

The Regents of the University of California

COMMITTEE ON FINANCE

July 13-14, 2011

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

Members present: Regents Island, Lozano, Makarechian, Mireles, Reiss, Varner, and Wachter; Ex officio members Gould and Lansing; Advisory members Mendelson and Simmons; Staff Advisors Herbert and Smith

In attendance: Regents De La Peña, Hallett, Kieffer, Marcus, Pattiz, Pelliccioni, Ruiz, and Zettel, Regents-designate Rubenstein and Stein, Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Pitts, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice President Stobo, Vice Presidents Darling, Duckett, Lenz, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Desmond-Hellmann, Drake, Fox, Katehi, Leland, White, and Yang, and Recording Secretary Johns

The meeting convened at 11:45 a.m. with Committee Chair Varner presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 18 and the joint meeting of the Committees on Finance and Investments of May 18, 2011 were approved.

2. PROGRESS REPORT ON WORKING SMARTER: SYSTEMWIDE ADMINISTRATIVE EFFICIENCIES AT 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.]

Chief Financial Officer Taylor recalled that about a year earlier, the University had launched an effort to refine its business practices with the goal of securing greater savings to be directed to teaching and research. The University has been able to document \$157 million in positive fiscal impact due to this Working Smarter initiative, a combination of cost savings and revenue generation from new asset management techniques. Working Smarter has a goal of \$500 million in positive fiscal impact.

Regent Lozano congratulated Mr. Taylor on this work and asked how it might be accelerated. Mr. Taylor responded that the Office of the President has a responsibility to be able to fairly represent to the Board that it is addressing the University's financial

challenges with all reasonable means and as quickly as possible. The Working Smarter initiative has helped to avoid painful layoffs on the campuses. He acknowledged that the University's culture is not structured to move quickly. The administration has established new financial incentives to cover start-up costs for promising new ideas and programs. Executive Vice President Brostrom added that the University is burdened by a legacy of separate systems. There has been good communication and consensus among the campuses recently about moving toward a common administrative framework. The payroll system is a good example. The University's ten campuses have different backup systems; working these into one system is a challenge. Mr. Taylor noted that the University had hired a director for its consolidated payroll project about one-and-a-half years previously. The University has chosen a vendor, and the Regents would receive a report on this project at a future meeting. The administration was now beginning discussions with the vendor about the new system. He noted that from his point of view, it had taken a long time to reach this point, while other individuals within UC have been surprised that this much has been accomplished in a year-and-a-half.

Chairman Lansing stated that she was impressed by the savings that have been achieved through the Working Smarter initiative and noted that the effort includes changes to UC's culture. She asked that the Regents receive ongoing reports about other ideas the University is developing to promote collaboration and cost savings. Finding cost savings was more important now than it had ever been before. Mr. Brostrom responded that the savings reported to date mostly derive from systemwide initiatives. In addition, every campus has established organizational effectiveness or operational excellence initiatives to generate savings.

Staff Advisor Herbert observed that UC staff were ready for transformational change. She expressed the wishes of UC staff to be continually engaged in this process and to receive appropriate training.

Regent Marcus asked if the Regents would receive a report on alumni contributions. Chairman Lansing responded that this topic would be discussed the following day, in a discussion of possible alternate revenue sources.

Regent De La Peña asked if the University had dismissed the possibility of outsourcing the payroll function. Mr. Taylor responded that, in developing a request for proposals, the Office of the President considered four approaches: pure outsourcing, licensing, hosting, and cloud computing. The University has determined that the hosted approach would be most cost-effective. While outsourcing the payroll function might be effective for the day-to-day needs of some campuses, it would not function well for the UC medical centers. None of the vendors who presented outsourcing options had experience with entities as large as the UC medical centers.

Regent De La Peña asked if the University would have to develop the software for the new payroll system. Mr. Taylor responded that, with the hosted approach, the software and servers would be provided by the vendor. Currently, thousands of UC employees are engaged in ensuring that the University meets its monthly payroll obligations. He

anticipated that the new system would be much more streamlined and would require only one-tenth or one-fifth of the current effort to accomplish the same task. The resources the University would save could be applied to teaching and research.

Regent De La Peña asked when the new payroll system would be implemented. Mr. Taylor responded that the University has set a goal of having one campus in testing mode by the following year. He drew attention to the fact that the process of changing to a new system should be gradual. An abrupt payroll system change at Stanford University resulted in a high error percentage. The University intends to run parallel systems for about six months to ensure that the new system performs with 100 percent accuracy. He expressed his hope that the new payroll system would be in place by early 2013.

Regent De La Peña asked if the University's general ledger systems would be standardized. Mr. Taylor responded that a standardized financial system is a longer-term project. He reported that he has requested a report from the campus controllers on the possible nature of a UC systemwide financial system. This report would probably be ready for review by the end of the year. Mr. Taylor stated that his personal preference would be to implement a new financial system before a new payroll system, but the University's payroll system must be addressed first, as it is in danger of collapse in the next two to three years.

Regent De La Peña stressed the importance of a standardized UC financial system for understanding and analysis of UC financial statements. Financial statements from the campuses and units were currently categorized in different ways. Mr. Taylor responded that assembling and coordinating financial information from UC locations, for annual financial reports and interim reports, require a great deal of staff time.

Committee Chair Varner expressed the Regents' appreciation for the administration's efforts to find efficiencies without sacrificing quality.

The Committee recessed at 11:55 a.m.

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The Committee reconvened at 1:05 p.m. with Committee Chair Varner presiding.

Members present: Regents Island, Lozano, Makarechian, Mireles, Reiss, Varner, and Wachter; Ex officio members Gould and Lansing; Advisory members Mendelson and Simmons; Staff Advisors Herbert and Smith

In attendance: Regents De La Peña, Hallett, Kieffer, Marcus, Pattiz, Pelliccioni, Ruiz, and Zettel, Regents-designate Rubenstein and Stein, Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Pitts, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice President Stobo, Vice Presidents Duckett and Lenz, Chancellors

Birgeneau, Block, Blumenthal, Desmond-Hellmann, Drake, Fox, Katehi, Leland, White, and Yang, and Recording Secretary McCarthy

3. **CONSENT AGENDA**

A. *Authorization of Leases and Agreements for Various State Capital Programs*

The President recommended that, subject to adoption by the State Public Works Board (SPWB) of a resolution authorizing the issuance of State Public Works Board Lease Revenue Bonds for: Business Unit 2, Irvine campus; Environmental Health and Safety Expansion, Riverside campus; and SIO Research Support Facilities, San Diego campus, the President or the Secretary and Chief of Staff be authorized to:

- (1) Execute an unsubordinated site lease from the Regents to the SPWB for each project named above, said lease to contain provisions substantially as follows:
 - a. The site shall comprise the approximate size of the footprint for each building named above. Said lease shall also include a license to the SPWB for access from campus roads to the site during the term of the lease.
 - b. The purpose of the lease shall be to permit construction of the project.
 - c. The term of the site lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds, and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full.
 - d. The rental shall be \$1 per year.
 - e. The Regents shall have power to terminate the site lease in the event of default by the SPWB, except when such termination would affect or impair any assignment or sublease by the SPWB and such assignee or subtenant is duly performing the terms and conditions of the lease.
 - f. The Regents shall provide to the SPWB and any assignee of the SPWB access to the site and such parking and utility services as are provided for similar facilities on the campus.

- g. The Regents shall waive personal or individual liability of any member, officer, agent, or employee of the SPWB.
 - h. The Regents shall agree to pay assessments or taxes, if any, levied on the site or improvements attributable to periods of occupancy by the Regents.
 - i. In the event any part of the site or improvements is taken by eminent domain, the Regents recognizes the right of the SPWB to retain condemnation proceeds sufficient to pay any outstanding indebtedness incurred for the construction of the project.
- (2) Execute an agreement between the State of California, as represented by the SPWB, and the Regents for each project named above, said agreements to contain the following provisions:
 - a. The SPWB agrees to finance working drawings and/or construction for the project, as authorized by statute.
 - b. The Regents agrees to provide and perform all activities required to plan and construct said project.
- (3) Execute a facility lease from the SPWB to the Regents for each project named above, said leases to contain provisions substantially as follows:
 - a. The purpose of the building's occupancy shall be to use it as a facility for functions in furtherance of the University's mission related to instruction, research, and public service.
 - b. The SPWB shall lease the State-financed portion of the facility, including the site, to the Regents pursuant to a facility lease.
 - c. The terms of the facility lease shall commence on recordation of the lease or the first day of the month following the meeting of the SPWB at which the resolution is adopted authorizing the lease, the issuance of bonds, and interim financing for the project, whichever is earlier, and shall terminate on the date the bonds issued by the SPWB are paid in full, subject to earlier termination if such bonds have been retired in full.
 - d. If the SPWB cannot deliver possession to the Regents at the time contemplated in the lease, the lease shall not be void nor shall the SPWB be liable for damages, but the rental payment shall be abated proportionately to the construction cost of the parts of the facility not yet delivered.

- e. In consideration for occupancy during the term of the lease and after the date upon which the Regents takes possession of the facility, the Regents shall pay base rent in an annual amount sufficient to pay debt service on the bonds or other obligations of the SPWB issued to finance or refinance the facility and additional rent for payment of all administrative costs of the SPWB.
- f. The Regents covenant to take such actions as may be necessary to include in the University's annual budget amounts sufficient to make rental payments and to make the necessary annual allocations.
- g. During occupancy, the Regents shall maintain the facility and pay for all utility costs and shall maintain fire and extended coverage insurance at then current replacement cost or an equivalent program of self-insurance, and earthquake insurance if available on the open market at a reasonable cost.
- h. During occupancy, the Regents shall maintain public liability and property damage insurance, or an equivalent program of self-insurance, on the facility and shall maintain rental interruption or use and occupancy insurance, or an equivalent program of self insurance.
- i. In the event of default by the Regents, the SPWB may maintain the lease whether or not the Regents abandons the facility and shall have the right to relet the facility, or the SPWB may terminate the lease and recover any damages available at law.
- j. The Regents shall be in default if the lease is assigned, sublet, or transferred without approval of the SPWB, if the Regents files any petition or institutes any proceedings for bankruptcy, or if the Regents abandons the facility.
- k. The Regents shall cure any mechanics' or materialmen or other liens against the facility and, to the extent permitted by law, shall indemnify the SPWB in that respect.
- l. The Regents, to the extent permitted by law, shall indemnify the SPWB from any claims for death, injury, or damage to persons or property in or around the facility.
- m. Upon termination or expiration of the lease, other than for breach or because of eminent domain, title to the facility shall vest in the Regents.

[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.]

Vice President Lenz stated that an item like this one comes before the Committee each year during the State budget process, as the University has projects that are approved through lease revenue bonds.

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

B. *Authorization to Approve Interest Rate Swap Guidelines*

The President recommended that the Interest Rate Swap Guidelines for the University's debt portfolio, as shown in Attachment 1, be approved.

[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.]

Chief Financial Officer Taylor stated that this item would allow the Regents to establish guidelines for possible use of interest rate swaps to reduce exposure to changes in interest rates, manage asset liability interest risk, and lower net cost of capital on the University's bonds.

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

4. UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – EXPERIENCE STUDY: PROPOSAL TO ADOPT CHANGES IN ACTUARIAL ASSUMPTIONS

The President recommended that:

- A. The Consulting Actuary's recommendations regarding actuarial assumptions for the UC Retirement Plan (UCRP) summarized in Attachment 2 be adopted.
- B. New annuity option factors and lump sum factors for the UCRP, based on the recommended change in the Mortality Rates assumption summarized in Attachment 2, be effective for retirements on July 1, 2012 and later.
- C. With respect to the UC-PERS Plus 5 Plan and the UC Retiree Health Benefit Program, the actuarial assumptions summarized in Attachment 3 be adopted.
- D. The Plan Administrator be authorized to implement the actuarial assumption changes summarized in Attachments 2 and 3.

[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.]

Vice President Duckett stated that actuarial best practices and UC Retirement Plan (UCRP) terms require an experience study every three to five years, comparing actual rates of experience such as mortality and retirement patterns against current expected rates of experience. The study also analyzes the economic assumptions underlying UCRP. Mr. Duckett reported that, should the actuarial assumptions be adopted, they would be reflected in the July 1, 2011 valuation reports, which would be presented to the Regents in November.

Committee Chair Varner asked how the proposed actuarial assumptions compare with those of comparable retirement plans. Mr. Paul Angelo, the Regents' actuary from the Segal Company, responded that UC's earnings assumption of 7.5 percent continues to be more conservative than that of comparable institutions. Both the California Public Employees' Retirement System (CalPERS) and the Los Angeles County Employees Retirement Association maintained their earnings assumptions at eight percent. In response to a question from Regent Kieffer, Mr. Angelo said it would be rare for a comparable institution to have an earnings assumption below 7.75 percent. He displayed a slide of the distribution of earnings assumptions for the National Association of State Retirement Administrators in 2009; the most common assumption was eight percent, with only a few systems below 7.5 percent. Regent Kieffer asked how this range of assumptions would have changed by 2011; Mr. Angelo expressed his opinion that the institutions with the higher earnings assumptions would have moved down one half percent, but that very few institutions with assumptions at 7.5 percent or lower would have changed. He said he was unaware of any state system whose earnings assumption is below 7.5 percent.

