The Regents of the University of California

COMMITTEE ON FINANCE
January 18-19, 2012

The Committee on Finance met on the above dates at Highlander Union Building, Riverside campus.

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

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

The meeting convened at 10:40 a.m. with Committee Chair Varner presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of November 28, 2011 were approved.

2. FACULTY HOUSING RESERVE FUND – REALLOCATION OF ORIGINAL INVESTMENT AND EARNINGS

The President recommended that $15 million of the Faculty Housing Reserve Fund balance be reallocated to partially address current budget shortfalls.

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

Chief Financial Officer Taylor explained that the University had conservatively estimated that it had $15 million more in reserves for its Mortgage Origination Program than was currently needed. The Regents’ approval was required to free up these funds and to give the President discretion to use them to address UC budget needs.
In response to a question by Committee Chair Varner, Mr. Taylor stated that if the Mortgage Origination Program continued to perform well over time, the University might be able to free up further reserves in the future.

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

3. **PAYROLL PERSONNEL SYSTEM/HUMAN RESOURCES INFORMATION SYSTEM (UCPATH) UPDATE**

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

Chief Financial Officer Taylor reported that the University’s project for a common payroll and human resources system to serve all the UC campuses and medical centers had moved from the planning and assessment phase to the implementation phase in October 2011. He introduced Project Director Anthony Lo, who previously worked for many years at Sun Microsystems. Mr. Taylor noted that there had been no major concerns so far with system functionality and that the project was on schedule overall. He acknowledged that recruiting senior information technology personnel was a challenge in the San Francisco Bay Area.

Executive Vice President Brostrom informed the Regents that the University was moving forward with the design and development of a shared service center, one center that would provide human resources and payroll administrative services to all the campuses and medical centers. The University had solicited proposals for a service center location at or near a campus. Mr. Brostrom anticipated that the administration would receive several competitive proposals. Mr. Taylor added that, as part of the new organizational culture, campuses with core expertise in given areas would support each other.

Mr. Lo indicated that data conversion and clean-up activities were now under way. Data were being extracted from the University’s legacy Payroll Personnel System and moved into the new system. In an upcoming pilot project, inputs from the design activities would be summarized into a UC-configured system, to be reviewed and validated by subject matter experts. This review would begin in March. Mr. Lo noted that while gaps in functionality were emerging as expected, the environment around interfaces and the integration requirement had turned out to be more complex than anticipated.

Mr. Taylor addressed risks and challenges of the project. One risk was the aggressive time schedule for implementation. Planning had begun two years previously and project completion was anticipated in July 2014, for a process that usually takes seven to ten years. The project represented a significant cultural change for the University, from traditional campus autonomy to a shared services model. The administration must convince campuses that it is in their best interest to share control and responsibility. Another challenge was that of competing priorities; the University was undertaking this effort at the same time as many campuses were taking on other major initiatives.
Regarding the cost challenge, Mr. Taylor stated that the project was expected to recover its costs by year five. Net present value savings would be significant, but there are risks to payback from savings accrued over time. Mr. Taylor emphasized that the University was aware of and attentive to this risk.

Committee Chair Varner praised the work on this project and concurred that it represented an important cultural change for an institution as complex as the University. He asked if, in addition to financial savings, the new system would free up employee time for other tasks. Mr. Taylor responded in the affirmative. The current payroll system uses up a great deal of time of UC information technology personnel, who are not free for other work. With the implementation of the new system, this time could be reallocated to other projects that support the University’s academic mission. Mr. Brostrom added that the new system would provide improved service. In some of its aspects, the current payroll system had become obsolete, and this created challenges each month. The new system would provide improved accuracy and reliability for the UC payroll.

Regent Makarechian referred to the projected savings of approximately $750 million, presented in the background material. He asked over what period these savings would be achieved. Mr. Lo responded that these savings would be achieved over an eight-year period.

Regent Makarechian asked if savings would come from reductions in personnel. Mr. Lo responded that savings would come from labor reductions. Mr. Taylor added that the number of payroll personnel would be reduced through attrition, moving employees to other units, and possible layoffs. As part of the preparation for the project, the University engaged PricewaterhouseCoopers to perform an assessment of staffing levels for the payroll function. PricewaterhouseCoopers found that UC is heavily staffed for this function because its systems are antiquated and require many employees to keep them operating on a daily basis. Some of the cost savings derived from the project would be reallocated to the campuses to support faculty, student services, and the academic mission of the University.

Regent Zettel praised the project for being prudent as well as ambitious. She noted that the new payroll system would be hosted by an outside vendor and asked if there would be an opportunity in the future to open the contract to other bidders. Mr. Taylor responded in the affirmative. The University had negotiated an aggressive deal with Oracle and used the opportunity to renegotiate existing Oracle contracts systemwide at the campuses and medical centers. Mr. Taylor reported that a vendor for the University’s timekeeping system had not yet been selected, and this would be open to competition. Mr. Lo added that the University had the option of moving to another hosting vendor if it is unsatisfied with the service provided by Oracle.

Regent Zettel observed that the hosting vendor would be upgrading technologies continuously. She asked if this meant that the University would not be obliged to invest in or to own technologies that could quickly become obsolete. Mr. Taylor responded in the affirmative. The new system would require less hardware for the University. UC
could dispose of mainframe computers which are expensive to maintain. Mr. Taylor stated his view that there would be improved security with the hosted system.

Regent Zettel referred to the auditing of accuracy of information logged into the system, and asked if managers would still have to sign off on reports. Mr. Brostrom responded in the affirmative. There would be no changes in reporting or approval, but the new system would reduce the number of necessary manual transactions; this should improve accuracy and reliability. The new system would be connected directly to campus general ledgers, obviating the need for data translation or conversion; this should improve overall financial accuracy.

Regent Zettel observed that the University’s external and internal auditors should be pleased with the new system.

Regent Ruiz asked about qualitative benefits of the new system; for example, if it would lead to better decision-making. He asked how campuses would be educated to use these tools for the benefit of UC. Mr. Taylor responded that the new system would free up UC human resources professionals to focus on talent management and career development for UC staff and faculty. Mr. Lo added that the new common system would produce better data. The current system had 11 instances with different data definitions and different code uses. Data definition would become consistent under the new system. The implementation of a shared service center, with unitary procedures and management structure, would also ensure consistency in service delivery. Mr. Brostrom affirmed that staff would move into more strategic work that would add higher value to UC. The PricewaterhouseCoopers survey found that payroll functions take up 0.2 percent to 0.3 percent of many employees’ time; this time could be redirected to strategic human resources work, rather than manual data entry.

