety, capital renewal, and health sciences. Currently, another source of revenue is being pursued through lease revenue bonds, absent support from the K-12 community or the Legislature to pursue a general obligation bond in November. The University must identify its critical needs and prioritize them for the 2009-10 budget.

Regent Varner asked if the University has committed to the $250 million initial cost of the restart of employee and employer retirement contributions. Mr. Lenz reported that those projections have been done and that the State's portion of the retirement funding will be between $200 and $250 million per year. Regent Varner indicated the Board must be mindful of ongoing costs.

Committee Chair Gould acknowledged the uncomfortable negotiations for the current year and anticipated next year's demands. He indicated that in September at the retreat, the Regents will consider the next twenty years and the growing demands of post-retirement health benefits, the retirement system and wages for faculty and staff. There is a series of demands that creates a growing gap between anticipated revenues and legitimate costs for the system.

Regent Reiss asked if the last offer to the American Federation of State, County and Municipal Employees members was included in the academic and staff compensation figure presented, $125.1 million. Mr. Lenz indicated that a portion would be funded from that amount. Depending on the final offer, the amount is approximately $22 million.

Regent Garamendi suggested that the discussion reflected the University's current method of handling inflationary or program increases. He proposed an alternative method of developing a budget, based on a strategic plan for the University. The plan's focus would be what the University needs to do to address the research and workforce needs of California and the world. With this approach, the University could form a different budget, one based on what the University must do for the State to prosper and meet its societal, research, and medical responsibilities. He believed that the budget proposed provides no solid foundation for financing the larger need. It is important to develop a strategic plan and bring the cost of the plan before the public and the Legislature. This approach would empower the University to argue for what should be done, not what has been done, a dramatic departure from usual budget procedures, but essential. Regent Garamendi noted that President Yudof, in his opening remarks, advised that a discussion should take place on the philosophy of what should be done and how much it will cost to do it. Regent Garamendi advocated that this discussion take place.

Regent Kozberg thanked Committee Chair Gould for bringing up the budget earlier than usual, allowing greater opportunity for a comprehensive review of the issues. Enrollment growth has been handled differently by the California State University system (CSU) than the University of California. The implications for the students, whose families base their future hopes on their student's admission, are very complex, and the University must determine what can or cannot be done to accommodate them.

Executive Vice President Lapp reported that the President has requested options for his review and presentation to the Regents in September to allow optimum notification time for decisions.

Regent Island commented that when presented with the cost of student enrollment growth, it is always the dollar cost, not the cost impact on diversity, which is addressed. He expressed his concern that a reduction in enrollment would affect the enrollment of underrepresented students the most. He recommended that data reflecting this potential impact should be considered when the question of enrollment growth comes before the Committee. With a reduction in enrollment growth, underrepresented students will likely be significantly affected. Ms. Lapp stated she would follow up on this matter.

Regent Pattiz expressed interest in the proposal set forth by Regent Garamendi and praised the idea of a strategic plan based on what UC should be doing to meet the needs of the state and the country. He noted that more than cost should be considered in a strategic plan because to sell the plan, one must sell the cost benefit. The University is an engine for growth in the state, the country and the world. It would be useful to quantify how much growth the University can generate, how a strategic plan could meet the needs of the state, and to what extent this might generate revenue in and of itself. He expressed confidence in the ability of faculty and staff of the University of California to bring that forth.

Committee Chair Gould concurred with the need to demonstrate the long-term value of the University, whether speaking with the general public, the Legislature, Governor, alumni or donors.

Chairman Blum praised the speakers' comments, noted that the University has been advised that it does not have the presence in Sacramento it should, and thanked Regent Garamendi for launching this discussion. He stressed the importance of advocacy. In five years, the State of California will have 49,000 fewer nurses and 17,000 fewer doctors than it needs. Collectively, a strategy can be developed to educate Sacramento and the people of California about the role of the University in serving the current and future needs of the State economy.

