The Regents of the University of California

COMMITTEE ON FINANCE
March 19, 1998

The Committee on Finance met on the above date at UCSF-Laurel Heights, San Francisco.

Members present: Regents Atkinson, Johnson, Khachigian, Lee, Levin, McClymond, and Sayles; Advisory member Miura

In attendance: Regents Chandler, Clark, Davies, Hotchkis, Leach, Montoya, Nakashima, Ochoa, and Soderquist, Regent-designate Espinoza, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, and Hershman, Chancellors Berdahl, Carnesale, Debas, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, and Recording Secretary Nietfeld

The meeting convened at 4:20 p.m. with Committee Chair Johnson presiding.

1. **AUTHORIZATION TO ESTABLISH A LIMITED LIABILITY COMPANY WITH THE BAY AREA LIFE SCIENCES ALLIANCE FOR THE PLANNING AND DEVELOPMENT OF THE UCSF MISSION BAY CAMPUS SITE**

The President recommended that:

A. The Regents authorize the establishment of a limited liability company (Company) with two members, the Bay Area Life Sciences Alliance (BALSA) and the University, for the planning and development of the UCSF Mission Bay campus, the Company to be called UCSF Mission Bay Campus, LLC.

B. The Regents authorize the President, in consultation with the General Counsel, to execute all documents necessary to establish the Company, including, without limitation, an Operating Agreement, such agreement to include the following provisions:

(1) The Company shall be organized exclusively for nonprofit purposes; specifically, to support, benefit, and further the charitable, scientific, and educational purposes of UCSF by facilitating the planning and development of the Mission Bay campus;

(2) The University and BALSA shall make initial contributions to the Company, such contributions to be identified in the Operating Agreement;

(3) All strategic decisions with respect to the planning and development of the Mission Bay campus shall be within the control of the University.

In this regard, certain actions of the Company shall require the approval of the University only. These actions include, among others, the following:

- Sale or transfer of any of the assets of the Company.
- The incurrence by the Company of any liability or obligation in excess of $100,000.
- Termination of any groundlease of property by the University to the Company.
- The mortgage of any property of the Company to secure payment of the Company's obligations.

Certain actions of the Company shall require the approval of both the University and BALSA. These actions include, among others, the following:

- All amendments to the terms of the Operating Agreement or any modification to the purposes of the Company.
- Admission of additional members of the Company.
- The adoption, approval, or amendment of any capital or operating budget being managed by the Company.

(4) Subject to continuing University oversight and control, the day-to-day administration of the Company shall be conducted by BALSA. BALSA may be relieved of its administrative responsibilities at the request of the University. The Chancellor of UCSF shall be the designee of the University as a Member of the Company;

(5) The duration of the Company shall be until December 31, 2015;

(6) The Company shall provide to the University audited annual financial statements and an annual program report which will describe actions taken by the Company to implement programs previously authorized by the University;

(7) Either the University or BALSA may withdraw as a member of the Company on not less than 365 days' notice to the other party;

(8) The Company may make distributions (on dissolution or otherwise) only to the University or BALSA. Distributions to BALSA shall be limited to assets which were initially contributed by BALSA and which have not been designated in furtherance of the Company's purposes, such as working capital; and

(9) Neither the University nor BALSA may transfer its interest in the Company to a third party without the consent of the other party.

Regent Davies noted for the record that he would not participate in the discussion due to a previously disclosed conflict of interest.

Chancellor Debas introduced members of the BALSA Board of Directors who were in attendance: Dr. William Rutter, Mr. Gerson Baker, Mr. John Larson, and Mr. Cliff Graves, President of BALSA.

Chancellor Debas recalled that in May 1997 the Board approved the selection of Mission Bay as the site for a new campus. The Regents also accepted a gift of 43 acres of land from Catellus Corporation and the City of San Francisco. The planning of the UCSF Mission Bay campus was described to the Regents in November 1997, as was the composition of BALSA. In January 1998 the campus presented the concept of a limited liability company as a means of formalizing the relationship between the University and BALSA for planning and development of the new campus.

BALSA

BALSA has been established to support the planning and development of the Mission Bay campus. It represents a unique combination of individuals associated with the life sciences and biotechnology fields who bring significant benefits to the efforts associated with development of the Mission Bay campus. Over the past year, BALSA has devoted substantial time and resources to facilitate the conclusion of an agreement between Catellus and the University for the conveyance of the Mission Bay campus site to the University (the Catellus Contribution Agreement). In addition, BALSA played a central role in underwriting and managing the international design competition to select a master planner for the site. The process was successfully concluded in October 1977 with the selection of Machado & Silvetti Associates of Boston in association with Gordon H. Chong of San Francisco. BALSA has underwritten the costs of the preparation of the master plan and will contribute the plan to the Company. UCSF and BALSA now wish to formalize this collaborative effort by creating a vehicle which will ensure that BALSA's involvement and contributions to the Mission Bay campus may be expanded and made more effective for the benefit of the University.

Limited Liability Company Structure

As described at the January 1998 meeting, the Company will be treated as a 501(c)(3) entity for federal income tax purposes to ensure the tax deductibility of donations to the Company. The parties intend to form the Company under California law. There is some question as to whether the California Secretary of State will accept an application for formation of a limited liability company established specifically for nonprofit purposes, as this structure is not explicitly addressed by the California statute authorizing the formation of LLCs. If the application is not accepted by California authorities, the parties intend to establish the Company under Delaware law, which specifically permits the formation of limited liability companies for nonprofit purposes. There are no significant differences between the application of Delaware law and California law to the operation, control, or accountability of the Company.

Purposes of the Company

The Company will be organized exclusively for nonprofit, charitable, educational, and scientific purposes to support, benefit, and further the programs and mission of UCSF by ensuring that the planning and development of the Mission Bay campus is efficient, integrated, cost-effective, and consistent with the social, economic, and urban design interests of the City of San Francisco. In furtherance of these purposes, it is proposed that the activities of the Company will be broad and will include the following:

- Assist with the negotiation, documentation, and implementation of the terms of the Catellus Contribution Agreement.

- Manage, in cooperation with the University, the preparation of the Mission Bay campus master plan within the framework of the UCSF Long Range Development Plan and the Catellus Contribution Agreement.

- Develop for review by the Office of the President and The Regents strategic long-range development and financing options for the development of the Mission Bay campus.

- Provide support for and complement, on an ongoing basis, the UCSF Foundation’s fundraising program.

- Collaborate with, support, and facilitate UCSF's governmental and community relations efforts, including supporting the campus and The Regents in their ongoing communication with Catellus and the City of San Francisco with respect to issues arising under the Catellus Contribution Agreement and the development of the Mission Bay campus and surrounding areas.

