The Regents of the University of California

COMMITTEE ON FINANCE
May 15, 2013

The Committee on Finance met on the above date at the Sacramento Convention Center, 1400 J Street, Sacramento.

Members present: Regents Blum, Gould, Island, Mendelson, Stein, and Varner; Ex officio members Lansing and Yudof; Advisory members Flores, Powell, and Schultz; Staff Advisors Barton and Smith

In attendance: Regents De La Peña, Kieffer, Makarechian, Pattiz, Reiss, Rubenstein, Ruiz, and Zettel, Regent-designate Feingold, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Dorr, Executive Vice President Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Allen-Diaz, Beckwith, Duckett, Lenz, and Sakaki, Chancellors Birgeneau, Block, Blumenthal, Drake, Katehi, Khosla, Leland, and Yang, Acting Chancellor Conoley, and Recording Secretary Johns

The meeting convened at 10:30 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 March 13-14, 2013 were approved.

2. **UPDATE ON THE 2013-14 BUDGET**

Vice President Lenz began the presentation by noting that the Legislature was in the final phase of deliberations concerning the State budget. The Governor had submitted the May Revision that week. The Legislature and its subcommittees would deliberate the Revision. The budget would be discussed by the two legislative houses individually or by a two-house conference committee to resolve differences. The Legislature seeks to deliver a budget to the Governor by the constitutionally mandated deadline of June 15, with time for the Governor's review and recommendations before the beginning of the new fiscal year.

While there was a $2.8 billion increase in State General Fund revenues in 2012-13, these revenues are projected to decrease by $1.3 billion in 2013-14, a less optimistic outlook than expected. Mr. Lenz presented three factors contributing to the decrease: first, the significant capital gains tax paid in 2012 had bolstered the size of the 2012-13 surplus; second, the federal payroll tax holiday was not being extended, and the State would lose tax revenue on the additional income California residents would have realized had the tax holiday been extended; third, revenue would be lost as a result of federal budget sequestration. This would result in a reduced estimate of personal income growth for California, from 4.3 percent to 2.2 percent. Given the revenue available, there were two priorities for the Governor's administration expressed in the May Revision: to meet the constitutionally mandated guarantee for K-14 schools under Proposition 98, the Classroom Instructional Improvement and Accountability Act, and to address California's ongoing debt.

While there was no additional funding for UC in the May Revision, there was a continued commitment to a multi-year funding proposal, a call for a four-year tuition freeze, and continued support for the debt restructuring proposal, which is critical for the effort to avoid increased tuition. The May Revision also includes continued support for online technology funding.

One clear benefit to students in the May Revision is the fact that an earlier proposal for a unit limit on State-subsidized courses has been eliminated. This unit cap would have affected as many as 2,200 UC students in 2013-14, as well as numerous California State University (CSU) and community college students.

The May Revision includes performance outcome measures for UC, CSU, and the community colleges. Mr. Lenz stated that the University welcomes these measures, and noted that the University has performed well over the past five years in areas of concern for the State administration – graduation rates, time to degree, and community college transfers – in spite of the difficult fiscal situation. The University wishes to engage with the State on the establishment of performance outcome measures that are comparable to measures used by other public universities serving similar student populations. These outcomes can be met with sufficient funding from the State.

As it had been in January, the State budget allocation for the University was approximately $2.3 billion. With the passage of Proposition 30, UC was able to secure $125 million for a tuition deferral and fee buyout in 2012-13. The May Revision also provides a five percent base budget adjustment of $125 million and an annuitant health benefit increase of $6.4 million. A total of $256.5 million is available for operations over a two-year period. There is also a lease revenue bond payment adjustment of $10.2 million. Associated with the proposal for debt restructuring is a shift of general obligation bond debt service from the State to the University.

Executive Vice President Brostrom then discussed some of the University's priorities in the State budget negotiations. The University welcomes the Governor's proposal for debt restructuring, which would shift the ownership of lease revenue bonds issued by the State on behalf of the University to UC's balance sheet. Through a combination of refinancing and restructuring, UC could realize about $80 million in cash flow relief annually for the next ten years. The debt restructuring process would generate a positive cash flow for 20 years. Legislators have expressed concerns about the proposal. The University would extend debt further than it has before, but Mr. Brostrom pointed out that this would represent less than two percent of UC's overall State appropriation in the years 2044-

2053. Concerns have also been expressed about the use of variable rate debt to ensure a result that is positive or neutral in terms of net present value. The California Legislative Analyst's Office and others have stated that this is a risky strategy. Mr. Brostrom observed that even if the University used 30 percent variable rate debt on this financing, this would bring the UC overall portfolio to only six percent variable rate debt, low by national standards. The University also has several billion dollars of short-term liquid assets that serve as a natural hedge to any variable rate debt.

