THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
MEETING AS A COMMITTEE OF THE WHOLE
September 12, 2012

The Regents of the University of California met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Blum, De La Peña, Gould, Island, Kieffer, Lansing, Makarechian, Mendelson, Newsom, Pattiz, Rubenstein, Ruiz, Schilling, Stein, Varner, Wachter, and Yudof

In attendance: Regents-designate Feingold, Flores, and Schultz, Faculty Representatives Jacob and Powell, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Allen-Diaz, Beckwith, Duckett, Lenz, Mara, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Desmond-Hellmann, Drake, Katehi, Khosla, White, and Yang, and Recording Secretaries Johns and McCarthy

The meeting convened at 9:10 a.m. with Chairman Lansing presiding.

1. **PUBLIC COMMENT**

Chairman Lansing explained that the Board had been convened as a Committee of the Whole in order to permit members of the public an opportunity to address University-related matters. The following persons addressed the Board concerning the items noted.

A. Mr. Jonathan Ly, a representative of the UC Student Association, expressed his opposition to differential tuition, by either campus or discipline, since it would differentiate campuses, rather than treat UC as a ten-campus system. Differential tuition by fields would discourage some students from pursuing certain fields because of cost.

B. Ms. Bonnie To urged the Board to keep open minds during the day’s discussions. She stated that UC’s first obligation was to educate California students.

C. Mr. Murray Morgan stated that he was a vascular surgeon and had been a published scientist at UC Davis. He spoke in favor of scientific integrity. He stated that, as a result of unfair charges against him, he had lost his home and his job.

D. Mr. Ronald Cruz, graduate of Berkeley Law, attorney for the Coalition to Defend Affirmative Action, Integration, and Immigrant Rights and Fight for Equality By Any Means Necessary (BAMN), and for plaintiffs in a lawsuit based on the events of November 9, 2011 on the Berkeley campus, expressed his views that Chancellor Birgeneau had moved UC Berkeley toward privatization, had authorized the use of excessive force against peaceful protesters, and had not increased the proportion of students from underrepresented minorities. Mr. Cruz urged transparency as well as faculty and student input in the process to select the next chancellor for UC Berkeley.

E. Mr. Olivier Bouan, a representative of the UC Berkeley Committee on Student Fees and Budget Review, expressed concern about the deterioration of campus student services, which play a crucial role in the quality and accessibility of a UC education. He urged the Board to support funding for student services. Mr. Bouan also stated his opposition to differential tuition.

F. Mr. David Douglass, senior at UC Berkeley and member of BAMN, stated that BAMN would organize and mobilize UC Berkeley students against what he characterized as the private process to select the new UC Berkeley chancellor. He stated that BAMN supports candidates who would be opposed to privatization of UC, the use of force against peaceful student protesters, and deportation of undocumented students. Mr. Douglass also spoke in favor of providing undocumented students access to financial aid and scholarships, and against corporate influence on UC research.

G. Ms. Nwadiuto Amajoyi, chair of the UC Santa Cruz Student Union Assembly, urged the Regents to keep the student experience and UC's values in mind as they consider options for dealing with the budget shortfall. She pointed out that many students and their families were suffering economically.

2. BOARD RETREAT

A. *Opening Remarks*

President Yudof commented on the tragic events in Libya during which Ambassador J. Christopher Stevens was killed. Ambassador Stevens was born and raised in Northern California, earned his undergraduate degree at UC Berkeley in 1982, and his J.D. from University of California Hastings College of the Law in 1989. President Yudof called for a moment of silence in honor of this great representative of the United States. Chairman Lansing echoed the President's remarks regarding Ambassador Stevens.

Chairman Lansing welcomed the Board to the retreat, and recalled that the Board had endorsed Proposition 30, the Schools and Local Public Safety Protection Act, at its July meeting. She added that the Board was doing everything possible to educate voters about Proposition 30 and its effect on the University, and expressed her hope that the measure would pass in November. She acknowledged that Proposition 30, even if it passes, would not be a cure-all, since the University would still face very serious fiscal challenges. The current meeting would be devoted to a brainstorming session regarding ways to attack those fiscal challenges. Both near-term strategies and sustainable solutions would be considered, with no options off the table. She thanked Regent Gould and his team for their prior work on the UC Commission on the Future, the source of many possible proposals.

Chairman Lansing emphasized that options would only be discussed at the current meeting, not endorsed or implemented; the discussions would be part of an ongoing process. While acknowledging that ideas about solutions may differ, Chairman Lansing confirmed that all members of the Board shared the same desire to do what was best for UC, its students, and the people of California, who rely on UC's research and public services.

President Yudof stated that UC had a $300 million funding gap for the current fiscal year alone, even if Proposition 30 passed. Should Proposition 30 fail, UC would face an additional liability of $375 million, which would be added to $879 million in cuts and $1.22 billion in new costs the University had already experienced in the past four years.

President Yudof stated that there were no simple solutions to a problem of this magnitude, only difficult, complex ones. He expressed his view that making decisions concerning these serious issues cannot be avoided, and that passive inaction was, in fact, making a decision. Active decisions were necessary with regard to UC's academic quality. He stated that for too long decisions about maintaining UC's academic quality had been passive, resulting in a quiet, but steady, erosion of UC's academic quality at almost every level. While the Board did not vote to lower faculty salaries, UC's faculty compensation currently lagged peer institutions' by ten to 20 percent. While the Board did not vote to approve a freeze on faculty hiring, in effect faculty hiring had been frozen for the past several years. The Board did not vote to steadily increase UC's student-faculty ratio, yet UC currently had 50 percent more students per faculty member than in previous decades. In the past 30 years, UC had enrolled 30,000 more students, while adding hardly any new faculty.

President Yudof stated that the University of California, with its legacy of trailblazing academic quality, deserved better. He urged the Board to make an active, unwavering commitment to the academic quality of UC. President Yudof commented that consideration of any possible options would be an inclusive process. He stated that UC continues to be the best public university in the world, despite its current financial challenges. UC led international rankings of research universities and all American universities in its number of patents; UC led American public universities in graduation rates, while having roughly 45 percent of its undergraduate students from low-income families. UC had more Nobel Prize winners than most countries. President Yudof attributed much of UC's success to the hard work of its students, faculty, and campus administrative personnel. Recent polling showed that 76 percent of California voters held a positive or very positive view of UC. He displayed a video of UC applicants learning of their acceptance.

President Yudof stated that the retreat would offer a chance to consider alternatives and get feedback about possible ways to preserve and enhance UC's quality, access, and affordability, and maintain its faculty and outstanding employees. Executive Vice President Brostrom began by explaining UC's fiscal crisis, one of the most severe in its history. Over the past five years, the State cut funding to the University by nearly $900 million, a 27 percent reduction, at a time when the cost of operating the University, particularly the cost of faculty and staff, increased dramatically. In the current fiscal year alone, UC would contribute more than $800 million to the University of California Retirement Plan (UCRP), a cost it did not have three years prior. Even though the State increased UC's funding slightly, UC still faced a funding gap of roughly $300 million in the current fiscal year, nearly $100 million of which represented mandatory costs, which cannot be deferred or avoided.

Mr. Brostrom said that these budget cuts had a direct effect on the quality of education on UC's campuses. For example, in the past fiscal year, the State cut UC's budget by $750 million and UC had an additional $300 million in mandatory costs, combining for a more than $1 billion fiscal impact. Tuition was increased, but the increase covered only one-quarter of the fiscal shortfall. The remaining $750 million in cuts had to be absorbed by UC campuses. Campuses were forced to lay off staff, freeze faculty hiring, freeze compensation, reduce hiring of lecturers and teaching assistants, increase class sizes, and decrease course offerings.

Mr. Brostrom stated that Proposition 30 would present an excellent opportunity for the University to realize greater financial stability and predictability in its State funding. The outcome of the November election would have budget implications of more than $500 million for the University. If Proposition 30 passed, UC would receive $125 million in tuition buyout and prospects of $150 million in new State funding in the subsequent year; should Proposition 30 fail, UC would face an immediate cut of $250 million in State funding.

Even if Proposition 30 passed, UC would still face fiscal challenges in the coming years. The growth in UC's expenses will total nearly $3 billion over the upcoming five years, magnified largely by the growth in UC's post-employment benefits. The University was pursuing initiatives to cut administrative costs and generate new revenues to cover about one-half of the anticipated shortfall. UC would still need a long-term agreement to cover the remaining $1.5 billion budget gap. Mr. Brostrom stated that some potential strategies to help bridge this shortfall would be discussed at the present meeting. He cautioned that there would be no simple solution to this fiscal crisis. All alternatives would have to be considered in order to build a sustainable financial model that would preserve and enhance the quality of the University.

Mr. Brostrom stated that ideas to be discussed came from many sources such as student input, campus leadership, the UC Commission on the Future, Regents, student Regents, other universities, and the Office of the President. Suggestions were evaluated on criteria of the magnitude of potential savings, the time frame for implementation, ease or difficulty of implementation, and the nature of the savings. Proposals were evaluated on the basis of whether they would benefit all campuses, or just a few; whether they would benefit core funds or mainly other fund sources; and their effect on academic quality and student success.

Mr. Brostrom noted that campuses were already engaged in activities to generate new revenue and cut expenses. The focus of the current discussion would be on large, central opportunities, such as asset management, debt management, employee benefits for current employees and retirees, and tuition and enrollment policies, areas in which high-level policy changes could generate value. The discussion would cover a wide range of ideas, some of which would be recommended and others not.

B. ***Balance Sheet Strategies***

Chief Financial Officer Taylor discussed balance sheet strategies. An extraordinary payout on UC funds functioning as endowments (FFEs) would involve taking a one-time three to five percent payout on year-end balances of eligible FFEs. He cautioned that most UC endowments were highly restricted, both in terms of payout and purpose, although some merely function as endowments and are purpose-restricted, but not payout-restricted. FFEs comprised slightly more than half of the overall UC endowment of approximately $6.3 billion. Of the 2,719 accounts in the General Endowment Pool (GEP), 1,987 are FFEs rather than true endowments. Mr. Taylor expressed his view that $20 million in one-time monies could be extracted in a fiduciarily responsible manner to help bridge the budget gap in the current fiscal year. A cursory review of 80 FFEs showed that a majority could contribute meaningfully to this strategy. He reminded the Board that the University was already taking a payout from some of its FFEs to help pay for the tuition buyout negotiated with the Legislature and the Governor in the current year.

Regent Varner asked whether the FFEs were in the GEP or in the campus foundations. Mr. Taylor responded that the FFEs to which he referred were in the GEP. He noted that he would propose this strategy only in extraordinary fiscal situations, and therefore would propose an appropriate withdrawal amount that would not have a negative effect in future years. A viable communication plan with donors would be important.

Regent Island cautioned that the history of other universities that tapped into their endowments was not good. He asked whether Mr. Taylor had done a risk analysis of this approach, to evaluate the wisdom of adopting this strategy. Mr. Taylor responded that this proposal was for a one-time payout that would not necessarily touch principal. Often, the earnings from FFEs have accumulated over a long time. Each FFE account would have to be examined to ensure that the principal would not be invaded, and an extraordinary payout could be taken consistent with the donor's wishes. Mr. Brostrom added that this would be appropriate only as a bridging strategy. He noted that many private universities used this strategy following the financial downturn of 2008 to bridge their funding gaps.

Regent Schilling expressed her view that any proposal should be evaluated by asking whether it would be necessary to preserve the current excellence of the University and whether it would be preferable to save the financial resources of the University for its future excellence. She stated this would require an evaluation of the degree of UC's current financial crisis and its effect on the quality of the University. If the current situation were judged to be already dire, then that would argue for doing everything possible to shore up the financial situation immediately.

Regent Gould advised looking at one-time remedies in the context of UC's structural financial problem, and urged caution as to how many one-time solutions would be employed, since the existing budget gap would simply be transferred forward. He thought one-time solutions would be more appropriate for one-time expenses rather than structural ongoing expenditures. One-time solutions would be less appropriate during times when the University could not anticipate increased future revenues.

Chairman Lansing said this proposal would be similar to using interest from a bond, and would be done while the University continued all its efforts to find new long-term revenue.

