The Regents of the University of California

COMMITTEE ON FINANCE
November 15, 2000

The Committee on Finance met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents Atkinson, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, Miura, Parsky, and Preuss; Advisory member Morrison

In attendance: Regents Bustamante, O. Johnson, Khachigian, Kohn, Lansing, Leach, and Montoya, Regents-designate T. Davis and Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Interim Treasurer Bowman, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gurtner, and Saragoza, Chancellors Berdahl, Bishop, Cicerone, Dynes, Greenwood, Orbach, and Yang, Vice Chancellor Desrochers representing Chancellor Tomlinson-Keasey, Executive Vice Chancellor Grey representing Chancellor Vanderhoef, Laboratory Directors Browne and Tarter, and Recording Secretary Bryan

The meeting convened at 2:28 p.m. with Committee Chair Preuss presiding.

1. **APPOINTMENT OF CONSULTING ACTUARY TO THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM BY THE REGENTS AS TRUSTEE**

The President recommended that Towers Perrin be appointed as Consulting Actuary to the University of California Retirement System (UCRS) on behalf of The Regents as Trustee for the period January 1, 2001 through December 31, 2001, and that the Secretary be authorized to execute necessary documents effecting the appointment and subsequent reappointments. It is also recommended that the Request for Proposal (RFP) process continue to be undertaken every five to seven years.

It was recalled that at its July 1993 meeting, The Regents approved the appointment of Towers Perrin as Consulting Actuary to UCRS through December 31, 1994. In November 1994, the President's recommendation to retain Towers Perrin was defeated, but subsequently The Regents agreed to continue the appointment with the understanding that an RFP process would be undertaken every five to seven years beginning no sooner than 1998. Based on this recommendation, University of California Human Resources and Benefits issued an RFP for Consulting Actuary for the University of California Retirement Plan (UCRP) in June 2000. The RFP was designed to attract actuarial firms with experience in both qualified and statutory defined benefit plans for both the public and private sectors. The firm awarded the contract will have an appointment beginning January 1, 2001.

An advertisement for the RFP was placed in the *Wall Street Journal, Western Edition*. In addition, a pre-qualification package was developed to pre-screen potential bidders to be sure they met certain baseline criteria.

Pre-qualification packages were sent to Towers Perrin, PricewaterhouseCoopers LLP, EFI Actuaries, Buck Consultants, Inc., and William M. Mercer, Inc. Towers Perrin, Buck Consultants and William M. Mercer completed and returned the pre-qualification materials. All three firms pre-qualified and were sent RFPs. Bid proposals were received from Towers Perrin and Buck Consultants, Inc. Following review of the proposals by an evaluation committee, Towers Perrin and Buck Consultants, Inc. were invited to make presentations before and to be interviewed by a selection committee consisting of Office of the President and campus management.

The total scores given to each bidder by the evaluation committee, along with a comparison of the two firms in critical areas, were provided in an executive summary for review and consideration by the selection committee. On September 19, 2000, Towers Perrin and Buck Consultants, Inc. appeared before the selection committee. Each firm was asked to make a five-minute presentation and was also asked to discuss actuarial issues related to defined benefit and defined contribution plans. In addition, each firm was asked to discuss the most significant issue facing public retirement plans in the U.S. today and how it would address this to the benefit of UCRP. Following the firms' interviews, the selection committee unanimously agreed to recommend to the President that a contract be awarded to Towers Perrin for Consulting Actuary. It is recommended that the RFP process continue to be undertaken every five to seven years. As with all consulting contracts, the University retains the right to terminate the relationship upon 90 days' written notice.

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

2. **THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN: ACTUARIAL VALUATION AND EXPERIENCE STUDY**

It was recalled that each year, in accordance with reporting requirements of the Internal Revenue Code (IRC) and the University of California Retirement Plan (UCRP or Plan), the Plan's Consulting Actuary performs an actuarial valuation of UCRP. The valuation indicates that UCRP remains more than fully funded and requires no employee or employer contributions at this time. In addition, every three to five years the Plan's Consulting Actuary conducts a study to review the Plan's actual experience compared to the Plan's actuarial assumptions. Based on the results of the annual actuarial valuation and the experience study, the Plan's Consulting Actuary is not recommending any change in the Plan's assumptions at this time.

University of California Retirement Plan - Annual Actuarial Valuation

In accordance with statutory disclosure requirements applicable to tax-qualified defined benefit pension plans, Towers Perrin, the Plan's Consulting Actuary, has performed a comprehensive actuarial valuation for UCRP as of July 1, 2000. Its report is applicable to the 2000-2001 Plan year. The Consulting Actuary's statement shows that the value of UCRP assets is sufficient to maintain a zero percent payroll employer contribution rate. This recommendation is in line with the full funding limitation as adopted by The Regents in 1990. Under The Regents' policy, the University will suspend contributions when the smaller of the market value or the actuarial value of Plan assets exceeds the lesser of the actuarial accrued liability plus normal cost or 150 percent of the current liability.

