The Regents of the University of California

COMMITTEE ON FINANCE
May 18, 2011

The Committee on Finance met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Blum, DeFreece, Island, Lozano, Makarechian, Mireles, Schilling, Varner, and Wachter; Ex officio members Gould and Yudof; Advisory members Pelliccioni and Simmons; Staff Advisors Herbert and Martinez

In attendance: Regents Crane, De La Peña, Hime, Johnson, Kieffer, Lansing, Marcus, Newsom, Reiss, Torlakson, and Zettel, Regent-designate Hallett, Faculty Representative Anderson, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Pitts, Executive Vice Presidents Brostrom and Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Beckwith, Darling, Duckett, Lenz, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Desmond-Hellmann, Drake, Fox, Kang, Katehi, White, and Yang, and Recording Secretary Johns

The meeting convened at 9:40 a.m. with Committee Chair Lozano presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of March 16-17, 2011 and the joint meeting of the Committees on Finance and Compensation of December 13, 2010 were approved.

2. **UPDATE ON THE 2011-12 STATE BUDGET**

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

President Yudof began the discussion by noting that the University has been developing a five-year plan to establish fiscal stability for the University. The last three years had been a particularly difficult period for UC, with layoffs, furloughs, and reductions in programs. He outlined some of the core elements of a long-term solution for UC. The University must ensure that its core missions of education, research, and public service remain intact. The University must sustain academic quality, including recruitment and retention of superior faculty. He quoted former President Clark Kerr on the absolute necessity of high-quality faculty for a great university. The University must be vigilant about its student-faculty ratio and about having ladder-rank faculty engaged in undergraduate as well as graduate teaching. Fiscal stability is essential because the University must make long-term commitments to students, faculty, and staff. The University must maintain access for all eligible Californians. President Yudof expressed his view that, over the coming five years, the University should serve more rather than fewer students and be especially mindful regarding access for low-income students and responsive to the new demographics of the state, even as tuition levels increase. To the best of its ability, the University should improve the promise of the Blue and Gold Opportunity Plan. UC is outstanding among universities in the access it provides for low-income students. The University must develop operational efficiencies. Universities are not managed like private sector entities, but UC must be attentive to possible savings through shared systems in areas like information technology, payroll, and student health insurance. The University must reform its benefits system and manage its pension liability over the long term. The University must pursue new revenue sources, which might be provided by more robust indirect cost recovery on contracts and grants, some additional recruitment of out-of-state students, extension programs, online learning, and scholarship fundraising from the business sector. The University must be accountable to the people of California and continue to provide transparency through its website. The University must emphasize that it is doing the best possible job in stewardship of revenue from students, donors, and the State.

President Yudof warned of the dangers now facing the University. The establishment of a great research university can take over a hundred years, but its destruction can be accomplished in far less time. Without the necessary human capital, the University of California could not remain what it is.

Committee Chair Lozano reminded the Board of issues that were discussed at the March meeting: multiple years of reduced State funding, increasing mandated costs, and the search for systemwide efficiencies. She recalled that the Regents were asked to explore how the University might enhance revenue opportunities, that the campuses requested flexibility, and that the Regents reaffirmed their historic commitment to access, affordability, and quality. She emphasized the importance of long-term solutions which would provide predictability and stability.

Vice President Lenz reported that the Governor and Legislature had still not reached an agreement on an overall plan for the State budget. Some progress had been made. The State's budget shortfall of $26.6 billion was reduced by $13.4 billion. Unfortunately, other factors increased the budget gap between March and the time of the May Revise. The Governor and legislative leaders have held public hearings, in which President Yudof and Chancellor White participated, to indicate the consequences of an "all cuts" budget for many State programs, including education. It was still unclear if there would be a ballot initiative in the fall to extend temporary tax increases; no agreement has been reached. Some individuals believe that such an initiative may not be necessary if the Legislature arrives at a solution for the State budget. Mr. Lenz noted an opinion occasionally expressed in the media that a tax extension was not necessary because State revenues had increased by $6.6 billion. However, even with these increased revenues, there was still a $10.8 billion shortfall, given the structural budget gap of approximately $9.6 billion and the Governor's wish for a $1.2 billion reserve. This would require either additional revenue or spending reductions.

Mr. Lenz recalled that the University had already been allocated a $500 million reduction in the Governor’s January budget proposal. The current State budget proposal included language requesting that the University not increase tuition above levels approved by the Regents in November 2010, and that it not reduce student enrollment.

The current budget proposal would also redirect $3 million to support the University’s contract with the American Federation of State, County and Municipal Employees (AFSCME). Mr. Lenz noted that AFSCME is the only UC union currently receiving a guaranteed salary increase; the increase was included in the terms of a 2009 agreement with the University. If the University were to receive additional funds beyond its base budget, the agreement provides for an additional three percent of funding in the AFSCME contract, above what is currently guaranteed. The Legislature appears to be indicating that, in spite of this existing collective bargaining agreement, it will redirect $3 million in University funding for a particular group. The University administration is concerned about the precedent this may set.

The current budget proposal also included language setting UC’s enrollment target at nearly 210,000, a number which does not reflect the actual State support for enrollment, given the $500 million reduction. Enrollment in the coming year would approach 215,000 students. With a budget reduction of $500 million, the unfunded enrollment would grow to approximately 23,600 students.

Regent Lansing requested clarification regarding the relationship with AFSCME. President Yudof responded that the University has a multi-year contract with AFSCME which guarantees salary percentage increases. There is a clause in the agreement according to which, if the University’s funding is restored and it receives additional funds from the State, UC must go beyond the existing contract and add an additional three percent increase. While the Legislature cut UC appropriations by $500 million, AFSCME advocated for a special bill to mandate a set-aside of $3 million. President Yudof expressed his view that AFSCME workers are deserving, but that this redirection of funds would take money away from the campuses to address educational and labor issues; there should not be a collective bargaining process and, simultaneously, a set-aside by the Legislature outside this process.

In response to another question by Regent Lansing, President Yudof stated that AFSCME has the most favorable contract of all UC’s represented groups in terms of percentage of wage increases.

In response to a question by Regent Reiss, Executive Vice President Brostrom confirmed that the University is honoring its obligation for a two percent step increase; the three percent at issue represents an additional increase beyond the two percent step increase, and would depend on State funding.

Regent Kieffer asked if the $3 million set-aside was a violation of the collective bargaining agreement, or if AFSCME had committed a violation of the collective bargaining agreement by seeking the legislative set-aside. General Counsel Robinson responded that the amount of the set-aside is less than the three percent, the amount to be paid if new funds were available, under the conditions stated in the collective bargaining agreement. He stated that he did not know whether this action was an unfair labor practice. Mr. Brostrom added that the University at this time was not taking the position that this was an unfair labor practice.

Regent Makarechian asked about a chart in the presentation materials outlining the University's baseline cost driver assumptions. Mr. Brostrom responded that the figures in the chart were part of a long-term model and represented the projected cost drivers over the next five years. These assumptions included a three percent increase in compensation for all employees, represented and non-represented. The projected contributions to the UCRP reflected amounts needed to arrive at full funding of the pension program; this would be the most dramatic increase. The projected increase in health benefit costs reflected a historical pattern.

