The Regents of the University of California

COMMITTEE ON FINANCE
March 19, 2009

The Committee on Finance met on the above date at the Commons, Riverside Campus.

Members present: Regents Garamendi, Gould, Island, Kozberg, Lozano, Scorza, Varner, and Wachter; Ex officio members Blum and Yudof; Advisory members Bernal, Croughan, and Nunn Gorman; Staff Advisors Abeyta and Johansen

In attendance: Regents Cole, De La Peña, Johnson, Lansing, Makarechian, Pattiz, Reiss, Ruiz, Schilling, and Shewmake, Regent-designate Stovitz, Faculty Representative Powell, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Interim Provost Pitts, Executive Vice President Lapp, Senior Vice President Stobo, Vice Presidents Dooley, Lenz, and Sakaki, Chancellors Bishop, Blumenthal, Drake, Fox, Kang, Vanderhoef, White, and Yang, and Recording Secretary Johns

The meeting convened at 8:45 a.m. with Committee Chair Gould presiding.

1. **READING OF NOTICE OF MEETING**

For the record, notice was given in compliance with the Bylaws and Standing Orders for a special meeting of the Committee on Finance, for the purpose of addressing an item on the Committee's agenda.

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

Upon motion duly made and seconded, the minutes of the meetings of October 21, 2008 and February 5, 2009 and of the special joint meeting of the Committees on Finance and Educational Policy of January 14, 2009 were approved.

3. **UPDATE ON THE SPECIAL SESSION RECOMMENDATIONS FOR THE 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.]

Vice President Lenz began by noting that, since the last Regents meeting, the Legislature concluded its Special Session concerning the 2008-09 and 2009-10 budgets. It made an attempt to close a $42 billion gap through a variety of measures, including about $14.9 billion in expenditure reductions, $12.5 billion in additional revenue, $7.9 billion assumed from federal economic stimulus funding, $5.4 billion in borrowing, and about $1 billion in Governor’s vetoes.

The Legislature also embraced a number of measures, to be placed on the May 19 ballot. The outcome of these measures will have significant influence on any budget assumptions for the next few fiscal years. The California Legislative Analyst’s Office reported that, even with the expenditure reductions, revenue options, and borrowing agreed to in the Special Session, the State would still confront an $8 billion budget gap. This is of particular concern to the University because of the manner in which the UC budget was treated in the Special Session and because of some of the assumptions to date about how the University might fare based on the Special Session resolutions.

From one year to the next, the UC budget was reduced by approximately $115 million. Of this, $65 million was cut early on in the Special Session; $50 million was tied to a trigger mechanism. This mechanism makes an assumption about how much in excess federal funds will come to California. Mr. Lenz anticipated that California would receive between $32 billion and $35 billion in economic stimulus funding. However, the trigger focuses on what has been characterized as excess revenue that might be available for General Fund purposes. The Department of Finance assumed, as part of the Special Session, that the University would receive approximately $8.2 billion of these funds. A hearing on this issue took place that week with the Pooled Money Investment Board. At this point, the State Treasurer did not disagree with the Department of Finance assumptions. The Legislative Analyst’s Office has not disagreed with these assumptions either.

Mr. Lenz predicted that the University would be unlikely to recover the above-mentioned $50 million. A number of tax proposals were included in the Special Session deliberations, but a proposed 12-cent gas tax increase was not included. This increase would have generated about $600 million in revenue. Because it was removed from the proposed budget, the Governor felt compelled to carry out a number of vetoes, including a $255 million veto to the UC budget. That $255 million was replaced with economic stimulus funding. Although this action was revenue-neutral for UC, the University had concerns about the State’s ability in the future to replace that amount with ongoing General Fund money. This was especially the case now, as the Legislative Analyst’s Office has indicated an $8 billion budget gap, even with the Special Session solutions. The outcome of the May 19 ballot measures will also affect this situation.

The previous day, in the Assembly Budget Committee, the Legislative Analyst had presented a chart showing budget allocations for higher education. The chart created the impression that UC had fared well in the deliberations. While the University received a reduction of only $115 million, it was in fact experiencing a significant impact to its budget. This included 11,000 students the University has enrolled without State support, at a cost of approximately $122 million, and about $213 million in mandatory increased costs for health benefits, collective bargaining agreements, utilities, and faculty merit increases. In addition, the Governor’s January 10 budget proposal provided $20 million for the UC Retirement Plan; this was deleted in the Special Session. The University plans to make every effort to restore this funding. The Governor also had proposed $2.5 million to increase enrollment in the University's Programs in Medical Education (PRIME) and nursing programs; this was also deleted, as was $450 million in capital facilities projects, which the January 10 budget would have funded with lease-revenue bonds.

Committee Chair Gould observed that there had been serious negotiations and some success for the University, but that, in the face of an $8 billion budget gap, the University was still at risk and needed to be vigilant.

4. **ENDORSEMENT OF PROPOSITION 1A ON MAY 19, 2009 STATEWIDE SPECIAL ELECTION BALLOT**

The President recommended that the Regents endorse Proposition 1A on the May 19, 2009 Statewide Special Election ballot. Proposition 1A is a budget stabilization measure approved by the Legislature and the Governor as part of the Special Session budget package. It establishes a "rainy day" reserve fund, extends tax increases that were part of the budget stabilization package, and makes other modifications to the State budget process.