Regent Ruiz asked if the University would educate its employees on making better use of this time. Mr. Lo responded that users of the new system would receive training and the nature of their work would change. The PricewaterhouseCoopers survey showed that approximately 80 percent of work activities in this area are transactional or at a low level. If the amount of time spent on these types of activities were reduced to a standard benchmark of 50 percent, employees would have more time for higher-value-added work. Some employees may need additional training to move to that work. Mr. Lo provided an example of how the new system would provide more time for financial analysis in a hypothetical situation with a one-week deadline. In the current environment, gathering the financial data might take four-and-a-half days, with a half day left to analyze and draw conclusions from the data. Under the new system this should change, with less time spent on gathering data and more time available for data analysis. Mr. Taylor added that it has sometimes taken the University weeks or months to respond to Public Records Acts requests for financial or payroll data, given the 11 different systems in use at UC. Data retrieval would be much faster under the new system.

Staff Advisor Smith reported that staff are concerned about how personnel savings would be realized beyond attrition, about possible incentives to retain payroll system staff, and
about how staff can best position themselves in a transformational workplace and retain employment at UC. He applauded the new systemwide job search board on the University’s web site. Mr. Lo identified three key aspects of the new system implementation that concerned personnel: the need for effective employees at the shared service center, retention of critical employees to ensure that the current system would continue running until the complete changeover to the new system, and training and development for new positions. Mr. Brostrom noted that all the campuses were currently reviewing their workforce needs and their future workforce profile; these efforts complemented the new payroll system implementation and together these efforts would lead to a positive outcome. One of the most difficult aspects of the implementation was that the Office of the President would have to run parallel systems for over two years, after campuses had switched to the new system, during the testing and implementation phase.

4. UPDATE ON THE UNIVERSITY OF CALIFORNIA’S ENTERPRISE RISK MANAGEMENT PROGRAM

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

Committee Chair Varner drew attention to the fact that the University’s Enterprise Risk Management program had produced savings of $493 million over the previous eight years.

Chief Financial Officer Taylor began the presentation by noting that the UC Enterprise Risk Management program was highly rated among organizations with such programs, and that Chief Risk Officer Grace Crickette has been recognized as an outstanding professional in the insurance industry.

Ms. Crickette explained that the Office of Risk Services provides risk management solutions throughout UC. Since risk cannot be managed effectively only from a central office, the Office of Risk Services works with constituents systemwide in more than 26 work groups that are focused on various areas of risk. One such area is UC foreign operations and travel, for which the Office has developed an online informational resource. In the area of laboratory safety, Ms. Crickette emphasized the importance of a culture of safety, noting that injuries had been reduced overall by 34 percent in the previous seven years. The University’s Environment, Health and Safety directors had developed a five-year strategic plan for improving safety. In addition there were 12 active safety working groups and center of excellence programs, in which excellent performance on one campus is replicated systemwide. The UC Center for Laboratory Safety was located at UCLA, but would serve as a resource for all UC campuses and for other higher education institutions. A laboratory audit and inspection software tool being developed at UC Davis would be implemented systemwide. Ms. Crickette concluded by mentioning efforts in another area of risk, the management of youth activities.
Committee Chair Varner observed that the recognized effectiveness of UC’s Enterprise Risk Management program was one reason for the University’s excellent credit rating.

Mr. Taylor indicated that the administration would ask the Board to consider the formal endorsement of the Enterprise Risk Management program at a future meeting. Such an endorsement would reflect best practices in the corporate sector.

Regent Makarechian referred to a chart in the Office of Risk Services Annual Report for 2010-11, included with the background material. The chart listed the cost of risk by UC location. He asked about the higher cost of risk reported for UC Riverside, UC Santa Cruz, and the UC Irvine Medical Center, and about what steps the University was taking to lower these costs. Ms. Crickette responded that while not all the campuses showed the same results, all locations had improved over the previous six years in reducing the cost of risk. Every campus and medical center has an Enterprise Risk Management plan with goals for improvement.

President Yudof noted that he reviews risk management data before performance reviews of UC administrators. He commended Ms. Crickette and the Office of Risk Services for their work, and recalled that they had been charged with the welfare of UC students and faculty in Egypt during recent unrest in that country; these individuals were successfully evacuated.

Regent Gould observed that it was helpful to receive detailed information on UC risk services, including specific instances, as in the current report.

Regent Pelliccioni asked about the relationship between the Enterprise Risk Management program and the University’s compliance and audit program. Ms. Crickette responded that they are complementary. Most organizations have a risk management group and a compliance and audit function. Enterprise Risk Management is strategic, examining potential risks that might interfere with UC objectives. Most risks identified at the campuses are operational, concerning budget, maintenance of equipment and buildings, and human resources. The most outstanding risks identified at the campuses are not compliance-based and would not necessarily be auditable. The University’s compliance and audit program reviews compliance issues related to those strategic and operational functions, and performs audits to see if risk mitigation measures put in place are effective. The synergy and collaboration between these units is growing, for example, in the risk assessment plans developed for the campuses. Mr. Taylor added that there is frequent communication between the Office of Risk Services and the UC compliance and audit program to ensure that effort is not being duplicated.

As an example of collaboration, Mr. Taylor recalled recent media reports concerning allegations of sexual abuse by athletic coaches at Pennsylvania State University and Syracuse University. Ms. Crickette met with Chief Compliance and Audit Officer Vacca, Vice President Sakaki, and others to discuss what measures UC could take to ensure that no such incidents occur at UC. Ms. Crickette explained that her office is concerned with campus resources and management operations that are deployed to address this issue,
while legal expertise comes from the compliance and audit function and from the Office of the General Counsel.

In response to a remark by Regent Pelliccioni, Ms. Crickette observed that in the past, the two functions were combined in many organizations. More recently, large companies had been shifting to a different structure, with distinct risk management and compliance groups.

