

The Regents of the University of California

**COMMITTEE ON FINANCE  
COMMITTEE ON OVERSIGHT OF THE  
DEPARTMENT OF ENERGY LABORATORIES**

May 20, 2010

The Committees on Finance and Oversight of the Department of Energy Laboratories met jointly on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Representing the Committee on Finance: Regents Bernal, Island, Makarechian, Schilling, and Varner; Ex officio members Gould and Yudof; Advisory members DeFreece and Simmons; Staff Advisors Abeyta and Martinez

Representing the Committee on Oversight of the Department of Energy Laboratories: Regents Kieffer, Pattiz, Reiss, Stovitz, and Varner; Ex officio members Gould and Yudof; Advisory member Simmons

In attendance: Regents De La Peña, Lansing, Maldonado, Nunn Gorman, and Zettel, Regents-designate Cheng and Hime, Faculty Representative Powell, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Pitts, Executive Vice Presidents Brostrom, Darling, and Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Beckwith and Duckett, Chancellors Block, Blumenthal, Desmond-Hellmann, Drake, Kang, Katehi, White, and Yang, and Recording Secretary Johns

The meeting convened at 9:20 a.m. with Committee on Finance Vice Chair Varner presiding.

**APPROVAL OF APPROPRIATIONS FROM LOS ALAMOS NATIONAL SECURITY LLC AND LAWRENCE LIVERMORE NATIONAL SECURITY LLC FEE INCOME TO BE EXPENDED IN FISCAL YEAR 2010-2011**

The President recommended that he 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, 2009 and December 31, 2010:

1. Supplemental compensation and other payments (including accruals) approved by the Regents for certain LANS LLC and LLNS LLC employees, from July 1, 2010 through June 30, 2011 – \$2.0 million (\$2.2 million in 2009-2010).
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, 2010 through June 30, 2011, including but not limited to an allocable share of the costs of

the Regents, the President, the Provost, Research Security Office, Human Resources, Policy and Analysis, Financial Management, Compliance and Audit, Laboratory Management Office, External Relations, Office of Research, the General Counsel, and the University appointed Governors on the Boards of the LLCs – \$4.0 million (\$3.85 million in 2009-2010). The increase reflects more accurate cost allocation for UC Office of the President (UCOP) LLC efforts.

3. An appropriation in 2010-11 to a post-contract contingency fund – \$1.3 million (no change from 2009-2010).
4. An appropriation for research funding in accordance with the Laboratory Fees Research Program process for 2010-2011 – \$19.9 million (\$18.7 million in 2009-2010). A Reserve will be allocated for research in the amount of \$1.0 million (\$1.15 million in 2009-2010). The Reserve will be available to potentially fund new projects, supplement projects that may exceed their allocation, or in the event there is a reduction in fees in future years, the reserve will allow projects approved for a three-year period to be fully funded. The Spend Plan for research is subject to annual approval.
5. An appropriation of \$0.3 million for 2010-2011 for administration of ongoing awards and the upcoming competition review and award process.

**Summary**

**Estimated Funds Available**

Estimated Net FY 2010 LLC Management Fee	\$29.50 M
Estimated Carryover from 2009-2010	\$ .59 M
<u>Total</u>	<u>\$30.09 M</u>

**Recommended Allocation**

Supplemental compensation	\$ 2.0 M
UCOP oversight	\$ 4.0 M
Post-contract contingency	\$ 1.3 M
2010-2011 Lab Fees Research Program	\$19.9 M
Competition Review & Award Process 2011	\$ 0.3 M
Reserve for Research Awards 2010-2011 (\$1.08M remains from 2009-2010)	\$ 1.0 M
<u>Contingency for factors affecting the final fee</u>	<u>\$ 1.59 M (to keep at \$3.0M level)</u>
<u>Total Allocation for 2010-2011</u>	<u>\$30.09 M</u>

[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 Brostrom informed the Regents that, for fiscal year 2010, UC is expected to earn \$29.5 million in management fees for its joint management of Los Alamos National Laboratory (LANL) and the Lawrence Livermore National Laboratory (LLNL).