The President further recommended that the Regents direct the President to inform University of California constituents and supporters of the benefit to the University, consistent with what is allowable under State law, Regental policy, and Presidential authority.

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

Vice President Lenz recalled that, as part of the Special Session agreement, the Legislature proposed a number of propositions for additional revenue, borrowing, shifting funds, and to prohibit raises in legislators' salaries when the State faces a fiscal deficit. Proposition 1A would extend the timeline for taxes approved in the Special Session: the sales and use tax, personal income tax, and vehicle license fees. If approved, it would extend the timeline for the sales and use tax by one year and the timeline for personal income tax and vehicle license fees by two years. The sales and use tax is expected to generate approximately $1.2 billion in 2008-09 and $4.6 billion in 2009-10; this would be accomplished by raising the tax by one percent. State tax would rise from five to six percent; including local tax, on average, it would rise from eight to nine percent. Personal income tax would increase by 0.25 percent, and is expected to generate about $3.6 billion in 2009-10. The vehicle license fee, currently at 0.65 percent, would rise to 1.15 percent. It would generate about $346 million in 2008-09 and $1.7 billion in 2009-10. A third of this revenue has been dedicated to local government public safety programs.

The second component of Proposition 1A is a spending cap. It would examine the State's revenue for coming fiscal years and, based on a ten-year average of State spending and revenue, would make an assumption on what the State can spend over any fiscal year. Mr. Lenz stressed that this would be a State spending cap, not a program spending cap.

The third component of Proposition 1A is establishment of a budget stabilization fund. A budget stabilization account already exists. It was established initially as a “rainy day” fund for the State and assumed five percent of the State General Fund revenue to be set aside for extraordinary expenditures. Proposition 1A would change the name to “budget stabilization fund” and would increase the size of the fund from 5 percent to 12.5 percent of General Fund revenue. Based on the current budget, the fund would increase from $8 billion to $12 billion.

The fourth component of Proposition 1A would give the Governor mid-year budget authority to reduce funding for State operations or capital outlay up to seven percent and to suspend cost-of-living adjustments for programs, excluding cost-of-living adjustments for State employees.

Mr. Lenz then discussed Proposition 1B. It is an education finance proposal concerning implementation of Proposition 98. One element is a prior-year funding assumption of what is owed to K-14 under Proposition 98. The budget has suspended funds owed to K-14 for the 2007-08 and 2008-09 fiscal years. It has recognized a funding total of $9.3 billion to begin in 2011-12, and continuing until this amount is paid out, with approximately $1.5 billion paid to K-14 each year. Proposition 1B is dependent on Proposition 1A. If Proposition 1A failed, Proposition 1B would not be effective.

Regent Garamendi asked how the budget stabilization fund was funded, and if there were specific requirements for funding. Mr. Lenz responded that State General Fund revenue would be set aside. In response to questions asked by Regent Garamendi, he confirmed that three percent of the General Fund would be automatically allocated and that the Governor would have limited ability to suspend that automatic allocation.

Regent Garamendi referred to the Governor’s authority to reduce funding for State operations and asked what was included in “State operations.” Mr. Lenz responded that these could include equipment purchases, travel, as well as the University.

Mr. Lenz continued by stating that Proposition 1B would allow K-14 to recover $9.3 billion over six years, about $1.5 billion each year. Proposition 1C would allow the State to borrow against the State Lottery fund in an effort to raise about $5 billion to close the budget gap. UC receives $30 million in funding from lottery funds; in this year’s budget, this has been replaced with $30 million in State General Funds. Propositions 1D and 1E are funding shifts. Proposition 1D is a funding shift from cigarette tax revenue, which funds the California Children and Families Act. It would shift $268 million from this program for General Fund purposes. Proposition 1E is a funding shift from the Mental Health Services Act, which is based on a tax surcharge on incomes over $1 million. Proposition 1E would take $227 million from State and County mental health programs for General Fund purposes. Proposition 1F amends the Constitution to prohibit the commission which sets legislators’ salaries from increasing those salaries when the State faces a General Fund deficit. All the propositions discussed would be on the May 19 ballot.

Committee Chair Gould informed the Committee that action on this item would be delayed until later in the meeting.

5. **REPORT ON CAMPUS BUDGET REDUCTION STRATEGIES**

[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.]

President Yudof observed that the University has been lacking a strong mechanism for detailed review of campus budgets. Campuses are primarily responsible for their budgets, but it is the President's responsibility to ensure that the campuses have a plan and priorities and carry these out, and that the Office of the President has the capacity to monitor progress. The President, Executive Vice President Lapp, and Vice President Lenz have had meetings with the chancellors and campus administrative teams to examine proposed campus budgets for this year and next year.

For the President, these meetings provided an opportunity to express his belief that it would be a mistake to rely primarily on across-the-board reductions. In challenging times, priorities needed to be set. He wished to ensure that the chancellors were taking a strategic approach, thinking through long-term priorities. President Yudof anticipated that the current financial difficulties would not be a one-year phenomenon, but that the University would face several years of budget reductions. He stressed that the University must preserve core academic programs and student services. Some adverse effects would be inevitable, but reductions to the core academic budget and to student services should be the last measures taken by the University.