Regent Zettel stated her understanding that the Office of Risk Services reports to the President, while the audit function reports to the Regents and the President. Mr. Taylor confirmed that this is correct.

The Committee recessed at 11:20 a.m.

The Committee reconvened on January 19, 2012 at 10:50 a.m. with Committee Chair Varner presiding.

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

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

5. **UNIVERSITY OF CALIFORNIA TECHNOLOGY LICENSING PROGRAM**

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

Provost Pitts explained that a large part of the business of technology transfer and intellectual property management occurs on the campuses. Three campus representatives would speak about the University’s technology licensing program.

UCLA Vice Chancellor – Research James Economou observed that one of the essential functions of great research universities is the creation and dissemination of new knowledge. UC would need to meet this challenge in an increasingly competitive and changing global economy. Research universities must tackle critical societal problems concerning health, the environment, and poverty, problems that would not be solved by
legislatures, courts, or industry. Preeminent research universities that wish to retain their status would need to understand, adapt, and be able to function effectively in an ever-changing academic and commercial ecosystem. This was especially critical in the current economic climate, with significant reductions in endowment, erosion of federal grant support, and reduced State funding for land-grant universities. These developments had placed significant pressures on faculty, staff, and students, and required that the University reevaluate all its activities and make adjustments to meet the needs of its constituents. Dr. Economou cautioned that if the University allowed itself to be governed by externally mandated standards, it would be drawn into a situation in which it was beholden to the largest funder.

The University could better achieve advantage through innovation, driven by outstanding research. It makes no sense for research universities to make discoveries and invent new technologies if there is no efficient way to deliver this innovation to society through commercialization. This requires a pathway to entrepreneurship. Dr. Economou stressed that entrepreneurship is not synonymous with business, commercialization, or finance. He quoted the French economist Jean-Baptiste Say (1767-1832), who defined an entrepreneur as one who shifts resources from an area of lower to an area of higher productivity.

Entrepreneurship is a way of thinking that involves change, risk, uncertainty, competition, and ambiguity, with the goal of translating good ideas into reality. The UCLA campus has demonstrated an excellent upward trajectory in delivering inventions, innovations, and companies to society. If the campus produced comparable financial returns, the resulting financial resources could be reinvested in academic programs.

A report on creating an ecosystem for entrepreneurship, prepared by UCLA Anderson School of Management Professor William Ouchi and UCLA students over a six-month period, based on extensive interviews at many universities, had been enthusiastically received at UCLA. Dr. Economou reported that UCLA planned to make its Office of Intellectual Property and Industry Sponsored Research an independent affiliate of the University, which would allow it to enjoy substantial financial and operating autonomy and to raise a patent investment fund. It would be headed by an independent board of business executives who would make risk-based investment decisions on intellectual property. Conflict of interest policies were currently being developed by a committee led by the campus’ Vice Chancellor – Legal Affairs Kevin Reed. These policies would encourage entrepreneurship by managing conflicts proactively. The campus was also developing educational programs on the business of science, to be established in various schools, with their own boards of directors and smaller investment funds.

Dr. Economou anticipated that these efforts would transform UCLA into an entrepreneurial university, setting the stage for an increased revenue stream in the intermediate and long-term future, allowing recruitment of high-performing faculty and students, and generating excitement in the philanthropic community. He observed that there was now a new breed of University donors. Many were grateful alumni who had achieved success through entrepreneurship. These new “venture philanthropists” are
strongly motivated by the University’s culture of entrepreneurship and innovation and wish to see the impact of their philanthropy in problem-based, high-impact research and scholarship, with benefit to the public through commercialization as well as benefit to the University.

Dr. Economou concluded that in most rankings of the world’s research universities, there are usually four UC campuses among the top 20. This cannot be a coincidence or an accident. UC must now move forward and invent the future, creating an entrepreneurial culture that is flexible and individualized across the University system, allowing UC to focus on compelling problems. The ecosystem for entrepreneurship being created at UCLA would foster an efficient and transparent culture that drives creativity and innovation.

UC Berkeley Assistant Vice Chancellor – Intellectual Property and Industry Research Alliances Carol Mimura informed the Regents that the Berkeley campus in 2004 reorganized its approach to technology transfer by broadening the focus of the existing office. The reorganized unit had the explicit goal of increasing industry-sponsored funding for research at UC Berkeley and of diversifying research funding sources beyond federal and State grants. The campus was aware that in 1996, the research and development tax credit for companies investing in sponsored research at UC was raised from 12 percent to 24 percent, and that in the same year, the State provided matching funds for industry-sponsored research. These two factors increased corporate-sponsored research at UC threefold, with an increase in inventions resulting from that research.

Ms. Mimura observed that grant funding from federal agencies typically produces early-stage inventions that are far from commercial application. The campus was aware that it needed assistance from industry to help develop second-generation intellectual property that industry would seek to license. The campus creates a cycle in which industry helps UC invent and helps UC students work on relevant products for society and industry; the goal is not to do commercial research at UC Berkeley, but to bring the campus one step further along the value chain with its inventions than is typically possible using federal and State funds.

UC Berkeley has increased its industry awards from approximately 100 to over 350 annually and has signed agreements with over 600 unique companies; in 2004, it had agreements with only 200 companies. Funding from industry had increased sevenfold from about $10 million to over $70 million annually. Ms. Mimura acknowledged that $17 million of the annual funding came from one award, from BP, formerly British Petroleum. Industry funding had increased from three percent to ten percent of total sponsored research funding at the Berkeley campus. Invention disclosures had also increased.