Regent Kieffer expressed support for Regent Gould's comment and stated that one-time strategies should not be used to avoid bigger decisions necessary to arrive at a sustainable financial model.

Regent Blum associated himself with President Yudof's prior remarks about the effects of budget cuts on the campuses. He stated that the effect of budget cuts would be somewhat delayed, but would be felt, for example, when attempting to hire new faculty and a new chancellor at UC Berkeley. Regent Blum expressed his view that UC should increase both tuition and financial aid. He also stated that, while Sacramento was an unreliable funding partner, State legislators were beginning to realize the seriousness of the problem facing UC. He pointed out that UC now educates 73,000 more students than it did in 1997-98, but with the same level of funding from the State. He expressed support for using a one-time payout on FFEs to bridge the budget shortfall.

Regent Pattiz expressed his view that the highest priority was to maintain the quality of the University. He stated that UC currently had an unsustainable financial model, with a cost structure that did not allow flexibility and a revenue problem. He stated that the cost structure was put in place during better financial times, but did not allow changes when circumstances changed. He expressed his view that the Board must find ways to change the cost structure and that temporary measures to delay making necessary fundamental decisions would only prolong the problem. President Yudof stated the some of the meeting's discussions would involve proposals for long-term solutions.

Mr. Taylor explained a second balance sheet strategy involving alternatives for debt restructuring. One option would involve changing State Public Works Board (SPWB) leases for real bonds with modern financing techniques. This option would require the approval of the State Legislature, and it could benefit UC by $80 million annually for ten years.

Chairman Lansing stated that this option would clearly be positive for UC, and that the University would continue to lobby for legislative approval. Mr. Brostrom added that there was also a move to restructure UC's existing general revenue bonds, an effort that has had great success on individual campuses thus far. Mr. Taylor reported that a transaction had been closed the prior month for UC Berkeley, allowing the campus to lock in dormitory fees for the upcoming three years, providing large savings to parents and students. Chairman Lansing asked about the status of negotiations regarding legislative approval of the debt restructuring alternatives. President Yudof responded that the Department of Finance strongly supported the measure; the University was working with the Department of Finance and the Governor's office.

Regent Makarechian asked whether the savings would be in interest or in principal deferment. Mr. Taylor responded that the proposal would involve a variety of restructuring techniques. Currently SPWB leases were heavily front-loaded; $2.5 billion of lease payments, consisting of both principal and interest, would be smoothed out with levelized principal, using variable-rate debt and laddered-term securities. These techniques have been used since the 1980s in structuring bond deals, but cannot be used with leases. The State issues leases since it does not have the authority to issue bonds for this purpose, but UC does have authority to issue bonds. The $2.5 billion is counted against UC in its debt ratios.

Regent Makarechian stated that he agreed with Regent Pattiz's prior remarks that simply deferring UC's obligations would be at the expense of future students.

Chairman Lansing expressed her view that the University needed both short and long-term strategies. Saving money currently in a way that would not hurt the University would be part of a larger plan that would include ways to increase future revenues. Mr. Brostrom added that the debt restructuring alternatives would restructure existing debt at lower interest rates. Regent Makarechian stated he would strongly support savings on interest, but he would be concerned about pushing the principal into the future.

Mr. Taylor turned to another balance sheet strategy of asset management opportunities, which would call for moving $2.1 billion from the Short Term Investment Pool (STIP) to the Total Return Investment Pool (TRIP) or other investment vehicles such as the GEP or a new vehicle that would be managed by the Chief Investment Officer. Mr. Taylor stated that such a move could be made while maintaining sufficient liquidity to meet operating expenses, rating agency requirements, hospital working capital requirements set by the Board, and emergency liquidity. Analysis on behalf of UCSF had been completed; Mr. Taylor anticipated that further analysis based on data to be received from the other campuses could be completed in six weeks. Mr. Taylor anticipated that an additional $40 million per year in unrestricted revenues could be gained.

Chairman Lansing asked why this had not been done earlier. Mr. Taylor responded that historically UC has been very conservative with its monies, as it should be. His analysis had shown that UC could continue to be conservative, but gain more return.

Regent-designate Feingold asked why this change would require 18 months to implement. Mr. Taylor said that the process of moving $2.5 billion from one portfolio to another would take time, and must be done gradually.

Regent Rubenstein asked whether there were any potential negative aspects to this proposal. Mr. Taylor responded that the University had already been moving funds from STIP to TRIP. Two years prior the amount in TRIP was approximately $1 billion; as of June 30, the TRIP balance was $3.9 billion. Campuses have been encouraged to move working capital a bit farther out on the yield curve. Liquidity requirements must be considered. President Yudof added that there would be a different risk profile for the investment portfolio. While investment results would vary, for the long term it would be prudent not to tie up funds unnecessarily in short-term investments. Mr. Brostrom stated that short-term investment fluctuations could be accommodated through budgeting techniques.

Mr. Taylor presented a final possible balance sheet strategy of parking securitization. He noted that Ohio State University had successfully monetized its parking operations earlier in the current year, for which it received $483 million. Mr. Taylor clarified that he was not suggesting that UC securitize its parking operations as Ohio State did, since that involved a sale of all parking assets. For UC, Mr. Taylor suggested a two-part option. Step one would involve transferring ownership of UC's parking assets, with an estimated book value of approximately $1 billion, to UCRP, improving its funded status and decreasing employer contributions to UCRP substantially. Step two would involve imposing an annual three percent increase on parking rates over the upcoming several years. The slow increase in parking revenue would accrue to the benefit of UCRP. Mr. Taylor admitted that this proposal would require substantial analysis and campus engagement, but stated that the proposal could improve UCRP's funding, lower employer costs, and thus relieve budget pressures, allowing campuses to move money into areas that support teaching and research.

Chairman Lansing asked how much revenue could be raised. Mr. Taylor responded that Ohio State, with its 37,000 parking spaces, received a payment of $483 million. UC has 121,000 parking spaces systemwide; conservative estimates put the value at $1 billion. Mr. Taylor stated that this could help UC reduce its 18 percent employer contribution to UCRP.

Regent Newsom stated that cities have examined this option for years and cautioned that Chicago took a massive misstep in this direction. President Yudof pointed out that UC was not suggesting that its parking operations be sold, but rather be put into UC's own retirement plan. Regent Newsom said that Chicago did not sell its parking operations, but rather negotiated a long-term lease. President Yudof added that there would be no third party involved in the UC proposal. Chairman Lansing said that this proposal should be investigated further. Mr. Taylor said he would provide more information.

Regent Wachter commented that this proposal would involve two separate aspects: increasing parking rates, which would be the source of an ongoing income stream, and transferring UC's parking assets from the University to UCRP. Mr. Taylor stated that the transfer would be a way to reduce the pressure from UCRP's funding status and its effect on operating budgets. Regent Wachter pointed out that the value of the parking assets would increase over time. He expressed his view that a management agreement with a private company, under which UC would maintain ownership and would receive a portion of the income, would seem sensible. Chairman Lansing asked that this be considered as an alternative. Mr. Taylor agreed that the Chicago parking situation turned out badly, but noted that Chicago turned operation of its parking meters over to a private company that performed poorly.

Regent Makarechian expressed his view that this proposal would amount to transferring ownership of a UC asset to employees, a strategy he viewed as a questionable long-term solution to financial difficulties. He observed that, should UC lease its parking structures to a third party, campus options for development could be limited. For example, UCLA would tear down its Parking Structure Six in order to develop the Luskin Guest and Conference Center. Mr. Taylor responded that such proposals would involve only income-generating assets.

Regent Island expressed appreciation for Regent Wachter's comments, and stated that the purpose of this proposal should be clarified, whether it would be to reduce employer contributions to UCRP or to generate funds immediately for general University operations. He observed that some university campuses in other states and UC Irvine have already pursued a similar course with regard to student housing. Mr. Taylor agreed.

In response to a question from Chairman Lansing, Mr. Taylor explained that UC Irvine created a new 501(c)(3) organization to build student housing through a private/public partnership. This endeavor had been successful and the housing units are beautiful. He added that a number of campuses across the nation have utilized this approach quite successfully. Regent Makarechian pointed out that UC Irvine's housing endeavor was for the construction of new housing. He added that Regent Schilling and he have advocated exploring public/private partnerships for many building projects. Private/public partnerships have the advantages of UC owning the land and freeing up campus funds that would have been used to fund the projects. He added that new construction would be different from selling existing assets.

Regent Schilling asked what effect this proposal regarding parking would have on the campuses, which rely on parking revenue. Mr. Taylor responded that an arrangement could be structured in a number of ways. Operation of parking facilities could remain with the campuses. Regent Schilling asked whether the intent would be to split the income, so that the asset itself and the additional three percent revenue would go into UCRP, but the current base income would continue to go to the campuses. Mr. Taylor said that Ohio State put the whole \$483 million into an endowment and would use the endowment payout in perpetuity to support faculty research and student scholarships. Mr. Brostrom added that on some campuses this proposal could involve only part of the campus parking, since the number of parking spaces at many UC campuses was governed by their Long Range Development Plans, and a number of campuses were also obliged to reduce vehicle trips.

Regent Newsom asked whether the campuses have authority to increase their parking rates and whether the increased revenue would go to each campus. Mr. Taylor said the campuses have complete autonomy and the revenue would stay at the campuses.

Regent-designate Feingold asked whether there had been an analysis of what percentage of revenue from increased parking fees would be from campus visitors rather than from students, faculty, and staff. Mr. Taylor said that such an analysis had not taken place, but that it would be part of the due diligence. Mr. Brostrom added that campuses could decide what portion of increased parking fees would be charged to visitors or faculty, staff, and students.

Regent Rubenstein asked that the due diligence also include an analysis of possible negative effects of the parking proposal.

While acknowledging the positive concept of attempting to reduce the employer contribution to UCRP, Regent Blum expressed his objection to transferring ownership of UC parking facilities from the University to UCRP. Problems created by the lack of contributions to UCRP for 20 years should not be solved by transferring assets of the University.

Staff Advisor Smith asked whether implementing this parking proposal would necessarily increase employee monthly parking rates. Mr. Taylor responded that, while this could be changed, his suggestion envisioned an across-the-board three percent increase in parking rates. Mr. Taylor added that many UC campuses have very low parking rates, and some had not raised those rates in as many as eight years. Mr. Smith asked whether UC employees would continue to staff parking operations under the proposed plan. Mr. Taylor responded that his proposal provided that the parking would continue to be staffed by UC employees.

Faculty Representative Powell stated that faculty might be concerned because this proposal would, in effect, transfer part of the employer UCRP contribution to employees through higher parking rates. Mr. Taylor added that other users of UC parking, such as hospital patients and business visitors, would also be contributing.

Regent Pattiz asked about the possibility of drawing on the principal of the GEP, given the serious problems facing the University. He suggested that discretionary UC funds could be used to address a desperate situation. He asked if the University had considered this option and its long-term consequences. Mr. Brostrom responded that an impediment to pursuing this option was the fact that most UC endowments are highly restricted by donors. It would be a violation of agreements with donors to spend more than the payout or to spend the corpus. Nevertheless, the University is examining the use of restricted funds in fungible ways to relieve central budget needs. Mr. Brostrom cited the case of the Hewlett endowed chairs at UC Berkeley, which would free up $8 million to $9 million to support campus core budget needs. Mr. Brostrom observed that the University has similar opportunities in financial aid and capital projects, but the difficulty lies in the fact that gift funds are restricted. The University wishes to honor donors' interests, but to do so in a way that supports UC operations.

Regent Pattiz asked if there are donors who give money not for an endowment, but to be spent for specific needs. Mr. Brostrom responded that the University is seeking to secure outside funding to augment financial aid on this basis. This funding would help meet student needs and relieve stress on the central budget. Current-use gifts are valuable to the campuses.

Chairman Lansing recalled that the University has been meeting with corporations and individuals as part of a campaign to raise money for student financial aid.