The campuses all understood that this process must be consultative and deliberate. Most campuses were now taking some temporary measures and operating on two timelines, one for one-year savings, another for multi-year savings. The campuses expressed a commitment to maintaining the quality of and access to education as much as possible. President Yudof felt that the campuses were setting their priorities appropriately. He referred to the projected $8 billion shortfall in the State budget and concurred with Vice President Lenz's assessment in the previous presentation that the University would be unlikely to recover the $50 million reduction in State funds for UC. He noted that the possibility of furloughs for employees and salary reductions was also discussed in these meetings.

President Yudof praised Ms. Lapp, Mr. Lenz, and Associate Vice President Obley for their work in reducing the Office of the President budget. He stressed the magnitude of the work ahead in addressing campus budgets. The Office of the President's expenses total a few hundred million dollars, while $18 billion is spent on campuses and at the national laboratories. Analysis of these budgets is a daunting task. President Yudof expressed the hope that, with the appointment of Mr. Peter Taylor and a revitalized chief financial officer position and with the resources of the Budget Office and Business Operations, the Office of the President would gain an increasingly better understanding of campus budgets. The Office of the President should not manage campus budgets, but it should have an understanding of them and be able to monitor them effectively. There has been cooperation from chancellors, chief budget officers, and campus divisions of the Academic Senate. President Yudof anticipated that the sharing of best practices would be helpful to the campuses.

Executive Vice President Lapp noted that several common strategies and themes emerged in the discussions with the campuses. One was consolidation and elimination of programs. All the campuses were seeking to reduce duplication. For example, UC Berkeley has been working to consolidate all its information technology activities. The campus currently spends $140 million a year; through several consolidations, it believed it could save at least $5 million to $6 million annually. A similar consolidation of human resource activities into a central unit was being contemplated, with savings of $1 million to $2 million. UC Santa Barbara was considering consolidation of all its business processing functions, now located at the department level, into central business entities which would support all the departments. This model has been successful at the Office of the President. A consolidation was taking place at UC San Diego in administrative areas of the health sciences programs, including financial reporting, human resources, communications, and marketing. UCLA has invested $4 million in a central data center which has resulted in a reduction of 20 local centers. Campuses were facing difficult decisions about closing programs. UC San Francisco was eliminating its Adult Denti-Cal program, UC Santa Cruz was eliminating its Institute on Science for Global Policy, and UC Irvine has closed two programs.

Each campus has been using a consultative process involving the faculty, the Academic Senate, administrators, and the chancellor in order to address budget reduction targets while protecting the campus' academic mission and making disproportionate cuts in administrative areas where possible. The schools and colleges at UC Davis received a 2.4 percent budget reduction target, while administrative programs were assessed a 7 percent cut, and libraries a 3 percent cut. At UC Irvine, cuts ranged from zero percent in some academic units to 5.7 percent in some central administrative units.

The campuses were considering whether or not to proceed with certain planned initiatives or programs. UC Irvine was making cuts elsewhere in its budget to ensure the continued development of its law school and slowing development of its nursing, pharmaceutical sciences, and public health programs. UC Riverside was considering alternatives to State funding for the start-up of its medical school and has halted its external search for a dean of public policy, choosing to search internally and to slow down planning of this new program. UC Merced has curtailed leasing of space in Merced, reorganizing existing space on the campus and at its Fresno facility to house staff.

Campuses were seeking to avoid layoffs, but these might be inevitable. Ninety vacancies were eliminated at UC Davis, including six senior management positions. Nevertheless, about 50 employees had to be laid off. At UC Irvine, about 75 staff members have been laid off. Hiring freezes for staff were in place on all the campuses. Some campuses, such as Riverside, Merced, and Davis, were controlling this process centrally. Others were controlling hiring at the department and college level, such as Berkeley, Los Angeles, and Santa Barbara. Each campus was encouraging its staff to participate in the Staff and Academic Reduction in Time (START) program, which reduces salary expenses. At UC Santa Cruz, 61 employees have enrolled in the program. The campus anticipated over $500,000 in savings from this.

All campuses have had to reduce faculty recruitment, some by as much as 50 percent or more. UC Riverside held back 27.5 FTE while allowing 24 recruitments to proceed. The Berkeley campus would ordinarily conduct 85 faculty recruitments annually; this year the number was reduced to 25.

Five campuses – Berkeley, Davis, Los Angeles, San Diego, and San Francisco – were grappling with utility deficits due to rising energy prices. These campuses were looking forward to participating in the Statewide Energy Partnership Program, which would help them to invest in energy-saving initiatives. The San Diego campus estimated that its programs would ultimately save $2.5 million annually in energy costs. Replacement of heating, ventilation, and air conditioning systems at UCLA would save almost $6 million a year. Similar initiatives were proposed on all the campuses.

Each campus had an internal process to impose assessments on its auxiliary services, such as dining and parking, to support the campus infrastructure. These assessments were being reviewed to ensure that they were at an appropriate level. All campuses had strict controls on travel. Only essential travel is being approved.

Some concerns could only be addressed at the systemwide level. Ms. Lapp recalled that the Office of the President had assessed a fee to all the campuses this year to help fund enrollment at UC Merced. After considering the challenges faced by the campuses this year, President Yudof has decided that savings from the Office of the President will meet this funding need; it will not be sought from the campuses.

Ms. Lapp then referred to the restructuring of the UC Retirement Plan. The campuses and medical centers were experiencing difficulties resulting from the resumption of contributions in April. An Office of the President task force is examining ways to reduce expenditures in this area. Retiree health benefit costs come directly from the campus operating budgets; as these costs rise, it will be more difficult for the campuses to fund them.