The Berkeley campus is concerned about the societal impact of its technology transfer, even at the expense of certain licensing revenue. UC Berkeley sees technology transfer as relationship-based, consisting of many points of contact with industry over a long period, perhaps a decade, not just a license to a company in a given year. Technology transfer is
multifaceted and requires long-term investment. The Office of Intellectual Property and Industry Research Alliances engages in a spectrum of intellectual property management strategies and agreement types. Its approach has allowed it to serve certain industries better than before. Ms. Mimura observed that not all industries seek exclusive intellectual property rights; many in the information technology and communications field are more interested in non-exclusive royalty-free licenses. The Office has created a Socially Responsible Licensing Program to deploy UC Berkeley inventions in the developing world, using special business models. One of UC Berkeley’s start-up companies, Amyris, had been funded by a grant from the Bill and Melinda Gates Foundation to create a new anti-malarial drug. This was a royalty-free license that brought $8 million in research funding to the campus. Corporate-sponsored research on a large scale has compressed the typical time frame for translational research. In 2007, BP entered into a ten-year contract with UC Berkeley for $500 million in funding for alternative energy research, with a focus on biofuels. This contract has allowed the campus to create a grant-making program open to professors in many disciplines; it currently supports over 300 researchers. Among recent developments, Ms. Mimura noted UC Berkeley’s equity holdings in companies based on intellectual property created at UCB. The campus has a new partnership with Osage University Partners, a $100 million venture fund that exercises UC’s preemptive investment rights, so that at the time of an initial public offering, the campus’ percentage ownership of a company is closer to what it was originally.

UCSF Vice Chancellor – Research Keith Yamamoto expressed optimism about the possibilities of technology transfer. He observed that in the realm of biomedical research, two disparate forces have combined to create unprecedented opportunity. First, scientific advances are illuminating connections between fundamental discoveries of basic science and their application in health and health care; second, market realities have aligned the missions and incentives of academia and industry. As a result, society stands to gain from new cooperative, collaborative alliances between the University and the private sector. UCSF is nurturing this opportunity through its Office of Innovation, Technology and Alliances, a single entity that brings together and coordinates relevant educational, entrepreneurial, technology transfer, business development, and program management activities. The Office proactively engages faculty, trainees, and the private sector toward three broad goals: creating a new and diverse spectrum of public-private research alliances; exporting UCSF knowledge to industry partners for development and commercialization, producing mutual rewards, including increased revenue to the University, and public benefit; and educating the next generation of innovators and entrepreneurs in intellectual property alliance-building.

Mr. Yamamoto provided three examples of technology transfer activity at UCSF. The Program for Breakthrough Biomedical Research offers researchers and trainees the opportunity to experiment with new ideas that have the potential for great impact but might not receive serious consideration from federal funding agencies. Although this is a program focused on fundamental science, untargeted research, and student training, two
large corporations, Sanofi and Roche, have invested in it. There is understanding in the private sector that maintaining a full pipeline from discovery to application is essential.

The Master’s in Translational Medicine program is a joint degree program with UC Berkeley. The goal of the program is to apply translational research and engineering approaches to the development of innovative treatments and devices for clinical use. Mr. Yamamoto stated that this program would prepare the next generation of private sector leaders. The program carries out the first step in the development and translation of discovery into real applications.

The Center for Therapeutic Innovation builds collaborative teams with industry scientists at Pfizer Inc. to pursue faculty-initiated but jointly developed research programs, proposals for discovery and clinical trials of new medications. Mr. Yamamoto underscored the academic nature of this program. The Center does not work to fulfill a contract. Rather, Pfizer is seeking outstanding ideas that can reach the stage of development and clinical trial. A joint committee of UCSF and Pfizer scientists reviews initial proposals; applicants selected from the initial pool then develop and rewrite their programs further with input from Pfizer, and then enter the final round of competition. The Center’s work is generating excitement for scientists at UCSF and Pfizer. Mr. Yamamoto concluded that the UCSF Office of Innovation, Technology and Alliances places technology transfer and alliance-building in a broad context to serve UCSF’s mission of research, education, patient care, and public service to advance health worldwide.

Committee Chair Varner noted that in addition to the monetary benefit of the UC technology transfer programs, there are enormous social benefits that must be better explained and quantified for the public. These efforts should be publicized and this information would be helpful in discussions with the Legislature and others. He asked about revenues generated by technology transfer and revenues projected for the future. Vice President Beckwith responded that systemwide, the University earns between $75 million and $120 million in licensing revenue annually, good performance by national standards. The University could invest more in patents and licensing; UC generally uses revenue from past licenses to fund its current operations. This revenue restricts the number of patents the University can protect. Projections for the future are uncertain. The University might generate more licensing revenue with greater investment, but Mr. Beckwith recalled that inventions generally begin to generate revenue about ten years after their initial disclosure.

Regent Makarechian suggested that the University should emulate Columbia and Stanford Universities in their level of investment in technology transfer. He noted that only a very small percentage of UC inventions have generated more than $5 million in revenue and that investment in this area is risky. He asked for an estimate of how much the University invests and how much it recaptures in revenue, and asked how the University makes its investment choices. Mr. Beckwith responded that at most campuses the budget for new investments is based entirely on revenue from past investments. This is usually not sufficient to protect all the inventions the University would wish to protect.
Licensing officers make a selection of inventions they deem most likely to produce revenue. Ms. Mimura observed that universities like Stanford and the Massachusetts Institute of Technology are not under the same pressure as UC is to clear immediate patent costs in the same year in which they incur those costs; they can carry the costs forward. The technology transfer offices of these universities have been in existence longer than the UC Berkeley office. This is significant because it can take a long time before an invention generates revenue, especially in the medical and pharmaceutical fields.

Chairman Lansing emphasized the importance of UC research as a potential source of revenue. She asked how UC performance in this area compared to other institutions and how UC performance could be improved. She expressed the wish for action that would lead to systemwide improvement or a relevant next step. Ms. Mimura responded that the results of comparison with other institutions would depend on which set of numerical data one examined. Traditional data would include number of patents or amount of revenue, but other data might be relevant as well, such as the number of lives saved by a UC invention, or more qualitative data. The University might experience reputational gains as well as monetary gains through its technology licensing. She emphasized that UC can always improve in this area. An important development in the past year was new innovation gap or “proof of concept” funding provided by the Office of the President through redeployment of Discovery Grant funds. Even relatively modest funding of this kind can enable laboratories or other units to retain researchers longer and meet important commercial milestones.

Chairman Lansing asked if the efforts at UCSF and UCLA could be expanded to the entire UC system or otherwise increased. Dr. Economou responded that while inventions are developed by UC faculty, the process of patenting inventions involves hard-nosed business decisions. The University needs business people with many years of experience to make decisions on what are risky investments. In some settings an advisory board may be effective, but Dr. Economou stressed the need for clear decision-making authority. The board must be an independent board of directors, reputable individuals with experience in the business of science who would serve the University without pay. The prosecution of key patents and licenses can take three to five years or longer, a process that requires a commitment to substantial investment and a pool of resources that can be continually applied to patents until they are licensed.

