The Regents of the University of California

COMMITTEE ON FINANCE
March 14, 2007

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

Members present: Regents Blum, Dynes, Gould, Hopkinson, Island, Kozberg, Moores, Parsky, and Preuss; Advisory members Bugay and Oakley, Staff Advisors Brewer and Miller

In attendance: Regents De La Peña, Johnson, Lansing, Ledesma, Lozano, Marcus, Ruiz, Schilling, Schreiner, and Varner, Regents-designate Allen and Brewer, Faculty Representative Brown, Acting Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice President Darling, Vice Presidents Broome, Foley, Hershman, and Sakaki, Chancellors Birgeneau, Bishop, Córdova, Drake, Fox, Kang, Vanderhoef and Yang, Acting Chancellors Abrams and Blumenthal, University Auditor Reed, and Recording Secretary Bryan

The meeting convened at 10:30 a.m. with Committee Chair Gould presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of January 18, 2007 were approved.

2. **UPDATE ON REGENTS' PRIORITIES AND BENCHMARKS**

It was recalled that in September 2002, the Board was presented with information on long-range planning issues that included development of benchmarks intended to measure the University's progress toward achieving identified priorities. An update was provided at the September 2005 meeting. The indicators were requested by The Regents to emphasize the importance of protecting and enhancing the quality of the University's teaching and research programs while addressing the challenges of enrollment growth and constrained resources.

Provost Hume, Executive Vice President Darling, and Vice President Hershman made an oral presentation updating the quality indicators established when this series of presentations began in September 2002.

Mr. Darling stated that this report will serve as an annual update on the benchmarks of academic quality, financial health, and progress toward policy priorities that have been established by the administration and The Regents. He began by describing the economic and demographic context in which the University is undertaking short-term and long-term planning. Economic and demographic trends in California are having an impact on the University. There has been a major shift to a knowledge-based economy that has increased the demand for and the number of professional and managerial jobs in California. Estimates show that only half of the college graduates filling California jobs were educated in California. The second trend is that State's population is changing in dramatic ways in that the population is growing rapidly, the baby-boom generation is reaching retirement age, and the racial and ethnic distribution is changing. State demographers expect population growth to continue to 44 million by 2020 and 52 million by 2040.

Analysis of the age distribution of Californians indicates that the baby-boom cohort will eventually cause a 70 percent increase in the population of people age 65 or older in California. This will have a revolutionary impact on retirement systems and the health care industry, both of which will draw down State resources. The population of young people is also expected to increase, requiring more resources for schooling. These demographic shifts may result in State resources being shifted from higher education to K-12 and health care.

Analysis of the racial and ethnic distribution of California indicates that 25 percent of California residents were born outside the United States, and another 25 percent are the children of parents born outside the country. Freshman students entering UC mirror this distribution in that 50 percent have at least one parent born outside the country. By 2040, the percentage of the population of white non-Hispanic residents is expected to decline while the percentages of the populations of Hispanic, Asian, and Black residents are expected to rise. At present, these demographic groups have differential college attendance and completion rates, indicating a need to increase the college-going rate and the college-completion rate for every segment of the population in order that California create jobs and have a robust economy. Underrepresented groups are clustered in underperforming schools, resulting in an enormous achievement gap and lower eligibility rates for admission to UC and CSU. This has potentially profound implications for California's economy, civil society, and the future health of these population segments.

Mr. Hume reviewed The Regents' priority benchmarks:

- Slow Moving Indicators
    - Graduation rates for undergraduates
    - Research funding
    - Rankings of departments and programs
- Early Warning Indicators
    - Meeting undergraduate enrollment plan
    - Meeting graduate enrollment plan
    - Faculty salaries

- Staff salaries
- Academic/Support services
- Financial aid
- Graduate student support
- Facilities

Regarding the slow-moving indicators, Mr. Hume reported that the percentage of undergraduates who return each year and graduate continues to improve, indicating the strong health of the University. Students are also graduating more quickly. In terms of research funding, the rate of increase of federal funding for UC has slowed, mainly due to the fact that less funding is available. UC continues, however, to be the most successful University in the world in the transfer of technology to industry. The ranking of departments and programs at UC remains strong.

Mr. Hershman discussed the funding gap created in the last few years of $2470 per student, for a total of $500 million. He recalled that The Regents established priorities in January 2004 to indicate short-term and long-term strategies to address the budget problem. Mr. Hershman reviewed each of the priorities and how the 2007-08 budget provides for these priorities. Improved marginal cost funding and $10 million for partial restoration have been included to address the student-faculty ratio. A 5 percent increase has been included in the budget for faculty and staff salaries and benefits. In terms of graduate student numbers and quality, new initiatives have been created to further increase graduate student support. New marginal cost funding and maintenance of core instruction and research facilities have been included in the budget to address instructional support needs. To meet the commitment with respect to student enrollment, there is funding for 2.5 percent enrollment growth, including planned increases in medicine and nursing. Mr. Hershman remained hopeful that funding for student academic preparation will be restored in the State budget.

Regarding the early-warning indicators, Mr. Hershman reported that undergraduate enrollment is expected to be slightly above the undergraduate enrollment plan but less than the substantial growth experienced in the last decade. Community college transfers have fallen below the plan, but Mr. Hershman emphasized the importance of such transfers and will work to improve this indicator. Graduate enrollments are also slightly below the plan, but the projection is that graduate student enrollment will grow by approximately 1,000 students per year. Faculty salaries have deteriorated over the last five years in comparison with peer institutions, but this year there was an increase of 0.5 percent. Staff salaries also continue to lag the market. The student-faculty ratio has declined considerably, and on an actual basis the ratio continues to deteriorate, standing at over 19:1. Mr. Hershman reiterated that funds are being allocated to address the ratio, and was confident that The Regents' goal of 17.6:1 will be achieved. Academic and Support services are in a dire situation, but the Compact provides for an additional 1 percent base budget increase to support core needs in 2008-09 through 2010-11. An analysis of financial aid and student fees reveals a history of uneven fee increases by UC and cuts in the State budget. In comparison with other institutions, fees are lower, living costs are higher, and financial aid is better. Gift financial aid has almost tripled in the last ten years due to student fee increases, federal funds, and State grants. The percentage of students who receive Pell Grants is far above that of other universities, indicating that UC remains accessible to low-income families. Middle-income families are also being tracked, with the concern that this group will be unable to attend UC schools. A segment of the budget proposal attempts to maintain enrollment of students from middle-income families. In terms of graduate fees, a number of initiatives have sought to offset graduate fee increases including increasing return-to-aid for academic graduate students to 45 percent, freezing nonresident tuition for academic graduates, eliminating nonresident tuition for doctoral students who have advanced to candidacy, and providing additional resources through internal redirection from strategic sourcing and new funding. In terms of capital outlay for facilities, progress will continue to be made if State bond measures continue to pass. Mr. Hershman expressed his concern about funding for maintenance, as it is significantly behind where it should be. Accumulated deferred maintenance and capital renewal are crucial areas that must be addressed. Enormous progress has been made in the area of private support, but it is not a substitute for State money, and almost 100 percent of it goes to directed requirements.