Regent Island noted that the question of drawing on the endowment had already been studied and he warned of the complications that might result from such an action at a time when high salaries and incentive compensation are paid to Senior Management Group employees. Observers might wonder if the University was being managed for the long-term future, or if this was an "end of life" action. Drawing on the endowment would be risky and donors might react unfavorably. Mr. Taylor expressed agreement with Regent Island and concurred that the

University's credit rating would suffer if it drew on its endowment principal. He observed that the administration must manage UC not only to maintain a high credit rating but also to maintain a high-quality educational experience for students.

C. ***Business and Finance Strategies***

Mr. Brostrom recalled that the Working Smarter initiative had a target of $500 million in administrative savings to be redirected to UC's academic mission. The first two years of the initiative had already realized $290 million in savings through efforts in risk management, energy efficiency projects, strategic sourcing and procurement, and other areas.

Senior Vice President Stobo then discussed infrastructure consolidation at the UC medical centers. The programmatic success of UC's health professional schools, especially its medical schools, in research and education, is closely linked to the financial success of the UC medical centers. Over the previous five years, net patient revenue at UC medical centers had increased 1.5 times. During the same period, their financial contribution to the health professional schools, mainly the medical schools, increased twofold. The previous year, this contribution was slightly more than $500 million. This support is very important at a time when State support has decreased, and it has allowed the medical schools to maintain their excellence in research and education. The University's efforts to help its medical centers to be financially successful would also assist the health professional schools. This effort could be furthered by consolidation of infrastructure in support services throughout UC's medical centers and by rationalization of clinical services. UCSF and UC Davis had already consolidated some of their clinical laboratory functions, and have decided that liver transplants will only be provided at UCSF, not at both medical centers. Dr. Stobo observed that there were opportunities for similar consolidation and rationalization throughout UC. Such actions would help UC address the challenges of health care reform to be experienced in the next few years and they would promote the financial success of UC's medical centers. Dr. Stobo suggested that he could form an outside group to work with him, the chancellors, and others in drawing up a definitive list of infrastructure elements and services for consolidation and rationalization.

Chairman Lansing expressed strong support for this effort. She stressed that consolidation and rationalization would not affect the quality of patient care or diminish patient access. Considering the relative geographic proximity of the southern UC medical centers at UCLA, Irvine, and San Diego, and the proximity of Davis and UCSF in the north, duplication of effort at medical centers, other than in life-threatening situations, was not necessary. There can be centers of excellence for specific treatments at specific UC medical centers. Medical billing consolidation at UC had saved millions of dollars.

In response to a question by Regent Island, Dr. Stobo explained that 100 percent of the revenue generated at UC medical centers does not stay at the medical centers. In the past year, approximately $500 million, either as purchased services or cash, was transferred from the medical centers to the health professional schools, mainly the schools of medicine. This is a model followed throughout the U.S. It represents the foundation of a relationship between a health professional school and a teaching hospital to form an academic medical center. The fundamental relationship between those two entities allows academic medical centers to be in the forefront of medicine in the U.S. Hospitals benefit from the intellectual capital represented by faculty and from the financial return provided by patient care reimbursement.

Regent Island asked if there are institutions where health sciences revenues are shared with the larger university system. Dr. Stobo responded that he did not know of any cases where this occurs on a routine basis. In one case, in extraordinarily difficult financial circumstances, Johns Hopkins Medicine provided one-time financial support to Johns Hopkins University. Physicians and hospitals, who are reimbursed for providing health care, are reluctant to see those monies go to support goals not associated with health care, particularly in the case of public payers, the federal and State governments.

Regent Gould referred to the Working Smarter initiative target of $500 million and the $290 million in savings achieved so far. He asked if the University had every plan in place to achieve the $500 million goal. Mr. Brostrom affirmed that the University has a timeline and path toward this goal. He anticipated that significant savings would be generated by UCPath, the initiative to develop a single UC payroll and human resources system. In the UC setting, it is sometimes difficult to demonstrate how savings are actually harvested. In the case of UCPath, the University can refer to studies that show the amount of potential savings. The savings from some initiatives accrue to other fund sources. For example, the procurement initiative would provide funds to reduce the cost of UC's contracts and grants, but not relieve campuses' central budget needs.

Regent Gould referred to the procurement initiative and asked that programs that are not part of the Working Smarter initiative be clearly distinguished. Mr. Taylor responded that of the $500 million of the Working Smarter initiative, approximately $150 million in savings would come from the procurement initiative. He recalled that the University spends about $4.5 billion annually on supplies and equipment; in comparison to that expenditure, $150 million or $200 million in savings is a very small amount. Mr. Taylor stated that the University should be striving for greater savings in this area.

Regent Makarechian asked if the University had an estimate of the immediate cost of an infrastructure consolidation at the UC medical centers, discussed earlier by Dr. Stobo. Dr. Stobo responded that there had not yet been an estimate of the cost of implementation relative to the financial return; however, savings from such a consolidation could be approximately $50 million.

Mr. Taylor then discussed plans for procurement and strategic sourcing for the campuses. He stressed that the medical centers already have a sophisticated procurement operation in place. In the current model for procurement at the Office of the President and at the campuses, private vendors compete for business licenses. The University conducts a lengthy process for Requests for Proposals, designed to make vendors compete for UC's business and to secure favorable contracts for UC. Mr. Taylor underscored that campuses are not required to use these contracts; they are free to purchase more expensive products from other vendors if they so choose. The current proposal was for a reinvigorated approach to helping campuses understand the importance of using centralized, strategically sourced contracts. This campaign would proceed department by department. Purchasing systems like BruinBuy at UCLA have shown that standardized processes for e-procurement are possible. Mr. Taylor anticipated that a common UC platform would be developed within a year and stressed that implementation would require a cultural change to make administrative staff understand the critical importance of using these contracts.

Regent Rubenstein asked why some campuses were not purchasing from centrally negotiated contracts that provide better value. Mr. Taylor responded that this was part of the campuses' culture, even if strategically sourced contracts could provide better value. As one example, the University negotiated a deal with Dell and Apple for computer hardware. If 80 percent of UC new hardware purchases were from those two contracts, it would save $10 million annually systemwide. It is sensible to use the University's size and strength to secure favorable contracts.

Regent Varner asked where the University stood in this process. Regent Pattiz stressed that there must be some reason for the fact that this goal had not yet been realized. Regent Varner emphasized that it was important to determine what needed to be done to realize the goal. Mr. Taylor presented an example of recent progress in bulk purchasing at the dormitory cafeterias, which spend approximately $100 million annually. A single staff member at the Office of the President has successfully negotiated $12 million in savings on food purchases. Strategic sourcing could be successful; it was a matter of changing the institutional culture and convincing UC staff that working together as a system would save money.

Regent Pattiz observed that the goal would not be realized unless a consensus was achieved. Chairman Lansing asked that Mr. Taylor return to the Regents with a proposal.

Regent Newsom observed that it would be advantageous to partner with the California State University (CSU), which is pursuing the same goal. He asked how the Regents could facilitate discussions with CSU on this matter. Mr. Taylor remarked that seven CSU campuses purchase from and use UC's travel website; there are 17 UC and CSU campuses using the website. Discussions with CSU so far concerning strategic sourcing had been on an ad hoc basis.

Regent Newsom stated that he would work to promote cooperation with CSU in this area. Mr. Taylor noted that UC has negotiated its merchant card or "PCard" with all National Laboratories in the U.S., which has resulted in significant discounts. He stated that he could bring a strategic sourcing proposal to the Regents at a future meeting.

Regent Blum recalled that a consultant, the Monitor Group, had studied this issue at UC some years previously and had recommended consolidated purchasing, which Monitor stated would produce a minimum of $350 million in annual savings. He expressed surprise that years later, the University had still not completed implementation of this recommendation.

Regent Island observed that the strategic sourcing initiative was difficult to implement due to the tradition of strong campus autonomy at the University. The campuses have local business and commercial relationships that impede the ability to implement the initiative. Until the University adopted a policy requiring campuses to use systemwide contracts, this matter would continue to be debated and UC would not achieve the savings that had been identified. Mr. Taylor acknowledged that local vendors could sometimes offer more favorable rates or contracts. In such cases, the University is in favor of the campus using the local vendor. More often than not, however, centrally negotiated contracts have provided substantial savings. For example, UC's annual construction insurance costs have been reduced by $17 million through a systemwide contract, rather than through negotiations with local brokers for specific campus projects. In addition, contracts for specialized products are best negotiated by individuals with subject-specific knowledge and experience, who might not be found on the campus.

Regent De La Peña noted that UC student health centers use the same platform for billing services. A unified payroll system would provide significant savings. He stated that the Regents must establish policies, with consequences for the campuses, in order to achieve the desired savings from systemwide contracts. He also remarked that it is difficult to analyze UC financial reports due to the current state of campus accounting and the lack of a common general ledger.

Regent Kieffer observed that chancellors are in a position to carry out this concept, yet chancellors were missing from the discussion. One issue was the question of local control as opposed to systemwide control. Centralized control is sometimes appropriate and sometimes not. He stated that he had not yet heard a convincing counterargument to more centralized purchasing. Regent Kieffer requested a presentation from chancellors or other campus executives at a future meeting about this proposal and about impediments to implementation of purchasing from systemwide contracts. Mr. Taylor responded that this information would be presented at a future meeting. He stressed his own respect for the tradition of campus autonomy; strategic sourcing would help campuses save money, which would support autonomous teaching and research.

President Yudof asked how much the University had saved in procurement so far in the current year. Mr. Taylor responded that approximately $75 million had been saved.

President Yudof stressed that progress had been made, and that the current discussion concerned the next step. He observed that opposition to systemwide contracts can come from faculty and staff who have had bad experiences with inefficient operations. In other cases, a campus might need very specialized equipment. President Yudof suggested that the procurement system should not be managed at the Office of the President, but at the campuses. He pointed out that many purchases are made not from core funds, but from hospital revenues or research grant funds.

Vice President Lenz then discussed a proposal to reduce or eliminate previously State-mandated programs. He recalled that over the years, the Governor and Legislature had established funding priorities for various mandated research and public service programs. In good years the State had money to invest in these priorities, but in recent years the loss of State funding had resulted in the total elimination of State support for many of these programs, which were therefore being funded at the expense of UC instruction and academic programs. The University feels that it is appropriate to evaluate State-mandated research and public service programs that no longer receive State support, and to redirect resources to classroom instruction and academic programs. Any proposed elimination of the State-mandated programs would require discussions with Sacramento policymakers. In some cases, the Regents might wish to retain programs that the University determines would continue to benefit UC research, public service, or students.

In response to a question by Chairman Lansing, Mr. Lenz stated that a comprehensive overview of the State-mandated programs would be presented to the Board at a future meeting. He noted that the University regularly discusses this matter with the Speaker of the Assembly's office and others in Sacramento.

Chairman Lansing stated her view that it was unreasonable for the Legislature to expect the University to fund programs for which the Legislature had withdrawn funding, either entirely or in part, when the University itself lacks sufficient funding for financial aid and faculty salaries.

In response to questions by Regent Varner, Mr. Lenz explained that reductions to these programs would not require the consent of the Legislature, but that if the

University decided to eliminate any program, it would have discussions and work cooperatively with the State.

Regent Stein expressed his hope that the University would protect student academic preparation programs, which reach out to local communities and seek to bring students from historically underrepresented communities to UC. These programs have achieved success in attaining UC diversity goals. The University currently funds these programs beyond the amount mandated by the State. Regent Stein stated his understanding that the University would most likely continue to fund these programs even without a State mandate or earmark. He argued that while an earmark in the State budget might be onerous, it guaranteed the future existence of these programs, and students took some comfort in this fact. Mr. Lenz stressed that the deletion of a line item in the State budget would not result in an automatic decision by the University to eliminate a program. He observed that line items had become a political tool, used for leverage in budget deliberations with the State, and that they limited funding flexibility. The Regents now had the flexibility to determine the funding levels for these programs.

Regent Stein stated that in some instances, a program is of such importance to students that it might be worthwhile to accept limitations to the University's flexibility. At the present time there was no need for an outside body to ensure that the University continued its student academic preparation programs, but ten years in the future there might be such a need. The budget earmark provided such an assurance.