In their meetings with the Office of the President, the campuses also encouraged continuing efforts for shared service initiatives to reduce costs. One such initiative now under way was a data center warehouse with two locations, one at UC San Diego, another near the Office of the President. This would allow the campuses to transfer their data warehouse needs to these two centers, reducing the need for space on campuses and reducing energy costs. This effort was being led by Associate Vice President and Chief Information Officer Ernst.

Regent Ruiz noted that the University did not produce monthly financial reports. He suggested that such reports would help measure progress and effectiveness in managing finances. Ms. Lapp responded that President Yudof shared this view. He has requested that the University develop operating statements for the Office of the President, which he has reviewed. He has also requested similar reports from the campuses to determine how well they are performing against their budget allocations. Ms. Lapp anticipated that, with the appointment of the new chief financial officer, this information could be provided to the Regents, on a monthly or quarterly basis.

Regent-designate Stovitz drew attention to the importance of centralization in difficult economic times. He asked if greater centralization would be possible in development or accounting services without harming the University's academic mission. Ms. Lapp responded that all campuses were now compelled to consider greater centralization. At a certain point, the University could not continue to make cuts in department-level administration.

Regent Pattiz recalled that a variety of programs were to be eliminated and asked how the importance and value of different programs was measured. He expressed concern that this was a subjective evaluation. Ms. Lapp responded that these difficult decisions were made in a consultative process, usually led by the campus provost, with input from the Academic Senate, faculty, and often students.

Faculty Representative Croughan added that campus division Academic Senate members have worked with chancellors and executive vice chancellors or provosts. This process has functioned very well at some campuses, not as well at others. There was not always agreement on rank ordering. Ms. Croughan observed that the campuses at the greatest disadvantage were those which had not completed enough strategic planning in the past. Some campuses had already established a rank ordering of priorities, deciding which programs they wished to strengthen and which programs could be let go. She emphasized that it was easier to set priorities in advance than during a crisis.

Regent Pattiz expressed concern that savings from program elimination were not significant in the context of a much larger budget. There was a need for a process for making difficult decisions rapidly, given the economic crisis. He was not convinced that the University currently had such a process.

President Yudof expressed confidence in the current process. Previously the Office of the President had not had much involvement with campus budgets. He noted that some individuals have envisaged the University without an Office of the President; however, elimination of the Office of the President would not balance the UC budget. It was not the role of the Board of Regents or of the President to make program cuts. In this the University depended on academic judgment. President Yudof advocated a deliberative process on the campuses rather than across-the-board cuts. He observed that it was difficult to measure efficiency in the UC enterprise. The University has eliminated $200 million, the amount lost in State funds, from its budget. In other cases, what the University describes as cuts were in fact reallocations. From the point of view of the

Board, it was important to know if the Office of the President was monitoring the campuses carefully, and if there was a plausible plan in place. The University has achieved $450 million in savings, but the University is unlike a company. There was no simple way to achieve efficiencies. President Yudof opined that the current funding model was bankrupt. He raised the question of how the University would deliver services in five to ten years, if, for example, it could no longer afford to have classes of 25 students; this was an important issue that had not been resolved.

Regent Lozano stated that it was important not only to achieve greater efficiencies and cost reductions, but to carry out restructuring and retooling and to consider how services would be delivered differently and how productivity would be assessed differently in future years. She praised the materials presented as a step forward, but noted that there was no vision statement. Regent Lozano requested that a process be considered for the University to deliver services in an entirely different way in the future.

Chairman Blum recalled that, when he became Chairman, he wrote a letter to the Regents and chancellors on the University’s need to be strategically dynamic. The University has started moving in this direction. Chairman Blum praised President Yudof, Executive Vice President Lapp, and Vice President Lenz for their contributions in this regard. He discussed the appropriate roles and responsibilities of the Regents and the Office of the President in managing an institution as complex as the University. He concurred with President Yudof about the need for a deliberative process in making reductions rather than across-the-board cuts. He criticized the Board for having left the University without a chief financial officer for over three years. He praised President Yudof for setting a timetable for chancellor searches. Chairman Blum opined that, while the Board was better informed than it was three or four years ago, it was still not particularly well informed.

Committee Chair Gould described the campus reductions as emergency cuts in response to the economic situation. At the same time, there was a structural imbalance between the University’s resources and costs. He expressed the need for a fundamental examination of the University’s core service delivery of its academic program, and of its fixed costs. The difficulties now being experienced were more than momentary and indicated the need for fundamental restructuring.

Regent Garamendi expressed agreement with the points raised by Regents Ruiz and Lozano on restructuring and financial reporting. He commended President Yudof for focusing on the campuses, where most money is spent, and for establishing financial and management mechanisms to prioritize and set policies. He urged the President to continue this work and his work on accountability.

Regent Makarechian acknowledged the efficiencies achieved through centralization, but questioned the wisdom of moving data warehousing into two locations. He expressed concern about potential disruptions and noted that the federal government was decentralizing its data centers. Ms. Lapp responded that the present locations of many campus servers made them more vulnerable to interference through human activity or disruptions due to energy problems than they would be in a centralized location. The new data centers had built-in generators and would save the campuses both money and space. The individuals involved in setting up the data centers were well aware of security concerns and the need for redundancy capability. One data center would be able to back up the other. University servers currently did not have this redundancy capability.