Regent Kieffer asked how the change in mortality rates reflecting increased longevity would affect costs, particularly considering the aging generation of individuals born during the post-World War II baby boom. Mr. Angelo said that increased longevity should not affect the earnings assumptions, because the Plan's assumptions have built in those costs and will have assets to support the retirees. Executive Vice President Brostrom noted that the change in the mortality assumption would be the largest driver of an increase of \$1.7 billion in the Plan's unfunded liability.

In response to a question from Regent De La Peña, Mr. Angelo confirmed that the Office of the Treasurer is comfortable with the 7.5 percent earnings assumption.

Regent Gould asked about the cost implications to the University of the proposed increase in the total funding policy rate from 23.25 percent to 25.5 percent of payroll. Mr. Brostrom confirmed that the proposed assumptions would result in an increase in the University's normal funding policy of 2.25 percent. He reminded the Regents that the University is not currently meeting its funding policy; the Regents had previously adopted an increase over time to the funding policy level. Additionally, the University has prefunded some of the liability.

Regent Gould pointed out that the State has not contributed its share of UC's retirement contributions, although it does contribute to the retirement funds of the California State University and the community colleges. Chairman Lansing asked why the State does not pay its share of UC retirement contributions; Regent Gould responded that the State did contribute its share prior to UC's 20-year "contribution holiday."

In response to a question from Committee Chair Varner, Mr. Angelo stated that the Regents would review these assumptions every three to five years, or if UCRP's asset allocation were changed, and could review them more often if conditions warrant.

Faculty Representative Anderson stated that the total funding policy rate is based on UCRP's July 2010 valuation and therefore did not take into account that UCRP had good returns in the past year. Mr. Angelo agreed; he stated that the figures assume 15-year amortization of the assumptions change, and 30-year amortization of gains and losses, as approved by the Regents. Mr. Anderson commented that the change in mortality was amortized over 15 years, resulting in a relatively large increase in the total funding policy rate; Mr. Angelo agreed.

Mr. Anderson asked if the 3.5 percent inflation assumption was high. Mr. Angelo responded that a 3.5 percent inflation assumption is a median rate for public retirement systems, but would be at the high end of assumptions in the different type of modeling used by the investment community. He expressed his opinion that the 3.5 percent rate is very common for public retirement systems nationally; CalPERS uses a three percent inflation assumption. Mr. Anderson summarized that CalPERS assumes a 4.75 real rate of return, while UCRP assumes a significantly more conservative four percent real rate of return; Mr. Angelo agreed.

Regent Kieffer expressed his opinion that it would be beneficial to reexamine the actuarial assumptions in two years. He stated that many forces can push public institutions to have a more optimistic view of returns. Committee Chair Varner agreed that a two-year or even an annual review would be useful.

Chairman Lansing emphasized that the University is not being treated equitably by the State due to the State's lack of contributions to UCRP and urged the Regents to address this issue.

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

5. **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 4. By this reference the report is made part of the official record of the meeting.

The Committee recessed at 1:15 p.m.

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The Committee reconvened on July 14, 2011 at 9:20 a.m. with Committee Chair Varner presiding.

Members present: Regents Blum, Island, Lozano, Makarechian, Mireles, Reiss, and Varner; Ex officio members Gould and Lansing; Advisory members Mendelson and Simmons; Staff Advisors Herbert and Smith

In attendance: Regents De La Peña, Hallett, Kieffer, Marcus, Newsom, Pattiz, Pelliccioni, Ruiz, and Zettel, Regents-designate Rubenstein and Stein, Faculty Representative Anderson, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Pitts, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice President Stobo, Vice Presidents Beckwith, Darling, Duckett, Lenz, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Desmond-Hellmann, Drake, Fox, Katehi, Leland, White, and Yang, and Recording Secretary Johns

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

The President recommended that the University of California Office of the President Fiscal Year 2011-12 Budget, as shown in Attachment 5, be approved.

[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 recalled that the 2011-12 budget for the Office of the President had been discussed at the March and May meetings. Action on this budget had been deferred until July due to the uncertainty of the State budget process. The University had originally proposed an \$80 million reduction, \$50 million in cuts to the Office of the President budget and \$30 million in systemwide cuts, which would have represented a 15 percent reduction of the University's unrestricted budget. However, the Legislature imposed severe restrictions on the University's ability to enact \$30 million in program reductions. For this reason, the current action being proposed represented a four percent reduction to the Office of the President budget.

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

7. UPDATE ON 2011-12 BUDGET AND APPROVAL OF ADDITIONAL 2011-12 TUITION INCREASE

The President recommended the following actions on student charges for 2011-12:

- A. Approve an increase of 9.6 percent of the combined total of Tuition and the Student Services Fee (together referred to as “Mandatory Systemwide Charges”) for undergraduate, graduate academic, and graduate professional students, effective beginning fall quarter/semester 2011 (for programs starting after August 15). Display 1 indicates the Tuition and Student Services Fee levels that would result from this increase. The entire increase in Mandatory Systemwide Charges shall be applied to Tuition and there shall be no increase in the Student Services Fee beyond that approved by the Regents in November 2010.
- B. Augment UC’s systemwide financial aid programs by 33 percent of the additional undergraduate student Tuition increase, 50 percent of the additional graduate academic student Tuition increase, and 33 percent of the additional graduate professional student Tuition increase.

DISPLAY 1: Proposed 2011-12 Tuition Increases Related to \$650 Million Reduction

	Previously Approved 2011-12 Charge Levels		Proposed Increase ¹		Proposed 2011-12 Charge Levels	
	Tuition ²	Student Services Fee	\$	%	Tuition ²	Student Services Fee
Mandatory Systemwide Charges Required to Meet 26.3% of reduction (additional 9.6% increase)	\$10,152	\$972	\$1,068	9.6%	\$11,220	\$972

¹ Tuition increases by an amount equivalent to 9.6% of the combined total of Tuition and the Student Services Fee but the Student Services Fee remains at the level approved in November 2010.

² Includes \$60 surcharge to cover costs associated with the injunction and judgment of the *Kashmiri* lawsuit.

Display 1 above reflects the proposed increase in Tuition and the already-approved Student Services Fee level.

[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.]

[Regents were provided with a packet of correspondence received regarding this item, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Vice President Lenz recalled that the Governor had signed a State budget on June 30 after six months of intense negotiations. The Legislature had passed a budget on June 15 with a far greater impact on the University than the budget signed June 30. The Governor began the year with a structural deficit of approximately \$26 billion. After reductions made earlier in the year and revenue recognized in the May Revise, the State’s deficit was \$9.6 billion. This deficit was addressed with additional cuts and financing mechanisms. Unfortunately, the State has abandoned the proposed tax extensions for

2011-12 that would have mitigated a number of reductions. The new budget includes more than \$5.3 billion in reductions and assumes \$4 billion in revenue. Mr. Lenz emphasized the importance of the \$4 billion revenue assumption. This revenue is necessary for the University to avoid a mid-year budget reduction of another \$100 million. Lack of revenue would act as a “trigger” for this reduction. He anticipated that the Director of the California Department of Finance would make a determination about this possible mid-year budget reduction around the first week of November. The University has received a \$650 million reduction in funding from the State and faces \$362 million in additional unfunded mandatory costs.

Committee Chair Varner announced that the “trigger” issue would be discussed at a future meeting.

Mr. Lenz recalled that the University had requested flexibility when the Governor introduced his January State budget proposal, with a \$500 million reduction to UC. The University reviewed a number of programs funded by the State to determine if these programs had merit and proposed that they be discontinued. The University was successful in its proposal for many programs, but \$20 million in programs, which the University had proposed as a reduction, was retained and protected in the new State budget. The new budget includes no funding for the State’s obligation to the UC Retirement Plan (UCRP), no increase in funding for enrollment, and no funding for the University’s increased mandatory costs. The University was successful in obtaining funding for two capital facilities projects on the Irvine and San Diego campuses. Mr. Lenz thanked Regent Newsom for his role in securing a memorandum of understanding with the State regarding \$426 million in capital facilities projects which would otherwise be stalled.

With the reduction in State support and increased mandatory costs, the University faces a shortfall of over \$1 billion in 2011-12. Revenue from student fees would cover only about 26 percent of this budget shortfall. The remaining 74 percent would have to be absorbed by the campuses, with bridging strategies, layoffs, and other financing mechanisms. Executive Vice President Brostrom added that over one-half of the mandatory costs were contributions to the UCRP and retiree health costs; the State provides funding for these costs for the California State University (CSU) and the California Community Colleges.

Chairman Lansing stated that this unequal treatment by the State was unfair and egregious. She asked if there was any reason for the State not to contribute to the UCRP and to increase the University’s deficit. Mr. Brostrom responded that the only possible rationale for this stance by the State is the fact that, for almost 20 years, neither UC employees nor the State made any contributions to the UCRP. When the Regents recognized the urgency of the situation and moved to resume contributions two years earlier, the State did not follow suit. There has been some improvement in the State’s posture. Two years previously there was language in the State budget denying the obligation to the UCRP. That language has been removed and, in the latest budget, the Governor has recognized this obligation. In the coming fall the University would work

closely with the State Department of Finance to ensure that this recognition is included in future State budgets.

Chairman Lansing stated that this restoration would help the University tremendously and that all the Regents should work on this issue.

Committee Chair Varner asked if the State were paying any of its past obligations to the UCRP. Mr. Brostrom responded that the University received two promissory notes during past fiscal crises for loans it made to the State from its UCRP accounts. The State continues to make good on these notes with regular payments. The State recognizes its fiscal and moral obligation on these notes.

Regent Kieffer emphasized the mistreatment the University has experienced by the State regarding reimbursement for these costs. It is unfair and has an enormous influence on the University's decisions on tuition and on how it meets other obligations. He hoped the University would work as hard as possible on securing fair treatment from the State in this matter. Chairman Lansing stressed that this is a high priority.

Mr. Brostrom recalled that the core values of the University – quality, affordability, and accessibility – would guide its decisions as it develops a long-term, sustainable fiscal strategy that would extend beyond the current crisis. He quoted former President Clark Kerr on the importance of faculty to the quality of the University. The excellence of UC faculty deserves to be financially defended.

Chief Financial Officer Taylor then began a discussion of actions the University was already taking to address budget shortfalls. He recalled that the Working Smarter initiative has produced \$157 million in positive financial impact and expressed confidence that there would be further positive fiscal impact as additional administrative efficiency projects are implemented in the future. He identified a fundamental challenge not in finding good ideas, but in implementing a culture change at UC. This change would be necessary for the University to operate differently than it has for over 100 years, and it would require the cooperation of all the chancellors.

The University has also been examining alternative revenue strategies. Many of these would yield one-time funds only, and many would not be proposed in better financial times. There were opportunities for the University to manage its cash and working capital differently. As an example, the transfer of \$1 billion from the Short Term Investment Pool (STIP) to the Total Return Investment Pool (TRIP) has resulted in an additional \$40 million in unrestricted funds. Mr. Taylor stated his view that the University should pursue an extraordinary payout on funds functioning as endowments and on true endowments. He noted that returns on the General Endowment Pool over the past year were excellent, in the range of 22 to 23 percent. The University should not make a practice of these extraordinary payouts, but challenging times like the present call for extraordinary measures, and these one-time extraordinary payouts should be considered. The Office of the President was also recommending drawing down on health and welfare

reserves. All these measures would address the current shortfall, and the possibility of the “trigger” and a further funding reduction by the State.

Mr. Brostrom then discussed the University’s efforts regarding indirect cost recovery. Each year, UC recovers nearly \$1 billion of indirect costs to support research infrastructure from approximately \$4 billion of externally sponsored research. However, the University spends about \$500 million more in general funds to support research costs that are not recovered. This shortfall is due to two factors. About half of UC’s unrecovered costs result from indirect cost recovery rates assigned by the federal government, rates which are too low to capture the University’s full expenses. These rates are far lower than the rates for comparison private institutions. The Massachusetts Institute of Technology has an indirect cost recovery rate of 68 percent, while the rate for most UC campuses ranges from 52 to 55 percent. The other half of UC’s unrecovered costs result from waivers granted to external sponsors, mainly foundations, which are unwilling to pay the full cost of research that UC performs for them. The Office of the President is working closely with UC’s Washington, D.C. office, the Association of American Universities (AAU), and the Association of Public and Land-grant Universities (APLU) to make its case in Washington for higher indirect cost recovery rates. Some UC campuses, most recently Berkeley, have submitted applications for indirect costs which carefully chronicle higher rates at other institutions. These new submissions will be used as test cases for this approach. The Office of the President is also working with campuses to increase funding for research from foundations by including more costs as direct costs within a grant, rather than as indirect costs added on to a grant. The campuses will now decide which waivers they will allow for foundations. Mr. Brostrom observed that improving the University’s indirect cost recovery rates would be a slow process, but with significant possible financial impact. UC has received slight increases recently, but must continue its aggressive approach to achieve higher rates in coming years.

Mr. Brostrom reported that the University has enjoyed success in private philanthropy in recent years. In 2010-11, the University raised \$250 million more in private philanthropy than in the previous fiscal year, reaching levels not seen since 2008. Alumni contributions increased by about 25 percent from the previous to the current year. However, the impact of fundraising on the University’s long-range budget model is limited by certain factors. Fundraising is largely restricted. For the past year, unrestricted funds accounted for about two percent of the funds raised; this has been the case for the past decade. UC’s endowments are more restricted than those of private and even other public universities. The campuses are developing models which recognize donors’ interest in restricted gifts, but are able to target the gifts in ways that help relieve central budget obligations. This approach has been effective in securing funding for endowed chairs, but has promise as well for graduate student support and undergraduate financial aid. There is great variance among the campuses in their fundraising ability; the University must develop fundraising and its philanthropic community on all its campuses. A large percentage of UC fundraising flows through its hospitals and medical schools; this does not significantly help to address UC’s core funding challenge. Private philanthropy is an area with tremendous potential because of the large base the University is building on, but it would require focus and hard work to realize gains.

