The Regents of the University of California

COMMITTEE ON FINANCE
September 14-15, 2011

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

Members present: Regents Blum, Crane, Island, Mireles, Reiss, Varner, and Wachter; Ex officio members Gould, Lansing, and Yudof; Advisory members Powell and Stein

In attendance: Regents De La Peña, Hallett, Johnson, Kieffer, Makarechian, Marcus, Pattiz, Pelliccioni, Ruiz, and Schilling, Regent-designate Rubenstein, Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, and Recording Secretary Johns

The meeting convened at 2:30 p.m. with Committee Chair Varner presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 13-14 and the joint meeting of the Committees on Finance and Oversight of the Department of Energy Laboratories of July 13, 2011 were approved.

2. **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 1. By this reference the report is made part of the official record of the meeting.

The Committee recessed at 2:35 p.m.

……………………………………………………………………………………………………

The Committee reconvened on September 15, 2011 at 10:30 a.m. with Committee Chair Varner presiding.

Members present: Regents Blum, Crane, Island, Mireles, Reiss, Varner, and Wachter; Ex officio members Gould, Lansing, and Yudof; Advisory members Mendelson, Powell, and Stein; Staff Advisor Smith

In attendance: Regents De La Peña, Hallett, Johnson, Kieffer, Makarechian, Marcus, Newsom, Pattiz, Pelliccioni, Ruiz, Schilling, Torklakson, and Zettel, Regent-designate Rubenstein, Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Pitts, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Beckwith, Darling, Duckett, Lenz, and Sakaki, Chancellors Block, Desmond-Hellmann, Drake, Fox, Leland, White, and Yang, and Recording Secretary Johns

3. **REPORT ON THE UNIVERSITY OF CALIFORNIA'S ECONOMIC CONTRIBUTION TO THE STATE OF CALIFORNIA**

[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 Varner began by observing that this report provided significant information about the impact of the University on the State of California in direct dollars. This information would be useful in discussions with the Legislature and the private sector to demonstrate that funds invested in the University provide a direct positive return, apart from University services and benefits to the state that are not readily quantifiable. As one example, Committee Chair Varner noted that UC provides approximately $650 million annually in unreimbursed health care to California residents. Investment in UC also promotes job creation in California.

Executive Vice President Brostrom drew attention to the fact that this was the first systemwide economic impact report since 2003. All those present were no doubt aware of the University's contributions in education, research, health care, and public service; at the same time, it is important that the University be able to quantify and to help the public understand the economic impact of the State's investment in UC. Mr. Brostrom presented some of the report's noteworthy findings. The State's $3 billion investment in UC has an enormous effect. It allows the University to attract other funding sources, and these have a ripple effect through the California economy. UC's contribution to the gross state product is $32.8 billion; its contribution to total economic activity in California is $46.3 billion. The analysis was based on the 2009-10 level of State support for UC. UC's return on the State's investment is even greater when the $650 million reduction in State funding for the current year is taken into account.

The University's activities support large numbers of jobs in California, beyond the University's own employees. The report found that UC supports one of every 46 California jobs, either directly or indirectly. The University's economic impact extends beyond the immediate vicinity of its campuses, reaching to every corner of California. The report isolated and quantified the economic contributions of the UC health enterprise for the first time. UC Health is responsible for $12.5 billion of UC's contribution to the gross state product, and for $16.7 billion of UC's contribution to total economic activity in California. The University draws significant amounts of out-of-state funding to California, $8.5 billion in 2009-10, including over $7 billion from the federal government. This distinguishes UC from the other higher education sectors in the state.

Mr. Brostrom stressed that this report did not capture all relevant information. It represented a first phase of analysis, using standard economic input and output methodology to estimate the effects of UC spending in the economy. Research universities make many other contributions to the economy that are more difficult to evaluate. Future phases of analysis would examine more complex questions of UC's role in the enhancement of human capital, leadership in innovation and technology, business creation, and public benefits such as provision of low-cost medical care for the indigent. This report was an important first step and would be communicated broadly, so that elected officials would have an understanding of the value of the State's investment in UC, for all of California.

