The Regents of the University of California

COMMITTEE ON FINANCE
November 14, 2007

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

Members present:	Regents Blum, Brewer, Dynes, Garamendi, Gould, Hopkinson, Island, Kozberg, Parsky, Preuss, and Wachter; Advisory members Croughan and Scorza; Staff Advisors Brewer and Johansen
In attendance:	Regents Allen, Bugay, De La Peña, Johnson, Marcus, Pattiz, Ruiz, Schilling, and Varner; Regents-designate Cole and Shewmake; Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Hume, Executive Vice Presidents Lapp and Darling, Vice Presidents Broome, Foley, and Sakaki, Acting Vice President Standiford, Chancellors Birgeneau, Bishop, Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, and Yang, Acting Chancellor Grey, and Recording Secretary Johns

The meeting convened at 9:37 a.m. with Committee Chair Gould presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of September 20, 2007 were approved.

2. **APPROVAL OF UNIVERSITY OF CALIFORNIA 2008-09 BUDGETS FOR CURRENT OPERATIONS AND FOR STATE CAPITAL IMPROVEMENTS**

Committee Chair Gould noted that this item was being taken out of order at the request of Regent Garamendi.

The President recommended:

A. Approval of the expenditure plan included in the document, *2008-2009 Budget for Current Operations*.

B. Concurrence with the recommendation of the Committee on Grounds and Buildings that the *2008-2009 Budget for State Capital Improvements* be approved.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President Lapp presented UC's proposed budget for 2008-09, for submission to the Governor. She affirmed the University's responsibility to meet its needs by seeking additional revenue as well as ensuring cost savings and efficiencies. UC and State general funds and student fees comprise 30 percent of the overall operating budget of $18.1 billion. Ms. Lapp commented on the decline in the University's share of State general funds (now at 3.2 percent), and the doubling in the students' share of general funds and fees since 1990. She discussed proposed increases in revenue (with a total of $378.2 million), including a planned request from the State for $70.5 million over and above what is provided for in UC's Higher Education Compact with the Governor in order to avoid a student fee increase. Ms. Lapp then outlined proposed new expenditures (with a total of $406.3 million). In summarizing this budget, she noted the difference of $28.1 million between revenues and expenditures, and explained that this difference would be made up with savings from restructuring in the Office of the President and new efficiencies.

Ms. Lapp outlined the amounts and uses of planned expenditures for enrollment growth, restoring competitive compensation for UC employees (plans to bring faculty and staff salaries to market levels), core academic support, graduate student support, instructional budgets to improve the student-faculty ratio (with a current goal of 17.6:1, but subject to change), student mental health, adjustments for inflation, maintenance of professional school quality, and development of the Merced campus. Provost Hume discussed two new initiatives for which UC will request State funding. The Educational Imperative Initiative ($5 million requested) seeks to augment partnerships with the California State University (CSU), private universities, and K-12 in California to address four important areas for K-12 schools: better student progress assessment information for schools and parents, better web-based content support for teachers and students, improved research in support of education, and improved statewide policy dialogue. The Research Initiative ($10 million requested) addresses the need for research on climate change, particularly relevant to California agriculture. The initiative would encourage activities to address emerging threats, education and training of the next generation of leaders in this area, leveraging funds, creation of a better information portal and data storage system about climate change for policymakers and researchers, and better communication and dissemination of climate change information.

Executive Vice President Lapp then identified the University's most important long-term needs and discussed the planning process now in place (working with the Committees on Long Range Planning and Finance) to determine actual dollar amounts for those needs and ensure that they will be met. Ms. Lapp outlined the open and transparent budget process now under way, beginning with consultation with the campuses, development of initiatives and priorities, and continuing with the presentation of a draft budget in September 2008 (for Regents' approval in November 2008) and the beginning of an advocacy program. Ms. Lapp concluded with a brief outline of the University's $388.9 million, State-funded capital budget request, and a $100 million request for health sciences expansion (to be submitted at a later date).