Regent Ruiz questioned the verity of the graphic that showed high school graduation levels peaking in 2008 and then declining. Vice President Hershman responded that these projections are based on current trends.

In response to a question on undergraduate enrollment asked by Regent Moores, Mr. Hershman stated that UC is achieving The Regents' plan of adding 4,000 new undergraduates per year. Mr. Hume explained that the percentage of California high school graduates who apply, are eligible, and have enrolled at UC is tracked. The goal under the Master Plan is to have 12.5 percent of high school graduates meet UC's eligibility requirements; currently UC is tracking at 14.4 percent. Mr. Hume recalled that in 2002 The Regents changed eligibility requirements in order to bring this percentage down to 13 percent. Regent Moores expressed concern about his understanding that the University is substantially overenrolled. He has been soliciting an answer from the Office of the President as to how many students are currently overenrolled, but has not received a response. He estimated that approximately 7,000 students are overenrolled, and given that it costs approximately $10,000 to educate each student, this results in a substantial amount of financial outlay without Regental approval. Regent Moores asserted that the Office of the President breached its duty to notify The Regents that UC is overenrolled. Mr. Hume responded that UC continues to enroll at just under 8 percent of California high school graduates, a rate that has remained constant. Executive Vice President Darling agreed with Mr. Hume that there is an important distinction between the number of eligible students, which may yield more than 12.5 percent, and those students who actually enroll, which is only 8 percent. Regent Moores maintained that The Regents has authority over determining the percentage of students enrolled at UC. He strongly favored an admissions audit. Mr. Darling reiterated that The Regents adopted a resolution to adjust eligibility requirements in order to move to 13 percent, with the idea that the requirements would be phased in over a three to four year period so that students in the eligibility pipeline would not be affected. This year will be the first in which the impact of the new policy can be seen. Regent Moores expressed concern that enrollment numbers have not yet decreased.

Regent Hopkinson expressed concern about the student-to-faculty ratio and that there is no indicator for it in the report. She emphasized that this ratio is one of The Regents' highest priorities. Mr. Hershman agreed that it should be a separate indicator.

Regent Island asked why there were no indicators of diversity. Mr. Darling agreed that diversity should be tracked.

Regent-designate Allen urged the inclusion of student affordability as one of the indicators.

Regent Parsky asked that the statistic of the number of students that come from families earning less than $100,000 be included. Mr. Darling responded that at other meetings this information has been provided, and agreed that this information should be provided on a regular basis and that it should be included in the benchmarks.

Faculty Representative Brown asked if there would be value in assessing cost to each of The Regents' priorities.

Faculty Representative Oakley stated that faculty salaries are not just at a cyclical low point, they are at a structural low point in that there is a structural deficit that is locked in and difficult to change.

Regent Lozano commented that, if added to the list of priorities, academic preparation programs would receive the lowest achievement due to the inability to find a stable funding source. She stated that this situation was troubling given the assertion in Mr. Darling's presentation that UC must address the needs of underrepresented students.

Regent Kozberg asked for updates on the actual initiatives that The Regents were trying to accomplish, such as the freshman seminars. Mr. Hume responded that a major introspection is beginning into the quality of UC programs and best practices nationally. Students are surveyed every year, and that data can be provided to The Regents.

3. **UPDATE ON THE TASK FORCE TO EVALUATE UNIVERSITY FUNDING OPTIONS**

It was recalled that in October 2006, Chairman Parsky asked Regent Moores to chair a task force to consider and report to The Regents on:

- UC's forecast for the coming years of tax revenues to the State of California, revenue to the University over the same term, and expenses by campus

- UC's options in the event that the legislature is unable to sustain its present funding levels to the University

- UC's ability to recruit and retain talented faculty, staff, and administrators

Committee Chair Gould explained that the intent of this initiative is to look at the long-term financial demands of the University taking all issues into account. Given the financial demands and scenarios of support from the State, there will be a determination of a realistic funding gap. This gap can be presented to the legislature and the Governor in order to facilitate honest dialogue about what is required to maintain the institution, and to explore creative options for the University to bridge the gap itself. A broad-based task force has been constituted, including Regents, faculty, and staff. A working group has also been constituted to develop a financial model.

Regent Moores commented that the task force is sympathetic to the students' comments regarding fee increases, and that the State should provide more funding given the stature of the University.

4. **UPDATE ON STATE AND FEDERAL BUDGETS**

It was recalled that the Department of Finance issued instructions for the Governor's May Revision process and the Legislative Analyst's Office (LAO) has issued its annual report, *Analysis of the 2007-08 Budget Bill,* which includes recommendations on the overall State budget as well as the University's portion of the budget. The Office of Management and Budget released the proposed federal budget on February 5, 2007.

Vice President Hershman received communication from the State that more funds will not be available for the University. The Budget Office met with the Governor's Office in order to review where UC stood with respect to the Governor's commitment to the Compact and to urge them to include funding for the labor centers and student academic preparation programs. Mr. Hershman still believed that funds will be included in the May revision of the State budget for these programs. The Budget Office also discussed the retirement system and approached the Governor's Office with two options, including beginning funding later in the current fiscal year, or including language in the Budget Act itself or in a trailer to the Act that expresses the Legislature's commitment to funding retirement in a manner to equivalent CalPERS.

The LAO reported that revenue will be significantly lower than what the Governor projected, on the order of $2 billion dollars. The LAO made a series of recommendations to cut UC's budget, recommending 2 percent enrollment growth rather than 2.5 percent. In terms of faculty and staff salary increases, the LAO recommended 2.4 percent increase, whereas UC's budget allocated a 5 percent increase. The LAO also opposed all the Governor's research initiatives. The Budget Office will be arguing strongly against these recommendations.

Mr. Hershman ensured the Regents that the Budget Office is working hard to ensure that the Governor honors the Compact, stressing that the Compact provides the minimum funding required for the University to function. He cautioned, however, that more funds may not be forthcoming. He urged assistance from the Regents in this effort.

Regent Moores inquired about back-up plans if the State continues to have revenue shortfalls. Mr. Hershman responded that the first option is to fight for the best budget possible. He stated that a discussion will take place at The Regents' May meeting if revenues continue to be short. Regent Moores maintained that there should be a way of smoothing out fluctuations in State funding given the unpredictability of State capital gains income. Committee Chair Gould recalled that the premise of the Compact was to provide for such smoothing. Executive Vice President Darling noted that in most states capital gains income does not exceed 10 percent of total income. At its high point, California's revenues from capital gains rose to 24 percent of total income.

