The Regents of the University of California

COMMITTEE ON FINANCE
November 15, 2001

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

Members present:	Regent Atkinson, Connerly, Hopkinson, S. Johnson, Kozberg, Lee, Montoya, Morrison, Parsky, and Preuss; Advisory member Ligot-Gordon
In attendance:	Regents Bagley, Davies, T. Davis, O. Johnson, Lansing, Marcus, Sayles, and Seymour, Regent-designate Terrazas, Faculty Representatives Binion and Viswanathan, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice President Broome, Chancellors Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Nietfeld

The meeting convened at 10:55 a.m. with Committee Chair Preuss presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice had been given in compliance with the Bylaws and Standing Orders for a Special Meeting of the Committee on Finance, for this date and time, concurrently with the regular meeting of the Committee on Finance, for the purpose of considering Item 506, Proposed Dissolution and Winding up of Limited Liability Company - UCSF Mission Bay Campus, LLC.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 18, 2001 were approved.

3. **CONSENT AGENDA**

A. ***Service of Notice for January 2002 Action Regarding Amendment of Standing Order 110.2 – Matters Relating to Residency: Fee Exemptions for Dependents of Deceased Law Enforcement Officers or Firefighters***

The President recommended that, following service of appropriate notice, Standing Order 110.2–Matters Relating to Residency, be amended as follows, effective fall term 2001:

additions shown by shading

Standing Order 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 spouse or child of a resident law enforcement officer or fire fighter killed on active duty shall be exempted from nonresident tuition and mandatory systemwide fees in accordance with Section 68120 of the Education Code of the State of California.

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B. ***Proposed Continuation of Life Safety Fee, Berkeley Campus***

The President recommended that the duration of the life-safety portion of the mandatory Berkeley Campus Fee, originally scheduled to terminate following fall semester 2001, be extended through spring semester 2004 at the current level of $63 per student per year.

C. ***Approval of New Student-Sponsored MBA Activities Fee, Los Angeles Campus***

The President recommended that effective winter quarter 2002, a new fee of $25 per student per quarter be established for students enrolled in the full-time MBA program to support student-sponsored programs and activities.

D. ***Authorization for Leases and Agreements for Seismic Corrections at UC Teaching Hospitals***

The President recommended that, subject to adoption by the State Public Works Board of a resolution authorizing the issuance of State Public Works Board Lease Revenue Bonds and authorizing interim loans from the State's Pooled Money Investment Account or General Fund for the following projects:

Davis campus:
- UCDMC, Tower II, Phase 2
- UCDMC, Tower II, Phase 3

Irvine campus:
- UCIMC, SB 1953 NPC 2 Anchorage

Los Angeles campus:
- UCLAMC, Westwood Replacement Hospital
- UCLAMC, Santa Monica/Orthopaedic Replacement Hospital

San Francisco campus:
- UCSFMC, SB 1953 Moffitt 2002

The President or the Secretary be authorized to:

(1) Execute an unsubordinated site lease from The Regents to the State Public Works Board (SPWB) for each project named above, said leases to contain provisions substantially as follows:

a. The site shall comprise the approximate size of the footprint for each building named above. Said lease shall also include a license to the SPWB for access from campus roads to the site during the term of the lease;

b. The purpose of the lease shall be to permit construction of the project;

c. The term of the site lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;

d. The rental shall be $1 per year;

e. The Regents shall have power to terminate the site lease in the event of default by the SPWB, except when such termination would affect or impair any assignment or sublease by the SPWB and such assignee or subtenant is duly performing the terms and conditions of the lease;

f. The Regents shall provide to the SPWB and any assignee or subtenant of the SPWB access to the site and such parking and utility services as are provided for similar facilities on the campus;

g. The Regents shall waive personal or individual liability of any member, officer, agent, or employee of the SPWB;

h. The Regents shall agree to pay assessments or taxes, if any, levied on the site or improvements attributable to periods of occupancy by The Regents; and

i. In the event any part of the site or improvements is taken by eminent domain, The Regents recognizes the right of the SPWB to retain condemnation proceeds sufficient to pay any outstanding indebtedness incurred for the construction of the project.