Another priority for the University is the UC Retirement Plan (UCRP). The University is seeking parity with CSU in the State's contribution to its retirement plan. UC and CSU are to receive $125 million in the budget proposal, but CSU receives an additional $51 million for its retirement costs. The University is expected to pay its retirement costs of about $67 million out of the five percent base budget increase, leaving less funding for campus operating budgets. The University is requesting $67 million to cover the State General Fund portion of the UCRP contributions in addition to the $125 million base budget adjustment. The Governor has made it clear that one-time funding should be used not for ongoing programs but to pay down debt and liabilities incurred by the State. The UCRP has an $11 billion unfunded liability, and the University feels that one-time funding could appropriately be applied to the UCRP. This would also make up for the years when UC made UCRP contributions but received no UCRP funding from the State. Mr. Brostrom stated that on July 1, 2013 the employer contribution to the UCRP would rise to 12 percent. This would amount to an expense of $1 billion that UC did not face five years earlier. In addition to State funding reductions, this is an expense the campuses must absorb with no new revenues.

UC has been seeking to secure a budget line item for the UC Riverside School of Medicine, an important project focused on primary care medicine in the underserved Inland Empire region. Among its capital facility needs, the University's highest priority is a classroom and academic building at UC Merced. Finally, Mr. Brostrom noted that Proposition 39, the Income Tax Increase for Multistate Businesses, could provide $500 million in funding for energy efficiency projects. UC has invested nearly $300 million in such projects; it would like to ensure that UC and CSU are included in this revenue allocation.

Committee Chair Varner asked whether there was general support or opposition among legislators for the debt restructuring proposal. Mr. Lenz responded that the proposal had been rejected by both budget subcommittees. The University is seeking support from legislative leaders. President Yudof has spoken directly with the Speaker of the Assembly, the Senate President Pro Tempore, and the Governor, among others, on this subject.

Committee Chair Varner asked about the Governor's stance on the UCR School of Medicine. Mr. Lenz responded that the Governor had not yet made a commitment, but President Yudof, Mr. Lenz, and Acting Chancellor Conoley had spoken or would speak with the Governor and the Director of the California Department of Finance. It is the University's strong conviction that the development of the School complements the

Governor's goals. Mr. Brostrom added that the UCR School of Medicine would not require any funding for capital facilities. Committee Chair Varner stated that Regents would raise this point with legislators in their discussions later that day.

Regent Blum asked about the State's rationale for funding the retirement plan for CSU, but not for UC, and to what extent UC's rising debt would affect its credit. Mr. Brostrom responded that the State has not funded the UCRP because the University chose not to contribute to the UCRP for nearly 20 years. According to UC calculations, the State realized over $2.5 billion in savings by not making its corresponding contribution to the UCRP. The University is seeking one-time funding to make up for this liability. In response to the second question, he observed that rating agencies consider lease revenue bonds as an obligation of both the State and UC. In difficult financial times, agencies have counted this obligation against the University's debt capacity. Mr. Brostrom referred to a chart showing the trajectory of UC general revenue bond debt and the debt from bonds issued on behalf of UC by the State, as well as the trajectory for debt under the restructuring proposal, from 2014 to 2053. Under the proposal, the obligation would remain lower than the current trajectory for the combined UC/State obligation until 2032. It would then rise higher than the current trajectory, but because these are fixed dollar amounts with no appreciation, the new obligation would represent less in real value at that future point. The restructuring is also neutral in terms of net present value, using the University's cost of capital, and discounting at about 3.5 percent.

Regent Blum asked about the implications of taking on hundreds of millions of dollars in debt for the University's credit rating. Mr. Brostrom responded that rating agencies already count lease revenue debt against the University. He anticipated that the impact on UC's debt capacity would be approximately 30 cents per dollar.

Regent Blum again asked about the State's reason for funding the CSU retirement plan but not the UCRP. Mr. Brostrom responded that the State funded CSU retirement during the whole period when it did not fund the UCRP; in addition, most CSU employees are enrolled in the California Public Employees' Retirement System (CalPERS), as are the employees of many State agencies. It had been difficult for the University to compel the State even to acknowledge its obligation to the UCRP. The University has expressed the view on numerous occasions that this treatment is unfair.

