THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
MEETING AS A COMMITTEE OF THE WHOLE
September 21-22, 2008

A special meeting of the Regents of the University of California was held on the above dates at the UC Davis Tahoe Center for Environmental Sciences on the campus of Sierra Nevada College, Incline Village, Nevada.

Members present: Regents Blum, Cole, De La Peña, Garamendi, Gould, Hotchkis, Island, Kozberg, Lansing, Reiss, Ruiz, Schilling, Scorza, Shewmake, Varner, and Yudof (16)

In attendance: Regents-designate Bernal, Nunn Gorman, and Stovitz, Faculty Representatives Croughan and Powell, Staff Advisors Abeyta and Johansen, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Interim Provost Grey, Executive Vice President Lapp, Senior Vice President Hoffman, and Chancellor Vanderhoef

The meeting convened at 4:15 p.m. with Chairman Blum presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice had been given in compliance with the Bylaws and Standing Orders for a special meeting of the Regents of the University of California, for this date and time, for the purpose of considering items on the agenda of the Committee of the Whole.

2. **WELCOME REMARKS**

Chairman Blum welcomed the Regents and participants to the Board retreat. He called on Sierra Nevada College President Robert Maxson and UC Davis Tahoe Environmental Research Center Director Geoffrey Schladow for opening remarks. President Maxson expressed his honor and privilege to work with the University of California, specifically UC Davis, stressing that the relationship between the College and the University has elevated the prestige of the College and aided its students. Director Schladow observed that the building had been constructed to the highest energy and environmental standards, achieving a rating of LEED Platinum. He pointed out that the oldest research site of the University of California is situated at Lake Tahoe. In addition to research, the Center offers educational programs for K-12 students and meets with a wide range of public officials and the local press in order to serve its mission of research in the public interest. By the end of 2008, it is anticipated that 9,000 visitors will have come to the Center. Mr. Schladow thanked the Regents, and Chairman Blum in particular, for making possible the establishment of the Center.

Chairman Blum thanked Mr. Maxson, Mr. Schladow, and Chancellor Vanderhoef, noting that their vision was crucial to the establishment of the Center. He applauded the importance of the research conducted at the Center, which extends well beyond the Lake Tahoe area.

3. **PUBLIC COMMENT PERIOD**

A. Ms. Alicia Alacon expressed that her financial situation is very difficult, stating that with the loss of her husband she is not able to support her family on her salary and may lose her home.

B. Mr. Ruben Santos, UC Davis custodian, indicated that the workers take pride in working for the University and do not wish to work elsewhere. He stated, however, that many UC workers do not feel respected due to their rate of pay.

C. Ms. Pramil Presad, UC custodian, asked that salary bonuses be spread equally to every employee. She expressed her desire to feed her family good food, but that her salary does not allow her to buy fish and chicken.

D. Mr. Arun Chand, UC Davis custodian, stated that many UC employees will face serious consequences if their wages are not increased. He has recently lost his house and car because he could not afford the payments.

E. Mr. David Partida, UC Santa Cruz student, acknowledged those who recently met with UC students and made workers' issues a priority, including Regents Garamendi and Marcus and several chancellors. He also thanked the Regents and participants who greeted the workers as they entered the building, and encouraged others to interact with workers more frequently.

F. Mr. Jonathan Wright, UC Santa Cruz student, wanted Regents to understand the difficulties faced by UC students and workers. He expressed concern over the public-private partnerships that have developed, such as that between the University and Sodexo.

G. Mr. John Williams, UC Santa Cruz student, stated his belief that UC is not accountable. He asserted that the University should shift its priorities to ensure that workers are paid more and that students can attend the University without going into substantial debt.

Chairman Blum commented that there are approximately 4,000 colleges and universities in the U.S., approximately 60 of which are in the Association of American Universities, including six University of California campuses. He stressed that Regents' strategies for overseeing and changing the University are important not only for UC but for the country. He recalled a hand written note from President Clinton that he received when he became a member of the Board, stressing the importance of the competitive advantage garnered by U.S. colleges and universities and the necessity of ensuring that competitive

advantage is maintained. Chairman Blum stated that the University faces a serious funding problem, including the difficulty of paying employees and faculty and of students being able to secure funding for their education. He also called attention to the unusual circumstance that no contributions have been made to the University of California Retirement Plan for 18 years. Chairman Blum stated that the University needs to change significantly, including its dependence on the State Legislature. While the University needs to secure every dollar it can from the State, the State has faced and will continue to face a major budget deficit, making it important for the University to secure other forms of funding. Chairman Blum stressed that the University cannot be run as it was 50 years ago; it must be run more efficiently, both at the central administration and the campuses. He also asserted the importance of building more efficiently and using donor funds to construct buildings that are then donated to the University. Major capital campaigns are necessary not only for building but also for scholarships to assist students with the non-fee costs of attending the University. Chairman Blum stressed the importance of educating children in light of the current financial crisis.

