The Regents of the University of California

COMMITTEE ON FINANCE
May 16, 2012

The Committee on Finance met on the above date at the Sacramento Convention Center, 1400 J Street, Sacramento.

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

In attendance: Regents De La Peña, Hallett, Newsom, Pattiz, Pelliccioni, Ruiz, Schilling, Torlakson, and Zettel, Regent-designate Rubenstein, Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, 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, Blumenthal, Desmond-Hellmann, Drake, Fox, Katehi, Leland, White, and Yang, and Recording Secretary McCarthy

The meeting convened at 9:50 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 March 28-29, 2012 were approved.

2. **AUTHORITY TO INDEMNIFY MERCED IRRIGATION DISTRICT IN CERTAIN LIMITED AGREEMENTS, MERCED CAMPUS**

The President recommended that:

A. The President be authorized to approve the execution of agreements with the Merced Irrigation District (MID) that would allow the Merced campus to install and maintain improvements on Regents' property on and over MID's easements for the Fairfield and Le Grand irrigation canals, and the Papazian Powerplant facilities, that include an agreement to defend, indemnify and hold harmless MID, its officers, agents, and employees for any injury, damages, or claims arising out of the performance of the agreement and the University's use and enjoyment of the University's improvements.

B. The President, or his designee, after consultation with General Counsel, be authorized to approve and execute any documents necessary in connection with the above.

[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 stated that this item would authorize the President to approve the execution of agreements, including a third-party indemnity provision in favor of the Merced Irrigation District (MID), allowing UC Merced to install improvements on Regents' property underlying the existing MID easements for the Fairfield and the Le Grand irrigation canals and the Papazian Powerplant facilities. This is necessary because the Merced campus is expanding and will need to make improvements such as roads, bridges, pedestrian pathways, hand rails, lighting, fencing, and others over the easements.

Committee Chair Varner noted that this is standard procedure for these types of agreements.

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

3. **ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL**

The President recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2012-13 fiscal year shall remain at a rate of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

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Executive Vice President Brostrom stated that, for the prior few years, the Regents had adopted a payout rate for the General Endowment Pool (GEP) of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP. The Offices of the President and of the Chief Investment Officer recommended that this rate be maintained for the 2012-13 fiscal year, providing a gross payout that is estimated to be slightly higher than was distributed in the prior year for expenditures. Mr. Brostrom pointed out that the item states that, should financial circumstances warrant, the President may request that the Board approve an extraordinary payout later in the fiscal year. Such an action could be limited to unrestricted funds functioning as endowments that participate in the GEP. This option could be used as a bridging strategy should the State impose further cuts to the University's budget.

In response to a question from Regent Schilling, Mr. Brostrom stated that the rate would be 4.75 percent of the corpus of the GEP.

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

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

The President recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent) and apply to the distributions from the General Endowment Pool (GEP) to be made after July 1, 2012, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

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Committee Chair Varner stated that this item was a companion to the prior item. Executive Vice President Brostrom explained that each year the Regents adopt a rate for administrative cost recovery for the General Endowment Pool (GEP). In 2011, the Board voted to increase the cost recovery rate from 45 to 55 basis points (bps), a move Mr. Brostrom characterized as important, since it eliminated the amount campuses had been subsidizing endowment activities. This item recommends that the cost recovery rate remain at 55 bps.

Regent Schilling asked what cost recovery rate is used by UC's peer universities. Mr. Brostrom stated that rates range from 50 bps to 90 bps. The higher rate is used by some universities to cover more of their development activities. He stated that a higher rate would reduce the payout that would go, for example, to an endowed chair holder. Regent Schilling asked whether UC is considering increasing the cost recovery rate; Mr. Brostrom stated that each year his office works with the campuses to determine the level of administrative costs; his office feels that the 55 bps rate is sufficient currently to cover administrative costs. He stated that UC's campus foundations have varying rates on their cost recovery, some at 55 bps and some lower.

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

5. **APPROVAL OF FISCAL YEAR 2012-13 CapEquip FINANCING AUTHORIZATIONS**

The President recommended that:

A. The fiscal year 2012-13 CapEquip authorizations delineated in Attachment 1 be approved as one-year authorizations expiring June 30, 2013.

B. The President be authorized to approve and obtain external financing for the CapEquip program in an amount not to exceed $130,007,000.

C. The general credit of the Regents shall not be pledged.

D. The President be authorized to execute all documents necessary in connection with the above.

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Chief Financial Officer Taylor stated that this item would allow campuses entering into equipment leases to use the University's lower cost of financing if it would provide savings over using private, third-party vendor financing. He stated that campuses would experience substantial cost savings, particularly for equipment leased for more than three years. Vendor financing can be competitive for one-year leases, but the rates available to the University can provide substantial savings for longer-term leases. He estimated the overall savings to be $2 million to $3 million per year.

