The Regents of the University of California

COMMITTEE ON FINANCE
May 14, 2008

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

Members present: Regents Blum, Brewer, Dynes, Gould, Island, Kozberg, Varner, and Wachter; Advisory members Croughan and Scorza; Staff Advisors Brewer and Johansen

In attendance: Regents Allen, Bugay, De La Peña, Hotchkis, Lansing, Lozano, Marcus, Pattiz, Reiss, Ruiz, and Schilling; Regent-designates Cole and Shewmake; Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Broome, Foley, Lenz, and Sakaki, Chancellors Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, and Yang, Acting Chancellor Grey, and Recording Secretary Smith

The meeting convened at 11:10 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 March 19, 2008 were approved.

2. **RETIREE HEALTH BENEFIT ACTUARIAL VALUATION – APPROVAL OF METHODS AND ASSUMPTIONS FOR POST-EMPLOYMENT HEALTH BENEFITS AND PRESENTATION OF FISCAL YEAR 2007/2008 VALUATION RESULTS**

The President recommended approval of:

A. The proposed retiree health actuarial valuation methods and assumptions, initially presented for discussion at the March 2008 Regents' meeting.

B. The use of these methods and assumptions in preparing the initial actuarial valuation of the University's retiree health benefit program as of July 1, 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.]

Associate Vice President–Human Resources and Benefits Judy Boyette explained that this item is a request for the approval of methods and assumptions to be used in valuing retiree health benefit liability costs for the University's fiscal year 2007-08 financial reporting, as required under Governmental Accounting Standards Board (GASB) 45. She noted that recommendations to the Regents were made after consultation with the appropriate committees of the Academic Senate, and the current recommendations have their endorsement.

Ms. Boyette briefly discussed key elements of the item. The methods and assumptions were developed in the context of the GASB requirements using UC Retirement Plan (UCRP) pension assumptions where appropriate and guidance provided by the California Public Employees' Retirement System (CalPERS) to California government entities wishing to participate in their retiree health fund. While the University has not discussed pre-funding, it would like to leave this open as a possibility. The actuarial cost method, which determines how future benefit costs are allocated across an employee's career, is Entry Age Normal. This is a standard approach used for public sector pension and retiree health benefit valuations, and the same approach used in the UCRP. The amortization method focuses on how the initial liability earned to date will be amortized. A closed 30-year period will be used with level-dollar payments similar to principal and interest fixed mortgage payments. The key economic assumption is the discount rate, used to determine the value of future costs in present-day dollars. The University has set this rate at 5.5 percent, which assumes no pre-funding and reflects the long-term expected return on general assets. Ms. Boyette observed that GASB allows little flexibility in determining this rate. The demographic assumptions are identical to those used in the UCRP valuation, including results of the experience study by the University's pension actuary, the Segal Company. Some of the assumptions for retiree health benefit valuation are unique: the increase in total benefit cost and the increase in the employer cost. The University has assumed increases in total medical benefit costs consistent with current actuarial practice for public and private sector retiree health valuations, and increases based on UC's actual practice over the last several years.

Ms. Boyette then discussed financial measures for campuses and medical centers for this fiscal year with implementation of GASB 45. The actuarial accrued liability for retiree health benefits as of July 1, 2007 is $12.1 billion. Given that present policy is to fund only the current year pay-as-you-go cash costs, the funded ratio is now 0 percent. The first-year accounting expense is $1.4 billion, consisting of a little over $500 million in future retiree health benefits earned by employees during this year, the normal cost, and over $800 million for the 30-year amortization of retiree health benefits earned in prior years by current employees. The normal cost or annual cost component represents 7.9 percent of the UCRP covered payroll; the full retiree health cost is 20.2 percent of the covered payroll. She compared these percentages to the pay-as-you-go funding of approximately $200 million, just less than 3 percent of covered payroll.

Ms. Boyette then discussed a chart showing a projection of the steady growth in retiree health benefit costs over the next 10 years, considering only the pay-as-you-go cost. She stressed the importance of effective management of the UC retiree health program in order to ensure the future financial health of the University. The current valuation results will be incorporated into the University's fiscal year 2007-08 financial statements to be presented at the November meeting. Beginning in November, the retiree health benefit actuarial valuation report will be presented at the same Regents meeting as the UCRP actuarial valuation report. The assessment of the overall retiree health benefit program will continue, including potential design changes and pre-funding policy issues. During this assessment the University will meet all its collective bargaining obligations.

Regent Brewer asked if the trending down of the medical cost to 5 percent is realistic. Mr. Tim O'Beirne of Deloitte Consulting, the Regents' health benefits actuary, recalled how retiree health valuations were developed in the mid- to late 1980s. Financial Accounting Standards Board (FASB) 106 went into effect for the private sector in the early 1990s. GASB is now imposing a requirement for the public sector for the development of future costs valued in today's dollars. This requires an assumption of how health care relates to the total economy. Without making an assumption that eventually will be scaled back, health care could take on an extremely large percentage of the total economy in the projected valuation. The figures presented are typical of actuarial practice for private and public sector employers. It is assumed that the current 16 percent of gross domestic product represented by health care will grow to 20 percent over the next 10 years and then remain at that level. Mr. O'Beirne described this as a reasonable valuation of future costs for decision-making purposes, not an exact prediction.

Committee Chair Gould expressed concern about the dramatic increase in pay-as-you-go costs, not taking into account accrued liability. He identified this as a major factor in the University's financial forecasting and urged the Regents to pay close attention to it.

Regent Bugay referred to the 5.5 percent discount rate, required by GASB. He asked which benchmarks are used to calibrate this rate and how it might change in the future. Mr. O'Beirne observed that, if the University pre-funded or paid the full accounting expense each year, it could use a higher discount rate and lower liabilities. GASB prescribes the use of the employer's long-term expected rate of return on assets; for UC, these are assets in the Short Term Investment Pool (STIP). The 5.5 percent discount rate is derived by considering inflation at 3 percent, the asset mix of the STIP, and the long-term risk premium above basic Treasury returns. The actual experience over 20 years was another criterion and produced a rate higher than 5 percent. The rate today is slightly lower than 5 percent, but Mr. O'Beirne emphasized that this is a long-term rate and that there is no desire to change it frequently unless economic conditions change dramatically.