- Promote the Mission Bay campus to third-party research organizations whose presence and involvement at Mission Bay would enhance the academic mission of UCSF and work with UCSF and those organizations to secure the necessary facilities at the Mission Bay campus.

- When requested to do so by the University, manage the design, construction, and financing of buildings at the Mission Bay campus.

- Lease or sell to the University, or other entities approved by the University, buildings developed by the Company.

- When requested by the University, develop and implement on an ongoing basis property management programs for the Mission Bay campus.

Capital Contributions

The Operating Agreement will provide that both BALSA and the University make capital contributions to the Company. BALSA's initial capital contribution shall consist of $2 million in working capital, BALSA's interest in the master plan developed by Machado and Silvetti, and ongoing staff support to the Company, at a level to be agreed upon by the University and BALSA. The University's capital contribution shall consist of one or more groundleases of the Mission Bay campus to the Company when the University deems it appropriate and necessary to further the purposes of the Company and the University, and ongoing staff support to the Company, at a level to be agreed upon by BALSA and the University.

As land is transferred to the University under the terms of the Catellus Contribution Agreement and plans for development of specific buildings are completed, it is anticipated that UCSF may seek authorization from The Regents to enter into one or more groundleases that would allow the Company to develop buildings at the Mission Bay campus.

With respect to the staffing of the Company, it is anticipated that in the initial stages staff support will be largely provided by employees of the University and BALSA. Third parties such as architects and consultants will be retained as necessary. As the activities of the Company develop, the number of staff hired directly by the Company may increase.

The University and BALSA may make additional capital contributions if and to the extent they so desire.

Company Operations

In order to ensure that the Company effectively benefits UCSF, it will be structured to allow all strategic decision making with respect to the planning and development of the Mission Bay campus to remain with the University. There is no delegation of Regental or Presidential authority to the Company. Actions outside the Chancellor's delegated authority will require either the consent of the President or the approval of The Regents. In this regard, the Company's capital and operating budgets may be amended only in accordance with Regental policy.

It is anticipated that in the future, as the relationship with BALSA develops, the performance of the Company is established, and the Company is providing demonstrable benefits to the University and the community, the campus administration will return to the President and The Regents with requests, when appropriate and consistent with all laws and University policies, for further approvals so that the Company may undertake development of individual buildings at the Mission Bay campus.

Subject to the substantial involvement and control of the University, the day-to-day administration of the Company will be conducted by BALSA. At the request of the University, BALSA may be relieved of its administrative responsibilities, and a new administrator may be selected by the University. BALSA will not be reimbursed for the salaries, compensation, or fringe benefits of its directors, officers, or employees, except with the approval of the University in circumstances where such costs are appropriate for allocation to the capital cost of a specific project.

Except with respect to assets provided by BALSA, during the operation of the Company the University may direct the Company to distribute specified assets to the University.

Although BALSA and the University believe that the collaboration should be long-term and significant, the Operating Agreement will provide that it may be terminated by either party on not less than 365 days' notice to the other party. If the University elects to withdraw from the Company, it will be dissolved automatically. If BALSA elects to withdraw from the Company, the University may, at its option, continue the existence of the Company. The Operating Agreement will provide that neither party may transfer its interest in the Company without the consent of the other party.

On dissolution of the Company all real property, improvements, personal property, and fixtures, either leased or owned by the Company, will be distributed to the University. All other Company-owned property and proceeds will be distributed to the party who initially contributed such property. Donor assets will be distributed consistent with donor intent.

Conflict of Interest

In connection with the formation of the limited liability company and the continuing planning and development of the Mission Bay campus, the University is working with BALSA to ensure that any potential conflicts of interest on the part of the directors and officers of BALSA are identified and resolved. In particular, all directors and officers of BALSA will complete statements of interest which will disclose in an open way all direct or indirect interests these individuals may have in the Mission Bay campus and surrounding areas. BALSA has undertaken to update these statements to reflect any change in circumstances or otherwise as requested by the University. In addition, it is the intent of both the University and BALSA that no party, including BALSA, may obtain economic or development advantages as a result of these arrangements.

President Atkinson commented that the development of the Mission Bay campus represents one of the great opportunities of the century for the University of California. He expressed his appreciation to the members of BALSA for their achievements in this regard.

Regent Lee asked that the administration look into the question of whether the School of Public Health at Berkeley should be moved to the Mission Bay campus.

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

2. UPDATE ON UNIVERSITY SUPPORT GROUPS

Senior Vice President Kennedy recalled that efforts regarding support group compliance began in July 1994 in response to issues that arose from the State Auditor’s review at the San Francisco campus. President Peltason directed the chancellors to undertake a review of campus organizations that were, in some way, identified with support of the University’s mission. The purpose of the review was to identify the groups and to ensure that they were conducting their activities in accordance with University policies and procedures. Simultaneously, President Peltason appointed an ad hoc committee to review existing UC policies and administrative guidelines and recommend areas that needed strengthening.

The campuses surveyed several thousand organizations, from which fifteen hundred were evaluated by Internal Audit. With the help of the University’s then-external auditor, KPMG Peat Marwick, approximately seven hundred of these organizations were reviewed as possible support groups. Concurrently, new systemwide policies and implementation guidelines were written to set new oversight standards and clarify procedures. Throughout this process, the need to assure support group compliance with University policies was driven primarily by the need to be clear that privately raised money was being used in ways consistent with donor intent and applicable laws.

Because nearly all support groups are associated with the campuses, the primary compliance responsibility has been assigned to the chancellors, with oversight by the University Auditor. For those organizations identified as support groups, the range of outcomes includes:

- Bringing the organization into full compliance with the new policy;
- Changing the form of the relationship to an officially recognized affiliation under an appropriate agreement approved by the Chancellor;
- Dissolving the organization and merging its assets into the campus foundation;
- Dissolving any relationship with the organization and prohibiting the use of the University's name or resources.

The vast majority of organizations identified earlier as possible support groups are now recognized as bona fide campus support groups fully complying with University policy. A few others are complying with University policy as they work through the internal affiliation processes. Some organizations under study earlier were dissolved and their assets transferred to the University. Of the thousands of organizations originally surveyed, a relatively small number continue to await resolution. Campus management, with the support of Internal Audit and the Office of the General Counsel, continues to pursue aggressively these cases.