4. **IMPRESSIONS FROM THE FIRST 100 DAYS AND STRATEGIC CHALLENGES FOR THE FUTURE**

President Yudof expressed his appreciation for the opportunity to present critical issues to the Board that cannot be accommodated during a regular meeting. He pointed out that the current week marked the passage of the first 100 days of his tenure as President, stating that good progress has been made, but challenges continue. He believed that while transparency, reporting, and accountability are important, the Office of the President (OP) has too great a transactional approval role vis-à-vis the campuses, opining that his approval of minor transactions adds little to no value. The President stated that the University needs to move to a system where the campuses are held accountable, appropriate approval levels are established, and random audits and compliance reviews are increased.

President Yudof also expressed his belief that as a great university, UC should be involved with developing new and innovative solutions to society's most pressing and persistent problems. His view is that OP should provide the seed money for promising programs, engage in collaborative targeted pilot programs, and analyze data to determine what works well and what does not. Currently, the President sees a great number of entitlement programs where millions of dollars are allocated to campus projects without being time-limited, leaving little money for new projects. His view is that the University should be generating good ideas and support for the initial establishment of programs, after which government agencies, foundations, and other avenues in the marketplace should sustain them.

The President stated that another major concern of his is ensuring that the University's organizational and financial structures are solid, emphasizing that it is impossible to run a great university without the right structure, people, and financial safeguards in place. Recent key additions to administrative staff include Associate Vice President and Director of State Governmental Relations Steve Juarez, Senior Vice President – Health

Sciences and Services John Stobo, and Senior Vice President – External Relations Alan Hoffman; the search for a Provost and work to revise the description for a Chief Financial Officer are also under way. In addition, chancellors were asked their opinions on the functioning of OP units, a summary of which would be provided later by Executive Vice President Lapp.

President Yudof stated that his next step is to meet with each vice president to review departmental functions, staffing, and budget. He described OP as an accretion of programs that represented the priorities of past Regents and Presidents that, while good ideas at the time, currently may be difficult to justify and fund. The President recognized, in addition, that OP does not have a sufficient number of experts to gather and analyze data for policy decisions, and OP lacks the information technology systems to produce the data. The Academic Senate is very aware of this situation as well, and an institutional research unit will be established to enhance this function.

President Yudof asserted that both personal and institutional accountability are essential. He called attention to his recently distributed white paper that sought to explain how OP works in terms of the flow of funds; the paper will serve as a blueprint for what needs to happen over the coming year.

President Yudof explained that OP operates three types of funds: unrestricted, restricted, and pass-through funds. Unrestricted funds are used to finance system operations and include State funds, appropriated funds, fee income, patent income, and the like, and can be spent on a wide array of endeavors, shifted among OP priorities, or returned to the campuses for faculty compensation, scholarships, and student services. He emphasized that there is no direct appropriation for the operation of OP; such funds are generated by levying a tax on pass-through funds that come to the University. It is important for Regents to understand that there is no money for system support other than the taxation of funds that are to go to the campuses. When the budget is presented to Regents in November, he advised them to be most attentive to the unrestricted category of funds because it can be used for a wide range of needs. Further there are always opportunity costs associated with these funds; every dollar spent in OP is a loss of a dollar on the campuses, and every dollar spent on "X" program is a loss of a dollar spent on "Y" program.

Regarding OP's unrestricted funds budget, President Yudof explained that last year there were 820 full-time equivalent employees (FTEs) and expenditures of $200 million; this year there are approximately 700 FTEs and $187 million in expenditures. He noted that while such a reduction represents a good start, much more work remains on the unrestricted budget. The current focus is on restructuring Academic Affairs and scrutinizing other programs such as the Education Abroad Program, which is very expensive.

The second category of funds is the restricted funds budget, consisting of earmarked funds from the federal and State government, designated gift funds, and foundation grants. These funds, which cannot be redistributed to other areas, are collected centrally

by OP and redistributed to the campuses; administration of these funds should be lean since any dollar saved will be used directly by that designated program or service. President Yudof stressed the importance of not aggregating restricted and unrestricted funds, and understanding that a rise in the restricted budget is not necessarily negative. For example, if the current version of the bill creating the Climate Science Institute is signed by the Governor, over a ten-year period the program will create a $1 billion fund for research on climate change. If the University receives the funding, the program must be housed either at OP or a campus, and employees must be hired to administer the program. In this instance, it is positive to be adding employees and overhead to oversee a program with funding that was not previously coming to the University. When looking at the restricted budget, the focus should be how efficiently the program is administered and if quality services are being delivered.

The third category of funds is pass-through funds, and the question is whether such funds – for example, Pell and Cal Grant funds and intellectual property revenues – should be diverted through OP and whether OP has a role in redistributing the funds. The formulas by which these funds are redistributed must be clear; in the past, these formulas have not been transparent. The task will be to identify and inform the campuses of the tax necessary to fund central offices, such as the Office of Ethics, Compliance, and Audit and the Office of General Counsel. President Yudof acknowledged the strides made by Executive Vice President Lapp and Vice President Lenz in this area, but noted that more work remains. He stressed that the pass-through budget is very large, and that much of the routing is very complex.

President Yudof stated that these efforts will result in a good basis for the University's budget, but that challenges will remain and difficult decisions will have to be made. One challenge is enrollment growth, which puts a tremendous amount of pressure on the University since the State is not funding it fully. President Yudof stressed that total resources for educating each UC student have declined over time, which is true nationwide, and that student fee increases cannot make up for this decline in funding. In order to survive, campuses adapt by having larger class sizes, fewer courses, slower graduation rates, greater dependence on non-tenured faculty, less competitive faculty salaries, and a smaller proportion of graduate students. Further, infrastructure needs have been ignored, including human infrastructure and informational technology systems.