Regent Gould noted that the item specified that the general credit of the Regents shall not be pledged and asked if there would be any material difference if the general credit of the Regents were pledged. Mr. Taylor expressed his view that the University is under the restrictions of Proposition 13, which disallows general obligation credits to be pledged without voter approval. He agreed that UC could realize very substantial savings if the credit of the Regents could be pledged. He stated that the University has pooled its revenues as a repayment source to strengthen its credit.

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

6. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – NEW TIER PLAN PROVISIONS**

The President recommended that the Regents supplement the *University of California Post-Employment Benefits Recommendations* approved in December 2010 to amend the University of California Retirement Plan (UCRP or Plan) as follows:

A. Determine eligibility for membership in the new benefits tier (2013 Tier) in the UCRP using the date on or after July 1, 2013 on which an employee satisfies the UCRP eligibility criteria, which may be later than the employee's hire or rehire date.

B. For those UCRP members who accrue service under the current plan terms (Current Plan Terms) and the 2013 Tier (referred to as "multi-tier members"), clarify that:

(1) A member accruing service under the Current Plan Terms who terminates from University employment and is subsequently rehired on or after July 1, 2013 will not be deemed to have incurred a "break in service" (and therefore will continue to accrue service under the Current Plan Terms) if he or she returns to University employment in an eligible position before

the first day of the second month following the month in which the member terminated employment.

(2) If a multi-tier member elects to receive benefits accrued under the Current Plan Terms before reaching age 55, which is the earliest retirement date provided under the 2013 Tier, the member's monthly benefit attributable to service under the 2013 Tier will start automatically when the member reaches age 55, but not before.

(3) Multi-tier members must elect the same form of monthly retirement income and the same contingent annuitant, if applicable, for benefits accrued under Current Plan Terms and benefits accrued under the 2013 Tier except if a member elects the lump sum option for the Current Plan Terms benefit, which is not available under the 2013 Tier.

C. The President be authorized to implement these approved provisions, and supporting technical details.

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Committee Chair Varner stated that this item was a follow-up to provisions for a new tier to the University of California Retirement Plan (UCRP) that the Board had previously approved. Executive Vice President Brostrom said the recommended provisions are designed to clarify the operation of UCRP's new tier, which the Regents approved in December 2010 and which will go into effect in July 2013. He added that President Yudof had recommended approval at the current time so that implementation details can be communicated well in advance of the effective date. These recommendations would not increase the cost to UCRP. Mr. Brostrom stated that the primary recommendation is to define more clearly the effective date of the 2013 tier. Another clarification is that the new tier would apply to all career hires on or after the effective date, both new hires and rehires who have had a break in service.

Faculty Representative Anderson stated that the Academic Senate has some concern about this item. Individuals who retire from the University and are subsequently rehired would stop drawing their pension. Mr. Anderson expressed his view that, as the item is written, these individuals would be in the new tier for their subsequent service. Although the provision would apply to only a limited number of individuals, they are often critical hires. For example, this provision would apply to the current provost, his predecessor, and the incoming Vice President – Laboratory Management. Mr. Anderson commented that hiring a retiree in the senior staff is often a wise and useful strategy, but implementation of this provision could affect retirees' willingness to accept a position. He stated that the Academic Senate would like to discuss the provision further and return the matter to the Board for consideration.

Vice President Duckett stated that his office understands the concerns of the Academic Senate, but that the proposed provision would be in line with all current practices for rehired retirees and satisfy criteria for the 2013 new tier. Committee Chair Varner asked Mr. Brostrom to follow up with Mr. Anderson's request.

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

7. FORMATION OF A CAPTIVE INSURANCE COMPANY

The President recommended that the Regents:

A. Approve the University's participation in a captive insurance company (Captive Insurance Company), and authorize the President or his designee to execute any documents reasonably required for the formation of and participation in such company, following consultation with the General Counsel, provided that: (a) it is wholly owned by the Regents, except to the extent the company is a nonprofit corporation; (b) it is established and operated for University-related purposes; (c) its Bylaws require the majority of the directors of the Captive Insurance Company to be University representatives; and (d) its Bylaws provide for the formation of other captive insurance companies, only with the unanimous consent of the Captive Insurance Company's Board.

B. Authorize the President, following consultation with the General Counsel, to create other captive insurance companies, as needed, with the Captive Insurance Company's Board's approval pursuant to the Captive Insurance Company's Bylaws, and approve the University's participation in such other companies provided that: (a) they are established and operated for University-related purposes; and, (b) each such company's Bylaws require the majority of its board of directors to be University representatives.

C. Require the President to report on the University's captive insurance program in the Annual Report on Enterprise Risk Management.

[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 stated that the background material to this item outlined the benefits of establishing a captive insurance company, which had been the subject of a discussion item at the March Regents meeting. He added that more than one thousand colleges and universities throughout the nation either have their own captive insurance entity or participate in a pooled structure. Having a captive insurance company would help insulate the University from the wide swings in the insurance market and would give the University access to certain coverages, such as property terrorism coverage, that are currently too expensive for UC to purchase.

