The Regents of the University of California

COMMITTEE ON FINANCE
January 17, 2002

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

Members present:	Regents Atkinson, Connerly, Hertzberg, S. Johnson, Kozberg, Lee, Montoya, Moores, Morrison, and Preuss; Advisory member Ligot-Gordon
In attendance:	Regents Bagley, Davies, T. Davis, Eastin, O. Johnson, Lansing, Lozano, Marcus, Pattiz, 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 Presidents Doby, Drake, Gomes, and Hershman, Chancellors Bishop, Carnesale, Cicerone, Dynes, Vanderhoef, and Yang, and Recording Secretary Nietfeld

The meeting convened at 1:50 p.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 action on Item 502, Amendment of Standing Order 110.2 – Matters Relating to Residency: Proposal to Establish New Policy on Tuition Exemptions to Conform to AB 540 (Conditions of Implementation). This item was initially noticed for discussion.

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

Upon motion duly made and seconded, the minutes of the meeting of November 15, 2001 were approved.

3. **AMENDMENT OF STANDING ORDER 110.2 – MATTERS RELATING TO RESIDENCY: PROPOSAL TO ESTABLISH NEW POLICY ON TUITION EXEMPTIONS TO CONFORM TO AB 540 (CONDITIONS OF IMPLEMENTATION)**

Chairman S. Johnson recommended that the Committee refer this matter to the Board for action. The Committee concurred.

(For background information, see the minutes of the November 15, 2001 joint meeting of the Committee on Finance and the Committee on Educational Policy.)

Secretary Trivette distributed a report of communications received pertaining to this matter.

(For speakers' comments, see the minutes of the morning session of the January 17, 2002 Committee of the Whole.)

4. **AUTHORIZATION FOR LEASES AND AGREEMENTS FOR VARIOUS UC CAMPUS PROJECTS**

The President recommended that, subject to adoption of pending legislation authorizing the use of State Public Works Board (SPWB) Lease Revenue Bonds for the California Institutes for Science and Innovation and other projects identified below, and 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:

A. California Institutes for Science and Innovation:

Institute for Bioengineering, Biotechnology and Quantitative Biomedical Research (QB3)
San Francisco, Berkeley, and Santa Cruz campuses

California Institute for Telecommunications and Information Technology (Cal (IT)^2)
San Diego and Irvine campuses

California NanoSystems Institute
Los Angeles and Santa Barbara campuses

Center for Information Technology Research in the Interest of Society (CITRIS)
Berkeley, Davis, Merced, and Santa Cruz campuses

the President or the Secretary be authorized to:

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

a. The site for the Institute facility shall consist of the approximate size of the footprint of that facility. Each 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 facilities comprising each Institute;

c. The term of each 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 for each lease 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 by the SPWB and such assignee is duly performing the terms and conditions of the lease;

f. The Regents shall provide to the SPWB and any assignee 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 agreements between the State of California, as represented by the SPWB, and The Regents for facilities comprising each Institute named above, each agreement to contain the following provisions:

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

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

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

a. The purpose of the building's occupancy shall be to use it as a facility for instruction and research 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 or an equivalent program of self-insurance, 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.

B. For the following California Institutes for Science and Innovation:

California Institute for Telecommunications and Information Technology (Cal (IT)^2)
San Diego and Irvine campuses

California NanoSystems Institute
Los Angeles and Santa Barbara campuses

Center for Information Technology Research in the Interest of Society (CITRIS)
Berkeley, Davis, Merced, and Santa Cruz campuses

the President or the Secretary be authorized to:

(1) Execute equipment acquisition agreements between the State of California, as represented by the SPWB, and The Regents for facilities comprising the Institutes named above, said agreements to contain the following provision: The SPWB agrees to finance equipping of the facilities comprising the Institutes as authorized by statute.

(2) Execute equipment leases from the SPWB to The Regents for facilities comprising the Institutes 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.