President Yudof also lamented the demographic gap that is widening between underrepresented minority students and other students, and stressed the importance of ensuring that the demographics of the University are reflective of the State. He asserted that the University needs new funding models and must consider difficult choices regarding more efficient ways to deliver educational services – such as increasing class size or student-faculty ratios, or delivering more courses over the internet – which are controversial and would have a negative impact on the quality of the University's work.

Chairman Blum stated that Regents have long been concerned about these issues and expressed his confidence in the President's management ability and experience in order to address the challenges faced by the University.

5. **ACCOUNTABILITY AND PERFORMANCE**

President Yudof stated that the first draft of the accountability framework had just been completed. It will be mailed to State legislators and others and is posted on the internet for a four-month review period in order to solicit a wide range of comments regarding the variables. He emphasized that it is not as complete a report as those that exist elsewhere in the country, but due to the fact that the University was behind in this effort, the President pushed to have a first draft of the report completed quickly. He also emphasized that numbers do not measure everything. A qualitative section prepared by the campuses will be added to the report to give a sense of what the numbers mean and of the campuses' pressing issues.

President Yudof discussed the ways in which the University is working toward greater institutional and individual accountability. In terms of individual accountability, the University is taking a number of steps, such as addressing the need for employees at all levels, and particularly for senior management, to be consistently evaluated for their performance. Currently, the evaluations that do exist are not what they should be. The President is currently devising an evaluation form. Chancellors and the President's direct reports this fall will submit to the President a work plan for their priorities and goals and how they will be measured, and in the spring will present an achievement plan for what was accomplished and not. Additionally, a short-term strategic goals document will be required of each campus and revised over time, identifying short-term goals and how to assess if they have been achieved. With regard to a systemwide strategic plan, President Yudof advised that the University should not be imposing a top-down strategic plan, but rather campus strategic plans must first be reviewed and aggregated. At each meeting of the Board, the President is envisioning that Regents would review the strategic plan of one of the campuses, allowing them to comment and engage at the highest level. In addition, President Yudof plans to bring to the Board focused accountability reports that stem from the larger annual accountability framework, for example on diversity, graduate students, fundraising and development, faculty welfare and compensation, and other subjects.

President Yudof introduced Vice Provost Greenstein, noting that he had done a great deal of work in this area before the President's arrival. Mr. Greenstein stated that the draft accountability framework measures campus and Universitywide performance in meeting a core set of goals. The goals have been derived from the University's obligations under the California Master Plan for Higher Education and from campus, systemwide, and budget planning efforts that have been ongoing for many years. The framework deals with goals in areas such as student access, affordability, the profiles and successes of undergraduate, graduate, and professional school students, the quality and experiences of University faculty, the nature and impacts of faculty research, and financial capital and development. The report includes systemwide as well as campus measures, making it possible to see the richness, diversity, and scope of the institution, and the data are presented in a manner that allows one to see trends over time. In addition, some indicators present University performance at the systemwide and campus levels along with that of other research universities: four public universities – University of Illinois,

University of Michigan, State University of New York (SUNY) at Buffalo, and University of Virginia; and four private universities – Harvard, Massachusetts Institute of Technology, Stanford, and Yale. Mr. Greenstein stressed that it is important to understand and to locate the trends of the University within a national higher education context.

Mr. Greenstein issued a word of caution that institutional assessment is an inexact science, and stated that comparable data are difficult to come by for legitimate reasons. For example, measures of student-faculty ratios require shared understandings that may not exist about what constitutes a student or faculty member; a graduate student at one institution might be identified as a professional school student at another. And, even where data are robust and precise, the interpretation of that data is almost never beyond dispute. First, Mr. Greenstein urged Regents not to read too much into any single measure, but rather to view the report as a means of gaining a feel for the University as a whole. Second, wherever possible it is important to bring as much context as possible to bear on the interpretation of any measure. For example, it is impossible to understand diversity measures without understanding admissions standards, the California public education system, the state's demographics, and other relevant factors. Third, he warned against trying to identify the University's strengths and weaknesses in the data that compare UC campuses with one another and with other research universities. An institution's progress can only be measured against and in light of its own clearly articulated goals.

Mr. Greenstein identified several target audiences for the accountability framework, including the Board of Regents, the Governor of California, members of the State Legislature, prospective donors, parents, teachers and school counselors who are routinely mentoring the next generation of undergraduates, and for current and former students.

Regarding the specifics of the report, Mr. Greenstein first discussed enrollment figures. The University enrolls mostly California students, with only six percent out-of-state and international undergraduate students. While recognizing that there is a widening demographic gap between the proportion of underrepresented minorities who graduate high school and the proportion enrolled at UC, the reach that the University continues to have and the levels of access it continues to afford should not be underestimated. Just under half of UC's undergraduates are first-generation college students and more than one-third of the University's students are self-supporting or come from families earning under $45,000 annually; both of these indicators compare well with other institutions. More than one-third of the University's undergraduates qualify for Pell Grants, which is considerably more than at comparison institutions, with the exception of SUNY-Buffalo.