Mr. Brostrom next discussed nonresident student enrollment. All campuses have focused on this area, and it would produce results in the coming fiscal year. The University anticipates an increase of about 2,000 nonresident freshmen and transfer students in 2011-12 over 2010-11, about 11.5 percent of the freshman class and 10.4 percent of transfer students. This would provide an increase in revenue of approximately \$26 million, net of the cost of educating these students. Campuses would use these funds to offset budget shortfalls and improve the quality of education for all students. UC Berkeley has set aside a portion of nonresident tuition specifically to increase the number of sections of freshman writing courses; this helps all students, both residents and nonresidents. All UC campuses would seek more nonresident students in the coming years. The University is initiating a systemwide recruitment effort for both nonresident domestic students and international students. If UC's nonresident enrollment were to reach ten percent in the coming year, this would provide an additional \$105 million in revenue, net of the cost of educating these students.

Committee Chair Varner asked if it were clear that nonresident enrollment did not have an impact on the admission of California residents. Mr. Brostrom responded in the affirmative. UC's in-state enrollment has remained relatively steady, with an increase in the past few years. He recalled that the University has 23,000 California resident students for whom UC receives no funding from the State. Even with the increase in nonresident enrollment, only six percent of UC undergraduate students would be nonresidents in the coming year. At the Universities of Michigan and Virginia and some other public universities, the percentage of nonresident students is between 33 and 40 percent.

Provost Pitts noted that all UC campuses admitted more nonresident students in the last admissions cycle. This is a very sensitive issue for many people. Among UC campuses, Berkeley, Los Angeles, and San Diego would have the largest number of nonresident students entering in the fall. He asked Chancellor Birgeneau to comment on the issue of nonresident enrollment.

Chancellor Birgeneau emphasized UC Berkeley's commitment to maintaining the excellence of the University. He recalled the University's earlier Compact with former Governor Schwarzenegger. If the State had honored that Compact, State funding for UC Berkeley in the coming year would be \$600 million. Actual funding, assuming the achievement of new revenues by the State, would be \$235 million. Chancellor Birgeneau anticipated that the actual funding would be closer to \$220 million. The financial model for the University is manifestly broken by the egregious disinvestment by the State. In 2004, UC Berkeley had 21,000 resident students. In 2007 this number had increased to 21,500, and in 2009 it increased to 23,000, with 2,000 students not funded by the State. This led to problems with overcrowded courses and delay in students' ability to enroll in courses they needed. UC Berkeley decided to return to its target level of 21,000 California residents, down from 23,000. For educational reasons, the campus had also been considering an increase in the number of out-of-state and international students. The campus formed a committee of academics and administrators to examine the issue. The committee recommended that the campus change the proportion of resident and out-

of-state students. The campus would not decrease its target number of California students. In the coming academic year, the campus would have 21,500 California undergraduates, 500 more than the target number. In the following year or two, this number would be decreased to 21,000. The increase in out-of-state and international students has greatly enriched UC Berkeley's student body and the student experience in the classroom. There has been a financial gain as well. The new revenues have been used to increase the number of sections of a writing and composition course required for graduation. The campus has invested \$500,000 annually in foreign language courses and more than \$500,000 in physical science and mathematics courses. This has benefited all students. Six million dollars of patent revenue derived from work by a faculty member in the life sciences is being used to develop three more freshman life science laboratories. Revenue from out-of-state and international student fees will subsidize instructors for those laboratories. Freshman life science courses would no longer be overcrowded. Chancellor Birgeneau concluded that the increase in out-of-state and international students had significantly enhanced the undergraduate experience for all students, while not affecting the total number of California residents able to attend UC Berkeley. He stressed that the State funds only one-half of Berkeley's students. The campus is educating half its students for free, which is not a stable financial model. Chancellor Birgeneau compared this to a business giving away half its product for free. He cited the challenge of increased tuition for middle-class students as well as the State's declining support and urged that the University not establish an artificial ten percent limit on out-of-state enrollment.

Chairman Lansing noted that there is a misconception about increased nonresident enrollment. She emphasized that it allows the University to admit more California resident students.

Chancellor Birgeneau noted that the Berkeley campus was concerned about the impact of increasing nonresident enrollment on the number of underrepresented minority students. A portion of the new revenue from out-of-state students has been invested in outreach programs. There has not been a decrease in the number of underrepresented minority students at UC Berkeley.

Regent Mireles asked if the University could move more funds from the STIP to the TRIP. He suggested that the University might have more liquid capital on hand than it needs. Mr. Taylor responded that he believed there were opportunities to move more working capital from the STIP to the TRIP, in addition to the transfer that had already taken place. Part of the challenge in this matter is presented by the University's rating agencies; UC liquidity is a significant concern for them. After the financial crisis of 2008, rating agencies focused less on bond coverage requirements and more on liquidity. The University has significant liquidity, but rating agencies do not give UC as much credit as they should for it. Mr. Taylor noted that he and other administrators are examining how the University might move more funds from the STIP to the TRIP while continuing to meet rating agency requirements. He hoped that in the coming year the University would use its cash resources more strategically and increase its unrestricted monies through intelligent use of working capital. Mr. Brostrom added that UC's medical centers make it

different from other universities. Rating agencies require a high level of liquidity for medical centers. For this reason, UC must demonstrate greater liquidity than CSU, for example.

Regent Mireles asked if there was any indication when the Governor would assess the need for possible “trigger” reductions. Mr. Lenz responded that cash flow trends would become clear in August and September and provide a signal on this matter.

Regent Makarechian asked about different amounts listed in the item. Display 1 in the recommendation listed tuition as \$11,220, while a chart in the background material to the item listed mandatory systemwide charges for undergraduate and graduate students as \$12,192. Mr. Brostrom explained that the amount of \$1,026 listed in the chart was an average of campus-based fees. The \$12,192 amount represented mandatory systemwide fees, comprising tuition and the Student Services Fee. In addition, every campus has campus-based fees, which can vary significantly.

Regent Makarechian emphasized the magnitude of the difference in indirect cost recovery rates for UC in relation to other institutions. He estimated that this might represent \$200 million to \$300 million annually not paid to UC by the federal government, but which UC is owed. Mr. Brostrom responded that the dollar amount estimated by Regent Makarechian was correct. The University estimates that every percentage point would represent \$30 million in increased revenue for UC. Vice President Beckwith is leading this effort systemwide, but it is a high priority for all the chancellors. The Berkeley campus took great care in documentation in its recent submission and drew on the expertise of outside consultants. It submitted an application for a 65 percent cost recovery rate, while the campus’ current rate is 53.5 percent. The University would monitor this as a test case in its dealings with the U.S. Department of Health and Human Services. Mr. Brostrom identified two relevant factors. There appears to be a bias against public universities and a misperception that many UC buildings were built by the State; and there seems to be a regional bias, with much depending on which regional agency reviews an application. The University’s reviewing agency is the Department of Health and Human Services in San Francisco, which has not been favorable to UC.

Regent Makarechian recalled that the indirect cost recovery rate for the State University of New York, a public university, was close to that for the Massachusetts Institute of Technology. He asked if UC could receive reimbursements for past years. Mr. Brostrom responded that the recovery rate is assigned for a given period; the University cannot recover monies for past years, but can seek greater recoveries in the future. He noted that the federal reimbursement for private entities is sometimes much higher than for universities. The Gladstone Institutes, which are located adjacent to UCSF and carry out similar research, receive a 92 percent reimbursement rate, while UCSF receives 54.5 percent.

Dr. Pitts noted that Mr. Brostrom recently traveled to Washington for discussions with the Office of Management and Budget (OMB). Associate Vice President Gary Falle at

UC's Washington office is working with the AAU and APLU. This issue has received increased attention, and the OMB has formed an internal working group to examine it. The University is in communication with members of the OMB working group. Dr. Pitts hoped that the President would speak with the head of OMB in the coming months. This is a high priority issue for UC and for public higher education generally. UC is actively engaged and leading on this issue.

Regent Makarechian asked that the Regents receive updates on UC efforts to achieve higher indirect cost recovery rates. He suggested that a tuition increase of 9.7 or 9.8 percent, rather than 9.6 percent, would generate more revenue to address the University's budget shortfall. He asked why there is not a different tuition level for international students.

Chancellor Birgeneau observed that no tax revenue supports international students; he stated his view that these students help subsidize the UC system. Total tuition for an out-of-state or international student is approximately \$33,000, and would be \$34,000 with the current proposed increase. Tuition at elite private universities is around \$39,000. UC Berkeley would like to maintain tuition below the levels of elite private universities. The range the University would consider for an increase in international student tuition is limited. Chancellor Birgeneau expressed his view that if one considers the actual revenue that differential tuition for international students would generate, it would in fact harm rather than benefit the University. Nevertheless he concluded that the matter should be studied.

Regent Makarechian asked about the numbers of international students who remain in the U.S. after graduation, and if these numbers have changed in recent years. Chancellor Birgeneau responded that these numbers have changed. He noted that international students sometimes return to their home countries and take on important leadership roles.

Staff Advisor Herbert stressed the importance of stability for UC staff. She asked about the status of a multi-year financial plan the University wishes to develop with the State. Mr. Lenz responded that the Office of the President was currently focused on the 2011-12 budget and the achievement of stability in State funding. The University is engaged in ongoing discussions with the State and is making its needs clear. The State obligation to the UCRP is a high priority.

Faculty Representative Anderson stated that he believed there is a misconception that international students are wealthier than U.S. out-of-state students. He noted that he has had contact with many students from Asia, especially from China and Korea. In many cases, students rely on financial assistance from their extended family to pay for their education. While countries like China, Korea, and Taiwan have become wealthier, they still have substantially lower per capita income levels than the U.S. He pointed out that in the case of both out-of-state and international students, UC receives no State or government funding, whether from another state of the U.S., the federal government, or the government of another country. The educational benefit that California resident students derive from the presence of international students on campus may be greater

than that from the presence of U.S. out-of-state students. For these reasons, Mr. Anderson concluded that the University should not charge higher tuition for international students.

Regent Blum stated that international students generally do not come from wealthy families. He noted that many faculty members at universities in Asia have been trained at UC; it would be a great loss if the University did not maintain this relationship with Asian universities. He expressed skepticism about the possibility of a multi-year agreement with the State and emphasized the unreliability of State funding. The University will be forced to raise tuition levels, and it must raise scholarship funding to offset higher tuition. The Regents should be involved in this effort. He suggested that the Office of the President should pursue scholarship funding from leading corporations in California. Current UC fundraising does not provide enough scholarship support, and there was greater need now among middle-income students.

Committee Chair Varner observed that all the Regents are aware that the State's discretionary funds will decrease and that the University must examine other revenue sources. The public must be made aware of the decreasing State support for UC.

Regent De La Peña noted that a large percentage of U.S. out-of-state students remain in California after graduation. This is a benefit to the state. He stated his view that, due to the decreasing value of the dollar, a UC education was becoming more inexpensive for international students. He also noted that, following the terrorist attacks of September 11, 2001, it might now be more difficult for international students to remain in California after graduation. Regent De La Peña asked if there were statistics on how many international students who complete degrees at UC remain in California. Executive Vice President Brostrom responded that this information would be provided. He stated that a large percentage of U.S. nonresident students remain in California after attending UC, similar to the percentage of California resident students who remain in California.

Regent De La Peña stated that the largest single group of international students comes from China. He asked if the University has any outreach programs for international students, and if so, about the breadth of this effort. Chancellor Katehi responded that the University is concerned about recruitment of international students, who increase intellectual and cultural diversity on campus and improve the quality of education at UC. UC Davis has identified four regions for outreach: Asia, South America, Europe, and Africa. The number of European students considering higher education in the U.S. has changed, primarily due to changes in the higher education systems in Europe. Chancellor Katehi anticipated that a university education in Europe would become more expensive, and that European students would again consider studying in the U.S. as a good alternative. UC Davis is recruiting students in Europe and is increasing its recruiting activity in South America. These recruitment efforts would take some time to produce results.

Dr. Pitts reported that a small working group with systemwide representation has been formed at the chancellors' request to explore how the University could better publicize its interest in admitting qualified international and out-of-state students. The group would

present a plan to the President that could be implemented for the next admissions cycle and that would facilitate coordination of the campuses' efforts in many foreign countries. The University would also make use of its Education Abroad Program offices to recruit students from other countries.

Regent Lozano asked how the Working Smarter initiative could be incentivized to move faster, and about the amount of the savings, two-thirds, that was directed to core operating support. Mr. Taylor responded that "core operations" refer to operations which affect the undergraduate educational program. Part of the savings from the Working Smarter initiative accrues to the UC medical centers. The initiative is designed to encourage compliance with best practices or to induce better performance when another campus or unit is seen to be performing better. The Working Smarter initiative does not have incentives, unlike similar programs in private industry. In the case of procurement, if a UC department uses a UC systemwide contract, that department is allowed to keep the savings, in effect an incentive for campus procurement managers. Mr. Taylor noted that organizational culture change is difficult. He stressed that the return on investment from UC systemwide efforts is enormous, but that the efforts are difficult to implement. The return on investment for the new payroll system would be hundreds of millions of dollars. Standardized systems would produce substantial savings. The support of the Regents would help accelerate these efforts.