Regent Bugay asked how often the rate is adjusted. Mr. O'Beirne responded that the rate will be evaluated every year. A "building block" approach has been established with long-term expectations of risk premiums for each asset class. The primary reason for adjusting the rate would be a change in the asset mix of the STIP, or if a longer-term pool instead of the STIP were considered as the funding mechanism.

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

3. **ESTABLISHMENT OF A TOTAL RETURN INVESTMENT POOL (TRIP)**

The President recommended that the President be granted authority to:

A. Establish a Total Return Investment Pool in accordance with investment policies and guidelines approved by the Committee on Investments.

B. Establish the target payout rate for the TRIP on an annual basis not to exceed the expected return of the portfolio as determined by the Chief Investment Officer and approved by the Committee on Investments.

C. Establish appropriate policies and procedures for investing in the TRIP.

[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.]

Vice President Broome observed that this item is essentially identical to the one presented at the March 2008 meeting as a discussion item. She noted one change in response to a concern expressed by Regent Hopkinson that the total return rate be brought to the Regents for approval. This targeted rate of return will be approved by the Committee on Investments.

Regent Bugay asked about the general asset allocation parameters, describing the TRIP as a middle ground in time and volatility between the Short Term Investment Pool (STIP) and the General Endowment Pool. Ms. Broome responded that the TRIP will probably contain between 20 percent and 30 percent equity investments not currently held in the STIP.

Regent Bugay asked if the TRIP will contain 70 percent to 80 percent fixed income or equivalent. Ms. Broome answered in the affirmative.

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

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

The President recommended that, with the concurrence of the Committee on Investments, the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2008-09 fiscal year remain at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

[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 briefly summarized the recommendation. Committee Chair Gould stated that the long-term payout rate is still a matter for discussion and that it would return as an item at a future meeting.

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

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

The President recommended that an endowment administration cost recovery rate of 40 basis points (0.40 percent)[1] be approved to apply to the distributions from the General Endowment Pool (GEP) to be made after July 1, 2008, from the eligible assets invested in the GEP. The funds recovered would help to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

[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 observed that this item proposes to increase the endowment administration cost recovery rate from 25 basis points, where it has been for several years, to 40 basis points. The essential reason for this increase is analysis by the campuses of the costs they are incurring in administering the GEP — approximately 57 basis points. The increase will not cover all the costs of the campuses. The issue will be reconsidered next year.

Regent Kozberg asked about consideration of donors and their recognition that certain funds will be used for administration of their gift. Assistant Vice President O'Neill responded that all the expenses involved are incurred in

[1] One basis point is 0.01% of yield (i.e., one hundred basis points equals one percent); 40 basis points are the equivalent of $40 on endowment assets with a 60-month average market value of $10,000.

ensuring that the University is adhering to the terms established by the donors. A part of the expenses is used to generate reports to the donors about stewardship, providing financial information and information on how their funds have been used.

Regent Kozberg asked if some of the increased payout will be used for additional fundraising capacity on the campuses. Assistant Vice President O'Neill responded in the affirmative. The chancellors have committed to using the funds made available though this mechanism to increase fundraising on each of the campuses.

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

6. **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 additional comment was needed.

The Committee adjourned at 11:25 a.m.

……………………………………………………………………………………………

The Committee reconvened at 12:50 p.m.

Members present: Regents Blum, Brewer, Dynes, Garamendi, Gould, Island, Kozberg, Varner, and Wachter; Advisory members Croughan and Scorza; Staff Advisors Brewer and Johansen

In attendance: Regents Allen, Bugay, De La Peña, Hotchkis, Lansing, Lozano, Marcus, Pattiz, Reiss, Ruiz, and Schilling; Regent-designates Cole and Shewmake; Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Foley, Lenz, and Sakaki, Chancellors Block, Blumenthal, Drake, Fox, Kang, Vanderhoef, and Yang, Acting Chancellor Grey, and Recording Secretary Smith

7. **APPROVAL OF 2008-09 BUDGET FOR OFFICE OF THE PRESIDENT**

The Provost and Executive Vice President, in his capacity as chief operating officer, recommended the following central administration spending and FTE plans for 2008-09:

A. For the Office of the President (excluding the Academic Senate and the Regents' direct reports), the Provost and Executive Vice President requests a FY 2008-09 appropriation of $203,109,678. This represents an expenditure reduction from FY 2007-08 projected expenditures, after adjusting for program costs and fund flowthroughs, of $51.66 million, or 20.2 percent.

The total appropriations request is consistent with the request presented for discussion at the March meeting of the Committees on Finance and Governance. It includes various adjustments, which will be offset by additional savings captured through one-time unexpended funds from previous fiscal years and the Voluntary Separation Program.

B. For the departments reporting directly to the Regents, including the new Ethics, Compliance and Audit Services unit; the General Counsel; the Secretary and Chief of Staff to the Regents; and the Treasurer's Office, the Provost and Executive Vice President requests a FY 2008-09 appropriation of $41,862,866.

This is on base FY 2007-08 expenditures, after adjusting for program costs and fund flowthroughs, of $40,062,708.

This represents an expenditure increase of $1,800,158, or 4.5 percent.

The appropriations request for each Regents' direct report unit is broken down as follows:

Ethics, Compliance and Audit Services – $5,371,220

General Counsel – $14,684,055

Secretary and Chief of Staff – $3,194,991

Treasurer's Office – $18,612,600

The total appropriations request is consistent with the request presented for discussion at the March meeting of the Committees on Finance and Governance.

C. For the Academic Senate, the Provost and Executive Vice President requests a FY 2008-09 appropriation of $1,221,086 and FTE of 10.