Mr. Greenstein turned to the issue of student fees and explained the impact that increased student fees have had on students. The total cost of attending UC has increased; fees alone comprise approximately one-third of the total cost of attendance and have increased 59 percent, adjusted for inflation, between 2000-01 and 2007-08. Comparing UC costs with other institutions, however, shows that UC remains competitive in terms of cost to

the student. Indicators that UC remains open to lower-income students are the extent to which scholarships and grants have kept costs low for students with financial need, the total cumulative debt at graduation of approximately $14,500 for the average UC undergraduate, and the income distribution of UC undergraduates, which has remained steady over the past eight years.

Faculty Representative Croughan commented that more attractive gift packages offered at private institutions may result in a loss of the best students to those institutions. She emphasized that private institutions are not constrained by Proposition 209 and have strong outreach programs for underrepresented minorities; thus, UC is losing the top underrepresented minorities. Mr. Greenstein stated that the impact of private institutions' increased financial aid initiatives will be reflected in next year's accountability framework.

Regents discussed several issues around this data, including that levels of gift aid and debt at graduation varies with family income, the sufficiency of the amount of return to aid to assist students from the lowest income brackets, the impact of further budget reductions from the State, the cost to campuses for enrolling above the level of State support, the impact of budget cuts on the quality of the institution, and the difficult decisions the Board will face regarding future enrollment levels. President Yudof pointed out, and Chairman Blum concurred, that the extent of savings that would result by enrolling fewer students is unclear, given the difficulty of calculating marginal cost to marginal revenues. Regent Garamendi noted that while campuses have been able to accommodate students with fewer dollars, eventually such a trend will have a detrimental effect on quality. Mr. Greenstein observed that indicators which measure student outcomes will be crucial to assessing quality.

Mr. Greenstein turned to research indicators, emphasizing that UC is California's exclusive research university, an obligation under the Master Plan. The University's orientation toward the creation and dissemination of new knowledge and the production of graduate and professional students explain the data in many of the indicators, including a steady increase in expenditures in research and development, the number of active licenses, patents, and inventions over time, and the emphasis on the recruitment and retention of exceptional faculty and graduate students. He opined that the competition for top faculty and graduate students may account for a higher student-faculty ratio than at comparison institutions, the concentration of ladder-rank faculty in graduate and professional courses, and a slower approach on some campuses to address capital and system needs. Mr. Greenstein stressed that UC needs to better understand the impact of UC's research beyond single points of data, such as the number of businesses spawned by the University and the number of honors received by UC faculty.

In response to Regent Gould's comment that UC's graduation rates do not fare well against peer institutions, Mr. Greenstein concurred but clarified that UC compares favorably to the average of all public institutions. Regent Kozberg commented on the perception that UC campuses have poor rates of graduation, and that this should be continually improved upon. She stated that it would be helpful to know how UC could

improve those rates, while understanding the pressure to increase class size due to fiscal constraints. President Yudof noted that students are less likely to continue their education beyond four years at a private university where tuition is comparatively higher than at UC. He noted that campuses across the nation use many strategies to encourage students to graduate sooner, and supported the idea of investigating whether UC is also doing those things. Faculty Representative Croughan recognized that the need to work can extend time to graduation, but also pointed out that double majors are more common at UC than at the private institutions, suggesting that a longer time to graduation is not always a negative indicator.

Mr. Greenstein concluded by reviewing the next steps for the report, which includes further consultation with the campuses and the Academic Senate. The next draft will be presented to Regents in May 2009 with subsequent versions published each May. He emphasized that the framework is intended to be a living document, extending its scope with subsequent versions through the assessment of progress in other areas, including patient care, risk management and compliance, and sustainability. The measures will evolve as goals are better understood and as accountability and assessment are better understood. Crucially, the report will continue to emphasize outcome measures, as it is only through these measures that UC can understand the value, quality, and impact of UC's research, instruction, patient care, public service, and other activities. Finally, Mr. Greenstein thanked the many people from the Office of the President who worked together with campus colleagues to produce this document.

The Committee recessed at 6:35 p.m.

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The Committee reconvened on September 22, 2008, at 9:15 a.m. with Vice Chair Gould presiding.

Members present: Regents Blum, Cole, De La Peña, Garamendi, Gould, Hotchkis, Island, Kozberg, Lansing, Reiss, Ruiz, Schilling, Scorza, Shewmake, Varner, and Yudof (16)

In attendance: Regents-designate Bernal, Nunn Gorman, and Stovitz, Faculty Representatives Croughan and Powell, Staff Advisors Abeyta and Johansen, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Interim Provost Grey, Executive Vice President Lapp, Senior Vice President Hoffman, and Chancellor Vanderhoef

6. **PUBLIC COMMENT PERIOD**

A. Mr. Matthew Taylor, UC Berkeley student, noted that he was filming a documentary about governance of the UC system with the aim to democratize the Regents.

B. Mr. Dharandar Singh, UC Davis custodian, stated that the workers had traveled to the meeting to ask for fair wages and a fair contract, noting the importance of this within the context of increases in the cost of living. He expressed that UC chancellors and other top administrators do not have respect for the workers.