Mr. Darling presented an overview of the proposed federal budget. The federal government is under tight fiscal constraints, but there is a bi-partisan effort underway to focus on innovation and competitiveness for the nation. There is recognition that research universities, particularly UC, play a critical role in the nation's research and competitiveness agenda. The University of California receives approximately 12 percent of the entire nation's research funding, and graduates approximately 12 percent of all Ph.D.s in the US. As a result, the University is a unique national resource for helping the nation address competitiveness and economic initiatives. The congressional leadership recently announced an Innovation Agenda that complements the President's American Competitiveness Initiative. The goals of these initiatives are to create an educated and skilled workforce in the areas of science, math, engineering, and information technology, and to invest in a sustained way in federal support of research and development that will support the nation's workforce and innovation. Funding for the physical sciences will increase, which is crucial because much of the benefit that is seen today in the medical industry is due to earlier scientific research. One of the major beneficiaries of this increased funding is the Department of Energy, Office of Science, which funds the Lawrence Berkeley National Laboratory. Another emphasis of these initiatives will be funding for K-12 in the areas of science and math.

In terms of student financial aid, the President's budget proposes to increase the Pell Grant maximum award to $4,600, and to increase investment in new grant programs which fund students studying in stem disciplines, such as science, technology, engineering, and math, as well as critically-needed languages. Approximately 30 percent of UC's students are eligible for Pell Grants, which means that 48,000 UC undergraduate students will benefit from these increases. UC continues to lead the nation in terms of its financial aid packages.

The President has also proposed a Health and Human Services budget, which is important to the University in that the National Institutes of Health (NIH) is UC's largest research funding agency. For the last five years the NIH budget has remained flat, whereas the number of new researchers moving into medical disciplines has increased and the number of new research applications has increased as well. The danger is that more established investigators who have track records of funding will receive funding, whereas the younger investigators will face a greater challenge. This creates problems for UC in building and maintaining a great faculty. A proposed reduction in Medicare programs over the next five years would reduce funds to the University by $21 million annually. A proposed reduction in Medicaid would reduce funds to the University by $113 million annually. The Office of the President will be working closely with members of UC's delegation and key committees to ensure that these proposals are formulated in a way that meets the needs of society and helps UC deliver vital services.

5. **APPROVAL OF PROPOSED INCREASES IN STUDENT FEES FOR 2007-08**

The President recommended that student fees be increased for 2007-08 as follows:

A. Effective Summer 2007, mandatory systemwide fees be increased by 7 percent as shown in Table 1. These increases are consistent with those recognized in the Governor's 2007-08 budget. Of the revenue generated from the increases in mandatory systemwide fees from undergraduate students, an amount equivalent to 33 percent will be set aside to mitigate the impact of the fee increases on financially needy undergraduate students. Of the revenue generated from the increases from graduate academic students, 45 percent will be set aside to provide additional funds for financial aid for needy graduate academic students; and 33 percent of the revenue generated from the increases from students subject to professional fees will be set aside for financial aid for those students.

TABLE 1
Proposed Increases in Mandatory Systemwide Fees

	2007-08 Fee Actions Previously Approved by The Regents		*Proposed Increases in Mandatory Systemwide Fees for 2007-08*		Proposed Total 2007-08 Mandatory Systemwide Fees Levels
	Educational Fee	*Educational Fee*	*Educational Fee*	*Registration Fee*	*Ed/Reg Fees*
Resident Undergraduates		$60	$384	$51	$6,636
Nonresident Undergraduates		$60	$420	$51	$7,188
Resident Graduate academics		$60	$432	$51	$7,440
Nonresident Graduate academics		$60	$459	$51	$7,734
Professional students subject to Professional School Fee except those below: (Residents)	-$1,050	$60	$379	$51	$6,582
(Nonresidents)	-$1,050	$60	$379	$51	$6,582
Professional students in IRPS at San Diego, Public Health, & Public Policy (Residents)		$60	$432	$51	$7,440
(Nonresidents)		$60	$459	$51	$7,734

B. Effective Summer 2007, Fees for Selected Professional School Students be increased by 7 percent and 10 percent as shown below in Table 2. Of the revenue generated from the increases in professional school fees, an amount equivalent to 33 percent of the revenue generated will be set aside for financial aid for students subject to professional school fees.

TABLE 2[1]
Proposed Increases in Fees for Selected Professional School Students

	2007-08 Proposed Increases in Professional School Fees (excludes Educ & Reg Fees)	2007-08 Fee for Selected Professional School Students (excludes Educ & Reg Fees)*	Estimated 2007-08 Average Total Annual All Charges (includes Educ, Reg, Prof. & campus fees)
<u>Medicine</u>			
All campuses (resident)	$940	$14,380	$23,133
All campuses (nonresident)	$940	$14,380	$35,661
<u>Business</u>			
Berkeley (resident)	$1,814	$18,160	$26,713
Berkeley (nonresident)	$1,708	$16,984	$37,782
Davis (resident)	$1,000	$15,276	$24,103
Davis (nonresident)	$1,000	$15,276	$36,348
Irvine (resident)	$1,000	$16,314	$25,684
Irvine (nonresident)	$1,000	$15,276	$36,891
UCLA (resident)	$1,916	$19,287	$28,312
UCLA (nonresident)	$1,606	$15,882	$37,152
Riverside (resident)	$1,000	$15,276	$23,802
Riverside (nonresident)	$1,000	$15,276	$36,047
San Diego (resident)	$1,000	$15,276	$23,630
San Diego (nonresident)	$1,000	$15,276	$35,875

1 Table 2 was amended in final Board action.

TABLE 2 (continued)
Proposed Increases in Fees for Selected Professional School Students

	2007-08 Proposed Increases in Professional School Fees (excludes Educ & Reg Fees)	2007-08 Fee for Selected Professional School Students (excludes Educ & Reg Fees)*	Estimated 2007-08 Average Total Annual All Charges (includes Educ, Reg, Prof. & campus fees)
Law Berkeley (resident)	$1,812	$17,770	$26,729
Berkeley (nonresident)	$1,812	$17,770	$38,974
Davis (resident)	$1,681	$16,318	$25,479
Davis (nonresident)	$1,681	$16,318	$37,724
UCLA (resident)	$1,812	$17,770	$26,721
UCLA (nonresident)	$1,681	$16,318	$37,514
Dentistry UCLA (resident)	$1,104	$16,902	$26,131
UCLA (nonresident)	$968	$14,784	$36,258
San Francisco (resident)	$1,106	$16,902	$25,752
San Francisco (nonresident)	$1,106	$16,902	$37,997
Veterinary Medicine Davis (resident)	$764	$11,646	$22,437
Davis (nonresident)	$764	$11,646	$34,682
Optometry Berkeley (resident)	$668	$10,210	$18,763
Berkeley (nonresident)	$668	$10,210	$31,008
Pharmacy All campuses (resident)	$776	$11,874	$20,450
All campuses (resident)	$776	$11,874	$32,695
Theater, Film & Television UCLA (resident)	$416	$6,375	$14,350
UCLA (nonresident)	$416	$6,375	$26,595
Nursing All campuses (resident)	$226	$3,444	$11,793
All campuses (resident)	$226	$3,444	$24,038
International Relations & Pacific Studies UCSD (resident)	$284	$4,284	$13,516
UCSD (nonresident)	$284	$4,284	$26,035
Public Policy All campuses (resident)	$284	$4,284	$13,406
All campuses (nonresident)	$284	$4,284	$25,945
Public Health All campuses (resident)	$284	$4,284	$13,593
All campuses (nonresident)	$284	$4,284	$26,132

C. Effective Fall 2007, the Nonresident Tuition Fee be increased by 5 percent, $900, for nonresident undergraduate students only, from $18,168, to $19,068. It is recommended that the Nonresident Tuition Fee for graduate academic students and for students paying the Fee for Selected Professional School Students remain at their current annual levels of $14,694 and $12,245 respectively for 2007-08.