In response to questions asked by Regent Makarechian, Ms. Lapp stated that one data center would be located in the north, near Oakland, and one in the south, in San Diego. There was sufficient capability between the centers for redundancy and back-up.

Regent Gould suggested that a follow-up meeting be held with Associate Vice President and Chief Information Officer Ernst to discuss security and cost efficiency issues related to the data centers.

Regent Scorza asked if the $450 million shortfall was projected before or after the anticipated student fee increase. Mr. Lenz responded that this was a projection for the shortfall before a student fee increase.

In response to another question asked by Regent Scorza, Mr. Lenz estimated that a student fee increase would generate $107 million to partially offset the $450 million fiscal shortfall.

Regent Scorza asked about student input into the process by which campuses prioritize their programs, especially student services. Ms. Lapp responded that each campus has a different consultative process. Each campus has indicated that it has consulted with its student affairs office to ensure that the reductions taken would not have a disproportionate impact on students.

Regent Scorza asked if there was student representation on any campus budget committees. Mr. Lenz responded in the affirmative, based on his discussions with student leadership. He affirmed that the Office of the President wishes to ensure that students are involved in this consultative process.

Regent Scorza expressed concern that graduate student support would not be prioritized in the coming years. He inquired about student input on this issue and about how this situation would develop on the campuses. He asked about an information technology fee, to be paid at the time of registration. Mr. Lenz explained that this fee was not part of the Registration Fee. This fee would be dedicated to information technology purposes.

Regent Scorza asked if there was a process for the implementation of additional fees, and if this fee implementation was separate from increases in the Educational and Registration Fees. Mr. Lenz responded in the affirmative. Ms. Lapp added that the campuses requested assistance in supporting their information technology infrastructure. The policy on campus-based fees included the ability to assess fees for technology initiatives. She suggested that this policy might need to be reviewed.

In response to a question asked by Regent Scorza, Ms. Lapp explained that this information technology fee would not be assessed immediately. It was still subject to review to ensure that it reflected the campuses' needs and was appropriate. This included review by the President.

Regent Scorza expressed concern about additional fees being assessed to students to meet campus needs. He asked if there was a process to prevent fees from accumulating.

President Yudof responded that the process was the Board process. The campuses consult with their constituents and make a recommendation to the President, who makes a recommendation to the Board. He anticipated that this would be a difficult year for students. The University would likely institute furloughs, salary reductions, and fee increases, and end some programs. Every area of the University would be affected. Faculty salary raises have been cancelled. The University has managed to retain $10 million for graduate students. The University was facing a $450 million shortfall, with more anticipated. It would be impossible to maintain the quality of the University in this environment without making cuts. A new way of delivering educational services has not yet been developed. Everyone in the University would be affected by these cuts.

Regent Scorza stated that campus-based fees should be requested by students, and expressed concern that the University was not following its own policy in this instance.

President Yudof countered that the University would follow its policy or would propose a change in that policy, if needed. Campuses have expressed the need for more support for information technology.

President Yudof introduced Ms. Lucero Chavez, president of the UC Student Association (UCSA). He recognized the work of Ms. Chavez, Regent Scorza, Regent-designate Bernal, and other students on a communications plan for the Blue and Gold Opportunity Plan.

Ms. Chavez reported on UCSA's sixth annual student lobby conference a few weeks earlier. More than 300 students participated. UCSA plans to continue in-district lobbying in April and May, an important time in the budget process.

Referring to charts, Ms. Chavez described UC as one of the most expensive public institutions of higher education in the U.S. in regard to total cost of education. Expenses for rent, groceries, and transportation in the cities where UC campuses are located were significant, especially for working-class and low-income students.

Ms. Chavez noted that she will have close to $200,000 in debt upon graduating from law school at UC Berkeley. Graduate fees have more than doubled in the last seven years. The per capita stipend for graduate students was $1,000 lower than at comparison institutions. There were now fewer teaching assistantships available for graduate students.

Since 1999, the Educational Fee has more than doubled, while the Registration Fee has remained stable. The Registration Fee supports student services. As each campus population has grown, student service funding has not grown in proportion to the population. Students were concerned at the decrease in funding for student services, while their fees were in fact increasing.

In the last decade, each year has been a bad budget year for students. Students understood the difficult position of the University and the Regents in relation to State funding, but it was difficult for students to work with the administration when fees increased without improvements on the campuses. The State was increasing funding for prisons but not for education. The State was spending $46,000 annually per inmate, while only spending $11,000 per UC and California State University (CSU) student. The University needed to improve its advocacy efforts, and Ms. Chavez emphasized the students' desire to contribute to these efforts.

President Yudof expressed agreement with the points raised by Ms. Chavez. He described it as a great tragedy that penal institutions were better funded in California than students at the University.

Regent Garamendi stated that the State budget that was approved would require that the Regents approve a 9.3 percent increase in student fees, or slightly less than $700. The Legislature did not increase other fees by some amount, but imposed on students what could arguably be called a tax. This was in effect a $700 additional tax on every UC student and a tax of about half that amount on every CSU student. Regent Garamendi criticized this tax policy when other options were available, such as increases in sales tax. He urged the Regents and the University to oppose taxes on students and the starvation of the educational system. The State was starving this system and destroying the economic potential of the future.