Committee Chair Varner stated that the University should examine every possible way to motivate and promote these systemwide efforts.

Faculty Representative Simmons stated that the University benefits greatly from enrollment of both U.S. nonresident and international students. UC has a global impact. He referred to Chancellor Birgeneau's earlier statement that the Berkeley campus would be reducing its target level of California resident students. Reduction of this level on one campus would affect the other campuses. As it becomes more difficult for all students to meet degree requirements and more nonresident students are enrolled, the time a student needs to complete a degree will become longer, and education more costly. Mr. Simmons called attention to the benefits and drawbacks of increasing nonresident enrollment.

Regent Makarechian stated his view that taking action to increase student tuition at this time would ultimately be less costly to students than actions which would increase the time to degree. He expressed concern about international students who return to their home countries, and from whom California and the U.S. do not benefit. He noted that some international students come from very wealthy families.

Mr. Anderson concurred that some international students come from wealthy families, but stated that this is not the typical situation for UC students from Asia. He expressed support for immigration policies that would facilitate residency in the U.S. for individuals who have completed a U.S. university degree. He reiterated that international students, whatever their source of financial support, are more than paying the cost of their education and helping to subsidize the education of California resident students. The University should seek ways to enable these students to remain in the U.S.

Regent Gould observed that the issue of out-of-state and international student enrollment is complex. California residents are particularly sensitive to this issue. Out-of-state and international students add great value to UC campuses. The University should plan the enrollment of these students rather than simply allow the situation to evolve. He suggested that the Office of the President include target enrollment levels for out-of-state and international students in its annual planning.

Dr. Pitts noted that, in the past, the University's long-range enrollment planning did not take nonresident students into account because their numbers were low. This situation is clearly changing, and the University would take this into account.

Mr. Brostrom then discussed University projects which would have a long-term impact. The return on investment for these projects would come two to four years in the future, but they would be part of a long-term, sustainable financial plan. The University is developing a new financial model to support undergraduate and graduate financial aid, one that would free up revenue for the campuses' core operating costs. The approach would create a new quasi-endowment that would draw on fundraising from California corporations, internal borrowing strategies, and outlays from existing unrestricted endowments. The approach would seek new funding sources to complement the current amount of fee revenue which is returned to financial aid. Beginning in 2012-13, the University would consider a proposal to establish a clear and manageable standard for the amount UC expects students to work and borrow. UC would expand the Blue and Gold Opportunity Plan to cover systemwide fees for eligible students with annual family income up to \$90,000. UC would also seek to expand the Blue and Gold Opportunity Plan to cover 50 percent of systemwide fees for eligible students from middle-income families earning between \$90,000 and \$120,000 annually. These proposals are currently being developed. Mr. Brostrom anticipated that they would be brought to the Regents at some time during the coming year.

UC campuses are under great stress to provide places for all students, given budgetary constraints, increasing enrollments, and static faculty numbers. Online instruction could provide another way for some students to take courses which are overcrowded or to take courses at a time when they are not offered on the student's home campus. The Division of Academic Affairs at the Office of the President, in consultation with the Academic Senate, has begun a pilot program to develop online courses for degree credit for UC undergraduates. While some courses currently exist, few have been adopted for intercampus use. As part of the pilot program, 29 courses have been selected for development from all campuses and many disciplines. The program focuses on large introductory courses. Several courses are drawing on faculty from multiple campuses. While the UC online instruction pilot program is not intended to be a major revenue source at the present time, the University is engaged in market research to assess opportunities to charge for these courses for non-UC students.

Regent Kieffer characterized the reaction of some academics to online instruction as slow and reluctant. The world of higher education is changing and the University should

pursue this area of development more aggressively. He stated that he was concerned not so much with possible revenue as with the delivery of education. Online education would make talent available to different campuses. It is not possible for every campus to provide everything to students; online education can address this limitation. Regent Kieffer urged the University to remove internal political and bureaucratic impediments to this effort. In the longer term, he suggested that the University should consider greater campus specialization, a situation in which students would be directed to a campus with a specialization in a field that interests them. The University must examine long-term alternatives for delivery of education in the best way possible.

Committee Chair Varner stated that the Committee on Educational Policy would discuss these topics.

Mr. Anderson observed that the Academic Senate is closely involved in the development of UC's online education pilot program. The concern of the Academic Senate is not that the project is a bad idea, but that the process of developing a coherent plan has been slow and has not been as successful as desired. The program is making progress. He stated his view that faculty were not hostile to the development of online education. The Academic Senate has enthusiastically supported the 29 projects that have been proposed. Faculty feel that the courses that will be developed will be of high quality and that online education must be evaluated as part of the future evolution of UC. The Academic Senate had concerns about some aspects of the business plan and is working to resolve those concerns.

Mr. Brostrom then discussed technology transfer, another area in which the University is seeking long-term fiscal impact. The UC system annually produces approximately 1,500 invention disclosures, applies for 1,200 patents, and maintains 7,500 active patents. This year was the 18th consecutive year in which UC had the largest patent portfolio of any U.S. university, with 349 patents. Patents produce about \$120 million annually for the University in royalties and related income, shared between campuses and inventors. Income from technology transfer represents about one percent of UC revenue for research and teaching. In order to increase this source of revenue, the Office of the President has established a new funding mechanism for "proof of concept" grants, to move UC patents to prototype devices which can find a greater industrial and licensing market. The California Institutes for Science and Innovation, on almost all the UC campuses, are working with California industry to develop new products. Mr. Brostrom concluded that this is a promising area, but cautioned that while commercialization could increase income, its development path is long and risky.

Mr. Brostrom observed that the California Master Plan for Higher Education envisions a robust transfer path to UC in order to expand access and make the state's overall production of college graduates more efficient. Students can spend two years at a community college at lower cost and then transfer to CSU or UC for their degree. Students sometimes encounter obstacles, such as poor advising or overly rigid requirements, and the University is committed to increasing the efficiency of the transfer process. Dr. Pitts has worked with faculty from all the campuses to determine courses

required for transfer to UC. However, these improvements do not benefit UC financially. They reduce costs for students and improve overall college graduation rates in the state, but transfer students cost the University more, because upper division courses are more costly to provide than lower division courses. Pre-transfer efficiencies do not necessarily increase the number of transfer students UC can admit.

Committee Chair Varner asked if the University is streamlining the time to degree for students. Dr. Pitts responded that the campuses work on this issue consistently. Time to degree has steadily decreased at UC. He acknowledged that this achievement might be reversed, given the limited number of instructors and the size of classes at the present time. The University monitors this situation. Most campuses set aside funds at the beginning of the academic year to address overcrowded courses.

Committee Chair Varner urged the chancellors to continue to focus on the issue of student time to degree, given the current cost of tuition. It would be desirable to ensure that students can finish degrees in four years, rather than five or six years. He emphasized the importance of this issue for students.

Regent Kieffer asked about growth or decline in the number of transfer students entering the University in the last two to three years. Mr. Brostrom responded that the number of transfer students has grown over the past three years, more than offsetting a decline in the number of freshmen. He stated that he would provide the exact number; he estimated it to be over 2,500 systemwide.

Regent Ruiz observed that many Californians see the community colleges as a less expensive alternative to UC. He expressed concern that the University would not be prepared to absorb future numbers of transfer students. Mr. Brostrom agreed that this was an important public policy goal. The transfer function allows students to earn a CSU or UC degree at lower cost and benefits the state by ensuring a greater number of college graduates for California industries in the future. The University supports the transfer function and campuses are working to standardize entry requirements, but the transfer function does not provide financial relief for UC.

Chairman Lansing stated that she was encouraged by the Academic Senate's receptivity to the online education pilot program and by the possibilities of technology transfer. She expressed her wish that the University examine its capacity to enroll transfer students. UC is committed to providing access and quality. UC, CSU, and the community colleges should work together to stop any further funding reductions to the entire higher education system in California.

Chancellor White stated that the Riverside campus is proud to recruit and work with students who represent the underserved and marginalized segment of California society. This year, UC Riverside increased the number of its transfer students by several hundred over its target. The number has almost doubled over the course of the previous two to three years to about 2,000 students. Financing this enrollment is a challenge for the campus. On average, it is more expensive to provide upper division courses. UC

Riverside has seen a marginal increase in its number of international students, but it is not at the level of the Berkeley, Los Angeles, and San Diego campuses. Chancellor White emphasized that this is a difficult situation for UC Riverside, but the campus remains committed to enrolling transfer students.

Regent Ruiz stated his belief in the Regents' paramount responsibility to help raise funds to ensure that UC can educate its students.

Chancellor White observed that in the long term, it is more costly to disregard transfer students than to provide education for them.

Regent Marcus emphasized that he was opposed to increasing tuition for graduate students and that the University could not remain competitive if it continued to raise tuition for graduate students.

Chancellor Fox concurred that the University would not remain competitive if it raised graduate student tuition. The University is losing graduate students and faculty; it has been trying to direct income sources to address this problem, and taking funds away from other campus needs.

Mr. Brostrom observed that 50 percent of graduate tuition revenue is returned to financial aid. The University is attentive to the level of indebtedness of its graduate students. This level has increased in recent years, especially for professional school students, in medicine, business, and law. For academic graduate students in the sciences and humanities, the debt level remains affordable. He stated that he would provide specific data.

Regent Makarechian asked how well UC captures revenues from technology transfer, compared to other universities. Mr. Brostrom responded that the University performs comparatively well in garnering revenue from its patents. Most revenue comes from a few large patents. The University could improve in this area by providing "proof of concept" funding to help move inventors from the patent stage to a marketable stage, and to provide venture capital. UC has engaged in discussions with venture capitalists. UC Berkeley and UCLA have entered into an agreement by which venture capital funds have a right of first refusal on technology. If the venture capital fund declines to invest in the new technology, the inventor or the University can seek another source of support. Early funding for inventors, to keep them in the UC system, is critical for capturing later patent revenues.

Committee Chair Varner stated that this was an area of opportunity that the University should pursue vigorously.

Regent-designate Mendelson noted that he works with biotechnology and medical device companies. He concurred with Mr. Brostrom that significant patent income tends to be derived from a few large patents. He stressed that the University should not regard patent income as a short-term revenue source, but invest in this effort for the long term. He

praised the University for pursuing discussions with venture capital fund managers and for providing seed financing for inventors, given the current financial environment. Finally, Regent-designate Mendelson emphasized the important role of private donations.

Regent Lozano drew attention to the situation of undocumented students, who pay in-state tuition under Assembly Bill 540 and who would benefit from passage of the California and federal Development, Relief and Education for Alien Minors (DREAM) Act. There are constraints on the University's ability to provide support to these students. She asked that the University continue to identify financial aid solutions for these students, for example through private foundations. Mr. Taylor recalled that, four years previously, UCLA experienced challenges in admissions of African American students. Scholarships were established through the California Community Foundation, and this model has been successful. He suggested that this model might be effective for undocumented students as well.

Mr. Brostrom stated that UC graduate fees are lower than at competitor institutions. The University wishes to keep graduate fees at the same level as undergraduate fees. Dr. Pitts observed that 50 percent of graduate fees are returned to financial aid and that graduate student fee revenue remains on the campuses, to be redistributed. He did not believe that the University was putting itself at a disadvantage or jeopardizing students through the current proposed graduate student fee increase; he emphasized the difference between this issue and the question of the overall availability of resources to support graduate students, a chronic problem not related to the proposed fee increase. In the case of graduate students with external funding, whose support is directly charged to a grant, this action would actually increase the flow of funds to UC.

Regent Kieffer referred to the earlier statement by Chancellor Fox. While the current proposed graduate fee increase might not be a significant factor, he requested further feedback from the chancellors about why the University was having difficulty recruiting outstanding graduate students.

Mr. Anderson observed that UC fees for California resident academic graduate students are lower than those of UC's main competitors, mostly private universities. However, he stated that the nonresident tuition for academic graduate students puts the University at a severe disadvantage. For nonresident academic graduate students, UC fees are the same as those of the private competitors. Private competitor institutions typically waive these fees. Given its available resources for academic graduate students, UC typically offers them support which is several thousand dollars lower than that offered by private competitor institutions. UC loses graduate students for this reason. Mr. Anderson acknowledged that a graduate fee increase would produce some additional revenue from federal contracts and grants. However, from the point of view of a faculty principal investigator, it may be less costly to hire a postdoctoral fellow than to hire a graduate student. He cautioned that the University has seen a decline in quality and competitiveness at the graduate student level for some time, as well as a decline in quality in undergraduate instruction. He recalled a recommendation by the Academic Senate a few years previously to eliminate additional tuition for nonresident academic graduate

students. The Academic Senate is concerned about the effect of the proposed fee increases, which could drain research budgets and make UC less competitive in recruiting graduate students.

Chairman Lansing stated that this was an issue of fairness. The University should not ask the undergraduate student body to absorb a fee increase and not ask the same of graduate students. This question highlighted the University's need to develop philanthropy.

Regent De La Peña referred to Regent Marcus' earlier remarks. He asked about the dollar amount of lost revenue if the University did not raise graduate student tuition as proposed. Mr. Brostrom responded that this information would be provided.

Dr. Pitts added that the University has approximately 25,000 academic graduate students. A fee increase of \$1,100 for these students would yield about \$28 million or \$29 million. These funds flow back to the campuses. Half of these monies are returned to financial aid. The increase to the campuses' general budget would be about \$14 million or \$15 million. These funds can be returned to the graduate programs if the campus chooses to do so. The dollar value of the fee increase is still available to support graduate students. The most critical point made earlier by Mr. Anderson concerned the overall support for graduate students, not the question of fees alone. The University needs to secure more support for graduate students and more philanthropy directed to student financial aid.