This is on base FY 2007-08 expenditures, after adjusting for program costs and fund flowthroughs, of $1,191,641 and total base FTE of 10.

This represents an expenditure increase of $29,445, or 2.5 percent.

The total appropriations request is consistent with the request presented for discussion at the March meeting of the Committees on Finance and Governance.

[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 explained that this item essentially seeks approval for the budget submitted for review in March. The appropriation request for those units reporting directly to the President is $203,109,678. This represents a 20 percent reduction over current levels, saving approximately $52 million. There are four slight adjustments to the budget for the President's Immediate Office, which will be funded through internal savings. These include an adjustment to the salary for the incoming president, reinstatement of a position previously slated for elimination, addition of an office assistant position, and reinstatement of a proposed reduction in time for a speechwriter. These adjustments total approximately $683,809.

Ms. Lapp briefly reviewed the second and third appropriations requested, for departments reporting directly to the Regents and for the Academic Senate.

Regent Brewer asked if departments reporting to the Regents are undergoing the same kind of financial review as other departments at the Office of the President. Committee Chair Gould responded that this review has been taking place. He noted some expansions of responsibility, as in the new Compliance and Audit function, and the governance function added to the role of the Chief of Staff. These expansions have been modest, and the situation will be monitored carefully.

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

8. **AUTHORIZATION FOR APPROVAL OF APPROPRIATIONS FROM LOS ALAMOS NATIONAL SECURITY, LLC AND LAWRENCE LIVERMORE NATIONAL SECURITY, LLC FEE INCOME TO BE EXPENDED IN FISCAL YEAR 2008-2009**

The President recommended that:

A. The President be authorized to expend, for the following purposes and in the following amounts, from the University's net share of Los Alamos National Security (LANS) and Lawrence Livermore National Security (LLNS) LLC income earned between September 30, 2007 and December 31, 2008:

(1) Supplemental compensation and other payments (including accruals) approved by the Regents for certain LANS LLC and LLNS LLC employees, from July 1, 2008 through June 30, 2009 – $2.2 million.

(2) An appropriation to the Office of the President budget for federally unreimbursed costs of University oversight of its interest in LANS LLC and LLNS LLC, paid or accrued July 1, 2008 through June 30, 2009, including but not limited to an allocable share of the costs of The Regents, Research Security Office, Human Resources, Finance, Compliance and Audit, Strategic Communications, Governmental Affairs, the General Counsel, the University-appointed Governors on the LLCs, and the Vice President for Laboratory Management – $3.6 million.

(3) An appropriation in 2008-09 to a post-contract contingency fund – $1.3 million.

B. The balance of fee income to be appropriated in accordance with a scientific research funding plan to be approved by 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.]

Executive Vice President Darling explained that this item seeks approval to expend the fee that the University will earn in 2008-09 for its role in the two LLCs that manage the Los Alamos and Livermore laboratories. It projects a fee of $29 million, administrative expenditures of $7.1 million, and an expenditure on research of $21.9 million. This represents a substantial increase in research expenditures from the $12.5 million of the current fiscal year. Mr. Darling underscored that the item adheres to a commitment made to the Regents according to which the majority of these funds would be spent on research.

The item outlines three categories of administrative expenditure: the University's compensation costs for the two laboratories; administrative costs in the Office of the President, including Laboratory Management, for oversight; and to establish a post-contract contingency fund in case of future claims.

Regent Allen asked if there is a social science component to the funds spent on research. Mr. Darling answered in the affirmative. The Academic Senate and the Office of Research under Vice President Beckwith are developing a plan for these research funds. The plan is not final, but Mr. Darling believed that it includes all areas. Vice President Foley responded that all research areas will compete; a final determination will be made by the President and then submitted to the Regents for approval. Social sciences are included in the competition.

Committee Chair Gould asked how this fee income would be used for science in the future. Mr. Darling stated that this is still being formulated by the Academic Senate and Vice President Beckwith's office. Mr. Foley stated that the issue is being collectively resolved by the laboratory directors, the Academic Senate, Vice President Beckwith, and Associate Vice President Birely. He anticipated that the process should be developed for presentation to the Regents by September.

Regent Pattiz stated that the request for proposals has been drafted broadly enough to include social sciences. He opined that the competitive process is desirable.

Faculty Representative Croughan stressed the collaborative and intensive nature of the work on preparation of this item. She identified the goal of funding collaborative research, research involving graduate students, and certain non-collaborative projects as priorities. She stated that institutes that have been funded in the past will be eligible to compete in this process. Ms. Croughan noted restricted funding and serious cutbacks and layoffs at the laboratories and stressed the wish to ensure that this funding works both for the University and for laboratory personnel to accomplish needed research.

Regent Bugay requested clarification regarding the difference between the gross amount of revenue generated by the contract and the net amount available for research. Mr. Darling identified this difference as $7.1 million. Of this total, $2.2 million goes toward the University's responsibility to supplement compensation at the laboratories for which there is no reimbursement from the Department of Energy and for recruitment and retention costs associated with 24 key personnel at Livermore and Los Alamos; $3.6 million is for Office of the President administrative oversight, of which $2.3 million is for the unreimbursed costs of the Office of Laboratory Management and $1.3 million for other Office of the President costs; the third component is the $1.3 million post-contract contingency fund. Mr. Foley added that, under the new contract, the University is building up a contingency fund incrementally over eight years, with a target of $9 million. This fund will cover possible fines and contract resolution. He briefly reviewed the two other components described by Mr. Darling. He noted that the $21.9 million available for research is triple the amount available under the old contract.

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

9. UPDATE TO GOVERNOR'S MAY REVISION TO THE 2008-09 BUDGET

Vice President Lenz recalled that the Governor submitted his budget to the Legislature in January, assuming a State General Fund structural deficit of approximately $14.5 billion. In special session, the Legislature reduced this by half and began deliberations on the 2008-09 budget, assuming the deficit to be approximately $8 billion. In February, the California Legislative Analyst's Office (LAO) released its analysis of the Governor's budget proposal, indicating a structural deficit of $16 billion, rather than the $14.5 billion assumed in the Governor's budget.