Committee Chair Gould complimented Executive Vice President Lapp on the clarity and conciseness of the budget. Regent Parsky praised the openness of this budget process, which he deemed a positive change. He emphasized that the Regents' approval of a budget is equivalent to an approval of priorities. He requested clarification on the expenditure called for by the Compact with the Governor, and the amount requested above and beyond this. Ms. Lapp quoted the amounts provided for by the Compact; $123.2 million (base budget adjustment), $30.1 million (additional 1 percent for core needs), and $62.8 million (enrollment growth). In addition, the University is requesting $70.5 million to avoid an increase in student fees as well as $10 million and $5 million for the two initiatives presented by Provost Hume. Regent Parsky asked how the University will pay for this $85.5 million increase. Ms. Lapp explained that these monies are being requested from the State; if they are not available, the University will not carry out the two new proposed initiatives, and the $70.5 million would be paid for by an increase in student fees or in some other way. Regent Parsky asked about the amount of cost savings inherent in the current restructuring initiative. Ms. Lapp recalled that $28.1 million in savings are anticipated through restructuring and new efficiencies and emphasized that the University would not stop at $28.1 million, but would try to save more if possible. She confirmed that it would be possible to apply cost savings to any of the requested items, including the student fee increase. Regent Parsky stressed that the Committee on Finance should understand this process and be involved in the efforts to create greater efficiencies. He opined that the $28.1 million is a "positive first run," but stated that the University should search rigorously for efficiencies to fund priority initiatives rather than relying on the State. Regent Parsky pointed out that student fee increases are part of the Compact and need to be dealt with differently.

Committee Chair Gould recognized the diligent efforts of Executive Vice President Lapp and Provost Hume to find cost savings, and the difficulty of this task. Regent Varner concurred with the importance of identifying efficiencies as part of the budget process. He advocated a major effort to educate legislators about UC's efforts to operate efficiently, to make clear that no further savings are possible, and to educate them about the benefits to the State from its investment in education. Regent Varner reported from his personal contacts that some legislators had only a superficial understanding of the University's economic, cultural, and social value to California.

Ms. Lapp reported from her discussions with legislators and the Governor's office that the deficit poses an enormous problem and that the State anticipates a difficult year. Committee Chair Gould noted that State agencies are being asked to make plans for 10 percent expenditure reductions.

Regent Garamendi thanked Executive Vice President Lapp for the budget presentation and emphasized the importance of this document. He recalled the origins of the University in 1868 as an institution funded by the public for the public benefit, accessible to all students without regard to income level. Mr. Garamendi cited the decrease in State revenue and the increase in revenue from student fees, describing this as an abandonment of the fundamental notion and vision of UC, a university based on public investment. He decried the perceived privatization of UC over the last decade and the abandonment of the public investment that built up California's education infrastructure. He expressed concern that the Regents are making a serious mistake, taking "the easy route" by increasing student fees rather than convincing the Governor, Legislature, and public of the importance of public investment in education. He urged the Regents to consider the thousands of young people being excluded from an education at UC. Mr. Garamendi proposed that any mention of a student fee increase be removed from the budget and that the Regents move to adopt a resolution to freeze student fees at the current level.

Chairman Blum affirmed that the University will lobby the State government. He stated that the cost of living is the most significant factor in the affordability of college education. He recalled that students from families earning less than $90,000 per year are eligible for Cal Grants. He advocated a different approach to this problem, the creation of a large omnibus scholarship fund, between one-half and $1 billion, spread across the campuses, with a request to the State to match that amount. Chairman Blum stated that Speaker Núñez is willing to propose such legislation. He stressed that the University is underfunded, that Chancellors and faculty are underpaid, that UC faculty are frequently recruited by other universities with more competitive compensation, and the need for UC to be competitive.

Chairman Blum complimented Provost Hume and Executive Vice President Lapp on their work in trying to identify savings. He discussed the $28.1 million in savings taken from the Office of the President budget and praised this strategy of seeking savings at the Office of the President before asking the campuses for greater efficiency. Chairman Blum cautioned that next year's budget environment might be very difficult, recalled the dramatic drop (from $17 billion to $5 billion) in capital gains and stock option revenue from the State in 2001-2002, and referred to the performance of the financial markets over the last six months. He opined that the best way for the University to help students and become more competitive is to expand financially.