President Yudof agreed with all the comments but noted the importance of strategic decisions and of those who make them. Each of the campuses has a strategic plan. The Regents do not want top-down strategic planning for the campuses. The Regents need to be informed about campus strategic plans and to be substantively engaged in them. If the Board of Regents disagrees with the campuses, the campuses can be so informed, but one strategic plan developed in Oakland for all ten campuses which fails to involve deans, chancellors, vice presidents and senior faculty, would be a mistake. He agreed with Regent Garamendi that legislators fund programs, not categories of expenses; they want to know what is being produced for the people of California.

Regent Hopkinson concurred that the Board needs to develop strategic goals to support the strategic plans of the campuses and to advocate for the achievement of the goals both with the Legislature and in fundraising. The role of the Regents in the economic and social health of the State of California has not been effectively communicated despite the development of a comprehensive document outlining key measures for each campus.

Regent Ruiz addressed the need to avoid deficit spending – the University cannot spend money it does not have. He opined further that the budget can be approached in three ways: first, based on student demand, which is how UC budgets now; second, based on sustaining the growth and success of the state; and, third, based on the real dollars allotted. The Regents need to discuss the third point, which may be shock therapy, but reflects reality. The University currently has a reactive budget. The State of California will have to determine whether it wants to sustain economic growth and leadership, and it must decide whether or not to fund UC. The University is a driving force in growth and leadership for the state.

Committee Chair Gould reminded the Committee that this is an informational item and that much work and planning remains to be done before action is taken.

Regent Garamendi stressed that the strategic plan he envisioned would not take from the individual campuses but would represent the role of the University overall in meeting the needs of the state, nation and world, which must be presented to the public and the Legislature. This may be a multi-year process, but the current path leads to slow starvation. Over the years, the University has seen its ability to meet the needs of the state diminished. The current budget leads to a discussion of the role of the University in the California society and economy, but does not address the future. The University must tell the Department of Finance what the University needs to do, he emphasized, not vice-versa.

Regent Reiss opined that the University has an opportunity with the new leadership in President Yudof, President Pro Tempore of the State Senate Steinberg, and Speaker Bass. Senator Steinberg has informed Regent Reiss that he wants his legacy to be education. There is an opportunity with this new leadership both at the University and in Sacramento to aggressively put forth priorities.

5. **AUTHORIZATION FOR INCREASE OF COMMERCIAL PAPER PROGRAM**

The President recommended:

A. That the President be authorized to increase the current Commercial Paper (CP) Program from $550 million to $2 billion. The re-authorization of the CP Program would be issued for the following:

(1) $1.5 billion commercial paper (tax-exempt/taxable) authorization for interim financing related to capital projects, interim financing of equipment, financing of working capital for the University's teaching hospitals, and other University working capital needs; and

(2) $500 million commercial paper (taxable) authorization for standby/interim financing for gift-related projects.

In addition, the following are conditions for issuance:

(1) The proceeds of the CP Program shall not be expended for any capital project until the Budget for Capital Improvements and the Capital Improvement Program have been appropriately amended, the applicable environmental review process for each project has been completed, and the specific financing for each project has been approved by the Regents;

(2) The proceeds of the CP Program shall not be expended for equipment until all applicable University procedures for equipment acquisitions have been met;

(3) The proceeds of the CP Program shall be utilized for hospital working capital in accordance with Regental policy regarding the level of working capital advances;

(4) The proceeds of the CP Program may be utilized for University working capital purposes with the approval of the President;

(5) Repayment of the CP Program and the interest thereon for project acquisitions, construction and related equipment shall be from income, rentals, fees, rates, charges and other moneys derived from the projects so financed or from such other funds as may be approved by the Regents;

(6) Repayment of the CP Program and the interest thereon for the acquisition of equipment shall be from the University's operating budget allocated for such purposes, or such other funds as may be approved by the Regents;

(7) Repayment of the CP Program and the interest thereon for hospital working capital shall be from the gross revenues of the teaching hospitals, or such other funds as may be approved by the Regents;

(8) Repayment of the CP program and the interest thereon for other working capital needs shall be from the University's operating budget allocated for such purposes, or such other funds as may be approved by the Regents; and

(9) The general credit of the Regents shall not be pledged

B. That commercial paper shall be issued at such times, in such series (which may be taxable or tax-exempt), in such amounts (but not to exceed $2 billion at any one time outstanding), and at such interest rates (not to exceed 12%), as may be determined by the President.