In response to a question from Committee Chair Varner, Chief Risk Officer Grace Crickette said that the domain of the proposed captive insurance company would be Washington, D.C.

Regent Island asked what risks would be involved in forming a captive insurance company. Mr. Taylor responded that UC would be exposed to no more risk than it is currently, since the University is already self-insured for workers' compensation, property liability, automobile liability, professional liability, and medical malpractice. Creating a captive insurance company would allow the University to cross-collateralize its current risks. Ms. Crickette added that there would be the risk that losses could exceed premiums; however, that possibility would be remote because of the rigorous approval process required to form the captive, a process she said would be even more rigorous than that required for UC's current self-insurance program. Regulators would review the captive to ensure appropriate funding and capitalization.

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

8. UPDATE REGARDING REPORT TO THE PRESIDENT ON RESPONSE TO PROTEST ON UNIVERSITY OF CALIFORNIA CAMPUSES

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

General Counsel Robinson stated that President Yudof had requested UC Berkeley School of Law Dean Christopher Edley and him to conduct a complete review of UC's policies and procedures, and national best practices on response to campus protests following the UC Berkeley and UC Davis protests of the past November. Their draft report was released on May 4.

Mr. Robinson indicated that the report focuses on civil disobedience as a protest tactic requiring special consideration, and makes 50 recommendations in nine subject categories. The report notes the need for the participation of senior administrators in the planning and execution of protest responses, before, during, and throughout a protest event, and recommends that campus administrators and police discuss objectives and tactics in an iterative process throughout the protest event. The report states that ultimately the protest response is the responsibility of the chancellor. The report also focuses on building relationships before protest events, to gain greater cooperation during events, emphasizes communication before and during protest events, and contains suggestions for communicating with leaderless groups. Guidelines for use of force, alternatives to its use, de-escalation techniques, and mediation are discussed. The report notes the need for consistency across the UC system, in particular in the types of options that should be available in response to particular types of activity, and authorization for use of weapons and other devices. The report proposes a procedure for post-event review at the Office of the President.

To provide a context for the events of the past November, Mr. Robinson noted that hundreds of demonstrations are conducted on UC campuses each year and are managed without incident. He commented that many of the report's recommendations are based on practices that are already used on many campuses.

Mr. Robinson stated that the comment period for the draft report is currently set to end on May 25, 2012. Comments would then be reviewed and the final report would be submitted to the President by the end of June. Mr. Robinson expressed his understanding that the President would then engage the normal processes for consultation and input from the various University constituencies.

The Committee recessed at 10:10 a.m.

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The Committee reconvened at 12:35 p.m. with Committee Chair Varner presiding.

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

In attendance: Regents De La Peña, Hallett, Newsom, Pattiz, Pelliccioni, Ruiz, Schilling, Torlakson, and Zettel, Regent-designate Rubenstein, Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, 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, Blumenthal, Desmond-Hellmann, Drake, Fox, Katehi, Leland, White, and Yang, and Recording Secretary McCarthy

9. **UPDATE REGARDING REPORT TO THE PRESIDENT ON RESPONSE TO PROTEST ON UNIVERSITY OF CALIFORNIA CAMPUSES, CONTINUED**

UC Berkeley School of Law Dean Christopher Edley emphasized the importance of considering the details of particular circumstances around protest events. He expressed his view that it would be unwise to create a rigid framework for responses, given the nuanced choices that must be made by administrators and police whose judgment should be guided by plans and principles established in advance. He also noted that the overwhelming majority of campus demonstrations are handled without major incident. Mr. Edley stated that expectations must be reasonable in light of the difficulty of the task. He stated that since November the chancellors have made significant changes on all UC campuses in policies and procedures for handling protests, in the direction of the recommendations of the report. Mr. Edley underscored the importance of establishing a review system, so that the insights gained currently remain fresh, even though University personnel will change.

Committee Chair Varner asked whether the report would recommend periodic updates and reviews. Mr. Edley responded that had not been determined. A more elaborate implementation memo for the President with suggestions about how to go forward will be developed, following consultation with the chancellors. General Counsel Robinson added that, while the details are yet to be finalized, the implementation memo would recommend reports from the chancellors six months and one year after the President's adoption of any of the report's recommendations.

Regent-designate Stein complimented Mr. Robinson and Mr. Edley on their report, which he said calls for a dramatic change in the handling of campus civil disobedience and protests. Regent-designate Stein highlighted changes already made on some campuses, including the establishment of a mediation program to intervene between protesters and the police, having chancellors and senior administrators on site for protests, and establishing mutual aid agreements with other UC police departments.

Regent-designate Stein requested further review of the draft report's categorization of protesters' linking arms as active resistance. He stated his view that the actions of protesters in linking arms on the Berkeley campus on November 9 should be considered passive resistance.