In response to a question by Regent De La Peña, Mr. Simmons first acknowledged the importance of Chairman Lansing's point about fairness to students. He emphasized that it is important for campuses to return monies to graduate students through hiring them as teaching assistants and researchers; when graduate students are hired in these capacities, part of their fees are remitted. He stated that an increase in nonresident graduate student tuition would make it more difficult for graduate departments and programs to recruit graduate students, and it would not raise significant net revenue. The Academic Council recently adopted a recommendation that UC not charge nonresident tuition to academic graduate students.

In response to another question by Regent De La Peña, Mr. Brostrom explained that 33 percent of professional graduate student fee revenues are returned to financial aid.

In response to a question by Chairman Lansing, Mr. Simmons explained that the proposed graduate fee increase would not affect postdoctoral fellows, but it would increase the cost to departments of supporting academic graduate students. There would be resulting disagreements on the campuses about the degree of support to be provided to graduate students.

Mr. Taylor observed that many graduate students can establish California residency in their second year. Mr. Anderson added that international academic graduate students do not have this option, although they receive a reduction in nonresident tuition when they are advanced to Ph.D. candidacy. Most pay nonresident tuition for about three years.

Those who work as graduate student instructors or teaching assistants receive a tuition remission.

Regent De La Peña asked what percentage of UC's graduate students are enrolled in professional degree programs and what percentage are academic graduate students. Mr. Brostrom referred to Regent De La Peña's earlier question about the fiscal impact of not raising graduate student tuition as proposed; he stated that the fiscal impact would \$26.2 million, net of financial aid.

Regent De La Peña asked about grants and financial aid for low-income graduate students in professional degree programs. Mr. Brostrom responded that these students are supported with 33 percent return-to-aid, but each campus has a different practice in putting together financial aid packages for its graduate students. Dr. Pitts added that each graduate professional degree program, when it submits its annual fee proposal for approval by the Regents, includes plans for addressing socioeconomic issues, student loans, and other relevant questions for low-income students. All UC's graduate professional degree programs are attentive to this matter.

Regent Blum observed that, while the cost of educating undergraduates might be relatively consistent across the UC system, the cost of graduate education probably varies by field or discipline. It might be more effective for the University to target specific departments or programs which are not competitive. This would be a matter for the chancellors and UC financial administrators to examine.

Chancellor Fox pointed out that a terminal master's program is funded differently than a Ph.D. program. She referred to Dr. Pitts' earlier remarks and stated that the additional tuition revenue would be used for graduate student support. Graduate students funded by grants have a fixed amount allocated to their tuition. Since about 1960, it has become standard practice to waive tuition for science and engineering students. Each classification of graduate students is treated differently.

Regent-designate Stein stated his view that the Goldman School of Public Policy at UC Berkeley was losing outstanding students to other institutions. The Goldman School competes with its counterparts at Princeton and Harvard. Princeton's program does not charge fees and supports all students who enroll. The Harvard program has higher fees, but provides generous financial aid packages. This year, students turned down the Goldman School for financial reasons. While the revenue generated from higher graduate student fees can be returned to graduate programs, no fees can be returned if no students enroll because of high tuition. He referred to Mr. Brostrom's statement that the University would lose \$26.2 million if academic graduate students were exempted from the proposed tuition increase, and compared this to background information provided for the following discussion item, *Authorization or Endorsement of Certain Alternate Revenue Strategies for Fiscal Year 2011-12*, according to which a two percent distribution from a fund functioning as an endowment would generate approximately \$40 million. He suggested that a three percent distribution would generate about another \$20

million, almost enough to cover the cost of exempting graduate students from the proposed tuition increase.

Chairman Lansing concurred that private institutions offer extraordinary financial aid packages. The University loses students because it does not have the funds to offer financial aid to this extent to graduate and undergraduate students. The challenge faced by graduate students is not different from that faced by undergraduates, and it would be unfair to treat one group differently. She emphasized the need for increased philanthropy. Under the Blue and Gold Opportunity Plan, systemwide fees for eligible students with annual family income up to \$80,000 would be covered completely. Chairman Lansing expressed the hope that the Plan would be expanded to assist middle-income students as well.

Faculty Representative Simmons noted that the Academic Senate was more concerned about nonresident tuition than about the proposed fee increase. He suggested that the Board should request a thorough study of how the University determines graduate student fee levels. Committee Chair Varner expressed approval of this proposal.

Mr. Brostrom then called attention to initiatives which had been discussed in the past and would be open for consideration in the future, but which the University was not pursuing at the present time. One such option was self-supporting academic units. The University currently has 43 programs for which student fees entirely cover the cost of instruction and support services. There are no UC schools which are self-supporting; there are self-supporting schools of law and business in other public higher education systems. There has been a suggestion that for some schools, exclusive reliance on fees and private support might allow the development of a business plan that would remove the uncertainty of volatile year-to-year State funding and provide stable revenue for faculty salaries and more predictable tuition increases. A program that chooses to forgo State funding might also be able to make a stronger case for philanthropic and alumni support. Proponents of this approach suggest that State funds removed from programs that become self-supporting could perhaps be shifted to other educational needs. However, it is not certain that the State would allow UC to retain funds rather than simply withdrawing them. Since UC professional school fees are relatively high compared to other public universities, although still lower than private comparison institutions, UC may not be able to increase its fees for self-supporting schools significantly. Some have expressed concern that higher-priced programs paid from fees and philanthropy could erode an already poor sense of State obligation for funding higher education. In addition, faculty and others have raised questions about the possible impact on UC's academic quality of diverting faculty from traditional roles of teaching and research in core graduate and undergraduate programs toward instruction in self-supporting programs. Mr. Brostrom stated that given these considerations, UC's campus and systemwide administration would carefully review any proposals to ensure that addition of such programs enrich the University's academic and research quality and maintain its strong commitment to access and public service.

Another area which has been discussed previously is campus specialization. Program consolidations on campus can and have achieved savings by integrating operations. Mr. Brostrom observed that program eliminations, on the other hand, often do not result in salary savings in the short term, because ladder-rank faculty are not removed. They join a different academic department or teach in a different degree program. Campus specialization for existing programs does not generate short-term savings due to the difficulty of moving faculty and students. Nevertheless, the University believes that specialization should be considered when planning new programs. The number of new programs proposed in campus five-year planning horizons has substantially decreased. In a constrained budget environment, new academic programs can be created only if resources are reallocated from programs which are being phased out. The University's excellence is directly related to innovation and the creation of new knowledge. Collaboration among campuses may be a viable path forward to maximize UC's ability to initiate new programs in emerging fields and to sustain its preeminence among research universities. Online technologies could enable departments to share specialty courses as well as large introductory courses. The University's online initiative could pave the way for such cross-campus collaboration in the future.

Based on the differences among campuses, many have suggested that the University could charge higher tuition at some of its campuses. This idea has been widely discussed at many venues within the University, by Regents, the Academic Senate, the UC Commission on the Future, and others. Given the rising number of student applications at all campuses, the quality of admitted and enrolled students, and the fact that UC costs are still below those of its competitors, there appears to be consensus among most in the University community that all UC campuses could charge higher tuition and still recruit superior students. At present, both the administration and faculty feel that differential tuition by campus is unnecessary. However, if State support remains unreliable, tuition will rise, possibly to very high levels. In that case, some campuses may conclude that inexorable tuition increases could have an adverse effect on their applicant pool, and they may wish voluntarily to restrict tuition increases. This could be accomplished if the Regents were to adopt a range of allowable tuition levels. At some time in the future, differences in tuition level at the campuses might be appropriate. Mr. Brostrom stated that the University would keep this initiative under active consideration; however, the current view of administration and faculty is that such a measure is not needed at present and that all UC campuses need higher tuition.

Mr. Brostrom then noted another area which was discussed extensively by the UC Commission on the Future, differential tuition by discipline. A number of public and private universities charge different fees for some major programs. UC already has major-specific fees for costs such as laboratories and materials. Additional discipline-specific fees could be charged for majors which are more costly to offer due to laboratory sessions or smaller classes, or which are more attractive and competitive. There is concern, however, that additional fees in some disciplines might discourage students and reduce access. One of the strongest arguments considered by the Commission on the Future was that a small increase in general tuition would completely cover substantial increases in discipline-specific fees and would avoid the additional administrative cost

associated with multiple fees on a single campus. Therefore, the Commission did not endorse this strategy for UC at the present time.

Regent Kieffer observed that campus specialization develops naturally over time, with strengths in certain areas. He stated his view that, should the University pursue campus specialization further, the notion of differential tuition would make even less sense. The University would still want the public to understand that, although not all campuses have the breadth of UC Berkeley, these campuses are still first-rate in the fields in which they choose to specialize.

Regent Makarechian asked why indirect cost recovery was not included in the background material to the item in a chart of strategies to address budget reductions. He asked that indirect cost recovery be included among these strategies. Mr. Brostrom responded that this area is included in the Working Smarter initiative. He concurred that it is an important topic that should be publicized and stated that it would be included in the University's budget strategies.

Regent Kieffer stated that the discussion and consideration of implementation of campus specialization should not be in a separate category from the discussions of differential tuition by campus or discipline. Committee Chair Varner expressed agreement and stated that the Committee on Educational Policy would coordinate and combine the discussion of these topics.

Chancellor Block referred to Regent Kieffer's remarks and cautioned that, due to the highly interdisciplinary nature of current research, UC campuses must remain fully comprehensive. He stated his view that the European model, in which technical institutes are separate from universities, was not a desirable one because engineering today must be closely linked to the sciences. While it would make sense for every campus to have some degree of specialization, he expressed concern about a possible loss of comprehensiveness at UC campuses.

Chairman Lansing underscored that these topics, which presented an array of problems and possibilities, would be explored in more detail at future meetings. The Regents did not have enough information on these measures to come to any decisions that day.

Mr. Taylor then discussed options not being pursued by the University at this time. One such option is income-based tuition. Under such an option, lower-income students would be charged lower tuition. The administration believes that this approach would disadvantage UC and its students. The University would receive less revenue from Cal Grants and veterans' benefits. Operating budget revenues would be reduced. In addition, income alone is an incomplete indicator of family resources. The current financial aid model reduces net costs for needier students while avoiding revenue and equity problems. For these reasons, the University is not pursuing income-based tuition.

Mr. Lenz noted that the University has avoided costs by slowing enrollment growth. However, the administration does not recommend reductions in enrollment. Enrollment

reductions would be contrary to UC's mission of access and would not provide substantial or immediate cost savings. Because many UC costs are largely fixed, the most immediate effect of enrollment reductions would be decreased tuition and State revenue. The University plans to maintain enrollment at a stable level for the present, and hopes to be able to increase enrollment in the near future.

Chairman Lansing observed that there has been much resistance to the last category of options discussed, those not being pursued by the University. The Regents and the University must work to ensure that these options do not become necessary.

Dr. Pitts recalled that the Regents approved an eight percent tuition increase in November 2010. He stressed that no one in the University was eager for another increase. The University understands the problem that another fee increase would create for students and families, and it believes that it has taken substantial steps to ameliorate the impact of an increase on needy students at UC. However, even with a tuition increase, the University would still have a large unmet need for resources. The November 2010 increase combined with the current proposed increase would cover only about 26 percent of the UC budget shortfall for 2011-12. Dr. Pitts noted that in his discussions with campus provosts over the previous six months, it had become clear exactly how difficult it would be for the campuses to meet the remaining shortfall, minus the fee increase, of approximately \$750 million, the difference between the University's expected revenues and known expenses. Dr. Pitts stressed that the public must understand what this shortfall would mean for the campuses. The implications for the University's quality were worrisome. The University would face a much greater risk of losing future students if its quality were to decline than if tuition increased. UC is committed to preventing a decline in quality. Dr. Pitts asked several chancellors to address this issue briefly for the Regents and the public, to illustrate the problems the campuses are facing.

Chancellor Drake spoke of the University's efforts to protect excellence and the quality of the educational journey for UC students. He emphasized that the University currently focuses most of its time and effort on protecting its status quo rather than moving forward. As an example, he noted that his discussions with the dean of the UC Irvine Medical School have been about finances, deriving more money and effort from faculty, and generating revenue, rather than about the Program in Medical Education (PRIME), research, or new construction. The campus has experienced faculty hiring freezes and has reduced the number of students for whom it has space. Financial aid and fellowship packages offered to potential graduate students are smaller or remain the same at a time when the campus is competing for the best students in the country. Competitor institutions advance while UC struggles just to stay where it is. Chancellor Drake described the current moment as a desperate point. The Irvine campus this year had already experienced a \$75 million reduction in expenditures. Maintaining quality in these circumstances is something that has taken the campus' best efforts to date, and Chancellor Drake stated his view that it would be a futile effort in the long term.