(2) Execute an agreement between the State of California, as represented by the SPWB, and The Regents for each project named above, said agreements to contain the following provisions:

a. The SPWB agrees to finance construction of the project, as authorized by statute; and

b. The Regents agrees to provide and perform all activities required to plan and construct said project.

(3) Execute a facility lease from the SPWB to The Regents for each project named above, said leases to contain provisions substantially as follows:

a. The purpose of the building's occupancy shall be to use it as a facility for acute care in-patient service and support-related functions in furtherance of the University's mission related to instruction, research, and public service;

b. The SPWB shall lease the financed facility, including the site, to The Regents pursuant to a facility lease;

c. The terms of the facility lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;

d. If the SPWB cannot deliver possession to The Regents at the time contemplated in the lease, the lease shall not be void nor shall the SPWB be liable for damages, but the rental payment shall be abated proportionately to the construction cost of the parts of the facility not yet delivered;

e. In consideration for occupancy during the term of the lease and after the date upon which The Regents takes possession of the facility, The Regents shall pay base rent in an annual amount sufficient to pay debt services on the bonds or other obligations of the SPWB issued to finance or refinance the facility and additional rent for payment of all administrative costs of the SPWB;

f. The Regents covenants to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations;

g. During occupancy, The Regents shall maintain the facility and pay for all utility costs and shall maintain fire and extended coverage insurance at then current replacement cost, and earthquake insurance if available on the open market at a reasonable cost;

h. During occupancy, The Regents shall maintain public liability and property damage insurance or an equivalent program of self insurance on the facility and shall maintain rental interruption or use and occupancy insurance, or an equivalent program of self insurance, against perils covered in (3)g. above;

i. In the event of default by The Regents, the SPWB may maintain the lease whether or not The Regents abandons the facility and shall have the right to relet the facility, or the SPWB may terminate the lease and recover any damages available at law;

j. The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if The Regents files any petition or institutes any proceedings for bankruptcy, or if The Regents abandons the facility;

k. The Regents shall cure any mechanics' or materialmen or other liens against the facility and, to the extent permitted by law, shall indemnify the SPWB in that respect;

l. The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the facility; and

m. Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the facility shall vest in The Regents.

The President be authorized to identify assets to be leased in lieu of facilities constructed pursuant to (1) and (3) above, and to execute documents necessary to lease such assets.

E. ***Authorization for Leases and Agreements for State Capital Improvement Programs at Davis, Riverside, and San Francisco Campuses***

The President recommended that, subject to adoption by the State Public Works Board of a resolution authorizing the issuance of State Public Works Board Lease Revenue Bonds and authorizing interim loans from the State's Pooled Money Investment Account or General Fund for the following projects:

Davis campus:
- UC Davis Center for the Medical Investigation of Neurodevelopmental Disorders Institute

Riverside campus:
- Heckmann Center Complex-Phase 2 (International Center for Management)

San Francisco campus:
- UCSF-Fresno Medical Education and Research Center

The President or the Secretary be authorized to:

(1) Execute an unsubordinated site lease from The Regents to the State Public Works Board (SPWB) for each project named above, said leases to contain provisions substantially as follows:

a. The site shall comprise the approximate size of the footprint for each building named above. Said lease shall also include a license to the SPWB for access from campus roads to the site during the term of the lease;

b. The purpose of the lease shall be to permit construction of the project;

c. The term of the site lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;

d. The rental shall be $1 per year;

e. The Regents shall have power to terminate the site lease in the event of default by the SPWB, except when such termination would affect or impair any assignment or sublease by the SPWB and such assignee or subtenant is duly performing the terms and conditions of the lease;

f. The Regents shall provide to the SPWB and any assignee or subtenant of the SPWB access to the site and such parking and utility services as are provided for similar facilities on the campus;

g. The Regents shall waive personal or individual liability of any member, officer, agent, or employee of the SPWB;

h. The Regents shall agree to pay assessments or taxes, if any, levied on the site or improvements attributable to periods of occupancy by The Regents; and

i. In the event any part of the site or improvements is taken by eminent domain, The Regents recognizes the right of the SPWB to retain condemnation proceeds sufficient to pay any outstanding indebtedness incurred for the construction of the project.

