

The Regents of the University of California

COMMITTEE ON FINANCE

May 7, 2009

A special meeting of the Committee on Finance was held by teleconference on the above date at the following locations: UCSF–Mission Bay Community Center, 1675 Owens Street, San Francisco; International Room, Tom Bradley International Hall, Los Angeles Campus; Moss Cove A and B, Student Center, Irvine Campus; 355 Highlander Union Building, Riverside Campus; Ballroom B, Price Center, San Diego Campus; Chancellor’s Conference Room, 5123 Cheadle Hall, Santa Barbara Campus; 501 S. Alta Avenue, Dinuba; 700 S. Flower Street, Los Angeles; 2220 Lodgepole Circle, Modesto; 777 California Avenue, Palo Alto; 3110 Main Street, Santa Monica; 12006 Bennett Flat Road, Truckee; Board Room, 1806 N. Nimitz Street, Victoria, Texas.

Members present: Regents Gould, Island, 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, Kieffer, Lansing, Makarechian, Marcus, Reiss, Ruiz, Schilling, Shewmake, and Zettel, Regent-designate Stovitz, Faculty Representative Powell, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Interim Provost Pitts, Executive Vice Presidents Darling, Lapp, and Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Lenz and Sakaki, Chancellors Birgeneau, Bishop, Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, White, and Yang, and Recording Secretary Johns

The meeting convened at 10:30 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 to accommodate a scheduling change.

2. ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL FOR FISCAL YEAR 2009-10

The President recommended that, with the concurrence of the Committee on Investments, the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2009-10 fiscal year remain at a rate of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

[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 explained that this item proposed that the payout rate for the General Endowment Pool (GEP) for the 2009-10 fiscal year be set at 4.75 percent of a 60-month moving average. The Regents have adopted a total return payout rate each year since 1998. The rate is set by the Committee on Finance. The target rate since 1998 has been 4.75 percent, and in recent years the payout has, in fact, been 4.75 percent.

This item would also be considered by the Committee on Investments later that day.

3. **ADOPTION OF ENDOWMENT ADMINISTRATION COST RECOVERY RATE**

The President recommended that an endowment administration cost recovery rate of 40 basis points (0.40 percent)¹ be approved to apply to the distributions from the General Endowment Pool (GEP) to be made after July 1, 2009, from the eligible assets invested in the GEP. The funds recovered would help to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

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Executive Vice President Lapp noted that the Regents, in addition to approving an expenditure rate for the General Endowment Pool (GEP), also approve an endowment administration cost recovery rate. The administration cost includes salaries, and these expenditures are made to ensure that the University is complying with gift terms, reporting, and other activities required by the terms of the endowment. The campuses have completed workbooks to determine these costs. In recent years these exercises have identified costs of approximately 57 basis points. However, the recommendation is to maintain a 40-basis-point recovery rate, consistent with last year's rate.

4. **APPROVAL OF FISCAL YEAR 2009-10 BUDGET FOR THE OFFICE OF THE PRESIDENT**

The President recommended the following central administration spending plans for fiscal year 2009-10:

For the Office of the President (all funds, but excluding the Academic Senate and the Regents' direct reports), the President requests a fiscal year 2009-10 appropriation of \$224,664,685. This represents an expenditure reduction from the fiscal year 2008-09 budget, before reflecting program costs, fund flowthroughs, and recharges, of \$6.6 million, or 2.9 percent. Including adjustments narrated in the budget document, the total appropriations request is consistent with the request presented for discussion at the March meeting of the Committee on Finance.

¹ One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 40 basis points are the equivalent of \$40 on endowment assets with a 60-month average market value of \$10,000.

For the departments reporting directly to the Regents, including the Ethics, Compliance and Audit Services unit; the General Counsel; the Secretary and Chief of Staff to the Regents; and the Treasurer's Office, the President requests a fiscal year 2009-10 appropriation of \$67,412,843. This is against the fiscal year 2008-09 budget, before reflecting program costs, fund flowthroughs, and recharges, of \$67,879,410. This represents a decrease of \$466,567.