Regent Gould referred to the finding that one of every 46 California jobs was supported by UC. He asked how extensive the analysis of UC's role in job creation had been. Benjamin Sigman, vice president of Economic & Planning Systems, Inc., a consulting firm that prepared the report, responded that the report's calculations captured the multiplier effect of UC activities. The analysis took into account the University's spending in the state economy and jobs directly supported by UC, as well as jobs associated with businesses that depend on spending by the UC system and by UC students. The report examined how the initial injection into the economy, the direct effect of UC, ripples through the state and creates additional jobs. The one in 46 figure included all the additional jobs created from that ripple effect. Mr. Sigman stated that the report did not take into account UC graduates. UC alumni are not considered in the one in 46 calculation. Mr. Brostrom added that, as a direct employer, UC is the third largest employer in California, after the federal government and the State government.

Regent Gould emphasized that the University is a dynamic force in the creation of industries and expressed the view that the one in 46 figure might understate the real impact of the University on the California economy. One could argue that, absent the University, some industries would not exist. The report was a good first statement. The full role and contribution of the University in developing California's economy was in fact greater.

Committee Chair Varner observed that this was an initial report that would lead to further analysis.

Regent Ruiz expressed appreciation for the report. He urged the University to be attentive to the feedback it would receive as it publicized the report findings. Based on questions and comments received, the University should improve its message. It was vitally important that this message be conveyed to State legislators.

Regent Newsom expressed agreement with Regent Gould. He observed that 38 biotechnology companies are located in the vicinity of the UCSF Mission Bay campus. This would not have occurred without the presence of UCSF. He stated his view that the numbers in the report were extraordinarily modest and that it was implausible that, in a $1.9 trillion economy, less than two percent or only $32.8 billion of the gross state product would come from the UC system. He emphasized his view that the numbers being presented were vastly understated in relation to the true economic impact of the University on the economy of California and the U.S. The view expressed by Regent Gould more accurately represented the impact of the UC system and should be communicated.

Committee Chair Varner noted that the results of this report were conservative. The intention was to begin with an accurate, concise report showing direct dollar impact; this was a work in progress that would continue.

Chairman Lansing expressed agreement with the remarks of Regents Gould and Newsom, but emphasized that even the conservative numbers in this report conveyed a powerful message about UC’s contribution to the California economy. The Regents, together with all UC constituents, must communicate the message of the University’s outstanding contributions not only in job creation, but in health care, research, and innovation.

Responding to the remarks by Regents Gould and Newsom, Mr. Brostrom explained that the University deliberately chose to separate this analysis into phases. The first phase was an examination of UC’s direct impact, which is fairly incontrovertible. Future analysis would examine the University’s impact in agriculture, the aerospace industry, biotechnology, and medical technology. While the results of this further analysis would be more controversial, the numbers would be staggering.

Regent Gould affirmed that the current report was a good foundation for further analysis.

4. **DEVELOPMENT OF A MULTI-YEAR BUDGET PLAN FOR THE UNIVERSITY OF CALIFORNIA**

[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.]

[Regents were provided with a packet of correspondence received regarding this item, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Vice President Lenz began the discussion with a presentation on the State budget. He recalled that the 2011-12 State Budget Act included a $650 million State General Fund reduction for the University. It limited UC’s flexibility to cut previously funded programs. No funding was provided for student enrollment growth, employee retirement obligations, or other mandatory costs. The University received funding for two capital facilities projects. Mr. Lenz warned of the possibility of a further $100 million reduction to UC if State General Fund revenue does not achieve the $4 billion assumption included in the 2011-12 State budget. He stated the University’s view that it would be difficult for the State to meet this funding target, based on information from the California State Controller's Office.

Mr. Lenz presented a chart displaying average per-student expenditures for educating UC students over a ten year period. Since 1990-91, average inflation-adjusted spending has declined by 19 percent; Mr. Lenz ascribed this to efficiencies achieved at the University. State funding per student over the same period declined steeply, by almost 60 percent, while the student's share, net of financial aid, has more than tripled, from 13 percent to 49 percent of the cost of their education.

In spite of the University's best efforts to achieve cost savings and efficiencies, there would be continuing long-term challenges. Core expenses would continue to increase, and the pace of growth in mandatory costs would be accelerated by post-employment benefit contributions. The University needs steady and predictable revenue growth to address budget shortfalls and to meet its future financial expenses. A failure to address the budget shortfall would threaten UC's quality, access, and affordability.

