The Regents of the University of California

COMMITTEE ON FINANCE
September 22, 2004

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

Members present: Regents Blum, Bustamante, Connerly, Dynes, Hopkinson, Kozberg, Lee, Ornellas, Parsky, and Sayles; Advisory members Juline, Rominger, and Blumenthal

In attendance: Regents Anderson, Johnson, Lansing, Marcus, Novack, Pattiz, Preuss, Ruiz, and Wachter, Regent-designate Rosenthal, Faculty Representative Brunk, Secretary Trivette, General Counsel Holst, Treasurer Russ, Senior Vice President Mullinix, Vice Presidents Broome, Doby, Drake, Foley, and Gomes, Chancellors Birgeneau, Bishop, Cicerone, Córdova, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Acting Chancellor Chemers, Laboratory Director Nanos, and Recording Secretary Nietfeld

The meeting convened at 10:25 a.m. with Committee Chair Blum presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 14, 2004 were approved.

2. **APPROVAL OF UNIVERSITY OF CALIFORNIA 2004-05 FINAL BUDGET**

The President recommended that:

A. The University of California 2004-05 budget plan for State and UC General Funds and student fee revenue be approved, consistent with the final Budget Act approved by the Legislature and the Governor and adjusted by priorities previously approved by The Regents.

B. The expenditure plan for all other fund sources included in the *2004-05 Budget for Current Operations* be approved.

It was recalled that information provided to the Committee at its May 2004 meeting summarized the proposed 2004-05 budget plan consistent with the *2004-05 Budget for Current Operations* published in November 2003, as well as proposals made by the Governor in his January budget and May Revision. The Regents approved student fee increases associated with this plan at the May meeting but did not act on the overall budget plan itself. At the May meeting, it was requested that the Income and Funds Available table from The Regents' budget document be updated to reflect changes that have occurred since last November. That revised table, which is provided as an Attachment, reflects changes to

State general funds and student fees from the original Regents' Budget which assumed funding increases based on the previous Partnership Agreement.

Display 1, which is also shown as an attachment, begins with the University's 2003-04 State General Fund budget as it stood at the adoption of last year's budget. The next group of items in Display 1 relate to base budget cuts that are to be offset by student fee increases. These figures reflect the action taken by the Board at the May meeting to approve student fee increases for 2004-05, consistent with the Governor's May Revision, which proposed changes to the January budget that included raising undergraduate student fees by 14 percent instead of the 10 percent proposed in January in order to mitigate the student fee increase for graduate academic students, lowering the fee increase for these students from 40 percent to 20 percent.

The next item on enrollment is a change from the Governor's previous proposal and reflects a compromise reached between the Governor and the Legislature during the final negotiations on the budget. The reduction of FTE students for 2004-05 was lowered to 1,650 FTE instead of the 3,200 FTE proposed by the Governor in January.

The next category, "Other Budget Cuts," has been revised since the Board last saw this table. A cut related to increasing the student-faculty ratio proposed by the Governor has been revised to reflect the Board's intention to maintain the student-faculty ratio at its current level. Therefore, this cut is now reflected as an unallocated reduction.

The next item shows an unallocated reduction related to the expected $5 million shortfall in professional school fee revenue. The Governor's proposal assumed $42 million in cuts would be offset by increases in these fees. However, the University decided the fee increases necessary to produce that amount of revenue would be too steep to accomplish in one year. Therefore, the Board approved professional school fee increases in May that will yield only $37 million in revenue, requiring the campuses to absorb an unallocated reduction of $5 million on a temporary basis until these fees can be raised further in the following year.

A third unallocated reduction reflects the fact that the University is developing a plan for instituting an excess units fee for 2005-06. Until that time, the $1.1 million in revenue expected by the Governor's budget from that fund source must be accommodated through an unallocated reduction to the budget.

A fourth unallocated reduction shown on the display reflects the University's agreement in the compact recently negotiated with Governor Schwarzenegger to redirect $12 million from existing resources to support student academic preparation programs (formerly referred to as outreach programs). The final budget agreement assumes these funds will be used instead to fund additional enrollment.