The appropriations request for each Regents' direct report unit is broken down as follows:

- *Ethics, Compliance and Audit Services* – \$5,205,159 (5 percent decrease from FY 2008-09)
- *General Counsel* – \$39,287,860 (before recharges, a 2 percent decrease)
\$15,587,875 (net of recharges, a 5 percent decrease)
- *Secretary and Chief of Staff* – \$3,299,554 (11 percent decrease)
- *Treasurer's Office* – \$19,620,270 (5 percent increase)

For the Academic Senate, the President requests a fiscal year 2009-10 appropriation of \$1,233,726. This compares to the fiscal year 2008-09 budget, before reflecting program costs and fund flowthroughs, of \$1,235,368. This represents an expenditure decrease of \$1,642. The total appropriations request is consistent with the request presented for discussion at the March meeting of the Committee on Finance.

[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 proposed 2009-10 budget for the Office of the President (UCOP) was consistent with the presentation at the March meeting and contained some adjustments made to reflect ongoing reorganization at UCOP and to fund the new office of the Chief Financial Officer. These changes have increased the budget for units reporting directly to the President by \$4.6 million, but with a reduction of three FTE. This \$4.6 million increase is essentially research funding directed to Vice President Beckwith's office, which would be subject to a "request for proposals" process and would be distributed; it would not support personnel at UCOP. Since fiscal year 2007-08, the UCOP budget has been reduced by \$62.2 million, or 17 percent. There has been a reduction of 631 FTE. The reorganization process is continuing at UCOP. Future adjustments will be reported to the Regents on a regular basis.

Committee Chair Gould noted that there have been substantial reductions in the offices reporting directly to the Regents as well.

Regent Scorza asked about the increase to the Treasurer's Office budget. Chief Investment Officer Berggren explained that this increase was the result of a new initiative, the co-investment initiative, which included the addition of two new staff members. She noted that the Treasurer's Office has made reductions in other areas. In

response to a remark by Committee Chair Gould, she confirmed that this initiative was approved by the Committee on Investments.

5. STATE BUDGET UPDATE AND APPROVAL OF PROPOSED INCREASES IN STUDENT FEES FOR 2009-10

The President recommended the following actions on student fees for 2009-10:

- A. Effective summer 2009, mandatory systemwide fees be increased as shown in Display 1. Of the revenue generated from the increases in mandatory systemwide fees from undergraduate students, an amount equivalent to 33 percent will be set aside to mitigate the impact of the fee increases on financially needy undergraduate students. Of the revenue generated from the increases from graduate academic students, 50 percent will be set aside to provide additional funds for financial aid; and 33 percent of the revenue generated from the increases from students subject to professional fees will be set aside for financial aid.
- B. Effective fall 2009, Nonresident Tuition be increased by 10 percent for nonresident undergraduate students only. It is recommended that Nonresident Tuition for graduate academic students and for students paying the Fee for Selected Professional School Students remain at their current annual levels of \$14,694 and \$12,245, respectively, for 2009-10.
- C. Contingent upon the final actions taken on the University's budget by the State and the Regents, additional increases in student fees may be sought at a future meeting.

DISPLAY 1: Fee Levels and Proposed 2009-10 Increases

	2008-09	Proposed Increase		2009-10
		\$	%	
Registration Fee				
All Students	\$864	\$36	4.2%	\$900
Educational Fee (1)				
Undergraduate				
Resident	\$6,262	\$626	10.0%	\$6,888
Nonresident	\$6,849	\$687	10.0%	\$7,536
Graduate Academic (2)				
Resident	\$7,122	\$714	10.0%	\$7,836
Nonresident	\$7,434	\$744	10.0%	\$8,178
Graduate Professional (3)				
	\$6,204	\$618	10.0%	\$6,822
Nonresident Tuition				
Undergraduate	\$20,021	\$2,000	10.0%	\$22,021
Graduate Academic	\$14,694	\$0	0.0%	\$14,694
Graduate Professional	\$12,245	\$0	0.0%	\$12,245

(1) Includes \$60 surcharge to cover costs associated with the injunction and judgment in the *Kashmiri* lawsuit.

- (2) Includes students in professional programs in public health, public policy, and International Relations and Pacific Studies.
- (3) Professional students in these programs also pay a Professional Degree Fee that varies by campus and program. In 2008-09, these fees range from \$3,685 to \$22,049. Proposed fee increases for 2009-10 range from 0-25%.

[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.]

[Regents were provided with correspondence received regarding this item, and copies are on file in the Office of the Secretary and Chief of Staff.]