C. For the following general campus projects:

Davis campus
Veterinary Medicine 3A

Irvine campus
Natural Sciences Unit 2

Merced campus
Library/Information Technology Center
Science and Engineering Building
Classroom and Office Building
Site Development and Infrastructure, Phase 1
Site Development and Infrastructure, Phase 2

Riverside campus
Engineering Building, Unit 2

San Diego campus
Engineering Building Unit 3B
Santa Barbara campus
Life Sciences Building

Santa Cruz campus

Engineering Building

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 by the SPWB and such assignee is duly performing the terms and conditions of the lease;

f. The Regents shall provide to the SPWB and any assignee 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 instruction and research 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 or an equivalent program of self insurance, 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.

D. For the following general campus projects:

Irvine campus
Natural Sciences Unit 2

Merced campus

Library/Information Technology Center
Science and Engineering Building
Classroom and Office Building

San Diego campus
Engineering Building Unit 3B

Santa Barbara campus
Life Sciences Building

Santa Cruz campus
Engineering Building

the President or the Secretary be authorized to:

(1) 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.

(2) 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.

The Committee was informed that the President's recommendation is similar to actions approved by The Regents for projects financed in previous years through the State Public Works Board Lease Revenue Bonds. Under each facility lease and equipment lease, The Regents agrees to pay rent to the SPWB in an amount necessary to repay principal and interest on the obligations of the SPWB issued to finance permanently the construction of and, as appropriate, the equipment for the facility. It is expected that the Legislature will appropriate funds each year for the rents due under each lease as a separate item in the State Budget Act. While the Legislature and the Governor, by approving the State Budget Act, have indicated their recognition of the need for continuing budgetary support, there can be no absolute assurance of this support through the life of the bonds. If the State fails to appropriate sufficient funds to make the rental payments, The Regents is obligated to pay rent from any lawfully available funds. When the obligations are retired, the leases will terminate, and The Regents will obtain clear title to the improvements and equipment.

California Institutes for Science and Innovation: Each California Institute for Science and Innovation will focus on a research field significant to the future of California's economy, bringing together UC's world-class scientists and students with industry researchers in a cooperative research and education effort that will produce both new knowledge and the next generation of scientists and technological innovators. The institutes will undertake basic, multidisciplinary research on complex problems requiring the kind of scope, scale, duration, equipment, and facilities that they uniquely provide.

The University is implementing the California Institutes for Science and Innovation consistent with Assembly Bill 2883, which authorized the first three institutes, and Senate Bill 735, which authorized the fourth. The authorizing legislation states the intent of the Legislature to provide State funding of $100 million for each institute for both capital and operating budget purposes and requires that each $1 of State funds be matched by at least $2 of non-State funds, including but not necessarily limited to, federal and private funds. The University is exceeding the legislative requirements by providing approximately $3 of non-State funds for each $1 of State funds.

In order to address State budget constraints, the Governor has proposed special legislation permitting the use of $308.5 million of State Public Works Board Lease Revenue Bonds to fund construction and equipment for the California Institutes for Science and Innovation in lieu of an equivalent amount of State General Funds. Of the total $400 million to be appropriated for the four institutes, the remaining $91.5 million will be provided from State General Funds to fund preliminary plans and working drawings for construction projects and operations for the first four years of the institutes. If the special legislation is adopted, the recommended actions would permit the construction of facilities comprising the four California Institutes for Science and Innovation and the equipping of facilities for three of them.

The exact amount of the annual rent for the institutes will be based on interest rates and the maturity date of the financial instruments as established by the State Treasurer. Assuming that the total amount to be financed for construction is $280,626,000 and assuming the interest at 6.125 percent, it is estimated that the annual rent would be $20,660,000 during the period of indebtedness if thirty-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses. Assuming that the total amount to be financed for equipment is $27,874,000 and assuming the interest at 5.25 percent, it is estimated that the annual rent would be $3,654,000 during the period of indebtedness if ten-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses. Final budgets and lease revenue bond allocations will be based on the costs associated with individual projects that comprise the institutes, as approved by The Regents.