Regent-designate Stein also requested that the proposed implementation process of the report's recommendations be reviewed at the Regental level, possibly at the September Regents meeting, and include a report on the progress being made on campuses in adopting the report's recommendations.

Regent Island expressed his appreciation for the careful and insightful work that went into the draft report, the conclusions of which validate the fundamental values of the University. He asked Mr. Edley for his opinion on the appropriate outcome for students arrested in the bank blockade at UC Davis, and whether the Board should have a view of the appropriate outcome. Mr. Edley stated that he was not sufficiently familiar with the details of that situation to speak definitively. He expressed his view that Chancellor Katehi had done an excellent job of adopting new principles and policies at UC Davis and responding to a wide range of concerns since the incidents of the past November. He specifically complimented her testimony of the prior day at the hearing before the State Legislature, during which she listed all the changes that have been implemented at UC Davis.

About the bank protest at UC Davis, Mr. Edley stated that the protest had continued for 24 days. At some times, employees were unable to leave the building. The campus community was deprived of important and valuable services, and there were legal issues at stake for the University about the lease. He also expressed his view that the actions taken by the campus administration and the police were thoroughly considered; no fault could be found with their processes. Although one could have concerns about the outcome, Mr. Edley stated that the right considerations and values were applied under the circumstances.

On the other hand, Mr. Edley acknowledged concerns that the disposition of the students' situations lies with the District Attorney and is no longer within the control of the UC community or the Chancellor. One of the report's recommendations is that campuses consider creating an internal mechanism for administrative discipline against students as an alternative to referring matters to the District Attorney, so that non-criminal internal sanctions could be available. Mr. Edley stated that establishment of such procedures would have to address concerns involving the Family Educational Rights and Privacy Act; current student discipline mechanisms on each campus are currently ill-suited for such procedures and would have to be reformed or augmented. Mr. Edley advised the Board to avoid becoming involved in adjudicating individual disputes, but rather to provide a general framework with a realistic sense of the governance challenges involved.

Regent Zettel asked whether the subject matter of the report should be considered in the future by either the President's Advisory Council on Campus Climate or the Regents' ad hoc committee on campus climate. Mr. Edley stated that, as Vice Chair of the President's Advisory Council on Campus Climate, he believed that consideration of these matters would require an expansion of the Council's charter, but agreed it would likely be appropriate and would provide a good forum, short of the Council of Chancellors, for sharing best practices. He added that the composition of the Advisory Council might have to be revised to include individuals with the necessary expertise in this area. Mr. Edley said he would discuss this suggestion with President Yudof.

Faculty Representative Anderson expressed his view that the draft report is thoughtful and would move the University considerably forward on these issues. He stated that the report should be fully reviewed by the Academic Senate in the fall. He expressed his opinion that the report's recommendation that a single administrator at the Office of the President review or audit campus police activity would be difficult to implement, and suggested that a better alternative could be developed. Mr. Edley responded that the concept of using an auditor came from a review of relevant literature and discussions with national experts in policing. He stated that citizen review boards of police have lost favor both operationally and in terms of their political legitimacy. The auditor model has emerged in a number of cities and the draft report explains that such a model might be viable for UC, since it could provide an appropriate level of independence. Mr. Edley explained that the report envisions an auditor who would not review every incident, but only those deemed to be important by their merits or because of the politics of the situation. He encouraged submission of comments on the feasibility of this proposal in the draft report.

Mr. Anderson also suggested increased use of faculty as mediators in disputes. He cited a number of recent campus incidents in which faculty acted as intermediaries between administration and students, and achieved good outcomes. Mr. Anderson also stated that the student conduct rules regarding tolerable civil disobedience should be clarified. He expressed his view that if the level of student civil disobedience is tolerable, then the correct response would be no action. If the situation changes so that the disobedience becomes intolerable, because of either a change in the nature of the action or because of its duration, clear warnings should be given and the response should be calibrated to the nature of the situation. He stated that the boundaries between different categories of student actions should be clarified as much as possible. Mr. Edley stated that he would try to add more clarity to the draft report in this area. He agreed that a crucial question is to define circumstances when no response to protest is necessary, and the appropriate scaling of sanctions to the circumstances, although he expressed his view that this may be best decided at the campus level. Mr. Edley stated that the draft report concludes that it would be preferable for the University community to have input as to appropriate sanctions, rather than referring matters to the District Attorney's office.

Mr. Edley welcomed review of the draft report by the Academic Senate and said it would be helpful if the Senate could suggest ways in which campus faculty could become more involved in creating a climate of constructive engagement over these difficult issues, so that these areas are not the responsibility of only senior administrators. Faculty can help teach students how to engage in effective and valuable civic discourse.

Regent Pattiz congratulated Mr. Edley and Mr. Robinson on the flexibility of the report's recommendations. He noted that a small group of protesters have attempted to prevent the Board from considering the extremely important issues facing the University. He expressed support for the work of the campus police, who, he stated, should not be responsible for policy decisions. Regent Pattiz agreed with the draft report's conclusion not to create inflexible rules, but rather to develop guidelines for events that must be examined individually at the campus level.