C. Ms. Vanessa Pulido, UC Davis custodian, stated that she had recently lost her house. She expressed sadness at the inability to purchase toys for her children due to the difficulty of paying for their basic needs. She asked that the University find a solution to the workers' situation.

D. Ms. Cielito Feranil, UC Davis custodian, stated that she lost her house in order to pay for her childrens' housing at college, and that her monthly income is depleted after only one week. She asserted that workers deserve a contract.

E. Ms. Alicia Alacon stated her desire to earn enough money to give her children a college education, but that her current income will not cover the costs. She is unable to obtain another job due to the employment market and her lack of an education.

F. Ms. Natasha Campa-Zepernick, UC Santa Cruz student, stated that despite her annual income of $20,000 she has incurred $10,000 in debt and works four days a week. She expressed her belief that a union job should enable a worker to sustain a family.

G. Mr. David Partida, UC Santa Cruz student, reiterated his belief that UC officials lack respect for workers and students. He stated his belief that the $15 per hour requested by the workers is reasonable.

H. Mr. Jonathan Wright, UC Santa Cruz student, spoke of the difficulty of living on $1500 per month.

7. **UNIVERSITY FUNDING OUTLOOK**

Chairman Blum assumed the chairmanship.

Regent Gould began the discussion of the University funding outlook by recalling that a project has been under way for some time to address the University's ongoing financial pressures, fiscal implications of Regents' decisions, and Regents' goals and priorities. The funding model to be presented can serve as a policy framework for Regents, allowing them to identify the major policies involved in running the University and use as a financial context to manage priorities given limited resources. The model is interactive, providing a dynamic way to view how decisions will affect the University's overall financial picture.

Regent Gould thanked Executive Vice President Lapp for her assistance with this project, and acknowledged the analytic work of Blue Sky Consulting Group consultants Mr. Tim Gage, former Director of Finance for the State of California, and Mr. Shawn Blosser.

Ms. Lapp explained that the long-term budget planning model is a computer modeling tool that can project gaps between costs and income under different sets of assumptions, including Regents' policy decisions. The model focuses on the University's core spending and income – excluding teaching hospitals, auxiliary enterprises, extramural activities, and laboratories – which is $6.4 billion, 38 percent of the $18.8 billion total revenues of the University. Regent Gould pointed out that it is this portion of UC's budget that is presented to the State and which supports the academic enterprise of the University.

Ms. Lapp explained that the funding scenarios are modeled through the input of various parameters, including enrollment by student type, fees by student type, State funding contribution, faculty and staff data, gifts and endowment payouts, research funding, and additional funding issues such as graduate student support, information technology infrastructure, and deferred maintenance. The major cost drivers on the University's budget are enrollment growth, faculty and staff compensation, employee health benefits, retirement contributions, and retiree health benefits.

Ms. Lapp showed a graph of enrollment estimates, based on the March 2008 Long Term Enrollment Planning Report, pointing out that undergraduate enrollment is expected to plateau by 2012-13 and that focus needs to be turned to increasing graduate enrollment. Because graduate student funding is expensive, costs for graduate enrollment need to be highlighted in the funding models.

Regent Scorza asked how the enrollment estimates take into account population growth in California. Mr. Gage explained that projections indicate that high school graduation numbers are expected to decline over the next 12-15 years, and that such a decline affords an opportunity to increase the number of the University's graduate students. He confirmed that if the University continues to enroll the same number of undergraduates, a larger percentage of high school graduates would be captured due to the decline in the total number of graduates. Regent Garamendi pointed out that 25 percent of high school students do not graduate, and that improvements in this area would affect enrollment estimates in the model.

Ms. Lapp turned to costs for faculty and staff salaries, including not only raising salaries to achieve market parity but also improving the student-faculty ratio and hiring additional faculty and staff to keep pace with enrollment growth. She emphasized that employee salaries and benefits represent roughly 72 percent of the University's 2008-09 core budget costs; 60 percent for salaries and 12 percent for employee health benefits. Costs for employee health benefits, the third major driver of the University's budget, are expected to increase between 8 percent and 11 percent this year, or approximately $37 million, with more increases subsequently. Regents discussed the possibility of self-

insuring for health benefits, how UC compares in relation to other institutions with regard to its health benefits, and the need to consider different models for health benefits overall.

Regarding retiree health benefits, Ms. Lapp stated that the Governmental Accounting Standards Board now requires governments and entities such as universities to include in financial statements the full cost of retiree health benefits as an unfunded liability; currently this cost to the University is $12 billion. She explained that the University's mode of paying these benefits is "pay-as-you-go" rather than allocating funds in advance to address the $12 billion liability. This approach will be problematic in coming years when rating agencies begin to inquire as to the steps the University is taking to address the liability and buy down the problem, such as through a multi-year strategy. Regent Gould explained that credit rating agencies favor a model in which the liability is prefunded in a way that earns interest and pays the University's pledge to provide that health benefit. The cost of the pay-as-you-go model will escalate dramatically, eventually surpassing the cost of a prefunded model, but the cost to prefund the benefit would require a substantial commitment. Acknowledging Regent Schilling's comment that eventually this cost may erode the University's balance sheet and result in a higher cost for borrowing, Regent Gould pointed out that most government entities are in the same situation, including the State of California. Regents discussed the urgent need to address this issue, not only for the University and its hospitals but also for the nation.