Regent Stein asked about the possibility of a fee freeze for professional degree students. Because of the passage of Proposition 30 and new State revenues, the University has maintained tuition for undergraduates and academic graduate students at the same level; tuition for professional degree students has continued to rise. Annual tuition for a number of UC law and business programs is about $50,000, comparable to programs at private universities. Student debt of $150,000 or $200,000 limits career choices upon completion of these programs, excluding careers such as public defender or primary care physician. Debt of this magnitude also affects important life choices like having a family or buying a home. The idea of a tuition buyout for professional degree students should be raised in the University's lobby visits with legislators.

Regent Gould stated that the debt restructuring proposal was very reasonable. Increasing the variable debt would provide immediate relief. He suggested that the California State Treasurer might help in promoting the University's argument for the proposal. He anticipated that accessing Proposition 39 funds would be difficult due to the State's obligations under Proposition 98, the Classroom Instructional Improvement and Accountability Act. The Legislature might allocate as much as $500 million for the cap-and-trade program, much of which would be dedicated to energy efficiency projects. Regent Gould asked about the status of UC's negotiations in this area. Mr. Brostrom responded that the University would continue to meet with State Treasurer Lockyer and his staff. UC was seeking funding from both Proposition 39 and the California Air Resources Board (CARB) cap-and-trade program; he acknowledged that CARB funding might be more readily available. He stressed that UC is an important energy user in the education sector; among California institutions of higher education, UC accounts for approximately two-thirds of energy consumed, due mainly to its research laboratory activities and medical centers. The University has been able to demonstrate both its need for this kind of energy efficiency funding and its successful track record with the Statewide Energy Partnership Program. This track record might help UC in securing Proposition 39 funds. The University has a number of projects ready to be implemented, and funding could be put to work on projects immediately at those locations that purchase power from municipal utilities.

Regent Gould stressed that the University must take advantage of this funding opportunity. With respect to the multi-year agreement with the State, he recalled that the State, in return for funding, would request that the University achieve certain performance outcome measures. He asked how the UC administration would communicate about and work on these criteria with the Board of Regents. President Yudof responded that the University had carried on extensive discussions with the Department of Finance. He expressed a certain disappointment and the view that the Department had set unrealistic expectations. Improvements in student graduation rates cannot be achieved or demonstrated in a short time frame. If the University is already performing well in one area, such as graduation rates, it may be difficult to push further improvement. He stated that it might not be possible to return with criteria for Regents' approval before the budget is finalized. He stressed that graduation rates, amount of funding garnered by faculty, and retention rates demonstrate that the UC system works well. Mr. Lenz added that there were seven significant performance measures discussed with the Department of Finance. Actual numerical goals or criteria would be part of a discussion that would continue beyond the budget discussions. He anticipated that the administration would report at the July meeting on the state of the budget and any assumptions pertaining to performance outcome measures. The most challenging measure for the University would be to increase the number of low-income students and community college transfers. UC has indicated to the Legislature that this measure must be complemented by funding to allow the University to increase enrollment; it cannot be assumed within the current budget framework.

Regent Mendelson referred to the question of the State's obligation to the UCRP. He reported from his meetings with legislators that they did not acknowledge the unfairness of funding CSU retirement but not the UCRP, that they advised University representatives to prioritize UC needs, and that they indicated a request of $100 million was too great. Legislators were receptive to the idea of funding for professional degree student tuition, but Regent Mendelson expressed skepticism about any assistance with regard to UCRP funding. Mr. Brostrom responded that this might require a multi-year strategy. He recalled that when the University resumed contributions to the UCRP, the State would not even acknowledge that it had an obligation to the UCRP; it took a few years before this obligation entered the budget language. Of the $125 million base budget adjustment, $10 million would be spent for online education, and nearly 70 percent of the remainder would flow to the UCRP, leaving very little for campus operating budgets. The University must continue to make the case for UCRP funding in this and future budget cycles. Mr. Lenz added that if the State expects the University to increase enrollment or achieve progress on performance outcome measures, UC needs appropriate funding.

Regent Kieffer reported that legislators he met with were unaware of the history of the State not contributing to the UCRP. He suggested that explaining this history and the State's unequal treatment of the University and CSU to legislators would be more effective than presenting a request for a certain sum. He expressed his support for performance outcome measures, as defined by the University and on UC's conditions, but also his concern about the constitutional independence of the University in this matter. There is an important difference between UC being directed to do something versus being encouraged to do something it has already begun to do, with a good record. Regent Kieffer cautioned that this might set a precedent for legislative involvement in educational decisions and lead to an increased level of direction from the Legislature. He asked how performance outcome measures in this case differed from an unacceptable incursion into the University's constitutional status. Mr. Lenz responded that UC has always been faced with priorities associated with budget funding. Funding has been set aside for specific goals. Historically, State priorities have also been priorities for the Regents. The performance outcome measures are associated with additional funding UC will receive. Mr. Lenz described the measures that were initially proposed as punitive, with the provision that monies would not be received if UC did not make progress toward a particular goal. In discussions with the Department of Finance, the University has expressed its wish that this provision be removed, and stressed the need for adequate funding to accomplish goals. Based on current State General Fund assumptions, Mr. Lenz estimated that in 2016-17 UC funding would still be about $300 million below its level in 2007-08. Regent Kieffer emphasized his wish to ensure that the University was not moving toward a different kind of relationship with the Legislature.