Provost Dorr informed the Board that many State-mandated programs are included in the budget she oversees. She stressed that removing an earmark would not remove the University's commitment to a program, its desire to carry out the program, or its recognition of the program's benefits, but that it would give the University options. She recalled that she had overseen student academic preparation programs at UCLA for a number of years and that these programs were held hostage in budget negotiations almost every year. These programs would benefit from a standard budgeting process for UC and the freedom for UC to make its own decisions about commitments.

Regent Pattiz stated that the National Laboratories also have unfunded mandates. This matter deserved very close attention. The University pursues research of great importance; when it begins projects, it wishes to finish them. The University should also examine whether there are programs it should discontinue.

Regent-designate Feingold requested an estimate of cost of the State-mandated programs, as a range. Mr. Lenz responded that this cost was in the $30 million to $50 million range.

Mr. Brostrom then discussed possible changes to the University's health and welfare benefits. In the current year, the University was spending $1.6 billion on health and welfare benefits for current employees and retirees. In addition, UC was contributing $800 million to the UC Retirement System. The University is studying this area and had managed to save $90 million in the last two years through a variety of measures: introducing a new, narrower network for UC's Health Net program, participating in the federal government's early retirement reinsurance program, and implementing a family member verification program. The University anticipates $50 million in additional savings through further measures, and is trying to reduce by half the rate of growth of its health and welfare benefit costs.

Mr. Brostrom outlined the further measures being reviewed. One is a self-insured health plan through UC's medical centers; this would lower UC's cost for health insurance and keep money in house. The University is also examining its standing in health benefits relative to its counterparts. UC is above market in this area, which has given it the ability to attract and retain faculty and staff. If UC could reduce costs, it could direct more funding to faculty and staff salaries, where it is below market. The University had carefully examined the Governor's pension reform. UC is in compliance with the Governor's plan and ahead of it in many areas, but the new legislation would warrant a reexamination of UC's new pension tier and retiree health benefits to align with the State. Mr. Brostrom emphasized that any savings garnered in the area of health and welfare benefits would be direct savings to the University's core budget.

Regent Makarechian asked about the benefit plans of UC's comparator institutions and about UC's ability to compete with them. Mr. Brostrom responded that of UC's 26 comparator institutions, few have defined benefit plans. Most of the University's competitors, including Stanford, Harvard, and other elite universities, have generous defined contribution plans. These universities contribute more as part of their normal cost than UC contributes into its defined benefit plan; however, UC retains the risk of performance, and faculty and staff benefits will be paid regardless of circumstances. Under a defined contribution plan, a university makes a contribution of about eight or ten percent, while the plan member takes on the risk of plan performance.

Regent Makarechian identified this as a challenge for the University. Universities like Stanford manage a system like a 401(k); the university's contribution level can change from year to year based on the university's ability to pay. UC has an obligation to pay a fixed amount in future years. He asked how the University might change this. Mr. Brostrom recalled that the Regents and the University recently took measures to adopt a new tier in the pension system, which significantly reduced the employer's normal cost. The most outstanding concern for the UC Retirement Plan is its unfunded liability. Even if the University froze its defined benefit plan and moved to a defined contribution plan, it would still have to make payments for that liability. Changing to a defined contribution plan would not reduce the University's operating expenses. Regent Makarechian concurred with the last point, but warned that the liability would only continue to grow if this problem were not addressed.

In response to a question by Regent Kieffer, Mr. Brostrom recalled that the President's Task Force on Post-employment Benefits, which recommended the new UCRP tier in fall 2010, had also recommended that the University maintain its defined benefit plan as a strategic advantage for the retention of faculty. The task force report also contained a recommendation that a defined contribution plan might be more appropriate for certain workforce segments, such as clinical enterprises employees. The Governor's pension legislation, being signed that day, followed the defined contribution plan model and resembled the new UCRP tier.

Regent Kieffer asked about the status of a UC move to a defined contribution plan and the advisability of such a move. Mr. Brostrom stated his view that the University should maintain a defined benefit plan as its core plan. UC should continue to consider a defined contribution plan for certain employee populations, for whom this reflects the competitive market environment and for whom a defined benefit plan, which requires five years of vesting, might not be advantageous. He reiterated that such a shift would not address the unfunded liability of the UCRP. The University has a continuing obligation to fund the UCRP. It had been a mistake to leave the UCRP unfunded for almost 20 years. If the University had begun funding the UCRP five or seven years earlier, it would not find itself in the current predicament.

In response to a question by Regent Ruiz, Mr. Brostrom responded that the UCRP was 83 percent funded with regard to market value and 78 percent funded in actuarial value. The level of funding would be reported at the November meeting. Contributions to the UCRP were currently not covering the normal cost. The following year's contributions would be the first above the normal cost and would begin to address the unfunded liability. The funding status of the UCRP was relatively good, compared to other pension plans.

Regent Schilling emphasized that this is an essential problem that the University must address. She requested the chancellors' or campus viewpoint on this issue. She noted the difference between defined contribution and defined benefit plans and the fact that UC's defined benefit plan has been described as UC's only competitive advantage, because UC is not able to pay current market-rate salaries. If the University achieved cost savings by moving to a defined contribution plan, it should ensure that some or all of those savings be applied to competitive market-rate salaries. The University was in the process of recruiting a chancellor for the Berkeley campus, and it was exercising caution to not raise the proposed salary to market level.

Chairman Lansing stated that the University has always wished to preserve the quality of its faculty. The Regents would never jeopardize that goal. The current discussion was focused on increasing efficiency, which would provide capital for student financial aid and for competitive faculty salaries.

Regent Schilling stressed that UC must move quickly. The last major decision taken regarding the retirement system had taken three years to implement due to collective bargaining.

Mr. Brostrom observed that a shift from a defined benefit plan to a defined contribution plan would not generate any operating savings. The University's normal cost, from the employer standpoint, was less than its competitors'. The shift would transfer the risk from the University. The source of immediate savings would be actions taken on health and welfare benefits. In this area UC is above market. Any amount taken away from employees, faculty, and staff would have to be restored in salaries. UC could reduce its contributions for spouses, dependents, and part-time employees, which would generate meaningful savings, but this would take away from faculty and staff.

Regent Schilling asked when the administration could present a definitive plan. Mr. Brostrom responded that such a plan is in development. This and future options, including a self-insured health plan, could be presented at the next meeting. There would be two distinct plans: one for health and welfare benefits, and a discussion about a self-insured health plan.

Regent De La Peña expressed support for a self-insured health plan. He cautioned that when health care reform requirements go into effect in 2014, it was possible that UC's medical centers would not be as profitable as they had been. The possibility of loss should be taken into account. It would be even more important from 2014 onward to consider self-insurance to avoid loss.

Mr. Powell stressed the need for competitive faculty and staff salaries. He asked that the Office of the President be mindful of total remuneration for faculty and staff when it implements changes.

Regent-designate Schultz referred to the University's use of comparator institutions for benchmarking. He asked if the University compares itself to companies as well as to other higher education institutions. Mr. Brostrom responded that the University uses different comparators for faculty and staff. It compares itself to other academic institutions for faculty salaries and benefits, but takes a broader range of California employers into consideration for comparisons of staff salaries and benefits.

Regent Makarechian asked if the University is able to recruit faculty at lower salaries than universities such as Stanford due to UC's generous pension plan. If this is not the case, he asked why the University would not consider changing to a defined contribution plan. Mr. Brostrom responded that UC faculty salaries are most convergent with the salaries offered by other institutions at the time of hiring, because it is hard to hire a faculty member at a substantially lower salary than a competitor. A divergence between UC and other institutions' faculty salaries occurs soon after hiring, however. The widest gap occurs six to ten years into a faculty member's career, at the associate professor stage. The University has found that the value of the defined benefit plan increases in mid-career. At this stage the defined benefit plan helps to reduce the salary gap.

Regent Kieffer asked to what extent UC examines the boards of trustees of other public institutions in the U.S. UC has experienced greater financial distress than other public institutions, but all State institutions of higher education have been affected by State budget cuts. He asked if the University was examining what other boards were doing to address long-term problems in a similar funding situation. Mr. Brostrom responded that UC is involved, both its campuses and as a system, with a number of national consortia which examine best practices. He observed that representatives of different university systems are willing to share insights and information; this is not typical for private industry. Colleagues at Stanford, for example, have shared information about the implementation of a new payroll system.

Regent Kieffer requested information on other boards' financial and conceptual deliberations, and on how they are placing themselves in the future of higher education in an environment of State budget cuts. Based on his experience at UC and with the California Community Colleges, he observed that there is sometimes a perception that all answers have been found in California. He stressed that there are several boards of trustees across the U.S. now facing the same challenges, including the reduction of academic programs or the differential development of campuses.

D. ***Enrollment, Tuition, and Financial Aid Strategies***

Mr. Brostrom next discussed nonresident enrollment. For the upcoming fall quarter or semester, slightly more than eight percent of UC's undergraduate students would be from abroad or from another state in the U.S. This number had increased over the past several years. Nevertheless, UC has a substantially lower proportion of out-of-state undergraduates than any other Association of American Universities (AAU) institution. In fall 2011, the total aggregate enrollment of nonresident undergraduates at AAU public institutions was 26 percent; the corresponding total aggregate enrollment at private institutions was 75 percent. UCLA and UC Berkeley have the highest percentages of out-of-state students, but other campuses have seen more dramatic growth recently. For the coming term, there would be an estimated year-over-year increase in nonresident freshmen of about 3,000 students, from less than seven percent to about 8.8 percent of the total undergraduate population. The greatest percentage growth would be at UC Irvine, UC San Diego, and UC Santa Barbara.

From a financial perspective, every 1,000 full-time out-of-state students enrolled at UC generate an additional $23 million at current tuition levels. The University has always maintained the commitment that these students would not displace State-funded California resident students. Using the State's definition of an appropriate funding level, UC has more than 24,000 students for whom it receives no State funding. UC could double its number of nonresident undergraduates and still comply with its commitment to enroll California resident students.

Another area of concern is quality. The Academic Senate has advised that nonresident students should compare favorably with California residents as enrollment demand increases. The UC Commission on the Future recommended a ten percent limit for nonresident undergraduate enrollment. Mr. Brostrom observed that the University would reach this ten percent limit in the next year or two if the current trajectory continued.

Regent Stein stated that in the 2011-12 academic year, 30 percent of admitted California students were from underrepresented communities. Only 11 percent of students admitted from out of state came from historically underrepresented communities. UC's nonresident students are considerably less diverse. If UC continued to use out-of-state enrollment as a way to address its budget deficit, the University would become less diverse. Regent Stein stated his wish for a more nuanced approach to this proposal. He suggested that UC might use nonresident enrollment to address the budget gap while State funds are lacking, but enact a policy or process to reduce the percentage again when UC no longer needs nonresident enrollment for this purpose. He suggested that there might be a ten percent systemwide limit but a 20 percent limit at any given campus. Currently UC was not displacing California residents, but it was becoming more and more difficult for in-state students to gain admission to the Berkeley, Los Angeles, and San Diego campuses. He asked if UC had ever considered different systemwide and campus limits.

Mr. Brostrom recalled the numbers of unfunded resident students at UC and asked how this was related to Regent Stein's first point. UC takes on many more students than the State provides funding for. The University has a commitment not to displace any California resident students for whom it has funding. Regent Stein stated his view that the University should not set its goals for resident student enrollment based on what level the State is willing to fund. The University should avoid displacing resident students based on the current number of resident students at UC. To reduce the number of California resident students at all, including those not funded by the State, would be to displace California residents. Mr. Brostrom responded that, in the past year, the University maintained the same number of California resident undergraduates, while enduring a $750 million unallocated cut. The University cannot maintain the same number of students, absorb a reduction of that magnitude, and not experience a negative impact on its quality.