The 2008-09 budget proposed 10 percent reductions to all State programs, including some severe cuts, such as a $4.7 billion reduction in health and human services programs, a $4.4 billion reduction for K-12 school programs, and a $1.2 billion reduction for higher education. It also proposed early release for about 22,000 prisoners and the potential closure of 48 state parks.

The Senate and Assembly have held hearings on these budget issues, and Provost Hume has clearly communicated to them the impact of the proposed reductions on the University, the threat to future student access, the likely increase in student fees, the University's need to compensate faculty and staff adequately, and the growing mandatory cost of the University, particularly in health care and energy. To those who argue that the University should be more self-sustaining and less reliant on State resources, the University has responded that this is contrary to the Master Plan for higher education, which focused on access, affordability, and quality. The leadership of all three higher education segments have joined forces to remind the public and policymakers that California needs an educated workforce for economic growth. UC students joined students from California State University (CSU) and the California Community Colleges in a march on the Capitol to call attention to the fact that student fees are in fact a tax increase. The University's advocacy efforts in Sacramento have included the Regents, the chancellors, the Academic Senate, campus advocates, and key business and industry leaders.

In spite of a May Revise budget deficit of $17.2 billion, the collective advocacy effort has resulted in the restoration of $98.5 million to the UC budget, funded at its current year level. Mr. Lenz opined that the Governor appears to have heard the University's concerns and expressed the University's appreciation for his support. Nevertheless, there are very serious budget issues ahead. The May Revise proposes to balance the budget by using the State Lottery as collateral to borrow $15 billion, by placing an initiative on the November ballot that would allow the State some flexibility in establishing more lottery games and by establishing a "rainy day" fund for the State. The Administration has included a contingency plan to increase the sales tax by 1 cent over 3 years, which would generate about $6 billion annually, if the November ballot initiative fails. The reaction from the Legislature has been mixed, with some concerns that the Governor's proposal still does not address the structural deficit, and some opposition, because the May Revise would rely on a general tax increase if the ballot initiative fails.

The May Revise fully funds the Proposition 98 guarantee, but it provides $1.8 billion to K-12 schools, not the $4.4 billion that K-12 has identified as its need. The May Revise assumes $300 million in savings in the Department of Corrections without the early release proposal, and reduces health and human services budgets by an additional $627 million. Mr. Lenz observed that these issues are still before the Legislature and that the University will be competing with these other entities for resources restored to the January budget. All revenue and expenditure options must remain on the table as the Legislature moves to take action on the budget. The restoration of $98.5 million is a step in the right direction, but Mr. Lenz stressed that this restored funding will not meet the mandatory costs of enrollment growth, compensation issues, or other budget priorities of the Regents.

Committee Chair Gould praised the effectiveness of the advocacy efforts of the University community. He expressed appreciation for the Governor's support but noted that there is still a long process between the May Revise and final adoption of the budget.

Regent Allen requested that the figures quoted in the presentation be sent to the Regents. Mr. Lenz responded that he would do so.

Regent Reiss asked about the restoration of competitive Cal Grants. Mr. Lenz stated that they have been restored in the May Revise.

Regent-designate Scorza commended the work of students in the advocacy process, including the march on the Capitol.

Regent Garamendi emphasized the current budget status is not a victory for the University.

President Dynes introduced Louise Hendrickson, a third-year graduate student in political science at UCR and president of the UC Student Association (UCSA).

Ms. Hendrickson emphasized the financial challenges faced by UC students and that UC tuition is increasing faster than students can afford. She presented a short video recording of student testimonials.

The students included Santa Barbara undergraduates Justin Reyes and David Preciado, Santa Cruz undergraduates Dabeiba Dietrich and Tiffany Loftin, San Diego undergraduates David Ritcherson and Gracelynn West, Merced undergraduate Rodney Nickens, UCLA undergraduate Cinthia Flores, and UCR graduate student in education Jeff Powell. They discussed the difficulties caused by rising tuition. They anticipated graduating with a large amount of debt and commented on how this affects their plans for a graduate or professional degree. Several discussed the negative effects on their studies of working during school. Ms. Dietrich and Ms. Flores reported that they work two jobs while in school. Mr. Powell stressed that working while enrolled in college results in inferior academic performance and a lower grade point average. Mr. Ritcherson stated that a fee increase is equivalent to an increase in student loan debt. Mr. Reyes described the annual increase in fees as a dangerous precedent for students in California and noted that fee increases damage the public's trust in the UC system. The video concluded with an appeal to freeze UC fees.

Ms. Hendrickson hoped that the Regents would take these testimonials to heart, and stressed that a fee increase would cause hardships for students, who will struggle to find the additional funds necessary or who may not be able to attend if fees increase too much. She asked the Regents to consider the real priorities of the University and the interests of the students, whom she described as the largest and most important constituency of the University.

10. **RESOLUTION STABILIZING STUDENT FEE INCREASES**

Regent Garamendi recommended that the following be resolved:

A. The University of California will stabilize student fees by capping fees for the 2008-09 school year at 2007-08 levels, and by limiting student fee increases for school years beyond 2008-09 to the rate of inflation as measured by the California Consumer Price index. These limitations do not apply to professional school fees approved at the September 2007 Regents meeting; and

B. The Regents and University representatives will keep the Legislature and the Governor apprised of the State budget resources required to fund the University adequately; and

C. Where appropriate, the University will seek savings from administrative efficiencies to reduce the cost to the State of adequately funding the University; and

D. The above limitations and requirements constitute the current policy of the University, but are subject to change at any time if, in the judgment of the Board of Regents, economic circumstances and the best interests of the University require. This statement of current policy is not a contract or an offer of a contract.