Ms. Lapp turned to the resumption of retirement contributions, pointing out that in 2009 the University will need roughly $250 million for the employer contribution, approximately an 11 percent contribution. This will escalate to twice that amount by 2010-11, which is approximately a 17 percent contribution, and subsequently escalate to approximately 21 percent, after which it plateaus. Regent Gould emphasized that the projections assume that the fund is earning 7.5 percent. Ms. Lapp stated that the ratio of contributions by the employee and the employer will be discussed at the November and January Board meetings in order to reach the final decisions. With regard to the employer contribution, the University will need to secure the funds from the State; those discussions have and will continue to take place. Regent Gould underscored the fact that the State budget is likely to be even more constrained next year. This year the University received $100 million from the State; next year it will need to ask for $250 million to sustain the retirement fund alone.

Ms. Lapp next discussed State General Fund support to the University over time, emphasizing that the State has provided less funding per student when adjusted for inflation and enrollment, from a high of approximately $14,000 per student to $10,000 per student currently. The President and Regents discussed the necessity of the University asking the Legislature for a return to its historic level of funding, and of embarking on a messaging campaign to prove its case to both the Legislature and the public about the economic benefit of investment in the University. Faculty Representative Croughan further emphasized that the message needs to be conveyed that quality of instruction is already eroding due to constrained University funds. The importance of the work of Senior Vice President Hoffman in crafting a strategic messaging campaign was

emphasized, as was the importance of conveying a consistent message when Regents and other University representatives discuss the University's needs with elected officials.

Ms. Lapp then presented the long-term budget planning model, which included assumptions relating to the University's current base budget, mandatory costs, and previously articulated Regental priorities. She illustrated how mandatory costs, including retirement contributions, deferred maintenance, and purchased utilities result in a gap between estimated income and expenditures, noting that this model assumes funding levels currently provided under the Compact with the Governor, annual student fee increases of 7 percent, and substantial efficiencies from the campuses and the Office of the President. The gap shown in this first model is $8 million in 2009-10, growing to $2 billion by 2019-20. She then discussed the impact of including previously articulated Regental priorities, such as closing the faculty and staff salary lag, improving the student-faculty ratio, permitting additional growth in graduate student and health sciences enrollment, providing additional growth in graduate student support, and providing additional information technology and academic support. A $1.1 billion gap results in 2009-10, growing to $3.3 billion by 2019-20.

Ms. Lapp then provided a series of scenarios to give Regents a sense of how the model works, including assumptions of flat State funding through 2010-11, rather than Compact-like funding, and with various levels of fee increases, flat enrollment, holding the student-faculty ratio constant, and a three-year dip in State funding, which mirrored what occurred in the earlier part of the decade. All scenarios showed significant gaps, the largest of which derived from an assumption of a three-year dip in General Fund support. Regent Gould emphasized that the modeling scenarios are intended to provide a context for Regents to begin discussing choices regarding the costs of operating the University and strategies to achieve more revenue.

President Yudof stated that the University will work on a major communications plan, the scale of which the University has not carried out previously, and which will involve websites and other media to communicate with students, alumni, the business community, and others. Regarding campus savings, the President stated that he will discuss the issue with the chancellors, noting the paradox that most campus savings are generated by not adhering to the Regental priorities, such as allowing the student-faculty ratio to deteriorate. The largest cost in the University's budget is the instructional budget. He also stressed the importance of alignment with K-12 and the community colleges. The President will begin his evaluation of these issues in the near future, cautioning that he will need more time to assess what needs to be done and what the University is doing presently.

Mr. Blosser showed Regents several different scenarios, including increasing out-of-state student enrollment, increased funding from a ballot issue, and an increase in State funding. Regents opined that the latter scenario would be a valuable tool when asking for more funding from the State. Regent Gould asked Regents to consider scenarios that they would like to see tested and to submit those to Ms. Lapp. Faculty Representative Croughan expressed her appreciation for this analytic modeling approach.

8. **UC-STATE MATCHING SCHOLARSHIP PROGRAM**

Chairman Blum introduced UC Berkeley Vice Chancellor for University Relations Scott Biddy. Mr. Biddy explained efforts to create a State matching fund program for a need-based undergraduate scholarship endowment that will leverage philanthropic and State investment in the University. He stressed that the proposal must contain features that allow the State to invest incrementally.

Mr. Biddy affirmed that one of the unique aspects of the University in comparison with other public institutions is that it has continued to provide both access and excellence, as evidenced by the number of Pell Grant recipients at UC campuses. He emphasized that many elite public institutions actually have lower percentages of Pell Grant recipients than elite private institutions. UC Berkeley and UCLA each have more Pell Grant recipients than all Ivy League institutions combined. Mr. Biddy pointed out, however, that competition for students with financial need is becoming greater as elite institutions use their large endowments to reduce tuition for these students. A further disadvantage for UC is that private endowments grow at a faster rate than State funds, which is a major reason why the creation of an endowment is part of the proposal.