The reductions to academic and institutional support and to research have not changed since the Governor's January budget. Most of the funding for the Institute for Labor and Employment has been restored in the final budget agreement. The proposal to eliminate

funding for the Digital California Project has not changed from the Governor's January budget. The category "Other Budget Adjustments and One-Time Actions" also has not changed since the Governor's original budget proposal.

As noted in the display, the University did not receive funding for salaries, employee health benefits, maintenance, energy, inflation, core needs, and other cost increases. It is estimated that faculty salaries are about 10 percent behind the average of other comparison institutions, and there is a similar problem with respect to staff salaries. Employee benefit costs are skyrocketing, energy costs are increasing significantly, new space is coming on line with no funds to support maintenance, and funding for core needs that provide the infrastructure to support the academic program, such as libraries, instructional equipment, and instructional technology, is falling further behind. As a result of the State's fiscal crisis, the University's State general fund budget is nearly $1.5 billion below what it would have been if a normal workload budget had been funded for the last four years. Approximately one-third of this shortfall has been accommodated through base budget cuts to existing programs; about another one-third has been addressed through student fee increases; and another one-third through foregone salary and other unfunded cost increases.

The major changes noted above as a result of actions taken by the Legislature and the Governor in the final budget agreement for 2004-05 are described more fully below.

Enrollments. The Governor's January budget included a reduction of 3,200 FTE students, representing a 10 percent reduction in the number of freshmen the University was to enroll for 2004-05. The Governor's plan called for the University to redirect these students to the California community colleges for their first two years of study. Upon completion of their lower-division work, these students would then be enrolled at the campus that had redirected them. The University implemented the Governor's proposal in the spring and called the redirection program the Guaranteed Transfer Option, or GTO.

The GTO offer was made to 7,600 students. Approximately 1,900 students in the GTO pool were offered freshmen admissions by the Santa Cruz and Davis campuses when it appeared they might be underenrolled for 2004-05. Of the remaining GTO pool, approximately 1,300 students accepted the University's offer while the others presumably made other arrangements.

As part of the actions taken on the final budget for 2004-05, the Governor and the Legislature agreed to budget bill language requesting the University to offer freshman admission to all students who received the GTO offer. They also agreed that funding should be provided for approximately 1,550 additional FTE students. It appears that the Legislature's estimate is reasonable, as it is anticipated that most of the 1,300 who accepted the GTO offer will want to enroll as freshmen next year instead. It is possible that a few hundred of those who did not accept the University's GTO offer may wish to alter their previous plans and come to the University after all. The State, however, did not provide new general funds for this purpose. Instead, the enrollment issue was tied to funding for

outreach. Under the compact, UC agreed to provide $12 million from existing resources to continue funding for outreach programs. Under the final budget, the University would use that $12 million instead to fund enrollment, allowing the University to offer freshman admission to all students who received a GTO offer in the spring. The Governor and the Legislature agreed to provide $29 million in additional State general funds for UC's outreach programs, the same level as in the 2003-04 State budget. This funding arrangement will leave the academic preparation programs with a net $4 million reduction in internal UC resources.

Because it is expected that the GTO program will have minimal participation at this point, part of the Governor's and the Legislature's agreement on enrollment issues included elimination of the $1.6 million in State funds the Governor had included in his January budget for counselors needed to help make the GTO program a success.

The actions on enrollments taken by the Governor and the Legislature are important for preserving the Master Plan guarantee of access for all eligible students. The new admission process for these students has been announced through a press release published at the time the final budget agreement was adopted by both houses of the Legislature, through individual letters that are being sent to all affected students, and through a web site providing additional information for students and parents.

For 2005-06 and beyond, the compact calls for funding of normal enrollment growth each year, and the University believes that this will be strongly supported by the Legislature. As a result, there should be no further question of the State's commitment to the Master Plan, and the University can once again assure that its doors will be open to eligible students who wish to attend.