(2) Execute an agreement between the State of California, as represented by the SPWB, and The Regents for each project named above, said agreements to contain the following provisions:

a. The SPWB agrees to finance construction of the project, as authorized by statute; and

b. The Regents agrees to provide and perform all activities required to design and construct said project.

(3) Execute a facility lease from the SPWB to The Regents for each project named above, said leases to contain provisions substantially as follows:

a. The purpose of the building's occupancy shall be to use it as a facility for instructional and support-related functions in furtherance of the University's mission related to instruction, research, and public service;

b. The SPWB shall lease the financed facility, including the site, to The Regents pursuant to a facility lease;

c. The terms of the facility lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full;

d. If the SPWB cannot deliver possession to The Regents at the time contemplated in the lease, the lease shall not be void nor shall the SPWB be liable for damages, but the rental payment shall be abated proportionately to the construction cost of the parts of the facility not yet delivered;

e. In consideration for occupancy during the term of the lease and after the date upon which The Regents takes possession of the facility, The Regents shall pay base rent in an annual amount sufficient to pay debt service on the bonds or other obligations of the SPWB issued to finance or refinance the facility and additional rent for payment of all administrative costs of the SPWB;

f. The Regents covenants to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations;

g. During occupancy, The Regents shall maintain the facility and pay for all utility costs and shall maintain fire and extended coverage insurance at then current replacement cost, and earthquake insurance if available on the open market at a reasonable cost;

h. During occupancy, The Regents shall maintain public liability and property damage insurance or an equivalent program of self insurance on the facility and shall maintain rental interruption or use and occupancy insurance, or an equivalent program of self insurance, against perils covered in (3)g. above;

i. In the event of default by The Regents, the SPWB may maintain the lease whether or not The Regents abandons the facility and shall have the right to relet the facility, or the SPWB may terminate the lease and recover any damages available at law;

j. The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if The Regents files any petition or institutes any proceedings for bankruptcy, or if The Regents abandons the facility;

k. The Regents shall cure any mechanics' or materialmen or other liens against the facility and, to the extent permitted by law, shall indemnify the SPWB in that respect;

l. The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the facility; and

m. Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the facility shall vest in The Regents.

For the following projects:

Riverside campus:
- Heckmann Center Complex-Phase 2 (International Center for Management)

San Francisco campus:
- UCSF-Fresno Medical Education and Research Center

The President or the Secretary be authorized to:

(4) Execute an equipment acquisition agreement between the State of California, as represented by the SPWB, and The Regents for each of the projects named above, said agreements to contain the following provision: The SPWB agrees to finance equipping of the named project as authorized by statute.

(5) Execute an equipment lease from the SPWB to The Regents for each of the projects named above, said leases to contain provisions substantially as follows:

a. The equipment shall be used for the purpose of equipping the project;

b. The SPWB shall lease the equipment to The Regents pursuant to an equipment lease;

c. The term of the equipment lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution was adopted authorizing the lease, the issuance of Bonds, and interim financing for the project, whichever is earlier, and shall terminate on the date the Bonds issued by the SPWB are paid in full, subject to earlier termination if such Bonds have been retired in full;

d. During the term of the lease and after the date upon which The Regents takes possession of the equipment, The Regents shall pay base rent in an annual amount sufficient to pay debt service on the Bonds or other obligations of the SPWB issued to finance or refinance the equipment and additional rent for payment of all administrative costs of the SPWB;

e. The Regents covenants to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations;

f. During use, The Regents shall maintain the equipment and shall maintain fire and extended coverage insurance or an equivalent program of self insurance at then current replacement cost;

g. During use, The Regents shall maintain rental interruption insurance, covering loss of use, public liability insurance, and property damage insurance or an equivalent program of self insurance on the equipment;

h. In the event of default by The Regents, the SPWB may maintain the lease and shall have the right to resell the equipment, or the SPWB may terminate the lease and cover any damages available at law;

i. The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if The Regents files any petition or institutes any proceedings for bankruptcy, or if The Regents abandons the equipment;

j. The Regents shall cure any liens against the equipment and, to the extent permitted by law, shall indemnify the SPWB in that respect;

k. The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the equipment; and

l. Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the equipment shall vest in The Regents.