Chairman Lansing asked if the patent investment fund and oversight board mentioned by Dr. Economou in his presentation would be like a venture capital fund and if it would function systemwide. Dr. Economou responded in the negative. The UCLA fund would not be a venture fund, but a campus-specific proposal in which the technology transfer office would be an independent affiliate with a fund for investment in patents. The individuals on its board would serve without pay. There would be no venture capital component.

President Yudof asked if there was evidence demonstrating that a university with this kind of independent board or with a vice chancellor for technology transfer would be
more successful in patent licensing, or what case could be made for these types of institutional arrangements. Dr. Economou responded that a crude measure of return on investment is royalty and licensing revenue. For UCLA’s $1 billion research enterprise, the fiscal return in 2011 was 1.65 percent. At the Massachusetts Institute of Technology and the University of Wisconsin, the rate of return was just over five percent, at Stanford ten percent. The rate of return at Columbia University had been approximately 20 percent for the past 20 years. UCLA had just recruited the “second in command” administrator from Columbia to head the new UCLA technology transfer institute. Dr. Economou emphasized that these rates of return can be volatile. A single outstanding licensed invention can change the rate of return for many years. UCLA’s view was that decisions about long-term substantial investments in patents should be made by individuals with strong business backgrounds.

President Yudof emphasized the complexity of accounting for various institutions’ returns on patent investments. Further analysis would be necessary to determine if institutional characteristics accounted for the differences in performance.

Mr. Yamamoto responded to Chairman Lansing’s earlier question. He stated that the “hit rate” on discoveries is low. If one could effectively increase the flux of activity in technology transfer offices, the number of financially successful patented inventions would increase. Campuses need a local enabling function, individuals with scientific expertise and with sufficient understanding of business to recognize which discoveries might be translated into a product. Mr. Yamamoto noted that faculty attitudes toward the commercial application of research vary. There were currently many UC faculty carrying out research that could potentially be applied, but this was not occurring due to lack of an enabling function on the campuses. Mr. Yamamoto indicated that this enabling function must be local, but could be facilitated at the systemwide level. Local enabling could increase technology transfer activity.

Dr. Pitts responded to Regent Makarechian’s earlier remarks. There are about 1,500 new disclosures at the University annually that could be patented. Investment in all these disclosures would not be desirable, but the University could increase its investment, perhaps to an amount of $30 million. This investment, and the efforts discussed earlier to bridge the gap between campus research and interested companies, would be two major ways to increase patent licensing revenue.

Regent Makarechian observed that an annual investment of $30 million, if it produced returns in the range of 15 percent to 20 percent, would be an excellent investment. Mr. Beckwith clarified that $30 million would be sufficient to patent all UC disclosures, at a cost of roughly $20,000 per patent. The University would not wish to patent all disclosures; licensing officers would make a selection. Thirty million dollars represented the upper limit of necessary funding.

Regent Makarechian stated that if the University invested the same amount in patent licensing as a university like Stanford, and in the same range of fields, it could achieve similar revenue.
Faculty Representative Anderson referred to the Discovery Grant program and stated his understanding that funding for this program had been drastically reduced the previous spring. He asked about the impact of this reduction in the future. Ms. Mimura responded that the impact of this reduction would be devastating. She cautioned that many companies might not pursue sponsored research agreements with UC if matching funding were not available and emphasized that UC should invest more in research.

Regent Schilling recalled discussions of UC patent licensing in prior years, and concerns expressed about administrative delays between time of discovery and commercialization, or administrative burdens that prevented licenses from being realized. She asked if anything could be done to shorten the period from initial disclosure to commercialization. Ms. Mimura responded that the current structure on campus and cooperation with the Office of the President are functioning well. The Berkeley campus is receiving the support it needs to pursue licensing agreements.

Regent Ruiz informed the Board that the Central Valley Fund invests in Central Valley companies, helping to create businesses and jobs, providing business expertise and funding. The Fund was working with the California State University and UC Merced. The California Public Employees’ Retirement System and investment organizations were investing in this Fund, which would provide a return greater than ten percent. Regent Ruiz suggested that UC could participate in this kind of promotion of entrepreneurship and job creation.

Regent Marcus asked how the Governor Gray Davis Institutes for Science and Technology were involved in patent licensing. Mr. Beckwith responded that the University provides operating funds to the Institutes; the Institutes attract significant amounts of external funding. Mr. Yamamoto responded that the California Institute for Quantitative Biosciences (QB3) is closely integrated with technology transfer activities at UCSF.

Regent Marcus stated that technology transfer activities should be scaled. The University has the advantage of ten campuses and should move aggressively to outperform institutions such as Columbia University. Dr. Pitts responded that the University has communicated with and studied the successes of high-performing technology transfer offices around the country. In the case of Columbia, much revenue came from two outstanding inventions. The University of Wisconsin has maintained a private technology transfer enterprise since 1920, and it has long enjoyed revenue from discoveries related to Vitamin D. The efforts mentioned in this discussion are aimed at enabling such discoveries and revenue generation at UC.

Regent Hallett observed that there appear to be two principal sources of licensing revenue for technology transfer – large companies and the world of smaller start-up companies, which are less able to pay royalties. The University’s technology transfer activity is supported by current revenue streams, which discourages UC from working with start-up companies. He asked how new programs at UCLA to effectuate entrepreneurship would approach this issue. Dr. Economou responded that since the establishment of a new
hospital at UCLA, hundreds of thousands of square feet of space have been made available that could be renovated into high-quality laboratory space. Strategic planning for the campus includes the option to build additional “incubator” or “accelerator” space for start-up companies for University faculty. Faculty-led start-up companies would benefit from access to shared resources at UCLA, and the campus could develop these companies to a point where they could be acquired.

Regent Hallett asked at what point these campus start-ups would interface with management teams and product experts who would help direct projects toward an appropriate product and market. Dr. Economou responded that the campus’ goal is to engage these experts from the very beginning. Dr. Pitts pointed out a chart in the background material which showed that five UC campuses were among the top 15 universities in the U.S. in forming start-up companies in 2009. The comparison was based on the number of new companies started.