The objective is to approach the State with a leveraged investment opportunity in need-based financial aid, with the critical element that it would not divert funds from the University's current allocation. The State investment would include a time-limit of approximately seven years, over which time the State would make an investment of $1 billion spread across the UC system, likely by the undergraduate student FTE per campus. The State would leverage its investment through a challenge grant; UC would have to raise private philanthropy on a dollar for dollar basis, ultimately producing a $2 billion endowment that pays out $100 million annually for need-based financial aid for the University.

Mr. Biddy provided some observations about how adequately the approach would address the need for more scholarships for lower-income students. He argued that financial access to the University is not going to be provided by one solution; this solution makes a material difference in the amount of scholarship funds available and changes the dynamic of how the University approaches State support. It is advantageous on the donor side because donors are hesitant to make gifts if they view that such gifts will replace, and thus diminish, State support.

President Yudof opined that an endowment model for financial aid is difficult to maintain when considering the funds that must be raised annually versus the amount available for scholarships. Mr. Biddy reiterated that many solutions need to be brought to bear on the problem, but emphasized that an endowment should be one component of the solution in order to harness the power of the financial markets. President Yudof reasoned that it does not make sense to take such a large amount of money out of circulation at the front end. Chairman Blum noted that other institutions have a modified model to spend down the principal over time – perhaps 10 years – and suggested that a larger initial investment

should be sought – perhaps $2 billion. He also suggested that the money should be used to target the gaps that are not being covered, most importantly the non-fee costs.

Mr. Biddy agreed with the points raised by President Yudof and Chairman Blum, but explained that, from a fundraising perspective, nothing provides stability like an endowment. A significant number of people in the donor community believe that the only way the University can ultimately attain financial stability is to have a robust endowment.

Regents questioned whether such a proposal is viable given the State's financial situation, how such a proposal would be viewed by other higher education segments, and whether donors would prefer to have funds spent in the short run. They discussed the need for both State and philanthropic support for the University, making clear that private support alone cannot solve UC's funding issues, but that private support has proved crucial for a number of initiatives at the University and that currently many donors are interested in funding higher education.

Mr. Biddy stated that in the current fiscal environment, it would not make sense for the University to approach the State with a request of this type, but that UC could raise a small amount of money to get the model moving at a lower level. If the State economy improves after that point, there would be opportunities for the State to continue investment at increasing levels.

Regent Varner stressed the need to retain the core funding from the State and expressed concern about sending a mixed message regarding priorities. Regent Garamendi strongly supported this sentiment, emphasizing that if the Legislature senses that a large amount of money will be raised through philanthropy, State funds may be diminished.

Regent Kozberg pointed out the importance of finding a model and doing the exploration in advance so that, when the window of opportunity does open, the University will be ready to move forward. Chairman Blum asserted that the University must move ahead on the initial stages of assembling the fundamentals for such a program. President Yudof stated that the first thing that needs to be done is to assemble a campaign committee to initiate private fundraising for scholarships on a systemwide basis. The second step would be addressing how the initiative would be assembled from all ten campuses and matching funds allocated if they become available.

Mr. Biddy agreed, commenting that each campus has different issues regarding fundraising capacity; some have more robust prospect bases and administrative support than others. Mr. Biddy emphasized that, for University fundraising in general, undergraduate education is not discussed enough; one of the benefits of fundraising based on scholarships is that it will broaden the interest of the prospect base.

The Committee recessed at 12:15 p.m.

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The Committee reconvened at 1:00 p.m. with Chairman Blum presiding.

9. **GOVERNANCE: THE ROLES OF THE PRESIDENT, THE BOARD, AND THE CHANCELLORS; BOARD STRUCTURE AND PROCESS**

Regent Lansing began the discussion by calling attention to the Report of the Working Group on the Roles of the Office of the President, noting that progress has already been made toward better governance practices, such as convening the present retreat. She thanked all Regents, particularly Regents Kozberg and Schilling, for their work to address governance issues.

Regent Lansing put forth a number of potential changes that have been suggested to her that the Regents could adopt to function more efficiently. The first issue concerned the possibility of eliminating or combining any of the current standing committees. Regents suggested several options for committees that could be combined, but expressed concern about the combined committee having too heavy a workload or that some issues would not receive adequate attention.

Regarding the Committee on Investments, President Yudof asserted the importance of Regental oversight over investment issues, but noted that it is sometimes difficult to attain a quorum for that Committee. He suggested that an option might be to make membership on the Committee on Investments required for those Regents who wish to serve on another committee, such as the Committee on Finance. Regent Island opined, however, that not all Regents are qualified to sit on the Committee on Investments, and that members should consist of those who can contribute. Chairman Blum echoed the importance of the Committee given the current financial climate, stressing the need to shore up that Committee's membership and ensuring that members are committed to attending.

In response to the Regents' concerns, Regent Lansing concluded that there is a consensus that the number of committees should remain the same at least for now. Chairman Blum and President Yudof concurred, noting that the focus should be on reviewing the issues that need to come before the Board and those that do not. Regents' meeting agendas should consist of major issues for the University. Regents agreed that that the President should consult with the Chairman and the Committee Chair to scrutinize agenda items more carefully. Regent Gould suggested that committees should continue to address transactional issues, but that large issues such as the University budget should be brought before the Committee of the Whole. Regent Lansing summarized the discussion of the Board that the Chair and Vice Chair of each committee should consider how to run their committees more efficiently and scrutinize which items could be removed from the purview of the committee and go before the Board as a whole.