Vice President Lenz began by reporting that the State Senate and Assembly budget subcommittees were currently reviewing the UC budget, including funding for the Programs in Medical Education (PRIME), nursing programs, and almost \$450 million in capital facilities projects. He recalled that, as part of the Special Session actions, the University's budget experienced a net reduction of \$115 million. The Governor vetoed an additional \$255 million in proposed General Fund revenue. Mr. Lenz reported that the University would receive approximately \$268.5 million in federal economic stimulus funds.

The budget shortfall included the Special Session net reduction of \$115 million and a cost of almost \$122 million due to over-enrollment; the University is serving 11,000 more students than are funded by the State. Additional unfunded mandatory costs, including health benefits, utilities, collective bargaining agreements, and faculty merit increases, total about \$213 million.

Mr. Lenz recalled that, when the Regents approved the UC budget in November 2008, there was a request that the State buy out any fee increase. Given the fiscal condition of the State, this was not now possible, and the Governor's January budget proposal reflected a revenue assumption associated with a 9.3 percent fee increase.

President Yudof recalled that the University had submitted a budget to the State with no fee increases. This proposal did not last; the Department of Finance, the Governor, and the Legislature returned the proposal with a \$115 million reduction and a 10 percent fee increase. He cautioned that, if the University did not increase fees, this would result in over \$200 million in cuts to the campuses, and hundreds of millions of dollars unavailable for collective bargaining agreements, faculty merit increases, normal inflationary costs, and for the 11,000 students not funded by the State. He anticipated possible furloughs, layoffs, and salary reductions. Without a fee increase, the quality of education and student services would suffer. The essential problem was the lack of appropriate State support.

President Yudof expressed disagreement with statements made earlier that day by speakers during the public comment period, and stated that UC is not a high fee/high aid environment. UC fees are a small fraction of those at high-fee institutions. The impact of the fee increase would not be as great as some speakers described. Eighty-one percent of families with an annual income of \$180,000 or less would not pay more for a UC

education, due to Pell Grants, Cal Grants, and tax credits. He observed that financial aid for this middle-class income level was unprecedented and recalled that the Pell Grant program was begun in the 1960s for low-income students. He cautioned that, if the proposed fee increases were not approved, the University would be forced to begin paring back its academic programs; there would be no other options.

Committee Chair Gould cited current indications that the State's fiscal condition is eroding. The risk for the University would become serious in the future, and the proposed fee increase needed to be considered in that context. He praised President Yudof for his work in clarifying the financial aid package available to lower- and middle-income students.

Mr. Lenz continued with his remarks on the Special Session actions. The Legislature reaffirmed the revenue associated with a 10 percent fee increase. The assumption of this increase is firmly entrenched in the budget assumptions.

Mr. Lenz detailed the proposed fee increases. They included a 4.2 percent increase in the Registration Fee, or \$36; a ten percent increase in the Educational Fee for graduate and undergraduate students; and a ten percent increase in undergraduate nonresident tuition, or about \$2,000. It is anticipated that the increase in the Registration Fee would generate about \$8 million. The increase in the Educational Fee would generate \$143.6 million; about \$54.2 million of this Educational Fee revenue would be set aside for financial aid. The increase in undergraduate nonresident tuition would generate \$15.2 million.

The increases would result in the following total fees for students: \$8,720 for undergraduates, \$11,221 for graduate students in academic programs, and \$11,221 for graduate students in professional programs such as the programs in public health, public policy, and International Relations and Pacific Studies. The fees for other graduate professional programs – business, law, medicine, veterinary medicine, pharmacy, and dentistry – would be \$10,207, not including the Professional Degree Fee, which varies by campus and program.

The current fees at UC are lower than at most of the University's comparison institutions, with the exception of the State University of New York (SUNY) at Buffalo. In total cost of attendance, UC is close to its comparison institutions and surpasses one comparison institution. If one examines the total cost of attendance for undergraduate recipients of need-based aid, the University provides significant financial support in the form of gifts and scholarships in relation to comparison institutions. While UC provides almost 50 percent of the total cost of attendance, the University of Michigan provides about 30 percent; the University of Illinois and SUNY Buffalo provide about 25 percent. Only the University of Virginia surpasses UC in providing almost 60 percent of the cost of attendance in gift and scholarship aid. Mr. Lenz noted that there are financial aid enhancements in 2009-10: the Blue and Gold Opportunity Plan, an expansion of Pell Grants, and a federal tax credit expansion.