Regent Pattiz observed that some of the concerns raised in this discussion were also relevant for the National Laboratories, which have the advantage and disadvantage of being funded primarily by the government. Regent Pattiz asked how the University could move from being a licensor to becoming an equity holder and receiving a larger percentage of revenue, and what impediments the University might encounter. He emphasized that the University needed the assistance of professionals with experience of raising capital for projects and with knowledge of the market. Mr. Yamamoto responded that the University can take advantage of the venture capital, entrepreneurial, and industry community in California. There are individuals who have been successful in these areas who are friends of the University and who are happy to advise UC. Chancellor Desmond-Hellmann was currently gathering groups from this community to advise UCSF on activities the campus could undertake to make itself more user-friendly for companies interested in technology transfer agreements. UC is in a good position, having access to people with experience and means who would like to help the University by sharing their expertise.

Regent Pattiz asked about primary ownership of products. Ms. Mimiura responded that companies are generally the owners of the product, while the University owns the intellectual property rights. Under a license, the University is entitled to a percentage of royalties from the product sales. The University shares risk with start-up companies. These companies are cash poor, so UC takes equity as a partial consideration for the agreement in the hope that a certain percentage of the companies will be successful, sell a product, and pay UC a running royalty. Mr. Beckwith added that the experience at the systemwide level has been that the return from licenses vastly outperforms the return from equity. There are no stringent limits on how much equity the University can take; UC typically limits itself to ten percent or less to avoid having fiduciary responsibility for the company.

Regent Pattiz suggested that in the case of an outstanding UC invention, the University should negotiate deals from a position of complete ownership. This would be preferable to receiving a royalty not to exceed ten percent.
Regent-designate Mendelson noted that he had over 30 years of experience as an attorney in the biotechnology field and had worked with companies that had relationships with UCSF, UC Berkeley, and UCLA. He stated that if UC took the position that it should have complete ownership, it would find no investors for its inventions. It was his experience that universities nationwide generally own less than ten percent equity in companies. The question of how much the University should receive depends on the relationship between stock ownership, royalties, and milestones.

Regent-designate Mendelson cautioned that if one insisted at the beginning on rigid royalty amounts, milestones, or equity, venture capitalists, who had been receiving low returns during the past five to ten years, would not invest. He encouraged the University’s technology transfer staff to work with the venture capital community. He recalled an instance of securing a license from UCLA in the early 1990s, which he described as one of the most difficult experiences in his legal career. In that case, investment by UCLA alumni and donors was held up by lack of a license. Regent-designate Mendelson noted that the licensing process at UCLA had improved since that time. He described the earlier centralization of this function at the Office of the President in Oakland as ineffective and expressed his support for the decentralization of the licensing process. He stated his view that most innovation takes place in small companies, rather than large companies like Pfizer or BP. The University should pursue agreements with small companies and accept equity, not only current cash and reimbursement of patent costs.

Regent Kieffer observed that from his perspective of 30 years, the University’s culture has historically not been favorable to technology transfer, at UCLA in particular. He stated his view that this bias against technology transfer still exists within UC. While there is a certain degree of serendipity involved in outstanding discoveries, he expressed his disappointment that the University could not claim at least one such serendipitous discovery that would place it on the level of other U.S. universities mentioned during the discussion. He stated his understanding that there were two essential actions the University could take in this area: playing an enabler role, and continuing involvement with the development of companies longer than has been the case in the past. Regent Kieffer emphasized the need for change of organizational culture at UC; it was surprising that a university with the stature of the University of California would not have a better record in technology transfer. Fundraising from corporations might help the University with the two goals of enabling inventions and pursuing greater involvement in the development of companies. He stressed the need for action.

Chairman Lansing emphasized the Regents’ lively interest in and engagement with this topic. She asked what the next step should be in a systemwide effort to ensure that UC receives a fair share for its inventions, to ensure flexibility, and to ensure that UC could secure an alternate source of revenue for its operations.

President Yudof suggested the formation of a small group of Regents, chaired by Regent Makarechian, to examine this issue. The University needs accurate information and objective standards to judge how it compares in this area to other institutions in quantitative and qualitative measures. The University needs to know how it could
perform better and what impedes progress. President Yudof concurred that this function should not be centralized at the Office of the President. The central administration should not be a barrier for inventors and campus technology transfer staff.

Chairman Lansing welcomed the President’s suggestion and asked Regent Makarechian to assemble a group of Regents to examine the University’s technology transfer function in depth in the areas of revenue, patents, and benefit to society, and to explore how the University can ensure that it receives a fair share of revenues or equity. She praised the robust discussion and input that had taken place and commended the Board for thinking in new ways about this issue.

6. UPDATE ON THE 2012-13 GOVERNOR’S BUDGET AND IMPACT ON THE UNIVERSITY’S BUDGET

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

Vice President Lenz began his presentation with an overview of the California fiscal outlook. He recalled that in November 2011, the California Legislative Analyst’s Office had identified a State budget shortfall of $12.8 billion. The Governor’s January budget proposal identified a shortfall of $9.2 billion. The difference between the two is accounted for by assumptions on personal income tax, the State administration’s lower baseline for Proposition 98 estimates, and some other revenue assumptions not related to Proposition 98, such as $500 million assumed for the California Air Resources Board cap-and-trade program. Mr. Lenz noted that there were assumptions by some policymakers that the State economy was improving at such a rate that no revenue initiatives would be necessary in November. This would be grounds for a lengthy budget debate in the Legislature.

Mr. Lenz then discussed expenditures in the Governor’s proposed budget. The budget assumes a $1.1 billion reserve, $6.9 billion from a revenue initiative proposed for the November State election, and $5.4 billion in 2012-13 mid-year budget reductions, if that ballot initiative is not successful.

The Governor’s budget proposes approximately $4 billion in reductions, mostly to the health and human services area. Mr. Lenz noted that one reduction, a change in Cal Grant award eligibility, would not have a direct impact on the UC budget, but would affect UC students. The Legislature would be faced with difficult decisions, and some legislators might feel that California higher education was not being assigned a fair share of the proposed cuts.