Regent Mireles asked how students could submit comments on the draft report. Mr. Robinson reiterated that the current deadline for comments is May 25, 2012. Mr. Edley added that the report can be found on the Office of the President's website. Regent Mireles asked whether there is outreach to students about the draft report, particularly on the affected campuses, through the UC Student Association. Mr. Robinson said that UC communications personnel are currently publicizing the availability of the draft report for comment, with outreach to students and faculty. Regent Mireles emphasized the importance of making the draft report available for comments by students, since the events were of such concern to so many students. Mr. Robinson stated that he had received thoughtful comments that would be helpful in drafting the report's final recommendations.

Mr. Edley responded to Regent-designate Stein's earlier comment about the characterization of students' linking arms as active resistance. Mr. Edley expressed his view that the care with which a judgment is made by administrators and the police about whether to move demonstrators is more important than how the particular action of linking arms is characterized. If the decision is made by administrators to move protesters, the police would be consulted as to what would be necessary to move the demonstrators, and the administrators would have to decide whether using those tactics would be appropriate in that situation. Mr. Edley expressed his view that this interaction and judgment would be more important than any pre-established categories could be.

10. **UPDATE ON THE UNIVERSITY'S 2012-13 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.]

Committee Chair Varner stated that this discussion would be an update on the University's 2012-13 budget. Vice President Lenz commended the State administration and the Department of Finance for the way the University's budget was treated in the May Revision. He thanked personnel from the Department of Finance for their cooperation in working with his office on these difficult matters. In the Governor's May Revision, UC's 2012-13 budget is $2.57 billion from State General Funds. The State administration continues to recommend the shift of the debt service on general obligation bonds. The State's obligation to the UC Retirement Plan (UCRP), which had been proposed at $90 million in the January budget, has been reduced to $52 million. The increase in debt service for lease revenue bonds and funding for annuitant health benefits remain the same as in the January proposal. One change in the budget assumptions is that the mid-year budget reduction, if the Governor's tax initiative fails in the November election, would increase to $250 million from the $200 million in the January proposed budget.

Mr. Lenz stated that the Governor's budget assumptions in January were based upon a budget gap of $9.2 billion, but that gap had increased to $15.7 billion by the time of the May Revision. Factors contributing to the increase in the budget gap were that revenue estimates were off by $4.3 billion, and federal government rulings or court actions have precluded the administration from achieving $1.7 billion in assumed cuts that were to transpire in the 2011-12 budget.

Mr. Lenz outlined many difficult decisions facing the Governor's administration in its proposed budget and the Legislature in its budget deliberations. Under the proposed May Revision, redevelopment agencies would lose $1.4 billion, and Medi-Cal Managed Care would lose $1.2 billion. The CalWORKS time limit for assistance to needy families would be reduced dramatically, from its current four years to two years. Some State budget mandates and child care funding would be reduced. The budget for State Workers' Compensation would be reduced, based on layoffs or not re-employing 15,000 State workers, with another 11,000 workers assumed to be in that position in 2012-13, in addition to a five percent reduction in compensation to State workers. A reduction of seven percent for in-home supportive services would yield savings of $225 million, and would affect basic services for that population such as shopping, housework, meal preparation, and laundry. Another assumption in the May Revision is that the Governor's tax initiative will be successful in November, generating $5.6 billion in General Fund revenue in the 2012-13 fiscal year.

Addressing the effect of the May Revision on the UC budget, in addition to the $38 million reduction in State contributions to UCRP and the possible $250 million mid-year reduction, Mr. Lenz stated that the proposed Cal Grant program methodology would disqualify any institution with more than 15 percent of its students in default or a graduation rate lower than 30 percent. Mr. Lenz predicted that this change would not affect UC students; however a reduction in Cal Grant income standards in 2013-14 to the level of Pell Grant standards would affect many of UC's middle income students. Mr. Lenz stated that, should the Legislature not approve the proposed cuts to social services, monies from the federal Temporary Assistance to Needy Families program could be used to provide funds for those other social programs, and would not be available for the Cal Grant program.

While acknowledging that the University fared relatively well in the May Revision, Mr. Lenz displayed a slide showing that in the 2011-12 budget UC received a $750 million cut at a time when it had $362 million in mandatory cost increases, resulting in a $1.1 billion budget shortfall, which was mitigated in small degree by tuition increases. Turning to the University's 2012-13 funding needs, Mr. Lenz recalled that the Board had approved an expenditure plan of $326.6 million in November, after which UC was faced with another mid-year budget reduction of $100 million, which was absorbed centrally for the 2011-12 year, but would be absorbed by the campuses in 2012-13. The Working Smarter initiative should produce an additional $67 million in savings through continued efficiencies, in addition to the $157.4 million achieved over an 18-month period. Mr. Lenz expressed hope that current advocacy efforts would be successful in garnering an additional $125.4 million from the State and allow the University to avoid a six percent tuition increase. Even so, the University would still face a 2012-13 budget shortfall of $177 million. The proposed debt service restructuring would allow the University to achieve savings of $80 million to offset a portion of the $177 million deficit, leaving a $97 million shortfall.