Regent Garamendi recalled that he had made a motion to remove from this budget proposal all reference to student fee increases. Regent Parsky requested a clarification on how student fees are referenced in the budget proposal. Executive

Vice President Lapp quoted page eight of the document to the effect that the University is not requesting the Board to take any action on student fees pending release of the Governor's Budget in January 2008. Mr. Garamendi quoted page seven of the summary, "additional State funding or equivalent increase in student fees," and clarified his request that this and any other mention of an increase in student fees be removed from the document.

Regent Parsky seconded the motion, but questioned how student fees will be dealt with in the budget. Ms. Lapp explained that the current request is for approval of an expenditure plan, and that the mention of student fees was made in the interest of full disclosure, in the event that the additional $70.5 million in State support would not be available.

Regent Preuss agreed with Regent Garamendi about the value of the University to the State of California, but differed on the possibility of raising student fees. He cautioned that this issue presented a danger for the University in its efforts to maintain its quality and mission. Regent Preuss expressed vigorous opposition to any proposal for the University voluntarily to pledge not to raise student fees. He cited previous occasions on which the State has paid for fee increases the University made and opined that it would be irresponsible of the University to rule out a fee increase to ensure fulfillment of its mission.

Regent Kozberg expressed discomfort about the motion. She requested clarification on conditions in the Compact regarding fee increases and State buyout, suggesting that the motion would in fact be violating terms of the Compact. President Dynes stated that there is a broad reference to fees in the Compact, allowing the Regents to raise fees when necessary.

Regent Pattiz expressed opposition to fee increases, but cautioned that to remove the Regents' ability to increase fees is to remove an important "weapon" for leverage. He called on Regent Garamendi to use his influence in the State government to advocate for other ways to finance the UC budget. He asked what a seven percent increase would represent in real dollars. Ms. Lapp clarified that the increase would be seven percent of around $7,500 (about $520). Regent Pattiz asked how much money UC would raise by raising tuition seven percent. Ms. Lapp responded that UC would generate roughly $100 million, with $30 million for financial aid and the rest for support for core academic needs. Regent Pattiz questioned UC's current policy of expanding enrollment in spite of the difficult budget environment. He suggested that enrollment should perhaps be kept at its current level and questioned whether the University can be certain of future State financial support for expanding enrollment. Regent Pattiz expressed opposition to the motion and urged Regent Garamendi to support Chairman Blum's proposal.

Regent Marcus affirmed that the Regents have never wanted to raise student fees. He recalled Faculty Representative Brown's call to unify higher education constituencies around major issues and opined that Regent Garamendi's proposal only asks the Regents to take a philosophical position and does not remove the possibility for future necessary measures. He urged the Regents to communicate to the State their concern about this issue and support for students.

Regent Allen noted that the Compact calls for fee increases to be based on increases in State per capita personal income, and thus would not justify a seven percent increase. He expressed disagreement with Regent Pattiz, stating his own understanding that Regent Garamendi's proposal would not take away the Regents' ability to raise fees. He expressed concern that the UC Student Association (UCSA) would not have the opportunity to make their presentation on this issue, since the current item was taken out of order.

President Dynes clarified that the students would make their presentation at the end of this discussion. He stated that the Compact anticipates fee increases aligned with increases in cost of living, with the proviso that, under extreme circumstances, the fees can be raised up to ten percent. President Dynes acknowledged students' concerns and that this is a "trying time" with the Legislature.

Regent-designate Scorza emphasized excellence as UC's goal. He stated that many UC students are not being fully funded by the Cal Grant system. He acknowledged cost of living as a relevant factor, but expressed the concern that continually more students are being priced out of the UC system. Regent-designate Scorza noted that prisons in California are well funded and urged the University to take a stand in demanding its fair share of State revenues.