Mr. Lenz pointed out that the University began the 2011-12 fiscal year with a $2.37 billion budget. After the $100 million mid-year reduction, the budget was currently $2.27 billion. Given the $750 million State General Fund reduction and campus mandatory costs of about $362 million, the University’s fiscal shortfall for 2011-12 was
well over $1.1 billion. Tuition increases had offset this shortfall, but by less than 24 percent. This left a funding gap of nearly $850 million for the campuses.

Mr. Lenz indicated that while the Governor’s proposed budget for 2012-13 included $300 million more in General Fund monies for UC than the current-year budget, $200 million of this amount was accounted for by a shift in the general obligation bond debt service in the UC budget. This was not new funding that would enhance the University’s operating budget, but this shift or restructuring would be beneficial to the University. The State was also making contributions to the UC Retirement Plan (UCRP) and annuitant health benefits. The Governor’s administration was proposing to shift $5 million in Subject Matter Project funding to the California Department of Education. Mr. Lenz described this as an accounting shift, because the University would receive $5 million in federal funds. If the Governor’s $6.9 billion tax revenue initiative is not successful, the University would receive a $200 million reduction.

Mr. Lenz briefly discussed the University’s 2012-13 expenditure plan. While the University managed to secure UCRP funding and funding for annuitant health benefits, a number of priority items were not funded, such as academic merit increases, a three percent overall compensation increase, of which $22.5 million was committed for UC’s collective bargaining agreements, employee health benefits, and non-salary cost increases. There was no State funding for deferred maintenance, and while this had not been considered a mandatory cost, the University has a growing concern about the age of its buildings and its ability to fund deferred maintenance. The University needs $416 million to fully support its expenditure plan, based on the mid-year budget assumption and the Governor’s proposal.

Mr. Lenz then presented a chart displaying the University’s 2012-13 budget shortfall. The University’s costs included the $750 million reduction and $362 million in mandatory costs of 2011-12. In addition, there were $326 million in recognized cost increases for 2012-13 and another $310 million that was part of the University’s expenditure plan, considered as the State’s reinvestment in the University. Revenue solutions applied to these costs included tuition increases, $130 million in alternative solutions, $225 million in efficiencies planned for 2012-13, and a new $95 million in funding that UC would receive from the State. In spite of these sources of revenue, the University would still face a budget gap of over $1 billion.

There was no State funding for capital facility projects in 2012-13. Past State funding for UC capital projects has ranged from zero to $352 million, depending on the State’s fiscal condition in a given year. The current situation was not exclusive to UC; there was no capital funding for any entity within the State budget for 2012-13. The University believed that it would benefit from the restructuring of lease revenue bonds. The State generally funds capital projects from between 15 and 24 years. The University would be able to extend the refinancing period for most of its capital projects, recognizing the useful life of those facilities, and it would be able to do so at a lower interest rate, because the University’s credit rating is significantly better than the State’s. The interest paid on the debt service would be lower.
Executive Vice President Brostrom observed that one encouraging feature of the Governor’s budget proposal was the fact that it included elements of a multi-year plan that the University has been working on for several months with the California Department of Finance. The Governor’s proposal included base budget growth, $92 million for the UC Retirement System in the current year, and debt service for lease revenue bonds and general obligation bonds. This would give the University control over the timing and form of its capital financing and the ability to realize savings and flexibility in the refinancing and restructuring of the debt. As part of the multi-year plan, the State would make a commitment to multi-year growth based on the new expanded base budget, four percent per year over the four-year term of the agreement. With this plan, and with a predictable and affordable tuition policy, the University believes that it can fund most of its expenditure plan. At the same time, the University would seek to contain its health benefit costs and to finance deferred maintenance from the capital program rather than from the operating budget. Mr. Brostrom expressed his belief that the University could accomplish this and develop a plan with stability and predictability for campuses and students. The Governor would expect accountability from UC, measured by criteria such as graduation rates, time to degree, and a better transfer function for community college students.

Mr. Lenz noted that while funding for higher education remained relatively stable or experienced modest increases in the Governor’s proposal, one area of serious concern is the recommendation for a reduction in Cal Grant awards. Awards would be reduced to $4,000 for students attending private, for-profit schools; awards for students attending independent, non-profit schools would be reduced to the level of the California State University awards. The University is particularly concerned about changes in award eligibility based on grade point average (GPA). The minimum GPA requirement for Cal Grant A awards would increase from 3.0 to 3.25, and for Cal Grant B awards from 2.0 to 2.75; for community college transfer students, the minimum GPA requirement would rise from 2.4 to 2.75. UC graduates would be affected by the phasing out of the student loan assumption program for teachers and nurses. The Governor’s budget included the proposal to offset Cal Grant costs with funds from Temporary Assistance for Needy Families, a program in the California Department of Social Services budget; Mr. Lenz noted that this had been proposed previously and would be subject to debate in the Legislature. Based on a preliminary review, the University believes that the impact of Cal Grant reductions on UC would be approximately $20 million in 2012-13 and could grow to $25 million; 250 students could lose their Cal Grant awards in the coming year, and this number could rise to 1,000 students when the program is fully implemented. The University expects that another 1,400 students would receive Cal Grant B awards; some students would move from the Cal Grant A to the Cal Grant B program. Mr. Lenz pointed out that the Cal Grant B program does not provide any funding for tuition in the first year of the grant award. The financial impact of changes to the student loan assumption program on UC graduates would be approximately a half million dollars in 2012-13, and could grow to an estimated $2.4 million in later years.
Mr. Lenz recalled that the Governor’s revenue initiative was one of a number of competing proposals that seek to provide additional State General Fund revenue, revenue that could support UC’s ability to craft a long-term funding agreement with the State.

Committee Chair Varner observed that more specific budget information would be provided at the next meeting, as more information became available from the State.