Associate Vice President Kelman recalled that the Blue and Gold Opportunity Plan would guarantee that UC fees, even if they increase, are covered for California families with demonstrated need and annual income below \$60,000. The American Recovery and Reinvestment Act has increased the amount of Pell Grant awards to \$5,350 and is contributing about \$33 million to UC students. The federal tax credit has also been expanded and will provide additional relief for families. The maximum tax credit will increase from \$1,800 to \$2,500 per year. The benefit will be extended from two years to four years, and the ceiling on income eligibility has been raised from \$116,000 to \$180,000. The University estimates that aid to UC students will increase by \$88 million next year, compared to an \$84 million increase this year.

Ms. Kelman then discussed a chart showing estimated increases in financial aid available to undergraduate students, by income, above 2008-09 levels. Actual amounts would vary among students based on individual circumstances. Additional grant aid would benefit primarily lower-income students. Students with annual family income below \$60,000, including those eligible for the Blue and Gold Opportunity Plan, would receive \$1,220 in additional grant aid, on average. Students in the \$60,000 to \$90,000 income range would receive \$570 in additional grant aid.

The tax credit increase extends this benefit to families in the \$90,000 to \$120,000 income range and provides this benefit for the first time to families in the \$120,000 to \$180,000 range. Expansion of tax credit eligibility is providing relief for middle-income families. The increased financial resources in 2009-10 should offset the fee increase for 81 percent of families earning below \$180,000.

In addition to the proposed fee increase, costs for housing, food, transportation, and supplies are expected to increase in 2009-10 by about \$590 per undergraduate student. The increase in these expenses, together with the fee increase, result in an increase in the total cost of attendance of approximately \$1,250.

Ms. Kelman called attention to the fact that additional resources from grant aid and tax credits would mitigate the cost of these increases for most families with income below \$180,000. The net cost to families in 2009-10 is estimated to be somewhat lower for families with income below \$60,000 and families in the \$90,000 to \$180,000 range than in the current year. Families in the \$60,000 to \$90,000 range would pay about \$100 more in the coming year. Increases in financial support through grant aid and tax credits would continue to ensure access to UC for students with financial need.

Regent Ruiz asked about greater complexity for students in navigating through the financial aid situation. President Yudof responded that the process would not become more complex; it involves already existing programs. He noted that the federal government is now undertaking a simplification process for application forms. When filing a tax return, families must remember to request the \$2,500 tax credit. President Yudof observed that there is a wait time between paying UC fees and receiving the tax credit after filing the tax return in April. The support would not be provided immediately, as in the case of a Pell Grant or Cal Grant.

Regent De La Peña asked about communication with students about this topic and wondered if it could be improved. President Yudof acknowledged that communication with students had not been as effective as he wished. He expressed understanding of their opposition to fee increases, but voiced his concern about the State's increasing budget deficit over time.

Regent De La Peña expressed concern about effective communication with the news media. President Yudof referred to an earlier press conference and newspaper coverage. Committee Chair Gould called attention to the press presence at the meeting.

Regent De La Peña asked about the University's action regarding enrollment of students for whom the State was not providing funding. Mr. Lenz recalled that the Regents voted to curtail enrollment for fall 2009, reducing the number of first-time freshmen by about 2,300. This would be partially offset by an increase of about 500 community college transfer students. The University continues to argue its case in Sacramento, reminding the Legislature that it is serving these students, and that the University must either receive State funding to support this over-enrollment or contemplate future reductions in first-time freshmen.

Regent Zettel praised President Yudof for the development of the Blue and Gold Opportunity Plan. She cited the complexity of the financial aid process and asked if there would be on-campus assistance for students. She expressed concern that, without explanation of the financial aid resources available, the application process might be daunting to students and their families. President Yudof responded that students are helping the University to publicize the Blue and Gold Opportunity Plan. He ascribed the complexity of the financial aid process to the federal government, which is taking measures to address this. He confirmed that students do receive financial aid advice.

Regent Marcus expressed philosophical opposition to a fee increase for academic graduate student programs. He stated that graduate students form the substance and foundation of a great research university and warned that there might be a perception that UC was not a welcoming place for the best graduate students. He suggested a possible separation of the vote on this item between undergraduate and graduate fee increases. President Yudof agreed that graduate students are critical to the University. He maintained that the impact of the current budgetary environment would have to be shared fairly among UC constituents. No one group could be exempted. Many graduate students would have their fees paid by research grants, although this would restrain the discretion of principal investigators.

