

The Regents of the University of California

COMMITTEE ON FINANCE

July 14, 2010

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

Members present: Regents Blum, Cheng, DeFreece, Island, Lozano, Makarechian, Schilling, Varner, and Wachter; Ex officio members Gould and Yudof; Advisory member Simmons; Staff Advisors Herbert and Martinez

In attendance: Regents De La Peña, Hime, Johnson, Kieffer, Maldonado, O’Connell, Reiss, Ruiz, and Zettel, Regents-designate Hallett, Mireles, and Pelliccioni, 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, Provost Pitts, Executive Vice Presidents Brostrom and Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Beckwith, Duckett, Lenz, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Desmond-Hellmann, Drake, Fox, Kang, Katehi, White, and Yang, and Recording Secretary Johns

The meeting convened at 2:10 p.m. with Committee Chair Lozano presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 19 and of the joint meetings of the Committees on Finance and Investments and Finance and Educational Policy of May 19 and the Committees on Finance and Oversight of the Department of Energy Laboratories of May 20, 2010 were approved.

2. UPDATE ON THE 2010-11 BUDGET

Committee Chair Lozano observed that the State government has recently been responsive to the University’s needs. She attributed this to the collaborative advocacy effort by all UC stakeholders. At the same time, the Office of the President has been actively identifying cost reductions and efficiencies.

Vice President Lenz reported that each house of the Legislature has completed its budget deliberations. The University fared well in those deliberations. Each house has approved \$51.3 million in funding included in the Governor’s January budget proposal for UC enrollment growth, as well as the restoration of a one-time reduction of \$305 million from the UC budget. The Assembly has approved about \$355 million in capital facilities projects.

There may soon be a resolution on the issue of the UC Retirement Plan (UCRP). Mr. Lenz recalled that in the Special Session the previous year, the Legislature adopted statutory language that precludes any new State General Fund monies from supporting the UCRP.

There are some unresolved issues facing the two-house conference committee, such as the restoration of the \$305 million. While the importance of the issue and the need to support a restoration are recognized by all parties involved, there is not unity among the Assembly, Senate, and Governor in their approach to passing the State budget. Senate support for the restoration is predicated on almost \$6 billion in either new revenue or extending current tax revenue that will expire in 2011-12. Assembly support is predicated on new revenue, such as that provided by an oil severance tax, and on applying one-time solutions to parts of the budget. UC is appreciative of this support, but if any funding is based on a one-time assumption, the University will find itself in the same position next year.

Mr. Lenz praised one Assembly recommendation, a proposal which would reduce the student fee increase for 2010-11 from 15 percent to five percent. While students would benefit from this recommendation, it is predicated on substituting ongoing revenue in UC's base budget for one-time revenue. Given the magnitude of the University's budget cut in 2009-10, the Assembly's proposal may not meet UC needs.

While there is no funding for the State's contribution to the UCRP in the budget, UC has made progress with the California Legislative Analyst's Office (LAO). Mr. Lenz acknowledged that the Governor's administration and the California Department of Finance are considering removing the statutory prohibition regarding use of State General Fund monies to support the State's obligation to the UCRP and are working with the LAO at crafting language which would call for a work group in the fall to examine the State's obligation to the UCRP, including its possible future commitment to the UCRP, and possible solutions for any given year when fiscal challenge would not allow for funding, such as a delay of the State contribution by one year, a loan to meet the State's obligation, or some other mechanism. Mr. Lenz expressed optimism that this language would be adopted.

The two-house conference committee has supported the Student Academic Preparation and Educational Partnerships program with \$29.6 million and added language that would protect the program in 2010-11. This program is always a high priority for the Regents and the Legislature. The University can support this action with the proviso that it wishes to see the restoration of the \$305 million before making any commitment.

Mr. Lenz informed the Committee that the University is attempting to resolve an outstanding issue regarding capital facilities, and is working with the campus, the LAO, and the Department of Finance to arrive at a resolution.

Mr. Lenz cautioned that with each passing week without a State budget, UC's funding becomes as vulnerable as funding for any other entity in the State budget. Now that the

State has entered the first month of the new fiscal year, it has lost one-twelfth of possible budget solutions. With any given proposal, there is an assumption of 12 months of revenue or savings; now there will be only 11 months of revenue or savings. Mr. Lenz anticipated that the budget would not be passed before the end of the month, so that another month would be lost in August, with the result that one-sixth of the budget solutions presented to the conference committee would be lost. The University also becomes more vulnerable with time because options which might receive two-thirds support in the Legislature are now dwindling. Mr. Lenz expressed the University's appreciation for the support of the Governor and of both houses of the Legislature but reiterated the concern about the delay in the State budget.