Mr. Lenz displayed a chart that compared the University's costs with the solutions for meeting those costs. He anticipated that the University would achieve $1 billion in administrative efficiencies and cost savings; this was a priority in addressing a $2.5 billion shortfall. Cost solutions for the remaining $1.5 billion would take the form of State General Fund investment and student tuition. Mr. Lenz noted that these financial projections were the result of a great deal of work by Office of the President staff. He recognized the work of Director Michael Clune, who would soon be moving to a position at UCSF.

Executive Vice President Brostrom continued the discussion. He emphasized that the University's success was built on long-term investments. Without the assurance of stable funding, the University is hampered in many ways in making decisions that are essential to a major research institution. Given instability and uncertainty in State funding, campuses cannot hire tenure-track faculty and critical staff, meet the demand for student enrollment, increase academic programs, build new classrooms and research facilities, or invest in books and digital media necessary for instruction. Funding decisions involve long-term commitments which the University cannot make without stable and predictable funding.

The University's primary approach to minimizing the budget shortfall is through extensive development of alternative revenue streams and administrative efficiencies, but this still leaves a gap of $1.5 billion. Mr. Brostrom presented a slide with three scenarios for meeting the University's budget shortfall. Scenario 1 represented an ideal combination of administrative efficiencies and cost savings, an eight percent annual increase in State General Fund support, and an eight percent annual increase in student tuition. Scenario 2 recognized an alternative combination of revenue, with less in State General Fund support, and a greater reliance on student tuition. Scenario 3 represented a situation that would result if State support remained at the current level and showed the amount of student tuition that would be needed over a multi-year budget plan period.

One of the key elements of the multi-year plan is that the State meet its obligations to the UC Retirement System (UCRS). These obligations represent about half the amount the University is seeking in State funding. Mr. Brostrom recalled that the State provides retirement system funding for the California State University (CSU) and the California Community Colleges (CCC), and pointed out that the University would not need this funding each year. The University needs a four percent inflation workload adjustment each year, but the four percent contribution to the UCRS could be prepaid or come in the form of notes that can be prepaid or paid down in years when the State has ample revenue. The University believes that its estimates are based on solid assumptions, but assumptions that would change over time. The model would be updated and refined as the University proceeds.

Mr. Brostrom presented a chart showing possible tuition levels under the three scenarios. With an eight percent State funding increase, tuition would rise to approximately $16,500 over four years. If there were no State funding increase, tuition would rise to about $22,000. He underscored that for each scenario, the University has ambitious plans not only to maintain its commitment to financial aid for lower-income students, but to extend support for middle-income students as well.

Committee Chair Varner asked if there was a possibility of a fourth scenario or data that would show that, if the State contribution to UC increased, the University's need for tuition revenue would decrease. He suggested that such a scenario should be presented in discussions with the State. Mr. Brostrom responded that a great part of the budget gap is the unfunded UCRS liability, liability above the normal cost. If the State were to pay down this liability, it would enable the University to temper its funding requirements from the State and from student tuition. Committee Chair Varner stated that this should be communicated clearly.

Mr. Brostrom noted that the University is also developing scenarios to augment financial aid while finding new sources for that aid.

President Yudof stressed that the current item was for discussion, not an action item. If the State provided no funding increase, the University would need a 16 percent annual tuition increase. If the State provided a sufficient funding increase to UC, there would be no need for an increase in student tuition. President Yudof also emphasized that the current discussion was based on the State's present actions. Support for UC has declined from about $3.25 billion in 2007-08 to $2.37 billion. The University understands that the State finds itself in economic difficulties. The percentages of increased State funding projected in the scenarios presented by Mr. Brostrom were based on the current level of State support. President Yudof stated that the administration must present this budget projection to legislators and the people of California to make clear the reality the University faces. If the Legislature provided a way forward for UC over the coming four years, the University could contain costs for students and preserve quality. If the Legislature failed to do so, there would be negative consequences for student tuition levels and UC's quality.

Chairman Lansing asked what increase in State support would be necessary in order to avoid an increase in student fees. Mr. Brostrom responded that the University would need a 16 percent annual increase in State support, or approximately $340 million.

Regent Kieffer stated that there is a misunderstanding on the part of the Legislature and the media about the cost of education over the past ten to 20 years. He stated his understanding that the cost has not increased, but that there has been a shift in who pays the cost of education, and that the cost of education has decreased in constant dollars almost 20 percent since 1990. He emphasized that reductions in State support have led to the current budget situation.