Chancellor Blumenthal outlined three essential points. First, the campuses have already had to absorb significant reductions. The Santa Cruz campus has tried to protect its

academic functions by assigning more than two-and-a-half times as much in cuts, in terms of percentage of budget, on administrative units as on academic units. Nevertheless, the campus has 120 faculty positions empty due to lack of funding. Teaching assistant positions have been reduced by more than 200, and programs have disappeared. Chancellor Blumenthal stated that he was concerned about the effect of administrative cuts on health and safety functions and financial controls, and saddened by the loss of child care provision for faculty and staff. The second point was that although he was proud of what the campus accomplishes, there has been a degradation of the student educational experience due to these reductions. Students find it difficult to get all the classes they need. The size of classes has increased. The campus has an initiative to reexamine its academic majors to ensure that students can graduate in a timely fashion, and an initiative to provide a pathway for students to graduate in four or fewer years, should they wish to do so. As his third point, Chancellor Blumenthal asked the Regents to think about the morale of students, faculty, and staff. He noted that it would be more costly to students to pay an extra semester or year of tuition because they could not get the classes they need than it would be to pay an extra \$1,000 of tuition at this time. Faculty retention was a serious concern when faculty wonder if they have a future career at the University. After extensive staff layoffs, the remaining staff are doing more work and taking on more responsibilities than ever before. From a campus perspective, there was a compelling case to endorse a tuition increase.

Chancellor Block reported that the current-year budget shortfall for UCLA was about \$125 million, the campus' portion of the earlier \$500 million reduction to UC by the State. The additional \$150 million reduction by the State would mean about a \$29 million additional reduction for UCLA, which the campus cannot absorb. Chancellor Block stated that he shared his colleagues' concerns about degradation in the quality of education. For UCLA, an additional reduction of \$29 million, without any increase in fees, would be equivalent to laying off 324 career staff, replacing 1,268 California resident students with nonresidents, or replacing 168 ladder-rank faculty with 74 lecturers. None of these are attractive alternatives for the campus. Chancellor Block concluded that a fee increase was probably the only way that the campus could meet this additional reduction, recognizing the difficulties this would create for many UCLA students.

Chancellor White noted that 55 percent of UC Riverside undergraduates are first-generation students, probably more than at any other UC campus. These students do not receive help from their families in navigating their courses and the University system. These students, who come from the margins of society, are the ones who are most debilitated by a decline in resources and quality. As one example, chemistry discussion sections on campus have increased from 25 to 40 students. Chancellor White decried the lack of funding for the new School of Medicine at UC Riverside. The regional community of several million people, the most underserved and most rapidly growing area in California, feels betrayed by the political process. Inland Southern California has only 100 primary care physicians per 100,000 inhabitants. With the delay to the opening of the UCR School of Medicine, the campus has been forced to put the future on hold.

Chancellor Katehi emphasized the tremendous return on investment the University provides for the State of California in terms of economic development. It was hard to believe that the State could not appreciate the importance of its investment in UC. She reported that UC Davis faced about 40 retention cases for faculty during the past year. The campus was able to retain only 22 of these faculty members. Many of those who left went to state institutions where they would receive salaries at least 50 percent higher. Chancellor Katehi cautioned that the University would not be able maintain quality and excellence if it did not retain faculty.

Committee Chair Varner expressed appreciation for the work done by the chancellors.

Vice President Lenz outlined the University's financial aid commitments for 2011-12. The University would continue its practice of 33 percent return-to-aid for undergraduates and 50 percent return-to-aid for academic graduate students. UC supports augmentations to the State Cal Grant program to cover fee increases. Mr. Lenz noted that the University expects the State to honor this commitment and to increase Cal Grant awards. The University has expanded the Blue and Gold Opportunity Plan to include students with family income up to \$80,000 and would provide one-time coverage of 100 percent of 2011-12 fee increases for needy families earning up to \$120,000. He emphasized that 55 percent of UC students would pay no fee increase in 2011-12. Mr. Lenz noted that the University has campus deferral payment programs for students who will experience a fee increase. UC recognizes the short time and resulting short notice between the present action and the beginning of the fall quarter or semester.

Mr. Lenz reviewed UC tuition levels in 2010-11, the eight percent increase for 2011-12 approved in November 2010, and the 9.6 percent increase for 2011-12 being proposed that day. The total increase over the 2010-11 tuition paid by students would be \$1,890, or an 18.3 percent increase.

Regent De La Peña stated his view that, if the University provided one-time coverage of the 2011-12 fee increase for needy families earning up to \$120,000, the percentage of students not paying increased fees would be higher than 55 percent. He noted that about 45 percent of UC students come from families earning less than \$49,000 annually; the family income of about 15 percent of UC students is below \$98,000. He estimated that the family income of about another 20 percent of UC students would fall between \$98,000 and \$148,000. Mr. Brostrom responded that, in order to qualify for aid in the \$80,000 to \$120,000 income category, students must establish federal financial aid eligibility. There are families without demonstrable financial need in that income group. He stated that he would provide exact numbers for student income levels and aid eligibility.

Chairman Lansing stated that she sadly supported the proposal for a tuition increase. She expressed concern about future fee increases that might occur during the course of an undergraduate student's enrollment at UC. She asked the Office of the President to provide data on potential financial loss to the University if tuition levels were kept fixed, without increases, during the four years of a student's enrollment. Committee Chair

Varner seconded this request. He asked that these projections be presented to the Committee on Finance. Mr. Brostrom responded that such data are available; they were examined by the UC Commission on the Future.

Chairman Lansing emphasized that the proposed action did not take into account a possible “trigger” or further budget reduction by the State. The University, together with CSU and the community colleges, should do everything possible to prevent such a “trigger.” She asked the University’s media relations staff to make the public aware of this issue.

Regent-designate Stein stated that he supported alternative revenue options to lessen the blow of fee increases for undergraduate as well as graduate students. He expressed agreement with Chairman Lansing that both groups of students should share the burden of fee increases. He again referred to background material for the following discussion item, *Authorization or Endorsement of Certain Alternate Revenue Strategies for Fiscal Year 2011-12*, according to which a two percent distribution from a fund functioning as an endowment or quasi-endowment and a two percent distribution from a true endowment would generate approximately \$60 million. Raised to four percent, such a distribution would generate \$120 million. While such a distribution would be a one-time solution to be used only in emergencies, Regent-designate Stein stressed that the current situation was an emergency. Mr. Brostrom responded that many campuses are using this approach, drawing on carry-forward funds and reserves. The Office of the President was also considering an extraordinary payout. Extraordinary payouts can be an effective tool, and the University is already making use of it. Mr. Brostrom recalled that many endowments are restricted and stated that the extraordinary payout suggested by Regent-designate Stein would not address the current budget shortfall.

Regent Newsom recalled that the cost of attending CSU had doubled in five years; CSU was following the same path as UC. He emphasized that growing income inequality and the loss of a middle class was a significant threat to American democracy. The proposed fee increase would hurt the middle class. He stated his view that by continuing to implement fee increases, the University was failing to convince the Legislature of its error. The University was losing quality and excluding students by charging higher fees than they could afford. The Regents should send a message to the Legislature by voting “no” on the proposed tuition increase. He stated that Californians have accepted a status quo of creeping mediocrity and a slow, steady decline. A powerful message and a dramatic change would be necessary to interrupt this decline.

Committee Chair Varner expressed the general agreement among the Regents that the California Master Plan for Higher Education has become dysfunctional; it is not adhered to by the Legislature. Higher education is not a priority for the Legislature. The University must find a way to make it a priority or find a different approach.

Regent Mireles urged the Regents to vote “no” on the proposed action. He asked them to consider the situation of current UC undergraduates. When students entered as freshmen in fall 2008, their mandatory fees were \$7,126. If the proposed tuition increase were

approved, these students would now pay, on average, \$12,192. In the course of four years, their fees would have increased by over \$5,000. Students who have been enrolled at UC during the past few years cannot rely on leaders empowered to make decisions on their behalf.

Regent Kieffer expressed agreement with Regent Newsom about the situation of the middle class, but stated his view that the message of voting “no” on the proposed fee increase would not be effective. Voting “no” would communicate that the University can function without a fee increase at this point. The University’s message to the Legislature should be that the Legislature is raising student fees; the Legislature’s decisions on the State budget have raised student fees and forced the University into this position. State government has deserted higher education and the Master Plan for many years. The University has been taking every possible step to reduce its costs in other ways. It will protect its reputation and quality. The University would not lose superior faculty and administrators due to abandonment by the Legislature. Regent Kieffer expressed his reluctant support for the proposed action.

Regent Reiss expressed agreement with Regent Newsom but stated that the option of not raising tuition would not send an effective message to the Legislature and would result in more cuts at the campuses. She expressed her concern that support for California’s public colleges and universities was such a low priority for the Governor and legislative leaders. Over the past decade the Legislature has cut billions of dollars from California public universities. UC has been forced to raise tuition, furlough faculty and staff, cut faculty and staff positions, increase class size, reduce the number of courses offered, and limit enrollment growth. UC faces a \$650 million reduction in the current fiscal year, a very likely additional \$100 million cut if estimated target revenues do not materialize, and another \$362.5 million in unfunded mandatory cost increases.

Regent Reiss indicated that California’s public university system is one of the few remaining institutions in the state that is still well regarded in the U.S. and internationally. This is not the case for California’s K-12 public education system, prison system, foster care system, or parole system. Rather than protecting this great treasure, California politicians have given up on higher education. Governor Brown and the State legislators risk a legacy of presiding over the demise of public higher education in California and of having future Californians look back and identify this as the moment in history when UC and CSU became second-rate. Ironically, the Master Plan was the great vision of the Governor’s father, former Governor Pat Brown.

Regent Reiss emphasized the Regents’ commitment to UC’s academic and research excellence. Politicians might choose to make easy headlines by attacking the University for the salaries it must pay to retain outstanding faculty and administrators, but the Regents understand the need for UC to remain competitive and to avoid having its faculty raided by private universities. Faced with enormous financial cuts forced on the University by State political leaders, and until there are viable bold alternatives and new education delivery models, UC has only a handful of options available to meet these cuts, all undesirable: further cuts to the campuses, further salary reductions, larger class sizes,

layoffs, lower student enrollment, or higher tuition. Over the past few years, UC has used all these options to spread the pain. Once again the Regents were considering a “share the pain” approach: raise tuition 9.6 percent to cover 26.3 percent of the budget shortfall, with campuses absorbing the remaining \$746 million. Regent Reiss expressed hope that students would work with the University to change the priorities of California political leaders.

Regent Reiss expressed dislike of being forced by State politicians to raise tuition, but emphasized that allowing the University to decline to second-rate status would be worse. She cautioned that the University might pass a breaking point beyond which tuition levels would be inconsequential, because reduced academic excellence would cause UC to lose the ability to continue to attract the best and brightest California students. The painful option of a tuition increase was made less painful by the Blue and Gold Opportunity Plan. She stated that she believed this action would be the most strategic way for the University to survive the reductions imposed by the Legislature and Governor.

Regent Pattiz stated that he would be forced to vote for this regrettable action. It was necessary to preserve the greatness of the University and to ensure that students would have a reason to attend UC.

Regent Gould noted that this was the worst budget year in memory for higher education in California. All independent observers would agree on this. He referred to the earlier comments by the chancellors and all the actions campuses were taking to address the already severe budget reductions. It was regrettable to raise student fees. The University would do its best to offset the increase with financial aid. Regent Gould expressed his view that voting “no” on the proposed action would lead to an erosion of quality. If there was a message to be sent to the Legislature, it should be that the Regents have determined that UC will continue to preserve quality.

Regent Blum stated that it would be irresponsible not to support UC faculty. The University could not support its faculty without the proposed tuition increase. Besides pursuing private fundraising to support the University, UC should begin focusing on the 2012 State elections.

Regent Newsom stated that the Regents’ actions have become predictable, a foregone conclusion for the Legislature. For ten years, the Board has voted in the same way, as the Legislature expected it would. The Regents needed to take an unexpected action in order to start a different dialogue in California. He stressed that he did not wish to imperil the University, but to address the issue in a different way than it has been addressed in the past. The University needed a different message.

Chairman Lansing observed that the Regents had to address the issue that day. Those who would vote for this action, and all would do so regretfully, were doing so to avoid putting the institution at risk that day. It was necessary to maintain the quality of UC that day, or it would rapidly disappear. Access had to be maintained, and financial aid was being increased. She expressed respect for Regent Newsom’s statement, noting that the

University's challenge would not end that day, and that the University needed Regent Newsom's help, and the help of the public, faculty, students, staff, CSU, and the community colleges, to begin a fierce battle to defend higher education.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regent Mireles voting "no."

8. **AUTHORIZATION OR ENDORSEMENT OF CERTAIN ALTERNATE REVENUE STRATEGIES FOR FISCAL YEAR 2011-12**

The President recommended that the Regents take the following actions regarding the President's planned alternate revenue strategies:

- A. Authorize the President to instruct the Chief Investment Officer to transfer an additional amount not to exceed \$1 billion from the systemwide Short Term Investment Pool (STIP) into the Total Return Investment Pool (TRIP) to increase investment earnings.
- B. Authorize the President to instruct the Chief Investment Officer to distribute an extraordinary payout not to exceed two percent of eligible year-end 2010-11 balances of funds functioning as endowments (FFE's).
- C. Authorize the President to instruct the Chief Investment Officer to distribute an extraordinary payout not to exceed two percent of eligible year-end 2010-11 balances of true endowments.
- D. Endorse the President's plan to draw down as needed from the University's employee/retiree healthcare reserve.

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

Chief Financial Officer Taylor explained that this item would give the President authority to pursue alternate revenue strategies. The University would address the impending budget reduction by the State with administrative efficiencies and the tuition increase just approved by the Committee, but the University anticipates that, even after these measures, an approximately \$10 million gap would remain. The alternate revenue strategies would address this \$10 million gap, as well as the possible additional \$100 million reduction that may be imposed on UC, depending on State revenues.

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

The meeting adjourned at 12:40 p.m.