Regent Scorza emphasized that it was important for the Regents to mitigate the impact of fee increases on students and their families. He asked about how fees are distributed and requested confirmation that fees paid by students on a campus would benefit students on that campus. President Yudof responded that fees are directed to the campuses according to established distribution formulas. He warned that without a fee increase the University would be forced to offer fewer course sections and the quality of the student experience

would suffer. The fees would raise \$150 million; \$50 million of this amount would be returned to financial aid, leaving \$100 million for expenditures. This was in the context of a \$450 million shortfall. The approval of student fee increases is a customary part of the Regents' responsibilities. The fees are a part of campus budgets. Other proposals put forward would not produce as much revenue for UC. President Yudof expressed frustration with the State for not funding higher education appropriately.

Regent Scorza reiterated his concern about funding for campus programs. President Yudof observed that monies are directed to the campuses, but that when there is less revenue, different programs on the campuses endure difficult cuts.

Regent Reiss expressed concern about higher graduate student fees and asked how much of this increase would be covered by the same federal aid. Mr. Lenz responded that this increase is not covered by federal aid.

Regent Reiss concurred with Regent Marcus' statement, and expressed concern that the increase in graduate student fees would be borne by middle-income students. President Yudof responded that fees for a large percentage of graduate students are paid from grants to principal investigators. The federal government has added more than \$20 billion in new research funds to its stimulus package. He stated that half of the fee is in fact a kind of tax on federal grants and produces revenue for departments which are not generating research projects. He stressed that the financial support situation for graduate students is different from that for undergraduates.

Regent Reiss asked how many UC graduate students are supported by grants. Faculty Representative Croughan observed that many graduate students in the biomedical sciences are supported by principal investigator grants, either training grants or research projects. There are fewer grant-funded graduate students in the humanities. She reported that Vice President Beckwith was making efforts to increase grant aid to humanities graduate students and postdoctoral fellows. Ms. Croughan suggested that the University could determine how many graduate students would have their fee increases covered by a faculty grant; if there was a disproportionate impact on graduate students, the University might not implement fee increases across the board in the future.

President Yudof noted that the budget approved for next year includes \$10 million in additional graduate student aid. Responding to Regent Reiss' question, he asked University staff to provide information on the percentage of graduate students with grant support.

Regent Reiss stated that the University should examine the possibly disproportionate impact of fee increases on graduate students.

Regent Marcus expressed his view that this was not a matter of bearing a financial burden equally, but that there should be clarity about the University's values. In order to maintain high quality and standards, there must be a focus on graduate students. Even if graduate students' fees are paid by grants, this revenue is being taken away from funds

allocated to principal investigators. Graduate student education is not free. The University must address this both symbolic and practical issue.

Regent-designate Bernal reported that the Higher Education Research Institute at UCLA was conducting a study of graduate student fees and accessibility. Historically, there has been a differentiation of graduate and undergraduate fees. During good budget times, graduate student fees have declined at a slower rate, while during bad times they increase at a faster rate. Regent-designate Bernal expressed concern about the loss of potential graduate students, those who do not consider attending UC, or who receive better financial aid packages at other institutions.

Director of Student Financial Support Jeffery referred to the earlier question regarding financial support for graduate students in academic programs. A significant contribution to additional resources for these students was the 50 percent return-to-aid in the fee increase. This would provide enough additional support to cover the fee increase for students who are teaching assistants, research assistants, and students receiving UC fellowships. The number of graduate students supported by federal and private research grants is in the range of 35 percent. The number of graduate students who are self-supporting is in the range of ten percent.

Mr. Lenz reported the University's success with a recent bond sale. The University has received about \$68.2 million for lease-revenue projects. He anticipated that UC would receive about \$164 million of the \$250 million needed for general obligation bond projects. In addition, UC should receive another \$200 million intended for three UC capital projects.

President Yudof introduced Ms. Lucero Chavez, president of the UC Student Association (UCSA). Ms. Chavez first discussed the Registration Fee, which is intended to pay for student services. In bad times, funding has been removed from student services. She observed that this was due to the fact that the Registration Fee is insufficient to support the totality of student services. She expressed student concerns about transparency, the concern that students should have oversight of how Registration Fee funds are allocated. She hoped that the Regents would approve the recommendation to revise the Registration Fee policy, to be considered later that day by the Committees on Educational Policy and Finance.