Regent Island expressed his personal opposition to increasing student fees because of the impact of these increases on working-class students and families and underrepresented minorities. He expressed appreciation for the core of Regent Garamendi's proposal (that the Legislature should embrace the public mission of UC and fund it accordingly), but opined that the proposal is not appropriate in its effort to remove the ability to raise student fees out of necessity. He also argued that the timing of this proposal is not right, considering the State budget deficit. Regent Island recalled the commitment in the Compact for a floor of funding for the University. He advised that UC should be cautious in the competition for budgetary priorities, given the current level of public support for the institution. Regent Island reluctantly acknowledged that the University might have to raise student fees. He found the discussion on this issue valuable but opposed the proposal.

Regent Garamendi thanked the Regents for the discussion. He affirmed the importance of this issue and assured the Regents that he will bring it before them again in the future. He clarified that his current motion merely states that all references to a student fee will be removed from the budget proposal to be sent to the Governor, in order to call for full funding and not give away leverage that the

University might have at the outset. He asserted that he would urge the Legislature to support UC, but expressed concern that the budget as currently written would enable the Governor and Legislature to compel the University to raise fees.

Faculty Representative Brown requested clarification regarding the relationship between the Lieutenant Governor's proposal and the Compact. Committee Chair Gould expressed his understanding of the proposal as simply amendments to the budget proposal, and as being different from what was envisioned in the Compact. He recalled that the University received a seven percent increase last year, while the State budget grew about one percent. He cited this as a demonstration of the Governor's and Legislature's support for the University, but cautioned that the next year will be difficult and that UC must be prepared to advocate and to take any actions necessary to maintain excellence.

The motion was voted on and failed, Regent Garamendi voting yes. [At this point Regent Garamendi left the meeting.]

Regent Marcus requested clarification of the purpose of the savings program. He stated his understanding that it was intended as an opportunity for additional resources for UC. Executive Vice President Lapp recalled that UC's needs for next year total $406 million; revenue is anticipated at $378 million, leaving a difference of $28 million. The first purpose of the savings initiative is to fill that difference. Savings beyond the $28 million will be brought back to the Regents to be allocated for Regental priorities. In response to a question by Regent Parsky, Ms. Lapp confirmed that the Regents would be consulted before any Compact monies were allocated to other than their envisioned purpose.

Regent Kozberg praised the clear budget presentation. She expressed concern that some projects would not be carried out if not funded by the Legislature, especially the Educational Imperative Initiative. She suggested that UC might need to be creative in seeking support from philanthropic foundations and business people for these programs and that the Legislature might be more receptive to matching fund arrangements in a difficult budget year.

Regent-designate Scorza asked about student academic preparation funding in the budget. Executive Vice President Lapp responded that $19.3 million is baselined in the request (with UC funds, a total of $31.6 million). In response to Mr. Scorza's question about mental health funding, she explained that the request for mental health funding is planned incrementally over several years, with an eventual total of around $45 million.

Faculty Representative Brown noted that, in the budget presentation, faculty salaries are described as being at 90 percent of market rate, while recent data had shown salaries at a level of 85 percent-87 percent of market. Ms. Lapp confirmed that the current budget presentation factors in implementation of the first year of the faculty salary plan. Mr. Brown cited the proposed increases in revenue of around seven percent, and asked which expenditures exceed this seven percent threshold, and which fall below it. Provost Hume replied that the student mental health expenditure exceeds this threshold. He explained that there is a wish to accelerate this program this year. Mr. Brown pointed out that faculty salaries do not exceed this threshold, and expressed concern that the increase of five percent stated in the budget presentation might not reflect the real increase an average faculty member will receive. Ms. Lapp affirmed that UC provides for a five percent compensation package increase for all faculty and staff, which may vary from individual to individual; the five percent figure represents the cost University-wide.

Regent Island expressed appreciation for the quality and accessibility of the budget. He requested that the Regents and the Committee on Finance have more input into decision-making about how the University spends savings from cost efficiencies.

Regent Allen informed the Board of a measure filed with the Secretary of State, the College Affordability Act of 2008, which would institute a tuition freeze for five years for resident undergraduates at UC and CSU, prevent future tuition increases from exceeding the inflation index, raise new revenue for UC and CSU, and establish an accountability panel.

Staff Advisor Brewer noted that the budget plan for increasing staff salaries is not a new ten-year plan and recalled that such a plan was agreed on in fall 2005. Executive Vice President Lapp confirmed this.