C. That the President be authorized to either utilize legally available cash balances in the unrestricted portion of STIP/TRIP as liquidity support for the CP Program or if necessary negotiate a standby letter of credit, line of credit or other liquidity agreement provided that repayment of any advances shall be provided from sources identified in A(5), (6), (7) and (8).

D. That, as appropriate, the Officers of The Regents be authorized to provide a certification that interest paid by the Regents on the tax-exempt commercial paper is excluded from gross income for purposes of federal income taxation under existing law; and

E. That the Officers of The Regents be authorized to execute all documents and agreements that may be necessary to effect the purposes of this action and the transactions contemplated hereby, including, but not limited to, dealer agreements, issuing and paying agent agreements, an indenture, commercial paper memorandum, and an agreement providing liquidity for the commercial paper.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

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

6. **AUTHORIZATION TO ESTABLISH A LIMITED LIABILITY COMPANY WITH FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT FOR THE PLANNING AND EVALUATION OF A SHARED RESEARCH, DEVELOPMENT AND EDUCATIONAL FACILITY TO BE LOCATED AT NASA AMES RESEARCH CENTER, MOFFETT FIELD, CALIFORNIA, SANTA CRUZ CAMPUS**

The President recommended that the Regents authorize the President, in consultation with the General Counsel, to negotiate and execute all documents necessary to establish a two-member limited liability company ("Evaluation LLC") comprised of Foothill-De Anza Community College District ("Foothill-De Anza") and the University of California ("UC") for the purpose of evaluating the feasibility of, and planning for, a possible shared research, development, residential and educational park ("Shared Facility") at the NASA Ames Research Center ("NASA Ames") on federal land designated as the NASA Research Park (NRP) provided, however, that:

A. The limited liability company shall not be authorized to enter into any legally binding agreement to proceed with the development of such a facility; and

B. Any legally binding agreement to proceed with the development of such a facility will require separate action by the Regents after all required environmental evaluations have been completed.

This action does not constitute a decision by the Regents as to whether to undertake the development of a Shared Facility at NASA Ames.

This authorization is pursuant to Standing Order 100.4(oo), which requires Regental approval of the participation of the University in the establishment of corporations, companies or partnerships.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Chancellor Blumenthal noted that this proposal seeks to establish a limited liability company in conjunction with the Foothill-De Anza Community College District to plan and evaluate a partnership at the NASA Ames Research Center. Though this item is relatively modest, it is a key step toward a grand vision for UCSC's presence in Silicon Valley and at NASA Ames.

This proposal of collaboration with other institutions of higher education, industry and NASA Ames has the strong support of the Silicon Valley Leadership Group, political leaders throughout Silicon Valley and the surrounding communities.

Currently UCSC has a number of programs at the NASA Ames facility, including the University Affiliated Research Center, a $330 million contract with NASA, a ten-year program which is the largest competitive contract NASA has ever given to a university. This program sponsors research at many campuses within the University of California. The Baskin School of Engineering is also pursuing work at the NASA Ames Research Center, offering courses in technology and information management as well as research. There is a Bio·Info·Nano Research and Development Institute (BIN-RDI), a collaboration between NASA, private industry, and other educational institutions to form an incubator for new ideas and innovations. UCSC also has space and research laboratories at the Advanced Studies Laboratory doing research on energy sources in collaboration with NASA.