D. Student fees increases for 2007-08 as approved by the Board of Regents at its March 2007 meeting shall be reduced or rescinded prior to implementation if the Governor and the Legislature provide sufficient funding to reduce or eliminate fee increases and the remaining portions of the 2007-08 Governor's Budget for UC remain in place.

It was recalled that, as noted in the *2007-08 Budget for Current Operations*, The Regents has identified high priority needs that must be met if the University is to restore its competitiveness with other institutions and ensure its ability to maintain academic quality. In 2003, the Board endorsed its short-term and long-term budget priorities with the intent that these priorities would be used to develop future annual budgets. The Board also asked for a process in which regular increases in student fees could be implemented to help achieve the University's budget priorities.

Within this context, the Compact with the Governor was negotiated to include, among others, a provision for regular, annual student fee increases. The Compact states the Governor's intent that increases in student fees should be based on the rise in California per capita personal income. However, in years in which UC determines fiscal circumstances require increases that exceed that rate of growth, UC may, in consultation with the Governor, decide that fee increases of up to 10 percent are necessary to provide sufficient funding for programs and to preserve quality. With regard to professional school fees, the Compact provides that UC develop plans for professional school fees while considering several factors, including average fees at other public comparison institutions, total cost of attendance, market factors, the need to preserve and enhance the quality of graduate academic programs, the State's need for more graduates in a particular discipline, and financial aid requirements of graduate academic students.

In 2003, students who had been enrolled in UC's professional degree programs prior to December 16, 2002 filed a class action suit against the University alleging that the increases in the Fee for Selected Professional School Students that were approved by The Regents for Spring 2003 and for all subsequent years violated a contract between the University and students that the professional school fee would not be increased while they were enrolled. The court enjoined the University from collecting any new Professional Fee increases imposed for the 2004-05 and later academic years from this group of students. The injunction cost the University approximately $20 million in foregone professional fee revenue. To address this revenue loss, The Regents approved a $1,050 increase in the Educational Fee for professional school students that was fully implemented in 2006-07. As part of The Regents' action, the temporary Educational Fee increase for professional school students will cease at the end of 2006-07 and will be replaced by a temporary surcharge in 2007-08 that will be assessed to all students until the shortfall in revenue is fully replaced.

Consistent with the Compact, for 2006-07 The Regents approved increases in mandatory student fees and professional school fees of 8 percent. However, because the Governor and the Legislature provided sufficient funds to avoid the planned increases, the approved fee increases were rescinded for 2006-07.

The 2007-08 budget adopted by The Regents at the November 2006 meeting begins to address the need to restore the University's competitiveness with other institutions and ensures its ability to maintain academic quality. However, recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds to buy out once again proposed student fee increases either partially or totally, The Regents took no action on increases in student fees at the November Regents meeting. Instead, The Regents agreed to delay action on student fees until more information was available regarding the Governor's proposed budget for 2007-08.

Mr. Darling recalled that Vice President Hershman had reported on the Governor's proposed budget for 2007-08 at the January meeting. In acknowledgement of The Regents' budget plan for 2007-08, the Governor's budget recognizes a 7 percent increase in mandatory student fees and fee increases of 7 percent and 10 percent in professional school fees. It is recommended that the proposed fee increases be approved with the following understanding:

> Student fees increases for 2007-08 as approved by the Board of Regents at its March 2007 meeting shall be reduced or rescinded prior to implementation if the Governor and the Legislature provide sufficient funding to reduce or eliminate fee increases and the remaining portions of the 2007-08 Governor's Budget for UC remain in place.

The *2007-08 Budget for Current Operations* includes a full discussion of the proposed student fee increases in the chapter titled, "Student Fees" and a full discussion of student financial support is found in the chapter titled, "Student Financial Aid."

The proposed fee increases are necessary to help fund the University's 2007-08 budget for operations as approved by The Regents at its November 2006 meeting. It is proposed that mandatory systemwide fees be increased by 7 percent for all students. For the current year, 2006-07, resident undergraduate fees are about $1,500 lower than those of the comparison institutions and about $2,350 lower for graduate academic students. Even with the proposed fee increase, total charges for resident undergraduate and graduate academic students are expected to remain well below the average fees charged at the University's four public comparison institutions. The comparisons for nonresident students are a different matter. The University's fees for nonresident undergraduate and graduate students currently exceed the average fees for the comparison institutions. The University's tuition and fees for nonresident students represent the mid-point among its public comparison institutions and it is expected that position be retained even with these increases.

In addition to increases in mandatory systemwide fees, it is proposed that professional school fees be increased by 7 percent for most programs, to cover cost increases funded from professional school fee revenue. In recognition of the disproportionate cuts taken by the law programs at Berkeley, Davis, and Los Angeles and the business programs at Berkeley and Los Angeles, increases in professional school fees would be vary between 11 percent and 12 percent, and mandatory fees (educational and registration fees) would be increased by 7 percent, for an overall average increase of 10 percent, to sustain excellence and ensure broad accessibility. Total charges to professional degree students are approximately the same or lower for 7 of the 12 professional degree fee programs at public comparison institutions. However, UC fees are now higher than tuition and fees charged at comparable public institutions for veterinary medicine, dentistry, pharmacy, optometry, and the theater, film and television program at UCLA. Tuition and fees in 2007-08 at these institutions are expected to increase and UC fees remain relatively the same in relation to the public comparison institutions.

A proposal for a new policy on setting fees for professional school students was discussed at the January meeting, and The Regents reaffirmed the expectation that the University must develop a multi-year plan of fees for these students. These plans will be presented at a future Regents meeting along with a continued discussion on a policy for setting professional school fees. The proposed increases in professional school fees were developed consistent with concepts under consideration for a future policy for setting fees for professional school students.

Finally, it is proposed that the Nonresident Tuition Fee be increased—for undergraduate students only—by 5 percent in 2007-08, raising the nonresident tuition level by $900 from $18,168 to $19,068 for those students. It is proposed that nonresident tuition would remain at $14,694 for graduate academic students and at $12,245 for professional students. In addition to the nonresident tuition fee, nonresident students must pay mandatory systemwide fees and, if applicable, the Fee for Professional School Students.