At the fiscal year end, the market value of assets of UCRP, after subtracting benefit claims currently payable and other current payables of the Plan, was $42,070,918,000, as compared to $38,099,306,000 as of the beginning of the Plan's fiscal year. During the 1999-2000 fiscal year, the Plan experienced a 12.7 percent investment return on the market value of Plan assets. Dividend and interest income of $1.3 billion exceeded benefit and expense payments of $830 million. The increase in surplus reflects the continued outstanding investment performance during the 1999-2000 Plan year.

In a defined benefit pension plan, the employer promises employees certain benefits payable in the future. The cost of these benefits is generally funded incrementally over the career of employees as part of their total compensation package. This process involves the use of an actuarial cost method, which assigns the value of promised benefits and anticipated expenses to individual plan years as an annual cost. The Employee Retirement Income Security Act grants approval for six actuarial cost methods. One of these, the entry age normal cost method, has been used for the Plan for 25 years. It is the actuarial method used by 70 percent of public sector plans. The entry age method is considered a conservative actuarial cost method. Using this method of analysis, costs are distributed over the entire length of an employee's service beginning at the age of service entry and ending with the anticipated age at separation from service.

The normal cost of the Plan is the annual percent of payroll that must be accrued over the total career of each employee to fully provide for future UCRP benefits, measured as of the valuation date. Under the entry age normal method, as a percentage of covered payroll, the UCRP normal cost for the 2000-2001 Plan year is 14.38 percent ($849 million).

The actuarial assumptions, which presume that the Plan will continue indefinitely, are provided to The Regents annually. The Actuary is not recommending any changes to these assumptions at this time.

UC-PERS Early Retirement Plan (UC-PERS Plan)

On October 18, 1990, The Regents approved an early retirement incentive program for University employees who were covered under the California Public Employees' Retirement System (PERS) pension plan. The most tax-effective method to provide this group with a benefit generally comparable to the incentive offered to UCRP Members was to establish a "frozen" defined benefit plan.

The UC-PERS Plus 5 Plan required campus and laboratory locations to fund their individual liabilities over no longer than five years. This plan is a standard terminal funding arrangement under a wasting trust, which, in this instance, is obligated to make fixed lifetime payments under either a single or joint-survivor benefit structure. The assets must remain in the trust until all benefit promises have been satisfied. For purposes of investment, only the assets are commingled with UCRP assets for maximum investment return, without the loads, fees, or industry risk attached to an insurance contract.

A wasting trust is subject to the standard pension qualification, funding, and reporting requirements, inclusive of an actuarial review. As such, the plan's Consulting Actuary reviews the trust's fiscal position and funding status annually to assure that the UC-PERS Plus 5 Plan is adequately funded.

As of July 1, 2000, the net assets of the wasting trust were $94.7 million, and the actuarial liability was $41.9 million.

University of California Retirement Plan – Experience Study

The UCRP experience study, covering the period July 1, 1995 through June 30, 1999, analyzes demographic trends and experience among various employee groups and actual salary increases adjusted for inflation during the study period. The study addresses the following:

- What UCRP's experience has been with retirement, disability, withdrawal, and mortality rates;
- What UCRP's experience has been with merit, longevity, and promotional salary increases adjusted for inflation;
- How closely UCRP's actual experience correlates to the expected experience as reflected in current UCRP assumptions;

- Whether the actual experience as compared to the expected experience reflects a significant pattern or trend over a period of time that would indicate that a change should be made to the UCRP assumptions.

Based on the results of the UCRP experience study, the Plan's Consulting Actuary has suggested no changes to the current UCRP assumptions that were examined. The results of the study indicate that no UCRP assumption that was studied differs significantly from actual experience. Based on these findings, the Plan's Consulting Actuary recommends that no assumption be revised until a consistent pattern is experienced which is significantly different than the assumption.

3. **THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN: PROPOSED FUTURE BENEFIT IMPROVEMENTS AND ASSET/LIABILITY STUDY**

It was recalled that UC Human Resources and Benefits (HR/Benefits) is evaluating possible University of California Retirement Plan benefit improvements to serve the needs of both Members and the University of California. These benefit improvement options are being developed to align with the University's goals regarding the recruitment, retention, and renewal of qualified faculty and staff, balanced by cost and other considerations.

University of California Retirement Plan

The University of California Retirement Plan is a defined benefit plan. UC employees need five years of service credit to qualify for Plan benefits that are determined by defined formulas which vary according to the type of benefit eventually paid, not by the contributions made to the Plan. For eligible UC faculty and staff, the Plan provides several types of benefits: lifetime retirement income, disability protection, and a variety of death benefits. In addition, upon retirement, eligible Members may elect a lump-sum payment equal to the value of their accrued retirement benefit in lieu of lifetime retirement income. UCRP is a valuable component of the total compensation and benefits package provided to UC faculty and staff.