Turning to the effects of a $97 million funding shortfall, Mr. Lenz stated that it would result in additional cutbacks in programs, further delays in hiring faculty, more layoffs, and more program consolidations or eliminations. He cautioned that his office has serious concern about the success of the Governor's November tax initiative, the failure of which would lead to an additional $250 million mid-year reduction.

Senior Vice President Dooley stated that the University would need a $300 million annual increase in order to stay even with increases in its mandatory costs. This figure assumes that the University can achieve its goal of $500 million savings in efficiencies through Working Smarter, creation of an equal amount of revenue through managing assets differently, aggressive controlling of mandatory cost increases, and restructuring the lease revenue bond debt. Mr. Dooley stated that he was encouraged that the Governor honored the structure of the agreement sought by UC in his 2012-13 proposed January and May budgets, with the exception of the $38 million reduction in the contribution to the UCRP. The $300 million shortfall could be provided by the State, or would have to come from a combination of State revenues and fees, or from some other as yet unidentified funding mechanisms.

Regent De La Peña stated that the current budget proposals assume that the financial situation of UC's medical facilities would continue as they are currently, but their operations could be affected by health care reform. The consolidation of health insurance plans could reduce the amounts that the medical facilities are paid.

Regent Reiss asked for clarification of the underlying assumptions leading to the conclusion of a $300 million annual shortfall. Specifically, she asked whether those calculations assume that the Governor's tax initiative would pass in November. Mr. Dooley answered in the affirmative. Regent Reiss asked for a conservative appraisal of the financial reality the University would face if the Governor's tax initiative fails. Mr. Lenz stated that his office could provide such an estimate in July or September after the State has deliberated on its 2012-13 budget.

Regent-designate Stein asked about the possible scenario mentioned in the background material under which the Office of the President would use one-time funds to cover financial aid augmentation to reduce the return-to-aid ratio from 33 percent to a lower percentage. He expressed concern that, while one-time funds could be found currently, this practice could lead to a reduction in the University's commitment to a 33 percent return-to-aid. Regent-designate Stein asked for confirmation of his conversations with the Office of the President in which he was assured that the percentage of return-to-aid would be reduced only after confirming that sufficient funds had been raised from other sources to make up the difference. He also asked what benefit would be gained by seeking those funds from a source other than return-to-aid. Executive Vice President Brostrom stated that his office has been pursuing this policy, which he views as promising, in conjunction with the campuses. Currently $700 million from tuition goes into return-to-aid. If other restricted resources could be used to supplant part of those funds, the tuition funds could be released as operating revenues directly to the campuses. In this way, the University could continue to meet its financial aid obligations without raising tuition. In the extreme, if enough revenues could be found, tuition could be cut. This procedure could actually mitigate the amount of a tuition increase. Normally, providing a five percent operating revenue to a campus would require a 7.5 percent tuition increase. A smaller tuition increase could be necessary if other funds could supplement the portion of tuition used for return-to-aid. Mr. Brostrom stated that this could help middle class families particularly, where the tuition increases are felt most significantly. Mr. Brostrom confirmed Regent-designate Stein's statement that the amount of return-to-aid would be reduced only after other replacement funding was found. Mr. Brostrom stated that the biggest challenge is to find funds to replace the return-to-aid on a permanent basis.

Regent Mireles asked Mr. Lenz how the proposed changes to Cal Grant standards would affect UC students and the Blue and Gold Opportunity Plan. Mr. Lenz stated that staff are working with the California Student Aid Commission and the Department of Finance to determine the specific impact on students. He stated that initial data indicate that the largest impact would be felt by UC students, rather than students at private colleges, community colleges, or the California State University (CSU). Mr. Brostrom said that his impression is that the intent of the change would be to lower the upper limit of families' incomes that would qualify students for Cal Grants. This could create a gap for UC for families with annual incomes between $50,000 and $80,000, and would threaten UC's ability to continue the Blue and Gold Opportunity Plan under which UC pays all tuition for families with incomes up to $80,000. Regent Mireles asked for further information for the Board of the effects of the proposed change on UC students.

Regent Lozano asked Mr. Lenz about the timing of Regents' decisions about tuition, noting that students have asked that a decision about tuition not be made in July when students are generally not at school. Mr. Lenz stated that, by the July Regents meeting, the campuses' fiscal years would already be two weeks old. In addition, students need to know their financial situations as early as possible so they can plan. Mr. Dooley added that, assuming the Legislature and the Governor adopt a budget by the end of the fiscal year, UC will know the status of the tuition buyout and State funding, and July would be the first opportunity for the Regents to make an informed decision.