University Auditor Reed recalled that the review described by Senior Vice President Kennedy cast a wide net in order to ensure that all such organizations were considered. As noted by Mr. Kennedy, more than seven hundred organizations were identified for assessment of support group status, and over three hundred of those were determined not to be support groups. When dissolved and disaffiliated groups are added in with the non-support groups, the number of organizations currently being monitored by campus compliance efforts is 326. The campuses now report that eighty percent of those entities are fully in compliance with the revised support group policy. At each campus a vice chancellor or assistant chancellor has overall responsibility for the support group compliance efforts. Each campus has staff assigned in this area, and a variety of compliance and monitoring efforts have been established, which include the following:

- Maintenance of a support group database
- Development of registration materials and registration processes
- Development and dissemination of handbooks containing University and local campus policies, guidelines, and procedures to faculty, staff, and support group leaders
- Review of annual programs and reports
- Review of fundraising materials
- Development of compliance checklists.

Mr. Reed observed that the University has in place the necessary mechanisms to bring the remaining organizations into compliance and to assure that adequate compliance efforts are continued into the future. These mechanisms include strengthened policy and guidelines, assigned leadership responsibility, staffing, and compliance and monitoring tools. The efforts of the campuses are supported by, and oversight is provided by the Office of the President in a variety of ways. University and External Relations is principally responsible for policy interpretation and guidance on its applications. This Division works to ensure that the policy is consistently interpreted and applied throughout the University. Internal Audit, the Office of the General Counsel, University and External Relations, and Business and Finance provide advice and support to the resolution of the more contentious compliance matters, while Internal Audit continues to gather data to assist in monitoring the compliance efforts and will continue to do so until all support group organizations are fully in compliance with the new policy.

Regent Clark asked whether the General Counsel was confident that all of the funds which were solicited by non-complying organizations to which the University is entitled had in fact been turned over to the University. General Counsel Holst noted that, as indicated by Mr. Reed, a number of matters remain unresolved. University Auditor Reed reported that information from the campuses indicates that funds in the control of organizations with which the University is in negotiation total approximately $23 million, the bulk of which involve the Medicine, Education, and Research Foundation at the San Diego campus.

3. **AGREEMENT WITH MERF CONCERNING THE TRANSFER OF ASSETS, SAN DIEGO CAMPUS**

The President recommended that he be authorized to enter into an agreement with the Medicine, Education, and Research Foundation (MERF) for the purpose of transferring at least 75 percent of the Segregated Assets (assets held by MERF in segregated accounts for the benefit of a specific UCSD Department of Medicine program or in support of the research and instructional activities of a Department of Medicine faculty member) of MERF to the University before June 30, 1998 for the benefit of academic programs and research on the San Diego campus, with up to 25 percent of Segregated Assets to be transferred at the direction of MERF to other qualified public charities, but only to the extent permitted by the terms of the original gift to MERF; and all of the Unsegregated Assets of MERF to the University in six years when MERF is dissolved.

President Atkinson observed that University policies with respect to support groups, faculty consulting, conflict of interest, and conflict of commitment were until recently not in accord with those of its comparison institutions. Although the University has put in place a number of critical changes, the President reported that he had established a special group to review all of the policies in these areas and their relationship to those of other universities.

Chancellor Dynes reported that the review of supporting organizations at the San Diego campus identified 42 unregistered organizations that appeared to fit the University's definition of a UC support group. Twenty-three of these were affiliated with the School of Medicine, the largest of which was the Medicine, Education and Research Foundation. Chancellor

Dynes noted that the negotiations leading up to the proposed agreement have been long and arduous and that there is no guarantee that the MERF Board will approve it.

Vice Chancellor Woods continued that MERF is a nonprofit educational corporation, formed in 1976, that has provided approximately $20 million, primarily in unrestricted gifts, to the UCSD Department of Medicine since 1983 for research, faculty support, facilities, equipment, and student scholarships. It is comprised of over 150 faculty in the Department of Medicine at UCSD's School of Medicine. Initially, MERF's income was derived primarily from sponsoring continuing education courses and selling associated study materials. Over time, income was derived from other activities such as administering clinical trials for private sponsors.

The campus' assessment following the support group review was that MERF's practices caused it to be a UCSD support group as defined by Regental policy. MERF had the largest reported assets of any probable support group surveyed, with assets totaling $16.7 million on its 1993 federal tax return. In Spring 1995, representatives of the San Diego campus administration and the General Counsel met on a number of occasions with MERF representatives and its legal counsel to attempt to gain access to MERF records or, as an alternative, to obtain an independent third-party audit of MERF, with full disclosure of audit results to the University. MERF, which refuted UCSD's claim that it was a support group, did not agree with either approach and hired Deloitte & Touche to perform a limited-scope evaluation of MERF's financial records under MERF direction. Although the results were shared with UCSD, they did not address the campus' concerns. MERF rejected the campus' claim that it was a University support group and refused the campus' request for access to the organization's financial records. UCSD conducted an audit of the business association between MERF and the University, which was completed in November 1996 and disseminated to The Regents in December 1996.

Major audit findings included the following:

- Certain clinical trial and service/research agreements which used University staff and other resources were negotiated and signed by Department of Medicine faculty and a department official and were administered through MERF.

- Clinical trial and service/research agreements administered through MERF were not assessed University indirect costs.

- MERF made contributions to a UCSD general ledger gift fund which offset direct research expenses incurred by the Department of Medicine. Because of the MERF delay in transferring funds to the University, this account was routinely overdrawn.

- Potential conflicts of interest, as defined by the State of California Political Reform Act of 1974, resulted from Department of Medicine faculty control over the use of

MERF-administered research funds. In addition, a department official represented both the University and MERF in business transactions which financially impacted both entities. This individual also received compensation and benefits from both entities.

Mr. Woods reported that, following the issuance of the audit report, UCSD staff, with the assistance of the General Counsel, began extensive negotiations with the MERF Board of Directors with the goal of dissolving MERF and transferring its assets to the University. Subsequent consultations with KMPG Peat Marwick and a limited review of MERF financial records led to the conclusion that MERF could have some third-party liabilities which could not be confirmed or quantified. As a consequence, the agreement with MERF that is being recommended contains the following major points.

MERF shall transfer at least 75 percent of its approximately $9 million in Segregated Assets to the University prior to June 30, 1998, for the benefit of academic programs and research on the San Diego campus. "Segregated Assets" refers to those assets held by MERF in a segregated account for the benefit of a specific Department of Medicine program or in support of the research and other work of a UCSD faculty member. Up to 25 percent of Segregated Assets may be transferred to other qualified public charities as defined under §501(c)(3) or §509 of the Internal Revenue Code, if that is permitted by the original donor of the gift. MERF will retain approximately $3 million in assets for a period of six years during which time it will continue to exist as a 501(c)(3) organization, but it will not accept any new monies from any source, other than earnings on its retained assets. Retention of these funds will allow MERF to fulfill pre-existing commitments and wind up its affairs in an orderly manner. At the end of the six-year period, MERF will dissolve and distribute its remaining assets, net of liabilities, to the University.