Regent Hime asked if the language requesting the $3 million set-aside was in a legislative bill or in the Governor's budget proposal. Mr. Lenz responded that the language was in the budget bill.

In response to a question by Regent Varner, Mr. Lenz confirmed that the $3 million set-aside would be redirected from the University's base budget; it would represent a reduction from this base budget.

Mr. Lenz continued by noting that the University has been responsive to a proposal made by AFSCME in January regarding cost reductions. In response to an issue raised earlier, he affirmed that no State General Funds have ever been used, nor are they being proposed to be used, for intercollegiate athletics at UC.

Returning to the 2011-12 State budget, Mr. Lenz observed that the University was seeking funding for four capital equipment projects. The May Revise included a summary statement indicating that, in the event of an "all cuts" budget, the University might be faced with another $500 million reduction.

The campuses are doing everything possible to absorb the impending $500 million reduction. Mr. Lenz expressed his view that the University has found solutions for absorbing about $300 million of this reduction. These solutions include a significant reduction to the Office of the President budget, which will affect longstanding programs of high priority to the State Legislature. Balance sheet strategies would provide some relief and the Working Smarter initiative would provide savings.

Mr. Lenz cautioned that the campuses have exhausted all available options for absorbing funding reductions. He described the current situation as a tipping point, and cautioned that any further reductions would likely result in a proposal for increased student fees.

President Yudof referred to the additional revenue of approximately $6 billion in the May Revise. He asked how much of this additional revenue would be made available to UC and the California State University (CSU). Mr. Lenz responded that no new additional revenue would be provided to UC or CSU.

President Yudof noted that the Governor's budget document included references to the State's liabilities. He asked if the document referenced the UC Retirement System. Mr. Lenz responded that the University has been making significant efforts to encourage the State to recognize its obligation to the UCRP. The Governor's budget document recognized a $12.9 billion State liability to the UCRP, along with other retirement plan liabilities.

Regent Lansing asked whether any additional revenue would be available to UC if the proposed initiative to extend temporary tax increases were approved by California voters. Mr. Lenz responded that, at this point, it appeared that the University would avoid any additional reductions, but it would not receive any additional funding.

Mr. Lenz then discussed funding for capital projects. The Governor has expressed concern about the State's debt and the repayment of that debt, and has made some proposals to address this for the K-12 system and the community colleges. However, $381 million in UC capital projects approved by the Legislature and the previous Governor lack a funding mechanism, although they were proposed to be funded by lease revenue bonds, if other funding was not available or if other funding priorities took precedence. The Office of the President has proposed that UC be allowed to use its debt capacity to fund the projects, and that it be repaid by the State at a future point. The State so far has not expressed interest in the proposal. The University is concerned because a number of the capital projects have private and federal matching funds with a time limitation. Additionally, three high-priority projects were not given consideration in the May Revise. Mr. Lenz emphasized the need for further discussions with the State.

Mr. Brostrom underscored that this is a significant concern for the University. The University's proposal to the State would not require the State to fund the debt service on capital projects for three or four years. These projects would create thousands of jobs. They represent hundreds of millions of dollars in construction activity and are of critical importance to the campuses. The Office of the President would continue its efforts to seek cooperation from the State.

In response to a question by Staff Advisor Martinez, Mr. Lenz confirmed that the State has recognized its obligation to the UCRP, but there is no funding allocation.

Regent Zettel expressed concern about the State's ability to repay the University, if UC were to fund capital project debt itself. Mr. Brostrom responded that the lease revenue bonds in question had already been authorized by the Legislature. He observed that there would be serious repercussions for the State if it failed to meet its obligations for a General Obligation or lease revenue bond appropriation. These are time-honored financial instruments which the State has serviced for decades. Mr. Brostrom agreed that caution was advised regarding those projects which have not received authorization by the Legislature. Mr. Lenz added that, if the State abandoned its long-held policy to fund capital projects through General Obligation or lease revenue bonds, this would represent a serious concern for the University, and UC should not urge campuses to develop capital projects if financial parameters are subject to change.

Faculty Representative Simmons noted that, although the lease revenue bonds had been authorized, they had not yet been sold. He cautioned that the University would be at the State's mercy if it provided its own funding for the capital projects, because there was no guarantee that the State would sell the bonds. Mr. Brostrom responded that this statement was correct, but emphasized that this was a matter of timing. The lease revenue bonds are in the queue, as are billions of dollars in General Obligation bond commitments for other UC projects. It would be in the State's interest to sell the bonds. The University would borrow on its credit and on short-term rates, saving the State tens of millions of dollars in interest costs during the construction period.

Chairman Gould observed that the State's actions this year reflected a pattern of State disinvestment in UC. The Regents have often discussed the importance of a long-term funding agreement that would provide more reliability and a means of responding to the extreme pressures the University would face in coming years. This would be a multi-year agreement with the State to address ongoing funding for operations and provide a capital commitment; it would include a payment plan by the State for its UCRP obligation. Chairman Gould described the State's obligation to the UCRP as the greatest driver of UC costs in the future. This kind of agreement would allow the University the latitude to examine its student fee structure over time. There have been preliminary discussions with the State about an agreement of this nature.

Regent Blum expressed skepticism about the State's ability to fulfill its obligations in an agreement with the University. He cited the State's failure to provide enrollment funding it had agreed to.

Chairman Gould stated that any agreement must be made not only with the Governor but with the Legislature as well. The State has honored agreements regarding the UCRP in the past. He expressed his view that an agreement with the Governor and the Legislature would be preferable to attempts to address the budget situation year by year. There would be further reports to the Regents on this matter at future meetings.

Regent Marcus suggested that a solution for the situation would be an amendment to the State Constitution mandating funding for UC.

3. LONG-TERM BUDGET SCENARIOS AND FUNDING PLAN OPTIONS FOR THE UNIVERSITY OF CALIFORNIA

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

Executive Vice President Brostrom stated that a long-term goal of the University is to build a solid and sustainable financial plan founded on its historic values of quality, access, and affordability. The University continues to seek administrative efficiencies and new revenue sources, but Mr. Brostrom identified State support, tuition and financial aid policies, enrollment, and the scope of campus personnel, programs, and services as the key levers in addressing this goal.

The University faces a long-term challenge in that core expenses will continue to increase, and the cost of post-employment benefits will accelerate. A funding model needs to be created based on steady and predictable revenues to allow campus planning for faculty recruitment, graduate student support, enrollment levels, and other programs, and to ensure maintenance of UC's quality. Such a model would include a stable compensation program for faculty and non-represented staff, who have not had salary increases for the past three years.

If the currently proposed State budget were adopted, it would leave UC at the same funding level as in 1997-98, when the University had almost 75,000 fewer students and one less campus. A secondary effect of State disinvestment in UC has been volatility in funding levels, which has been directly felt on campuses, affecting students and faculty. State funding has followed a "boom and bust" pattern, with drastic swings depending on the overall condition of the State budget. The situation has been exacerbated by the fact that the University's appropriation comes from an ever smaller discretionary portion of the State budget. The University has been forced to pass on this volatility to students and their families. Mr. Brostrom recalled that in the past two decades at UC, there have been eight years with no tuition increases, eight years with double digit increases, and only four years with tuition increases between five and ten percent. An increase of five to ten percent, calculated with financial aid, is roughly equivalent to the price index for higher education. If the rates of increase over the 20 years were compounded, the result would be a steady annual 7.5 percent increase over that period. The University needs stable revenues for effective campus planning, for staff and faculty retention, and to provide greater certainty to students and their families.