E. The Regents adopt the Resolution (Attachment 1).

[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 Garamendi commended the Regents and the students for the advocacy efforts of the last months to alert Californians about the problems of underfunding education and noted that there has been some modest success. He described the current meeting as a watershed moment. He recalled the University's founding in

1868 and stated that the Regents' predecessors maintained the reality that a public education system funded by the general wealth of the economy would be of public benefit. He recalled that fees have increased 84 percent in the last decade, not including individual campus fees. The share of educational costs borne by students has increased from 18 percent to 31 percent during that decade.

The proposed fee increase will be approximately $500, or 62 more work hours. Regent Garamendi then discussed a chart showing that, since 1990, the average inflation adjustment expenditure for educating UC students has decreased by 14 percent. The State's share of expenditures has decreased by 34 percent. In 1990, the State spent approximately $15,000 per student; in 2006, it spent about $10,000. Regent Garamendi described this as a disgrace to California. From 1868 until the mid-1980s, the State General Fund supported higher education and UC. Regent Garamendi described student fees as a tax, and stated that students are in fact being taxed. Support for education that came from a tax on the general wealth of the economy is now coming from a specific tax on students. Regent Garamendi described this as a "stupid" tax policy which makes it difficult for students to attend the University and as a dangerous path.

Regent Garamendi referred to the $417 million funding gap identified by the Regents for minimum funding for next year. If this gap were paid by student fees, it would cost each student $10,500. Regent Garamendi recalled the December 2006 Academic Council report, "Current Budget Trends and the Future of the University of California" or "Futures Report." According to this report, student fees would have to be increased to $15,300 to return to historic funding levels. He urged the Regents to examine the Futures Report. It indicates that student fee increases send the wrong signal to students and their families, disrupt student progress, and close the University to many students.

Regent Garamendi then discussed comparison institutions. He noted that in the 1980s, with the decline of industry in Michigan, the state reduced its support for the University of Michigan. Currently, student fees comprise 59 percent of the University of Michigan's core operating budget. Thirty-eight percent of University of Michigan undergraduates come from out of state; the university relies on their higher tuition. Regent Garamendi also noted that 50 percent of University of Michigan's 2003 freshman families earned more than $100,000 annually. He stated that the Universities of Virginia and Colorado are moving in this direction and cautioned that UC and CSU are being put on the same path, toward becoming public universities funded by private sources. He asked the Regents to consider if such a development is desirable for California.

Regent Garamendi discussed a hypothetical situation in which UC's out-of-state enrollment increased from 6 percent to 40 percent, like that of the University of Michigan. In that case, 50,000 California students would be excluded from UC. If UC's out-of-state enrollment increased to the national average of 19 percent, 20,000 California students would be excluded. He stated that increasing student fees will compel the University to seek more out-of-state students, who pay higher tuition.

Regent Garamendi also called attention to the special burden of loan debt for middle income students, as a hidden cost of financial aid. Career options are also limited by the debt students incur, including careers in public service.

Next Regent Garamendi observed that increased reliance on federal financial aid accelerates the path to privatization. He stressed that California's tradition of support for higher education, which has built the state's economy and provided highly skilled workers, is being abandoned. He asked the Regents, as successors of a 140-year tradition, to consider the effect of annual student fee increases, a path which he deemed opposed to and destructive of the Master Plan for higher education. He stated that the Regents' approval of a fee increase would relieve the Legislature of voting for a $120 million tax increase and would remove a powerful argument for increasing State revenues. He urged the Regents to approve this resolution to stabilize student fees.

Regent Island concurred with Regent Garamendi's assessment of the impact of continuously raising student fees. He expressed fear of privatization, which he stated would empty the University of minority and working class students. He emphasized the Regents' responsibility for both the viability of the University and for ensuring student access, and the fact that fee increases close the door to underrepresented minority students. When working class students are turned away, their motivation for supporting the University disappears. Regent Island stated that a fee increase should occur only in the context of no other alternative; he opined that this is not currently the case and that there is at least $100 million more in potential University-wide savings.

Regent Allen noted that there are serious bureaucratic and financial barriers to obtaining financial aid and grant support for students. He stressed the University's ability to make the financial aid system more user-friendly and accessible for qualified students. He expressed appreciation for the University's decision to adhere to the Governor's proposed fee increase rather than other, more extreme proposed fee increases. Regent Allen stated that, if he could divide his vote, he would support an increase in the Registration Fee, to support student mental health and other services. He noted concerns that not all Registration Fee revenues have been used for student services. Regent Allen attributed the affordability crisis to the State's broken system of public financing. He decried the fact that the current generation of Californians does not have the same access to low-cost, high-quality resources and institutions as previous generations, and urged the University to continue to press the issue of the need for a paradigm shift in public investment in California and its future.

Regent Bugay stated that no one on the Board of Regents is comfortable with raising student fees, and that the Regents can easily embrace the concept of

Regent Garamendi's proposal. He stressed that there is no free education. He stated that he finds some decisions made by the Legislature to be unacceptable and wished that the Legislature placed a higher priority on UC. Regent Bugay spoke of the need for the Regents to accept the current fiscal reality and to make responsible decisions based on it. He recalled that the last fee increase approved by the Regents was waived for households below certain income thresholds. Committee Chair Gould confirmed this, and stated that the same would apply this year. For households with incomes below $60,000, financial aid will address the fee increase. Regent Bugay stated that, from his own experience, he understands the situation of students who must work while they are in school.

President Dynes described the increase in the cost of UC education as frightening. He recalled that between two-thirds and three-quarters of that expense is cost of living: transportation, housing, and books. Fees account for only a quarter to a third of the expense. He opined that the University should focus on cost of living and try to bring these expenses down on its campuses through lower-cost alternatives for housing, food, transportation, and books for lower-income students. President Dynes stated that a fee increase will assist lower-income students with the cost of living, which he emphasized as the largest cost of going to college.

Regent Lansing stressed that the Regents do not want to raise student fees, and will do so only when every other possibility has been exhausted. She clarified that it would be possible to vote against both the proposal to stabilize student fees and the proposal for a fee increase. Committee Chair Gould observed that savings in the Office of the President would certainly be important to President-designate Yudof, and that the Regents can revisit this issue.