Regent Island expressed strong opposition to nonresident enrollment as a budget solution, describing it as an unwise public policy. UC may have a far lower percentage of nonresident undergraduates than the University of Michigan, but this comparison ignores the differences in the two states' needs to educate their student populations. Percentages of Latino and African American students at UC are far lower than their percentages among California high school graduates or the general population. The University was denying access to UC-eligible students in pursuit of revenue from out-of-state students. Domestic out-of-state students come mostly from Arizona, Oregon, and Washington and do not bring diversity to the institution. Regent Island stressed that the University's mission is to educate Californians. California taxpayers have invested billions of dollars in the University over its history. A California resource was being sold to the highest bidder, and the University was displacing eligible California residents, an action that would cause it to lose the support of taxpayers and voters. Regent Island praised the University for accommodating 24,000 unfunded resident students but cautioned that eliminating them in the long term would not be a good public policy. He also warned that there would be increasing discontent among admitted students and their families when admission was not offered to the student's campus of choice.

Regent Ruiz expressed support for nonresident student enrollment but emphasized that it should not displace California residents or take away their opportunity for a UC education. This matter needs to be managed strategically, with attention focused not only on financial gain. Mr. Brostrom responded that as campuses have increased the numbers of nonresident students, California freshman enrollment has increased as well. He concurred that the University must be attentive to enrollment trends.

Regent Makarechian referred to Regent Island's comments and observed that the University's mission was defined at a time when there was adequate State funding. He stressed that foreign students who come to UC can and do contribute to the State of California. He presented his own experience as an example, noting that he came to the U.S. as a foreign student in 1962.

Regent De La Peña recalled that about two years previously, the number of unfunded California resident students was approximately 11,400. He asked how that number had increased to 24,000. He expressed support for nonresident enrollment to help pay for unfunded resident students and observed that as many as 50 percent of nonresident students then decide to remain in California, which brings some advantage to the state. Mr. Brostrom responded that the growth in the number of unfunded students was due to State budget reductions to the University, totaling almost $1 billion. The University is still using the State's definition of an appropriate funding level per student, which does not correspond to the real cost of educating a student.

Regent Pattiz emphasized that UC is the finest public research university in the world and an international university. UC faculty and students come from around the world. UC does an exemplary job of ensuring that California students are a significant part of the institution at a time when the State is neglecting its responsibility and not providing the necessary funding. The University should continue this effort, but it might have to broaden its scope to remain economically viable. Students from other states of the U.S. bring a different kind of diversity to the University. Regent Pattiz expressed support for nonresident enrollment, if it provides support for UC.

Regent Rubenstein asked why the University did not offer the opportunity to in-state students to pay the sum equivalent to that paid by nonresidents in order to educate more California students. Mr. Brostrom responded that this idea has often been suggested to the University. He observed that taking such an action would in fact be creating a second tier of admissions, and he knew of no public university that has done so.

Regent Rubenstein stated that the University should consider this idea. The University needs public support, and the public would react favorably if UC could announce that it was admitting more California students. Mr. Brostrom responded that UC should publicize the fact that its California resident enrollments are actually growing; nonresident tuition has enabled the University to maintain California resident enrollment levels. He recalled that CSU reduced its enrollment by 30,000 California students. UC is able to maintain and even increase its California resident enrollment due to the financial resources provided by nonresident tuition. Regent Rubenstein stated that UC could accomplish this if some number of California resident students were willing to pay the appropriate level of tuition.

Faculty Representative Jacob stated that the Academic Senate's Board of Admissions and Relations with Schools (BOARS) determines UC admission criteria, but not enrollment targets. BOARS closely examines California public high school graduate outcomes; in the current year there were approximately 400,000 graduates. Of these graduates, 54,000, or more than 13 percent, received an offer from UC to attend the campus to which they applied. In this respect, the University is meeting its obligations under the California Master Plan for Higher Education, and it is to the credit of UC's leadership that UC is still able to do so. Competition for admission to UC Berkeley and UCLA is stiff, with more qualified candidates than the campuses can admit, and Mr. Jacob acknowledged that there is discontent about not being admitted to one's campus of choice. At six campuses, admission is through holistic review, a single-score, individualized review. The University examines the applicant's accomplishments in the context of opportunity and is striving to improve diversity. The University is meeting its obligation to the State and UC faculty wish the University to continue to meet this obligation. Mr. Jacob stated his view that the suggestion of differential tuition for wealthier California residents would pose a tremendous problem of equity and would not likely be approved by UC faculty. Even if the idea had support, implementation would be extremely complicated. Currently, application review is needs-blind and residency-blind, the fairest, most equitable approach.

Regent Newsom expressed his view that the University would be on an appropriate trajectory if it maintained a framework of access for both Californians and nonresidents alike. Raising the systemwide limit for nonresident enrollment to 20 percent would probably be excessive. He stressed that UC must make itself attractive in a new, hyper-connected world environment.

Regent Kieffer stated that UC's commitment to offer admission to a certain percentage of California high school graduates was made at a time when the State made a commitment to cover the cost of education. Education was viewed as a public benefit. The situation has since changed radically, and the public now, rightly or wrongly, sees education more and more as a private benefit. He expressed support for broadening UC admissions for out-of-state and international students, not only for financial reasons. It was a question of achieving an appropriate balance and retaining the confidence of the Legislature and the public. Regent Kieffer observed that piecemeal discussions sometimes fail to put the University's situation in a new context. UC has an obligation to educate California's citizens, but it also has an obligation to build the state for the future, which requires broad recruitment of talent. UC Berkeley and UCLA are international universities, while the other campuses are national universities. The University must arrive at a new framework and new goals. Currently it was operating under outdated assumptions, using outdated language.

Mr. Brostrom then discussed possible changes to UC's financial aid model. He outlined three essential goals. The first was to continue to meet the needs of low-income students. In this area UC has distinguished itself from both private and public comparator institutions, but this effort would grow increasingly expensive in the next several years. The second goal was to reduce the financial burden on middle-income families. The greatest burden of the tuition increases of the past several years had fallen on the middle class. The percentage of family income required to support a UC education is highest at income levels between $100,000 and $120,000; these are students who do not qualify for State or federal aid, and receive little institutional aid. The third goal was to identify and develop fund sources other than return-to-aid to meet financial aid needs. Given UC's goals, its financial aid program would need to be augmented above and beyond the 33 percent in return-to-aid the University has used historically. UC needs to develop every revenue source, including corporate fundraising, campus fundraising, and asset management. The University's efforts would not only meet the needs of low-income and middle-income students, but would also moderate tuition levels for all students.

Senior Vice President Dooley reported that the University had achieved nearly unprecedented numbers in philanthropy for the fiscal year ending June 30, 2012, well over $1.5 billion. The campuses were doing extraordinary work in fundraising. Project You Can, a student aid program launched about three years previously, has received $501 million in cash and pledges. The project was well on the way to achieving its goal of $1 billion. The University has begun an outreach and communications program and a business partnership program called Onward California. A public launch of the program was planned for the first quarter of 2013 with five to ten significant corporate partners. The University was close to receiving commitments from a number of companies. Recent discussions had been especially productive and encouraging. The University has initiated a novel idea, a Facebook-generated fundraising campaign, to be launched in late January or early February 2013. This effort has a $10 million target. Mr. Dooley concluded that the goal of the efforts he had described was to provide financial aid for middle-income students.

Chairman Lansing emphasized that the University has been making a significant effort to secure financial aid for students from middle-income families through corporate and other philanthropy. She expressed optimism about the use of Facebook and other social media in this effort.

Mr. Dooley noted that UC's efforts to generate private support would facilitate the restructuring of how UC manages student support, and would lead to greater flexibility in UC's management of discretionary fund sources.

Regent Newsom requested a list of corporate contributors to the University, and a chart comparing past and present contributions. Mr. Dooley responded that not all corporate or large donors to UC wish to be recognized. He recalled that the Office of the President had provided the Board with a list of the ten top corporate donors for each campus for the previous three years. Chairman Lansing observed that some donation agreements were in process.

Regent Newsom emphasized that California's business community should take a more active role in promoting public education. Human capital is a top priority for business.

Regent Stein expressed support for the Facebook campaign. He asked if Project You Can was meeting expectations. Mr. Dooley responded that the project was almost exactly on schedule. He recalled that Project You Can resulted from a negotiation by President Yudof with the campuses. Previously the campuses had independent student aid fundraising efforts, totaling slightly less than $800 million. The campuses agreed to a collective effort with a goal of $1 billion.

Regent Stein praised the University's return-to-aid policy, which he stated makes the University into an engine of social mobility for California. He stressed that the University should be cautious about replacing some return-to-aid funds with private philanthropy. Many donors direct their gifts to specific campuses. Some might provide funds for financial aid at UC Berkeley or UCLA, while the greatest need for financial aid might be at UC Riverside or UC Merced. Regent Stein stated that it was still not certain if corporate donations to the Office of the President, to be used as needed, would be effective. He emphasized that UC should only reduce the 33 percent in return-to-aid after enough funds have been raised from private philanthropy to make up the difference. Mr. Brostrom responded that the University would need more than the current 33 percent in return-to-aid to meet student financial aid needs and to expand financial aid for middle-income students, that the University has no intention of reexamining the expected level of student self-help, and that the actions being discussed must be part of a permanent solution, not a one-time effort.

Mr. Brostrom discussed strategies regarding differential tuition, by either campus or discipline. These strategies had been discussed extensively by the UC Commission on the Future. Mr. Brostrom stated that differential tuition plans were not ripe for UC at the current time for several reasons. Most campuses have adequate room for tuition increases without reducing demand. In other systems where differential tuition had been implemented, there tended to be a large gap in quality between one flagship campus and the systems' other campuses, whereas all UC campuses are of high quality. Even if differential tuition by campus were implemented, Mr. Brostrom noted that every campus could raise its tuition to the highest possible level, and then achieve its goals through discounting, which he said was already the practice with UC's nonresident tuition policies. Differential tuition by campus could also have an effect on UC's financial aid strategies. Since the State did not recognize differential tuition, it would possibly fund only to the lowest tuition level or an average, resulting in a disproportionate burden for students. Given these cautions, Mr. Brostrom noted that differential tuition was being practiced by other systems and it could be reevaluated by UC over the upcoming several years.

Mr. Smith asked whether nonresident tuition could be increased. Mr. Brostrom expressed his view that the current levels of nonresident tuition were close to the limits that the market would bear. Mr. Smith stated that it might be possible to increase nonresident tuition levels, given the degree of interest in UC. Mr. Brostrom responded that the current fall would be an opportune time to examine this question, since demand from nonresident students was high during this admission cycle.

Regent-designate Schultz pointed out that subsidies already existed within the UC system, but that some of them were more transparent than others. For example, the subsidizing of resident tuition by nonresident tuition was transparent. He asked for information about other existing subsidies that were less transparent. Engineering and physical sciences were more expensive to teach than the humanities, so tuition from humanities students would subsidize those more expensive departments. Mr. Brostrom agreed that this information about the actual cost of education was important, and had been examined by some campuses.

Regent-designate Flores reported that students were opposed to differential tuition, by either campus or discipline. Differential tuition by discipline would affect diversity because certain disciplines would be made more expensive and therefore less accessible for low-income students. Mr. Brostrom noted that it would be important to differentiate the published price of tuition as compared with the amount that students would actually pay. Mr. Brostrom said that if tuition were raised, and the amount allocated to return-to-aid were increased, the number of students who pay no tuition could be increased.

Regent Gould agreed that financial aid must be an integral part of any discussion of differential tuition. If the quality of a UC education was threatened, differential tuition should continue to be evaluated, along with ways that financial aid would be involved. Support for UC campuses that did not charge higher tuition could be used to help build their programs and capacity.

E. ***Academic Considerations***

Ms. Dorr presented ideas for using academic strategies to help address UC's budget gap. She noted that unallocated cuts have been absorbed by the campuses for years to address large budget deficits. The Office of the President has also taken unallocated cuts. Ms. Dorr explained that academic strategies generally would take time and could be difficult to implement; the benefits might accrue to UC students and their families, rather than to the University.

Ms. Dorr enumerated some academic strategies that could decrease students' time to degree. Incentives could be provided for early degree completion, with possible disincentives for delayed completion. Limits could be established for the number of units students could accrue at UC, or the number of units required for any major. More credit could be offered for learning outside of the classroom. Course units could be adjusted so that fewer courses would comprise a full-time load. In response to a question from Regent Pattiz, Ms. Dorr added that credit for learning outside of the classroom could include internships and online learning.