UCRP Proposed Future Benefit Improvements

C Age Factor Improvements (for Members with and without Social Security and Tier Two): HR/Benefits is continuing to study the feasibility of improving UCRP age factors for Members with and without Social Security and for Tier Two members. As part of the analysis, UC administrators have had discussions with senior management, the Academic Senate, The Regents, the unions, and numerous other groups to assess the related needs and goals of various segments of the UC community. In response to recruitment and retention concerns regarding the improvement of the UCRP age factors, consultation on this issue is continuing.

- UCRP Ad Hoc Cost of Living Adjustment: Each year a measurement of annuitants' purchasing power is performed to determine whether benefits have been significantly eroded by inflation. Historically, The Regents has provided for ad hoc adjustments to protect annuitants' benefits from being significantly eroded by inflation. However, this is not a guaranteed contractual benefit. A proposal will be made that would provide a targeted one-time ad hoc cost-of-living adjustment.

- Account Balance Feature: This proposal involves the addition of an account balance feature to UCRP for current Active Members and new Members. A major reason to add an account balance feature to UCRP is to increase the portability of benefits, especially for short-term faculty and staff, by offering a lump sum at the time of termination prior to eligibility for retirement. Several design issues are being addressed. Internal Revenue Service approval may be required.

- Graduated Vesting: In conjunction with the Account Balance feature, a proposed Plan change is to reduce the vesting period for current Active Members and new Members. This benefit improvement is being considered to improve the recruitment of faculty and staff who would then become eligible for UCRP benefits more quickly.

- Equalization of Benefits: Benefit improvements are under consideration to address the differences in benefits currently provided to single versus married Members.

- Establishing Reciprocity with the California State Teachers' Retirement System (STRS): The issue of reciprocity between UCRP and STRS is an area of concern for recruitment, retention, and staffing purposes with charter schools established with UC. HR/Benefits has initiated discussions with STRS, and STRS is willing to evaluate the feasibility of establishing reciprocity with UCRP. Since STRS is a statutory plan, any change to that plan will require legislation.

- UCRP Minimum Benefit Provision: HR/Benefits is evaluating the feasibility of providing a minimum benefit provision in UCRP, possibly based on a flat dollar amount per year of Plan service.

- Tier Two Open Window Buyback: Tier Two was designed in 1987 as a noncontributory retirement tier with reduced benefits for Members. Tier Two was closed to new enrollment effective July 1, 1990. The proposed Plan change would provide Active Tier Two Members, of which there are 70, with the option, on an ongoing basis, of returning to their original UCRP membership classification by making payment equal to the amount of UCRP contributions they would have made under their original Member classification, plus interest.

- Allowing an After-Tax Buyback to Eliminate the Plan 02 Noncontributory Offset: A proposed Plan change is being evaluated that would allow Members to eliminate their Plan 02 offset by making a lump-sum payment on an after-tax basis, subject to Internal Revenue Code limitations. The Plan 02 offset is based on a non-contributory period of service during which the Member received Service Credit but did not make contributions to the Plan.

Effect of Benefit Improvements on Plan Liabilities and Assets

Several studies can be used to evaluate the effects of benefit improvements on plan liabilities and assets. The assessment of liabilities and the review of assets take place at various times and for different purposes.

- The *annual actuarial valuation* determines the assets and liabilities of the Plan as of a specific date and uses key economic assumptions for asset returns, cost-of-living adjustments, compensation increases, and demographic assumptions for mortality, termination, and disability rates. This annual valuation provides a current status of the funded ratios of the Plan, a review of the past year's experience, and a brief history of past asset and liability performance.

- The *experience study* compares the actual three-to-five-year experience of the Plan to the expected experience. This study provides the data that are necessary to assess the demographic assumptions for mortality, termination, and disability rates and the economic assumption for compensation increases to determine if any changes in these assumptions are needed.

- The *asset/liability study* is a more comprehensive study used to assess the funded status and the probability of contribution requirements, if any, over a longer period of time. These data also can be used to review the effect of changes in future Plan provisions, membership growth, and the impact of changes in the financial markets. HR/Benefits is in the process of working with Towers Perrin, Wilshire Associates, UC faculty, and the Office of the Treasurer to prepare an asset/liability study for UCRP that will be completed and presented at the January 2001 Regents meeting.

  Typically, the purposes of an asset/liability study are to do the following:

  - Demonstrate fiduciary due diligence;

  - Assess the current funding policy and the likelihood of producing negative surprises;

- Address the concerns over the future level of interest rates and the consumer price index;

- Review the impact of future plan changes in benefits, demographics, and future cash flow.

In an asset/liability study, the baseline is set to equal the present conditions, and then future liabilities and assets are forecasted over a 20- to 30-year period using stochastic modeling to create hundreds of discrete financial scenarios. The results of forecasting the liabilities and assets provide benchmark information to help assess the probability of achieving goals based on current policies, gauge the reasonableness of assumptions, and determine the probability of adverse results.