In response to MERF's request, and after a great deal of negotiation, it has been agreed that a release for the benefit of MERF and its officers and employees could extend to actions taken in good faith and in the reasonable belief that those actions were lawful and appropriate. A reasonable belief would have to be demonstrated by a preponderance of evidence and be more than uncorroborated testimony. Additionally, the release would not apply to third-party claims in which the University filed a cross-claim unless the MERF employee or officer acted in good faith and in the reasonable belief that such actions were lawful and appropriate.

MERF would maintain directors' and officers' insurance while it remains in existence, provide UCSD with monthly financial statements, and should UCSD determine an audit to be appropriate at any time, MERF would cooperate fully.

Mr. Woods explained that the San Diego campus believes that this agreement provides the best option for ensuring that a substantial portion of MERF's current assets come to the University to support School of Medicine faculty and projects.

<u>Other UCSD Affiliated Organizations</u>

Mr. Woods reported that, of the 19 organizations that support other University programs, 18 are now either fully or substantially in compliance with the Support Group Policy. This means that they have registered as support groups, have dissolved and transferred their assets to the University, or are in the process of completing one of these two options. Discussions are ongoing with another organization to clarify its relationship to UCSD.

In addition to MERF, 22 other foundations affiliated with UCSD's School of Medicine were identified in the initial review of support group activity. In September 1996, the UCSD School of Medicine Affiliated Foundations Task Force was formed primarily to develop a plan to ensure that all support groups and foundations are in compliance with Regental policy and to develop a process which can be consistently applied to any organization that does not agree to comply with current University policy.

Compliance Plan

The initial campus strategy had three parts: dissolution of those organizations that wanted to do so, with all existing assets transferred to the University or to the UC San Diego Foundation; registration of support organizations in full compliance with UC policies; or disaffiliation of those organizations that were clearly not support groups. Meetings were held with the leadership of each of these organizations, with the following results:

- Eight foundations have dissolved or are planning to do so.
- One foundation clearly should not have been on the support group list and has been removed.
- One foundation registered as a support group.

The remaining 12 foundations, with aggregate assets of about $7 million and individual assets ranging from $8,000 to $3.1 million, believe they are not support groups and wish to disaffiliate. UCSD has delayed final negotiations with each of the foundations pending the outcome of the extensive analysis necessitated by the MERF process. The campus now intends to implement the following strategy:

- Each of the remaining foundations will be asked either to register as a fully complying UCSD support group or to dissolve and transfer a negotiated portion of assets to the University.

- For those foundations that do not dissolve or become support groups, UCSD will meet with the leadership of each to explain that after June 30, 1998, UCSD will no longer accept funds from these foundations and will forward all campus records to the General Counsel to determine if legal action against the foundations should be undertaken.

New Procedures

Vice Chancellor Woods completed his report by noting that after July 1, 1998, in addition to the gift acceptance policies and practices currently in place, UCSD Gift Administration and the Support Group Office will carry out additional procedures related to gift acceptance. This additional oversight will help ensure that the University does not have inadvertent exposure to contractual obligations of which it has no knowledge and that the acquisition and use of resources conform to established policies. The proposed changes include seeking--prior to gift acceptance and allocation--an attestation of non-support group status from donor organizations with which the campus is unfamiliar, and an attestation from the intended beneficiary that the gift is bona fide and that no consideration has been promised to the donor.

The Support Group Office, working with Internal Audit Services, will carry out any additional monitoring procedures on a periodic basis as needed to determine University-affiliated organizations and to ensure that all supporting organizations are operating in compliance with the University Policy on Support Groups and the related Administrative Guidelines.

General Counsel Holst stated that he would provide additional comments concerning MERF litigation in a closed session, with action to be taken by the Committee when the open session has reconvened.

The Committee went into Closed Session at 4:50 p.m.

. . . .

The Committee returned to Open Session at 4:55 p.m.

Members present: Regents Atkinson, Johnson, Khachigian, Lee, Levin, McClymond, and Sayles; Advisory member Miura

In attendance: Regents Chandler, Clark, Davies, Hotchkis, Montoya, Ochoa, Parsky, and Soderquist, Regent-designate Espinoza, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, and Hershman, Chancellors Carnesale, Debas, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, and Recording Secretary Nietfeld

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

The meeting adjourned at 5:00 p.m.

. . . .

The Committee reconvened at 9:15 a.m. on March 20, 1998 with Committee Chair Johnson presiding.

Members present: Regents Atkinson, Johnson, Khachigian, Lee, Levin, and McClymond; Advisory member Miura

In attendance: Regents Chandler, Clark, Davies, Hotchkis, Montoya, Ochoa, Parsky, Preuss, and Soderquist, Regent-designate Espinoza, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Darling, Gomes, and Hershman, Chancellors Berdahl, Carnesale, Debas, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, and Recording Secretary Nietfeld

4. **REPORT OF THE PRESIDENT - INTRODUCTION OF NOBEL LAUREATE STANLEY B. PRUSINER**

At President Atkinson's request, Chancellor Debas introduced Dr. Stanley B. Prusiner, who received the Nobel Prize in Physiology or Medicine on October 6, 1997. A graduate in medicine from the University of Pennsylvania, Dr. Prusiner completed his internship and residency in neurology at the University of California, San Francisco. He has been a member of the UCSF faculty since 1974 and has served as Professor of Neurology since 1984 and Professor of Biochemistry and Biophysics since 1988. His many awards and honors include the Gairdner Prize of Canada, the Albert Lasker Award for Basic Medical Research, and the Wolf Prize in Medicine. Chancellor Debas then read the statment by the Nobel Assembly at the Karolinska Institute which described why the Nobel Prize was awarded to Dr. Prusiner for his discovery of prions. This statement included the following: "The 1997 Nobel Prize in Physiology or Medicine is awarded to the American Stanley Prusiner for his pioneering discovery of an entirely new genre of disease-causing agents and the elucidation of the underlying principles of their mode of action. Stanley Prusiner has added prions to the list of well-known infectious agents including bacteria, viruses, fungi and parasites."