Committee Chair Lozano noted that, while there have been beneficial agreements regarding the University's student academic preparation program and Cal Grants, there is currently a give-and-take process under way, and time could work against the University. The Regents will be called on again to advocate.

Mr. Lenz observed that many members of the UC community are not engaged with University matters at this time of year due to the summer break, but this is the time of year when behind-the-scenes discussions take place, and the University needs continued advocacy. The Division of External Relations is making a weekly concerted effort to ensure that all constituency groups remain engaged in UC advocacy and provides alerts whenever the conference committee meets or when UC issues are discussed.

Regent Kieffer observed that, if the delay in the State budget affects not only UC, the University might be able to reach a broader array of constituents who can influence the Legislature. Mr. Lenz concurred with this statement.

Committee Chair Lozano concluded that there would be further discussion of the State budget at the September meeting.

3. **ADOPTION OF RESOLUTION REGARDING ADMINISTRATIVE EFFICIENCIES**

The President recommended that the following resolution be adopted:

WHEREAS, the University is committed to achieving a level of administrative excellence equivalent to that of its teaching and research enterprises, and

WHEREAS, realization of this objective will require investment in and implementation of significant administrative efficiency measures at the campus, medical center, regional, and systemwide levels, and

WHEREAS, extensive efficiency measures have already been implemented at each of these levels, and new efficiency measures at each of these levels continue to develop, and

WHEREAS, the Regents believe efficiency measures must be continually advanced, executed, and expanded to enable the University to build a sustainable financial model to carry the University forward, and

WHEREAS, the Regents consider shared services and administrative commonality requirements for reaching the efficiency objective, and

WHEREAS, the Regents expect the Office of the President to exercise leadership in the realization of the efficiency objective by effectively supporting and engaging campuses and medical centers towards full commitment to the objective, and

WHEREAS, successful implementation of administrative efficiencies will allow the University to redirect hundreds of millions of dollars annually from administrative costs to core academic and research missions over the next five years, be it therefore

RESOLVED that the Regents direct the President, in consultation with a small committee of campus representatives, to, where appropriate, design and implement common best-practice administrative systems, including but not limited to student information systems, financial systems, human resources systems, payroll systems, and their underlying technology support systems, and

RESOLVED that the Regents direct the President to approve all new or substantially revised campus administrative systems, particularly those contemplated as part of a broader system migration, to ensure commonality and best practices across all locations, and

RESOLVED that the Regents direct the President to support exceptions to adoption of common best-practice systems only upon compelling evidence that such systems would result in materially higher costs and/or materially less functionality to the campus, and

RESOLVED that the Regents direct the President to periodically report to the Regents on the progress of these initiatives.

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

Executive Vice President Brostrom reported that this initiative for administrative efficiencies has generated significant interest and enthusiasm since the May meeting. The initiative envisions a future UC system with ten campuses distinct in their academic strengths and leadership but sharing one common administrative framework. This could include a common financial system, a common human resources system, data warehousing, and a common approach to financing and procurement. He anticipated that this initiative would generate a positive financial impact of at least \$500 million over the next five years.

The University's approach is both local – continuing to examine existing efforts on all the campuses and focusing on regional opportunities for collaboration and excellence – and systemwide. There are a number of ongoing efforts which will be developed and expanded, including the Total Return Investment Pool, purchasing and strategic sourcing, risk management, and the strategic energy partnership with investor-owned utilities. New initiatives will yield near-term savings and move the University toward its long-term goal of one common administrative framework. An effort is already under way to develop a new payroll system, and the University is examining collaborative efforts for student

health insurance, regional data centers, and a common approach to extramural fund accounting. The University is also examining its policies and considering how State legislative relief might generate savings.

Chief Financial Officer Taylor noted that one important current goal is to cultivate future regional collaborative efforts. Many of these are now being explored and reviewed. Mr. Taylor presented a chart displaying pipeline timing for various UC efforts. Many regional efforts will begin in 2010-11. Systemwide efforts will be implemented in the coming years.