President Dynes referred to the Board's responsibility to hear the views of students on issues of importance to them. He introduced Louise Hendrickson, interim president of the UC Student Association (UCSA) and a third-year graduate student in political science at UCR.

Ms. Hendrickson discussed UCSA's current year priorities and campaigns, focused primarily on access and affordability for all students. She discussed UC fees, other expenses (food, housing, textbooks, and other supplies) and the actual cost of attending UC. She compared the estimated $23,000 budget for an on-campus resident at Irvine with recommended student budgets at other state universities such as New York, Illinois, Michigan, and Virginia. While UCI in-state tuition and fees are in the middle of the range for these schools, UC is most expensive in total estimated annual expenses. Ms. Hendrickson referred to the $70.5 million in funds to be requested from the State or generated by a student fee increase. She expressed UCSA's opposition to any language that would call for a fee increase to raise these funds, and its support for the amendment proposed earlier by Regent Garamendi. She urged the Regents to support the students and their lobbying efforts in Sacramento. Ms. Hendrickson discussed the impact of debt on students, the numbers of students who work during the school year to help pay for their education, and opined that while UC fees have been increasing, the quality of UC education is not being maintained. She observed that financial aid is not keeping pace with the rising cost of education and that the UC student population does not reflect the diversity among California high school graduates. She expressed UCSA's request that the Regents continue to fund fully UC's academic preparation programs. Ms. Hendrickson reiterated the request not to raise student fees and to stand up for UC students.

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

[At this point Regent Hopkinson left the meeting.]

3. **AUTHORIZATION OF LEASES AND AGREEMENTS FOR HELIOS ENERGY RESEARCH FACILITY, BERKELEY CAMPUS**

The President recommended that, subject to adoption by the State Public Works Board of a resolution authorizing the issuance of State Public Works Board (SPWB) Lease Revenue Bonds and authorizing interim loans from the State's Pooled Money Investment Account or General Fund for the Helios Energy Research Facility at the Berkeley campus:

A. The President or the Secretary and Chief of Staff be authorized to:

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

a. The site shall comprise the approximate size of the footprint for the 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 annum.

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 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.

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 the project named above, said agreement to contain the following provisions:

a. The SPWB agrees to finance construction for the project, as authorized by statute.

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 the 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 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 State-financed portion of the 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.

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.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

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

4. **ANNUAL REPORT OF EXTERNAL FINANCE APPROVALS FOR CAPITAL PROJECTS FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007**

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Referring to the attachments of the summary report, Executive Vice President Lapp indicated that $336 million in external financing for capital projects was approved in fiscal year 2005-06, while a little over $1 billion was approved for fiscal year 2006-07.

5. **APPROVAL OF THE UNIVERSITY OF CALIFORNIA FINANCIAL REPORT, 2007**

The President recommended approval of the University of California Financial Report, 2007.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Assistant Vice President Plotts presented highlights of the annual financial report, noting that the report contains consolidated statements including the University, the UC Retirement System (UCRS), and the campus foundations. Financial statements for the UC medical centers were also included in the information sent to the Regents.

Assistant Vice President Plotts began by reviewing the University's overall financial position as of June 30, 2007. He identified $41 billion in assets (which increased by $3.8 billion in 2006) and $18.7 in liabilities (increased by nearly $2 billion in 2006). The University's net assets or equity total $22.4 billion and increased by $2 billion in 2006. Mr. Plotts attributed about half of this $2 billion increase to market gains and unrealized gains in the University's investment portfolios. He stressed the importance of investment gains in UC's financial performance over the past year.