Committee Chair Gould recalled the Governor's original budget proposal with $418 million less for UC than the University requested and its threat to critical operations—maintaining high-quality faculty, adequate salaries for staff, and support for graduate students, among other needs. He emphasized the serious reductions the University faces, even with restoration of some funding in the May Revise, and the Regents' commitment to maintaining the quality of the institution.

Regent Wachter expressed discomfort with imposing financial caps or limits, but expressed approval of Regent Garamendi's concept of putting responsibility on the Legislature, noting that budget negotiations will continue. He asked whether the Regents would prevent themselves from approving a fee increase at a future point when there may be no other source of revenue, if they did not approve one at this meeting. Committee Chair Gould responded that the Regents must act on fees at this meeting for the fall semester.

Regent Reiss asked if this issue could be addressed at the July meeting. Committee Chair Gould noted that UC is funding the results of a lawsuit in which it was determined that the University did not provide adequate notice. General

Counsel Robinson identified two relevant issues. One is the question of whether or not the University has established a contract by indicating that it will not raise fees. The second issue concerns notice. Mr. Robinson stated that he would need more information to determine whether a fee increase must be approved at this meeting. Provost Hume responded that students and families need to know about fees at this point in order to make plans for the next year.

Chairman Blum expressed skepticism about the tactic of not increasing student fees and thus requiring the Legislature to provide those funds. He stated the need for a tax increase in California. He recalled that students from households with an annual income under $60,000 are eligible for Cal Grants. He stated that the Regents should ensure that qualified students receive this aid, unhampered by bureaucracy. Chairman Blum estimated that the University has a $150 million to $200 million academic salary gap compared to equivalent institutions and stated that University staff are underpaid. He opined that UC is not an efficiently run institution. Some costs have been removed from the Office of the President over the last six months. The campuses must determine how they can operate more efficiently without harming their academic mission. The search for cost savings will continue. Chairman Blum echoed President Dynes' emphasis on reducing cost of living for students and expressed the need for an omnibus scholarship fund. He suggested that the State would provide matching funds for such a scholarship fund and strongly urged the University to raise scholarship monies. He expressed opposition to locking the University's ability to increase fees into any formula, emphasized that the University must rely more on itself to ensure affordability, and predicted that the State will be an even more unreliable partner in the future.

Committee Chair Gould opined that an understanding of how student fees fit into the University's overall financial planning for this year should be integrated into the discussion.

Regent Reiss opined that fees and tuition as well as cost of living are critical to students. She stated that the Regents should do everything possible to secure other sources of funding to help students with the cost of living. She expressed concern about the burden of tuition on middle class families and that a vote to increase student fees could potentially remove pressure from the Legislature. She asked if there would be a way for the Regents to vote against a fee increase and keep pressure on the Legislature while being mindful of legal and notification issues.

Faculty Representative Brown expressed the Academic Senate's concern about privatization. He explained that this referred not to an increase in private support for the institution, but to the use of private support to replace State support. He observed that the University has not yet recovered from budget cuts of the 1990s. Professor Brown stressed that a fee increase contributes to the perception by lower income students that they cannot afford a UC education, in spite of the

University's efforts to minimize the impact of fee increases on these students. He recalled that undocumented students are not eligible for Cal Grants and concluded that there is no clear and easy recommendation for this complex issue.

Committee Chair Gould underscored the importance of informing students and parents about costs. He observed that the State budget negotiations may extend beyond July. Delays in a decision will make students' situation more difficult. He recalled that the Legislature is facing proposals from the Governor for substantial reductions in health and human services programs. He opined that the University must stand up for itself and make a difficult decision to maintain its quality. He suggested that, if the Regents voted not to increase student fees, the Legislature might conclude that the University did not need that income. He described this attempted leveraging of the Legislature as a risk that the University should not take.

Regent Garamendi requested clarification on the legal issue of notice. General Counsel Robinson responded that the thrust of the court decisions is that, at the time the University asks students or parents to commit to enrollment, they need to know the pricing of that commitment. The date of notice thus depends on the date when the University requests a commitment. Provost Hume stated that May 1 is the date by which freshman students are required to submit their Statement of Intent to Register.

Regent Garamendi asked if the University is in a contractual bind or is now raising fees after the date of students' commitment. General Counsel Robinson responded that he would need to know if the Statement of Intent to Register is viewed by the University as a binding commitment. Committee Chair Gould stressed the practical aspect of the situation. The University has identified its fee program to incoming students. He observed that CSU has taken action on fees.

Executive Vice President Lapp informed the Committee that the University has sent out a letter to all students, including potential incoming students, and parents, indicating that this action would be brought up at the May meeting, and that the University would notify them immediately thereafter regarding fees for the coming academic year.

Regent Garamendi asked what the purpose of that letter was. Ms. Lapp responded that its purpose was to notify recipients that the University had not taken up the fee item in March, which it generally does, but delayed because of the May Revise, and that the Board of Regents would make a decision in May on fees for the next school year.

Regent Garamendi asked if the purpose of the letter was to avoid a potential lawsuit regarding prior notification. Ms. Lapp responded that the purpose was to provide incoming students with appropriate notification. The letter indicated that the University was considering a 7 percent to 10 percent increase. The letter was considered appropriate in the context of the *Kashmiri v. Regents* case.

Regent Garamendi asked if the letter makes an immediate decision necessary. Ms. Lapp responded that the intention of the letter was to notify recipients that a decision would be made at this meeting and that they would be notified by Friday, May 16. In response to a question asked by Committee Chair Gould, she confirmed that the University has given them notice and that they are expecting a decision today.

Regent Kozberg asked about the CSU action. Vice President Lenz reported that CSU took an action to increase student fees by 10 percent.