Enhancement of Mental Health Services

In September 2006, following a comprehensive review of contemporary student mental health issues and the challenges associated with providing these services within the campus communities, Provost Hume reported to The Regents on a number of recommendations to respond better to students at risk. At that time, The Regents identified enhancement of mental health services at each campus as a high priority.

Over the past few months, the campuses have been engaged in a process of assessing ways to improve their mental health services, including an assessment of the level of additional resources needed. Additional resources will be required to begin to address this critical need. Given the serious and urgent need for enhanced mental health services, it is proposed that campuses begin addressing these needs as soon as possible. For 2007-08, it is proposed that the Registration Fee be increased by 7 percent. Of that amount, 4 percent would be used to fund salary and other necessary cost increases and an additional 3 percent would provide approximately $4.6 million to fund initial steps in enhancing mental health services. Additional funding from the Registration Fee will be needed in future years to continue implementing the campus plans.

Financial Aid

It has been the University's practice to set aside a portion of the revenue generated by student fee increases to mitigate their impact on financially needy students. The Compact with the Governor provides that an amount equivalent to no less than 20 percent and no more than 33 percent of the revenue generated from student fee increases is to be used to provide aid to needy undergraduate students who qualify for financial aid, based on the federal methodology for determining need. It is proposed that, for 2007-08, an amount equivalent to 33 percent of the new fee revenue from the undergraduate fee increases be used for financial aid for needy students. This "return to aid," when combined with federal grant aid and the State's Cal Grant program, will allow UC to provide an additional UC grant, covering 100 percent of the fee increase, to on-time financial aid applicants who are considered needy under federal eligibility standards and whose family incomes are lower than approximately $60,000 per year. In addition, the University would provide a grant covering 50 percent of the fee increase to other needy on-time financial aid applicants whose family incomes are below $100,000 per year.

The Governor's budget includes additional funding for the Cal Grant program to cover the proposed fee increases for needy UC students. When the additional Cal Grant funding is combined with the additional fee revenue, the effective increase in fees for students overall is about 3 percent.

The University offers an exceptional financial aid program to support its students. This is evident first in the net or actual cost for students after taking into account their grants, scholarships, and fellowships. In 2005-06, the net cost of attendance for resident need-based aid recipients was lower than the estimated net cost at three of the University's four public comparison institutions. Another measure of the University's aid program is its remarkable success in consistently enrolling a high percentage of low-income undergraduate students. In 2005-06, as a system, the University enrolled a higher percentage of low-income undergraduates (32 percent) than any other comparably selective institution, public or private.

Adequate support for graduate students has been identified by The Regents as one of the major issues facing the University. To support its research mission and fulfill its responsibility to meet California's professional workforce needs, the University needs to attract top graduate students. To do so, it must offer financial assistance packages that can compete with those offered by other institutions recruiting the same prospective graduate students. Given the considerable funding shortfall that already exists with respect to graduate student support, it is proposed that an amount equivalent to 45 percent of the new fee revenue from the fee increases for graduate academic students be used for financial aid for needy graduate students.

Finally, for 2007-08, it is proposed that an amount equivalent to 33 percent of the new fee revenue from the fee increases for professional school students be used for financial aid for needy professional degree students. This aid can be delivered either as gift aid (i.e., scholarships, fellowships, or grants) to students while they are enrolled, or as loan repayment assistance to program graduates who have entered public interest careers that meet certain parameters. The first approach reflects a philosophy that a professional degree program should be financially accessible to any academically qualified student, regardless of his or her economic resources; it emphasizes equalizing access to the professional degree program. The second approach reflects a desire to ensure that low-paying public interest careers remain a viable option for its graduates; it emphasizes equalizing access to career paths. Both approaches are consistent with the role of financial aid in allowing programs to compete for a socioeconomically diverse set of students and to support the public service component of the University's mission.

Vice President Hershman recalled the University's obligation to give notice to students of fee increases. He emphasized that the net fee increase for students will be 3 percent, and that the fee increase will provide financial aid to allow UC to cover the entire fee increase for low-income students and provide them extra money for other expenses. For middle-income students, half of the fee increase will be covered by financial aid. The intent is to guarantee access for students who are qualified.

Regent Hopkinson was concerned about years when there is 100 percent buy out of student fee increases from the State budget, and suggested that there be yearly student fee increases. She also inquired about a specific plan regarding fee increases over time for law schools. Provost Hume responded that he and Regents will work together to draft principles that allow for multi-year plans that are responsive to the academic strategic plans of the schools. He concurred that Regents have not yet heard the positions of all the law and business schools.

Regent Lozano asked for clarification regarding the date by which students must be notified of fee increases. Mr. Hershman responded that for summer term, fee increase approval cannot wait until the May meeting. Regent Lozano also asked for clarification as to why the increase is proposed at 7 percent. Mr. Hershman explained that the priorities were financial aid and cost increases for student-fee funded programs such as salary increases, which alone amount to between 5 percent and 6 percent. Regent Lozano stated that it is preferable that The Regents be presented with a set of options rather than one definitive number. Mr. Hershman stated that the Budget Office sought to keep the fee increase as low as possible while still making progress toward The Regents' priorities. Regent Gould clarified that the fee increase is consistent with meeting the budget adopted by The Regents.

Regent Marcus suggested that the graduate academic student fees be divided from other fees, given the crisis in graduate student recruitment.

Regent Ledesma emphasized the importance of a predictable long-term fee policy. Mr. Hershman replied that he has attempted to implement such a fee policy in the past, but those efforts were impeded by politics.

Regent Parsky clarified that the Compact with the Governor does not mandate a fee increase, rather it sets an upper limit of 10 percent. The decision to raise fees will be made by The Regents based on funding priorities in The Regents' budget. Regent Parsky asked that there be a more detailed recitation of funding priority choices to inform the decision to raise fees. A clearer outline of the priorities would allow the Regents to discuss the priorities and make changes in the ranking of priorities, such as prioritizing the improvement of student-faculty ratios over maintaining low student fees. He emphasized that when the priorities were set there was not an assumption that student fee increases would be accepted in order to fund the priorities. Regent Parsky urged the articulation of priorities as part of the decision-making process. Mr. Hershman reiterated that there is a need to cover basic cost increases for fee-funded programs. He agreed that at the heart of the matter are Regents' priorities.

Regent Hopkinson stated that student fee increases should have been part of the discussion of the Regents' budget.

Regent Kozberg concurred that the budget process must include the Regents much earlier when deliberative decisions can still be made regarding the priorities.

Committee Chair Gould stated that upon formulating next year's budget there will have to be a better dialogue about the implications and trade-offs of the budget. As Committee Chair, he pledged to rethink the budget process and Regental involvement.

Regent Parsky asserted that the Regents need to be at the table in the Compact process. Regent Gould concurred that a different process needs to be in place in communicating with the Regents on Compact discussions.