The University faces a budget gap of nearly $900 million, which consists of the $500 million reduction proposed by the State and UC's mandatory costs, principally personnel costs. Without new revenues, the University's projected growth rates, mandatory costs, and enrollment could increase the deficit to $2.5 billion by 2015-16. Mr. Brostrom emphasized that the assumptions presented in the current discussion regarding UC expenses were realistic and not exaggerated. For most major cost areas, the University assumes an annual growth rate of three percent or less; higher rates of growth are assumed for post-employment benefits, and health and welfare benefits.

Mr. Brostrom presented a bar chart illustrating baseline costs. The two major drivers of the University's deficit are the current budget gap of nearly $900 million, about 40 percent of the baseline costs over the coming five years, and post-employment benefits, which would grow to almost 20 percent of baseline costs over the same period.

Mr. Brostrom next outlined some of the University's baseline assumptions. Enrollment is projected to increase by one percent annually, consistent with earlier UC enrollment plans and with UC's promise to California students. The University assumes steady compensation program increases of three percent annually for all staff and faculty; it also assumes a seven percent annual increase in health and welfare benefits. The greatest increase in cost is assumed for post-employment benefits.

In response to a question by Regent Makarechian, Mr. Brostrom explained that the projected three percent annual increase in compensation would apply to faculty, non-represented staff, and represented staff. The $8 billion base for compensation would increase by three percent per year. Expenditures for employee health benefits are approximately $1.2 billion for all employees. The University is actively pursuing administrative savings in this area.

In response to another question by Regent Makarechian, Mr. Brostrom explained that the cost of health and welfare benefits for current employees, projected to increase by seven percent annually, amounts to less than 20 percent of payroll cost, but has been increasing rapidly.

Faculty Representative Simmons underscored that the University's contribution to the UC Retirement Plan (UCRP) reflects existing, not future liabilities. These are costs which must be met.

Regent Reiss asked if the projected increases took into account the tier system for new, incoming employees. Mr. Brostrom responded in the affirmative, but noted that most of the projected UCRP contribution addresses unfunded liability.

Mr. Brostrom next discussed assumptions regarding administrative efficiencies. One recent achievement has been in the area of student health insurance. In the coming fall, for the first time, all UC students would be covered by one health insurance program. It would be the largest student health insurance program in the U.S. and should result in savings for the University and students, and in enhanced benefits. There was a similar development this year for UC health benefits. Mr. Brostrom anticipated that these measures would yield tens of millions of dollars in savings. The University has achieved efficiencies through a $50 million budget reduction at the Office of the President, and would achieve future efficiencies by reducing the cost of employee health benefits.

The University has been actively considering possible alternative revenue sources. One source could be increased indirect cost recovery on research contracts and grants. This could increase through the overall growth of UC's research enterprise, or if the University secured higher indirect cost rates for all its campuses. The University currently recovers 54 percent of its indirect research costs; if this recovery rate could be increased to the levels of Stanford University, 60 percent, or of Harvard and the Massachusetts Institute of Technology, 68 percent, it might yield $100 million. In the past, the University has often waived reimbursement of indirect costs; it could be more rigorous in pursuing such reimbursement. Another source of revenue might be provided by models of philanthropy with greater fungibility to free up more unrestricted funds. As an example, some campuses are raising funds that are restricted, but which free up central funding. Other alternative revenue sources are increased nonresident enrollment and the development of self-supporting programs. All campuses are exploring the possible expansion of self-supporting programs to relieve the burden on central funding.

Mr. Brostrom went on to caution that, even if aggressively pursued, these alternative revenue sources would provide only $1 billion, or about 40 percent of the budget shortfall; the remaining shortfall totaled approximately $1.5 billion, and the University would have to look to the key levers of State support, tuition, financial aid policies, and enrollment to address this $1.5 billion.

Mr. Brostrom next discussed four budget scenarios, each with different assumptions regarding State support, tuition and fees, and enrollment. Under the first scenario, the University's best-case scenario, the University would receive an eight percent annual increase in State funding and would increase tuition by eight percent annually. These two revenue sources would largely close the projected funding shortfall by 2015-16.

President Yudof observed that the scenarios being discussed were based on an assumption of a $2.5 billion State appropriation for UC. Mr. Brostrom confirmed that the scenarios assume $2.5 billion in State support for UC in 2011-12, based on the Governor's January budget proposal, and that there would be no additional tuition increases beyond those approved in November 2010.

In response to a question by Regent Reiss, Mr. Brostrom confirmed that the scenarios begin with the assumption of no further reductions in State support beyond the $500 million already proposed.

Committee Chair Lozano noted that the University has an alternate plan in case there are further reductions in State support beyond the $500 million. She stressed that the scenarios do not contemplate a mid-year fee increase and that the Regents have expressed the wish to avoid such a fee increase.

Regent Reiss asked why the current presentation did not include scenarios for a possible $1 billion reduction in State support. Mr. Brostrom responded that the University's message today is that, with the $500 million reduction, the campuses have absorbed as much as they can in reductions. If there were a further reduction of $500 million, the University would be forced to consider replacing these funds with revenue from tuition increases.

Committee Chair Lozano stated that the Regents understand that such measures, which she described as Draconian or devastating, are a possibility.

Regent Reiss expressed her view that the Regents should see a scenario for a $1 billion reduction, both to be fiscally conservative and to make the situation clear to the public.

President Yudof stated that the scenarios in the presentation were plausible.

Regent Varner asked about the number of non-resident undergraduate students assumed in the first scenario. Mr. Brostrom responded that the scenario assumes ten percent annual growth in the number of non-resident undergraduate students, an increase of almost 900 students annually systemwide.

Regent Island asked what the projected UC tuition levels in 2016 would be, in dollar amounts, under the four scenarios, and the percentage increase those levels would represent over current tuition. He expressed concern that, if tuition were increased as proposed in the first scenario, by almost 50 percent, this, added to the tuition increases over the previous five years, would result in a doubling of UC tuition over a ten-year period. Mr. Brostrom responded that this information would be provided.

Mr. Brostrom reiterated that the first scenario was the best-case scenario from the University's standpoint. He noted that the assumption of an eight percent annual increase in State funding might seem overly optimistic, but observed that there could be three components to this increase: funding for workload inflation of about three percent, additional funding for enrollment of about one percent, and four percent for the UCRP liability. The University could structure the State's long-term obligation to the UCRP in such a way that the State could pay down its obligation at a future point when excess revenues are available. This scenario would include annual eight percent tuition increases.

Mr. Brostrom described the remaining three scenarios as mathematical solutions. The second scenario, with an annual increase in State funding of only four percent, would require annual tuition increases of 12 percent. The third and fourth scenarios were far more severe. The third scenario assumed no future growth in State funding, no enrollment growth, and annual tuition increases of 16 percent. The fourth scenario assumed a two percent annual reduction in State funding.