Ms. Chavez emphasized the students' concern not only with the fee increases this year, but with the trend of the last seven years, when fees have more than doubled. She described this situation as a high fee/high aid model, a problematic model for students. One effect of this model is student self-sabotage. High tuition deters high school students, who are discouraged from taking challenging courses and preparing for college. Students also may choose other institutions.

Ms. Chavez discussed the challenges for lower-income students who cannot rely on parent contributions, citing figures provided by the Public Policy Institute of California. According to those data, at public four-year colleges and universities, the lowest

20 percent of families by income must devote 73 percent of their family income to the cost of education, while the highest 20 percent of families expend only 9 percent of their income to cover this cost. She also cited figures showing that from 1982 to 2007, the increase in median family income has not kept pace with the increase in college tuition and fees.

Ms. Chavez stated that this high fee/high aid model contradicts the California Master Plan for Higher Education. Raising fees would privatize the University, and this would not be a desirable development. The high fee/high aid model is a threat to low-income families, who are especially dependent on need-based financial aid. Any cuts to this aid have a significant effect on affordability and access. She noted recent proposals by the Governor to change the conditions of Cal Grant awards.

Ms. Chavez concluded by emphasizing student concerns about long-term increases in fees, access and affordability, and the quality of UC education.

Chairman Blum noted the perception of some that the University is privatizing itself. He countered that in fact the State is privatizing the University to the extent that it does not provide proper funding. He asserted that the Regents are not attempting to privatize the University and do not desire a high fee/high aid model. However, UC does not have other options at the moment. While the University raises \$2 billion to \$3 billion annually in charitable contributions, most of these are intended for buildings and facilities. Given the downturn in the economy and stock market, the University would be fortunate simply to avoid losses. Faculty salaries are below their proper level. He asked that students, besides expressing their concern about fee increases, propose solutions to the University's financial challenges.

President Yudof thanked Ms. Chavez for keeping the Regents' attention focused on this problem.

Committee Chair Gould noted that the University's budget proposal to the State included no fee increase. Now the Governor and the Legislature were anticipating that the Regents would take this action to support the University. State revenue is not sufficient, and there is a slow economy and high unemployment. It was important to take this action to support the institution.

Regent Lansing expressed the general sentiment of the Regents that this was a painful time and a painful decision, and that no one wanted a fee increase. She thanked the students who spoke of their concerns.

Regent Island stated that he felt as if he were witnessing the death of a great institution. The continuous increase in student fees was changing the nature of the University's mission; access and affordability were slipping away. He thanked President Yudof and UC staff for pursuing budget reductions at the Office of the President and the campuses. These reductions have been material and substantial. He urged the Regents to address the likelihood of future fee increases. He recalled a suggestion on this topic made by former

Regent Moores. He stated that the University should develop a funding model that would guarantee the security of the University over time. He expressed concern about the impact of fee increases on diversity.

Chairman Blum expressed agreement with Regent Island's statement. He suggested the possibility that the University propose an initiative, together with the California State University, which would stipulate that a certain amount of the State budget be directed to higher education. The State was under-investing in human capital.

Regent Lansing suggested that the Regents study alternate responses to the University's financial challenges. She asked that the Chairman and the President develop a process to analyze alternative solutions in the future.

Committee Chair Gould expressed his view that the State funding model was broken. The University must plan how to address this challenge in its academic planning and in securing future funding resources. The University has seen the erosion of State support over decades and cannot sustain excellence and access, given the broken promise of the State.

Faculty Representative Croughan reported that President Yudof has asked her and UCSB Executive Vice Chancellor Lucas to co-chair a task force on creative budget strategies, to investigate revenue enhancement and cost-cutting measures. The task force has been meeting for several months and has been considering cost-benefit analyses. It will meet with and solicit input from UCSA. The task force hopes to develop a series of revenue-enhancing and cost-cutting measures that could be examined systemwide and by campus for possible implementation. In addition, President Yudof has asked the Academic Council to create a faculty-led initiative on re-envisioning the University. This would include an examination of academic programs at other institutions and outside the United States. There might be consideration of a three-year baccalaureate degree. Ms. Croughan stated that the University cannot afford to do business with the current structure.