General campus projects: The 2001 State Budget Act authorized $158,558,000 in Lease Revenue Bonds for three projects at the Merced campus: Phase 1 of the Site Development and Infrastructure project, the Science and Engineering Building, and the Library/Information Technology Center. In order to address State budget constraints, the Governor has proposed special legislation permitting the use of $279,025,000 of State Public Works Board Lease Revenue Bonds to accelerate construction funding for seven UC campus projects and an additional $26,739,000 million of Lease Revenue Bonds for the design, construction, and equipment for the Classroom and Office Building project at the Merced campus. The recommended actions would permit the construction of nine facilities at seven campuses, site development and infrastructure necessary to support instruction and research facilities at the Merced campus, and the equipping of seven facilities, as provided in the 2001 State Budget Act and the special legislation that is being proposed.

The exact amount of the annual rent will be based on interest rates and the maturity date of the financial instruments as established by the State Treasurer. Assuming that the total amount to be financed for construction is $425,476,000 and assuming the interest at 6.125 percent, it is estimated that the annual rent would be $31,325,000 during the period of indebtedness if thirty-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses. Assuming that the total amount to be financed for equipment is $38,846,000 and assuming the interest at 5.25 percent, it is estimated that the annual rent would be $5,092,000 during the period of indebtedness if ten-year bonds are sold, not including the additional rent for related financing costs and SPWB administrative expenses.

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

5. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN: PROPOSAL ON RELATIVE EQUITY OF RETIREMENT BENEFITS**

It was recalled that at its January 2001 meeting, the Committee discussed proposed benefit improvements to the University of California Retirement System. Items considered included a proposal to provide relative equity of retirement benefits to all Members of the University of California Retirement Plan (UCRP or Plan). Under this proposal, Members would be eligible for relatively equivalent retirement benefits regardless of marital status. University of California Human Resources and Benefits (HR/Benefits) is evaluating a variety of alternatives for providing relative equity of retirement benefits to unmarried UCRP Members. Also being evaluated is a proposal to provide for a lump-sum payment in certain instances when a Member who is eligible to retire dies before electing retirement.

One of the objectives in evaluating the alternatives is to parallel, to the extent possible, UCRP provisions that provide survivor benefits to Eligible Survivors. Under certain circumstances, Eligible Survivors (Eligible Spouses, Eligible Dependent Children, and Eligible Dependent Parents) of Active or Disabled Members are entitled to receive income continuation benefits (Pre-Retirement Survivor Income) if the Member dies before retirement with at least two years of Service Credit. If the Member dies after electing UCRP Retirement Income, UCRP provides Post-Retirement Survivor Continuance, defined as that portion of the basic retirement income payable as a monthly benefit upon the death of a Retired Member to Eligible Survivors. Members without Eligible Survivors are not entitled to these benefits.

In order to provide relative equity of retirement benefits to UCRP Members with domestic partners and their children, an option under consideration is to provide eligible domestic partners and their eligible children with UCRP benefits on the same basis that such benefits are currently provided to Eligible Spouses and their Eligible Children. This would include Pre-retirement Survivor Income and Post-retirement Survivor Continuance. This would not affect the Member's ability to designate a beneficiary to receive the UCRP death benefit or to designate a Contingent Annuitant under the Plan to receive monthly retirement benefits on the death of the UCRP Member.

Consistent with current Plan provisions for an Eligible Spouse, a domestic partner would be required to establish a relationship with the UCRP Member one full year before the Member's retirement date or the Member's date of death to be an eligible domestic partner for UCRP purposes. This one-year requirement is similar to the provisions for establishing a domestic partnership with the City and County of San Francisco and the Los Angeles City Employees Retirement System.