Regent Johnson stated that more explication and enumeration are needed regarding why the fee increase is proposed at 7 percent. She expressed concern about enrollment at the Merced campus.

Regent Blum commented that the budget process should be a bottom-up process that begins with the deans, rather than the current top-down process.

Regent Moores asked what information the Office of the President is prepared to reveal regarding how the 10 percent increase in professional school fees will contribute to academic excellence, especially at Boalt. Mr. Hume responded that the chancellors from the three campuses with law schools requested a fee increase at that level. A 10 percent increase also aligned well with the upper-limit of the Compact. The needs of the law schools well exceed the levels of funding proposed. The schools will be able to remain competitive if this proposal is seen as the first step in a multi-year plan. Mr. Hume will work with the chancellors to determine the principles and guidelines of a multi-year plan to ensure that the needs of the professional schools are met.

Regent Marcus strongly disagreed with the language of “us and them” in that the Office of the President had provided guidelines upon which the Regents had voted numerous times over many years. Committees have every right and authority to delve into as much detail as desired. He asserted that it is not the Regent’s job to micromanage every aspect of an institution as complex as UC, but rather the Regents’ purview is to understand the large impact issues and communicate with the experienced staff of the Office of the President. He pointed out that the Regents had passed a budget and the Office of the President is seeking to fund that budget. The Regents were aware of the Compact, and discussed it numerous times.

Faculty Representative Oakley reminded the Regents that a great deal of expertise was devoted to appraising UC’s budgetary situation in a bottom-up fashion in the Futures Report endorsed by the Academic Council. He asked that the Academic Council be given time at a future meeting to present the faculty’s view of how UC has arrived at its current budgetary situation.

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

6. **ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL**

The President recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the FY 2007-08 shall remain at a rate of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

It was recalled that the President, in consultation with the Chief Investment Officer, recommended that the expenditure rate per unit of the GEP for eligible funds in FY 2006-07 be 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP. The payout would be distributed in August 2007 for expenditure in FY 2007-08. This would maintain the rate adopted by The Regents in March 2006 for expenditure in FY 2006-07. The Committee on Investments, at its next meeting, is expected to recommend the payout rate of 4.75 percent.

At its March 2006 meeting, the Committee on Investments also approved a proposal to maintain the endowment cost recovery rate of 25 basis points (0.25 percent). Endowment cost recovery is taken from the endowment payout each year and is used to recover a portion of the costs of administering and carrying out the terms of the endowments on the campuses and at the systemwide offices. The funds released by this mechanism will be used by the campuses to help support additional fundraising expenses.

In October 1998, following a study, The Regents adopted a target endowment expenditure rate of 4.75 percent, with a first year payout of 4.35 percent. For all future years, the President and the Treasurer committed to review GEP performance, inflation expectations, and the University's programmatic needs, and to recommend to The Regents a rate that would provide appropriate increases in the dollar value of the payout. In the interim years, the payout rate has been increased in stages to 4.75 percent for expenditure in 2006-07.

The Treasurer's Office provided estimates, in dollar terms and year-to-year percentage change of GEP, for payouts based on a range of assumed GEP investment returns through the end of FY 2006-07, the end of the 60-month averaging period. This range of dollar payouts is considered to be an appropriate balance among the following objectives that were discussed with The Regents in October 1998:

A. Maximize long-term total return.

B. Preserve the real (i.e., after inflation) long-term purchasing power of the endowment portfolio's principal and of its distributions.

C. Optimize annual distributions from the endowment portfolio.

D. Maximize the stability and predictability of distributions.

E. Promote accountability of asset management (disclosures to donors, performance reporting, etc.).

F. Promote the fundraising effort.

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

7. **ADOPTION OF ENDOWMENT ADMINISTRATION COST RECOVERY RATE**

The President recommended that an endowment administration cost recovery rate of 25 basis points (0.25 percent)[1] be approved to apply to the distributions from the General Endowment Pool (GEP) to be made after July 1, 2007, from the eligible assets invested in the GEP to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the systemwide offices. The Committee on Investments, at its next meeting, is expected to recommend the endowment administration cost recovery rate of 25 basis points (0.25 percent).

It was proposed that the endowment administration cost recovery rate be set at 25 basis points (0.25 percent), the same rate approved in 2006. The funds so recovered would help to defray the costs on the campuses and at the systemwide offices of administering and carrying out the terms of the endowments. The funds released by this mechanism would be used by the campuses to increase campus fundraising efforts.

Following an analysis of costs to administer and carry out the terms of endowments on the campuses, The Regents, at the October 1998 meeting, adopted an endowment administration cost recovery rate of 15 basis points (0.15 percent) applied to the eligible GEP distributions made after July 1, 1998. The recommendation was made pursuant to the March 1998 action of The Regents, in which the endowment administration cost recovery policy was adopted, as permitted by California trust law, to allow the recovery from the endowment payout of reasonable and actual administrative costs for gift assets invested in the GEP. Such costs include compliance with gift terms, reporting, and other related activities necessary to carry out the terms of endowments at the campuses and the Office of the President. The endowment administration cost recovery rate was increased to 25 basis points (0.25 percent) in 2006.

The legal justification for the endowment administration cost recovery policy is a December 1996 opinion from the California Attorney General, in which he stated, "Probate Code section 15684 specifically authorizes the reimbursement for all costs properly incurred in the administration of (endowment) funds. All such reimbursements must, however, come from income and not from principal (Probate Code section 16312)." In addition, he said, "all such expenses must be properly documented and accounted for and reimbursements subjected to independent audits. To the extent the University has pooled funds and incurs

[1] One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); twenty-five basis points are the equivalent of $25 on endowment assets with a 60-month moving market value of $10,000.

expenses on a pooled basis, it may allocate such expenses among the (endowment) on a proportionate basis."

Since the initial endowment cost recovery study in 1998, further analyses have shown that substantially greater costs were incurred in endowment administration. The actual cost to administer endowments, in dollar terms, has been reported by the campuses to be over $36 million, including both Regents' and Foundations' endowments. Expressed as a percentage of the 60-month average endowment value, it is approximately 57 basis points (0.57 percent). Thus, the current rate of 25 basis points (0.25 percent) will recover just under approximately one-half of the actual costs at the campuses and the systemwide offices to administer Regents endowments.

The funds recovered in this fashion provide the campuses with a source from which endowment administration costs will be paid and will have the effect of releasing the funds currently used to cover endowment administration expenses. The President and the Chancellors have committed to use the funds released by this fund source for incremental fundraising support to enable campuses to enhance their fundraising activities, not as an offset of existing fundraising expenses. The cost recovery program will be reviewed regularly by the Office of the President, as will the impact of the additional funds released for fundraising activities.

Each campus and the Office of the President are permitted to recover endowment-related expenses of 25 basis points (0.25 percent) to be taken from the payout. The balance of each year's payout would support the individual endowments' related program activities.