Regent Makarechian asked how these proposals would be implemented, given that many students currently have difficulty enrolling in necessary classes. Ms. Dorr responded that some proposals would include offering classes at more times, for instance in the evening or during the summer. Technology could be used to transmit lectures into additional classrooms enabling larger enrollment. Students could also be given more credit for academic work done either in high school or at another university where appropriate.

Regent Varner expressed his view that improving communication between UC and the community colleges to improve articulation should be a high priority. Ms. Dorr added that many high school seniors are ready to take courses that could earn college credit.

Chairman Lansing cautioned that proposals such as changing the number of credits for courses could diminish the quality of a UC education, if students did not take as many courses as they had previously. Ms. Dorr noted that faculty would be involved in any decisions regarding academic programs, and would insist on maintaining the quality of a UC education.

Ms. Dorr stated that Regent Stein and Regent-designate Flores had suggested requiring campuses to offer more courses in the evenings, on weekends, and during summers, and using dynamic pricing to incentivize students to take classes at unconventional times. They had pointed out that campus physical plants are unused for many hours of the week. Offering classes at unconventional times could help decrease students' time to degree and ease crowding in classes offered at conventional times. Chairman Lansing expressed support for this proposal.

Regent Pattiz asked about the role of online learning, which could also provide students with scheduling flexibility. Ms. Dorr agreed, and recalled that President Yudof had initiated an online education initiative to explore online learning both for UC students and for students who have not matriculated into the UC system. She added that many campuses currently use technology in their course offerings. Much more could be accomplished in this area, while still maintaining the benefits of a residential campus.

Chairman Lansing asked Ms. Dorr for a report on the status of the development of online education at UC, as a follow-up to the pilot program. Ms. Dorr said that the campuses should be canvassed to determine what they have done to develop online programs. Regent Stein asked that the report include evaluations of the educational experience by faculty leading the online classes, students taking the courses, and graduate students serving as teaching assistants for the classes.

Regent Ruiz expressed his view that, since the community colleges are also under pressure to increase their efficiency, UC should prepare for an increase in the number of transfer students. Ms. Dorr agreed on the importance of enabling transfers from community colleges and noted that campuses have articulation agreements with community colleges. She agreed that this should continue to be an area of focus, particularly given current funding circumstances.

Regent Gould expressed his support for implementation of any proposals that could decrease students' time to degree, since that would effectively lower student costs.

Regent Pattiz stated that UC should take advantage of technology, particularly since students were comfortable with that platform. Using technology would also further the University's goal of increasing access.

Regarding transfer initiatives, Mr. Jacob recalled that State legislation had been passed creating Associate in Arts (A.A.) and Associate in Science (A.S.) degrees for guaranteed transfer admission to the California State University. In June, UC put in place its version of this transfer path, which would take several years to be fully implemented. By 2015 transfer applicants would be evaluated by their major preparation, a big step in facilitating these students' flow through UC. Transfer applicants who have completed these A.A. and A.S. degrees would have a direct path to UC, with no further requirements. Faculty and administrative work supported by adequate funding would be necessary to implement this improvement.

Regent Stein expressed support for Regent Gould's comments and noted that many campuses already make use of the proposals discussed to shorten students' time to degree.

Regent Makarechian asked whether UC would accept credits earned through other universities' online course offerings. Ms. Dorr said that idea was feasible.

Mr. Powell stated that there was Academic Senate support for developing online courses that could be used at all UC campuses to fulfill academic requirements. This would require development of the courses from both a pedagogic and a financial perspective. He recalled that in the early 2000s, the State provided funding to make summer sessions a regular quarter; many new summer courses taught by ladder-rank faculty were offered. However, recent budget cutbacks have forced campuses to have more courses with large enrollment, and summer school offerings have suffered. He noted that it would be productive to add gateway upper division courses to summer sessions, since increased availability of these courses would also decrease students' time to degree. He stated that he and Mr. Jacob would meet with Regent Stein and Regent-designate Flores regarding some of their suggestions that would fall under the purview of the Academic Senate for reducing time to degree.

Chairman Lansing asked how many online courses UC currently offered. Ms. Dorr responded that in addition to the UC Online initiative, the campuses would have to be canvassed to determine what online programs they have developed.

Regent Island asked whether UC students could take a class at another UC campus to fulfill requirements. Ms. Dorr stated that several strategies would take advantage of UC's systemwide capacity and strengths, and that much improvement could be made in this area. Course credit and tuition agreements would have to be worked out to expand educational opportunities for UC's undergraduate and graduate students. Time to degree and duplication in areas of specialization could be reduced. Regent Island asked what impediments existed to implementing cross-campus awards of course credit. Ms. Dorr responded that, on an individual basis, gaining course credit for a course taken at another UC campus was fairly easily accomplished, but it would require more work to implement on a systemwide basis. Campuses would have to be comfortable that this process would fit within their academic programs and would not result in a loss of revenue. She emphasized that all the academic strategies would have a variety of bureaucratic and financial components.

Ms. Dorr noted that the medical centers have collaborated to make use of their different fields of specialization. Chairman Lansing brought up the related issue of campus specialization, so that each campus would not need to be all things to all people. Chancellor White stated that the Board must also consider that in the Hispanic community, for example, families might be reluctant for their students to travel far from home. Many Riverside students would not attend UC if they could not attend the Riverside campus. Chairman Lansing said that she would like to have more information about campus specialization. Ms. Dorr said that another possibility would be for a student to live on one campus, and take specialized courses from another campus.

Ms. Dorr mentioned another academic strategy involving the increased use of teaching faculty. Students report that some of their best teachers, particularly in undergraduate programs, were not ladder-rank faculty, but were instructors, lecturers, or adjuncts. UC could determine where it would be appropriate and cost-effective to increase the use of teaching faculty.

Regent Island stated that using teaching faculty, if used in addition to ladder-rank faculty, could increase costs. Ms. Dorr stated that teaching faculty were already used in addition to ladder-rank faculty; this proposal would examine increasing and stabilizing their usage, which she thought could save money if balanced correctly. Chancellor Drake added that using teaching faculty could increase the quality of teaching. He noted that in higher education, faculty were hired and promoted based on their research and writing, not on their teaching ability. Students could benefit from having better teachers. Ms. Dorr noted that the requirements for teaching and student advising for ladder-rank faculty were increasing because of budget problems. Using teaching faculty could be a way to balance ladder-rank faculty’s other obligations and allow more time for research.

Regent Kieffer asked what faculty were included in the student-faculty ratio. Ms. Dorr responded that faculty are counted differently for different ratios, in some cases including all positions that were designated as faculty positions, whether they are filled by ladder-rank faculty or not; in other cases all filled positions were counted; and in still other cases only positions filled by those actually working on campus were counted. Regent Kieffer expressed his support for further exploration of the proposal to increase the use of teaching faculty.

Regent-designate Feingold stated that having permanent teaching faculty would serve the goal of educating undergraduates and asked how that could be encouraged on the campuses. Ms. Dorr responded that implementation would require the endorsement of the Academic Senate, and would have to be based on the campuses, as something that the campuses valued. Ms. Dorr stated that her office could facilitate or encourage strategies.

Chancellor Blumenthal agreed with Ms. Dorr that the strategy of increasing the use of teaching faculty was worth pursuing. However, he cautioned that, to the extent that UC converts a number of ladder-rank faculty to teaching faculty, it would decrease the University's research function. UC is a research university. Teaching faculty would not bring in research grants or win research prizes. A research university, such as UC, is based on the philosophy that there is a close relationship between the teaching and research function. What makes UC unique is that its faculty both conduct research and teach. He cautioned that using more teaching faculty would not be a panacea for the University's problems.

Regent Kieffer stated that, if the number of research faculty could remain the same, and teaching faculty could be added, that could be helpful, and would not hurt UC's student-faculty ratio.

Ms. Dorr expressed her agreement with Chancellor Blumenthal's comments and noted that her highest priority was to maintain the University's status as a research university, meaning that faculty would teach and carry out research.

Regent Stein stated that the *U.S. News and World Report* rankings had just been published and UC had six of the top twelve public universities in the nation. Ms. Dorr stated the rankings contained in the Annual University of California Accountability Report showed that different UC campuses excel depending on what criteria were used. The older campuses tend to be rated better than the newer campuses, showing a clear relationship between rankings and age.

Regent-designate Schultz asked why the slides displayed indicated that many of the academic strategies would add little financial value. Ms. Dorr explained that the financial value would be difficult to model, particularly initially. At this point, it was unclear how or on what scale the strategies would be implemented.

F. ***Other Potential Strategies***

Mr. Brostrom then briefly outlined other potential strategies, noting that some would take a long time to implement, would provide minimal savings, or by their nature contradict the values of the University. One strategy that the University is not pursuing would be to reduce enrollment. Enrollment at UC has increased in spite of financial pressures. UC has admitted more nonresident students, and the tuition they pay has helped the University to maintain California resident enrollment. Reducing enrollment would generate cost savings only over a long period. He noted that the University is actively engaged in improvement of technology transfer.

Mr. Brostrom indicated that another idea, cohort-based tuition, would be applicable in a stable funding environment. Under this concept, undergraduate students would enter the University at a certain tuition level, and this level would be guaranteed to grow only at the cost of inflation during the student's four years at a UC campus. Currently there was instability in funding. If the University stabilized one cohort of students, it would likely have to increase tuition for the following cohort.

Furloughs or salary reductions are another strategy. The last time UC implemented this approach it proved to be very difficult, largely because of the wide array of UC's fund sources. Employees paid from medical center revenues or research contracts and grants were exempted. The process was demoralizing because of questions of equity that arose on the campuses. The furlough program achieved one-time rather than permanent savings.

Finally, Mr. Brostrom mentioned a strategy that he described as a radical extension of differential tuition. If the State were to make even more dramatic cuts than were currently contemplated, and if Proposition 30 failed in the November election, the University could absorb the entire State reduction on only two or three campuses, but grant those campuses more flexibility regarding their level of tuition or nonresident enrollment. Essentially, this would reduce funding per student on those campuses and allow them to make up the difference with other means. Mr. Brostrom stressed that this was not an approach that the University would recommend or endorse.

Regent Pattiz stated his view that enrollment reduction, by itself, would not lead to savings. Enrollment reduction with a commensurate reduction in fixed costs would save money. There are obstacles to reducing costs. For example, debates about the tenure system would be contentious. The tenure system is an impediment to reducing costs but it also contributes to the University's reputation. He asked that the administration present, perhaps at the next meeting, further, more developed scenarios showing what the results would be of implementing some of the suggestions being discussed, along with a lowering of UC's cost base. Mr. Brostrom responded that 70 percent to 75 percent of UC's cost base is personnel. Many of the University's fixed costs are not marginal costs. The institution of tenure makes costs much more fixed at UC than they would be in a traditional company.

Chancellor Katehi observed that the University is different from any other business. The University's costs come from faculty, staff, and infrastructure. The University could not reduce the number of its faculty without compromising its quality. Accreditation is very important. As an intellectual exercise, the University could contemplate reducing the size of the institution, beginning with students, then faculty and staff, but it would not find a point of stability in reducing costs, a point where costs would be low enough to justify reduction, until the institution had become much smaller than desired. The cost of an institution in relation to its size does not proceed in a simple curve but through plateaus. Chancellor Katehi identified these plateaus as areas of financial stability and quality. This exercise would show that if one reduced UC Davis to a point where cost would be well below income, the campus would be reduced from 25,000 students to about 10,000 to 12,000 students. Reducing the University would not be an easy way to reduce costs. Regent Pattiz stated that this argument needed to be supported by further data.

Chairman Lansing emphasized that the strategy of improving technology transfer, while a long-term strategy, must begin immediately. The University should have a sense of urgency about implementing long-term strategies if they are ever to produce results. She requested a report at an upcoming meeting on the progress of the University's technology transfer program.

G. ***Quality of the University***

Ms. Dorr affirmed that the University's vision for itself is that of a public university, a world-class research university, on every campus. The State of California is large enough to merit ten world-class research institutions of higher education.