Development at NASA Ames is a key part of the UCSC academic plan which includes new Ph.D. programs, a first-class school of management focusing on technology and management in a global economy, a center for advanced super-computing, and the development of educational partnerships with other universities such as Santa Clara University, Carnegie Mellon University, and the Foothill De-Anza Community College District (which has funding and an active interest in developing a new campus at the NASA Ames Center). This is an opportunity to create a world class center with public-private partnerships, a meta-university. This would be done in a way that demonstrates sustainable development built from the ground up, without retrofitting, anticipating 21st century developments. The current conception envisions 70 acres to be developed with a master developer, including residential, industrial and academic research and development.

Regent Hopkinson praised the concept as visionary and creative. In response to several questions posed by Regent Hopkinson, Chancellor Blumenthal informed the Committee that as public institutions, the University and the Foothill-De Anza Community College District are obliged to perform CEQA analyses, while private institutions are not. Due to the early stage of formation, it was felt desirable for the public institutions to form an LLC and to complete environmental analysis. It is anticipated that a new LLC will be formed with all of the partners with UCSC as the managing partner once environmental analysis is done. Foothill-De Anza Community College District is also contributing funds, and voting by partners will ultimately be proportional to the amount of money contributed. The LLC proposal before the Committee now is solely for the purpose of evaluation. UCSC will return to the Committee with the structure of the new LLC, and an operating plan if the evaluation concludes it to be feasible.

Regent Island commended the proposal but asked about the form of the item before the Committee: a request for authorization rather than one requesting new Ph.D.'s, research programs and educational programs.

Chancellor Blumenthal assured the Committee that UCSC's motivation is entirely academic and expressed the urgency on the part of NASA and the other partners to have the evaluation done quickly. When UCSC returns with a full proposal, there will be a comprehensive presentation on how the new program would align with UCSC's academic planning. It was his recollection that this concept has been presented to the Regents before and featured as one of the key issues for UCSC.

Faculty Representative Brown asked what role UCSC faculty had in reviewing and approving the LLC. He also asked about governance of the LLC, and transparency. Chancellor Blumenthal responded that the Academic Senate has been consulted extensively, especially the Senate leadership and the Committee on Planning and Budget. The issue of governance has not yet been worked out. Key issues such as voting power will be resolved in full conjunction with the UCSC Division of the Academic Senate.

Regent Kozberg recalled that in 2000, this concept was presented by Chancellor Greenwood. The Berkeley campus was also involved in the discussion. The partners in 2000 were the same. She recalled touring the facility with Regent Lee in their capacities as members of the Committees on Educational Policy and Grounds and Buildings, and was pleased to see the concept developed.

Chairman Blum conveyed his approval of the project, an asset to UCSC and the foundation of a desirable relationship with Silicon Valley. Chancellor Blumenthal informed the Committee that Google has a contractual relationship with NASA Ames to develop a campus in the northwest part of the NASA Ames Center. The LLC's proposed development, in the southern part of the Center, is not directly related to Google, though Google has shown interest in the research and programs.

Regent Marcus applauded this opportunity to plant a footprint in a highly creative region.

President Yudof expressed his firm support for the project and commended Chancellor Blumenthal and his colleagues. He stated that he will look very carefully at the LLC, and he asked how the proposal aligns with UCSC's aspiration to membership in the American Association of Universities and development as a research university. Chancellor Blumenthal responded that it is a key part of UCSC's academic plan and promotes the campus' goal of establishing a significant presence in the Silicon Valley, a presence which it does not currently have and which will provide the opportunity to participate in innovation.

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

7. **ENDORSEMENT OF CHILDREN'S HOSPITAL BOND ACT OF 2008**

The President recommended that the Regents endorse the Children's Hospital Bond Act and direct the President to inform UC constituents and supporters of the benefit to the medical centers, consistent with what is allowable under current state law, Regental policy and Presidential authority.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Committee Chair Gould stated that, though the Board did not endorse the prior Children's Hospital bond, it is important to endorse this Act. The University will receive 20 percent of the overall funding from this general obligation bond. It is critical for the University to be part of a network serving children.