The Office of the President, in association with the campuses, will continue to review whether it is advisable to recover a greater percentage of the actual costs of endowment administration, perhaps up to the systemwide aggregate average for the costs of endowment administration.

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

8. **PROPOSED CONTINUATION AND INCREASE OF SEISMIC/LIFE SAFETY FEE, SANTA CRUZ CAMPUS**

The President recommended that, to finance seismic structural improvements to the Cowell Student Health Center and the Field House West facilities at the Santa Cruz campus, the compulsory Seismic/Life Safety fee at that campus be continued and increased from $25 per student per quarter to $40 per student per quarter for all UC Santa Cruz students enrolled in the fall, winter, and spring terms and in State-funded summer programs, beginning summer 2007 through spring quarter 2038.

It was recalled that the existing Seismic/Life Safety Fee at the Santa Cruz campus will cease at the end of spring 2007. To address safety improvements that are needed for the Cowell Student Health Center (Health Center) and the Field House West facilities, the Santa Cruz campus proposes to extend the duration of the existing Seismic/Life Safety Fee and to increase the fee level from $25 per student per quarter to $40 per student per quarter.

Changes in the Seismic/Life Safety fee are proposed in accordance with the University's Policy on Compulsory Campus-Based Student Fees (*Policies Applying to Campus Activities, Organizations and Students*, October 19, 2006) which provides:

83.00 Exceptions to the Referendum Requirement

83.10 A new compulsory campus-based student fee, or an increase to or renewal of an existing such fee, may be approved by The Regents subject to the President's and the Chancellor's recommendation, and does not require a student referendum, under any of the following circumstances:

* * *

83.12 When the Chancellor determines that a new fee, or an increase to or renewal of an existing fee, is necessary for the health and safety of students, and when that fee or fee increase or renewal is specifically related to the maintenance of the safety of a building or other facility that is funded, wholly or in significant part (as determined by the Chancellor with the concurrence of the Office of the President) by student fees. Safety issues are those that are potentially dangerous consistent with the standards set forth in the *University Policy on Seismic Safety* and the *University Policy on Management of Health, Safety, and the Environment*, as determined by the Chancellor with the concurrence of the Office of the President, such as those that relate to the risk of fire, the presence of asbestos, or the existence of seismic or other structural deficits.

The Santa Cruz campus *1998 Building Seismic Survey*, which included seismic evaluations of select State and non-State supported facilities, identified safety improvements needed in several facilities that are significantly or entirely supported with student fees. While seismic safety work on space that is State-supportable is included in the State-funded Five-Year Capital Improvement Program, corrections in student fee-supported spaces are ineligible for State funding. As a result, in September 2003, the campus proposed and The Regents approved a $25 per student per quarter compulsory seismic/life safety fee to fund the planning and construction of seismic and other health- and safety-related corrections for student-fee-supported buildings.

Since its inception, revenue from the approved fee has been used for small seismic and safety improvements, fire sprinkler and alarm replacements, and seismic re-evaluations of student-fee-supported spaces. The fee revenue was also used proportionately to pay for seismic upgrades in the student-fee-supported portion of the Hahn Student Services building and to create the detailed plans that are required to determine the cost and scope of work to be performed in the Health Center and Field House West.

The seismic re-evaluations funded by the approved fee confirmed eight student-fee-supported facilities have a “Poor” seismic rating, including the Cardiff House Women’s Center, Health Center, Field House West, Merrill College Recreation Room (Cantu GLBTI Center), Stone House, Student Music East – KZSC Radio Station, Student Union, and Student Union Redwood buildings. The Health Center and Field House West facilities were determined to be the highest priority based on the high volume of building use, project cost, building condition, and the timing of another planned project (*Cowell Student Health Center Renovation and Expansion*). In spring 2005, UC Santa Cruz students approved a new Student Health Center Facilities Improvement Fee of $27 per student per quarter to renovate and expand the existing health center facility to accommodate the needs of the increased student population. A separate Action by Concurrence item to request approval of external financing for the proposed *Cowell Student Health Center Renovation and Expansion* project will be submitted at a later date. If approved, the facility is expected to be ready for occupancy by fall 2009, at which time the Facilities Improvement Fee will be implemented.

The goal of the proposed *Student Life Seismic Corrections* project is to correct the structural systems for the Health Center and the Field House West to a seismic performance rating of “Good” and to bring the facilities into compliance with the State of California Building Code and Title 24 Accessibility Standards. The cost is estimated to be approximately $12,599,000 for the Health Center and $2,633,000 for the Field House West, for a total project cost of $15,232,000.

The campus is fully committed to addressing the seismic/life-safety needs of all student-fee-supported facilities. Approval of the proposed continuation and increase of the compulsory seismic/life safety fee would provide the necessary funding for the Santa Cruz campus to address seismic and safety corrections in the Health Center and Field House West while continuing to analyze options for correcting other poorly rated student-fee-supported facilities. To the extent that additional fee increases and/or external financing are determined necessary to proceed with corrections to other poorly rated facilities, the campus may need to propose a second implementation phase.

Consistent with University policy, a portion of the Seismic/Life Safety Fee revenue would continue to be set aside for local need-based student financial aid. As previously approved, one-third of the existing fee revenue is currently directed to student financial aid. It is proposed that one-third of the fee revenue continue to be directed to student financial aid. The remaining two-thirds would provide funding to pay the debt service created by the proposed project and, if funds are available, to complete the detailed plans required to determine the cost and scope of correcting other poorly rated student-fee-funded facilities, to provide funding for other eligible seismic corrections and/or eligible small safety projects, and to fund the cost of necessary relocation of employees and/or equipment while a facility undergoes an eligible seismic and/or safety correction. The UC Santa Cruz Student Fee Advisory Committee (comprised of ten undergraduate students, one graduate student, one faculty member, and one staff representative) would review the allocation of revenue from the seismic/life safety fee to any additional eligible projects annually.

It is estimated that the increased fee would generate approximately $1,927,800 in the first year it is collected, of which approximately $642,600 would be used for financial aid purposes. Because the increased fee would be collected before construction is complete and before the bonds are sold, fee revenue from this first year would be used to reduce the amount of debt required for the *Student Life Seismic Corrections* project and, as funds are available, to address other eligible small life-safety projects. After construction were complete (spring 2008), the fee would generate approximately $1,974,000 in the first full fiscal year. Of this amount, approximately $658,000 would be used for financial aid and approximately $1,034,720 would be used to pay the annual debt service on an approximately $14,632,000, 30-year loan. If the proposed extension and increase in the Seismic/Life-Safety Fee are approved, the campus will submit an Action by Concurrence item to request approval of external financing for $14,632,000 of the proposed $15,232,000 project.

Regent Lansing asked for a presentation at a future Regents' meeting on the seismic problems at UCLA, particularly the hospital.