Regent Pattiz referred to Committee Chair Varner's remarks about the possible results of increased State investment in UC and the preceding discussion item about UC's contribution to the state economy. If the State wishes to invest in growth, it logically should invest in the University. The University should demonstrate how further investment in UC would improve the financial condition of California. The University's message should not be a warning about the negative effects of further reductions, but an invitation to use the University as a resource to revitalize the state economy. The state would benefit when UC is able to grow.

Responding to Regent Kieffer, Faculty Representative Anderson expressed his view that the University has reduced its total spending per student by 20 percent over the period stated. This reduction reflects efficiencies and cost savings, but has unfortunately also had an effect on quality. Referring to a chart presented earlier by Mr. Lenz, he stated that the cost of education has declined by less than 20 percent. The UC system is run more tightly and is a more stressed system due to a decline in revenues and a smaller decline in costs.

Chairman Lansing underscored the importance of the information presented by the administration in the current discussion. Students and their parents have a need to know what the future might bring. Too often, the University has been presented with and reacted to a State budget. She expressed the general sentiment that the Regents do not want to increase student tuition again and asked how the Regents could change the existing dynamic by convincing the Legislature of the University's importance through a campaign, or by securing outside funding.

Regent Kieffer observed that because the University's tuition policies have addressed the needs of low-income students, the University was charging more to middle-income students. Some members of the Legislature, without an understanding of their actions, were voting against their own constituencies and increasing the cost of a college education for them.

Regent Pattiz expressed his view that a message of "saving the University" would not be as effective as using the University to accomplish California's goals and aspirations, as an engine for growth, to save California. If the University could make its case effectively, and it should be able to, given the data available about UC's historic contribution to California, there should be very little debate about the need for State investment in UC.

Responding to Regent Pattiz, Mr. Lenz observed that the discussion had been focused on revenue and tuition. He stressed that the essential item for discussion was a framework for a multi-year plan that sets forth priorities identified by the Regents: to expand student enrollment, address compensation issues, and address the UC Retirement Plan liability. The plan also addresses concerns about the University's ability to accomplish goals within a certain time frame, given the uncertainty of the State budget process. He recalled that the previous year's State budget restored over $350 million to UC and provided $51.3 million for enrollment growth. The budget was passed on October 8, and within three months, the University was faced with a different State budget message that reduced support by $500 million. The proposed plan was a stable, multi-year plan with identified revenue sources to address the priorities identified by the Regents. Mr. Lenz emphasized that this point should not be forgotten in the present discussion.

Regent Blum expressed skepticism about any increased support from the State, even though legislators may understand the importance of the University. The University should seek support in the private sector and make its case to large corporations, such as Chevron, Apple, Cisco, and Google. UC alumni work for these companies, and the presence of UC has been important for their markets. The University should undertake a program to approach the largest corporations in California for $5 million annually for student scholarships for the coming ten years. The objective would be to fill the budget shortfall. Every major private university and some public universities have pursued this approach for many years. Regent Blum emphasized the importance of such a program because tuition increases would continue.

Regent Reiss noted that State legislative leaders understand the value of UC, but have no alternative to budget cuts, given the difficulty of raising taxes. It was not a matter of convincing legislators about the economic impact of UC. The University should have a strategy for ensuring that it receives a fair share of revenue when the California economy recovers. She suggested that the Regents receive a presentation about the fundraising efforts at each campus, to determine if any opportunities were being missed, or if certain efforts could be better accomplished at the systemwide level. The University should determine what its approach should be to maximize support from the private sector.

Regent Blum noted that campus deans and chancellors effectively raise funds for the University. He stressed that his concept of a program was to raise funds specifically for scholarships to pay for increased tuition.

Regent Pattiz stated that it would be difficult to secure scholarship funding from corporations. The Legislature was aware of the University's contribution to the state, but the public was not. He suggested that the University should seek corporate support for an advertising campaign to educate the public to put pressure on the Legislature. The University has sought corporate sponsorship in the past as well as legislative support. It should now take a different approach. The University could make an effective case to a corporate sponsor for advertising support, for an extensive campaign. Members of the Legislature would respond to their constituencies.

Regent Reiss suggested that an advertising campaign might focus on a coordinated ballot initiative for a revenue stream for higher education.

Regent Pattiz expressed support for this idea. The essential goal was to educate the public. The public would understand that the University was one of the necessary elements to California's economic recovery and would support more funding for UC.