Mr. Plotts next identified the University's major assets and liabilities: investments, capital assets, and debt. Investments ($14.2 billion, increased by $966 million in 2006) represent 35 percent of UC assets. This growth is driven almost entirely by the performance of financial markets. Mr. Plotts cited the performance of the Short-Term Investment Pool and the General Endowment Pool (which experienced a 19.8 percent return). He commented on the addition of two new securities lending agents. Capital assets ($18.1 billion) represent 44 percent of UC assets. Capital expenditures for 2006-07 were $2.5 billion, an increase of 17 percent over the prior year. Construction projects in progress at the end of the year totaled about $3.8 billion, half at the campuses and half at the medical centers. He noted that other asset categories had increased by $300 million over the last year. The UC debt is $9.36 billion, or 51 percent of the University's liabilities. The debt grew by $488 million compared to the previous year. Mr. Plotts observed that this increase in debt masks activity: issuance of general revenue bonds and the introduction of a new indenture (Medical Center Pooled Revenue Bonds). He called attention to $70 million in savings through refinancing of previously outstanding bonds and recalled UC's improved credit ratings by Moody's Investors Service. Mr. Plotts noted $4.75 billion in other liabilities.

Mr. Plotts reviewed increases in the four categories of the University's net assets (totaling $22.4 billion): capital assets, restricted nonexpendable and expendable assets, and unrestricted net assets. Next he examined revenues, expenses and changes in net assets. He explained the decline in operating revenues as a result of the removal of Los Alamos National Laboratory from UC's financial reporting, with a loss of about $2 billion in revenue (but also a decrease in operating expenses). Mr. Plotts identified salaries and benefits as the largest component of UC's operating expenses. He reviewed operating loss, nonoperating revenues, and other changes in net assets which result in a total increase of $2 billion for the year.

Mr. Plotts discussed the financial status of the campus foundations, calling attention to a near $700 million increase in their net assets in 2006. He briefly outlined the status of the UC Retirement System ($62.6 billion of net assets, which grew by $6.7 billion during the year). He pointed out a good return (18.8 percent) on UCRP investments. Deductions represent beneficiary payments ($1.7 billion) and transfer of a portion of UCRP assets to the Los Alamos defined benefit plans ($1.44 billion) with the establishment of the new LANS joint venture. He briefly reviewed the additions to and deductions from the Defined Contribution Plan.

Committee Chair Gould praised the report for its clarity and readability. Regent Brewer concurred, but stated that she would appreciate an executive summary at the beginning of the report, similar to Assistant Vice President Plotts' verbal presentation.

Faculty Representative Croughan emphasized the significance of the accomplishments of a $70 million cost savings achieved by refinancing and the improvement of UC's credit rating. She thanked Vice President Broome, Assistant Vice President Plotts, and their colleagues for their hard work on these issues.

Regent Bugay recalled discussions about whether the retirement system is overfunded or underfunded, and commented on the healthy performance of financial markets which accounts for the good year for the UC Retirement System. He requested clarification on the 2006/2007 differential, and performance since June 2007. Mr. Plotts estimated that UCRS was 104 percent funded a year ago and is now 105 percent funded. Chief Investment Officer Berggren informed the Committee that for the first fiscal quarter the UCRP was up over two percent, so that the funded ratio should be higher than it was on June 30. Regent Parsky emphasized the importance of the issue of contributions to UCRS, and that even a strong investment performance cannot eliminate the need for contributions. Regent Bugay concurred with this assessment.

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

6. **APPROVAL OF A WORKING CAPITAL LOAN FOR THE GEFFEN PLAYHOUSE, INC., LOS ANGELES CAMPUS**

The President recommended that:

A. The Los Angeles campus be authorized to extend a working capital loan from campus funds of up to $2.6 million to the Geffen Playhouse, Inc.

B. The term of the loan shall not exceed five years and shall bear interest at the current rate of the Short-Term Interest Pool.

C. The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Regent Kozberg stressed that this is a very successful public-private partnership.

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

7. **APPROVAL OF THE PROCESS FOR THE DEVELOPMENT OF THE MISSION BAY NEUROSCIENCE RESEARCH BUILDING (19A), SAN FRANCISCO CAMPUS**

The President recommended that:

A. The President, in consultation with the Office of the General Counsel, be authorized:

(1) To review and refine alternative development methods for constructing the Neurosciences Building (19A) and establish an evaluation methodology to determine the development method that is in the best interests of the University.

(2) To issue a Request for Proposals for the development of the 19A building consistent with the determination in A (1).