Regent Gould noted that the University had been fighting for a commitment from the State regarding the UC Retirement System for some time. The fact that the State had finally accepted this obligation was critical to UC. The State’s concept of block grants for capital funds would give UC the ability to use its own balance sheet. It was no surprise that the University’s credit is better than the State’s, and UC could take advantage of this. Regent Gould stated that the University and the Governor may not be far apart on a number of goals such as modest, predictable fee increases and an effective transfer function for community college students. He asked about the Legislature’s commitment to these goals and noted that the Legislative Analyst’s Office had projected that the Governor’s proposed tax increase would raise $4.8 billion rather than $7 billion in revenue; this reflected volatility surrounding the issue of taxes on upper-income levels, which is difficult to project. Regent Gould expressed his view that neither the Department of Finance nor the Legislative Analyst’s Office were entirely confident in their estimates, and his concern that differences in estimate might change the Legislature’s agreement with the University. Mr. Lenz responded that the University has been adamant in its meetings with the Governor’s administration that there must be a comprehensive discussion with the Legislature and agreement by the Legislature to support this agreement. Previous compact agreements have been criticized because they were formed without participation by the Legislature. Mr. Lenz noted that he and President Yudof were engaged in ongoing discussions with legislative leaders and staff. From the University’s standpoint, success in achieving an agreement would involve consensus by the Governor and the Legislature. Mr. Brostrom recalled that 62 percent of the University’s general funds provided by the State come from personal income tax, and mostly from the upper tax brackets. Volatility in that area has caused extreme fluctuations in the UC budget. This issue would be significant and warrant attention from the present moment to the May budget revision. The University was seeking a long-term agreement with the State with four percent growth as a floor.

Chairman Lansing requested clarification regarding the projections for new State revenue. Mr. Brostrom responded that projecting State revenue was more an art than a science, because these estimates depend on personal income tax, in particular on the capital gains tax. Adjustments to these taxes could shift State revenue by billions of dollars. He stated his view that the Governor’s budget proposal was a responsible plan that would give the University some upside revenue if there were growth between now and the May revision.

Chairman Lansing thanked Mr. Lenz and Mr. Brostrom for the report, and her fellow Regents for their work in speaking with members of the Legislature.
Regent Makarechian observed that the University now had no choice but to move toward lease revenue bonds. In the case of general obligation bonds used for capital improvements, the liability is on the State’s balance sheet, and this has helped to maintain the University’s good credit rating. He expressed concern that by moving from general obligation to lease revenue bonds, the University would increase its debt over a long period and set a precedent so that it would later be compelled to remain with lease revenue bonds, even when State revenues improved. Chief Financial Officer Taylor responded that the $2.5 billion in lease revenue bonds that had been issued by the State for UC facilities were already accounted for on the UC balance sheet as capital leases. The debt service responsibility would fall to the University, but this would be negotiated. The University had made it clear in its discussions with the Department of Finance that it could only relieve the State of this burden from its balance sheet if the State ensures that UC will receive the cash payment every year and be allowed to pledge a further body of revenue which it cannot now legally pledge, since it is State revenue. Mr. Taylor stated that this action should soften the impact on the University’s credit ratings. He pointed out that the State lease revenue bonds were structured very conservatively, as front-loaded debt that decreases dramatically over less than a 20-year period. The University would restructure these in terms of current financing techniques, so that the actual debt is aligned with the useful life of the project. Instead of 20-year bonds, these would be 30-year or 40-year bonds. The cash flow differential each year begins at approximately $100 million, and assuming four percent growth, the funds made available to UC would increase dramatically in five to seven years. Concerning general obligation bonds, Mr. Taylor remarked that the State had not yet determined the debt service for bonds it has issued on UC’s behalf. He expressed confidence that the University’s approach to lease revenue bonds would be well received by rating agencies and the market, and provide increased flexible cash flow. Mr. Brostrom added that the State had agreed to UC participation in a future statewide ballot initiative for general obligation bonds. He acknowledged that UC would be taking over the primary responsibility for lease revenue bonds. Mr. Taylor noted that the University would need authority to pledge State revenue as part of the broader pool of revenues, turning the general obligation bond credit into a true general pledge, a true general obligation bond of the University. If the University did not receive this authority, it would have to reevaluate its arrangement with the State regarding this matter.

Regent Reiss applauded the recognition by the State of its obligation to support the UCRP. She cautioned that there was no guarantee of funding for higher education in the Governor’s proposed ballot initiative, even under a favorable revenue scenario, and that there would be many interest groups competing for what monies were available.

Chairman Lansing stated that there would be a presentation on ballot initiatives at a future meeting to facilitate discussion of what the University’s position on initiatives might be and how it might negotiate with the State.

Committee Chair Varner noted that UC was exploring the possibility of an effective agreement with the State, a legally binding agreement unlike the past Compact with the Governor. Issues not addressed in initiatives might be included in the agreement.
Regent Reiss cautioned that a State constitutional amendment would trump such an agreement.

Regent Mireles communicated a message from members of the public who had been in attendance earlier that day. They expressed their support for the Millionaires Tax of 2012. Regent Mireles asked what percentage of UC students who might lose their eligibility for Cal Grants in 2012-13 would be covered by the Blue and Gold Opportunity Plan or other financial aid plans. Mr. Lenz responded that he would provide this information.

Regent Mireles expressed his hope that reductions to the Cal Grant program would not be made; if reductions were made, he hoped that the affected students would be covered through other institutional aid programs.

Mr. Brostrom stated that the proposed Millionaires Tax of 2012 did not include a requirement for maintenance of effort. If this initiative passed, the University might receive $500 million, but the Legislature could reduce this amount or the allocation of State General Funds to UC during the budget process.

Regent-designate Stein stressed that the rally for UC in Sacramento planned for May 17 should not only express opposition to budget cuts to education, but support for positive goals as well. He requested a comparison of projected student fee increases with or without the passage of the Governor’s proposed tax initiative, for the current and coming years. He requested further commentary on the Governor’s initiative and the Millionaires Tax.

Committee Chair Varner stated that these topics would be discussed at upcoming meetings.

Responding to Regent-designate Stein’s question about tuition, Mr. Brostrom stated that the University has considered a multi-year plan with a number of scenarios, and has discussed with the State a scenario with a moderate tuition increase. If the Governor’s tax initiative does not pass, the University would be faced with another $200 million reduction. The University would have to make trade-offs in its expenditure plan, and the impact on students would be significant.

Chairman Lansing thanked the discussion participants. The discussion represented a work in progress. The University would draw on points made during the discussion in its dialogue with the Governor’s administration and others.
The meeting adjourned at 12:35 p.m.

Attest:

Secretary and Chief of Staff