The success of an asset/liability study requires that the assets and liabilities be linked, capturing the fundamental dynamics of both the plan and real-world economic factors. In this modeling, decisions are made on appropriate liability characteristics and sensitivities, customized to incorporate the plan's provisions and membership, and the pattern of joint asset/liability movements over time as the capital market conditions change and affect the plan's funded ratios.

Regent Hopkinson pointed out that, although the proposal may be modified by the faculty before it is returned to The Regents for approval, because some of the elements have far-reaching implications for the ability of the fund not to have employee contributions, it should be expected that the Regents may revise it.

(For speaker's comments, see the minutes of the November 15, 2000 morning session of the Committee of the Whole.)

The Committee adjourned at 2:55 p.m.

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The meeting reconvened at 4:15 p.m. with Committee Chair Preuss presiding.

Members present: Regents Atkinson, Bagley, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, Miura, Parsky, and Preuss; Advisory member Morrison

In attendance: Regents Bustamante, O. Johnson, Khachigian, Kohn, and Montoya, Regents-designate T. Davis and Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Interim Treasurer Bowman, Provost King, Senior Vice Presidents Darling and Mullinix, Vice

Presidents Broome, Drake, Gurtner, Hershman, and Saragoza, Chancellors Berdahl, Bishop, Cicerone, Dynes, Greenwood, and Orbach, Vice Chancellor Desrochers representing Chancellor Tomlinson-Keasey, Executive Vice Chancellor Grey representing Chancellor Vanderhoef, and Recording Secretary Nietfeld

4. **THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN: PROPOSED BENEFIT IMPROVEMENTS**

The President recommended that:

A. The University of California Retirement Plan be amended effective January 1, 2001 to revise the age factors for Safety Members.

B. The University of California Retirement Plan be amended effective January 1, 2001 to modify the definition of Eligible Employee to include employees who work 1,000 hours during a rolling 12-month period and to exclude floater appointments for those employees in UC-sponsored temporary employment pools.

C. Approval be granted in concept to allocate a fixed amount of Service Credit for certain employees for past time worked in a temporary position; and that implementation of this provision be delegated to the President, with the concurrence of the Chairman of the Board.

D. The Defined Contribution Plan be amended effective July 1, 2001 to provide for contributions on academic appointees’ summer salaries.

It was recalled that University of California Human Resources and Benefits (HR/Benefits) is evaluating several possible University of California Retirement Plan benefit improvements as part of an ongoing assessment of how UCRP serves the needs of both Members and the University. The results of this evaluation indicate that benefit improvements need to be implemented in order to maintain a competitive position compared to other employers.

University of California Retirement Plan

The Committee was informed that the University of California Retirement Plan is a defined benefit plan established and maintained under Internal Revenue Code (IRC) §401(a). University employees need five years of service credit to qualify for Plan benefits which are determined by defined formulas that vary according to the type of benefit eventually paid, not by the contributions made to the Plan. The recommended UCRP benefit improvements are outlined below.

Age Factor Improvements for Safety Members - At the September 2000 meeting, the Regents were presented with proposals for improvements to UCRP age factors, including those for Safety Members. The Regents were advised that a Safety Member age factor alternative under consideration was to match the new California Public Employees' Retirement System (CalPERS) State Peace Officer/Fire Fighter age factors that maximize at 3 percent at age 55.

The Regents were also informed that, in consultation with the administration and with the union representing police officers, it had been determined that the statewide trend is to improve age factors to 3 percent at age 50. The University Police Chiefs have indicated that UC is experiencing significant recruitment issues directly related to the adoption of higher retirement factors by agencies that are recruiting safety officers. Since January 1, 2000, when the CalPERS State Highway Patrol first adopted the 3 percent at age 50 factor, over 60 other law enforcement and fire-fighting agencies have followed suit. HR/Benefits has conducted a total compensation market survey for peace officers that includes information on what other institutions and agencies are doing with respect to the 3 percent at age 50 factor for retirement. The results of this survey indicate that 15 of 27 responding agencies have adopted the 3 percent at age 50 factor or have already determined that they will address the change in upcoming bargaining sessions.

The estimated cost to UCRP to provide this benefit for Safety Members who retire January 1, 2001 or later would be an increase in the Plan's actuarial accrued liability of approximately $20.5 million and an increase to normal cost as a percentage of total covered pay of .01 percent. Currently there are approximately 400 active UCRP Safety Members.

UCRP Eligibility Modification - UCRP requires that an employee be appointed to work for at least 50 percent time for one year or longer to qualify for membership. Based on this rule, certain employees are generally not eligible for UCRP benefits. Effective January 1, 2001, the amendment would prospectively modify UCRP eligibility to include in the definition of Eligible Employee those employees who accumulate 1,000 hours on pay status during a rolling 12-month period and exclude employees in temporary pools. It is expected that some temporary UC employees may be eligible to enter UCRP as early as July 1, 2001 under the proposed 1,000-hour rule. Based on May 2000 data, Towers Perrin estimates that expanding UCRP eligibility would not increase the normal cost as a percentage of total covered pay. Due to the increased number of employees in the Plan, however, the annual cost is expected to increase by $29 million.