Institute for Labor and Employment. The Governor's January budget proposed elimination of all State funds ($4 million) for the Institute for Labor and Employment, a multi-campus research unit housed on the Berkeley and Los Angeles campuses. As part of the final budget package, the Governor and the Legislature agreed to restore $3.8 million of these funds. The Office of the President is working with the Berkeley and Los Angeles campuses to develop a new structure for the program that will place greater emphasis on faculty research of labor and employment issues, including development of a competitive grants program that will allow University faculty from all campuses to participate in this important research.

President Dynes stressed that the final 2004-05 budget that the Board will be asked to approve puts the University in a much better financial position than did earlier budgets proposed by the Governor. He noted that funding for the Cal Grant program had been increased significantly in order to ensure that financial aid keeps up with student fee increases. The compact agreement reached with the Governor will provide short-term assistance as well as additional resources over the next six years to aid the University in recovering from the State's financial crisis. The compact is critical to the University's

ability to plan for the future. The President noted that the University would receive $2.71 billion in State general funds for 2004-05, which represents a six percent reduction from the prior year. Looking to 2005-06, he observed that the compact calls for basic funding for salaries, health benefits, maintenance, and non-salary price increases. A presentation on next year's budget will be made to the Committee at its November meeting.

(For speakers' comments, see the minutes of the September 22, 2004 meeting 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.

3. **AMENDMENTS TO THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND CHANGES TO HEALTH AND WELFARE BENEFITS TO CONFORM WITH THE CALIFORNIA DOMESTIC PARTNER RIGHTS AND RESPONSIBILITIES ACT OF 2003**

The President recommended that effective January 1, 2005, on a prospective basis:

A. The University of California Retirement Plan (UCRP) be amended to provide Postretirement Survivor Continuance to an eligible Domestic Partner of a UCRP Member who retired before July 1, 2002, established the domestic partnership at least one year prior to retirement, and continued in the partnership to the date of death, provided appropriate documentation is submitted.

B. UCRP be amended to permit a UCRP Member who retired before July 1, 2002 and who chose a reduced benefit amount in order to provide his or her eligible Domestic Partner with income continuation benefits at the Member's death, to elect a different monthly payment option to allow prospective treatment equivalent with that of married Members.

C. UCRP's definition of Domestic Partner be amended to include an individual of the same sex as the Member whose legal union, other than marriage, was validly formed in another jurisdiction and is substantially equivalent to a state-registered domestic partnership.

D. UCRP, the University of California Tax Deferred 403(b) Plan, the University of California Defined Contribution Plan, and the University of California 457(b) Deferred Compensation Plan be amended to permit compliance with a court order assigning plan benefits issues in connection with a termination of a domestic partnership to the extent required by California law.

E. These provisions apply prospectively from the effective date of January 1, 2005, and in no case retroactively.

F. Implementation of these provisions be delegated to the President.

May 2002

Associate Vice President Boyette recalled that at the May 2002 meeting The Regents had approved amendments to the UCRP that provide survivor benefits to eligible same-sex and opposite-sex Domestic Partners of eligible Active, Disabled, and Inactive UCRP Members, effective July 1, 2002. One of the objectives of the amendments was to parallel, to the extent possible, existing UCRP provisions that provide survivor benefits to surviving spouses and Eligible Survivors. No survivor continuance is currently provided to a Domestic Partner of a Member who retired or died before July 1, 2002.

State Law

The California State registry for domestic partners became effective in January 2000. Various legislation enacted since that time has expanded the rights of registered partners. In September 2003, the California Domestic Partner Rights and Responsibilities Act of 2003 (AB 205) was chaptered into law. This new law extends the rights and duties of marriage to persons registered with the State of California as domestic partners on and after January 1, 2005 and provides that domestic partners, former domestic partners, and surviving domestic partners in State-registered partnerships shall have the same rights, protections, and benefits, and shall be subject to the same responsibilities, obligations, and duties under law as are granted to and imposed upon spouses, former spouses, and widows or widowers joined in a civil marriage. AB 205 also requires that a same-sex legal union validly formed in another jurisdiction that is substantially equivalent to a State-registered domestic partnership be recognized as a valid domestic partnership in California.