Dr. Prusiner stated his intention to share with the Regents studies which led to the discovery of a new principle of disease. Prior to this work, which was performed over the past 25 years at UCSF and at UC Berkeley, scientists had believed that infectious diseases could be transmitted only by microbes with a nucleic acid core of DNA or RNA that instructs the replication of their progeny, i.e., viruses, bacteria, and fungi. The virus, the smallest of the three, is composed of a nucleic acid surrounded by a coat of protein. The proteins of the virus are made up of amino acids joined together into chains. The instructions for the assembly of amino acids into proteins are encoded by nucleic acid.

Dr. Prusiner reported that prions cause fatal degenerative diseases of the brain, including Creutzfeldt-Jakob disease (CJD), which is rare in humans; scrapie, which afflicts sheep; and mad cow disease. He stated that he first became interested in CJD in 1972 when he cared for a woman who died of the disease. After completing an abbreviated residency, he determined to study CJD and scrapie of sheep. He was offered a position as assistant professor in 1974 at UCSF, an ideal environment to carry out his research. Dr. Prusiner reported that for six years he and his fellow researchers struggled to gain some modest information on the physical properties of the scrapie agent. By switching from mice to hamsters and streamlining the animal assay, real progress was made in these studies. In 1982, he proposed that infectious microbes exist that are composed only of protein and thus are devoid of DNA or RNA. The prion theory seemed to run counter to some of the most basic tenets of modern biology. Introduction of the word "prion" galvanized those in opposition into numerous attempts to disprove the prion hypothesis. The fact that the data withstood many challenges is a testimony to the rigor of the experiments.

Dr. Prusiner outlined the basic principles of prion biology. The protein of the prion exists in two states, one of which is normal and one of which is pathogenic. A prion is a misfolded protein. The normal form is a long chain of amino acids folded into spiral staircases, while the disease-causing proteins are like flat walkways. In order for prions to multiply, the abnormal form of the protein has to stimulate the conversion of more of the normal form into the disease-causing form.

Mad cow disease is a prion disease which to date has killed more than 170,000 cows. A major issue in Great Britain is whether this disease has been transmitted to humans. Twenty-five people have died of a variant of Creutzfeldt-Jakob disease who may have contracted it from cows.

Dr. Prusiner reported that in the 1930s the first reports of familial cases of CJD began to appear. In 1989 several earlier theories were rejected when it was discovered that familial CJD is caused by a mutation in the prion protein gene.

Dr. Prusiner stated that he and his colleague Fred Cohen are working to develop a treatment and that they have experienced some success by testing compounds that mimic a small region of the prion protein that binds to an unknown protein, “protein X.” They are hopeful that a safe treatment will emerge from their research.

In closing his presentation, Dr. Prusiner reflected on the contributions of UCSF to the discovery of prions, noting that in order to accomplish his studies he required an institution with the high level of scientific excellence such as that provided by UCSF. Second, he needed an institution in a city that was attractive to students who were interested in one of the most perplexing mysteries in biology. Third, the administration had to be flexible enough to provide the support that was required. The chancellors and the deans of the School of Medicine have been individuals with the vision and wisdom needed to support a project that was once unpopular. The study of prions may have important implications for deciphering the cause of the more common degenerative diseases, including Alzheimer’s disease, Parkinson’s disease, ALS (Lou Gehrig’s disease), and adult onset diabetes. The study of prions represents the triumph of science over prejudice.

5. **INFORMATION TECHNOLOGIES AND ADMINISTRATIVE SYSTEMS ISSUES: AN OVERVIEW**

Senior Vice President Kennedy informed the Committee that Associate Vice President for Information Resources and Communications Lynn, who would present the report on information technologies and administrative systems issues, is responsible for developing information systems policies, directing policies regarding the instructional use of computing, data and telecommunications, implementing library automation programs, and coordinating academic computing policies and programs. Mr. Lynn has held a number of academic posts, including Director of Computing Affairs at the Berkeley campus while a professor of

Electrical Engineering and Computer Science, and Vice President for Information Technologies at Cornell University.

Mr. Lynn observed that computer-based information systems are integral to the key business processes of the University because without them the University could not operate. They support functions such as payroll, admissions, accounting, and financial aid as well as strategic decision-making, reporting, planning, and analysis. The modern university business enterprise cannot function without investing in accurate, reliable, secure, cost-effective systems that provide services and support to every member of the community. At the University of California, following the decentralized management model, responsibility for administrative systems is also highly decentralized. Mr. Lynn explained while he has overall responsibility for administrative systems, as outlined by Senior Vice President Kennedy, he does not have direct responsibility for most operational and campus management systems, such as financial management systems, student systems, and hospital systems. These are selected, developed, maintained, and operated by each campus individually. Although one financial system may be a long-term goal, to achieve it could cost the University up to hundreds of millions of dollars, require a restructuring of business processes, and cause major transitional problems at most campuses. The Office of the President defines the standards that campuses must follow in providing data for corporate systems. By and large this system works well, and campuses fulfill their reporting obligations in a timely, accurate, and responsible manner. This model for administrative systems was established in 1978 following a decade of disastrous Universitywide centralized systems that were not responsive to campus and University needs.

Turning to the investment in new systems, Associate Vice President Lynn noted that the majority of resources, approximately $55 million annually, go into operations and maintenance. Following the development of the 1978 conceptual framework, investment in new systems expanded steadily through the 1980s. The budget cuts of the early 1990s slowed this growth, as did the need to increase investment in improved security. Nonetheless, the campuses and the Office of the President are finding resources to make investments in new systems at a level of about $16 million annually across the University, especially in new financial systems. The Office of the President has recently completed a major study of its employee systems and has charted a course for the future. The intent is to modernize the operational retirement system and to implement support for employee self-service to streamline many operational employee processes such as a change of address. The Office of the President will continue to invest in PATHWAYS, the online admissions system which allows high-school students to apply to UC using the World Wide Web. Finally, the Office of the President is conducting a study of corporate reporting systems because the University's need to be modernized to make them more responsive for reporting and planning purposes. Mr. Lynn emphasized that while the University is making steady progress, $16 million a year for the entire system is small compared with what many institutions are investing. Because cumbersome business processes cannot be overcome solely through the implementation of new systems, administrative managers across the University are working closely with information technology organizations to ensure that business processes are streamlined as well.