Regent Lansing asked how UC tuition levels compare to those of other public universities. Mr. Brostrom presented a chart displaying UC tuition levels in 2010-11 for resident undergraduate and graduate students and the corresponding tuition levels of four comparator institutions. He noted that UC tuition falls in the middle or low end of the range of tuition levels among these institutions, and that some universities, such as Pennsylvania State University, the University of Illinois, and the University of Wisconsin are contemplating significant tuition increases due to declines in State support.

Regent Lozano asked that information be provided at the next meeting on tuition levels, in dollar amounts, for UC's public comparator institutions. Regent Kieffer asked what those levels might be for five years into the future. Mr. Brostrom noted that the comparator institutions have not made announcements about future tuition levels. Vice President Lenz added that the Office of the President could make some projections on this matter and provide information at a future meeting.

Regent Crane stressed that the University should pursue greater support from the State, but recalled that higher education funding comes from the discretionary part of the State budget. This year, allocation of 65 percent of the State budget was already determined for school funding under Proposition 98, debt service, and Medi-Cal. The remaining 35 percent of the budget was reserved essentially for the Department of Corrections and Rehabilitation, the Health and Human Services Agency, the Environmental Protection Agency, a few other agencies, and higher education. The Legislature was unlikely to reduce funding for corrections, and it would be dangerous to reduce funding for social services during a recession. He cautioned that, even assuming revenue growth and a tax increase, the percentages of the State budget for debt service and Medi-Cal would probably increase, so that the 65 percent mentioned earlier would increase to 80 percent. Corrections, human services, and higher education would then compete for 20 percent of the State budget. It would be difficult under such circumstances for even a well-intentioned legislator to advocate greater funding for higher education. Regent Crane suggested that the University should think like a public institution but act like a private institution in order to maintain outstanding faculty, affordability, and accessibility. Donors to the University must understand that State funding is not reliable. Regent Crane suggested that the University consider differential tuition for the campuses, even though this is an option the Regents would prefer to avoid. He expressed misgivings about increasing nonresident student enrollment as a source of revenue. Access must be maintained for California students, and the University should find ways to secure financial support for them.

Faculty Representative Anderson referred to the cost of the UCRP employer contribution in 2012-13, ten percent of covered compensation. He asked how this figure compares to the State's contribution to the retirement plan of California State University (CSU) employees. Mr. Lenz confirmed that the State contribution to the retirement plan for CSU employees is greater than 20 percent.

In response to another question by Mr. Anderson, Mr. Brostrom confirmed that, before the State calculated a $500 million reduction to CSU, CSU received additional funds to cover an increase in the employer contribution. Mr. Brostrom stated that this State contribution for CSU was about 22.8 percent.

Mr. Anderson asked how much the employer contribution to the UCRP would be reduced if UC were to offer no pension benefits to newly hired employees. Mr. Brostrom responded that the reduction would be considerable, but it would occur 15 years in the future.

Mr. Anderson observed that, while increases in employer contributions to the UCRP are a major budgetary challenge, they are unavoidable. Making reductions to the pension program would not solve the current budget problem; it might alleviate the problem in a more distant future.

Regent Makarechian asked if the projected shortfall in the presentation materials included the interest on potential capital improvement lease revenue bond payments. Mr. Brostrom responded that the University's calculation of the budget shortfall included funding for capital renewal and deferred maintenance, but not for the total amount of UC's capital renewal costs. Some capital renewal projects are funded at the campus level and from sources that are not part of the University's core funding.

In response to a request by Regent Makarechian, Mr. Brostrom stated that he would provide an estimate of the systemwide capital needs, including capital renewal, deferred maintenance, and interest payments for capital improvement lease revenue bond payments for State-supported and external projects. He confirmed that this estimate would be a very large number.

Regent Blum emphasized the urgency of providing competitive compensation for faculty to avoid the loss of key faculty and loss of quality for the institution. He expressed concern about competitive offers to UC faculty from Ivy League universities and Stanford. He stated his view that the only solution to ease the budget burden was through raising unencumbered scholarship funds to address the increase in student fees. The University should develop a fundraising program to approach the leading companies in California for scholarship funds; it should begin such a program now, because this would require a long-term effort.

President Yudof recalled that the scenarios in the current presentation were based on the premise of a $2.5 billion level of support for UC in the State budget in 2011-12. For future years, the best scenario the Office of the President could imagine was an eight percent increase in the University's appropriation, with a tuition rate based on this appropriation and one percent growth in enrollment. The other scenarios considered lower levels or reductions in State support, assumed that UC enrollment would remain roughly the same as at present, and assumed certain savings from administrative efficiencies. He asked that the Regents instruct the administration regarding which assumptions they would like built into this model, or what variables they would like to change. He cautioned that a freeze on faculty hiring or a reduction in teaching staff would cause UC to lose its identity. The $500 million reduction has already been very painful for the campuses. President Yudof emphasized that the scenarios are flexible; if the Regents wished, the model could include a ten percent reduction in student admissions over five years, or an increase in graduate student fees, as examples. The administration would report on the possible financial and educational implications of such actions. He requested direction from the Board.

Committee Chair Lozano stated that the scenarios presented took into account all important variables.

Regent Island referred to the differences between the first and second scenarios. The first scenario assumed an annual eight percent increase in State support, while the second scenario assumed only four percent. He asked if this difference of four percent was approximately equivalent to $100 million. Mr. Brostrom responded that this figure was correct for one year, but that the amounts were compounded over four years. He noted that the first scenario, with an eight percent increase in State support and an eight percent increase in tuition, would almost manage to fill the funding shortfall. The second scenario, with a four percent increase in State support and a 12 percent increase in tuition, would not fill the shortfall. This is because, currently, the amount of tuition, at $2.2 billion, is a smaller base than UC's State funding, at $2.5 billion. Nevertheless, he confirmed that the intention was to balance these two sources of funding.

In response to an earlier question by Regent Island, Mr. Lenz reported that, with the eight percent student fee increase approved in November 2010, for 2011-12, the Educational Fee would be $11,124. Under the first scenario, the Educational Fee would increase to $15,100 by 2015-16. Under the second scenario, it would increase to $17,500. Under the third scenario, with a 16 percent annual tuition increase, the Educational Fee would increase to $20,000. Under the fourth scenario, with a 20 percent annual tuition increase, it would increase to $23,100.

Regent Reiss posed the question of which principles the Regents do not wish to violate as they search for solutions. While the Regents do not wish to raise tuition, they must not let the University lose its excellence and quality. Excellence and quality could be defined as maintaining and recruiting outstanding faculty. Many private universities are targeting UC faculty for recruitment. She asked that data on private universities be included in the data on comparator institutions presented to the Regents. She suggested that the University might move toward more local control for the chancellors, including decisions about tuition. She emphasized the importance of outstanding graduate students for securing research grants and retaining research faculty. She noted the challenge of providing more financial aid for middle-class students and expressed confidence in the chancellors' ability to meet this challenge through private fundraising. Within the principles of excellence, quality, access, and affordability, all scenarios should be explored.

Regent Marcus referred to the complexity of the budget and asked that the administration present two scenarios to the Regents, one which would address 90 percent of the budget shortfall, and a second which would address 75 percent of the shortfall.