Staff Advisor Herbert stated that UC staff members are seeking stability and the ability to envision their future at the University. The plan under discussion is favorable to staff, with three percent salary increases. She asked how effective the three percent merit increases over four years would be in bringing policy-covered staff salaries toward market levels. Mr. Brostrom responded that this would depend on the development of the labor market during that time. UC staff salaries currently lag the market by about ten or 11 percent. In a stagnant market, the University would make up some of this difference. The proposed increases would not bring the University entirely to market levels, but the University also offers competitive post-employment and health benefits. Most importantly, the plan provides a framework of predictability and stability, which the University has not experienced over the past seven or eight years.

Regent Ruiz observed that the business sector finds itself in the same situation as UC. The current environment does not encourage the growth of businesses or job creation. He reported that the California Chamber of Commerce is raising money for a political action committee. This committee would promote the election of business-friendly officials. He stated that the University should be involved in the election process.

Committee Chair Varner noted that there may be legal issues surrounding such an involvement.

Regent Ruiz suggested that the University find allies and make an effort to identify candidates who would respond to California's needs, particularly education.

Regent Newsom urged the University to consider its challenges along with the other California higher education segments and the K-12 system. He praised the idea of the multi-year plan, but expressed concern that this might lead to a tuition increase at the November meeting and urged the University not to approve such an increase without a more comprehensive strategy. Larger questions about the relationship of UC, CSU, and the CCC and the roles of each needed to be explored first. It might be possible to pursue funding and voter education collaboratively. He noted that the multi-year plan assumes \$1 billion in new endowments and \$50 million annually in corporate-sponsored scholarships, and observed that UC might be competing for the same corporate funds as the other higher education segments. Unemployment in California would remain high for years to come, and the State would not be able to provide additional support. He noted that UC, CSU, and the community colleges would begin a 60-day focused effort, with a meeting scheduled for later that day. He cautioned that the multi-year plan was framed in a manner that would not receive support from the public and urged the University not to consider a tuition increase at the November meeting, but to work collaboratively with the other higher education segments.

Committee Chair Varner emphasized that this was an item for discussion. The Regents would discuss any potential action carefully to consider whether it would be effective and how it would be perceived by the Legislature and the public.

Regent Crane expressed his view that the multi-year plan was an appropriate strategy, if implemented with a realistic view of the University's situation. The strategy would be intended to put pressure on the Legislature. He recalled that the Legislature has made reductions to the University while increasing compensation for prison guards. In the current year, the State would spend almost three times as much on the compensation and benefits for 65,000 California Department of Corrections and Rehabilitation (CDCR) employees as on the University, more than $6 billion on a cash basis, and closer to $9 billion on an accrual basis. The Legislature could reform the California determinate sentencing law, which has a greater impact on the prison population than the "three strikes" law, but has chosen not to do so. The Legislature expresses opposition to the privatization of the University, but removes funding for UC. Regent Crane characterized the budget situation as a battle between higher education and CDCR. In November 2010, the CDCR employees' union invested $7 million in 107 political campaigns; candidates supported by the union won in 103 of those campaigns, and the union received a new contract this summer. Regent Crane expressed his view that students and unions have more influence with the Legislature than do the Regents. The most significant challenge for the California State budget was Medi-Cal. It currently accounted for 14 percent of the budget; this percentage would double in ten to 15 years. Retirement benefit costs were recorded in the current year State budget as six percent of the General Fund, but in fact these costs represent 15 percent of the General Fund; the difference would be amortized over the coming years. The Legislature would also have to address the significant unfunded liability of the California State Teachers' Retirement System. The University's strategy of putting pressure on the Legislature was correct, but at the same time a change of outlook was required, and the University would have to act like a private university. There is a need to cut costs and raise revenue. The University should not expect any change in the actions of the Legislature.

Regent Gould stated that the business community was aware that the University had received the most severe reductions in the State budget and that these cuts were dangerous. The University should enlist business allies in a campaign. The preceding discussion item on UC's contribution to the California economy was a good starting point. The business community is interested not only in UC's direct impact on California's economy, but in UC as an economic engine for job creation and future economic viability. Regent Gould emphasized that the University should continue to remind members of the Legislature of the implications of their decisions. Support from the private sector would not amount to $1.5 billion. The University would have to rely on public resources, student fees, and increased efficiencies. The Legislature should not express shock or dismay at UC tuition increases after the Legislature has reduced the UC budget by $650 million. The University needs to communicate broadly its message about the current budget situation and the consequences for California's future. UC can rely on allies in the business community and on its alumni. The multi-year plan framework included potential actions the Regents would prefer to avoid, but presented the only reality that the Legislature would recognize.