State and UCRP Definitions

State-registered domestic partnerships are limited to those between partners of the same sex and partners of the opposite sex if at least one partner is 62 years of age or older and at least one partner is eligible for Social Security benefits based on age. UCRP recognizes same-sex and opposite-sex domestic partnerships without regard to the age 62 or Social Security benefit requirement provided that UCRP's eligibility requirements are otherwise met.

Proposed Amendments

It is proposed that the UCRP be amended to provide Postretirement Survivor Continuance to an eligible Domestic Partner of a UCRP Member who retired before July 1, 2002, established the domestic partnership at least one year prior to retirement, and continued in the partnership to the date of death, provided the appropriate documentation is submitted.

The Postretirement Survivor Continuance is defined as follows:

> When a Retired Member dies, part of the continuing retirement benefit is paid to the surviving spouse (if the Member and spouse were married continuously for one full year before retirement until the Member's death) or for retirements on or after July 1, 2002, to the surviving Domestic Partner, provided the Domestic Partner was the Domestic Partner of the Retired Member for one full year before retirement and until the Member's death, or if none, to the Eligible Children, or if none, to the Eligible Dependent Parents. If the Eligible Survivors die while receiving this benefit, or if the children become ineligible, benefits are paid to the next Eligible Survivor, for as long as someone is eligible. The formula for Postretirement Survivor Continuance for UCRP Members who are not coordinated with Social Security is 50 percent of the Member's Basic Retirement Income. This benefit is paid without any reduction in the Member's benefit.

The proposed amendment will permit a UCRP Member who retired before July 1, 2002, and who chose a reduced benefit amount during the Member's lifetime in order to provide for his or her Domestic Partner to receive income continuation benefits in the event of the Member's death to elect a different monthly payment option. This change is intended to provide benefits equivalent to those for married Members on a prospective basis. The payment option change would apply to benefits paid on and after January 1, 2005.

The new law provides that State courts will have jurisdiction over the dissolution of a partnership registered with the State. Because the University's definition of domestic partners includes a category of opposite-sex domestic partners that are not eligible for the State registry, the courts will not have jurisdiction over the dissolution of these domestic partnerships established under a University declaration.

The University will take appropriate action concerning changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act.

It was recalled that The **Report to The Regents on University of California Domestic Partner Policies, Benefits, and Programs** was mailed to The Regents on August 31, 2004.

Estimated Costs

Ms. Boyette recalled that in 2002, the retirement plan's consulting actuary, Towers Perrin, had estimated that approximately 83 percent of UCRP Members, both those eligible to retire and those not yet eligible to retire, had dependents eligible for survivor benefits. Based on this estimation and on an analysis of U.S. census statistics regarding unmarried-partner households, Towers Perrin indicated that an additional six percent of the UCRP membership would become eligible for survivor income benefits if opposite-sex domestic partner benefits were approved, and an additional two percent would become eligible if same-sex domestic partners were included.

The Plan's current consulting actuary, The Segal Company, applied these assumptions to UCRP Members who were retired as of July 1, 2002 and estimated that extending the survivor benefits to UCRP Members with Domestic Partners according to the proposed amendments would result in an increase in the Actuarial Accrued Liability of about $95 million, or 0.29 percent of the Plan's total liability as of July 1, 2003. There would be no increase in Normal Cost.

Since July 1, 2002, approximately 5,700 Members have retired, and approximately 150 of them had an eligible Domestic Partner.