UC needs sufficient resources to employ outstanding ladder-rank faculty and staff, recruit and educate outstanding undergraduate and graduate students, engage in robust programs of research, scholarship, and creative activity, share its expertise and resources with the people of California, and provide the infrastructure necessary to support this.

State funds are the most important source for paying faculty salaries. The problems UC experiences due to State funding reductions are exacerbated by unfunded cost increases, the most obvious being employee benefits and employer contributions to the UCRP.

Ms. Dorr provided an example from her own experience as dean at UCLA of planning for one small department. In 2011-12, this department had two assistant professors, three associate professors, and six full professors. The department had already given up faculty positions during earlier budget cuts, and had recently cut all regular funding for lecturers. Due to cost increases, within five years, this small department of 11 faculty would be reduced to eight or nine faculty, or as low as four or five, if it uses its resources to cover benefit costs, retirement costs, and faculty merit increases. All the campuses are facing situations like this one. Tuition and fees have replaced some of the lost funding but have not closed the gap, and they cannot do so. In dealing with budget reductions, it is appropriate for campuses to make individual decisions, because they are in different stages of development and operate differently.

Regent Makarechian asked if the possible reduction in faculty numbers described for the small department at UCLA was typical for all UC. Ms. Dorr responded that if there is no new funding, costs continue as projected, and merit increases remain unfunded, UC resources would be directed to costs other than salaries. Mr. Brostrom added that the UCLA department scenario was a microcosm of the University's overall predicament in that it faces $3 billion in new expenses in the next five years. This represents much more than inflationary growth, primarily due to the cost of post-employment benefits. The University's long-term plan to address this is through reducing expenses, raising new revenue, increased State funding, and a stable tuition plan.

Ms. Dorr noted that over 180 academic and administrative programs have been eliminated or consolidated. Cuts to academic and administrative units have reached as high as 35 percent in some instances. The proportion of graduate students to undergraduates has not grown as it should have and lags behind other AAU institutions. Undergraduate student satisfaction indicators are still high, but lower than they used to be, which suggests degradation in quality. There were more faculty separations in 2010-11 than there were hires, while enrollment is growing. She discussed a chart showing the increase in UC's student-faculty ratio from the 1960s to the present, from 14-1 to 17-1 to 21-1 at present.

Chairman Lansing believed that a return to a student-faculty ratio of about 16-1 was not a realistic possibility. She asked what the upper limit of the student-faculty ratio would be, after which quality would deteriorate. She also asked about the average number of hours that faculty teach. Ms. Dorr responded that it was impossible to determine an exact upper limit for student-faculty ratio while maintaining quality, but stressed that the growth in the ratio was worrisome. She provided student-faculty ratio figures for private and public AAU comparator institutions which showed that UC is at the high end of the range for its public comparators. She estimated that teaching and advising for graduates and undergraduates take up about 50 percent of faculty time.

Chancellor Yang observed that UC Santa Cruz and UC Santa Barbara do not have professional or medical schools and can be considered general liberal arts universities, but their ladder-rank faculty bring significant funding into the University in federal research grants.

Regent Makarechian asked if online education would increase the faculty workload. Ms. Dorr responded that use of online education and other technologies were meant to help manage the existing workload.

Regent Pattiz reiterated Chairman Lansing's question about the average number of hours faculty teach. Ms. Dorr responded that she did not know the answer to this question. Course loads for ladder-rank faculty at UCLA range from three to seven courses annually, in addition to their teaching and advising of graduate students. She stressed that maintaining the status of a research university entails a lower teaching load than if UC were primarily a teaching institution. When CSU campuses introduced doctoral degrees in some fields, the faculty received lower teaching loads.

Chairman Lansing observed that the University lobbies with businesspeople who understand the nature of the University. She expressed understanding of the fact that faculty research reduces the number of hours faculty can be expected to teach, and that advising and reading student papers takes time. She requested concrete numbers of hours for UC faculty teaching, research, and advising, in order to respond to criticism from legislators or donors that UC faculty are not teaching enough. Chancellor Drake stressed that teaching at the University is different from teaching at a high school. He observed that teaching time spent in the classroom is only one type of faculty effort. Faculty time in the laboratory or operating room typically involves interaction with students, residents, or trainees. Faculty are also required to develop new information, so that the courses they teach are not the same from one year to the next.

Chairman Lansing expressed strong agreement with Chancellor Drake and requested this information in a format that could be used for lobbying purposes. Regent Pattiz observed that Chancellor Drake's summary, combined with total numbers of hours spent in the process of teaching students, would provide a complete statement. Ms. Dorr stated that this information would be provided. She observed that there is variability among faculty and that direct teaching time needs to be understood in context.

Ms. Dorr continued with presentation of data on faculty teaching. Ladder-rank faculty are teaching more student credit hours than in the past. More undergraduate and graduate students per faculty member are completing degrees. This indicates greater ladder-rank faculty engagement in teaching, advising, and mentoring, but this also reduces their time for research. Class sizes are growing overall.

Chairman Lansing stressed that UC faculty are highly competitive compared to other research institutions. This information should be widely publicized.

Regent Ruiz referred to the chart showing the student-faculty ratio over time and asked why the ratio had increased sharply in some years and remained at plateau levels in other years. Ms. Dorr responded that the increases occurred in years when State funding was reduced. Following these reductions, the budget situation improves and the ratio is stabilized, but does not return to its earlier level. Mr. Lenz confirmed that the plateau years represent periods of fiscal stability.

Regent Ruiz noted that the University has in each instance managed to adjust to a higher ratio. Ms. Dorr stated that these adjustments have a cost.

Ms. Dorr explained that UC faculty salaries have been losing ground in comparison to competitor institutions. If UC cannot offer competitive salaries, it will lose faculty and not be able to hire outstanding new faculty. The University can offer competitive salary levels in some cases, but must be able to do so generally. Many faculty retirements are anticipated in the near future, and the caliber of future faculty is a concern. Ms. Dorr pointed out that nevertheless, salary level is not the only important factor in recruiting and retaining faculty. Faculty also care about the quality of their colleagues, a collegial atmosphere, the ability to bring in outstanding new colleagues, the opportunity to build programs, institutional reputation, and the anticipation of a positive future. Faculty care very much about the quality of students.

Many traditional indicators of quality show that UC continues to excel. Graduation rates continue to be among the highest in the nation among public institutions. Time to degree for undergraduates has not declined and remains at very competitive averages for freshman and transfer students. The number of degrees awarded per faculty member is rising. The proportion of undergraduates reporting having a research experience has grown over the past six years, and research funding continues to rise. But UC is also seeing clear indications of deterioration, which is understandable, given the magnitude of funding reductions UC has experienced. Ms. Dorr noted that both UC data and UC's reputation lag behind reality. She concluded that the financial crisis requires difficult choices to preserve UC's quality. The University must close its funding gap and support excellence. Once lost, quality is not easily regained. Choices made at this time about what actions to take or not to take would matter for the future of UC.

Regent Makarechian enumerated many of the problems the University is facing, but noted that it had received positive bond ratings. Mr. Taylor observed that the current funding shortfall can be counterbalanced by the University's strong balance sheet and its favorable cash position. The University is still on solid ground in terms of reputation and day-to-day services provided to students. Rating agencies still have confidence in UC. Mr. Brostrom added that 85 percent of the institution is performing well: medical centers, private philanthropy, auxiliaries, and contracts and grants; the University has suffered for many years now in its core funding, which supports teaching and learning.

Regent Makarechian warned that if solutions were not found for the University's challenges, this would affect its credit rating. Mr. Taylor concurred.

Regent Pattiz asked about the University's ability to accommodate increased student demand in a time of financial constraint and about how the University could use its high status and ranking to create more revenue. He suggested that the University might use a different model of supply and demand for its campuses.

Regent Schilling recalled that UC prides itself on its status as an outstanding research university. She suggested that UC consider greater emphasis on graduate students and researchers, and reduce the number of undergraduates. Ms. Dorr responded that this was an appropriate topic for discussion, including the gains and losses that would result from changing the percentages of graduate and undergraduate students. Mr. Brostrom added that published ratios might be misleading. Elite private universities have small undergraduate populations and their percentage of graduate students is high. UC has a commitment to educate hundreds of thousands of Californians.

Regent Schilling stated that there was no certainty about the future and that the University might no longer have this commitment. Mr. Brostrom responded that educating graduate students is far more expensive than educating undergraduates. A cost model would suggest moving away from graduate students; the University was seeking an appropriate balance.

Regent Varner emphasized that the University must offer appropriate compensation for its faculty and chancellors or risk losing outstanding employees, and that this circumstance must be explained to the Legislature. Mr. Brostrom stated that salary increases had been deferred due to State budget crises. The University needs a robust salary program to address the salary gap.

Regent Pattiz referred to UC's high rankings and observed that if UC has the best product it should seek ways to make its product more available to more people. This would mean a higher cost to attend UC, and higher support for students who cannot afford that cost. Mr. Brostrom responded that the University has examined this model. Tuition should not be thought of as just the sticker price, but the net price a student pays. Some students pay nothing, some pay the full amount, but the average is $4,400. The University could eliminate return-to-aid and reduce tuition by $4,000; similarly, it could increase tuition by $4,000 and increase return-to-aid. This would provide the same amount of operating revenue for the campuses. Exclusive focus on one number was not productive.

Regent Stein emphasized that prospective students focus on the sticker price for a UC education. Messaging to high school students must make it clear that they would not have to pay the published cost. Mr. Dooley responded that, by design, there had been a dramatic transition in UC's messaging to prospective students about financial aid opportunities. UC makes it clear that students from families with annual income of less than $80,000 will pay no tuition.

Regent Stein countered that UC was not sufficiently emphasizing this message. UC must help prospective students overcome a number of barriers to entry before it can focus on net cost. Mr. Brostrom agreed that UC could do more to communicate this message, and that many people do not know how accessible UC is. Yet UC outcomes provide evidence to the contrary. UC has a higher percentage of Pell Grant recipients than any other public university. Fifty-nine percent of the freshman class at UC Merced in the current year were Pell Grant recipients. UC is educating lower-income Californians.

Regent Makarechian referred to the 45 percent of UC students who do not pay tuition and asked how many students this represented. Mr. Brostrom responded that this was a total of about 85,000 students.

Regent Makarechian asked if it would be possible to ask these students to pay the University a certain amount after graduation, when they are working. Mr. Brostrom responded that a similar idea was proposed by students at UC Riverside, according to which students would commit to paying a certain percentage of their income in a tuition payback program. This would probably have to be a federal program.

Regent Makarechian observed that even if these students paid only $2,000 or $3,000 after graduation, the total revenue from 85,000 students would be significant. Regent Island countered that these students do not pay tuition because of poverty and that this reflects a certain public policy. He stated his view that the result of Regent Makarechian's suggestion would not be desirable. Mr. Brostrom responded that UC is trying to engender a culture of philanthropy on all its campuses and to encourage graduates to give back to the University on a voluntary basis.

In response to a question by Regent Pattiz, Mr. Brostrom stated that the cost of tuition times the number of students who do not pay tuition is about $960 million. Regent Pattiz underscored that no one could criticize the University for not providing access to students who cannot afford tuition. He asked if the University has studied the question of how much it could raise tuition for students who can afford it, while not decreasing the number of students able to attend. This might provide additional funding. The University should study this possibility. Mr. Brostrom stated that if tuition were raised in this manner, more financial aid could be provided to middle-income students.

Regent Gould suggested that this model should taper support based on need, rather than simply making a UC education free up to a certain point.

Regent Kieffer asked for a summary of the University's plans for developing its financial aid programs. Mr. Brostrom responded that, considering the impact of tuition increases over the past five years, UC has done a good job of protecting lower-income students. The expected level of student self-help was currently lower than it had been in 2006-07. Those students who have suffered the most are those who do not qualify for federal aid or State aid. For families with annual income between $100,000 and $120,000, a UC education costs about 17 percent of the family income. The University has been studying means, such as corporate fundraising, to provide financial aid for middle-income students. Alternatively, the University could raise tuition and return-to-aid, and raise the upper limit in the

Blue and Gold Opportunity Plan to cover middle-income students. The University must focus not only on tuition but also on the amount of return-to-aid. Mr. Brostrom stated his view that the increased amount of return-to-aid could be replaced with other funds, and the amount returned to the campuses.