B. The President be authorized to execute all documents necessary in connection with the above.

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

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

8. **UPDATE ON RESTRUCTURING OF THE UNIVERSITY'S ADMINISTRATIVE FUNCTIONS**

[Background material was distributed to Regents at the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Provost Hume introduced Mr. Doug MacKenzie of the Monitor Group and in the discussion that followed, acknowledged the Monitor group's participation in several of the restructuring initiatives and working groups. Mr. Hume quoted one of the fundamental elements of the proposed UC operations budget for fiscal year 2008-09 (presented earlier in the morning by Executive Vice President Lapp) as the responsibility "to fund critical needs through cost-saving reforms identified as part of an ambitious and sweeping multi-year restructuring initiative." The budget identifies a need for initial savings of $28.1 million from efficiencies in 2008-09. Provost Hume affirmed that UC is committed to achieving multiples of that amount in savings in subsequent years, but stressed that the goal of the current restructuring effort is not only to achieve cost savings. The restructuring aims to align UC's administrative system with a broader vision of one university which can focus the power of its ten distinctive campuses to meet the needs of the people of California. Provost Hume underscored both the uniqueness of each campus and the ability of the campuses to collaborate academically and administratively.

Provost Hume began by discussing actions taken to streamline and improve administrative functions at the Office of the President (UCOP). Provost Hume stated that he will present a proposed new budget for the Office of the President in March 2008. This budget will reflect a smaller Office of the President, more focused and customer-oriented. Every department has been ordered to prepare plans for a 10 percent budget reduction. UCOP functions and services are being seriously examined and difficult questions are being asked about whether these services would be best located in Oakland, on the campuses, provided by outside vendors, or if they are needed at all. Mr. Hume described his vacancy control initiative for UCOP, which requires that he or Executive Vice President Lapp approve all hiring and position requests, and reported resulting savings for nearly 300 vacancies. There is an effort to consolidate administrative support functions throughout UCOP (information technology support, human resources, and accounting support) and equipment (e. g., reduction of the number of servers from 104 to 5). Mr. Hume recalled that many functions in the Office of the President do not support the President, but are programs administered in support of the campuses, the State, CSU, and private universities. Some are self-supporting and others administer earmarked funds on behalf of the State government. Currently he is reexamining governance, accountability, and optimal functioning of these client-service entities.

Provost Hume next outlined actions taken across the UC system. He described the risk management initiative directed by Vice President Broome and reported that after eighteen months and with an investment of $9.6 million, costs have been reduced by more than $100 million. In debt management efforts, $70 million in reduced debt service costs have been saved by refunding current debt. Mr. Hume reported that the strategic sourcing initiative includes 84 contracts as of June 30 and generates $37.6 million in annual cost savings. New initiatives are being developed for air travel, research laboratory furniture, and network equipment, with a potential additional $17 million in savings. The medical centers are attempting to leverage their collective strength to realize new Medicaid payment arrangements (for $50 million annual increase in funding), increased Medicaid physician payments, to negotiate as a single entity for larger commercial clinical care contracts, and to make use of national group purchase organizations to counteract the rising cost of medical supplies. The Systemwide Information Technology Guidance Committee has advised that UC should plan for one new consolidated next-generation data center for the system, with a backup system. The Committee on Long Range Planning is factoring this into its forward planning. Mr. Hume thanked Regents Blum and Lansing and Office of the President employees for their crucial role in developing and implementing these initiatives.

Provost Hume then turned to broader restructuring initiatives. The OP Roles Group, led by Chancellor Vanderhoef, is critically examining UC's leadership and management overall, to clarify the role of the Office of the President and improve its functions. The key question that has emerged for this group is that of the President's role in relation to the Regents and the Chancellors. Mr. Hume has asked Regent Lansing to convene a meeting of the Regents' Committee on Governance between now and the January 2008 meeting to consider the recommendations of this working group. He opined that the timetable of this discussion coincides well with the search for a new President and the development of next year's budget for UCOP. The second broader initiative is to develop a more transparent budgeting, accounting, and funds distribution process, with a goal of broader input into and understanding of the budget process and decisions (by Regents, faculty, and campus leaders). The third initiative aims at streamlining the capital projects development process, to generate savings through reduced financing and delay costs. A full report of this working group is anticipated in January 2008. The goal of the fourth initiative is to upgrade human resources capabilities so that the University can recruit, develop, and retain the highest-quality employees. The fifth initiative seeks to re-conceptualize and retool UC's external relations functions to ensure long-term support. The initiative must address all aspects of support (alumni, donors, industry, the people of California, State and federal representatives). Provost Hume underscored the complexity of this task, some aspects of which will be centered on campuses, and some coordinated systemwide. The sixth initiative examines ways to improve the return on funds in the University's Short-Term Investment Pool.