Effect on Health and Welfare Benefits

Associate Vice President Boyette recalled that in November 1997 The Regents had authorized the President to extend UC-sponsored health care benefits to UC employees' and retirees' same-sex domestic partners, same-sex domestic partners' children and grandchildren, and limited categories of adult dependent relatives. Other welfare benefits were extended to these individuals effective January 1, 2001. The law requires that, effective January 1, 2005, the University extend health care coverage to certain opposite-sex domestic partners. For purposes of AB 205, a domestic partnership may be constituted if one or both of the opposite-sex partners meets the eligibility criteria described above. Accordingly, effective January 1, 2005, the University will extend eligibility for health and welfare plan coverage to UC employees' and retirees' opposite-sex domestic partners and opposite-sex domestic partners' children and grandchildren where the domestic partners meet the State requirements. The University will expand opposite-sex domestic partner health and welfare benefits only to the extent required by law in light of the current budget situation. When the budget improves, the University will extend the benefits based on The Regents' prior policy determination in May 2002, at which time The Regents extended survivor benefits to all same-sex and opposite-sex domestic partners of UCRP Members.

Ms. Boyette noted that, while it is difficult to predict the number of individuals who would elect these benefits, based on the experience of other institutions and businesses, the University has estimated that providing UC-sponsored medical, dental, and vision benefits to opposite-sex domestic partners where one or both partners are at least age 62 and one or

both are eligible for Social Security benefits based on age would cost up to $6.18 million. The estimated annual cost for providing coverage to the eligible children and grandchildren of such opposite-sex domestic partners would be up to $1.27 million. The annual cost of providing medical, dental, and vision benefits to all opposite-sex domestic partners under the definition adopted by The Regents for retirement coverage is estimated at up to $22.37 million, while the comparable annual cost for providing coverage to eligible children and grandchildren could range up to $5.16 million. The total annual cost is therefore estimated to be as much as $27.5 million.

Health benefits were extended to tax-dependent adult relatives when they were extended to same-sex domestic partners. As the University will now be adding opposite-sex domestic partners, the adult dependent relative category has been eliminated from eligibility for coverage in the future.

There will be no cost to the University for the Dependent Life, Accidental Death and Dismemberment, and Legal programs as these are employee-paid plans.

In general, the same fund source covers an employee's salary and benefit costs. The State general fund pays the employer's share of benefit costs for State-supported faculty and staff, while medical center revenue pays the employer's share of benefit costs for medical center employees. Benefit costs for employees supported by other sources, such as contract and grants, are paid by those sources. Support for funding the cost for retiree health benefits comes from a payroll tax charged against all fund sources. Such costs are included in the estimated range of expenses noted above.

Regent Connerly, in stating his support for the proposed amendments, expressed regret to those employees who have been in committed relationships but have not received equal treatment in terms of benefits.

In response to a question from Regent Blum, Senior Vice President Mullinix noted that the effect of the proposal on the retirement plan would be trivial. Associate Vice President Boyette added that the University pays approximately $1 billion annually to its annuitants.

Regent Connerly raised the issue of conformance with AB 205. Ms. Boyette explained that the Regental definition of domestic partners includes opposite-sex domestic partners who are not covered by State law. The University's definition of both same-sex and opposite-sex domestic partners is broader than the State's. Mr. Mullinix added that the proposed amendments are consistent with prior policy. The University is complying with the legal definition of opposite-sex partners but not with the broader definition of opposite-sex partners due to the University cost, which would be $20 million per year.

(For speakers' comments, see the minutes of the September 22, 2004 meeting 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.

4. **SERVICE OF NOTICE FOR NOVEMBER 2004 ACTION REGARDING AMENDMENT OF STANDING ORDER 110.2–MATTERS RELATING TO RESIDENCY: TUITION AND FEE WAIVERS AND EXEMPTIONS FOR DOMESTIC PARTNERS TO CONFORM TO AB 205**

The President recommended that following service of appropriate notice, Standing Order 110.2–Matters Relating to Residency be amended as follows, effective winter quarter 2005/spring semester 2005.