Regent Island asked how the savings generated by these activities would be spent and what incentive there would be for campuses to give up control which they have exercised for decades. Mr. Taylor responded that financial savings would remain at the location where they are generated. Mr. Brostrom added that savings could be routed in different ways. For example, UC's new travel program, Connexus, will disperse savings to many different accounts systemwide. Other forms of savings, such as the new insurance program for construction projects, will be consolidated and flow directly to a chancellor and campus.

Committee Chair Lozano observed that while much of the benefit will be financial, the University will also experience improved productivity and efficiency. Mr. Taylor pointed out one advantage of a new centralized payroll system. Currently, when an employee transfers from one UC location to another, his or her information must be entered a second time, into a different system. With a centralized payroll system, all employees' information will only need to be entered once, resulting in increased productivity.

Faculty Representative Simmons asked about the cost of implementation for the new payroll system and other centralized systems under discussion. Mr. Taylor anticipated that the University would have an estimate for the cost of the new payroll system and would issue a Request for Proposals before the end of the current calendar year. He expressed the hope that implementation would begin in 2011. The University is currently considering four different approaches. A final cost has not yet been established. Mr. Taylor noted that there are many examples of failure in this field. The University has studied the experience of institutions where the implementation of new payroll systems did not succeed. Mr. Brostrom observed that the University has an advantage in that it has good credit ratings and access to capital. Borrowing costs are especially low at this time. Any undertaking in this area will include rigorous financial analysis demonstrating that there is a worthwhile return on the University's investment.

Mr. Taylor introduced Chancellor Birgeneau to present information about the Berkeley campus' administrative efficiency effort, the Operational Excellence initiative.

Chancellor Birgeneau expressed the Berkeley campus' conviction that it should provide the same leadership in administrative efficiency as it does in education and research. Assisted by the business expertise of Vice Chancellor Frank Yeary, the campus has launched a major effort to improve its processes. At first UC Berkeley considered relying

on internal expertise, but concluded that it would benefit greatly from detailed knowledge of the experience of other institutions. The campus decided to seek the assistance of an expert consulting firm. From among four candidates, Bain & Company was chosen to assist the campus in the early stages of this multi-year process, because Bain had experience with similar programs at the University of North Carolina and Cornell University. UC Berkeley has completed the diagnostic phase of the process and has now launched the design phase.

Mr. Yeary explained that the Operational Excellence initiative is a systematic, analytical, multi-year effort to improve the efficiency and reduce the cost of administrative operations on campus. The goal is to enable UC Berkeley to allocate the greatest percentage possible of its resources directly to teaching and research. The two pillars of this effort are organizational performance, having the right incentives in place and making the right decisions; and financial sustainability, providing the right scale of services in the campus environment at the lowest practicable cost. The implementation of this initiative is eagerly anticipated. Change is under way on the campus and it is palpable. While change creates some anxiety, if it is managed correctly, it can create optimism about the ultimate outcome of the effort.

The campus embarked on the diagnostic phase of the process, a comprehensive phase which involved not only determining whether UC Berkeley could become more efficient and save tens of millions of dollars in administrative costs, but also building a basis of support for change in the campus community, change which will be necessary in this complex environment. In the spring, this work resulted in a comprehensive report which identified over \$75 million in savings the campus believes is achievable over the next three years. A series of key areas of focus has been established. The campus is now in the early stages of process design. Sequentially, as processes are identified, they will be implemented. The diagnostic phase concerned identifying what actions to take; the current process design phase concerns how to undertake those actions; the third phase, implementation, will begin soon. In some cases implementation has already begun.

Mr. Yeary presented a chart created as part of the diagnostic phase which provided a breakdown of the projected \$75 million in savings by area. The major areas are procurement, organizational simplification, information technology, energy management, and student services. He observed that this effort requires a commitment of resources in advance, and this has begun. In the early part of the diagnostic phase it became acutely clear that the Berkeley campus has underinvested in automation for decades. Instead of automated solutions which could have been implemented campus-wide and which are typical for complex organizations, individual campus departments have frequently hired half-time FTE employees. Mr. Yeary emphasized that, if correctly carried out, one-time investments would lead to permanent savings.

Professor of mechanical engineering Albert Pisano, director of the program office for Operational Excellence, explained that design teams for the initiative are now being formed. Team members are drawn from the campus community, individuals with the necessary experience and expertise. The governance structure of Operational Excellence

is straightforward. There is a four-person executive committee. Mr. Pisano is the program office head and has one program office director reporting to him. The next level is made up of volunteers; a call for volunteers for this effort received an overwhelming response. The volunteers will work in seven focus areas, and these seven areas will be addressed at the same time, to allow the greatest possible reorganization and efficiency.