Mr. Brostrom noted that the issues of access and affordability would be addressed in the following agenda item on financial aid strategy. He acknowledged that the current item did not address a number of issues of quality which are important to the University, such as the student-faculty ratio, faculty and staff salary lags, graduate student support, and capital renewal.

Mr. Lenz then discussed differential tuition options. Differential tuition could be implemented by discipline, by student level, or by campus. This is a complex issue with significant financial and academic implications, and has been discussed by the UC Commission on the Future. Tuition could be structured as a range established by the Regents; campuses could individually choose a level within the range, and the ranges could grow over time. Mr. Lenz presented a hypothetical example, a tuition range of $4,500. Five campuses might choose the maximum of this range, and five might choose the midpoint. The resulting differential in tuition would generate approximately $200 million, net of financial aid.

Recent tuition increases have not had an observable effect on enrollment at UC. The demand for access to UC has never been greater. Mr. Lenz stated that the price point may be much higher than current tuition levels. If the University were to implement differential tuition, it would be necessary to reexamine State funding levels across the system, to avoid “rich” and “poor” campuses. Differential tuition also raises concerns about a possible tiering of campuses, equity for current and future students, and financial aid. Mr. Lenz added that the University must consider a plan which would complement whatever future agreement it has with the State.

Committee Chair Lozano noted that differential tuition is a complex subject, and an option which is not “business as usual.” The topic was being introduced in this discussion to determine if the Regents wish to pursue further review of this option.

Mr. Simmons stated that he found the option of differential tuition troubling. The University makes a promise to every student about receiving a high-quality education at all its undergraduate campuses. If students are promised an equivalent experience, tuition levels should be the same. He cautioned that differential tuition would create the expectation that higher-priced campuses are better, and this expectation would ultimately become a reality. The University would become ten campuses competing with each other. He cautioned that the Board would lose control of the University as a system.

Regent Crane stated that the University must first define its goals and then determine the optimal path for reaching those goals. The Regents clearly see quality, accessibility, and affordability as paramount goals. The University must have scenarios which ensure quality, such as competitive compensation for faculty, and accessibility, as reflected in robust enrollment growth. The Regents should not consider a scenario without robust enrollment growth, since this is one of UC’s goals. UC scenarios must also ensure affordability. These goals must be pursued within existing constraints, one of which is declining State funding. The next step is to examine means of providing affordability. One means would be a model of high fees and high financial aid. In this environment of constraints, differential tuition is another alternative. Differential tuition might allow for robust enrollment growth at a lower cost to students.

Regent Lansing emphasized the uncertainty of State funding and the responsibility of the Board to examine all options thoroughly. If the University faces extreme reductions in State funding, it must consider options other than raising student fees. The University should ask if the California Master Plan for Higher Education is still functioning at the present time. The Regents should examine options such as enrolling fewer freshman and sophomore students, campus specialization in various fields, differential tuition, fees based on income, and making parts of the University self-sustaining. She emphasized that she was not expressing support for any of these options, merely indicating the need to consider them. The citizens of California must understand what the University might be forced to do, given the reductions in State support.

Regent Johnson agreed that the Regents must consider all options, but expressed disapproval of differential tuition. She urged the Regents to consider all the possible negative consequences of this approach. It would be very controversial. Differential tuition and differential funding would have an impact on students at the Merced and Riverside campuses, many of whom come from underrepresented groups. These students would feel that they are receiving a lower-class education. Even if adequate financial aid were provided, differential tuition would create an undesirable perception of the University in the public's mind.

Regent Kieffer emphasized that preservation of the institution was most important to him. He expressed skepticism about the differential tuition option. He cautioned that the impact of differential tuition would be enormous, and not only financial.

Chairman Gould expressed agreement on the importance of quality and accessibility. The Regents would have to manage the issue of affordability. He noted that the UC Commission on the Future had discussed the option of differential tuition, and had decided to put this option aside unless State support continued to erode. The University had now reached the point of further erosion, and it needed to consider this option. He acknowledged that there are serious concerns associated with differential tuition, but noted that the Regents would have to make a choice among unattractive options in order to maintain quality. He recommended continuing discussion of this option.

Regent Hime stated that the Regents should publicize a list of the University's budget options and factors, to allow the public and the Legislature to realize the dire nature of the current situation. These publicized options should include all possibilities, such as higher tuition, lower enrollment levels, differential tuition, and campus closures.

Regent Marcus stated that he did not consider differential tuition a serious option. He reiterated his request for two scenarios that would protect UC priorities.

Regent Zettel expressed the view that the University needs to consider a menu of cost-saving options. She suggested that UC could be engaged in more public-private partnerships for its capital projects, rather than relying on external financing. She questioned the need for every campus to have a construction management department or unit. Chief Financial Officer Taylor responded that the University has undertaken approximately 60 public-private partnerships statewide, and that it is actively pursuing this approach, motivated primarily by potential cost savings. Mr. Brostrom added that the University has the advantage of good credit and low cost of capital; at the same time it can make use of private delivery models that have reduced costs significantly.

Regent Varner expressed agreement with earlier comments about the unreliability of the State as a partner and requested numerical data on revenue that might be generated by increasing the numbers of out-of-state students on UC campuses.

Mr. Brostrom observed that the University has conducted a great deal of research on differential tuition. The subject was discussed at length by the UC Commission on the Future.

Committee Chair Lozano stated that this topic would be discussed within a wider framework, not as a stand-alone option.

Mr. Taylor briefly discussed current UC asset management strategies. He underscored that the University would experience an immediate significant reduction at the beginning of the fiscal year on July 1. The University cannot make a $500 million or $1 billion reduction all at once; it needs time to determine an appropriate balance of cuts and revenue increases. These asset management strategies, which Mr. Taylor described as "bridging strategies," would be necessary to guide the University through this period, while it is absorbing significant reductions.

The University is considering both permanent and temporary strategies. Mr. Taylor first outlined some permanent or long-term strategies, such as moving more Short Term Investment Pool (STIP) funds into the Total Return Investment Pool (TRIP). This involves extensive discussions with rating agencies, who are conservative in their calculation of liquidity. Other long-term strategies are to pool the University's self-insurance programs, which has the potential to free up around $30 million; to create a central bank for debt issuance, which would allow UC to continue to accomplish its capital program, increasing centralization of debt management; to reduce waivers on indirect cost recovery for research contracts and grants by delegating waiver approval authority to the campuses; to continue to pursue legislative authorization bonds; and to consider implementing an overhead fee on endowment payouts.

Mr. Taylor then outlined possible temporary strategies, noting that some would likely be unpopular. One strategy is a tax on carry-forward funds, a tax of one or two percent to generate one-time monies, to bridge the difficult time period in the coming fiscal year. Another temporary strategy is extraordinary payouts on funds functioning as endowments. The University is fortunate in that is has sizeable funds functioning as endowments. The return on these funds in the current year has been nearly 20 percent. The University is considering an extraordinary payout of three percent on these monies; this payout would not affect the regular payout required by UC principal investigators and scholarship funds. Finally, Mr. Taylor presented the option of borrowing for working capital, extended over fiscal years. He noted that UC routinely borrows within a fiscal year to meet cash flow needs. However, borrowing over fiscal years would downgrade UC's credit rating. For this reason, Mr. Taylor hoped that the University would not have to resort to this option, but it was being considered. He concluded by noting that all these strategies together might generate an additional $250 million for the next fiscal year.