additions shown by underscoring, deletions by underscoring

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 or registered domestic partner of a member of the University faculty who is a member of the Academic Senate. A student who is a spouse or registered domestic partner 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. A student who is the child or dependent of a deceased or disabled veteran, or who is the dependent of or the surviving spouse who has not remarried or registered domestic partner (who has not subsequently married or registered as a domestic partner) of any member of the California National Guard who was killed or permanently disabled while in active service of the state, shall not be exempted from nonresident tuition fees, but may be exempted from mandatory systemwide fees in accordance with Section

32320 of the Education Code of the State of California. A student meeting the requirements of Section 68130.5 of the Education Code of the State of California shall be exempt from paying nonresident tuition. A student meeting the requirements of Sections 66025.3 and 68120.5 of the Education Code of the State of California shall be exempt from paying mandatory systemwide fees and nonresident tuition. For purposes of defining financial independence pursuant to Section 68044, a student shall be considered "financially independent" if the applicant: a) is at least 24 years of age by December 31 of the year the applicant requests residence classification; b) is a veteran of the U.S. Armed Forces; c) is a ward of the court or both parents are dead; d) has legal dependents other than a spouse or a registered domestic partner; e) is married or in a registered domestic partnership, or a graduate student or professional student, and will not be claimed as an income tax deduction by ~~his or her parents or~~ any ~~other~~ individual other than his or her spouse or domestic partner for the tax year immediately preceding the request for residence classification; or is a single undergraduate student, and was not claimed as an income tax deduction by his or her parents or any other individual for the two years immediately preceding the request for residence classification, and demonstrates self-sufficiency for two years. The student is considered self-sufficient if he or she had total income and other resources of at least $4,000. The two years used to demonstrate self-sufficiency are the two years immediately preceding the request for residence classification. Nonresident tuition fees shall be payable at the time of registration.

* * *

The Committee was informed that Standing Order 110.2(a) provides certain benefits in terms of tuition and fee waivers and exemptions, based on marriage. It is recommended that the Standing Order be amended to extend those same benefits to registered domestic partners, consistent with the requirement of AB 205 that registered domestic partners have the "same rights, protections, and benefits" as spouses**.** The benefits in question include, in part, the following: nonresident tuition fee waivers for spouses (domestic partners) of Academic Senate members; exemptions from mandatory student fees for spouses (domestic partners) and their dependents of any member of the California National Guard who was killed or permanently disabled while in active service; and exemptions from nonresident tuition and mandatory fees for spouses (domestic partners) and their children of resident law enforcement officers or firefighters killed on active duty. The cost of extending these fee waivers to include domestic partners is difficult to predict but is estimated to be relatively low.

In addition, Standing Order 110.2(a) provides that a nonresident student seeking residency for tuition purposes may do so by demonstrating financial independence, along with certain requirements for duration of physical presence and intent to remain. The financial

independence requirement will be waived in certain circumstances, including when the student is married and has not been claimed as an income deduction for the immediately preceding tax year. Absent the waiver for marriage or one of the other qualifying waivers, a student seeking to establish financial independence would be required not to have been claimed as an income deduction for the immediately preceding two tax years. In short, married students are able to qualify for residency one year sooner than non-married students. It is recommended that Standing Order 110.2(a) be amended, consistent with the provisions of the California Domestic Partner Rights and Responsibilities Act of 2003, to extend this one-year advantage to registered domestic partners in addition to spouses.

It cannot be predicted with any certainty how many additional non-resident students will register as domestic partners with the State of California and seek to qualify as residents a year sooner than they would otherwise have been able to do. While the University does not routinely track the number of students who receive the non-resident tuition waiver benefit directly as a result of their spousal status, the current number is estimated to be relatively small, probably fewer than 30 students across the system. It is anticipated that the number of students who will additionally qualify for the benefit as a result of their status as registered domestic partners will be still fewer in number, based on the fact that there are significantly fewer registered domestic partners than married couples in the state. At most, it is anticipated that between 10 and 20 domestic partners would receive a one-year waiver of non-resident tuition as a result of extending this benefit to include domestic partners, at an annual cost of between $160,000 and $330,000 based upon the current non-resident tuition level.