Based on the experience of other institutions, three elements are required for success in this kind of organizational change. The first is an aligned leadership, consisting of senior management. The second is a dedicated staff and targeted teams. The dedicated staff is represented by the program office; the targeted teams are the campus community team members who wish to implement improvements. The program office is ensuring that there will not be conflicting interests among the seven teams. The third necessary element is investment. There is significant opportunity for automation at UC Berkeley to generate savings and additional capacity. Annual savings of \$25 million can keep the campus from having to take drastic action. Every incremental \$25 million in savings is equivalent to a 13 percent student fee increase, to 10 to 20 staff furlough days, or to an additional \$500 million endowment. Mr. Pisano underscored his commitment to keeping the initiative moving toward its goal.

Mr. Yeary stated that the campus is now identifying another 50 to 60 individuals who will devote 30 to 40 percent of their time to realize this effort over the next three years. When the Chancellor reached out to senior administrators to lead the teams, each individual accepted the offer. There were 250 responses to the call for 50 team volunteers, who will devote 30 percent of their work hours to this effort. It is important that the campus community appreciate the need for change and understand how change will be accomplished. The campus is focused on the building blocks of success, sustainable change, and communication with the broad community.

Mr. Yeary then presented a short video about Operational Excellence. It explained that the initiative's steering committee includes faculty, student, administration, and staff members. Feedback from the campus community has provided guidance on prioritizing analytical efforts and insight into which data could be improved. Analysis showed that the greatest savings could be made in procurement. One of the most challenging proposals being made is to simplify the organization by increasing the ratio of supervisors to staff. The University will need to increase efficiency without diminishing the services provided. Over the next few years, the campus can move to a situation where the processes that support its teaching and research missions will be more efficient, modern, and deliver better services to students, faculty, and staff.

Committee Chair Lozano stated that UC Berkeley's work on this initiative is exemplary. The redirection of funds to academic purposes is a fundamental goal of the University. Regent Makarechian asked about the projected savings in student services. Mr. Yeary responded that the campus infrastructure which provides student services is divided among five different control units. There are four different trouble ticket systems for student services, with different software, not communicating with one another. This infrastructure can be improved through reorganization and automation. The campus has

embarked on a major effort, led by students, to prioritize areas where student services have the greatest impact, so that the campus can allocate resources to those areas.

Regent Cheng expressed appreciation for President Yudof's efforts to ensure that savings gained through administrative efficiencies are returned to student services. He asked if students were consulted about the proposed changes to student services. Mr. Yeary responded that hundreds of students were consulted during the diagnostic phase. There was also input from a student-sponsored poll. The design team is now creating an infrastructure with student input. The presidents of the UC Berkeley Graduate Assembly and the Associated Students of UC Berkeley are involved in the development of the work stream and decisions about the scheduling of action items.

Staff Advisor Martinez observed that organizational changes of this kind cause anxiety. As the University proceeds with any such initiative, communication with staff is critical. She urged the University to consider talent management and new opportunities for staff.

Mr. Simmons observed that, historically, the University has moved between centralization and decentralization. He requested clarification of the President's role in acting centrally for the entire UC system and asked about the relationship between the Berkeley campus initiative and systemwide initiatives. President Yudof responded that he is not seeking central control in this matter, but leverage to ensure that the campuses thoroughly explore the possibility of common systems. The resolution emphasizes common best practices. He recalled the amount of time required merely to begin the payroll system project and to previous cases when projects were not implemented because of opposition by a constituent group. The potential savings in shared systems are immense. Campuses will operate their own systems; these systems will not be operated by the Office of the President. As a hypothetical example, if six campuses decide on a shared financial system, they can form a committee to determine on the features of that system.

Regent DeFreece referred to the penultimate paragraph of the resolution, which he understood to mean that the Office of the President can essentially force the campuses to adopt common best practices unless there is compelling evidence that they should not do so. He asked if the central administration will in fact impose common best practices or systems on the campuses. President Yudof responded that, while the resolution does include an element of coercion, a campus would not have to make any changes until it migrates to a new system. If a campus decides that it needs a new student services system and considers a number of ready-made solutions, it will have to consult with the Office of the President for approval, specifically with a committee of experts on common systems. The Office of the President will not initiate a system on its own. President Yudof envisioned a possible situation in which four campuses might share one system, and six another. He expressed his concern that the University has not made progress on common best practices for a long time; this is the rationale for giving leverage to the Office of the President regarding implementation of new systems on the campuses.