6. **ENDORSEMENT OF PROPOSITION 1A ON MAY 19, 2009 STATEWIDE SPECIAL ELECTION BALLOT (CONTINUED)**

Committee Chair Gould stated that Proposition 1A reflected an agreement among legislators and was an attempt to solve an unprecedented problem. The proposition attempts to provide longer-term resources through tax increases and to smooth out the funding for essential State programs over time. For decades, higher education has been repeatedly subject to boom and bust cycles in the economy and in tax revenues. It was not possible to run the UC enterprise in this manner. The smoothing or stabilization intended by this initiative was the University's best hope for funding to support UC programs and to predict future resources. The emergency removal of funds from UC by the State and the University's short-term responses were an impossible situation to maintain. Proposition 1A represents a legislative bipartisan compromise, including the business community, the California Chamber of Commerce, and the Governor. Committee Chair Gould stated that this initiative was important to the University in the short and long term and urged the Regents to support it.

Regent Garamendi referred to what he termed California's long history of attempts to legislate the future, citing Proposition 13, the Gann limit, and Proposition 98. He opined that, in 1988, the Gann limit and Proposition 98 created a disaster for higher education and referred to his work in response to these initiatives on Propositions 110 and 111, which passed in 1990. Regent Garamendi stressed the need for flexibility and cautioned that the proposed measure would impede the ability of the State to respond to future situations. The only reason to support it was that it would continue a tax increase and provide between $5 billion and $6 billion annually, additional revenue for one to two years. However, Proposition 1A includes an automatic reduction of at least $3 billion in available revenue, the amount that would be transferred to the budget stabilization fund. If Proposition 1C passed and more borrowing took place, an additional $3 billion would be taken from the budget. Propositions 1A and 1C are closely connected. Regent Garamendi expressed his view that their passage would lead to the automatic disappearance of $6 billion in promised revenue.

Regent Garamendi expressed concern about the unilateral mid-year budget authority granted to the Governor by Proposition 1A to reduce funding for State operations by up to seven percent when revenues fall below a projected amount. Only the Governor would determine when revenues are at this level. The State operations the Governor could cut include UC and the California State University (CSU). The community colleges and K-12 are protected by Proposition 98, and their funding would be enhanced by Propositions 1A and 1B. The UC and CSU budgets would not be enhanced by Propositions 1A and 1B. Regent Garamendi warned that there was a significant risk in this initiative and stated that it was unnecessary for the Regents to take action in support of or in opposition to Proposition 1A. Enactment of Proposition 1A would be unwise. It would be counterproductive for the University to support it.

Regent Ruiz believed that it was important that UC express support for Proposition 1A. He expressed concern that the voters might not pass it due to the credibility of elected officials. Proposition 1A would have a better chance of passing with UC support. He stressed the University's need for funding and opined that, while the measure was not perfect, it was a good start.

Regent Reiss also felt it was important for the University to support Proposition 1A. In response to Regent Garamendi's concerns, she stated that the State budget was already locked up by Propositions 98 and 49, federal requirements, and other voter-approved ballot initiatives. Proposition 1A would leave UC funding in the small part of the General Fund budget that was within the discretion of the legislators. Regent Reiss discussed the State's need for a larger "rainy day" fund. She anticipated that, if Proposition 1A did not pass, there would be another large budget shortfall of $8 billion to $10 billion. This would result in further reductions to UC funding. She described the initiative as the best alternative for the University to avoid more serious cuts and urged the Regents to endorse it.

President Yudof expressed agreement with Regent Reiss' remarks. He acknowledged that Proposition 1A and the other propositions might not be good long-range public policy, but noted that the University was now exercising all available options, including program cuts, furloughs, salary reductions, and student fee increases. He expressed grave concern about the condition of the University if it were to lose a few more hundred million dollars. Endorsement of Proposition 1A was a practical rather than a principled response to the situation.

Regent Garamendi expressed his view that Proposition 1A would have no immediate effect in the current and following budget years. In later years it would have a serious negative effect, in automatically removing the first $3 billion of available funds. If Proposition 1C passed, another $3 billion would be removed. This equals $6 billion, or roughly what would be provided by the continuation of the tax increase. There would be a zero net benefit to the University.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, with Regent Garamendi voting "no."

7. **DISCUSSION OF FISCAL YEAR 2009-10 BUDGET FOR THE OFFICE OF THE PRESIDENT**

[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 began the discussion of the 2009-10 budget for the Office of the President (UCOP) by noting that the appropriation request in the proposed budget for UCOP was $288.7 million. Compared to the revised budget presented in November 2008, the proposed budget included a further reduction of $11.7 million and 128 more FTE.

Since 2007-08, when UCOP restructuring began, the UCOP budget has been reduced by 19 percent, or $67 million. FTE have been reduced by 30 percent, or over 628 positions. FTE reductions were accomplished through transfer of programs to the campuses and actual reductions in UCOP staff. In 2007-08 there were somewhat over 2,000 FTE; now there are about 1,400. Roughly 1,200 FTE are in units reporting directly to the President.

UCOP has taken a strategic approach to reducing expenditures over the last year. It has identified unrestricted funds which can be moved from administration to supporting teaching and research priorities. Strict controls have been placed on the filling of vacancies and on travel and entertainment expenditures. Services at UCOP have been streamlined through consolidations.

Every unit at UCOP was reviewed to determine its purpose, whether it should be located at UCOP, on a campus, or eliminated. The overall structure of UCOP was also reexamined and there has been a restructuring. UCOP now has one budget office; previously, each unit had its own budget personnel. There is now one Business Resource Center which provides all business services for the entire entity, with a staff of 45.