Attest:

Secretary and Chief of Staff

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
INTEREST RATE SWAP GUIDELINES
(July, 2011)

Under the University's Standing Order 100.4(nn) the President has the authority to enter into interest rate swap transactions. The President has delegated sole authority to enter into these transactions, in a manner consistent with the guidelines enumerated below, to the Executive Vice President – Chief Financial Officer (CFO) under DA 2252.

A. GUIDELINES

I. PURPOSE

These guidelines will direct the use of interest rate swaps in conjunction with the Regents' debt portfolio. Interest rate swaps can be utilized by the Regents as part of its overall asset/liability risk management strategy for its revenue bond programs. The Regents may enter into interest rate swap transaction(s) if the transaction is expected to result in at least one of the following:

- to reduce exposure to changes in interest rates on either a current or future debt issue(through the use of anticipatory hedging instruments)
- to manage asset/liability interest rate risk
- to lower the overall expected net cost of capital of a borrowing as compared to products available in the bond market
- to manage variable interest rate exposure consistent with prudent debt practices
- to achieve more flexibility in meeting overall financial objectives than can be achieved in the bond market
- manage the Regent's credit exposure to financial institutions and other entities through the use of offsetting swaps and other credit management products

These guidelines apply only to interest rate swaps and do not apply to commodity, currency or credit default swaps or other types of hedging or derivative products, which are not authorized by the Regents.

The Regents will not enter into swaps for speculative purposes.

II. NON-SPECULATION

While the Regents may use swaps to increase or decrease the amount of floating-rate exposure on its balance sheet, the Regents will not enter into swaps under any of the following circumstance as determined in each case by the President or as delegated to the CFO:

- The swap exposes the Regents to extraordinary leverage or risk;
- The swap serves a purely speculative purpose, such as entering into a swap for the sole purpose of trading gains;
- The Regents is unable to reasonably anticipate that it will have sufficient liquidity or financing capacity to terminate the swap at market levels if it should need to;
- There is insufficient pricing data available to allow the Regents and its advisors to adequately value the swap.

III. AUTHORITY

Prior to entering into a specific swap transaction, the transaction must receive: 1) approval of the Chair Board of Regents (or the Vice Chair if the Chair is not available) and the Chair of the Committee on Finance (or the Vice Chair if the Chair is unavailable) and 2) and an opinion from counsel to the effect that (a) that the agreement relating to the swap transaction is a legal, valid and binding obligation of the Regents and the counterparty and (b) that entering into the transaction complies with applicable state and Federal laws.

IV. SENIOR MANAGEMENT OVERSIGHT

The President shall direct the CFO to review this policy periodically to take into account business and market changes. The CFO shall be responsible for insuring the implementation of this policy and proposing amendments to the policy to take into consideration, any or all of the following, as applicable:

- An analysis of the reasonableness of the proposed activities in relation to the Regents' overall financial condition and capital levels;
- An analysis of the risks that may arise from the implementation of a swap portfolio;
- An analysis of the performance of existing and pro forma swap transactions over time as market conditions may change;
- Impact of counterparty exposure as counterparty credit ratings change over time;
- Potential effects that the swap portfolio may have on the credit ratings of any Regents' obligations assigned by the rating agencies;
- The relevant accounting guidelines;
- The relevant tax treatment; and
- An analysis of any changes to any applicable legislation and any new legal restrictions which may impact the enforceability of the swap obligations.

V. FORM OF AGREEMENTS

Each interest rate swap transaction shall be governed by the terms and conditions as set forth in the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, as amended or supplemented by Schedules, Credit Support Annexes and Confirmations. The swap agreements between

the Regents and each qualified swap counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the CFO deems necessary or desirable.

VI. QUALIFIED SWAP COUNTERPARTIES

Swaps will be executed with counterparties possessing minimum counterparty ratings in the “AA” ratings category by at least one nationally recognized rating agency. Counterparties may meet these ratings criteria based on their own credit ratings or the credit ratings of their guarantors or credit enhancers. Exceptions may be granted if specifically approved in writing by the CFO. All counterparties will be required to post collateral (subject to threshold amounts) for the Regents’ benefit in the event they fall below specific ratings thresholds.

VII. METHODS OF SOLICITING AND PROCURING SWAPS

Swaps can be procured on a competitive or negotiated basis.

BASIS OF AWARD

Competitive Bid. As a general rule, a competitive selection process will be used whenever reasonable, if the product is relatively standard, if it can be broken down into standard components, if multiple providers have proposed a similar product to the Regents, or if competition will not create market pricing effects that would be detrimental to the Regents’ interests. If it is determined that a Swap should be competitively bid, the Regents may employ a hybrid structure to reward unique ideas or special effort by reserving a specified percentage of the Swap to the firm presenting the ideas on the condition that the firm match or improve upon the best bid. The competitive bid should solicit bids from a minimum of three firms. Solicitations for bids must be made only to potential counterparties who are qualified under the terms of this policy.

Negotiated Transaction. The CFO may procure swaps by negotiated methods in the following situations as he or she determines:

- (a) A determination is made by the CFO that due to the complexity of a particular swap; a negotiated process is advisable.
- (b) A determination is made that a negotiated transaction will assist the Regents and reward innovation and a high level of service in the provider’s capacity as part of the Regent’s investment banking team;
- (c) A determination is made that the negotiated process will facilitate counterparty diversification which is in the best interest of the Regents;
- (d) A determination is made that the negotiated process will avoid market pricing effects that would be detrimental to the Regent’s interest.

To provide safeguards on negotiated transactions, the Regents will secure outside professional financial advice to assist in the process of structuring, documenting and pricing the transaction and to render an

opinion that a fair price was obtained. In all transactions, regardless of procurement method, the counterparty shall be required to first disclose any and all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in securing business with the Regents.

VIII. MANAGEMENT OF SWAP RELATED RISK

Swap agreements present certain risks for the Regents. The CFO will consider the following risks and follow the related guidelines and parameters upon entering into each Swap agreement.

COUNTERPARTY RISK. Swaps are financial contracts under which the parties assume credit exposure to one another. Limiting the maximum potential exposure caused by a concentration of swap agreements with one counterparty is advisable. In order to manage this risk the CFO will:

1) Target the maximum potential exposure of Swaps between a particular Counterparty and the Regents not to exceed 50% of the total maximum potential exposure of the Regents' entire swap and overall credit portfolio, when logistically possible. Exposures on off-setting swaps may be considered when calculating net maximum potential exposure.

2) Require collateralization provisions by the counterparty based on credit rating thresholds.

AA-/Aa3 and above	\$30 million
A+/A1	\$20 million
A/A2	\$10 million
A-/A3	\$5 million
Baa1/BBB+ and below	Zero

3) Require optional termination rights for the benefit of the Regents if the counterparty is downgraded below the "A" ratings category by a nationally recognized ratings agency.

TERMINATION RISK. A swap termination, in general, should produce a benefit to the University either through a receipt of payment from a termination, or if a termination payment is made by the University, through conversion to a more beneficial debt position. The University can consider a provision in a swap agreement that permits an optional termination at any time over the term of the swap. In some circumstances, a termination payment by or to the University may be required in the event of termination of a swap agreement due to a counterparty default or decrease in credit rating.

AMORTIZATION RISK. Mismatched swap and bond amortization schedules can result in a less than perfect hedge and create additional risk. The amortization schedules of the debt and associated swap should be closely matched for the duration of the swap. The term and notional amount of the swap should generally not exceed the term and amount of the associated debt.

BASIS RISK. There exists the potential for the cashflows on the underlying floating rate bond issue to not match the floating leg of the swap. To mitigate this risk, any index chosen as the basis of a swap agreement shall be an industry recognized market index that includes but is not limited to SIFMA (Securities Industries and Financial Market Association) Municipal Swap Index or LIBOR (London Interbank Offered Rate). The potential risk of the University is making/receiving payments based on the specified index should be evaluated and quantitatively measured prior to entering into a swap.

TAX RISK. The risk that tax-exempt bond rates may unexpectedly increase or fluctuate due to changes in the tax code is called tax risk. Tax risk is present in all tax-exempt debt issuances. When entering into swaps associated with tax-exempt bonds, tax risk involves tax-exempt bond rates consequently diverging from the specified swap index (a form of basis risk). Tax risk should be evaluated prior to entering into a swap agreement. This risk will be regularly monitored.

IX. MEASURING SWAP EXPOSURE

The Regents will measure swap exposure not based on notional amount, but rather on the risk to the Regents of potential termination payments (either by the Regents or to the Regents by the counterparties). Maximum potential exposure also referred to as “Peak Exposure,” will be determined by a quantitative measure that reflects the size, term, and projected volatility of the swaps. Peak Exposure provides a quantification of the Regents’ worst case swap exposure. It is calculated by applying stress tests to the Regents’ swaps to show how large the potential termination costs of the swaps could be if markets moved in an extremely adverse manner. Market movements are typically calculated assuming a two standard deviation change in market rates, based on historic volatilities, to provide better than 95% degree of confidence.

In order to accurately determine the potential risks from entering into new interest rate swaps, prior to entering into new swap agreements, the CFO will prepare for the President, the Chair of the Board and the Chair of the Finance Committee an updated analysis of Peak Exposure, both with and without the proposed new swap agreement. This will be attached as part of the authorization request.

In order to limit the Regents’ counterparty risk, the Regents will seek to avoid excessive concentration to a single counterparty or guarantor by diversifying its counterparty exposure over time. Exposure to any counterparty or guarantor will be measured using peak exposure analysis.

X. REPORTING

The Annual Financial Report prepared by the University of California Office of the President and presented to the Board of Regents will discuss all interest rate swaps. The notes to the financial statements shall include the following information:

- A summary of swap agreements, including but not limited to the type of swap, the rates paid by the Regents and received by the Regents, indices, and other key terms.
- Market values of the Regents’ swap agreements.

- The credit rating of each swap counterparty or credit enhancer (where relevant).
- Actual collateral posting by a swap counterparty, if any, per swap agreement and in total by swap counterparty.
- Any termination events that have occurred.
- A summary of derivative instrument activity during the reporting period and balances at the end of the reporting period.

The Regents may hire a financial advisor to assist in the monitoring of its swaps on an on-going basis.

B. DEFINITIONS

Authorized Representative – Includes the President and as delegated Executive Vice President – CFO.

Counterparty – The participant to which an exchange of payments is made.

Interest Rate Swap - Involves exchanging a fixed amount per payment period for a payment that is not fixed, or in the case of a basis swap, an amount based on one floating rate index for another. In an interest rate swap, the principal amount is never exchanged.

ISDA Master Agreement - The International Swaps and Derivatives Association (ISDA) is a trade organization of participants in the market for over-the-counter derivatives. The ISDA Master Agreement is a standardized contract that serves as the framework between two counterparties to enter into a swap.

London Interbank Offered Rate (LIBOR) – The interest rate that the banks charge each other for loans (usually in Eurodollars). A commonly used base index for swap agreements.

Notional Amount - Nominal or face amount that is used to calculate payments for the swap agreement.

SIFMA Index - The Securities Industry and Financial Markets Association Municipal Swap Index, produced by Municipal Market Data, is a 7-day high-grade market index comprised of tax-exempt variable rate demand bonds. It is the principal floating rate index for municipal floating rate bonds.

**SUMMARY OF CONSULTING ACTUARY'S RECOMMENDATIONS
REGARDING ACTUARIAL ASSUMPTIONS FOR UCRP**

Inflation—Affects projections of investment returns, active member salary increases, cost-of-living adjustments for retirees. Recommendation: Maintain rate at 3.50 percent per annum.

Investment Return—Estimates average future net rate of return on assets over projected lifetime of the Plan as of the valuation date. Recommendation: Maintain rate at 7.50 percent per annum.

Individual Salary Increases—Includes salary increases due to inflation, real “across the board” salary increases and promotional and merit increases in salary. Recommendation: Maintain the current inflationary salary increase assumption at 3.50 percent; increase the “across the board” salary increase assumption from 0.25 percent to 0.50 percent; reduce the promotional and merit increase assumptions consistent with the tables established for staff and faculty in the Report.

Retirement Rates—Predicts the probability of retirement at each age at which members are eligible to retire. Recommendation: Structure retirement rates as a function of both age and years of service for staff members; for faculty and safety members, continue to structure retirement rates as a function of age only; for deferred vested members, maintain the assumed retirement age at 59.

Mortality Rates—Estimates the probability of dying at each age. Recommendation: For nondisabled members, decrease the mortality rates consistent with the RP-2000 Combined Healthy Mortality Tables projected to 2025 with a two-year set back; for disabled members, decrease the mortality rates consistent with the RP-2000 Disabled Retiree Mortality Tables projected to 2025 with a two-year set back for males and no set back for females.

Termination Rates—Estimates the probability of leaving active UCRP membership at each age and receiving either a refund of member contributions or a deferred vested retirement benefit. Recommendation: Implement service-based termination rates and increase the current termination rates overall. Also, implement a new assumption that a member will choose between a refund of contributions and a deferred vested benefit based on which option has the greater present value at termination.

Disability Incidence Rates—Estimates the probability of becoming disabled at each age. Recommendation: Decrease the current disability rates overall as described in the Report.

Eligible Survivor Assumptions—Projects the probability of having a survivor at death. Recommendation: Maintain current percentages, which assume that 85 percent of male members and 65 percent of female members will have an eligible survivor at time of death.

Conversion of Unused Sick Leave—Projects amount by which UCRP service credit may be increased due to conversion of unused sick leave. Recommendation: Slightly decrease the current assumption for faculty and safety members retiring from active membership and slightly increase the current assumption for staff members retiring from active membership.