Regent DeFreece noted that this paragraph of the resolution specifies two factors – materially higher costs and less functionality – as a basis for a campus not to participate in a common best practice. He suggested that there might be other reasons for a campus not to participate. President Yudof responded that if other relevant factors were identified, they could be added to this statement.

Committee Chair Lozano stated that the resolution recognizes that the Regents are asking the President to exercise leadership in this area and to explore efficiencies and shared services, focused on a set of common interests which the Regents have identified over the past two years. She underscored that the public has asked the University to explore administrative efficiencies.

Regent Island stated his view that the President should have the authority articulated in the resolution, if he did not already have it. It is the President's responsibility to ensure success in this effort and the Regents should support him in this. Regent Island asked how the Berkeley campus determined which activities to include in Operational Excellence, and which activities to leave to the systemwide administration. Mr. Yeary responded that the campus has communicated with Mr. Brostrom and Mr. Taylor about the activities in Operational Excellence. The campus feels that some elements of its initiative may be of benefit to other campuses; at the same time, it is open to other ideas. If more effective solutions are developed at other campuses, UC Berkeley will adopt them.

Mr. Taylor added that the Berkeley campus' efforts dovetail with those of the Office of the President. Other campuses will be encouraged to examine and consider the best and most successful measures undertaken at UC Berkeley. The Office of the President will use its financial resources to cultivate administrative efficiency efforts around the UC system, helping campuses to avoid costs.

Regent Island emphasized that he wished to ensure that the University has searched as widely as possible for cost efficiencies.

Regent De La Peña expressed support for the President's position. He stated that the campuses' responsibility for their own decisions will not be diluted. The essential matter is the implementation of systems, such as a common payroll system, which can save millions of dollars, and which should be instituted as soon as possible. He also pointed out how difficult it currently is to interpret financial data from the campuses to determine how much the University spends in aggregate. There should be a system, guided by the Office of the President, to report expenses centrally. The transfer and training of employees could be facilitated by common systems. Regent De La Peña asked about the potential savings from a common payroll system. Mr. Taylor responded that the return on investment from this project would be discussed at the November meeting of the Committee on Compliance and Audit. The University estimates that long-term savings will be significant. The goal of this project is to redirect resources to teaching and research and to increase efficiencies. The new payroll system will not be hosted at the

Office of the President. Mr. Taylor anticipated that the bulk of the work would be carried out at one of the ten campuses.

Regent De La Peña expressed the Regents' wish to help the President with implementation of this and other efficiency initiatives.

Chairman Gould stated that this resolution is a directive to the President to exercise leadership based on the Regents' priorities. The resolution gives clear direction to the President to work with the campuses to ensure implementation of best practices. It establishes a burden of proof for campuses that wish to pursue new systems. Given the financial constraints the University now faces, it is essential to give this directive to the President. Chairman Gould expressed his conviction that the campuses are willing participants in this process.

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

4. **PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2011-12 BUDGET ISSUES**

Vice President Lenz outlined some of the fiscal challenges the University would face in 2011-12, and an initial view of possible cost factors. He noted that he hoped to present revenue options at the September meeting.

The State must still resolve a \$20 billion budget deficit. Closing this budget gap will depend on a reduction in State funding commitments or additional State General Fund revenue. Economic recovery remains slow. More than \$8 billion in temporary tax revenue will expire in 2011-12. This temporary revenue is derived from increases to the vehicle license fee, to the sales tax, and to the personal income tax. The State will have a new Governor and a partially new Legislature.

Mr. Lenz presented a chart displaying the University's 2010-11 budget gap, showing that State General Funds for UC were reduced by \$637 million. The University's mandatory costs, about \$368 million, are projected to grow by an additional \$218 million in 2010-11. The University has addressed the 2010-11 budget shortfall with \$75 million in debt restructuring, with the prior year and mid-year fee increases, with an assumption of restoration by the State of a one-time reduction of \$305 million from the UC budget, and an assumption of some additional State funding for enrollment growth and annuitant health benefits. However, this still left a \$237 million budget gap which the campuses had to absorb.

The University projects additional mandatory costs in 2011-12 of \$200 million. In addition, there will not be \$75 million in savings achieved in 2009-10 and 2010-11 during the two years of debt restructuring. Together these two amounts account for an additional shortfall of \$275 million in 2011-12.