Chairman Lansing reported that in her meetings with legislators, she and her advocacy group discussed debt restructuring and the University's wish to avoid raising tuition for professional degree students, among other topics. Legislators showed understanding of the UCRP issue. She praised students taking part in the advocacy visits to legislators for being articulate and forceful in presenting their and the University's position. She expressed cautious optimism about UC advocacy leading toward a reasonable solution.

Regent Reiss stated that when the University refers to the “deferred tuition and fee buyout” of $125 million, it should clarify that this refers to an undergraduate tuition and fee buyout. Making this distinction would avoid confusion in communications with the Legislature and others and show respect for the University’s professional degree students.

Regent Island asked if the $15 million for the UCR School of Medicine was a request for one-time or annual funding. Mr. Brostrom responded that this would be an ongoing contribution. UC medical schools in total currently receive $240 million in State revenue.

Regent Island expressed his concern about statements made by the Governor at an earlier meeting which indicated uncertainty about supporting the UCR School of Medicine. The Board has determined that the School is critical to the research and public service mission of the University. Regent Island asked how the University would proceed if the Governor did not change his position. He suggested that UC might develop an alternate plan to secure the $15 million. Mr. Brostrom recalled that UC did not receive funding in the State budget for the UCR School of Medicine the previous year. At President Yudof’s request, the administration developed a multi-year funding plan relying on UC resources to launch the School. This was sufficient to secure accreditation and admit the first class of students. UC support for the School is built on a line of credit that could continue for two to three years, but a sustainable funding model cannot be built on a line of credit.

Regent Island asked about the status of this matter in discussions with the Governor. Mr. Lenz responded that UC has had extensive discussions with the Governor’s administration. President Yudof has spoken with the Governor directly, Acting Chancellor Conoley would be meeting with the Governor that afternoon, and a meeting with the Director of the Department of Finance was scheduled for that afternoon as well. UC has met with the Secretary of the Health and Human Services Agency to discuss the policy aspects of this matter. The University is making the argument that the development of the School is relevant to the Governor’s plans for health care reform in California. Legislative support appeared to be strong, with a bill presented by Assemblymember Jose Medina and State Senator Richard Roth to secure funding. Mr. Lenz concluded that the University’s advocacy on this issue was strong and expressed cautious optimism.

Staff Advisor Smith asked about the $89 million contribution from the State for the UCRP in 2012-13. He asked how that contribution was related to the UC request for funding to address the 2013-14 UCRP employer costs. Mr. Brostrom responded that the University received $89.1 million for the UCRP in 2012-13 in recognition of the increase in the employer contribution from seven percent to ten percent, a three percent increase. The increase in the employer contribution in the current year would be only two percent, from ten percent to 12 percent. The base appropriation in 2013-14 would be smaller than it was in 2012-13.

Regent Ruiz emphasized that funding for the UCR School of Medicine was more than merely a budget item, but represented a way in which the University makes a difference in the lives of the people of California. The School was a project with great value for many people. He urged the University to find a way to ensure the success of this project, even if State funding were not granted. If the School could demonstrate success, it would generate the future funding needed to sustain it. The development of the School should not be delayed for a year or more. Mr. Brostrom responded that development of the School would not be delayed. This is a high priority for the University, and UC would examine alternative funding plans if State funding were not forthcoming. Mr. Brostrom stressed that the funds being requested were in fact a small investment. The School already has facilities; it is making use of County and Veterans Administration hospitals, and it has received infusions of private and County funding. The amount being requested from the State would leverage significant other resources.

Committee Chair Varner noted that legislators, in discussions with Regents and UC representatives, were surprised to learn that no capital expenditure is required for this project. He underscored the importance of the School, and that the University must communicate its message effectively on this issue.

Regent Blum noted that the Riverside area has a high rate of unemployment and a large percentage of homes with underwater mortgages, loans with a higher balance than the value of the home. The UCR School of Medicine would bring an obvious benefit to the region. He asked about what message the Regents and UC representatives should communicate about the School, whether its importance to UC or its impact on the state economy. Mr. Brostrom responded that the University uses all relevant arguments for the School. He recalled that the University was also locating its new service center for UCPath, the payroll system, in Riverside. The UCPath service center would be a stimulus for the region, which offers a good labor pool and has high unemployment.