The last item discussed by Provost Hume regarded greater collaboration between the campuses in administrative support. He noted incentives and rewards being designed to encourage the creation of more common systems among campuses, such as the California Digital Library and the collaborations among the five medical centers. Mr. Hume emphasized that this effort requires trust, understanding and collaboration among the campuses. He mentioned as goals a common payroll system, a common admissions system, and more streamlined, rational support for education abroad. He expressed his conviction that the University can do more at lower cost while providing better service.

Provost Hume emphasized that the engagement of the Regents is crucial to the work of the OP Roles Group to determine the appropriate roles of the President, Regents, and Chancellors. He reiterated that the Committee on Governance will be involved in this process. Mr. Hume noted that a clear understanding of this issue will be essential to guide his decisions about the structure and budget of the Office of the President in his efforts to make UCOP leaner and more efficient. He thanked the many individuals across the UC system who have contributed to this restructuring effort.

Chairman Blum underscored the wide scope of the restructuring effort, which aims to help the University function better, not merely to identify cost savings. He thanked Provost Hume for his dedication to this work.

Regent Island asked if there was enough outside perspective in these restructuring efforts and questioned the University's ability to restructure itself. Mr. Hume believed that the Monitor Group brings a different perspective and that they were chosen precisely because of their different way of looking at business. Some matters are being managed internally because they are unique to universities, but UC is relying on Monitor particularly for its different perspective on business functions.

Regent Parsky stressed the importance of the Board's involvement in discussions to define the appropriate roles of the Regents (their areas of oversight) and of the Office of the President. He emphasized that the Regents should decide how monies from cost savings are spent, and that the restructuring process and the budget process should be coordinated (so that current salary decisions regarding the Office of the President are linked to an assessment of whether functions will remain as they currently exist or not). Regent Parsky opined that a critical effort is required right now and in the near future (the period from now to January 2008 and through June 2008).

Regent Hopkinson also stressed that the Board must be engaged in these ongoing activities to ensure long-term success. While recognizing the benefits of the Monitor Group's involvement, she found their lack of higher education experience challenging. Regent Hopkinson suggested that there should be a clear definition of where the Monitor Group could be of assistance and where another group or entity could participate. There may be a need for additional assistance.

Faculty Representative Croughan recognized that the expertise of the Monitor Group has been very helpful in certain areas. She also called attention to the large number of UC faculty and staff with UC knowledge and experience who are hired as consultants by other universities. Ms. Croughan opined that the University should take more advantage of its own faculty with expertise in relevant areas (organizational behavior, economics, labor management). She referred to a faculty resolution requesting that outside consultants not be hired. Ms. Croughan requested that the Board and the Office of the President engage these faculty and staff for the present task.

Regent Hopkinson expressed concern that UC faculty or staff might have conflicts of interest or vested interests and suggested that the restructuring effort requires third-party, outside consultation. She advocated use of an outside consultant.

Committee Chair Gould expressed confidence in Provost Hume's openness and willingness to hear from outside parties and include the Regents in the discussion.

He expressed the expectation that this openness will include the entire University family.

Provost Hume announced that the Energy Biosciences Institute contract has been executed by the other party, and thanked the Regents for their support in this matter.

9. **REPORT ON NEW LITIGATION**

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

General Counsel Robinson referred to the written materials provided. He stated that there was nothing noteworthy on which to comment.

The meeting adjourned at 12:05 p.m.

Attest:

Secretary and Chief of Staff