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

9. **AUTHORIZATION TO SUBMIT APPLICATIONS FOR PROPOSITION 61 GRANT FUNDING AND TAKE RELATED ACTION TO RECEIVE PROPOSITION 61 FUNDING ON BEHALF OF MEDICAL CENTERS, DAVIS, IRVINE, SAN DIEGO, AND SAN FRANCISCO CAMPUSES**

The President recommended that:

A. The Regents authorize the President to submit – on behalf of UCD, UCI, UCSD, and UCSF Medical Centers – Proposition 61 grant applications to the California Health Facilities Financing Authority (the Authority) under The Children's Hospital Program for grant funding in the amount of $30 million less administration and issuance cost (the Grant) for each medical center.

B. The Regents authorize the President or his designee, after consultation with the General Counsel, to execute grant contract documents and take such further actions, including but not limited to (a) the establishment of a mechanism for financial transactions, and (b) execution and delivery of such additional, related instruments, certificates, statements, and documents as are reasonably required to obtain the Grants.

C. Any action taken by the President or his designees, in furtherance of the matters authorized by the foregoing actions, is hereby ratified, approved, and confirmed as the act and deed of The Regents.

It was recalled that Proposition 61, enacted by California voters on November 2, 2004, provides for a $750 million statewide General Obligation bond issuance to construct, expand, remodel, renovate, furnish, equip, and finance or refinance eligible children's hospitals. Proposition 61 earmarks $30 million, less issuance and administrative costs, for each of the five UC children's hospitals. Each UC children's hospital operates as a "hospital within a hospital" at the five general acute care hospital campuses.

Proposition 61 funds are available to each UC children's hospital for eligible costs incurred after January 31, 2003. Grant funding will be drawn on a recharge basis, requiring that the medical centers advance funding for project costs. All funds that have not been exhausted by June 30, 2014 become available for any eligible project from any eligible hospital. It is anticipated that each UC medical center will pursue fully its earmarked funds prior to June 30, 2014.

Proposition 61 charged the California Health Facilities Financing Authority (the Authority) with developing the payment program for eligible hospitals consistent with the provisions of the statute. As a condition of the grant, the Authority requires that the governing board of each hospital delegate specific authority to a senior executive to execute each grant application.

In October 2005, the UCLA Medical Center submitted an application for Proposition 61 grant funding, and the Authority approved the UCLA application on December 1, 2005. At its January 16, 2006 meeting, the Committee on Finance delegated authority to the President to authorize the submission of a grant request and receive the approved grant funding for the UCLA Medical Center. Similar delegated authority is requested for future Proposition 61 grant proposals.

The other four UC Medical Centers, Davis, Irvine, San Diego, and San Francisco, intend to submit applications for Proposition 61 grant funding. At this time, the UCD Medical Center has one pending application, for the neonatal intensive care unit component of its UCDMC Tower II, Phase 3 project; this application is for approximately $8 million of the possible $30 million available for UCD. Future applications for Proposition 61 grant funding, including another proposal from UCD, will be reviewed by the Office of the President and submitted to the Authority.

Approval of the individual capital projects for which this grant funding would be used will follow standard University approval processes.

In this context, it is requested that the President be authorized to submit – on behalf of UCD, UCI, UCSD, and UCSF Medical Centers – Proposition 61 grant applications to the Authority under the Children's Hospital Program for grant funding and that the President and his designees be authorized to execute grant contract and supporting actions.

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

10. **ESTABLISHMENT OF A TRUST TO SUPPORT NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD REPORTING OF ANNUITANT HEALTH BENEFIT OBLIGATIONS**

Associate Vice President Boyette recalled that in June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), that will substantially change the financial reporting for and disclosure of OPEB costs in the University's audited financial statements. It will affect not only the University's consolidated financial statements, but also the statements of all University and affiliate locations that issue separate audited financial statements, such as the medical centers, the Continuing Education of the Bar (CEB), University of California Press (UC Press), Associated Students-UCLA (ASUCLA) and others (the Carve Out Locations). For this reason, the University's implementation strategy must broadly consider the potential operational concerns, administrative costs and financial reporting implications for the Carve Out Locations as well as the University. The University must implement the GASB financial reporting changes starting with the fiscal year beginning July 1, 2007. In order to implement the new GASB requirements with the most administrative efficiency, the University has determined that an adoption of a trust as an administrative payment conduit would be the preferred method of implementation.

University – Specific Goals for the Trust

The University-specific goals for a trust to respond to the GASB requirements are to:

- Maintain consistency with the University's systemwide, cost-sharing benefit approach for pensions and retiree health costs

- Allow management flexibility to define the level of required contributions using a common assessment approach similar to the current process

- Capitalize on existing administrative systems and capabilities by aligning the OPEB process with the operational processes associated with the University of California Retirement Plan (UCRP) and Retirement Savings Program plans

- Minimize the potential administrative requirements and financial reporting implications to locations that currently issue audited financial statements separate from the University's consolidated financial statements

Locations that continue to pay on an actual cost rather than cost-sharing basis, currently expected to be Lawrence Berkeley National Laboratory and Lawrence Livermore National Laboratory as a result of the contract language with the federal government, would be treated as having individual OPEB costs and liabilities based on a separate actuarial valuation conducted for each of these two entities. The Hastings College of the Law, an affiliate of the University that participates in all of the University's employee benefit programs, has indicated it prefers the cost-sharing approach, in part to maintain administrative efficiency for its organization.

Next Steps

The Departments of Financial Management and Human Resources and Benefits expect to recommend to the Committee on Finance in May 2007 that the President be granted authority to establish a trust for the University's OPEB plans. The recommendation would provide that The Regents serve as trustee of the trust and the Office of the Treasurer manage the investments consistent with policies established by The Regents.

Assistant Vice President Plotts explained that the University's approach is intended to avoid unnecessary administrative costs and detrimental balance sheet effects on University entities that have separate audited financial statements, such as the medical centers, and to ensure that the financial reporting of these entities conforms to UC's cost-sharing philosophy. The retiree health trust is merely a payment conduit between the University and the health care vendors. The University's approach to post-employment benefits, such as pension and retiree health costs, is to view them on a systemwide basis where costs are shared across all locations based on a common assessment approach. A retiree health trust is necessary to maintain consistency between the University's systemwide cost-sharing benefit approach for pensions and for retiree health because, without a retiree health trust, retiree health costs would have to be reported differently from the medical center pensions. Management will retain the flexibility to define the level of required contributions using the common assessment approach. This policy would not prejudice any policy decision related to the benefit program itself, does not require any prefunding, and is not meant to imply that such will occur, although that vehicle may be used for that purpose if the Regents decide, and does not change the character of employees' or retirees' rights to benefits.

In response to a question from Regent Parsky, Mr. Plotts clarified that the establishment of the trust would not carry funding, as it is merely a conduit, unless the Regents decided they wanted to fund the trust. Regent Parsky stated that such a discussion should occur when the recommendation is presented.

11. **REPORT ON NEW LITIGATION**

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

The meeting adjourned at 12:45 p.m.

Attest:

Acting Secretary