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

4. **UNIVERSITY OF CALIFORNIA FINANCIAL REPORT, 2001**

The President recommended that the **University of California Financial Report** for 2001 be accepted.

[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, focusing on the balance sheet and the Statement of Current Fund Revenues, Expenditures, and Other Changes. She reported that the total assets of the University grew to over \$91 billion as of June 30, 2001, an increase of \$3 billion for fiscal 2000. Investments of approximately \$68.8 billion constitute 75 percent of the University's assets. The University's investments increased by \$1.6 billion in fiscal 2001, primarily as a result of net realized gains on the sale of investments and expansion of the securities lending program, offset by unrealized depreciation in the fair value of investments during the year. Capital assets, which constitute 20 percent of the total, increased by over \$1.3 billion to \$18.2 billion as a result of growth in the capital spending program.

Ms. Broome reported that liabilities increased by \$5 billion to \$21.7 billion during the year. Long-term obligations, which finance the University's capital projects, grew from \$5 billion to \$5.2 billion during fiscal 2001. Expansion of the securities lending program increased lending collateral obligations by \$3.8 billion to \$12.5 billion.

The University's total fund balance, including retirement system funds, was \$70.2 billion at the end of fiscal 2001 compared to \$72.2 billion at the end of fiscal 2000. The retirement system fund balance, which constitutes 67 percent, decreased from \$50.6 billion to

$47.1 billion. The most significant cause of the decrease was over $4 billion of net depreciation in the fair value of investments in both the retirement fund and the general endowment pool. Total Plant fund balances are $14.8 billion in fiscal 2001, up by $1.4 billion as a result of capital expansion. The fund balance in the Endowment and Similar Funds group decreased from $5 billion at the end of fiscal 2000 to $4.7 billion in Fiscal 2001 as a result of net depreciation in the fair market value of investments.

Vice President Broome reported that the Current Fund equity increased by $241 million this year, with revenues of $15.9 billion for fiscal 2001, which includes Department of Energy (DOE) laboratory revenues of over $3 billion. Because the University manages these laboratories for the federal government, it is required to record their revenues in the financial statements. The growth in University Current Fund revenues is primarily attributable to increases in the current year's State appropriation; federal and private contracts and grants; and Medical Center revenues as a result of increases in patient activity and the inclusion of the San Francisco Medical Center for the full fiscal year.

Expenditures and mandatory fund transfers are $15.1 billion, with $3 billion attributable to the DOE laboratories. The $1.4 billion growth in spending is primarily attributable to increased instructional spending as a result of enrollment growth; research spending as a result of increased grants and contracts; public service, primarily outreach programs; and the inclusion of the San Francisco Medical Center. Spending for research, at more than $2.3 billion, grew by $235 million.

Vice President Broome reported on the effects of Governmental Accounting Standards Board (GASB) Statement No. 35. Under this new standard, the University will no longer report by fund but will report on an entity-wide basis. The financial statements will no longer include retirement fund balances. The University will also be required to depreciate its capital assets and is in the third year of a three-year plan to accommodate this change.

In response to a question from Regent Davies, Vice President Broome reported that the University would use the acquisition cost plus improvements to calculate depreciation.

Under GASB Statement No. 35, the University's current financial statements will be replaced by a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. With these new requirements, the standards for public institutions will become stricter than those for private industry.

Regent Lee asked whether the University was taking advantage of lower interest rates to refinance its capital projects. Assistant Treasurer Young reported that the average interest rate is 5.35 percent. The University continues to seek means to reduce interest rates. Regent Lee urged the administration to seek refinancing for its campus projects.

Regent-designate Terrazas recalled that University staff had suggested the use of unrestricted funds for salary increases and asked Vice President Broome to comment. She noted that over one-third of the current fund is legally restricted as to use. A significant amount of unrestricted funds are used to pay the University's debt service.