Regent Gould said he agreed with Regent Reiss, that the Board needs to know more detail about the financial gap UC faces if the Governor's tax initiative does not pass. He stated that it would be necessary for the Regents to have this information as a context for other decisions, and in order to be candid about UC's financial position to the entire UC community and to the public. He asked what rate of growth of State General Fund commitment would be required to make up the $300 million currently projected budget gap. Mr. Dooley responded that it would take annual increases in State funding of 12 percent to 13 percent to make up that $300 million gap, assuming passage of the Governor's tax initiative. Mr. Lenz said that his office could update its report to the Regents of last year. Mr. Brostrom added that UC's financial situation is particularly perilous because so much of its projected expenses are mandatory costs, such as employer contributions to UCRP, increases in health and welfare expenses, collective bargaining agreements, and academic merit increases. Approximately 60 percent of the University's budget is non-discretionary. Cuts made in the limited areas where flexibility exists would be damaging to the University.

Regent Kieffer agreed that it is important for the Regents to have this information as soon as possible, so that the Board could make clear what the repercussions would be for the University should the Governor's tax initiative fail. He also stated that it would take time for the Regents to discuss possible changes in the structure of the University based on its financial situation.

Chairman Lansing characterized the existing $300 million budget gap as horrific, and added that, should the Governor's tax initiative fail, the resulting gap would become overwhelming. She complimented the Board on its active attempts to find alternate sources of revenue, for which several initiatives are in progress. These could provide a degree of additional revenue, but not enough to fill the existing budget gap. Realistically, the projected gap raises questions such as whether each UC campus can be all things to all people and about the future of UC. She stated that the Regents should have an open discussion about these issues. She referred to the bold ideas put forward by the UC Commission on the Future. She asked General Counsel Robinson whether the Board could pass a conditional tuition increase in July that would take effect only if the Governor's tax initiative does not pass and the State does not provide an additional $125 million to buy out a tuition increase. Mr. Robinson stated his view that it would be feasible to structure a tuition increase as conditional. Chairman Lansing stated that the agenda for the July meeting's discussion should include these matters.

Addressing staff concerns about the budget, Staff Advisor Smith recalled that at its November meeting the Board had approved an expenditure plan for 2012-13, including a non-mandatory three percent salary increase for staff and faculty. Mandatory elements of the expenditure plan include academic merit increases, contributions to UCRP, and non-salary price increases. Mr. Smith noted that some legislators consider the University's budget to be a discretionary item in the State budget, but the cost of the cuts to UC's budget are felt in the access, affordability, and quality of the University. Similarly, salary increases for non-represented staff should not be treated by the University as discretionary, but rather as a cost of doing business and an acknowledgement of the excellent work done by staff. Mr. Smith stated that the three percent salary increase in the current fiscal year was appreciated by staff after a period of furloughs and reinstitution of UCRP employee contributions.

Regent Newsom stated that the conversation of the prior week at the CSU Board of Trustees' meeting was very relevant to problems facing UC. If a substantive, detailed conversation about alternatives to deal with the magnitude of UC's anticipated budget shortfalls is not held, then the default response will always be to increase tuition. The tuition increases would not be six or ten percent, but would be 15 percent to 20 percent on a consistent basis. Regent Newsom stated that the Board needs to have a granular conversation about UC's mission and the challenges facing the system. That conversation took place the prior week at the CSU, in a way that Regent Newsom had not seen before in the time he has served on its Board of Trustees. The CSU discussion included 19 specific options, including shutting down campuses, eliminating sabbaticals for tenured teachers, increasing faculty teaching requirements, changing employee compensation around contributions to health care, utilizing online education, and increasing specialization of campuses. Regent Newsom stated that CSU used UC as an example of possible gains through increasing efficiencies. He stated that the Board needs to have specific alternatives presented in detail in order to consider options, and in order to gain public input and feedback.

Regent Schilling clarified that, even if the Governor's November tax initiative passes, there is no guarantee of what portion of those funds would go to UC. Mr. Lenz agreed with her assessment. Regent Newsom added that the initiative's passing would certainly save UC from an additional $250 million cut.

Chairman Lansing stated that the agenda for the July meeting would include a full and open discussion of options available to the University to deal with the budget shortfall.

Regent-designate Stein addressed the issue of the Board's endorsement of the Governor's tax initiative. He stated that, should the initiative fail, the fiscal effects are known: UC would face a $250 million cut and the State would experience structural deficits for years going forward, which would likely result in further cuts to the University's budget. Regent-designate Stein expressed his view that there are also substantial political reasons to endorse the Governor's tax initiative. If the Board were the only public stakeholder that does not endorse the initiative, UC's relations with Sacramento could be damaged for years. On the other hand, a Board endorsement of the measure would help the University build a positive relationship with the State administration. He expressed hope that the Board would join the students, alumni, and faculty in endorsing the Governor's tax initiative.