In order to offer relative equity of retirement benefits to unmarried UCRP Members with no Eligible Survivor(s) or eligible domestic partner, an alternative being considered would be to allow the Member to name a designated survivor at the time of retirement to receive the Post-retirement Survivor Continuance upon the Member's death. A designated survivor could be any natural person, but not a trust or an estate. The Member's ability to designate a beneficiary to receive the UCRP death benefit and to designate a Contingent Annuitant under the Plan to receive retirement benefits on the death of the UCRP Member would not be affected. One of the goals of the designated survivor option is to provide a cost-comparable Post-Retirement Survivor Continuance benefit to a designated survivor to that which is currently provided to an Eligible Spouse. Various alternatives are being considered that would adjust the Post-Retirement Survivor Continuance for a designated survivor in the event a significant age difference exists between the Member and designated survivor.

The Plan provides that if an Active Member, Disabled Member, or Inactive Member dies while eligible to retire, benefits are payable to the surviving spouse as if the Member had retired on the date of death and had elected retirement income under a full joint and last survivor payment with the Member's surviving spouse named as the Contingent Annuitant. If the Member does not have a surviving spouse, it is deemed that such Member had not elected to retire on the date of death, and for many long-term UC employees this means there is no payable retirement benefit.

HR/Benefits is evaluating the possibility of providing a survivor benefit for unmarried Active Members, Disabled Members, or Inactive Members who die while eligible to retire. Under this proposal, the Member would be deemed to have retired on the date of death and to have elected a lump-sum payment. This benefit would be payable to the person or persons designated by the Member as the Member's beneficiary or, if no beneficiary has been designated, the benefit would be payable in accordance with the Plan's provisions. If UCRP benefits are extended to domestic partners, this benefit would not be available to an unmarried Member with an eligible domestic partner.

Also under consideration would be to treat a Member with a surviving spouse who dies while eligible to retire and whose spouse dies within thirty days of such Member as not having a surviving spouse and to be deemed to have retired on the date of death and elected a lump sum payment. Such benefit would be payable to the person or persons designated by the Member as the Member's beneficiary or, if no beneficiary has been designated, the benefit would be payable in accordance with the Plan's provisions. If UCRP benefits are extended to domestic partners, this option would also be available to the Member with an eligible domestic partner.

Estimated Cost of Providing Relative Equity of Retirement Benefits

The cost of UCRP benefits is identified in two parts:

- Actuarial Accrued Liability is the portion of the Actuarial Present Value of plan benefits and expenses allocated to years prior to the valuation date by a particular actuarial cost method (the cost to provide the benefit improvement based on all service accrued to date by current Plan Members).

- Normal Cost is the portion of the Actuarial Present Value of plan benefits and expenses which is allocated to the current year by the actuarial cost method (the permanent increase in yearly cost to provide the benefit improvement, expressed as a percentage of total covered pay for all Members).

The Plan Actuary, Towers Perrin, has estimated that, based on a weighted average, 83 percent of all current UCRP Members, including Active, Disabled, and Inactive Members, both those eligible to retire and those not eligible to retire, have eligible dependents for purposes of UCRP survivor benefits. The remaining 17 percent of all current UCRP Members who are Active, Disabled, or Inactive, both eligible to retire and not eligible to retire, are assumed to have no eligible dependents for purposes of survivor benefits and, thus, could be considered for survivor benefits if this proposal were to be approved.

The estimated increase in Actuarial Accrued Liability associated with these changes would be $344 million, while the estimated increase in Normal Cost would be $17 million. There would be an estimated 0.26 percentage-point increase in Normal Cost as a percentage of covered payroll, bringing Normal Cost to 15.17 percent from 14.91 percent. This information is based on the UCRP Actuarial Valuation as of July 1, 2001. Towers Perrin expects to update the UCRP Asset/Liability Study to determine the effect these proposals would have on the funded status of the Plan.

Regent Hopkinson stated her support for the concept of providing equal benefits to domestic partners of UC employees. She expressed concern, however, about the proposal that would provide relative equity of retirement benefits to unmarried UCRP Members with no eligible survivor or domestic partner. She believed that this was an insurance issue, not a retirement one.