Committee Chair Gould emphasized the importance of understanding the budget context in which a fee increase would occur. Mr. Lenz discussed an updated scenario for revenue and expenditures in the 2008-09 University budget. Based on the January budget, the loss in State General Funds for UC would be $108.7 million. If the May Revise proposal holds, this will be offset by $98.5 million. Mr. Lenz briefly reviewed the revenues expected from UC General Funds and student fee revenue, based on enrollment growth approved by the Regents and an assumed fee increase. Turning to expenditures, Mr. Lenz noted some savings in efficiencies and restructuring at the Office of the President — $28.1 million. This would be available to UC to offset other budget reductions, but the University also has $96.9 million in mandatory costs for health benefits and salary increases. UC has received no funding from the State for enrollment growth. Campuses will be forced to find resources to offset the difference between fee revenue and funds traditionally received from the State for marginal cost funding, or $78.7 million. The student mental health initiative will be funded by the student fee increase, if approved. Mr. Lenz anticipated utility deficits of $40 million, with a total of $195.5 million in expenditures. Even assuming the May Revise funding, the net offset to campuses will be approximately $95 million.

Mr. Lenz pointed out that these expenditures do not include priorities identified by Provost Hume at the March meeting, such as a 5 percent compensation increase, the accelerated faculty salary plan, graduate student support, and non-salary price increases. Funding for these additional priorities would come from campus budgets, student fee revenue, or additional resources from the State General Fund.

Mr. Lenz then commented on challenges for the University during the coming weeks and months in trying to secure funding. The reductions in the State budget for health and human services programs exceed almost $5 billion. This includes a cost of living increase for the aged, blind, and disabled not provided in the current year and that will not be provided in the budget year; a 10 percent reduction in benefits for the aged, blind, and disabled; and reductions in foster care programs.

The University will be competing with programs like these to receive revenue above the restored $98.5 million. Mr. Lenz anticipated that, while parties in the Legislature propose, oppose, and debate various reductions and revenue options, the University will struggle to retain this $98.5 million.

Regent Pattiz stated that the restoration of $98.5 million to the University was based on the understanding that student fees would increase. Not increasing the fees now would be equivalent to breaking a deal made with the Legislature, and will complicate the job of the incoming President and his relationship with the Legislature.

Regent-designate Scorza stressed that Cal Grants, Pell Grants, and scholarships do not cover all expenses; students still experience a significant burden of work and loans. It is difficult for students to be asked to bear the burden of additional fees when there is a lack of transparency and accountability regarding the use of funds. There is a history of Registration Fee revenue being reallocated to core support services, when this revenue is intended to support student services. Mr. Scorza stressed the need for a long-term fee policy. He advocated the establishment of a student fee review committee to develop such a policy, an audit on the use of student fees, and a written public statement by the Regents that they support affordability and access. Committee Chair Gould asked that Regent-designate Scorza submit these suggestions in writing.

Committee Chair Gould expressed the hope that there will be tangible results in cost reductions to mitigate the future impact of fees. He emphasized the need for a long-term campaign for the University.

Regent Garamendi recalled that state industries, such as the aerospace industry, are experiencing difficulty in finding highly skilled, well educated employees. These industries will consider moving out of state, and Regent Garamendi stressed the state's need to invest in its intellectual infrastructure. He opined that the $417 million funding gap the University is seeking to fill will still result in a "starvation budget." A fee freeze is necessary to counteract the privatization of the University. Regent Garamendi opined that this process of privatization is already halfway completed and cautioned that privatization would lead to a University with two premier campuses, Berkeley and UCLA, and the "lesser eight," and with fewer students. He stated that the fee freeze is a political statement that would be correctly understood by the Legislature as a demand for full funding for the institution.

Upon motion duly made and seconded, Regent Garamendi's recommendation failed, with Regents Blum, Brewer, Dynes, Gould, Kozberg, Varner, and Wachter voting "no," and Regents Garamendi and Island voting "yes."

11. **APPROVAL OF PROPOSED INCREASES IN STUDENT FEES FOR 2008-09**

The President recommended the following actions on student fees for 2008-09:

A. Effective Summer 2008, mandatory systemwide fees be increased as shown in Table 1. 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, 50 percent will be set aside to provide additional funds for financial aid for 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 for 2008-09			**Proposed Total Mandatory Systemwide Fees**
	Educational Fee	***Registration Fee***	***Educational Fee & Registration Fee***
Resident Undergraduate students	$412	$78	$7,126
Nonresident Undergraduate students	$447	$78	$7,713
Resident Graduate academic students	$468	$78	$7,986
Nonresident Graduate academic students	$486	$78	$8,298
Professional Degree Fee students (resident & nonresident except those below)	$408	$78	$7,068
Professional Degree Fee students (Residents in IRPS at San Diego, Public Health, & Public Policy)	$468	$78	$7,986
Professional Degree Fee students (Nonresidents in IRPS at San Diego, Public Health, & Public Policy)	$486	$78	$8,298

B. Effective Fall 2008, the Nonresident Tuition Fee be increased by 5 percent, $953, for nonresident undergraduate students only, from $19,068 to $20,021. 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 2008-09.

C. The temporary surcharge of $60 in the Educational Fee currently assessed to all enrolled students be continued until such time that all costs associated with the injunction and the trial court judgment in the *Kashmiri* *v. Regents* case are recovered. An amount equivalent to at least 33 percent of the revenue generated from the surcharge from undergraduates and professional degree students and at least 50 percent of the revenue generated from graduate academic students will be set aside for financial aid purposes.

D. Contingent upon the final actions taken on the University's budget by the state and the Regents, additional increases in student fees may be sought at a future meeting.

[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.]

Vice President Lenz noted that the recommended total 7.4 percent fee increase includes an increase of 7 percent in the Educational Fee and 10 percent in the Registration Fee. The item also proposes a 5 percent increase, or $953, in the Nonresident Tuition Fee for undergraduates and recommends a continuation of the $60 temporary surcharge in the Educational Fee. This surcharge reflects the costs incurred by the injunction and judgment in the *Kashmiri v. Regents* case. There is some contingency language in the item regarding final State actions on the UC budget.