Regent Torlakson stated that members of the Legislature are not aware of all the economic benefits the University provides. The facts and choices in the different scenarios presented earlier also needed to be communicated to the voting public. He drew attention to an information gap that exists in California because 70 percent of state voters do not have children in the K-12 system, and a large percentage do not have children in the university systems. He expressed the view that, in the right circumstances, both the labor and business communities would wish to address this issue. Public awareness is needed to foster a climate in which the Legislature would pay attention, and a major public debate about investment in education is long overdue in California. Regent Torlakson noted the possibility of a ballot measure for education funding in November 2012, and stated that a team approach involving the higher education segments and K-12 was necessary. He reported that he has discussed this with coalition members of the K-12 system. This was an anxious time for many Californians, who are concerned about their own and their families' economic future. He expressed agreement with Regent Reiss that a guarantee should be put in place to ensure that the higher education segments and the K-12 system receive a fair and steady share of funding when the economy recovers and State revenues increase. There has not been a ballot measure debate of the necessary magnitude in California since Proposition 98, which only involved K-12 and the community colleges. A united effort of all the higher education segments and K-12 would be a way to address one part of the ongoing need for education funding.

In response to a question by Regent Schilling, Regent Newsom clarified his view that the significant commitment to philanthropic fundraising in the multi-year plan might not be achievable. Mr. Brostrom responded that an important aspect of the University's philanthropy program is the effort to increase the fungibility of existing private philanthropy. The University has effectively raised money, but many of these funds are restricted and not available for core needs. In this respect the University differs greatly from private peer institutions. UC campuses have begun to develop models that recognize donors' interests but include a component that supports core funding. As an example, the Berkeley campus has endowed chairs that support a particular professor and his or her research, but also produce about $75,000 per chair for salaries and graduate student support.

Regent Kieffer stated that the distribution of the higher education burden in California needed to be reexamined, including consideration of a shift in responsibilities, such as converting community colleges to four-year colleges. The University should take a leadership role in this effort.

Chairman Lansing stated that the Regents should not give up on the possibility of increased State support. The University has a compelling story to tell, and Regents should pursue their relationships with members of the Legislature to convey UC's message. She stressed that it was possible to approach corporations for scholarship funding by speaking frankly about the corporations' need for an educated employee base. Corporations could also be persuaded to provide unrestricted funding, which would be tax-deductible. Chairman Lansing expressed enthusiasm for a public campaign for the University to inform the public about UC's situation. She asked that President Yudof organize working groups focused on communications with the State, outreach to private corporations, public relations, and fundraising, and assign Regents to these working groups.

President Yudof reported that the University has made progress in approaching corporations. It is seeking a shift from focused, restricted gifts to general scholarship gifts. He emphasized that tuition had increased for the past 20 years because State support had eroded. There was no simple solution to address this problem. The University's situation would change significantly if the State fulfilled its obligation to the UC Retirement Plan.

Regent Island stated that the University would not be able to address the funding problem as long as student fee increases were under consideration. The demographics of California were changing. The percentage of high school graduates who could afford to attend UC was small and declining. Increasing out-of-state enrollment would lead to a University that was no longer for Californians. The Regents had not yet undertaken a $100 billion financing campaign to rescue UC, but had relied on student fee increases. He expressed agreement with Regent Gould that the University should demonstrate to the Legislature the consequences of its actions. The University's mandate was different from the mandate of other state universities; it was a mandate to educate millions of underrepresented minority students. The University would not fulfill this mandate with a model of high student fees. The University needed a new model, and Regent Island urged the Regents to support Regent Blum's proposal. The Legislature had neither the money nor the political will to save the University. He expressed opposition to student fee increases when one out of six Californians lives below the poverty level and one out of five lacks health insurance. He noted that the University had achieved the greatest possible cost savings and efficiencies and urged the University to find a creative alternative to student fee increases to finance the UC system.

Committee Chair Varner invited Chancellors Leland, White, and Yang to address the Board.