Regent Island recalled that the Board has had earlier discussions about how to survive reductions in State funding. He stated that, should the Board devise a plan for going forward with a $300 million reduction to its budget, UC will be expected to do just that. He expressed his view that the challenge is to determine whether the Board can legitimately imagine the University with $300 million in reduced expenses.

Regent Pattiz stated that, while alternatives could have a negative effect on the affordability, quality, and accessibility of the University, funding realities make it necessary to devise a plan. He urged the Board to engage in a constructive dialogue about alternatives. He stated that some suggestions are dismissed because they would not save the University money for three years; however Regent Pattiz pointed out that, if those plans had been acted upon six years ago, the University would have been saving money for the past three years. Chairman Lansing said that the University has faced a reduction in State funding of $1 billion. She agreed with Regent Pattiz that certain actions might have to be taken, even though they are unpalatable.

Regent Lozano stated that, rather than start anew, the work of the UC Commission on the Future should be revisited, to examine the long-term structural needs of the University. She suggested reviewing the reasons certain recommendations of the Commission on the Future were rejected when they were proposed, and the political realities to be confronted in moving to an approval of any changes. Chairman Lansing agreed that the work of the Commission on the Future should be used as a starting point for discussions.

Regent Newsom asked that a report on any recommendations include specific associated obstacles, for example, whether an option would involve collective bargaining, or what savings certain options would yield in the short term and in the long term. He stated that the July meeting would be more productive if more work were done ahead of the meeting to provide such specific details. Chairman Lansing agreed.

Regent Reiss suggested having a retreat for the Board to evaluate the recommendations of the Commission on the Future. She stated that a clarification of the Board's view of the University's essential mission and goals would provide a framework for the consideration of options. Regent Reiss recommended that the discussion include defining the mission of UC as a public university, discussing the nature of the University as an educational and research institution, and UC as a ten-campus system, given the continued disinvestment by the State. The discussion should also include any new ideas not included in the recommendations of the Commission on the Future. Committee Chair Varner recommended including specific input from the chancellors, particularly on which options would be achievable and which would meet more resistance.

Regent Kieffer encouraged UC faculty to discuss these issues within the Academic Senate, since UC has a shared governance structure; any proposal by the Board would require support of the faculty. He urged the Board's Faculty Representatives to inform faculty of this upcoming discussion, and to ask what steps they would recommend. Regent Kieffer also stated that the current changes taking place across the nation in higher education represent a time of opportunity for UC.

Chairman Lansing stated that one day of the July Regents meeting would be devoted to a discussion of these options.

The meeting adjourned at 1:55 p.m.

Attest:

Secretary and Chief of Staff

Table A: Approval of FY2012-13 CapEquip Authorization

UC Location	FY 2012-13	Description of Expected Equipment Purchases
Berkeley	$ 20,000,000	Research equipment, telecommunications equipment, other equipment, software and refinancing of certain existing capital equipment leases
Davis	5,000,000	Science and laboratory equipment, animal caging, facilities maintenance equipment and computer software
Irvine	6,000,000	Research equipment, medical equipment, IT equipment, Student housing furnishings and equipment
Los Angeles	4,000,000	Medical and diagnostic equipment, research equipment, shop equipment, communications and networking equipment, software licenses, and refinancing of certain existing capital equipment leases
Merced	2,267,000	Student housing project equipment, academic trailers and fleet services vehicles
San Diego	7,000,000	Research, medical and diagnostic equipment, budget software and refinancing of certain existing capital equipment leases
San Francisco	15,000,000	Scientific equipment, transportation vehicles and information technology/network
Santa Cruz	740,000	Shuttle and emergency vehicles
Office of the President	70,000,000	PPS replacement system (i.e., a single payroll system and a single human resources system that will be deployed across all ten campuses and five medical centers) and Procurement $200mm program
Total Authorization:	**$ 130,007,000**	

* The University's Medical Centers may participate in FY2012-13 CapEquip through an authorization at a later Regents meeting, likely July 2012

Table B: Financial Feasibility Statistics

UC Location	Maximum Debt Service to Operations (Year)	Minimun Debt Service Coverage (Year)
Berkeley	5.40% (2016)	3.97x (2016)
Davis	3.10% (2013)	3.76x (2013)
Irvine	4.10% (2014)	4.52x (2014)
Los Angeles	4.00% (2017)	2.96x (2017)
Merced[1]	n/a	n/a
San Diego	4.2% (2016)	2.09x (2016)
San Francisco	4.10% (2017)	2.77x (2021)
Santa Cruz	5.00% (2013)	3.40x (2013)
Office of the President[2]	n/a	n/a

1. The Merced campus is exempt in this case from meeting the required financial feasibility statistics
2. The Office of the President will maintain its budget to meet CapEquip related debt service payments

* Approval thresholds are 6.0 percent debt service to operations and 1.75x debt service coverage