Mr. Brostrom stated that the administration would keep the Board apprised of developments in the coming weeks regarding the University's budget negotiations with the State.

President Yudof referred to Regent Reiss' concerns expressed earlier about possible further reductions in State support. He presented a hypothetical situation in which the University would receive another $500 million reduction. In such a situation, the University would not implement a student fee increase in September, and it would not reduce enrollment. The bridging strategies discussed by Mr. Taylor would provide $250 million. President Yudof asked what the amount of a student fee increase in January 2012 would be in this situation. Mr. Lenz responded that the University would need to implement a 32 percent student fee increase to replace, on an annualized basis, a reduction of $500 million. In January 2012, the half-year fee increase would generate approximately $232 million.

President Yudof observed that if State support for UC is reduced by another $500 million, the University would take extraordinary measures to continue through the first half of 2011-12. The University would raise student fees in January 2012 to recover about $250 million. The University would then face the same challenge again in 2012-13, 2013-14, and future years. He cautioned that the University would not have many alternatives to address a budget crisis of these proportions. Mr. Lenz observed that the University would have to develop a contingency plan for the likely situation that the State budget will not have been resolved until late in the fall. He cautioned against waiting to act until a future funding reduction is made by the State.

Regent Island expressed agreement with earlier comments by Regent Marcus and urged the Regents to focus on a disciplined process that would allow them to make good, timely decisions. He noted his concern that the Board might not be able to reach a budget decision by July.

Committee Chair Lozano stated that the Board would focus on immediate actions to address the current budget situation; it would then consider a framework of long-term actions.

Regent Torlakson reported that in the May Revise, the Governor decided to take approximately $3 billion in surplus Proposition 98 funds from the K-12 system for debt reduction. While eliminating $18 billion for K-12 schools over the last three years, the State has also deferred about $9 billion in payments to schools. In addition to this, under Proposition 98 formulas, the State owes another $9 billion to $10 billion in "maintenance factor" funding to K-12 schools. Regent Torlakson concurred with earlier statements by a number of Regents about the need for action to protect education in California, given the Governor's proposed revenue plan. He asked that the Regents take action in favor of the proposal for temporary State tax extensions.

Chairman Gould stated that the Board could not take action on this matter that day. He emphasized the importance to the University of reaching an agreement with the State on funding UC would receive in connection with a tax extension.

Chairman Gould and Committee Chair Lozano thanked Regent Torlakson for his leadership on this issue.

Regent Hime observed that the proposed tax extension would not restore the $500 million reduction that was made to University; instead, it would only prevent further reductions. The University has accepted this $500 million reduction, but must secure a long-term commitment from the State to restore funding when the economy improves.

Regent Blum stated that the University would be faced with a number of undesirable alternatives.

4. **FINANCIAL AID STRATEGY AND FUNDING PLAN FOR THE UNIVERSITY OF CALIFORNIA**

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

President Yudof explained that this item concerned two important concerns of the University: the effort to expand the financial aid program for low- and middle-income students and the need to raise private funding for scholarships, particularly at the campus level.

Vice President Sakaki described the University's undergraduate financial aid program enhancements which aim to ensure that a UC education remains within reach of every qualified student at every income level. These enhancements include an expanded commitment to low-income students, a substantial increase in financial aid for middle-income students, and a funding strategy designed to increase the resources at the University's disposal to address students' growing need for financial aid.

The University has a positive record of providing financial aid to students. Nearly 40 percent of UC undergraduates are low-income Pell Grant recipients, far more than at any comparable university. Four of UC's campuses each enroll more Pell Grant recipients than all eight Ivy League universities combined. There has been no increase in the rate of students who interrupt their studies, even as costs have increased. Over the past decade, there has been an across-the-board decline in students' self-reported work hours. The previous year, over half of all UC undergraduates reported that they did not have employment during the academic year. About half of the UC class of 2010 graduated with no student loan debt. Among graduates with loans, the average debt was below $17,000, repayable with monthly payments of about $200, and less than the average at other public institutions which are members of the Association of American Universities. In constant dollars, this amount has changed very little over time. Ms. Sakaki made it clear that financing a UC education is not easy. Individual students can and do have unique and challenging circumstances, especially in the current economic environment. Nevertheless, the University continues to provide exceptional access for students at every income level.

Ms. Sakaki then presented three proposals designed to maintain this tradition of accessibility. The first proposal concerned self-help, the amount UC expects all students to contribute from work and loans toward the total cost of attendance. Self-help is the students' component, separate from the amount the federal government expects parents to contribute, although for many low-income families, the additional parent contribution is zero. UC has kept self-help manageable, in part, by setting aside one-third of new tuition revenue for financial aid. UC conceives of self-help as a range. At the middle of the range, the University expects that students can work 13 hours per week and dedicate seven percent of their average salary after graduation for student loan repayment. Under the first proposal, the University would, at a minimum, provide funding to keep self-help at that level at every campus, even as costs increase.

The second proposal would raise the income ceiling of the Blue and Gold Opportunity Plan. For many years, the University has been concerned that media reports about State budget cuts and tuition increases might discourage K-12 students from low-income families from aspiring to attend UC. To address this concern, President Yudof introduced the Blue and Gold Opportunity Plan in 2009-10. Under the Plan, UC ensures that needy, low-income California students receive grants and scholarships to cover 100 percent of their systemwide tuition and fees for up to four years. The income ceiling for the Plan increased from $60,000 in 2009-10 to $80,000 for 2011-12. The second proposal would raise the income ceiling to $90,000 for 2012-13.

The third proposal addressed the needs of financially needy middle-income students, a concern of the University for some time. To date, UC has covered some or all of the annual tuition increase for eligible middle-income families in order to help them make the transition to higher tuition levels. As the University contemplates future tuition increases, it seems appropriate to send a clearer and more substantial message to middle-income families about UC affordability. To that end, the University would expand financial aid to needy middle-income students to cover up to one-half of their total systemwide tuition and fees with grants or scholarships, not just the increase in a given year. Under the proposal, the income ceiling for this aid would be $120,000 in 2012-13 and would rise over time, subject to available funding.

Executive Vice President Brostrom observed that these proposals, critical in maintaining the goals of access and affordability, were costly. It would be important to introduce new funding sources and to give the campuses maximum flexibility in meeting their obligations. He recalled that the University currently commits 29 percent of its tuition revenues to financial aid; 33 percent of incremental tuition over the past several years. The current proposals would raise that commitment from 29 percent to 35 or 36 percent. Therefore, an equally important aspect of the proposals was to identify and develop other funding sources, such as corporate philanthropy, extraordinary endowment payouts, balance sheet strategies, and campus flexibility to augment return-to-aid. He noted that return-to-aid would remain the primary funding source for student support.

Mr. Brostrom anticipated that the University's methodology for financial aid would change. Generally, policy and standards for financial aid have been determined by available revenues. The University would now determine the costs of meeting its goals of manageable self-help, further extension of the Blue and Gold Opportunity Plan, and enhanced aid for middle-income students. Campuses and the systemwide administration would determine the most effective combination of resources to meet these goals. Campuses would have the flexibility to use other restricted funds in support of student financial aid.