President Yudof noted that the Regents currently meet in effect as a Committee of the Whole the entire duration and suggested the possibility of concurrent meetings. He also called attention to the fact that Regents' meetings absorb an enormous amount of time for University staff, and conveyed concern at the number of off-cycle meetings, while recognizing that off-cycle meetings may be more convenient for Regents.

Regent Lansing further discussed off-cycle meetings, observing that they allow for more in-depth discussion on policy. At the same time, they are difficult to schedule, are resource-intensive, and leave non-committee members with less knowledge. In terms of concurrent meetings, Regent Lansing noted that the arrangement had been tried in years past but were difficult to schedule and Regents were frustrated by the desire to serve on two committees that met at the same time. The issue of attaining a quorum was also raised. Regent Lansing summarized that the Regents agreed to experiment with concurrent meetings, to reduce or eliminate off-cycle meetings, and to reduce the quorum to four for the smaller committees, noting that the number of Regents that constitute a quorum will vary from committee to committee. She also concurred with President Yudof's suggestion that Wednesday morning should be reserved for large strategic issues, such as presentations on campuses' strategic plans and sub-reports from the accountability framework.

Regent Lansing turned to communication issues, particularly how Regents communicate with chancellors and staff at the campuses and the Office of the President, and how they communicate to the members of the Legislature, the press, and the public. She emphasized the need to follow best practices and convey a consistent message.

President Yudof stated that the Regents should feel free to contact Vice Presidents directly. In terms of the campuses, he stated the importance of respecting the offices of the chancellors. If a Regent is interested in a particular campus issue, the chancellor should be aware of the interest and be afforded an opportunity to send a representative to any meeting the Regent wishes to call. Regent Lansing summarized that if Regents have an issue or request, the request should go through either the President or the Secretary and Chief of Staff to The Regents, stressing the importance of respecting the lines of communication and the offices of the President and the chancellors. Regent Lansing also stressed the importance for chancellors of ensuring that Regents, particularly committee chairs and Regents who live near a campus, are made aware of important campus issues that may be brought to the Regents' attention in public venues or through the media.

Regarding Regents' interactions with members of the Legislature on substantive issues, the President advised that contacts should be reported so that the issue can be tracked. In terms of the media, the President noted that there is a risk that a Regent who may not be representative of the Board as a whole will be quoted in the media as speaking on behalf of the University. Regent Lansing suggested that the President designate a staff member on particular issues so that if a Regent receives a call from the press, the caller can be referred to an appropriate spokesperson. Chairman Blum pointed out that there is a policy that if Regents speak to the press they must make it clear that they are speaking as an individual and not for the Board. Regent Island clarified that this approach is not to discourage individual Regents from speaking on behalf of themselves, but that it best serves the University to not send multiple messages.

Regent Island recalled that the intent of expanding the Office of the Secretary and Chief of Staff to The Regents was to ensure a disciplined process regarding Regents' requests. Regents Varner and Lansing acknowledged that coordination through Secretary and

Chief of Staff Griffiths is a very effective way both for Regents to request information and to address requests that come to Regents. President Yudof affirmed that working through the Secretary and Chief of Staff is an effective and appropriate communication mechanism on par with communicating with the President, as he is in regular contact with Ms. Griffiths.

Regent Lansing turned to the issue of determining who is allowed to attend closed session. President Yudof questioned the practice of allowing all chancellors and vice presidents to attend closed sessions, expressing the view that only personnel required to address the issue should be present. It was decided that the committee chair should determine who needs to be present at closed session on an ad hoc basis.

President Yudof also announced that, having discussed the issue with Committee on Educational Policy Chair Island, the chancellors will sit at the table during the meeting of that Committee. Chairman Blum expressed concern that Regents meetings may be a waste of time for chancellors, and conversely suggested that there should be a mechanism and opportunity for chancellors to provide input on issues during the meeting. Chancellor Vanderhoef concurred that such a mechanism would be useful. Regent Gould added that chancellors are likely to have valuable specific input on a topic, but opined that such input may be best orchestrated through the President according to his judgment.

To conclude the session, Chancellor Vanderhoef reviewed the findings of the Report of the Working Group on the Roles of the Office of the President, noting that it was prepared in an unusual time when there were difficulties and a loss of confidence in the Office of the President. Many of the issues in the report thus are no longer relevant in the current environment. The President should be the voice of the University's vision and supply leadership for that direction. The President is the CEO in charge of selecting chancellors and vice presidents, represents the campuses to the Regents, puts the structure in place to manage the University's affairs, and is the primary external advocate, particularly in relation to the Legislature. The Office of the President should support the President in his executive leadership role, and provide information and analyses to the Regents. The proper activities of the Office of the President have been heavily scrutinized. Some activities do not need to be located at the Office of the President; campuses can serve as the managing site for operations which serve the entire University, an example of which is the Continuing Education of the Bar. President Yudof concluded that much has been done to address the issues raised in the report, and affirmed that the relationship between the Board and the President is strong and marked with trust.

The meeting adjourned at 3:05 p.m.

Attest:

Secretary and Chief of Staff