Headcount was reduced by well over 100 through this consolidation. There is one information technology service desk. An institutional research department has been created with about 12 FTE. This department will provide academic and business data for all units and be responsible for ensuring that this data is timely, accurate, and reliable. This avoids the need for research personnel in each unit. Likewise, there is now one legislative analysis office. There has been consolidation, enhanced services, and reduction in headcount. Each unit continues to be analyzed to determine its value and efficiency.

While UCOP has reduced unrestricted funds by almost $41 million, about half of that amount represented a transfer of the Education Abroad Program to the campuses. This left $25 million in ongoing savings. The President will work with the campuses to determine how best to use those monies. Enrollment funding for UC Merced for next year will come from those savings, rather than from the other campuses.

UCOP has saved $9 million this year by holding vacancies. The travel and entertainment budget has been reduced by $6 million. Ms. Lapp indicated that she wished to reduce travel expenditures further. She concluded by stating that the budget would be brought to the Regents for approval in May.

Regent Makarechian referred to the $40.7 million in unrestricted funds that were directed to teaching and research and asked who made the allocation decisions. He asked if research is halted when unrestricted funds are depleted, and if the process is audited.

President Yudof responded that the Legislature determines the use of restricted funds, such as for cancer research. Funds that are passed on to the campuses undergo a peer review process. Faculty may apply for grants; their proposals will be reviewed by experts in the field, sometimes by advisory committees. UCOP has cut over $30 million in restricted funds. The reason for this is to keep administrative costs as low as possible on restricted funds and research grants. Administrative savings are put back into research or outreach. Some grants support delivery of services to public schools, such as the Mathematics, Engineering, Science Achievement (MESA) program and the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) program. Grants are audited every year.

Regent Makarechian asked if grant-funded research has to be stopped earlier than anticipated because some of the restricted funds are used for administrative purposes.

President Yudof explained that every research grant includes funding for overhead expenses, such as heating, electricity, and payroll. These are legitimate expenses. The University tries to ensure that the overhead rate is appropriate. There are overhead rates for federal, State, and internal UC grants. President Yudof acknowledged that overhead expenses reduce the amount of money available for the grant activity.

Regent Makarechian asked about a transfer of about $4 million in the proposed budget from unrestricted to restricted funds for legal costs.

President Yudof responded that, previously, UCOP finances had not been well managed. Charges that could have been made to overhead were taken from appropriated funds. Money taken from appropriated funds is not available to the campuses. President Yudof has asked Ms. Lapp and UC auditors to determine, for research and other grant activities, legitimate charges for information technology services, electricity, or legal services. These costs can be charged to the grants. Previously, UCOP simply paid for these expenses out of general appropriations or fee accounts, even though some of these costs could be charged to restricted accounts. The latter would have been a better course of action, leaving more unrestricted funds for the campuses, and is widespread practice at U.S. universities. President Yudof noted the accounting principle of exhausting restricted funds first, before turning to general funds.

Regent Kozberg asked about the approach to data systems, which were shown to be necessary by compensation audits. Ms. Lapp responded that, as allocations for the $25 million in savings are made, this will be considered as an area for investment. Associate Vice President and Chief Information Officer Ernst has been examining approaches to obtain necessary data while limiting expenditures. This will be an area of focus.

Staff Advisor Johansen referred to UC reporting requirements to State and other entities and asked how successful the University was in carrying out efficient data collection and reporting. Ms. Lapp noted that she and Vice President Lenz met with State officials to discuss required reporting. The list of required reports has been pared down. With its new institutional research department, now in operation for three months, UCOP hopes that data will be extracted from campus systems in a seamless fashion, to be collated and included in reports with less use of staff time. The process will periodically be reviewed, in particular reports requested by the State. Ms. Lapp noted that some reports have been requested by legislators who are no longer in office.

Committee Chair Gould provided remarks on units that report directly to the Regents. The budget of the Office of the Secretary and Chief of Staff has been reduced by almost 11 percent. The budget of the Office of Ethics, Compliance and Audit Services has been reduced by five percent, although it is intended that the functions of this office will be expanded. The budget of the Office of General Counsel has been reduced by five percent. The only growth has been in the non-General Fund area of Treasurer’s Office personnel, where three investment personnel positions have been added. Committee Chair Gould opined that these positions were warranted, given the complexity of the current investment environment. He stressed that the Regents were seeking to reduce costs in offices that report to them.

8. **CONSENT AGENDA**

Proposed Continuation of Life-Safety Fee, Berkeley Campus

The President recommended that the life-safety portion of the Berkeley Campus Fee continue at its current level for two years, from fall 2009 through spring 2011, with the following specifications:

A. All students enrolled at the Berkeley campus during the regular academic year be assessed a mandatory life-safety portion of the Berkeley Campus Fee of $46.00 per student per term from fall 2009 through spring 2011.

B. Students enrolled in summer 2010 be assessed a mandatory life-safety portion of the Berkeley Campus Fee at $23.00 per student.

C. One-third of the fee be used for financial aid purposes.

[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.]

Regent Scorza pointed out that this item was in accord with the University's student fee policy and stated that the information technology fee discussed earlier should also conform to policy.

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

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**, shown in Attachment 1. By this reference the report is made part of the official record of the meeting.