Lump Sum Cashout Take-Rate—Estimates the probability of electing a lump sum in lieu of retirement. Recommendation: For employees terminating while active members, structure the take-rate as a function of years of service; for all others, maintain a flat percentage regardless of years of service.

Future Benefit Accruals—Projects amount of service credit to be earned by active members in years after valuation date: Recommendation: No change to current assumption that all active members earn one year of service credit each year in the future.

UCRP Administrative Expenses—Projects fees for administrative, legal, accounting, and actuarial services carried out by the Plan. Recommendation: No change to the percentage loading to the normal cost of 0.50 percent of payroll.

**SUMMARY OF CONSULTING ACTUARY'S RECOMMENDATIONS
THAT ALSO APPLY TO OTHER UC BENEFIT PLANS**

Recommended assumption changes carrying over to the actuarial valuations of other UC benefit plans—

- UC-PERS Plus 5 Plan: Mortality Rates
- Retiree Health Benefit Program: Retirement Rates, Mortality Rates, Termination Rates, Disability Incidence Rates and Lump Sum Cashout Take-Rate.

NEW LITIGATION AND ARBITRATION PROCEEDINGS*Report Period: 4/9/11 – 5/26/11**Regents Meeting**July 2011*

<u>Plaintiff</u>	<u>Location</u>	<u>Nature of Dispute Alleged by Plaintiff</u>	<u>Forum</u>
<u>Employment Cases</u>			
Kosberg, Kori A.	UCSD	Discrimination, Retaliation	San Diego County Superior Court
Laird, Richard	UCLA	Discrimination, Retaliation, Failure to Accommodate	Los Angeles County Superior Court
Oswald, Diana	UCSF	Discrimination, Wrongful Termination	San Francisco County Superior Court
Ryder, Mark	UCDMC	Discrimination, Wrongful Termination	Sacramento County Superior Court
<u>Professional Liability Cases</u>			
Allen, Mary	UCSFMC	Medical Malpractice	San Francisco County Superior Court
Bieber, Zoltanne	UCLAMC	Medical Malpractice, Wrongful Death	Los Angeles County Superior Court
Bravo, Arnold	UCDMC	Medical Malpractice, Wrongful Death	Sacramento County Superior Court
Burnet, Patricia	UCLAMC	Medical Malpractice	Los Angeles County Superior Court
Burton, Jennifer and William Burton	UCSDMC	Medical Malpractice	San Diego County Superior Court
Champlain, Barbara	UCDMC	Medical Malpractice	Sacramento County Superior Court
Clements, Penny	UCLAMC	Medical Malpractice	Los Angeles County Superior Court
Doka, Andrew	UCIMC	Medical Malpractice	Orange County Superior Court
Duval, Foster	UCLAMC	Medical Malpractice	Los Angeles County Superior Court

Garza, Cecilia	UCSDMC	Medical Malpractice	San Diego County Superior Court
Gilbert, Penny	UCSFMC	Medical Malpractice, Wrongful Death	San Francisco County Superior Court
Gilmore, Thomas J.	UCSDMC	Medical Malpractice	San Diego County Superior Court
Joyce, Derek	UCSDMC	Medical Malpractice	San Diego County Superior Court
Lozano, Cynthia	UCSFMC	Medical Malpractice	Fresno County Superior Court
Nguyen, Ann	UCLAMC	Medical Malpractice	Los Angeles County Superior Court
Ourlan, Badrig Pat (decedent)	UCSFMC	Medical Malpractice	Fresno County Superior Court
Paulson, Darryl	UCSDMC	Medical Malpractice	San Diego County Superior Court
Reid, Katrina	UCLAMC	Medical Malpractice	Los Angeles County Superior Court
Saghiv, Ohad	UCSDMC	Medical Malpractice	San Diego County Superior Court
Singh, Baljit	UCDMC	Wrongful Death	Sacramento County Superior Court
Snipes, Abigail	UCLAMC	Medical Malpractice	Los Angeles County Superior Court
Taggart, Steven	UCSDMC	Medical Malpractice	San Diego County Superior Court
Valderrama, Antonio	UCSDMC	Medical Malpractice	San Diego County Superior Court

Other Cases

Addo, Emmanuel	UCSF	Writ of Mandate (Wrongful Student Dismissal)	San Francisco County Superior Court
California Rifle and Pistol Association Foundation	UCSC	Petition for Writ of Mandate for: (1) Improper Withholding of Public Records; and (2) Failure to Promptly Produce Public Records	Santa Cruz County Superior Court
Elizalde, Christopher	UCLA	Negligence	Los Angeles County Superior Court

Garrett, Anna Michelle	UCLAMC	Implied Indemnity, Express Contractual Indemnity	Los Angeles County Superior Court
Jordan Worldwide, Inc.	UCSFMC	Contract/Commercial Transaction	Camden County Superior Court of New Jersey
Lewis, Cheri and Michael Arnold	UCD	Motor Vehicle, General Negligence	Sacramento County Superior Court
Medivation, Inc., Medivation Therapeutics, Inc.	UCLA	Breach of Contract (Sponsored Research Agreement) and Breach of Contract (License Agreement);	San Francisco County Superior Court
Miranda, Jose Martin	UCR	Negligence and Wrongful Death	Riverside County Superior Court
Morikis, Vasilios A.	UCSD	Writ of Mandate	San Diego County Superior Court
Official Committee of Unsecured Creditors	UCOP	Fraudulent Transfer, Preferential Transfer, and Unjust Enrichment	U.S. Bankruptcy Court, District of Delaware
Raybin, Sarah	UCB	General Negligence and Premises Liability	Alameda County Superior Court
Spencer, Malfred C.	UCB	False Arrest, Negligent Infliction of Physical Injuries and Emotional Distress	Alameda County Superior Court

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

American Federation of State, County and Municipal Employees (AFSCME) (SFCE981H)	UCOP	Bad Faith Bargaining; Failure to Provide Information; Unilateral Change	PERB
United Auto Workers Local 2865 (UAW) (SFCE982H)	UCB	Failure to Provide Information	PERB

CUE (Coalition of University Employees) (SFCE983H)	UCOP	Unilateral Change	PERB
CUE (SFCE984H)	UCSF	Discrimination/Retaliation; Unilateral Change	PERB
CUE (SFCE985H)	UCSB	Discrimination/Retaliation	PERB

**FY 2011-12 BUDGET SUMMARY
OFFICE OF THE PRESIDENT**

	TOTAL BUDGET			UNRESTRICTED BUDGET			
	TOTAL FY 2010-11 BUDGET	CHANGE	TOTAL FY 2011-12 BUDGET	TOTAL FY 2010-11	CHANGE	% CHANGE	TOTAL FY 2011-12
GENERAL ADMINISTRATION	\$ 95,078,120	\$ (937,444)	\$ 94,140,676	\$ 60,399,855	\$ (4,311,311)	-7%	\$ 56,088,544
OP Core Administration	55,129,568	1,751,340	56,880,908	41,434,557	(1,152,173)	-3%	40,282,384
Academic Affairs	12,511,076	(280,618)	12,230,458	12,379,369	(349,783)	-3%	12,029,586
Finance	3,836,588	1,171,386	5,007,974	1,864,153	136,672	7%	2,000,825
Business Operations	18,346,483	471,040	18,817,523	13,544,453	(1,039,473)	-8%	12,504,980
President's Exec. Office	4,741,706	(223,568)	4,518,138	4,485,356	(233,744)	-5%	4,251,612
Health Sciences	3,928,656	50,918	3,979,574	2,100,656	50,918	2%	2,151,574
External Relations	8,185,281	449,057	8,634,338	7,060,570	283,237	4%	7,343,807
Lab Management	3,579,778	113,125	3,692,903	-	-	-	-
Academic Senate	1,807,561	(162,373)	1,645,188	1,807,561	(162,373)	-9%	1,645,188
Regents Officers	38,140,991	(2,526,411)	35,614,580	17,157,737	(2,996,765)	-17%	14,160,972
General Counsel	10,556,547	(2,324,014)	7,832,533	9,509,356	(2,672,185)	-28%	6,837,171
Secretary/COS	2,954,319	(98,334)	2,855,985	2,949,319	(98,334)	-3%	2,850,985
Ethics & Compliance	4,704,105	(226,246)	4,477,859	4,699,062	(226,246)	-5%	4,472,816
Treasurer	19,926,020	522,183	20,448,203	-	-	-	-
CENTRAL SERVICES (ADMINISTRATION)	122,160,704	3,888,555	126,049,259	70,180,864	3,564,301	5%	73,745,165
Central Administrative Services	88,518,254	4,104,098	92,622,352	36,538,414	3,779,844	10%	40,318,258
ACADEMIC AFFAIRS							
Admissions/Enrollment Services	13,442,145	(1,192,419)	12,249,726	12,507,145	(1,189,341)	-10%	11,317,804
Financial Aid Services	2,345,537	-	2,345,537	2,345,537	-	0%	2,345,537
Technology Transfer	1,017,650	-	1,017,650	1,017,650	-	0%	1,017,650
Other Academic Initiatives	707,747	92,253	800,000	707,747	92,253	13%	800,000
BUSINESS OPERATIONS							
Compensation, Retirement, Benefits	41,191,195	(86,593)	41,104,602	4,885,610	(686,224)	-14%	4,199,386
Information Technology Services	7,442,490	(730,961)	6,711,529	4,743,666	2,103,007	44%	6,846,673
Systemwide Budget/Facilities	4,735,125	(18,847)	4,716,278	4,425,019	(33,725)	-1%	4,391,294
CHIEF FINANCIAL OFFICER							
Banking, Tax, Accounting and Audit	7,075,078	(795,089)	6,279,989	3,190,525	(370,533)	-12%	2,819,992
External Financing	780,596	33,611	814,207	-	-	-	-
Office of Loan Programs	1,424,794	3,884	1,428,678	-	-	-	-
Risk Services	15,000	(15,000)	-	-	-	-	-
Strategic Sourcing	191,366	12,538	203,904	191,366	3,012,538	1574%	3,203,904
Travel Management Services	377,101	4,114	381,215	364,664	3,725	1%	368,389
EXTERNAL RELATIONS							
Institutional Advancement	2,992,232	(276,856)	2,715,376	542,232	(151,856)	-28%	390,376
HEALTH SCIENCES							
Clinical Trials Fund	-			-	1,000,000	100%	1,000,000
Centrally Funded	33,642,450	(215,543)	33,426,907	33,642,450	(215,543)	-1%	33,426,907
<i>Debt service, rent, business processing, undistributed benefits and other</i>							
CENTRAL SERVICES (ACADEMIC PROGRAMMING)	189,807,236	(11,178,804)	178,628,432	81,701,443	(22,718,246)	-28%	58,983,197
AGRICULTURE & NATURAL RESOURCES (OP)	3,544,870	(217,664)	3,327,206	2,944,003	(217,664)	-7%	2,726,339
INFO PUBLISHING & BROADCAST	44,944,612	(209,352)	44,735,260	17,234,299	(1,717,230)	(0)	15,517,069
<i>Including California Digital Library and UC Press</i>							
PREPARATION & ACCESS	19,906,464	(1,616,525)	18,289,939	11,406,464	(2,138,876)	-19%	9,267,588
RESEARCH	102,945,626	(17,876,863)	85,068,763	45,793,567	(17,608,939)	-38%	28,184,628
SYSTEMWIDE INSTRUCTION PROGRAMS	18,465,664	8,741,600	27,207,264	4,323,110	(1,035,537)	-24%	3,287,573
SYSTEMWIDE INITIATIVES	169,969,127	(15,460,508)	154,508,619	138,488,289	(15,460,508)	-11%	123,027,781
Agriculture & Natural Resource (Systemwide)	85,523,228	(3,113,178)	82,410,050	62,263,566	(3,113,178)	-5%	59,150,388
Multi-Campus Research Units	14,869,571	(500,000)	14,369,571	11,958,395	(500,000)	-4%	11,458,395
Systemwide Initiatives	69,576,328	(11,847,330)	57,728,998	64,266,328	(11,847,330)	-18%	52,418,998
PRESIDENTIAL INITIATIVES	10,000,000	-	10,000,000	10,000,000	-	-	10,000,000
ADMISSIONS & FINANCIAL AID	759,000	(613,000)	146,000	759,000	(613,000)	-81%	146,000
ADVOCACY/DEVELOPMENT	7,947,000	(7,597,000)	350,000	7,947,000	(7,597,000)	-96%	350,000
FACILITIES	16,998,000	-	16,998,000	16,998,000	-	-	16,998,000
INFO PUBLISHING & BROADCAST	1,292,500	(1,279,915)	12,585	1,292,500	(1,279,915)	-99%	12,585
INSTITUTIONAL SUPPORT	9,941,108	(360,158)	9,580,950	9,671,108	6,139,842	63%	9,310,950
PUBLIC SERVICE	1,601,947	(367,000)	1,234,947	1,601,947	(367,000)	-23%	1,234,947
RESEARCH	19,202,085	(1,225,335)	17,976,750	14,377,085	(1,225,335)	-9%	13,151,750
SYSTEMWIDE INSTRUCTION PROGRAMS	1,834,688	(404,922)	1,429,766	1,619,688	(404,922)	-25%	1,214,766
GRAND TOTALS	\$ 577,015,187	\$ (23,688,202)	\$ 553,326,985	\$ 350,770,451	\$ (38,925,765)	-11%	\$ 311,844,686