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

5. **RECOMMENDATIONS FOR NEW OR MODIFIED FACULTY/STAFF HOUSING FINANCIAL ASSISTANCE PROGRAMS, UC HOUSING TASK FORCE**

The President recommended that:

A. The Regents approve modifications to the Mortgage Origination Program Parameters, as detailed in Attachment 1.

B. The Regents approve modifications to the Supplemental Home Loan Program Parameters, as detailed in Attachment 2.

C. The actions approved at the March 1999 meeting authorizing allocations of funds for the Mortgage Origination Program from legally available cash balances in the unrestricted portion of the Short-Term Investment Pool (STIP) be modified as shown below:

   a. The allocations shall be at levels determined to ensure that the aggregate outstanding balance of the loan portfolio does not exceed 30 percent of the legally available cash balances of the unrestricted portion of STIP;

   with the understanding that all other guidelines and parameters remain unchanged.

It was recalled that the Regents had received a report for the September 2001 meeting from the UC Housing Task Force summarizing its activities since May 2001 and detailing four initial recommendations designed to strengthen the ability of existing faculty and staff financial assistance programs to address the growing housing affordability gap near most University campuses. These recommendations are outlined below.

The task force, through its New Financial Programs Subcommittee, is exploring the potential for identifying additional private sector financial resources to leverage existing University resources and additional University resources to increase the availability of current and/or new financial assistance programs. The ability to increase the resources available for financial assistance is necessary for any significant broadening of the eligibility beyond the current Academic Senate and Senior Management Group categories. One approach to increase resource availability is the periodic sale of MOP loans to support increased levels of lending activity. The subcommittee contemplates reporting its findings and recommendations to the task force on this proposal by early next year.

The recommendations for housing assistance program modifications or new approaches are designed to strengthen the University's ability to continue to recruit and retain faculty and staff over the next decade. The program parameter and modified component recommendations are based upon an evaluation of how each proposal would strengthen the ability of existing program components to address the growing housing affordability gap near most campuses. The recommendation regarding the STIP will provide a marginal increase to the resources available for the MOP loan program. Attachments 1 and 2 detail the specific changes to existing program parameters required to implement the first three recommendations. Other minor editorial changes have been shown to clarify existing parameter language.

- **Increase Supplemental Home Loan Program Loan-to-Value Ratio (LTV) Thresholds**

  Proposal: Increase maximum LTV to 95 percent for combined loan amounts up to \$687,000 and to 90 percent for combined loan amounts over \$687,000. Currently, a combined LTV of 95 percent is available for combined loan amounts up to \$437,000; for combined loan amounts in excess of \$687,000, the LTV is limited to 85 percent. These thresholds are increased annually by indexing to increases in the annual All-Campus Average House Price Index.

  This proposal would reduce the down payment cash requirements to borrowers. Loans can be structured to provide low or no payments during early years to increase affordability. It provides greater flexibility to use funds that might otherwise be used to make housing allowances, which are generally not repaid and are always treated as taxable income to the recipient. It provides tax advantages to the borrower over the housing allowance approach.

  Risk Assessment - There would be no impact on MOP loans as SHLP loans are funded from discretionary funds available to chancellors. Although higher LTV ratios increase the loss exposure for the campus funds used to make the higher LTV SHLP loans, this risk is mitigated by reducing the magnitude of housing allowances which are often increased in size to account for the impact on the borrower of the income tax associated with the housing allowance payment, resulting in even higher costs to the campus fund source.

- **Increase the Maximum Mortgage Origination Program and Supplemental Home Loan Program Repayment Periods to 40 Years**

  The proposal to increase the maximum loan term to from 30 to 40 years would increase the affordable purchase price by approximately 8.3 percent.

  Risk Assessment: There would be no negative impact on the earnings of STIP or campus funds and no impact on the loan risk profile. The proposal would result in marginally slower pay down of principal, thereby increasing interest payments by borrowers and reducing the rate of principal repayment to STIP for reuse in new loans.

- **Graduated Payment MOP (GP-MOP) Option**

  Proposal: To develop a new MOP loan product that allows campuses to pay a portion of a borrower's interest rate for 6 to 12 years (or longer by exception). The initial rate paid by the borrower could be as low as 3 percent, with the campus providing funds to pay up to a 3 percent reduction in the interest rate. The differential paid by the campus would be reduced by 0.25 percent to 0.50 percent annually, until the borrower is paying the program rate. The President would be authorized to approve exceptions to the maximum rate reduction and annual adjustment amounts, but not to the minimum initial mortgage interest rate, based upon the essential recruitment and retention needs and goals of the institution.