Combined with an approximate carryover of \$500,000 from 2009-10, this totals \$30 million available for expenditure in the upcoming fiscal year. The current item provided recommendations for the allocation of this amount in the next year, including \$2 million in supplemental compensation for certain LANL and LLNL employees; an appropriation to the Office of the President for unreimbursed costs related to UC oversight of the two LLCs which manage these National Laboratories; an appropriation to a post-contract contingency fund, set up when the contracts were approved, to cover residual liabilities; and three research appropriations totaling \$21 million, for joint research involving the campuses and the Laboratories. Mr. Brostrom described this research as phenomenal and cutting-edge. The research funding grants associated with this program are some of the most competitive grants sought in the UC system. Research funding represents about 70 percent of the total proposed appropriation.

Committee on Oversight of the Department of Energy Laboratories Chair Pattiz recalled that when UC first became involved in management of the Laboratories, it received no income. This was a service to the nation. Later, the University received unreimbursed expenses and a fee of \$10 million to \$12 million. This area of UC activity has become important not only because of the University's nuclear stockpile stewardship and nonproliferation mission, but due to the many other areas of scientific research pursued at the Laboratories. The Obama administration recognizes the importance of the Laboratories, and there will likely be an increase in the fees UC will receive. Committee Chair Pattiz emphasized that an allocation of \$20 million directly to research which benefits society, of a total \$30 million allocation in the recommendation, was a marvelous accomplishment.

Regent Island expressed his pride in the Laboratories, which provide public service of the highest quality. He asked about the supplemental compensation proposed in the recommendation. He asked if this was bonus or incentive compensation. Executive Vice President Darling recalled that, when the partnership was formed with the University, Bechtel, Babcock & Wilcox (BWXT), and URS Corporation, the employees who were to be located at LANL and LLNL by each partner became the financial responsibility of that partner for the increment of their salary defined by market-competitive studies over and above the Department of Energy (DOE) reimbursement. The amount proposed for supplemental compensation represents those payments as well as annual incentive compensation, approved by the LLC board of directors annually, based on goals and performance.

Regent Island asked how much of the \$2 million expenditure listed in the item was for supplemental compensation and how much for incentive compensation. Mr. Darling responded that employees are eligible for incentive compensation for about 20 percent of their base salary.

Committee Chair Pattiz recalled that there were occasional problems with University management of the Laboratories before the LLCs were formed; he emphasized that these were not problems with science, but with management. At that point the DOE determined that the contracts would be bid out and instructed the University to form an LLC with private-sector partners with experience in managing similar laboratory operations and to take part in a competitive process. When the University did this, it entered an arena of competitive salaries. It would be unacceptable for a Bechtel employee at the Laboratories to earn three times the salary of a UC employee. These payments allow the University to remain competitive in the

marketplace. Committee Chair Pattiz noted that the director of Sandia National Laboratories has announced that he will be leaving. There will be competition for that position. Leadership of the National Laboratories is a difficult job. The University needs succession plans for the heads of its Laboratories. The expenditure for supplemental compensation and other payments gives the University the flexibility to respond to marketplace conditions and to ensure that it retains the highest-quality employees.

Referring to Regent Island's earlier question, Mr. Darling estimated that about \$750,000 of the \$2 million was to be spent on supplemental compensation and the remainder on incentive compensation. He stated that he would provide the exact numbers.

Faculty Representative Simmons emphasized that almost \$20 million will be expended for research at UC. He praised Vice President Beckwith, former Faculty Representative Croughan, and former Associate Vice President Birely for the development of this research program, through which two-thirds of the UC management fees support collaborative research. The program has generated an extraordinary competition and many grant proposals. At the urging of President Yudof, the University is working hard to enhance collaborative research and teaching relationships between campuses and the Laboratories, faculty and Laboratory scientists.

Upon motion duly made and seconded, the Committees on Finance and Oversight of the Department of Energy Laboratories approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 9:35 a.m.

Attest:

Secretary and Chief of Staff