Associate Vice President Boyette remarked that single employees believe that they should receive retirement benefits that are equivalent to those offered to Members who are married. Regent Hopkinson stressed that the University offers its employees a retirement plan, not life insurance.

Committee Chair Preuss requested that the issue of retirement benefits for domestic partners be presented separately for consideration from any other proposals.

Regent Sayles raised the issue of benefits for heterosexual domestic partners in a long-term relationship. Ms. Boyette recalled that, under the University's benefits program, domestic partner benefits are only offered to same-sex domestics partners. The Regents adopted this definition before the State Registry for domestic partners went into effect. The State Registry covers both same-sex domestic partners and opposite-sex domestic partners over age 62 who are eligible for Social Security.

Regent Preuss spoke in favoring of retaining the University's definition of domestic partners as adopted by The Regents in 1997. He believe that retirement benefits should have been extended to same-sex domestic partners at that time.

Regent Hopkinson felt that it was inequitable to offer to same-sex domestic partners benefits that are not offered to heterosexual domestic partners. Regent Preuss recalled that this issue had been the subject of lengthy debate in 1997.

Regent Lee raised the issue of whether or not an employee would be able to designate a much younger dependent as a recipient of retirement benefits. Associate Vice President Boyette noted that HR/Benefits would propose a surcharge if there were a significant age difference.

Regent Davies recalled that in 1997 the State of California did not offer any benefits to the domestic partners of its employees. He asked about the State's current policy on retirement benefits for domestic partners. Ms. Boyette reported that CalPERS, the State's major retirement program, had not adopted domestic partner retirement benefits, although they now offer medical benefits.

Regent Davies stated his support for the University's remaining consistent with State policy. If the State were to extend retirement benefits to domestic partners, he would support the University's doing the same. He agreed with Regent Hopkinson's viewpoint that single people should not be offered additional retirement benefits.

Senior Vice President Mullinix observed that many employees have other people who are dependent upon them financially although they do not fall under the strict definition of domestic partner. Associate Vice President Boyette continued that the University's Comparison 8 institutions all have defined contribution programs which permit the employee to designate the survivor. She confirmed for Regent Davies that the lack of such a program did not hamper the University's recruitment of faculty, while the lack of retirement benefits for domestic partners did.

Regent Connerly recalled that in 1997 The Regents had made the decision to extend health benefits to employees who were legally not permitted to marry. He believed that the failure to include retirement benefits for domestic partners when other benefits were extended in 1997 had been an oversight, and he asked that the administration ensure that all benefits that are extended to Married Members be extended to domestic partners.

Associate Vice President Boyette confirmed that all of the University's welfare benefits have been extended to domestic partners. Problems arise in the University's mortgage origination program due to the definition of an Eligible Survivor under the retirement program.

Regent Davis believed that The Regents should be asked to take action on the proposal at the March meeting. Senior Vice President Mullinix indicated his intention to present financial data prior to making a recommendation.

The Committee asked that information be provided on the cost of extending retirement benefits to same-sex domestic partners, to heterosexual domestic partners, and to designees of Unmarried Members.

Regent Sayles continued to believe that heterosexual couples who meet the same definition of domestic partners should receive benefits.

In response to a comment by Regent S. Johnson, Ms. Boyette reported that the actual cost of extending benefits to domestic partners had been less than had been estimated in 1997. The retirement system is sufficiently funded to cover the extension of retirement benefits to domestic partners, with an 83 percent probability of not requiring employee contributions over the next twenty years.

Regent Morrison asked why, in light of this fact, financial data would need to be presented. Mr. Mullinix recalled that some concerns had been raised about the downturn in the stock market. Regent Morrison believed that employees should be asked to share the cost of providing this benefit.

Regent Marcus reiterated the concern that each proposal brought to the Committee for action be presented separately.

(For speakers' comments, see the minutes of the morning session of the January 17, 2002 Committee of the Whole.)

6. **REPORT OF NEW LITIGATION**

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

The Committee adjourned at 2:23 p.m.

Attest:

Secretary