The proposals represented ambitious but highly appropriate goals, continuing UC's commitment to low-income students and assisting middle-income students, who have been significantly affected by tuition increases. The proposals would provide greater clarity and certainty for students and their families, and increased flexibility to campuses to use all resources to meet these goals. Mr. Brostrom concluded by stressing that UC affordability would become increasingly difficult to maintain if Cal Grant funding did not keep pace with UC tuition levels. It would be essential to maintain advocacy pressure for full funding of Cal Grants in this and coming years.

Regent Kieffer asked about campus scholarships for high-performing students. In a context in which campuses would be asked to cover a higher percentage of student financial aid, he suggested that UC campuses could make greater efforts to secure such scholarships. He asked if the University was in some way undercutting the campuses' ability to secure these scholarships. Mr. Brostrom responded that he would communicate with the campuses about this issue. The proposals aim to give campuses ultimate flexibility in how they distribute financial aid funding. He acknowledged that if the University raises the percentage of student financial aid the campuses are asked to provide, this might detract from other campus aid programs.

Regent Island asked how many of UC's current students fall into the income categories outlined in the second and third proposals of the presentation. Mr. Brostrom responded that he would provide these figures. He pointed out that the third proposal was not as costly as it might appear, because increased financial aid for middle-income students must go to students and families who are need-eligible. Beyond income level, there are asset tests and other criteria to determine need.

Regent DeFreece stressed the importance of providing a comprehensive middle-income financial aid package. He urged the Board to move forward with these proposals as a high priority.

Regent Makarechian asked what percentage of UC students receives financial aid. Ms. Sakaki responded that approximately 67,000 students currently participated in the Blue and Gold Opportunity Plan. If the Plan were expanded for low-income students, participation might increase by 3,000 to 4,000 students, at a cost of about $10 million.

Regent Makarechian asked about the relationship of students receiving loans to those receiving financial aid. Associate Director of University Programs, Student Financial Support David Alcocer responded that among students receiving loans, students from low-income families are more likely to have debt than students from higher-income families, and the amounts they borrow tend to be slightly higher.

In response to another question asked by Regent Makarechian, Mr. Alcocer responded that in a situation of reduced financial aid, for example, if the Cal Grant program did not cover fee increases, the University would expect increases in student debt and in the amount that students have to work, or potential changes in the population of students who can afford to attend UC.

Faculty Representative Anderson noted that in the new funding stream model for campuses, all revenue generated on a campus would remain on the campus, but on condition that the return-to-aid be distributed differently. This condition was intended to ensure that self-help requirements remain equivalent among the campuses, so that a student with a given income would not have to work more to attend one UC campus than another. Mr. Anderson asked how this could be consistent with the wish for campus flexibility in distribution of student financial aid. Mr. Brostrom responded that he would convene a group to consider the most effective approach to allow campus flexibility while continuing to meet a common loan-work standard. Several approaches could be considered. One approach would expect campuses to meet a minimum standard and make use of systemwide resources, including the funding stream model, to meet overall objectives. Mr. Brostrom emphasized that the University intends to have one common level of self-help at all campuses.

5. **FISCAL YEAR 2011-12 BUDGET FOR OFFICE OF THE PRESIDENT**

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

Executive Vice President Brostrom observed that the budget for the Office of the President is usually adopted at the May Regents meeting, but due to the uncertainty regarding the State budget, the administration believed it would be prudent to outline its approach first and to seek approval for this budget at a future meeting.

The overall objective is to reduce the budget of the Office of the President and so mitigate the impact on the campuses of the $500 million cut in State funding. Three approaches to this objective are reductions in administrative costs, eliminating or reducing budgets for programs which have had legislative earmarks, and reduction of legacy programs at the Office of the President which are no longer essential to its mission.

Mr. Brostrom discussed a new funding model being implemented. The Office of the President would now return State monies to the campuses. It would discontinue a number of taxes on items such as indirect cost recovery, nonresident tuition, and patent revenues, and replace that funding with one low, broad-based tax on all revenues in the system. This approach is expected to give the campuses more flexibility as well as increase the accountability and transparency of the University's budget process.

The proposed consolidated budget for the Office of the President would be approximately $545 million. This would include $90 million for general administration, $300 million for central services, such as the retirement and benefits systems, centralized admissions, and financial management, and $150 million for systemwide programs and initiatives, such as the Division of Agriculture and Natural Resources, the California Digital Library, and UC Press. Compared to the adjusted fiscal year 2010-11 budget, this budget had been reduced by six percent.

An important target for this budget would be a 15 percent reduction in unrestricted funds, about $50 million. This reduction would be made in general administration, central services, and systemwide programs and initiatives. This reduction would be in addition to $55 million in previous cuts since 2007-08. The overall reduction for the Office of the President in four years would be approximately $100 million. Mr. Brostrom presented a timeline for this $100 million reduction. He emphasized that this represented real cuts, net of program transfers, and called attention to the University's strategic effort to shift other funds, as appropriate, to restricted sources to provide greater budgetary flexibility for the University's unrestricted budget.

The University is engaged in discussions with the State Legislature regarding $29 million in earmarked systemwide programs and initiatives. Reduction of these programs would bring down the overall cuts to campuses from $500 million to $420 million in the coming year. The budget also targets a systemwide assessment of 1.5 percent to fund the Office of the President, applied to all revenues in the system.

Regent Blum asked about the current number of employees at the Office of the President, compared with three years earlier. Mr. Brostrom responded that there had been a 20 percent reduction since 2007-08. He noted that there would be an increase in the number of employees in the coming year. An in-house administration for Human Resources would be reinstituted; UC San Francisco had been administering this program on a trial basis. The Office of the General Counsel has hired more in-house counsel, which has reduced costs of external counsel by about $20 million. There would be an increase in number of employees, but overall savings to the system.

In response to a question by Regent Crane, Mr. Brostrom explained that the reduction to retirement and benefits systems he mentioned earlier referred to the Office of the President's own in-house benefits program, which includes a retirement service center.

Committee Chair Lozano praised the increased efficiency of operations at the Office of the President. It is centralizing certain functions and offering better services to the UC system, and doing so in an efficient and cost-effective way.

6. **CONSENT AGENDA**

A. ***Adoption of Endowment Administration Cost Recovery Rate***

The President recommended that an endowment administration cost recovery rate of 55 basis points (0.55 percent)[1] be approved to apply to the distributions from the General Endowment Pool (GEP) to be made after July 1, 2011, from the eligible assets invested in the GEP. The funds recovered shall be used 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.

B. ***Approval of Fiscal Year 2011-12 CapEquip Financing Authorizations***

The President recommended that:

(1) The fiscal year 2011-12 CapEquip authorizations delineated in Attachment 1 be approved as one-year authorizations expiring June 30, 2012.

(2) The President be authorized to approve and obtain external financing for the CapEquip program in an amount not to exceed $240,120,000.

(3) The general credit of the Regents shall not be pledged.

(4) The President be authorized to execute all documents necessary in connection with the above.

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

Committee Chair Lozano briefly introduced the items.

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

7. **REPORT OF NEW LITIGATION**

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

General Counsel Robinson presented his **Report of New Litigation**, shown in Attachment 2. By this reference the report is made part of the official record of the meeting.