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

8. **A PROPOSED NEW FUNDING POLICY FOR THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN**

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President Lapp stated that this item presents a proposed funding policy for preserving University of California Retirement Plan (UCRP) benefits. In 1990, the Regents adopted a full funding limit policy wherein contributions are suspended when the plan surplus is sufficient to cover the plan's normal costs. UCRP had a surplus at that time and thus contributions were suspended and redirected to a defined contribution plan. In March 2006, the Regents approved a long-term targeted funding level of 100 percent. There is no current policy formula or criterion established for resuming the UCRP contributions, and this is the purpose of the present discussion. The decision about the split between the University and member contributions is to be determined separately and is subject to collective bargaining. In no case will University contributions be lower than the expected member contributions.

The proposed funding policy provides a structure for determining the recommended contribution rate necessary to maintain the 100 percent target funding level over the long term. There are many issues linked to this proposal including funding and collective bargaining. The funding sources for the University of California Retirement Program are State and University general funds and student fees, which represent about 35 percent of the total. Other fund sources include contracts and grants, medical centers and other self-supporting entities, and member contributions.

Mr. Paul Angelo, a representative of the Segal Company, presented an overview, explaining that the funded ratio which compares assets and liabilities, has been decreasing and will continue to decrease. As of July 1, on a market value basis, the University of California Retirement Program is underfunded at 99 percent funding. On an actuarial basis, over the next few years, this will continue. The need to address this issue is accelerated because of recent market events.

The proposed policy is comprehensive, covering the current funding situation and future underfunding or surplus. Any funding policy starts with a normal cost which, if paid every year, maintains balance. The normal cost for this plan, between $1.3 and $1.4 billion currently, is 17 to 18 percent of payroll. If overfunded, the contribution would be less. The proposed policy addresses the details of how adjustments are to be made to the contribution, both above and below normal funding cost.

The current policy takes the surplus and amortizes it over one year. If there is a surplus equal to one year of normal cost and no contributions, when the surplus is exhausted it is necessary to abruptly restart contributions at the full normal cost level. In this proposal, the current surplus would be spread over a few years, and after that period, the full normal cost would be established. This extends the time before contributions increase to full normal cost, but contributions must be started before the surplus is exhausted. The actual split between the University, funding sources and the members is subject to collective bargaining. The recommendation for the current surplus is to spread it over five years, subject to discussion. With a negative market return, a shorter amortization period may be necessary.

In an unfunded condition, fifteen-year amortization is necessary unless and until a surplus is established, in which case there would be a thirty-year amortization consistent with the Governor's Public Employee Post-Employment Benefits Commission recommendation and what has been adopted by the California Public Employees Retirement System (Cal-PERS) after an extensive analysis.

A three-year amortization policy with a recommended contribution of 7 percent would generate about $480 million annually. A four-year amortization policy would generate approximately $660 million. The Segal Company recommendation is a five-year amortization policy which would generate a $770 million contribution for the 2009-10 year. Approximately one-third of this amount is generated by state sources. A seven-year new amortization option was reviewed, which would generate a higher start at approximately $890 million. As actuary to the Regents, the Segal Company has no strong preference.

Mr. Angelo projected that the current funding surplus will last through 2009. In 2010 there will be a small surplus, but by 2011 the contribution will jump to the full normal cost. If the process of adopting a new policy is delayed a year, there will be little surplus left in 2009 and the amortization choices are reduced. Fundamentally, the surplus is gone as of 2009.

Faculty Representative Brown confirmed that the Academic Senate believes the surplus has disappeared as a result of funding the contribution holiday. For the last two years, the

Academic Senate has supported the restart of contributions. From the Academic Senate's point of view, the resumption of contributions should not be associated with compensation erosion. If contributions are resumed, salaries must be increased so that employees do not experience an erosion in compensation.

9. **REPORT ON NEW LITIGATION**

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

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 11:50 a.m.

Attest:

Secretary and Chief of Staff