Regent De La Peña expressed support for increasing the enrollment of international and out-of-state students to increase tuition revenue.

In response to questions by Regent Makarechian, Mr. Brostrom explained that the University receives federal and State revenue to support its Pell Grant and Cal Grant recipients. Pell Grants and Cal Grants cover about three-quarters of a student's tuition.

Regent Makarechian stated his view that it would be fair to ask students who had not paid tuition to contribute $1,000 to the University after graduation. Interim Director of Student Financial Support David Alcocer responded that in the case of students whose fees are covered entirely, the coverage comes from a variety of sources and differs by student. Cal Grants typically cover 100 percent of a recipient's tuition and fees. Other students receive UC grants and/or Pell Grants. Many students receive a combination of all three. While it is true that these students pay nothing with respect to tuition, the University expects all students to make a self-help contribution of about $9,000 through a combination of loans and work toward covering the total cost of attendance. Mr. Alcocer observed that if these students were required to make payments to UC after graduation, this would be in addition to loan repayments many of them would be making already.

Regent Stein stressed that the fact that some students pay no tuition does not mean that attending UC is free. The average cost of living for a UC student was $27,200. The combination of self-help and parental contribution is burdensome for many families in California.

Chairman Lansing expressed agreement with Regent Stein. Regent-designate Flores stressed that the University should be attentive to the information it provides about financial aid to prospective low-income students, and recalled that support for the Cal Grant and Pell Grant programs is not secure. The University should not assume that low-income students are taken care of; this depends on decisions by the State Legislature.

Regent De La Peña recalled the parameters of the Blue and Gold Opportunity Plan for students from low-income families and the amount the University contributes per student. Mr. Alcocer added that the University highlights the differences between net cost and tuition in its offer letters to students and in earlier communications as well, to help students understand how they can finance the complete cost. The net cost of attendance is relatively low for low-income students; it has remained steady over time and even declined a bit in constant dollars. It has increased over the past few years for middle- and upper-income students.

Regent Island emphasized that the University is in the business of the public good; this is its primary mission.

H. ***Next Steps***

Mr. Lenz cautioned that the funding challenges faced by UC would not be totally remedied by the passage of Proposition 30 in the November election. Even if the initiative passed, UC would still have to address funding shortfalls that remain in 2012-13 due to deferral of tuition buyout funding, unfunded mandatory cost increases, and prior-year budget cuts. Of the $411 million expenditure plan approved by the Regents for 2012-13, about $189 million represents mandatory costs that must be funded. UC received $94.3 million from the State, but this primarily addressed the State's obligation to the UCRP. The University would use $95 million in temporary balance sheet strategies to mitigate the shortfall in the current year. The campuses were still addressing prior-year cuts and unfunded mandatory cost increases. Mr. Lenz stressed that this was the best-case scenario.

The University would face short-term, medium-term, and long-term challenges if Proposition 30 failed. In the short term, UC would be subject to an immediate additional shortfall of $375 million, due to a $250 million mid-year State reduction and the inability of the State to fund a $125 million tuition buyout. The replacement of this $375 million shortfall would equate to a mid-year tuition increase of 20.3 percent. In the medium term, the State would be unlikely to be able to fund any budget augmentations over the next several years; the University would continue to experience annual unfunded mandatory cost increases of $350 million; students would likely face double-digit tuition increases over the next several years; and UC could face additional budget cuts if the State General Fund decreases due to economic recession. In the long term, the University would be challenged to fund mandatory cost increases and adopt a sustainable funding model and would find itself in the situation of a State-funded research university with the prospect of no increased State funding for multiple years.

Mr. Lenz then discussed parameters for the 2013-14 UC budget, given the assumption that Proposition 30 would be approved by voters in November. The 2013-14 UC budget expenditure plan would assume funding for enrollment growth, compensation increases, health benefits, UCRP employer contributions, the potential for cap and trade costs, and student financial aid. The budget would include a modest tuition recommendation and assumptions about State funding, in the hope of achieving a multi-year funding agreement with the Governor and the Legislature that would provide fiscal stability and campus planning predictability. At the November meeting, the Regents would be asked to approve the revenue and expenditure plan for 2013-14. If Proposition 30 failed, a revised budget plan would be submitted.

Regent Newsom expressed concern that the University would use a 20.3 percent tuition increase as a default solution. He asked if the University had a specific proposal or plan as an alternative to a 20.3 percent tuition increase. Mr. Lenz responded in the affirmative. UC is examining other options and considering what its expenditure assumptions would be relative to the revenue it would need.

Regent Newsom asked when the University would have to make a decision about a mid-year fee increase. Mr. Lenz responded that it would be in the best interest of the University to make that decision in November. Regent Newsom suggested that the Regents should be examining concrete measures prior to November to provide guidance. He expressed concern that the Regents would not have time to consider various options to avoid a 20.3 percent tuition increase.

Chairman Lansing observed that almost $100 million in possible financial efficiencies had been discussed earlier that day. She observed that even if Proposition 30 passed, it would still be a good idea to implement many of these suggestions, which would generate excess capital and make UC more efficient. She asked that the administration bring recommendations to the Regents prior to the November meeting. Regent Newsom expressed his lack of confidence that the University would have an alternative plan ready for the November meeting. Mr. Brostrom responded that the University was pursuing almost all the measures discussed earlier, and most of those do not require action by the Board. He recalled that the University was already addressing a $300 million shortfall in the current year, quite apart from the outlook if Proposition 30 failed. The University was developing a plan to avoid a 20 percent fee increase, but if Proposition 30 failed, there would be a need for a mid-year fee increase.

Regent Newsom stated that the University wanted to avoid a fee increase, but warned that there might not be a legitimate alternative to a fee increase if Proposition 30 failed. Mr. Brostrom stressed that in a situation of a mid-year reduction, the University could not address the entire budget gap without some tuition measure. Regent Newsom expressed concern that the Regents did not have tangible options.

Chairman Lansing expressed cautious optimism. Some of the suggestions discussed that day could be implemented within weeks, while others required further discussion. She expressed the sentiment of the Regents that they would like these proposals to be implemented before November and to know what options are possible should Proposition 30 fail. If Proposition 30 did not pass, the Regents would like to know that they have done everything possible to avoid a fee increase. She requested that a meeting be held before the regular meeting in November for the Regents to hear about and discuss alternatives and measures already taken. Mr. Lenz responded that in November, in addition to the question of Proposition 30, the Regents would be challenged by a list of ongoing mandatory costs which he estimated would be approximately $300 million. The administration would present a two-year plan with projected mandatory costs and the revenue needed to address them.

Regent Ruiz asked if a tuition increase was likely. Mr. Lenz responded that if Proposition 30 were approved, the University would not consider a student fee increase in 2012-13. In its discussions with the State, the University hopes for a six percent General Fund revenue augmentation for the UC budget, as part of a multi-year funding agreement. In this case the University would implement a six percent tuition increase for 2013-14. If Proposition 30 failed there would be a mid-year tuition increase and the question of how to address mandatory costs in 2013-14.

Regent Kieffer speculated on how bad the consequences of no tuition increase would be, if Proposition 30 failed. He stressed that the University had a long-term problem, beyond the question of whether or not to raise student fees at the November meeting. The long-term questions concerned financing, the University's commitments to the State and public, and UC's goals for itself. The Regents were considering piecemeal approaches, but the University needed a ten-year goal. The Regents should not be afraid of raising tuition, but should also consider all alternatives.

Regent Newsom stated that the public must understand that when the University raises tuition, it is the best of many bad options. The public must know about the substantive consequences of not implementing an increase. Regent Kieffer stressed that those consequences should be examined. Regent-designate Flores stated that it was necessary to present alternative options whether or not Proposition 30 passed. Fee increases of the magnitude of 20.3 percent were not part of a sustainable model.

Regent Ruiz asked if it would be possible to have State budget funds set aside every year for higher education through a ballot proposition or a State constitutional amendment. Mr. Dooley responded that UC had begun a longitudinal market research survey. The public generally is not aware of the budget reductions UC has experienced, but believes that UC should be funded. Based on a survey of a large pool of California voters, it appears that there is not public support for a dedicated measure to support higher education. One expert consultant has advised the University that it should not propose a measure unless it is very certain that the measure would succeed. Until UC is certain that there is strong public support, which was currently lacking, it would be very risky for the University to pursue such a measure.

In response to a question by Regent Newsom, Mr. Dooley explained that the survey asked members of the public if they would be willing to pay more taxes in some form to support higher education. In an earlier survey, the University had asked about specific possible measures, such as an oil severance tax, but the general response was much the same. The public was not willing to tax the oil industry to support higher education. Regent Newsom emphasized that the University must be an active participant in the State funding debate in November.

Regent Ruiz stated that his suggestion was the only possibility for long-term, sustainable funding. Mr. Dooley responded that the University has studied this matter systematically. The feedback was not encouraging at the moment. Current market research did not indicate a clear path forward.

Mr. Lenz observed that 92 percent of the State budget was already dedicated to various purposes, through constitutional, statutory, or federal mandate or court order. Policymakers in Sacramento do not wish to establish another entitlement. The University has considered a general obligation bond for capital facilities projects, and has concluded that the success of such a measure would not be likely without the participation of the K-12 system.

Regent Makarechian asked if there were any alternatives to a fee increase that had not been discussed that day. Mr. Lenz responded that the Regents had been presented a long-term funding model at an earlier meeting. Some parts of that model had been revised and presented that day. These measures might complement or reduce the need for a tuition increase. The University has implemented many of these options already in response to the dramatic reductions in State funding. The University experienced a $100 million reduction in the past year but did not raise tuition. Mr. Brostrom noted that the University was informed in late June that $375 million in funding would depend on the outcome of the November election. The University was pursuing many ideas, but the University cannot secure an amount equivalent to nearly 20 percent of its State funding within a three-month period.

Regent Gould asked that the Regents be presented with all possible alternatives, even bad choices. This would help make clear which choices were reasonable.

Chairman Lansing stated that there had been a good discussion of options that day. She asked that the administration communicate to the Regents which measures it would recommend, whether or not Proposition 30 succeeded, so that these measures could be implemented before November.

Regent Kieffer suggested that the reasonable measures discussed that day would not come close to solving the University's budget problem. The undesirable options, such as furloughs, should be discussed.

Regent Varner stated that the essential question was how to reduce costs if there were no way to increase revenue, and to demonstrate what would have to be done to the University without a tuition increase or without increased State funding.

Regent Pattiz observed that a tuition increase was likely under any circumstances. There were no short-term measures the University could take to address a loss in

November without some kind of increase in revenue. It was not certain that the administration could put forward any option other than a fee increase.

Chairman Lansing suggested that the University make it clear to the Regents and the public what drastic measures the University would have to take if it did not raise tuition, in the event that Proposition 30 failed. If Proposition 30 succeeded, the University should demonstrate how UC could be more efficient. Mr. Brostrom responded that $375 million in State funding is slightly less than all the State funding for UCLA. The State funding for UC Merced is about $55 million. The Los Angeles campus, or about seven Merced campuses, would have to be closed to cover this reduction.

Chairman Lansing noted that Mr. Brostrom's statement had made the situation very clear. Mr. Brostrom added that the University was studying a number of interim measures, such as debt restructuring and asset management, so that tuition would not be the first or only option. He emphasized that it would be unrealistic for the State to expect the University to cover a $375 million funding reduction in three months.

Regent Newsom expressed the hope that closing a campus would be the very last possible option for UC, and that other options would be presented in a detailed, specific manner.

I. ***Close***

Chairman Lansing concluded that this had been a productive discussion. She reiterated her request to the administration to bring forward recommendations. Medium-term measures might be discussed at the January 2013 meeting and long-term measures in March, so that there would be some discussion at every meeting about addressing the continuing challenge of maintaining the University's quality. Nothing had been decided that day, and discussions would continue.

The meeting adjourned at 4:55 p.m.

Attest:

Secretary and Chief of Staff