Turning to the year 2000 problem, Mr. Lynn explained that it is caused by the practice in older systems of encoding years with only two digits. The problems will show up, if left untreated, before 2000 for many applications, which could lead to the failure of many business processes. At the University it will be necessary to distinguish among the mission-critical administrative applications, such as payroll, and the thousands of applications unique to individual employees. Each campus is taking the problem seriously, while the Office of the President is coordinating cross-campus planning and tracking. Two hundred ninety-five mission-critical administrative applications have been identified, excluding the medical centers. It is estimated that the costs directly attributable to the year 2000 problem are approximately $8 million. This estimate does not include the cost of replacing old systems, if such replacement was planned regardless of the year 2000. Mr. Lynn explained that there are three basic approaches to the year 2000 problem. First, about one-fifth of the systems will be replaced. Second, about forty percent of the systems will be modified. Finally, the University will rely upon vendor certification of year 2000 compliance for about one-third of the applications. With respect to the schedule for fixing mission-critical administrative applications, Mr. Lynn reported that about 23 percent have been completed, including payroll and the retirement system. Another 17 percent will be completed by June 1998, a further 27 percent by the end of the calendar year, and the remaining third by June 1999. He cautioned, however, that there will be some failures but noted also that the University should be able to recover from those failures.

Associate Vice President Lynn then turned to the issue of security, noting that the University, like other organizations, continues to see a steady increase in security incidents. The University takes this problem seriously and devotes considerable time and energy to protection of mission-critical systems. The University follows the standards of industry and listens to the advice of both the internal and external auditors. There is considerable emphasis on data backup and recovery, but complete protection can never be guaranteed. The biggest threat to information systems, however, is the extraordinarily competitive environment in recruiting and retaining the best staff. The information technology professional labor shortage is now recognized as a critical national problem that will only get worse. A public institution such as the University has a difficult time competing with private industry.

Regent Lee suggested that a determination should be made of which campus has the best systems and use this as the standard in designing the tenth campus. Senior Vice President Kennedy responded that such a study has been ongoing over the past several years in order to replicate best practices on all of the campuses.

Regent Johnson suggested that the Board of Regents would need to address the issue of competitive salaries in the area of information technology. Chancellor Debas reported that the San Francisco campus had not been able to recruit a chief information officer because it cannot offer a competitive salary.

At the request of President Atkinson, Mr. Lynn commented on Internet2 and the Digital Library, noting that Internet2 is a national project involving over one hundred universities. The purpose of Internet2 is to move to the next level of the Internet in order to benefit institutions of higher education. Recently, The Regents authorized the University to join with other postsecondary educational institutions to form the Corporation for Education Network Initiatives in California (CENIC), which in turn will be responsible for the operation of CalREN-2, a high-speed network connecting CENIC member institutions with each other and with the Internet. CalREN-2 will be developed in partnership with private industry, in particular with companies such as Pacific Bell, GTE, and CISCO.

Regent Preuss suggested that Internet2 was a misnomer given the fact that it does not represent the next generation of the Internet. Rather, it will be a high-speed research network. Associate Vice President Lynn explained that corporations are interested in Internet2 due to its potential commercial value.

With respect to the California Digital Library, Mr. Lynn reported that the effort is being led by Richard Lucier, its Director, while Mr. Lynn's staff is supporting the effort from the technical side. It represents a major undertaking for the University.

6. **DISCUSSION OF PUBLIC EDUCATIONAL FACILITIES BOND ACT IN 1998**

Vice President Darling recalled that when this topic was originally placed on the Committee's agenda, the Board was to be asked to endorse a public education bond measure on the June ballot. Endorsement by the Board of Regents is critical because it allows the campus foundations to contribute to Californians for Higher Education, an independent organization composed of the three segments of higher education which conducts public campaigns in support of bond measures. The bond measure was passed by the State Senate but failed to gain approval in the Assembly due entirely to K-12 issues. The University is working to place a bond measure on the November ballot, asking for $250 million for the University of California. The deadline for getting this measure on the ballot is June 25.

In response to a question from Regent Khachigian, Vice President Darling confirmed that the ballot measure would be one of the top priorities to be discussed with legislators during Regents' Day in Sacramento in May.

Regent Preuss recalled that members of the California Alumni Associations were in Sacramento on the day of the vote on the June ballot measure and recognized them for their efforts on the University's behalf.

7. **AMENDMENT OF STANDING ORDER 110.2(a) – MATTERS RELATING TO RESIDENCY OF AMATEUR STUDENT ATHLETES TRAINING AT U.S. OLYMPIC TRAINING CENTER**

The President recommended that:

A. Service of notice be waived.

B. Effective for all new students entering the University of California after January 1, 1998, Standing Order 110.2(a) be amended to read as follows:

Additions shown by shading

Standing Order 110.

ACADEMIC UNITS AND RELATED ACTIVITIES OF THE UNIVERSITY

* * *

110.2 Matters Relating to Residency

(a) The residence of each student shall be determined in accordance with the rules governing residence prescribed by the provisions of Sections 68000, 68010-68012, 68014-68018, 68022-68023, 68040-68044, but excluding the words "classified as a nonresident seeking reclassification" from Paragraph 1 and substituting the words "seeking classification" and excluding Paragraph 3 of Section 68044, 68050, 68060-68061, 68062 but excluding the words "including an unmarried minor alien" from 68062(h), 68070-68080, 68083, 68130, and 68132-68134 of the Education Code of the State of California. Each nonresident student at the University of California shall pay a nonresident tuition fee for each term of attendance at the University, except that such fee, with the approval of the President of the University, may be remitted or waived in whole or in part in the case of any student who qualifies as a graduate student with a distinguished record, a foreign student, a teaching assistant or teaching fellow, or a research assistant; or in the case of a nonresident student who is an unmarried dependent son or daughter under age twenty-one, or a spouse of a member of the University faculty who is a member of the Academic Senate. A student who is a child of a resident law enforcement officer or fire fighter killed on active duty shall be exempted from nonresident tuition and fees in accordance with Section 68120 of the Education Code of the State of California. A student who is the child or dependent of a deceased or disabled veteran, or who is the dependent of or the surviving spouse who has not remarried of any member of the California National Guard who was killed or permanently disabled while in active service of the state, shall not be exempted from nonresident tuition fees, but may be exempted from tuition and incidental fees in accordance with Section 32320 of the Education Code of the State of California. For purposes of defining financial independence pursuant to Section 68044, a student shall be considered "financially independent" if the applicant: a) is at least 24 years of age by December 31 of the year the applicant requests residence classification; b) is a veteran of the U.S. Armed Forces; c) is a ward of the court or both parents are dead; d) has legal dependents other than a spouse; e) is married, or a graduate student or professional student, and will not be claimed as an income tax deduction by his or her parents or any other individual for the tax year immediately preceding the request for residence classification; or is a single undergraduate student, and was not claimed as an income tax deduction by his or her parents or any other individual for the two years immediately preceding the request for residence classification,

> and demonstrates self-sufficiency for two years. The student is considered self-sufficient if he or she had total income and other resources of at least $4,000. The two years used to demonstrate self-sufficiency are the two years immediately preceding the request for residence classification. Nonresident tuition fees shall be payable at the time of registration.