  Advantages: An initial lower interest rate would greatly increase the purchasing power of the borrower. The rate reduction amount and period could be adjusted to match the initial household income and the projected annual income growth. University funds used to cover the interest rate spread are not subject to income tax reporting or taxation to the borrower, which is a more efficient use of funds compared to housing allowance grants.

  Potential costs: The actual cost for each campus and the University overall would depend upon the number of GP-MOP loans made, the amount of rate reduction in each case, the average GP-MOP loan size, and the percentage at which the rate reduction changes each year.

  Risk Assessment: In the event the borrower's household income did not increase in line with the increasing payments as the interest rate reduction decreases, the payment-to-income ratio of some individual borrowers could increase in the early years of the loan, which might increase the risk of default. This impact is mitigated by the requirement of payroll deduction and the University's ability to modify the note repayment term to reduce the monthly payment.

- **Increase MOP Program Funding from Unrestricted STIP**

  Proposal: To increase the percentage of the unrestricted portion of STIP that may be used for MOP loans from 25 percent to 30 percent.

  Advantages: Based upon the recent increased use of the program in terms of number and size of loans, the MOP portfolio projection model indicates no remaining lending authority in 2010 under the current authorized STIP use percentage of 25 percent. The increased authority would provide relief for that condition as well as the possibility for a marginal increase in program funding in future years, depending upon actual STIP growth rates. In today's dollars, a 5 percent increase in allocation authority provides approximately $150 million in new lending authority. The June 30, 2001 unrestricted STIP balance was $3.1 billion.

Program Authorization: This recommendation would require Regental approval of the program parameter authorizing the higher STIP use ratio. Historically, the funding authority has been modified several times. In establishing MOP in July 1984, The Regents provided an initial allocation of $30 million for the first two years of the program from the legally available cash balances in the unrestricted portion of the STIP. Subsequent actions were taken to provide additional funding through 1989, at which time The Regents approved providing ongoing authority to the President to authorize two-year allocations at levels determined to ensure that the maximum aggregate outstanding balance of the MOP loan portfolio does not exceed 30 percent of the legally available cash balances in the unrestricted portion of STIP. At that time, hospital working capital borrowing, not to exceed 20 percent of the unrestricted portion of STIP, was also authorized. In March 1999, these percentages were decreased to 25 percent and 15 percent, respectively, to provide the Treasurer with the ability to use STIP to provide liquidity support for the University's Commercial Paper (CP) Program, as long as the total outstanding loans by all three programs does not exceed 50 percent of the unrestricted STIP balances.

Risk Assessment: If the MOP utilization level were increased to 30 percent, then the combined MOP plus hospital working capital authorized utilization level would equal 45 percent. Even though STIP is also providing liquidity support to the CP Program, it is highly unlikely that STIP will be used to actually fund any CP Program requirements. The University's CP Program has earned the highest credit ratings for commercial paper (A1+/P1 by S&P and Moody's), and investor acceptance is strong. Funding of this obligation, if required, would be caused by a failed trade due to technical issues involving a CP dealer and the Issuing and Paying Agent, rather than by any dealer's inability to market the University's commercial paper. Current Regental policy requires that in the event that ratings for the CP Program were reduced to below A1/P1, external liquidity support would be substituted for STIP.

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

6. UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – ANNUAL ACTUARIAL VALUATION

The Committee was informed that each year, in accordance with actuarial reporting requirements of the Internal Revenue Code (IRC) and the University of California Retirement Plan (UCRP or Plan), the Plan's consulting actuary, Towers Perrin, 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. Based on the results of the annual actuarial valuation, the Plan's consulting actuary is not recommending any change in the Plan's assumptions.