It is also proposed that temporary employees and Active Members of UCRP employed on January 1, 2001 be provided, at a future date, with a fixed amount of service credit for past time worked in a temporary position. The staff are exploring various scenarios to determine the fixed service credit amounts. The fixed amount would be based on a premise that such a grant would satisfy a high percentage of the eligible population. Appeals would be allowed to accommodate employees who believe they are entitled to more than the fixed amount. Based on cost estimates that would satisfy 50 to 90 percent of the potential eligible population, the increased actuarial accrual liability would range from $137.2 million to $476.9 million.

Defined Contribution Plan

In addition to the defined benefit plan, UC offers eligible employees a tax-advantaged retirement plan to provide supplemental retirement benefits. The plan is a defined contribution plan under IRC §401(a). Benefits from the Defined Contribution Plan (DC Plan) are based on participants' contributions, plus earnings.

Proposal for DC Plan Contributions on Academic Appointees' Summer Salaries - The compensation that many academic appointees receive for summer session teaching or summer research is not covered compensation for determining UCRP benefits. As summer salary may represent a significant portion of an academic appointee's annual earnings, an employer and employee contribution to the DC Plan Pretax Account has been proposed.

To be eligible for the proposed contributions, academic appointees would have to be Active Members of UCRP (or a defined benefit plan to which UC contributes) with academic year appointments who earn additional compensation for summer teaching, summer research, or summer administrative service which is not UCRP covered compensation. All eligible academic appointees would be required to participate. Payments from University Extension would be excluded.

A total contribution rate of 7 percent of eligible summer salary based on an employee pretax contribution of 3.5 percent and an employer pre-tax contribution of 3.5 percent has been proposed. The employer contribution would be attributed to the same funding source that provides the academic appointee's summer salary. HR/Benefits estimates that roughly 4,355 academic appointees receive about $90,510,000 in eligible summer salary each year. The employer cost for the proposed contributions is estimated at $3.2 million. It is anticipated that approximately 40 to 60 percent of the employer cost to provide this benefit would be attributable to federal contracts and grants. The annual cost to the University for the remaining 40 to 60 percent is estimated to be from $1.3 million to $1.9 million and would be paid from a variety of sources, including non-federal contracts and grants, summer session revenues, and State funds.

The chancellors, the laboratory directors, and the Chair of the Academic Council have reviewed the proposal, which was initiated by the University Committee on Faculty Welfare. Based on consultation with these groups, the recommended implementation date for the proposed contributions is with summer salary payments made on or after July 1, 2001.

Secretary Trivette distributed communications received concerning the proposed benefit improvements.

(For speakers' comments, see the minutes of the November 15, 2000 afternoon session of the Committee of the Whole.)

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

5. **APPROVAL OF STUDENT-SPONSORED STUDENT PROGRAMS, ACTIVITIES AND RESOURCE COMPLEX FEE, LOS ANGELES CAMPUS**

The President recommended that:

A. A mandatory Student Programs, Activities, and Resource Complex Fee of $28 per student per quarter ($84 per year) be assessed to all undergraduate and graduate students enrolled at the Los Angeles campus, subject to the following:

(1) The fee revenue shall be used only for the following specific purposes: construction of non-seismic renovations in the Men's Gymnasium building; construction of an expansion of the John Wooden Recreation Center; and building maintenance, utilities costs, and future repair and improvement needs of these two projects; and similar needs of other student-fee supported activity and recreational facilities on the Los Angeles campus.

(2) The fee shall be effective the year in which the remodeling and/or expansion are completed, currently projected to be 2004-05.

(3) The fee amount shall be increased on a periodic basis of not less than every three years and not more than every five years to fund increases in maintenance, utilities, and building repair and improvement costs, with such increases based on the percentage increase in the U.S. Consumer Price Index in the same period, rounded to the nearest dollar.

(4) Once the debt for either construction project is fully repaid, the amount of the fee attributable to the debt service for said project shall be discontinued; however, the remainder of the fee assessed in the last year in which debt service was paid shall be continued indefinitely and, therefore, be increased in the same manner described in A.(3) above to provide for the ongoing cost of building utilities, maintenance, repairs, and improvement.

B. The existing student mandatory fee for the John Wooden Center building continue to be assessed indefinitely after the last year of repayment of external financing, scheduled to end 2017-2018, and the amount of the fee be reduced from the current level of $12.00 to $11.33 per student per quarter ($34.00 per year) to provide for ongoing costs of maintenance, utilities, building repair, expansion, or replacement of the Wooden Center and increased thereafter in the same manner as described in A.(3). above.