The Committee was informed that §68083 was added to the California Education Code by Assembly Bill 1317, effective January 1, 1998. It provides as follows:

- Any amateur student athlete in training at the United States Olympic Training Center in Chula Vista is entitled to resident classification for tuition purposes until he or she has resided in the state the minimum time necessary to become a resident.

- For the purposes of this section, “amateur student athlete” means any student athlete who meets the eligibility standards established by the national governing body for the sport in which the athlete competes.

Because the California State University and California Community Colleges systems are governed by this section of the Education Code, approval of the recommended amendment to the Standing Order would bring the University into compliance with the intent of the Legislature that public institutions of higher education apply uniform rules in determining whether a student shall be classified as resident or nonresident.

Estimates of the number of prospective University of California students training at the Center indicate that the financial impact of the amendment would be negligible.

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

8. AMENDMENT OF BYLAW 12.3(m) -- TO CONFORM TO SIMILAR LANGUAGE IN STANDING ORDER 101.2(a) CONCERNING COMPENSATION

The President recommended that:

A. Service of notice be waived.

B. Bylaw 12.3(m) be amended, as shown below to conform to similar language in Standing Order 101.2(a) concerning compensation:

deletions shown by strikeout, additions by shading

BYLAW 12.

RESPONSIBILITIES OF STANDING COMMITTEES

* * *

12.3 Committee on Finance.

The Committee on Finance shall:

* * *

(m) Recommend to the Board:

* * *

(2) The rates of compensation of Regents' Professors at salary rates above the approved range and the rates of compensation of faculty members, including University Professors, at exceptional-above-scale salary rates ~~of $150,000 or more (academic year or fiscal year)~~. An exceptional-above-scale salary rate is defined as a salary rate that exceeds the maximum salary step of the applicable academic salary scale, as adjusted from time to time, by more than the percent difference between the maximum salary step of the Regular Ladder-Faculty Academic Year salary scale and the compensation approval level. The compensation approval level is defined as the dollar limit on the President's authority to approve salaries ($156,100). The compensation approval level shall be indexed annually in accordance with the Consumer Price Index, said percent increase to be reported annually to the Board; and

* * *

It was recalled that at the November 1997 meeting, notice was served to amend Standing Order 101.2(a)--Compensation to include a more detailed explanation of the President's authority to approve salaries and the definition of exceptional-above-scale salary rates. The amendment was approved by The Regents at the January 1998 meeting.

Similar compensation language is found in Bylaw 12.3(m)--Committee on Finance. An amendment of the Bylaw was not submitted at the same time as the Standing Order change and is now being proposed. This technical amendment is requested only for the purpose of making the respective paragraphs in Standing Order 101.2(a) and Bylaw 12.3(m) consistent with one another.

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

9. **AMENDMENT OF THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN, TAX-DEFERRED 403(b) PLAN, AND DEFINED CONTRIBUTION PLAN**

The President recommended that the University of California Retirement Plan (UCRP), the Tax-Deferred 403(b) Plan, and the Defined Contribution Plan (DC Plan) be amended as shown in the Attachments to provide for various technical changes in the provisions of the Plan.

The Committee was informed that from time to time it is necessary to amend the UCRP, the 403(b) Plan, and the DP Plan to reflect more accurately certain operational procedures and to make certain that Plan language is more precise. These amendments do not reflect any policy changes and are cost neutral. They were endorsed by the University of California Retirement System Advisory Board at its November 4, 1997 and February 3, 1998 meetings.

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

10. **REPORT ON THE FEDERAL BUDGET**

Vice President Hershman reported that last month President Clinton sent his fiscal year 1999 budget to Congress. Federal funds are important to the University, which receives $5 billion a year from the federal government, representing over 40 percent of the budget. The federal government provides about 55 percent of University research funding and about 60 percent of financial aid funds, although a significant portion of that money is in the form of loans. Federal Medicare and Medicaid programs provide over one third of the net operating revenue of the teaching hospitals. The Department of Energy laboratories for which the University has management responsibility are supported entirely by federal funds.

Mr. Hershman recalled that last year the President and the Congress reached an agreement to balance the federal budget over the five-year period 1998 through 2002. This was to be accomplished, in part, by setting tight caps on spending, with no increase in domestic discretionary spending over this period. This was of great concern because domestic discretionary spending is the portion of the federal budget from which the University gets most of its federal funds. Since the agreement, there has been a dramatic turnaround due in part to a stronger-than-expected economy, which caused federal revenues to increase more than projected. As a result, the President's 1999 budget proposes to balance the federal budget four years ahead of the schedule set in last year's agreement.

The President's proposal calls for a four percent increase and projects a small surplus in 1999. Domestic discretionary spending would also increase by four percent rather than staying flat.

The 1999 budget places a high priority on research and education. However, proposed funding increases for research and education programs are dependent upon yet-to-be enacted legislative changes, including tobacco settlement legislation. There are also major differences in opinion about how the budget surplus will be handled, ranging from cutting taxes to setting aside the funds to recognize long-term Social Security and Medicare funding problems to program expansion.

Research Funding

Vice President Hershman recalled that in the decade between 1982-83 and 1992-93 federal support for research grew dramatically, with annual expenditure increases averaging nearly ten percent. In the past five years the focus of the federal government has been on deficit reduction. As a result, the rate of growth has slowed, averaging four percent in the mid-1990s and one percent last year. The 1999 budget request proposes an eight percent increase overall for basic research and record-level increases in basic research for several federal agencies of importance to the University. The National Institutes of Health (NIH) biomedical research budget is proposed to grow by a record $1.2 billion, or 8.4 percent over last year. NIH funding is critical to the University as it constitutes slightly more than half of all federal research support. The second largest source of federal research funding for UC is the National Science Foundation. NSF is one of the most important sources of federal support for basic research because it funds a broad range of research activities in the sciences. The Clinton Administration is proposing a record increase of twelve percent for NSF's basic research program. The basic research programs at some other federal agencies are not treated as well; in the case of agriculture, budget cuts are proposed.