In accordance with statutory disclosure requirements applicable to tax qualified defined benefit pension plans, Towers Perrin has performed a comprehensive actuarial valuation for UCRP as of July 1, 2001. This report is applicable to the 2001-2002 Plan year. The consulting actuary's statement shows that the value of UCRP assets is sufficient to maintain a 0 percent payroll employer contribution rate. This recommendation is in line with the full funding limitation described in IRC §412(c)(7)(A) [of 1986, as amended], 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 plus normal cost.

At the fiscal year end of June 30, 2001, the market value of assets of UCRP, after subtracting benefit claims currently payable and other current payables of the Plan, was $38,869,900,000 as compared to $42,070,918,000 at the beginning of the Plan's fiscal year. During the 2000-2001 fiscal year, the Plan experienced a negative 5.5 percent investment return on the market value of Plan assets. On a cash-flow basis, however, dividend and interest income of $1.3 billion exceeded benefit and expense payments of $904 million. The decrease in surplus reflects lower-than-expected investment performance during the 2000-2001 Plan year.

It was recalled that, 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 (ERISA) §3(31) specifically grants approval for six actuarial cost methods. One of these, the entry age normal cost method, has been used for the Plan for over 25 years. It is the actuarial method used by 70 percent of public sector plans. The entry age method is considered a conservative actuarial model, distributing costs 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, as defined under ERISA §3(28), 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 2001-2002 Plan year is 14.91 percent ($975 million), up from 14.38 percent. The increase is due primarily to an increase in the age factors.

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.

Supplemental Information

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 that was being offered at that time to UCRP members was to establish a "frozen" defined benefit plan under IRC §401(a).

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. The assets are commingled with UCRP assets for purposes of investment only, thereby providing maximum investment return without the loads, fees, or industry risk attached to an insurance contract.

In Revenue Ruling 89-87, the Internal Revenue Service clarified that a wasting trust is subject to the standard pension qualification, funding, and reporting requirements, inclusive of an actuarial review under IRC §6059. 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, 2001, the net assets of the wasting trust were $84.6 million, and the actuarial liability was $40.6 million.

7. **PROPOSED AMENDMENT OF THE UNIVERSITY OF CALIFORNIA RETIREMENT PLAN - CAPITAL ACCUMULATION PROVISION ACCRUAL CREDIT**

The President recommended that the University of California Retirement Plan (UCRP or Plan) be amended, as shown in Attachment 3, to provide a Capital Accumulation Provision Accrual Credit on April 1, 2002 as follows:

> An amount equal to 3 percent of eligible covered compensation earned and paid for the period beginning April 1, 2001 through March 31, 2002 for all UCRP Active Members on April 1, 2002 at an interest rate based on the assumed earnings rate of the Plan in effect from time to time. Currently, the assumed earnings rate of the Plan is 7.5 percent.

It was recalled that the final State budget for the 2001-2002 fiscal year provides less funding than the University of California and the Governor originally proposed for faculty and staff compensation increases. The pool of funds provided to UC for fixed cost increases, including employee salary raises, was reduced from 4 percent to 2 percent due to the State's reduced revenues.

During the period of severe pressure on the State's Budget in the early 1990s, with budget shortfalls and salary cutbacks for UC, a CAP was added to UCRP. The first such action was effective April 1, 1992, as a supplemental benefit to UCRP Members. Subsequently, similar credits were made in 1992, 1993, and 1994. The accrual credit was based on covered compensation earned during certain specified time periods. Interest is accrued on such credits at a rate of 8.5 percent annually, which was the interest rate used to value liabilities in the years that the CAP accrual credits were made. The current interest rate used to value UCRP liabilities is 7.5 percent annually.

Based on discussions at the July and October 2001 meetings, the administration is recommending that the accrual credit be calculated as 3 percent of eligible covered compensation earned and paid for the period April 1, 2001 through March 31, 2002. Retroactive adjustments for this period processed after March 31, 2002 would be excluded. To be eligible for a CAP accrual credit, UCRP members would need to be active members on April 1, 2002. This would include UCRP Members on sabbatical or approved leave of absence. Disabled, retired and inactive members would be excluded.