The Committee was informed that a student referendum was conducted jointly on the Los Angeles campus on May 10-11, 2000 by the Undergraduate Students Association and the Graduate Student Association to determine whether a new mandatory student fee of $28 per student per quarter should be assessed for the purposes outlined in the President's recommendation. It is projected that $18 of the total quarterly fee will be used to support the Men's Gymnasium project and $10 of the quarterly fee will be used to support the John Wooden Center West Expansion. A joint administration-student committee developed the Student Programs, Activities, and Resource Complex (SPARC) referendum during the 1999-2000 year, in accordance with campus guidelines approved in 1988.

Campus regulations provide that at least 20 percent of the eligible voters must cast ballots in the election and that a simple majority of aye votes is required for approval of a ballot measure. If the number of ballots cast is less than 20 percent, the number of aye votes required for approval must be equal to at least 50 percent plus 1 of the number of votes that would represent 20 percent of the eligible voters. For this election, at least 3,233 voters were needed to approve the referendum measure.

A total of 32,319 graduate and undergraduate students were eligible to vote in the student elections. Of these, 5,232 (16 percent) of the eligible voters cast votes on the referendum measure, with 4,024 aye votes (77 percent) and 1,208 nay votes (23 percent). Although the number of votes cast on the referendum measure was less than 20 percent, the referendum was deemed to be approved because the number of aye votes exceeded the required minimum of 3,233 aye votes. The Chancellor and the two student association presidents concurred in the determination that the referendum received sufficient votes under the 1988 campus guidelines.

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

6. **APPROVAL OF STUDENT-SPONSORED INCREASE IN STUDENT FEES, SANTA BARBARA CAMPUS**

The President recommended that, effective with the winter quarter 2001, the Associated Students Fee at the Santa Barbara campus be increased by $1 per undergraduate student per quarter, from $44 to $45 per undergraduate student per quarter.

The Committee was informed that the Associated Students spring election on April 25-26, 2000 included a ballot measure which would increase the Associated Students Fee by $1 in order to support the activities of the Isla Vista Tenants Union (IVTU), a student-led, student-run registered campus organization which is overseen by the ASUC as part of its operations. The activities of the Isla Vista Tenants Union would be limited to the provision of services, informational and educational in nature, primarily for the benefit of UCSB students who are tenants in Isla Vista, although community members who are tenants in Isla Vista may also receive such services. Revenue from the fee will be used for educational events, tenants' rights materials and resources, office space, supplies, and drop-in counseling and referrals. IVTU members are hoping to develop a database to track tenants' problems so that they can be proactive in focusing their educational efforts and assistance.

For approval of increases in the A. S. Fee, the campus requires a 20 percent voter turnout, with two-thirds of those voting on the ballot measure voting to approve the increase. Of the 16,363 undergraduate students eligible to vote, 5,180 students (31.7 percent) voted in the spring general election. Of the 4,315 undergraduate students voting on the measure, 3,140 students (72.8 percent) voted to approve the fee increase.

(For speaker's comments, see the minutes of the November 15, 2000 afternoon session of the Committee of the Whole.)

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

7. **AGREEMENT WITH THEATRE AND ARTS FOUNDATION OF SAN DIEGO COUNTY FOR CONSTRUCTION AND OPERATION OF THEATRES, SAN DIEGO CAMPUS**

The President recommended that:

A. The President be authorized to approve and the Secretary be authorized to execute an agreement with the Theatre and Arts Foundation of San Diego County, dba La Jolla Playhouse (Playhouse), a California non-profit corporation, for the purpose of planning, designing, constructing, operating, and maintaining a new theatre and related facilities including a restaurant or food service facility, and continuing joint use, maintenance, and operation of two theatres and related spaces cooperatively with the Department of Theatre and Dance, San Diego campus (Agreement) to include the following provisions:

(1) The Agreement will supersede an existing, amended Agreement between the parties, approved by The Regents in February 1978, pursuant to which the parties have successfully collaborated to fund, design, build, and operate the Mandell Weiss Theatre and the Weiss Forum Theatre. These theatres were funded through private donations, are owned by the University, and are jointly used by both the Playhouse and the Department of Theatre and Dance.

(2) The Agreement will provide for private funding by the Playhouse for the planning, design, and construction by the University of an approximately 37,200 assignable-square-foot third theatre facility, including a "Black Box," or experimental theatre, additional rehearsal space, administrative offices, a restaurant or food service facility, and storage.

(3) Ownership of the theatre and related facilities, other site improvements, and theatre equipment will vest in The Regents, subject to the rights to joint use by the Playhouse.

(4) The University will have primary access to one to three theatres for its programs from the end of October through mid-April, and the Playhouse shall have primary access to one to three theatres from mid-April until late October. Both parties may produce during the entire year and overlap at the end of each of their primary production periods. Each party may use the theatres during the other's primary access period for occasional incidental uses with the other party's permission.