Student Financial Aid

Mr. Hershman explained that financial aid plays a major role in making the University accessible to students by helping to ensure that cost considerations are not barriers to enrollment. In 1996-97, University students received more than $1 billion in grants, scholarships, loans, and work-study funds. Of this amount, more than sixty percent of financial aid funds were from federal sources, with the majority in the form of loans. He noted that while increases in federal grant funding over time have been modest, grant funding from student fees and general funds has increased dramatically, from $80 million in 1990-91 to almost $200 million in 1996-97. Mr. Hershman reported that over half of the University's undergraduate students receive grant funding, averaging over $5,000 per student per year, while over sixty percent of graduate students receive an average of more than $7,500. Increases in federal grant funding have come to students largely through the Pell Grant Program, for which funding increased by ten percent in the current year.

Vice President Hershman noted that 1998 is the first year students and their families can take advantage of the new federal tax credits which were provided as part of last year's federal budget. The Office of the President is in the process of analyzing the effect of the tax credits on UC students and their families. An early estimate indicates that approximately 58,000 UC students will be at least partially eligible for a tax credit in 1998. UC students and their families could be eligible for tax credits of about $50 million.

Mr. Hershman referred to the High Hopes initiative, which is a $140 million competitive grant program to encourage partnerships between universities and K-12 schools in low- income areas.

Medicare/ Medicaid

Vice President Hershman reported that decisions made last year to reduce federal funding for Medicare and Medicaid will continue to have significant implications for the teaching hospitals. Short-term measures to deal with this reduced funding include $50 million in medical education funding from Medi-Cal, which should continue in 1998-99. The Congress and the President are still discussing a major restructuring of the Medicare and Medicaid programs. A new Bipartisan Commission on the Future of Medicare will report on its findings in March 1999.

Department of Energy Laboratories

Mr. Hershman reported that the funding outlook for the three Department of Energy laboratories had taken a dramatic turn-around from two years ago, when budget projections at DOE were for downsizing the laboratories at Livermore and Los Alamos and for decreases in the energy research budget that funds much of the Lawrence Berkeley Laboratory. It appears that there will be an eight percent increase for Livermore and Los Alamos and flat funding for the Lawrence Berkeley National Laboratory in 1999.

Regent Chandler expressed concern about the reduction in funding for agriculture and reiterated the University's commitment as a land-grant institution to the State's number-one industry. She asked what steps the University could take to make up for the decrease in federal funding. Mr. Hershman believed that the University should try to influence the federal budget process to ensure that priority needs are recognized. President Atkinson added that it was clear that the State was under-investing in agriculture. Vice President Gomes reported that the Conference Committee would be acting on reauthorization of the Farm Bill, which includes $750 million new dollars for agricultural research.

Vice President Darling observed that Vice President Hershman had discussed an excellent budget for education and research for fiscal year 1999. He recalled that in the early 1990s the federal deficit was in the $200 to $300 billion range and was expected to remain there. In 1994, when Republicans gained control of the Congress, they made balancing the federal budget a key priority. To accomplish this goal, the Congress began to reform entitlement programs and to reduce federal spending. Congress began to limit discretionary funding to increases that were less than the increases in inflation. Budget deficits have diminished to the point that the Congressional Budget Office anticipates a budget surplus for 1998.

1996 was the first budget cycle under the Republican-controlled Congress. In order to begin balancing the budget, Congress passed a Budget Resolution that would have reduced research funding by thirty percent by 2002. What actually happened was quite different. In the following two years, Congress funded research at levels above the Administration's budget request.

Vice President Darling noted that the public reaction to Congress' increased funding for research was very positive. A 1995 national poll found that 69 percent of Americans agreed that the federal government should support more basic research, even if it brought no immediate benefits. A similar poll conducted in California in 1996 showed that citizens were even more in favor of funding basic research, with 86 percent supporting federal funding for research universities.

With this as background, the Clinton Administration proposed a four percent increase for research in its 1999 Budget even though last year's Balanced Budget Act required that funding for research decrease by one percent. The Administration's budget proposed that increases above the spending caps come from yet-to-be realized revenues from a proposed tobacco settlement. Without this fund source, or some alternative source, spending will decline in keeping with the Balanced Budget Act.

While Congress has just begun to address the President's Budget, the Republican leadership considers the President's approach a violation of the Balanced Budget Act and has urged the Administration to revise its priorities and to submit a new budget below the spending caps. The Administration has refused to revise its budget and has urged Congress to enact tobacco legislation. The budget outlook is further complicated by differing views about what should be done with a surplus, if it indeed materializes. The Administration has a single priority, which is to fund Social Security. The Congress is considering a range of options.

Senator Domenici, Chair of the Senate Budget Committee, presented his markup of the President's budget this week. It keeps the spending caps on discretionary spending in place from the Balanced Budget Act. At the same time, it includes full funding for the National Science Foundation and an increase for the National Institute for Health from the President's request of eight percent to eleven percent. Furthermore, NIH would be financed from regular appropriations rather than tobacco revenues.

As Vice President Hershman indicated, UC received $5 billion in federal funding last year. For this reason, the federal budget is the highest priority for the University's Federal Governmental Relations Office in Washington, D.C. In the five weeks since the Clinton Administration proposed its 1999 Budget, the Washington office has prepared an analysis of each agency's budget and has provided briefing about the budget and the University's priorities to Congressional Budget and Appropriations staff, the California Congressional delegation, and California media representatives in Washington. The Washington Office has also begun to form coalitions with businesses, higher education associations, and professional societies to support common objectives.

Vice President Darling reported that while the University will support the President's research budget it will also urge Congress to identify a stable long-term funding source other than the tobacco revenues that the President has proposed. During the past year the University has established itself as a more prominent voice in setting the nation's research and education agenda. The Washington office has been reorganized and reinvigorated and now has legislation and policy expertise in the areas of research, education, health, agriculture, and laboratory issues. The Washington office has also developed a new partnership with the campuses and national laboratories to achieve common objectives. A greater UC presence is being developed on federal policy boards and commissions as well as on national higher education association boards. Chancellors have been active participants in key policy meetings with Administration and Congressional leaders, and University expertise is being brought to bear on national policy issues through Congressional testimony and other means.

Vice President Darling observed that the 1999 budget has the potential to be the best in decades, but it also presents notable challenges in terms of funding sources for the research and education budget. The University administration intends to involve Regents at key points in the Congressional budget process to reinforce the UC message by writing, calling, and visiting members of Congress about the importance of federal funding to the University and to the State.

11. **REPORT OF NEW LITIGATION**

General Counsel Holst presented his routine **Report on New Litigation**. By this reference the report is made a part of the official record of the meeting.

The Committee went into Closed Session at 10:40 a.m.

. . . .

The meeting adjourned at 10:55 a.m.

Attest:

Secretary