The CAP accrual credit would earn interest at a rate based on the assumed earnings rate of the Plan in effect from time to time. Currently, the assumed earnings rate of the Plan is 7.5 percent. For purposes of the CAP accrual credit, any change to the assumed earnings rate of the Plan would be effective on January 1 after The Regents adopts such a change.

As of July 1, 2001, UCRP covered payroll is $6.5 billion. The estimated increase in the actuarial accrued liability associated with the change would be $195 million. A 3 percent CAP accrual credit is 0.5 percent of the September 30, 2001 assets. As of July 1, 2001, the funded status of UCRP based on the actuarial value of assets and the actuarial accrued liability is 148 percent. As of September 30, 2001 the funded status on the same basis is estimated to be 146 percent. There would be no increase in normal cost for a CAP accrual credit earning interest at the assumed earnings rate of the Plan, currently 7.5 percent.

Using the projected funded status in 2019 from the previous Asset/Liability Study and adjusting for asset losses from July 2000 to July 2001, the funded status is estimated to decrease from 176 percent to 169 percent in 2019. Towers Perrin has advised that the effect of the approval of a 3 percent CAP accrual credit on this funded status of 169 percent in 2019 is minimal.

8. **PROPOSED DISSOLUTION AND WINDING UP OF LIMITED LIABILITY COMPANY - UCSF MISSION BAY CAMPUS, LLC, SAN FRANCISCO CAMPUS**

The President recommended that:

A. The Regents approve the dissolution and winding up of UCSF Mission Bay Campus, a nonprofit limited liability company, in a manner consistent with the terms of the applicable Operating Agreement and the law.

B. The Regents authorize the President, in consultation with the General Counsel, to execute all agreements and take such steps as are necessary to carry out such dissolution and winding up.

Regent Davies stated for the record that, because of a conflict of interest, he would not participate in the discussion nor vote on this item.

It was recalled that in March 1998 The Regents authorized the formation of UCSF Mission Bay Campus, a nonprofit limited liability company (UMBC), with two members, the University and the Bay Area Life Sciences Alliance (BALSA), for the planning and development of the UCSF Mission Bay Campus. BALSA provided the University with a unique combination of individuals associated with the life sciences and biotechnology fields with the enthusiasm, motivation, expertise, and resources that have brought significant benefits to UCSF's efforts to develop the Mission Bay campus.

Since its formation in 1998, UMBC, together with the campus, has completed the first phase of planning and development at the Mission Bay campus. In particular, UMBC has been significantly involved in the planning and development management of seven of the eight projects in progress at the Mission Bay site. These include the first phase of infrastructure, landscape design, the second laboratory building, a housing and mixed-use structure, a parking structure, the campus community center, and a building to serve as the headquarters of the California Institute for Bioengineering, Biotechnology, and Quantitative Biomedical Research. UMBC's participation has allowed the planning and development of the Mission Bay campus to progress more quickly than otherwise would have been the case.

Now that significant progress has been made with respect to the planning and development of the Mission Bay campus, BALSA considers its mission to help secure the site and launch the first phase of development to be successfully completed. In this regard BALSA, as the other member of UMBC, has approved the dissolution and winding up of UMBC.

The dissolution and winding up process will be consistent with procedures set forth in the Operating Agreement and as required by applicable law. The University will oversee this process as the administrative member of UMBC. In particular, after UMBC has returned to BALSA the initial capital contribution made by BALSA and has otherwise made provision for all the debts, liabilities, and other obligations of UMBC, all other assets of UMBC will be distributed to the University, including the Master Plan for the Mission Bay campus which was commissioned by BALSA. As part of the process, certain design professional and other professional services agreements which contain terms and conditions inconsistent with standard University contracts will be assigned to the University. Each of the projects associated with these contracts is on schedule and within budget. Any additional obligations which may be incurred by the University under these contracts will be mitigated by effective project management efforts on the part of the campus administration.

The substantial efforts of UMBC over the past three and one-half years will constitute a foundation on which the campus will continue the planning and development of Mission Bay.

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

9. **REPORT OF NEW LITIGATION**

General Counsel Holst presented the **Report of New Litigation** for September and November, 2001. By this reference, the reports are made a part of the official record of the meeting.

The meeting adjourned at 11:20 a.m.

Attest:

Secretary