Chancellor Leland reported that UC Merced serves a student population with the largest percentage of low-income, first-generation, and minority students in the UC system. She cautioned that building academic and research programs of high quality at Merced would be difficult, if not impossible, without multi-year planning and a funding strategy. The University was caught in a crisis management mentality rather than building for the future. A stable and predictable funding horizon would allow UC Merced to promise parents that student support services would be adequately staffed, to promise students that high-demand academic programs would be available to them in a specified number of years, to promise faculty in emerging areas of research a time frame for hiring the additional faculty needed to gain a competitive edge in sponsored research funding, and to promise donors that initiatives would come to fruition within a reasonable time. UC Merced would be able to continue to help the University fulfill its promise to provide a space for every qualified graduating California high school senior. UC Merced would be able to promise the state that the San Joaquin Valley would increasingly enjoy the economic benefits brought by the presence of a vibrant research university. Chancellor Leland emphasized that the solution to the problem of securing stable funding would not be easy, but that it was vital to address the situation effectively now.

Chancellor White expressed support for a sustainable and predictable revenue stream that would allow the Riverside campus to carry out its strategic plan and expressed concern about the negative consequences of continued disinvestment by the State. The current reduction in the University's resources placed in question UCR's ability to achieve its strategic plan goals within their originally stated timeline. Chancellor White warned that the Riverside campus could lose diversity by losing enrollment from precisely the demographic sector it has worked hard to recruit, retain, and graduate – students from middle- and low-income backgrounds, students of color, and first-generation college students. He called attention to disturbing indicators of diminishing quality at UCR. In June, the campus was denied preliminary accreditation for its School of Medicine, not because of any shortcoming in the program, leadership team, or facilities, but because of a lack of sustainable State support for a new public medical school. The campus is working assiduously to identify $15 million in annual sustainable funding in order to open the School and to help address the needs of medically underserved Inland Southern California communities. Since 2008, the campus has lost 30 ladder-rank faculty while student enrollment has grown by 2,900. This has resulted in an increased student-faculty ratio, larger class sizes, less individual attention for students, and a negative impact on instruction and support services for students. The campus' research productivity is challenged by loss of faculty. The vagaries of State funding make strategic planning difficult. A multi-year budget plan would help UCR and all the campuses to invest resources strategically and wisely, and would send a simple and disciplined message to politicians, parents, and students.

Chancellor Yang noted that the Santa Barbara campus has enjoyed significant growth due to a sound budget plan and a strategic academic plan. He described numerous campus achievements, including membership in the Association of American Universities, high rankings in domestic and international surveys, a rising grade point average among entering freshmen, and a growing percentage of underrepresented minority students. These achievements have been the result of careful strategic planning with a steady budget. Chancellor Yang expressed concern that this growth would not be sustained due to budget reductions. The campus is now engaged in developing its strategic academic plan and Long Range Development Plan for the coming 15 to 20 years, but it faces unprecedented budget challenges. UCSB has absorbed State budget cuts seven times in the past nine years. Like the other campuses, UCSB has struggled to address these reductions with a combination of increased efficiencies and savings, including painful layoffs and increased enrollment of out-of-state students. Chancellor Yang expressed regret about the impact of increased fees on students and their families. The campus is concerned about preserving access, affordability, and quality. The retention of outstanding faculty has become much more difficult in the current strained budget environment, and there has been increased competition from peer institutions. Chancellor Yang reported that he has been personally involved in all recent retention cases, and that the most difficult question asked by faculty has been: when will the University have a stable budget? Economic uncertainty has a negative effect on students and their families as well. The campus needs to be able to rely on a stable multi-year budget plan to provide a high-quality education to students.

President Yudof stated that the University would explore many of the ideas presented in the foregoing discussion. He noted that the University had already begun its corporate scholarship campaign; it was now in its quiet phase. He asked for the Regents' assistance in approaching corporations. He expressed support for an advertising campaign to explain the University's position to the public. President Yudof noted Regent Island's concerns about reliance on student fee revenue and recalled that the University had been able to address most of a $1 billion shortfall with measures other than a student fee increase. He observed that the effect of budget reductions on middle-income students was a matter of special concern. He asked the Regents for a commitment to maintain the quality of the institution.

Chairman Lansing expressed the Regents' willingness to assist the President in his efforts in communicating with the Legislature, Governor, and corporations, and in mounting a campaign that would reach the public.

The meeting adjourned at 12:30 p.m.

Attest:

Secretary and Chief of Staff