[1] One basis point is 0.01 percent of yield (i.e., one hundred basis points equals one percent); 55 basis points are the equivalent of $55 on endowment assets with a 60-month average market value of $10,000.

The meeting adjourned at 12:35 p.m.

Attest:

Associate Secretary

Table A: Approval of FY2011-12 CapEquip Authorization

UC Location	$ Amount Requested	Description of Expected Equipment Purchases
UC Berkeley	$ 20,000,000	Research equipment, telecommunications equipment, other equipment, software, and refinancing of certain existing capital equipment leases.
UC Davis	10,000,000	Science and laboratory equipment, animal caging, facilities maintenance equipment, and computer software.
UC Davis - Medical Center	25,000,000	Replacement medical equipment, replacement diagnostic equipment, and new equipment related to recently-opened surgical and emergency services pavilion.
UC Irvine	2,500,000	Computing equipment, vehicles, and traffic signals.
UC Irvine - Medical Center	15,000,000	Medical equipment, diagnostic equipment, plant equipment, and health information software.
UCLA	10,000,000	Medical and diagnostic equipment, research equipment, shop equipment, computer equipment, communications and networking equipment, vehicles, software licenses, and refinancing of certain existing capital equipment leases.
UCLA - Medical Center	40,000,000	Medical and diagnostic equipment, computer equipment, communications and networking equipment, vehicles, software licenses, and refinancing of certain existing capital equipment leases.
UC Merced	305,000	Fleet vehicles and electric carts.
UC Riverside	-	UC Riverside is not participating in CapEquip for FY2011-12.
UC San Diego	4,650,000	Medical equipment, diagnostic equipment, budget software, DNA sequencing equipment, and refinancing of certain existing capital equipment leases.
UC San Diego - Medical Center	30,000,000	Medical equipment, diagnostic equipment, and budget software.
UC San Francisco	-	UC San Francisco is not participating in CapEquip for FY2011-12.
UC San Francisco - Medical Center	-	UC San Francisco Medical Center is not participating in CapEquip for FY2011-12.
UC Santa Barbara	1,000,000	Diagnostic equipment and instruments, other equipment, vehicles, and refinancing of certain existing capital equipment leases.
UC Santa Cruz	1,665,000	Utility vehicles, refuse trucks, shuttle busses, fire engine, and police vehicles.
UC Office of the President	80,000,000	PPS replacement system, i.e., a single payroll system and a single human resources system that will be deployed across all ten campuses and five medical centers. The use of this funding authorization is dependent upon consideration and decision of the Regents at their scheduled July 2011 meeting.
UC Agriculture & Natural Resources	-	ANR is not participating in CapEquip for FY2011-12.

Total Authorization:	**$240,120,000**

NEW LITIGATION AND ARBITRATION PROCEEDINGS

Report Period: 2/3/10 – 4/8/11
Regents Meeting
May 2011

Plaintiff	Location	Nature of Dispute Alleged by Plaintiff	Forum
		Employment Cases	
Bacnotan, Lourdes	UCSDMC	Sexual Harassment; Discrimination; Retaliation	San Diego County Superior Court
Beauregard, Angela	UCLA	Violation of the California Family Rights Act	Los Angeles County Superior Court
Ferrufino, Julio	UCR	Discrimination, Wrongful Termination	Riverside County Superior Court
Lonnquist, Alissa	UCD	Discrimination, Wrongful Termination	Sacramento County Superior Court
Thornton, Gail	UCSD	Discrimination	San Diego County Superior Court
Villarreal-Alrusan, Christine D.	UCD	Discrimination	Yolo County Superior Court
		Professional Liability Cases	
Avila, Manuel	UCDMC	Medical Malpractice	Alameda County Superior Court
Blacknell, Rodneisha June	UCSDMC	Medical Malpractice	San Diego County Superior Court
Fons, Leesa	UCIMC	Medical Malpractice	Orange County Superior Court
Hernandez, Vianney Lucia, a minor by and through Guadalupe Lopez	UCLAMC	Medical Malpractice	Los Angeles County Superior Court
Holloway, Gwendolyn	UCSFMC	Medical Malpractice	San Francisco County Superior Court

Keller, Kimberly	UCSDMC	Medical Malpractice	San Diego County Superior Court
Khalili, Vahid	UCSFMC	Medical Malpractice	San Francisco County Superior Court
Lawrence, John	UCSFMC	Medical Malpractice	Alameda County Superior Court
Preedge, Sharon	UCIMC	Medical Malpractice	Orange County Superior Court
Rial, Shawn (decedent), William Rial	UCIMC	Medical Malpractice	Orange County Superior Court
Salazar, Martin	UCSFMC	Medical Malpractice	Fresno County Superior Court
Staub, George	UCDMC	Medical Malpractice	Sacramento County Superior Court

Other Cases

Davis v. NCAA	UCB, UCD, UCLA	Denial of Constitutional Right to Equal Protection	U.S. District Court, Northern District of California
Felber, Jessica	UCB	Civil Rights, Breach of Fiduciary Duty, Negligence, and Premise Liability	U.S. District Court, Northern District of California
Hazimi, Joseph	UCLA	Premises Liability/Negligence	Los Angeles County Superior Court
Janssens, Joseph R.	UCSB	Personal Injury (Complex Asbestos Litigation)	San Francisco County Superior Court
Lee, Jinny	UCI	Negligence	Orange County Superior Court
Munoz, Alicia	UCSDMC	Complaint in Interpleader	San Diego County Superior Court
Official Committee of Unsecured Creditors v. The Regents, et al.	UCOP	Complaint for Fraudulent Transfer, Preferential Transfer, and Unjust Enrichment	U.S. Bankruptcy Court, District of Delaware
Sacramento Area Flood Control Agency	UCOP	Eminent Domain	Sacramento County Superior Court

Save Strawberry Canyon	LBNL	Petition for writ of mandate, declaratory and injunctive relief to set aside Regents' approval of the Solar Energy Research Center Project (SERC) and certification of the associated Final Environmental Impact Report as contrary to the California Environmental Quality Act and other laws	Alameda County Superior Court
The People of the State of California	UCB	Underground Storage of Hazardous Substances Act	Alameda County Superior Court
Watson Bowman Acme, Corp. v. Van-Mulder Sheet Metal	UCB	Action for Injunctive Relief	Alameda County Superior Court
Wyatt, Kevin	UCSDMC	Writ of Mandate	San Diego County Superior Court

Public Employment Relations Board ("PERB")
Unfair Practices Alleged by Charging Party

CUE (Coalition of University Employees) (SFCE975H)	Systemwide	Discrimination	PERB
CUE (SFCE977H)	UCSF	Unilateral Change, Discrimination	PERB
CUE (SFCE978H)	Systemwide	Unilateral Change, Discrimination	PERB
CUE (SFCE979H)	Systemwide	Unilateral Change	PERB
CUE (SFCE980H)	Systemwide	Unilateral Change	PERB

UPTE CWA HX (University Professional & Technical Employees Communications Workers of America Health Care Professionals) (SFCO705M)	Systemwide	Unit Modification Petition	PERB
UPTE RX/TX (University Professional & Technical Employees Researchers/ Technical Employees) (SFCE976H)	UCSB	Failure to Bargain in Good Faith	PERB