The Governor's January budget did not provide the funding hoped for that would provide a fee buy-out. The budget provided $224 million for a normal workload budget but included a 10 percent reduction totaling $332 million and a net State funding reduction of $108.7 million. Comparing new revenue with planned expenditures, Mr. Lenz observed that neither the $98.5 million restored in the May Revise nor the revenue from increased student fees will meet the University's budget needs. He briefly enumerated the dollar increases in fees for undergraduates and academic graduates, resident and nonresident, and for students in graduate professional programs. He pointed out that nonresident tuition is being increased for undergraduates but not for graduate students.

Mr. Lenz discussed the circumstances of the $60 surcharge in the Educational Fee following the outcome of the *Kashmiri* class action lawsuit on behalf of students who had paid a mid-year fee increase in spring 2003. Two groups of students were involved in this lawsuit. One group challenged the increases in the Educational Fee, the other challenged increases in the professional school fees. The revenue from the surcharge is currently being used to cover $20 million in uncollected professional school fee revenue which resulted from the court-ordered injunction. The trial judgment against the University was $33.8 million. With interest, the current liability in the case is approximately $40 million. The surcharge will continue until the costs of the injunction and trial judgment are recovered, which he anticipated would be about five or six years. A portion of the surcharge revenue will be set aside for financial aid—at least 33 percent of the revenue from undergraduates and professional degree students and at least 50 percent of the revenue from academic graduate students.

Regent Bugay asked about the percentage of the undergraduate population that is nonresident. Provost Hume responded that it is less than 10 percent, with variance among the campuses.

Regent Island asked about the surcharge related to the *Kashmiri* lawsuit. He asked why students are paying for this court judgment rather than the administration. Provost Hume responded that there were no other sources of funds to use.

Faculty Representative Croughan suggested that, if the University proceeds with this fee increase, it should make a greater effort to provide information to students and potential students about return to aid and to address the needs of undocumented students who are ineligible for grants.

Regent Reiss asked Regent Garamendi and Regent Island where the University should make cuts, if it does not raise fees and if the Legislature does not provide that revenue. Regent Island stated that the University has not made enough effort to locate where cuts can be made and should develop a disciplined internal process to eliminate waste systemwide, rather than raise student fees whenever there is a shortfall.

Regent Lozano advocated a long-term fee policy that is predictable, moderate, and transparent. She expressed concern about return to aid, and the possibility that new students may not be eligible for Cal Grants. She requested a report delineating how this fee policy has been implemented over the last three years. Regent Lozano stated that many Regents reluctantly authorized fee increases in the past with the understanding that those students least able to afford those increases would not bear the burden of paying them, but the Regents have not seen the actual practice at UC. Committee Chair Gould concurred with this request and suggested that this information could be made available on the University's website. He requested that more information on financial aid be brought to the Regents in July.

Regent Lozano requested information from the administration and from the Office of General Counsel on alternatives for providing financial aid to undocumented students. Provost Hume responded that he would provide this.

Regent Bugay urged the University to develop an understandable and user-friendly financial aid system. He opined that a "labyrinth of bureaucracy" discourages students from applying for aid for which they are eligible. Committee Chair Gould concurred and requested a report on this at the July meeting.

Regent-designate Scorza expressed concern that necessary resources for this effort be made available to student affairs departments at the Office of the President and at the campuses.

Regent Garamendi stressed the inefficiency of return to aid. He opined that it would be better for the University to go to the Legislature and present its case there.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, with Regents Garamendi and Island voting "no."

The meeting adjourned at 3:10 p.m.

Attest:

Secretary and Chief of Staff

ATTACHMENT 1

RESOLUTION STABILIZING STUDENT FEES

WHEREAS, California's system of public higher education is a vital part of our collective future; and

WHEREAS, California's students should not bear the financial burden of the state's past underinvestment in public higher education; and

WHEREAS, Undergraduate fees at the University of California have increased by 79% since 2001 while graduate student fees have increased by more than 84%, causing students to struggle to continue their education and forcing many to work longer hours or to go deeper into debt to finance their degrees; and

WHEREAS, The level of student debt carried by California students has increased by 60% over the last decade *(EdFund, Trends in Student Aid, 2006)*; and

WHEREAS, Low-income and underrepresented students tend to incur the heaviest debt burdens (*California Postsecondary Education Commission, Keeping College Affordable in California, 2006*); and

WHEREAS, Higher tuition rates have the potential to close the door of opportunity, especially for low-income and underrepresented students. Financial barriers deterred as many as 1.6 million U.S. students from attending a four-year university during the 1990s, and will likely prevent another 2.4 million students from earning their bachelor's degree this decade (*Advisory Committee on Student Financial Assistance draft report, Mortgaging Our Future: How Financial Barriers to College Undercut America's Global Competitiveness, 2006*); and

WHEREAS, In addition to the personal benefits that students gain from educational attainment, each state dollar invested in public higher education is returned to the state three times over in the form of higher tax revenues and decreased demand for social services; (*Survey Research Center, UC Berkeley, 2005)*; and

WHEREAS, California's need for a highly educated workforce will become ever more acute in the coming years, as newly created jobs increasingly demand training in health, technology, and professional services;

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The University of California will stabilize student fees by capping fees for the 2008-09 school year at 2007-08 levels, and by limiting student fee increases for school years beyond 2008-09 to the rate of inflation as measured by the California Consumer Price index. These limitations do not apply to professional school fees approved at the September 2007 Regents meeting; and

2. The Regents and University representatives will keep the Legislature and the Governor apprised of the state budget resources required to adequately fund the University; and

3. Where appropriate, the University will seek savings from administrative efficiencies to reduce the cost to the state of adequately funding the University; and

4. The above limitations and requirements constitute the current policy of the University, but are subject to change at any time if, in the judgment of the Board of Regents, economic circumstances and the best interests of the University require. This statement of current policy is not a contract or an offer of a contract.