The University estimates that in 2010-11 it will enroll approximately 15,400 students for whom it will receive no State funding. This is equivalent to about \$165 million to be absorbed by the campuses. The overwhelming demand for a UC education suggests that there will be enrollment growth in 2011-12. If the University is not able to secure the \$51.3 million in funding in the Governor's January budget proposal for UC enrollment growth or funding for enrollment growth in 2011-12, the Regents will face the decision of whether to take on additional students with no additional resources from the State. Mr. Lenz recalled that the Regents have discussed a possible four-year plan that would reduce enrollment to the State-funded level. But student demand for access may preclude UC from accomplishing this in a four-year period.

Mr. Lenz outlined anticipated cost increases in the 2011-12 budget for faculty merit increases, employee health benefits, annuitant health benefits, retirement contributions beyond the \$95.7 million State obligation to the UC Retirement Plan, and purchased utilities. The cost increase for purchased utilities will not be as great as it has been in the past. The University's current collective bargaining agreements present an additional cost of \$8.6 million. Mr. Lenz noted that there are a number of outstanding contracts and estimated that every one percent increase the University agrees to in collective bargaining would cost approximately \$29 million; a two percent increase would equal \$58 million. There are also non-salary price increases.

Mr. Lenz presented 2011-12 State capital budget issues. Assembly Bill 220 by State Assemblywoman Brownley would place a General Obligation bond on the ballot in the November State general election. Mr. Lenz expressed concern about the viability of an education bond measure in the current economic climate. The Brownley bill provides only \$175 million per year for a two-year bond. UC has arranged meetings with Assemblywoman Brownley's staff to communicate the University's capital needs, which far exceed \$175 million annually. The previous year, State Senator Ducheny introduced Senate Bill 271, a higher education bill which more closely reflects UC needs. It provides \$450 million per year for general campus capital projects and \$100 million per year for medical education purposes. Mr. Lenz recalled that UC has used lease revenue bonds in the past to meet capital facilities needs in years when there is no General Obligation bond measure.

The State must still determine the appropriate amount of a 2010-11 General Obligation bond. The University is hoping for a higher amount of support, as in the Ducheny bill. Another question concerns whether the State can sustain more debt. Only six percent of the State General Fund now funds debt service. The California Legislative Analyst's Office predicts that this will grow to about nine percent of the General Fund by 2014-15. While this is only three percent, it is a dramatic increase in the amount of debt service relative to the overall General Fund.

The University must determine how it will fund its debt service and how it will maintain its buildings in the current budget climate. If State capital resources remain limited, the University must identify its highest priorities for projects funded by lease revenue bonds. It must also address past capital funding deficiencies and new enrollment growth.

Mr. Lenz concluded that the issues he presented will be a challenge for the University between this point and September. The University will engage in intense consultation to discuss the overall budget and to identify its options in addressing the highest priorities.

Committee Chair Lozano referred to the challenges discussed by Mr. Lenz and anticipated that the Regents would be called upon to make difficult decisions regarding enrollment or the possibility of increasing revenue through student fees. The Regents have clearly stated their priorities. Together with the work of the UC Commission on the Future, this will inform the first round of budget discussions.

Regent De La Peña asked about over-enrollment and the actual number of students for whom the University does not receive State funding. Mr. Lenz responded that when the UC budget was presented to the Regents in November 2009, UC over-enrollment was at about 11,600 students. The number of students in the pipeline has increased, and the University projects that this number will grow to 15,400 in 2010-11.

Regent De La Peña asked what action the University would take on this issue. Mr. Lenz responded that the Regents would have to consider various options. Given the demand for access to the University, it is difficult for UC to enact the plan discussed previously. For example, UC planned to enroll only 500 additional community college transfer students, but 2,000 transfer students have indicated their intention to enroll. The University's enrollment management plan for the future is a question for the Regents.

Regent De La Peña asked about deadlines for such a plan and about notification to admitted students. Mr. Lenz responded that the administration hoped to present options to the Regents at the September meeting. This would be early enough to allow UC staff to work with K-12 school counselors and community college administrators to determine its enrollment objective for 2011-12. This objective would be approved at the November meeting.

Regent De La Peña asked if the University is committed to an over-enrollment of 15,400 students in the next academic year. Mr. Lenz responded that the University will not know its commitment until students actually enroll; more accurate data will be available in November. The demand for a UC education is growing in spite of student fee increases. The University is struggling to adhere to the plan in place, which only reduced the number of first-time freshmen.