(5) The University will agree to be responsible for the maintenance, repair, and operation of the theatres, including associated University equipment and grounds.

(6) The Agreement will formalize the artistic and educational relationships between the parties, including externships for students and the joint use of employees. Separate Memoranda of Understanding for these relationships will be executed covering operating details, which can be amended as needed over time:

a. Generally, the University agrees to incorporate Playhouse productions into its degree programs, and the Playhouse will provide residencies for the Department of Theatre, and Dance's Master of Fine Arts students;

b. To benefit both parties by providing University employment to technical and other employees engaged in what would otherwise be seasonal work for two employers, both parties will share the services of specifically designated and recruited University employees on an approximately 50/50 basis; the Playhouse will reimburse the University for its share of the cost of these University employees when working under its supervision.

(7) The term of the Agreement is for 50 years.

B. A separate agreement of shorter duration for operation of a restaurant or food service facility be negotiated between the parties and be approved and executed by the President or his designee per delegated authority.

C. The President, after consultation with the General Counsel, be authorized to approve and execute any other amendments or ancillary documents that do not substantially modify the terms of the Agreement.

The Committee was informed that the Agreement builds upon more than two decades of successful collaboration between the Department of Theatre and Dance at the San Diego campus (Department) and the La Jolla Playhouse (Playhouse). The Playhouse is one of the more renowned and innovative theatre companies in the country. The educational experience of UCSD graduate and undergraduate students in the Department is enriched by their involvement in the full array of Playhouse operations: performance, design, playwriting, directing, and choreography, and the experience in the production process itself at the three theatres. The Department's enrollment has grown to approximately 3,000 undergraduates, with approximately 140 majors and 100 minors, as well as 65 graduate students. Its Master of Fine Arts-Theatre program is ranked third in the nation. The externships offered at the Playhouse to Department students help to prepare them to take positions in the professional theatre throughout the world. Each graduate-student actor, stage manager, director, or designer enrolled in the graduate theatre program is guaranteed at least one 10- to15-week production assignment in a Playhouse production. These professional externships serve to attract the best graduate students in the country to the UCSD graduate theatre program.

Operating Costs and Financial Feasibility

With the cooperation of UCSD, the Playhouse will raise the funds to be used for the construction of the new theatre and related facilities, estimated at approximately $14.7 million. The terms of the Agreement for the ownership and use of the theatre facility, ownership of the restaurant or food service facility by the University, and the donation of the funds for the total cost of the facilities by La Jolla Playhouse are fair consideration for the long-term use of the 1.25 acres of campus land for these facilities. The planning, design, and construction of the theatre and related facilities will follow standard University procedures.

The Playhouse will completely fund the theatre and related facilities to be located on University land, thereby providing the University with valuable assets for its academic program. The University has agreed to fund the operations and maintenance expenses, including all utilities, for the new theatre and related facilities, using State funds and other campus discretionary funds, if needed, and to continue its funding of the operation and maintenance of the two existing theatres. The operations, maintenance, and utilities expenses for the new theatre and related facilities are estimated to be $340,000 in 2000 dollars annually. Revenues from theatre productions of both organizations support the cost of their respective theatre productions, as well as salaries for joint employees.

While the Agreement between the University and the Playhouse envisions a restaurant or food service facility as part of the new facilities, the inclusion of the food- related facility in the project is subject to the successful negotiation of a separate agreement between the parties its operation.

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

8. **UNIVERSITY OF CALIFORNIA FINANCIAL REPORT**

The **University of California Financial Report** was provided as background for the Committee's discussion and the presentation by Vice President Broome.

(The report was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.)

Vice President Broome gave an overview of the financial report with the aid of slides. She reported that at June 30, 2000 the University's assets totaled $89.2 billion, an increase of $9.3 billion or 11.6 percent over fiscal year 1999. Liabilities totaled nearly $17 billion, while fund balances were over $72 billion. Total assets included investments of nearly $67.2 billion, which accounts for 75 percent of the University's assets.

Assets at June 30, 2000 included, for the first time, participants' interest in external mutual funds, totaling over $1.6 billion. These investment alternatives are available through the University's Defined Contribution and 403(b) plans. Beginning July 1, 1999 the University's accounting policy was changed to include these interests in external mutual funds in the assets.

Capital assets totaled $16.9 billion, representing 19 percent of the University's assets.

Turning to the liability section of the balance sheet, Vice President Broome reported that during the year, new debt obligations totaled $345.8 million, including Multiple Purpose Projects

Revenue Bonds of $197.3 million issued in August 1999 and $105 million of revenue bond obligations assumed due to the dissolution of UCSF Stanford Health Care. Long-term obligations primarily finance the capital projects of the University.

Securities lending collateral constitutes 51 percent of the University's obligations. The University participates in this program as a means to augment income. Securities are lent to select brokerage firms for which collateral is received during the period of the loan. Cash collateral received is included in investments and also recorded as a liability.