Regent Varner expressed support for the statements by Regents Island and Lansing. Based on his conversations with legislators, he reported that they still have the impression that there is excess and unnecessary spending at UC. In order to gain traction with the Legislature, the University needs to convince legislators that it has taken steps to reduce spending and operate efficiently. Communication of this to legislators should be part of the process.

Committee Chair Gould observed that voters were concerned with all aspects of government, and with whether the government was taking actions consistent with a declining economy. It was imperative for the University to demonstrate how it was managing the impact of cost reductions.

President Yudof concurred that the funding model is broken. Ninety-eight percent of the University's endowments are restricted. Students can only absorb a limited amount of the cost increases. There might be other inefficiencies to be removed from the system, but if

present trends continued, he saw only two real alternatives. The first was a new role for the federal government, with an integrated higher education policy. This would be a new development; the government has sponsored research and access programs, regulations, and the G.I. Bill, but there has never been a national government policy on higher education. The second alternative would be to change the delivery model of the University, which is currently a hands-on, labor-intensive delivery model. He has asked the faculty for ideas about how the University could deliver its services as well as it does, but at lower cost. This might involve use of the internet or other technology, less time to degree, and a change in practices regarding faculty workload and prerequisites. The University could not continue to function within current parameters. There is a need for reexamination of University operations.

Regent Reiss echoed earlier statements about the need for long-term planning. She noted the failure of the State to abide by its Compact with the University. The State budget system is broken. She agreed with Regent Varner that perceptions of the University are inaccurate. She suggested that student fees could be discussed with the Legislature as a separate issue. She expressed concern that, each time the Regents approve an increase in student fees, it becomes easier for the Legislature to assume that they will continue to do so to cover a certain amount of the budget. She expressed the hope that the Regents would begin to work on a strategy with President Yudof and the students in order to avoid making this same decision every year. She concurred with Regent Marcus' concerns about high graduate student fees and advocated that this concern also be addressed in the strategy.

Committee Chair Gould stated that these issues would be included in the broad review he anticipated regarding how to achieve sustainability and access at UC.

Upon motion duly made and seconded, the Committee approved the President's recommendations for the *Adoption of Expenditure Rate for the General Endowment Pool for Fiscal Year 2009-10*, the *Adoption of Endowment Administration Cost Recovery Rate*, and the *Approval of Fiscal Year 2009-10 Budget for the Office of the President* and voted to present them to the Board, Regents Blum, Gould, Island, Lozano, Scorza, Varner, Wachter, and Yudof (8) voting "aye."¹

Upon motion duly made and seconded, a roll call vote was taken for the *State Budget Update and Approval of Proposed Increases in Student Fees for 2009-10*, Regents Blum, Gould, Lozano, Varner, Wachter, and Yudof (6) voting "aye," and Regents Island and Scorza (2) voting "no." Committee Chair Gould announced that the vote on this item would be held open at the request of Regent Garamendi to allow him to cast a vote when he joined the meeting later.

The Committee recessed at 11:50 a.m.

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The Committee reconvened at 12:25 p.m. with Committee Chair Gould presiding.

¹ Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

Members present: Regents Garamendi, Gould, Island, 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, Kieffer, Lansing, Makarechian, Marcus, Reiss, Ruiz, Schilling, Shewmake, and Zettel, Regent-designate Stovitz, Faculty Representative Powell, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Interim Provost Pitts, Executive Vice Presidents Darling, Lapp, and Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Lenz and Sakaki, Chancellors Birgeneau, Bishop, Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, White, and Yang, and Recording Secretary Johns

6. **STATE BUDGET UPDATE AND APPROVAL OF PROPOSED INCREASES IN STUDENT FEES FOR 2009-10 (CONTINUED)**

Committee Chair Gould recalled that the vote on the *State Budget Update and Approval of Proposed Increases in Student Fees for 2009-10* had been left open at the request of Regent Garamendi to allow him to cast his vote. Regent Garamendi voted “no.”

Upon motion duly made and seconded, the Committee approved the President’s recommendation and voted to present it to the Board, Regents Blum, Gould, Lozano, Varner, Wachter, and Yudof (6) voting “aye,” and Regents Garamendi, Island, and Scorza (3) voting “no.”

The meeting adjourned at 12:30 p.m.

Attest:

Secretary and Chief of Staff