In response to a question by Regent De La Peña, Mr. Lenz responded that the plan reduced the number of first-time freshmen by 2,300.

Regent Island asked that Mr. Lenz make a clear distinction in his September presentation between unfunded student enrollment as a budgetary negotiating matter in Sacramento on the one hand and as a cost imposition matter on the other. The Regents should concern themselves more directly with the latter. He stated that the actual cost of over-enrollment is not certain. This situation clearly represents a failure of the Legislature to abide by its understanding with the University to fund UC on a per student basis. Regent Island

expressed concern that the University would consider reducing student enrollment based on a negotiating strategy with the Legislature versus costs related to this number of students. Mr. Lenz concurred that this was a fair argument, given the dramatic increase in UC fee revenue. The University might miss out on available funding by not enrolling additional students and receiving financial aid for those students. He cautioned that the University might abandon the idea that the State can provide any enrollment growth funding. If UC does not secure the \$51.3 million in enrollment growth funding in the Governor's January budget proposal, this will reinforce an unfortunate message from the State government.

Committee Chair Lozano asked that Mr. Lenz's September presentation be placed within the context of the Regents' priorities.

5. **CONSENT AGENDA**

A. *Approval of Fiscal Year 2010-11 CapEquip Financing Authorizations*

The President recommended that:

- (1) The fiscal year 2010-11 CapEquip authorizations shown in Attachment 1 be approved as one-year authorizations expiring June 30, 2011.
- (2) The President be authorized to approve and obtain external financing for the CapEquip program in an amount not to exceed \$204,220,000.
- (3) The general credit of the Regents not be pledged.
- (4) The President be authorized to execute all documents necessary in connection with the above.

B. *Authorization to Indemnify Construction Review Board Hearing Officers*

The President recommended that the President, or his designee, in consultation with the General Counsel, be authorized to defend and indemnify independent contractors acting as University of California Construction Review Board Hearing Officers for conduct within the scope of their duties.

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

Committee Chair Lozano briefly discussed the two items.

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

6. **REPORT OF NEW LITIGATION**

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

General Counsel Robinson presented his **Report of New Litigation**, shown in Attachment 2. By this reference the report is made part of the official record of the meeting.

The meeting adjourned at 3:25 p.m.

Attest:

Secretary and Chief of Staff

Table A: Approval of FY2010-11 CapEquip Authorization

UC Location	\$ Amount Requested	Description of Expected Equipment Purchases
UC Berkeley	\$ 6,000,000	Research equipment, other equipment, budget and other software, and refinancing of certain existing capital equipment leases.
UC Davis	3,000,000	Science and laboratory equipment, animal caging, and computer software.
UC Davis - Medical Center	35,000,000	Replacement medical and diagnostic equipment, and new equipment related to Surgical and Emergency Services Pavilion to be completed in FY2010-11.
UC Irvine	1,000,000	Computing equipment and medical equipment.
UC Irvine - Medical Center	15,000,000	Medical equipment, diagnostic equipment, plant equipment, and health information software.
UCLA	25,000,000	Medical, diagnostic, research, shop, computer, communications, and networking equipment; vehicles; software licenses; and refinancing of existing capital equipment leases.
UCLA - Medical Center	40,000,000	Miscellaneous medical and office equipment, including IT software and hardware.
UC Merced	170,000	Purchase of transportation vehicles.
UC Riverside	250,000	Purchase of 40-50 photocopier machines for use by various campus departments.
UC San Diego	2,000,000	Medical and diagnostic equipment, budget software, DNA sequencer/extraction equipment, and refinancing of certain existing capital equipment leases.
UC San Diego - Medical Center	40,000,000	Medical, diagnostic, software, and the possible refinancing of certain existing capital equipment leases; medical and diagnostic equipment, software for opening of Sulpizio Family Cardiovascular Center.
UC San Francisco	15,000,000	Scientific equipment, transportation vehicles (shuttles and cars), information technology/network, office equipment (printers/copiers)
UC San Francisco - Medical Center	20,000,000	Diagnostic/clinical/scientific equipment, office equipment (printers/copiers).
UC Santa Barbara	500,000	Medical and diagnostic instruments, vehicles, and refinancing of certain existing capital equipment leases.
UC Office of the President	1,000,000	Office and research equipment.
UC Agriculture & Natural Resources	300,000	Agricultural equipment, analytical equipment, and software.
Total Authorization:	\$ 204,220,000	