Vice President Broome noted the growth in the University's equity, which is largely attributable to the investment markets. The University's equity in its Plant investment grew by nearly $1.3 billion this past year, to over $13 billion. Endowment funds grew by over $500 million, to nearly $5 billion, primarily due to net appreciation in the fair-market value of investments. Loan fund equity increased by $15 million to $339 million. Loan funds primarily represent loans to students from both federal and University programs.

The current activities of the University are recorded in its current fund balance. In FY 2000, there were total revenues of over $14 billion, representing an increase of slightly less than $1 billion. Almost $3 billion of the total revenue relates to the Department of Energy Laboratories. The University is required to report laboratory revenues and expenditures in its financial statements. The remaining $11 billion is University revenue. The sources of this funding include the State of California, which increased by $243 million to almost $2.9 billion. This increase provided funding for enrollment growth, a student fee reduction for California residents, expansion of outreach programs, additional funding for research programs, and funds for the Merced campus. The largest growth was in the revenue of the medical centers, with an increase of $277 million, bringing total revenue to $2.2 billion. This increase was largely a result of the dissolution of UCSF Stanford Health Care on March 31, 2000. Revenue from the federal government grew by $140 million due to an increase in both award levels and the number of awards granted.

Student tuition and fees at $1.1 billion experienced modest growth of $31.5 million. The growth of this revenue resulted from increased enrollment and an increase in non-resident tuition, partially offset by a reduction in California resident fees.

Private gifts, grants, and contracts of over $730 million, which include donations, grants and contracts for research and student aid, increased by $80 million. The University continues to be aggressive in developing private revenue sources. In addition to these current fund revenues, the University also recorded gifts in endowments, plant funds, and loan funds.

The $200 million settlement of the patent infringement lawsuit against Genetech contributed to the increase in the "other sources of revenue" category.

Vice President Broome reported that, on the expenditure side, the University recorded $13.8 billion of expenses and mandatory fund transfers. This was an increase of $1 billion or 8.2 percent. Instruction, $2.4 billion of which includes academic salaries and other expenditures related to UC's instructional programs, increased by approximately $157 million. A large portion of this growth reflects the University's continuing commitment to adjusting faculty salaries to regain a competitive position with its peer institutions and to support increased enrollments.

Research spending of $2.1 billion grew by nearly $220 million mainly as a result of additional funding from federal sources for research in a variety of academic disciplines. Public service expenditures of $294 million grew by about $55 million primarily due to the emphasis being placed on educational outreach activities.

Medical center expenditures increased largely due to the inclusion of UCSF expenditures in the amount of $86 million for three months of activity. The four other medical centers increased their expenditures by $122 million as a result of increases in patient activity, salary adjustments, and increases in the cost of pharmaceuticals.

Vice President Broome explained that there will be changes in the University's accounting and reporting requirements in response to two Governmental Accounting Standards Board pronouncements that were issued in the past year. These pronouncements will substantially change how UC reports its results of operations and its financial position.

Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions," provides guidance on the recording of transactions for which the University receives funds but does not directly give equal value in exchange. The major effect of this pronouncement for the University will be to record gift pledges as revenue. This standard is effective for the fiscal year which began July 1, 2000. Working with PricewaterhouseCoopers, The Regents' external auditors, the University has established guidelines as to when a pledge may be recorded.

Statement No. 35, "Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities" establishes a new financial reporting model beginning with the 2001-2002 fiscal year. The University is in the second year of a three-year implementation plan. One of the most significant changes is that of recording the depreciation of fixed assets.

With the implementation of these new reporting requirements, the University will no longer be reporting by fund group. The statements will reflect the financial position and operating results for the University on an entity basis. However, accounting records will need to be maintained on a fund basis in order to differentiate between the various fund groups that belong to the University.

Regent Lee believed that the financial statement did not represent a true picture of the University's assets because of the large obligation to its employees represented by UCRP. Vice President Broome explained that a proper classification for that obligation is under "fund balance." Committee Chair Preuss suggested that Regent Lee and Vice President Broome consider how to take this into account for next year's presentation.

In response to comments by Regent Lee, Vice President Broome stated that more detailed information would be provided to the Regents regarding depreciation once the guidelines have been established.

Regent Johnson raised the issue of the University's debt capacity. Senior Vice President Mullinix explained that he would report to the Board next year regarding the University's long-term capital needs and its ability to service a large debt. He noted that an effect of Statement No. 35 will be to show depreciation more starkly. Secondly, the University may not be able to show State revenues as operating income.

In response to a comment by Regent Bustamante regarding the University's ability to loan itself money, Vice President Broome pointed out that the only non-restricted equity available to the University is current funds. The University is in a sound financial position, but it does not have large sums of cash available for spending.

9. **REPORT OF NEW LITIGATION**

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

The meeting adjourned at 4:50 p.m.

Attest:

Secretary