The alternative to extending the same benefits to registered domestic partners as exist for married students is to eliminate the benefit for both categories of students. There is no requirement that marriage (domestic partnership) be used as a criterion for financial independence. The Regents could choose to amend the Standing Order to employ a definition of "financial independence" that eliminates the factor of marriage. Such an action would essentially take away a benefit based on marriage, in order to treat married students and domestic partners alike, as required by AB 205, rather than adding a benefit for domestic partners.

Given the anticipated minimal impact on the University of adding domestic partner benefits, and the legislative intent apparent in AB 205 (which expressly refers to "expanding the rights" of domestic partners), the President recommends adding benefits for domestic partners at this time.

Over the years, the State has adopted numerous tuition and fee waivers which The Regents has implemented. However, these waivers are not funded by the State, and they represent a loss of revenue to the University. As the number and scope of these waivers increase, the cost to the University also increases. Currently, the University does not have an on-going procedure for monitoring the cost of each waiver. The Office of the President intends to develop mechanisms to ensure that the costs of all tuition and fee waiver programs are carefully monitored over time, particularly in relation to the budgetary constraints under

which the University is operating. The President will report to The Regents the results of this monitoring effort, including any recommendations for changes in policy as deemed appropriate.

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

5. **UPDATE ON UNIVERSITY OF CALIFORNIA DEFINED CONTRIBUTIONS PLANS**

Associate Vice President Boyette provided an update on a multi-phased project being led jointly by UC Human Resources and Benefits and the Office of the Treasurer to review and update the University's retirement savings plans. The overall goals of the project are to expand tax-deferred savings opportunities for faculty and staff, to provide suitable investment options that are easy to understand and communicate, to ensure that UC is receiving the best possible fee structure, and to provide a sustainable infrastructure and an improved participant experience.

Progress to Date

- In May 2004, the Regents gave the President the authority to establish and maintain a voluntary 457(b) Deferred Compensation Plan for faculty and staff.

- In July 2004, UC HR/Benefits and the Office of the Treasurer completed a four-month competitive bid process by selecting Fidelity Investments Institutional Operations Company, Inc., to provide record keeping services for UC's defined contribution plans.

- UC's new 457(b) Plan will be established effective for compensation paid October 1, 2004 or later. In order to make the plan available for participants during the current tax year, plan services and investment options will be limited at the start, and enhancements are expected to be added as part of the next phases of the project.

Next Steps Following Establishment of the 457(b) Plan

By target January 2005:

- Define a revised core funds menu for all three of UC's defined contribution plan–The Tax-Deferred 403(b) Plan, the Defined Contribution Plan, and the 457(b) Plan–to include a combination of internally-managed investment choices provided through the Treasurer's Office and externally-managed investment choices.

- Review the fiduciary oversight of UC's defined contribution plans in the investment and administrative areas.

- Recommend amendments to UC's defined contribution plans that will be necessary to support appropriate fiduciary oversight, a new core funds menu, and the external master recordkeeping platform.

The intention is that by spring 2005, a manager search and selection process will be conducted for vendors to provide the externally managed investment options within the core funds menu. By 2005, it is anticipated that the transition will be made to the administrative services for UC's remaining defined contribution plans, the 403(b) Plan and the DC Plan, to the master record keeper.

Following implementation of the master record keeper platform, there will be a review of the participant financial education and advice components of UC's defined contribution plans. The Request for Proposal process will be used to select a provider.

The Office of the President expects to return to the Regents early in 2005 with recommended amendments to UC's defined contribution plans related to this project. The University will take appropriate action concerning proposed changes that may trigger notice, consultation, and meeting and conferring obligations under the Higher Education Employer-Employee Relations Act.

Senior Vice President Mullinix reported that to date, over 4,700 employees had enrolled in the new 457(b) Plan.

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

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 meeting adjourned at 10:50 a.m.

Attest:

Secretary