NEW LITIGATION AND ARBITRATION PROCEEDINGS

Report Period: 4/13/10 – 6/3/10

Regents Meeting

July 2010

<u>Plaintiff</u>	<u>Location</u>	<u>Nature of Dispute Alleged by Plaintiff</u>	<u>Forum</u>
<u>Employment Cases</u>			
Capp, Dawn	UCD	Wrongful termination	Yolo County Superior Court
Daly, Robb	UCSD	Wrongful termination, discrimination, breach of contract, intentional emotional distress	San Diego County Superior Court
Friedman, Stanley	UCSF	Discrimination, harassment, retaliation, emotional distress	San Francisco County Superior Court
Li, Kaloh	UCSF	Economic advantage (invention) of relationship with UCSF terminated with loss of job.	San Francisco County Superior Court
Searcy, Jeffrey L.	UCSFMC	Harassment, discrimination, retaliation	San Francisco County Superior Court
Steinhart, Monica	UCDMC	Retaliation for making racial complaint	Sacramento County Superior Court
<u>Professional Liability Cases</u>			
Liu, Dennis	UCSF GHMC	Medical malpractice	San Francisco County Superior Court
Moehring, Virginia (decedent) Moehring, David	UCDMC	Medical malpractice, wrongful death	Sacramento County Superior Court

Neves, Walter (decedent) Neves, Karen	UCDMC	Medical malpractice, wrongful death	Sacramento County Superior Court
Patterson, Gene	UCSD	Medical malpractice	U.S. District Court, Southern District of California
Rodriguez, Marina	UCLAMC	Medical malpractice	Los Angeles County Superior Court
Saperstein, Guy	UCSFMC	Medical malpractice	San Francisco County Superior Court
Stewart, Marcia	UCDMC	Medical malpractice	Sacramento County Superior Court
Thompson, Ross William	UCSFMC	Medical malpractice	San Francisco County Superior Court
Tyron, Bette Jean (deceased), Wesley Whitelock	UCLA	Medical malpractice	Santa Barbara County Superior Court
Willman, Jill	UCLA	Medical malpractice	Los Angeles County Superior Court

Other Cases

Community Water Coalition	UCSC	Writ of mandate	Santa Cruz County Superior Court
Dines, David H.	UCSC	Dangerous condition of public property; negligence	Alameda County Superior Court
Evans, Piccola	UCB	Breach of contract	Alameda County Superior Court
Gruttman, Netta	UCSF	Violation of civil rights; Americans with Disabilities Act	San Francisco County Superior Court
Lunada Biomedical	UCB	Libel and defamation	Los Angeles County Superior Court

Regents v. Manchester Grand Hyatt, LLC	UCSD	Declaratory relief re liquidated damages	Alameda County Superior Court
Regents, Petitioner	UCD	Challenge of gift to caregiver, request for interpretation of amendment	Shasta County Superior Court
Sica, R. Alejandro	UCD	Fraud, negligent misrepresentation, breach of contract, breach of fiduciary duty	Yolo County Superior Court
Steele, Steven	UCB and UCI	Dangerous condition of public property	San Francisco County Superior Court

Public Employment Relations Board (“PERB”)
Unfair Practices Alleged by Charging Party

AFSCME Local 3299 (American Federation of State, County, and Municipal Employees) LA-CE-1101-H	UCSD	Discrimination	PERB
UC-AFT (University Council-American Federation of Teachers) LA-CE-1103-H	UCLA	Removal of bargaining unit work	PERB
Hayward, Christine LA-CE-1105-H	UCLA	Discrimination	PERB
CUE (Coalition of University Employees) LA-CE-1108-H	UCLA	Unilateral change	PERB

Torres, Melinda SF-CE-939-H	UCSF	Discrimination	PERB
CUE SF-CE-940-H	UCSF	Unilateral change	PERB
CUE SF-CE-941-H	UCSB	Discrimination	PERB
CUE SF-CE-943-H	UCI	Removal of bargaining unit work	PERB
UPTE-CWA Local 9119 (University Professional and Technical Employees) SF-CE-944-H	UCLAMC	Unilateral change	PERB
CUE SF-CE-945-H	LBNL	Discrimination; unilateral change	PERB
CUE SF-CE-946-H	UCI	Unilateral change	PERB
CUE SF-CE-947-H	UCI	Removal of bargaining unit work	PERB