The meeting adjourned at 10:35 a.m.

Attest:

Secretary and Chief of Staff

Attachment 1

NEW LITIGATION AND ARBITRATION PROCEEDINGS

Report Period: 1/7/09 – 2/11/09
Regents Meeting
March 2009

Plaintiff	Location	Nature of Dispute Alleged by Plaintiff	Forum
		Employment Cases	
Cornejo, Ivan (employee)	UCLA	Disability discrimination, failure to accommodate and engage in interactive process, retaliation	San Francisco County Superior Court
DerMargosian, Karen (food service worker)	UCSD	Disability discrimination	U.S. District for the Southern District of California
Morris, Gary	LLNL	Wrongful termination	Alameda County Superior Court
Sharma, Sneh (senior program manager)	UCB	Age discrimination	Alameda County Superior Court
Twomey, Steven (principal animal technician supervisor)	UCD	Age and gender discrimination, hostile work environment, harassment, disability discrimination, retaliation	Yolo County Superior Court
Wild, Janice (cardiac technician)	UCSDMC	Employment discrimination – sexual harassment, harassment, retaliation, assault and battery in tort, intentional and negligent infliction of emotional distress	San Diego County Superior Court

Professional Liability Cases

Burk, Lisa	UCSD	Medical negligence	San Diego County Superior Court
Evans, Kenny	UCSF Affiliate-Highland Hospital	Wrongful death and negligence	Alameda County Superior Court
Lambert, Christina	UCD	Medical malpractice	Sacramento County Superior Court
Mayberry, Lyle through his Guardian ad litem Susan J. Baker-Manous	UCD	Personal injury, medical malpractice	Sacramento County Superior Court
McFadden, David W. through his Guardian ad litem Cherry McFadden	UCSF-Fresno	Personal injury, medical malpractice	Fresno County Superior Court
Morrissette, Marie	UCD	Personal injury, medical malpractice and loss of consortium	Sacramento County Superior Court
Myaskovsky, Michael	UCSF	Medical negligence	San Francisco County Superior Court
Tremblay, Brian	UCSD	Medical malpractice	Orange County Superior Court
Valenzuela-Sandoval, Manuel Arturo (decedent), Marisela Sandoval-Valenzuela and Omar Valenzuela, surviving heirs of decedent	UCLA-Affiliate-West Hills Hospital	Wrongful death, negligent infliction of emotional distress, intentional infliction of emotional distress and fraud (misrepresentation)	Los Angeles County Superior Court
Zevallos-Hudgins, Norma	UCSF	Medical malpractice, negligent product liability, strict product liability, breach of express and implied warranties	San Francisco County Superior Court

Other Cases J

Jane Doe	UCSB	Complaint to determine Dischargeability of student loan	United States Bankruptcy Court (Northern District of California)
Avolese, Paul	UCSB	Personal injury, premises liability	Santa Barbara County Superior Court
Feldhammer, Jon D. and Rachel A. Kuperman	UCSF	Breach of contract, violation of Civil Code and Federal Fair Debt Collection Practices Act	San Francisco County Superior Court
Ghaffari, Gina (individual)	UCB	Personal injury, premises liability	Alameda County Superior Court
Long Haul, Inc. and East Bay Prisoner Support	UCB	Complaint for injunctive and declaratory relief	U.S. District Court, Northern District of California
Mansdorf, Paul J. (trustee of Cassandra LLC estate)	UCB	Breach of contract	U.S. Bankruptcy Court, Northern District of California
Mau, May (individual)	UCLA	Slip and fall	Los Angeles County Superior Court
McCracken, Ted (individual)	LLNL	Personal injury (exposure to highly hazardous nuclear materials)	U.S. District Court, Pennsylvania
Meyers, Devon and Ortega, Enrique (individuals)	UCR	Class action for unfair business practices, violations of Labor Code, injunction and attorney's fees	Los Angeles County Superior Court
Morrison, Norman (individual)	UCIMC	Cross-complaint for indemnification, partial indemnification and declaratory relief	Orange County Superior Court

Richard Pompa, a student (pro se)	UCR	Racial discrimination	U.S. District Court, Central District of California
Rehaut, Richard (individual)	UCLA	Violation of the ADA; violation of the Unruh Civil Rights Act; violation of the California Disabled Persons Act	U.S. District Court, Central District of California
State Farm Mutual (company)	UCLA	General Negligence, Subrogation	Los Angeles County Superior Court
Zochlinski, Howard (individual)	UCD	Peremptory Writ of Mandate and Writ of Prohibition	Yolo County Superior Court

<u>Public Employment Relations Board (“PERB”)</u>
<u>Unfair Practices Alleged by Charging Party</u>

Coalition of University Employees v. Regents SF-CE-878-H	Systemwide	Allegation that the University made unilateral changes to the Funding Policy of the University of California Retirement Plan (“UCRP”) and refused all requests to bargain over the change.	PERB
Union of Professional and Technical Employees v. Regents SF-CE-879-H	Systemwide	Allegations that the University unilaterally changed terms and conditions of employment without bargaining. The University allegedly unilaterally increased monthly parking rates, daily parking fees at various campuses and medical centers, van pool fees at various campuses and medical centers and increased the cost of monthly public transportation passes.	PERB
Edward Woolfolk v. Regents LA-CE-1056-H	UCSB	Allegations of age discrimination, harassment and retaliation by supervisors for union activities.	PERB