3. ADOPTION OF EXPENDITURE RATE FOR THE GENERAL ENDOWMENT POOL

The President recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2013-14 fiscal year shall remain at a rate of 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

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

Executive Vice President Brostrom explained that this item recommended maintaining the General Endowment Pool (GEP) payout rate at 4.75 percent of a 60-month moving average.

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

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

The President recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)[1]and apply to the distributions from the General Endowment Pool (GEP) to be made after July 1, 2013, from the eligible assets invested in the GEP. The funds recovered shall be used to defray, in part, the cost of administering and carrying out the terms of endowments on the campuses and at the Office of the President.

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

Committee Chair Varner briefly introduced the item.

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

5. **APPROVAL OF FISCAL YEAR 2013-14 CapEquip FINANCING AUTHORIZATIONS**

The President recommended that:

A. The fiscal year 2013-14 CapEquip authorizations delineated in Attachment 1 be approved as one-year authorizations expiring June 30, 2014.

B. The President be authorized to approve and obtain external financing for the CapEquip program in an amount not to exceed $151,025,000.

C. The general credit of the Regents shall not be pledged.

D. The President be authorized to execute all documents necessary in connection with the above.

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Executive Vice President Brostrom explained that the CapEquip program substitutes the University's cost of capital with commercial lease rates. It has brought about significant savings for the campuses. This item concerned authorizations for the upcoming fiscal year.

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

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

6. **AUTHORIZATION TO CREATE A SEPARATE 501(C)(3) NONPROFIT CORPORATION TO OVERSEE THE MANAGEMENT OF INTELLECTUAL PROPERTY AND INDUSTRY-SPONSORED RESEARCH CONTRACTING, LOS ANGELES CAMPUS**

The President recommended that the Regents:

A. Authorize the President to approve formation of and participation in a separate nonprofit corporation (“Newco”) to manage the types of intellectual property and industry-sponsored research contracting activities of University of California, Los Angeles (UCLA) currently managed by UCLA’s Office of Intellectual Property and Industry Sponsored Research, subject to the following conditions:

(1) Entity Type: Newco shall be organized exclusively for charitable, scientific and/or educational purposes, within the meaning of § 501(c)(3) of the Internal Revenue Code of 1986, as amended. Newco shall be organized pursuant to and remain in compliance with any and all applicable State and federal regulations, including those relating to the management of employees and the appointment of directors and officers. Newco shall apply for and maintain its tax-exempt status for the duration of its existence. Should Newco ever be dissolved, any assets of Newco shall be distributed to the Regents, for the benefit of UCLA.

(2) Governance: Newco shall be governed by a Board of Directors (the Board) comprised primarily of individuals possessing extensive experience in the business of commercializing research. The Board shall include at least one (1) person who is a UCLA Academic Senate member, and such officers as required by State and/or federal law, as applicable. The President shall have the authority to appoint initial members of the Board. Thereafter, any new members of the Board and replacement members of the Board shall be nominated by the Board, subject to the approval of the President. The Regents and the President shall hold the absolute right to dissolve Newco and/or dismiss its Board at any time with or without cause.

Directors shall not receive compensation for their services to Newco; however, they may receive reimbursements or advancements of expenses related to their service as Board members.

Newco and its Board, including its prospective and incumbent Directors, shall abide by all applicable conflict of interest and ethics laws, policies of the University, and policies of UCLA. Newco shall comply with all laws applicable to the University and (unless otherwise authorized by the President following consultation with the General Counsel), Newco shall comply with all University policies, and any policies adopted by Newco shall be consistent with applicable University policies and published

University practices. Applicable laws and University policies shall include, without limitation, those relating to intellectual property (IP) and industry-sponsored research contracting (ISR), including, without limitation, policies relating to restrictions on publication and laws relating to procurement and public records. Any exceptions to such policies must be approved according to the relevant delegated authority.

(3) Corporate Documents: Prior to adoption by Newco, the initial Bylaws and Articles of Incorporation of Newco, and any amendments thereto, shall be subject to the approval of the President following consultation with the General Counsel.

B. Authorize the President to negotiate and enter into a Technology Management Agreement with Newco, pursuant to which Newco shall manage the IP and ISR of UCLA, under the following terms and conditions:

(1) Ownership of IP/ISR: All IP and ISR contracts of the University shall remain the property of the Regents and shall be managed by Newco for the benefit of the Regents.

(2) IP/ISR Management: Newco shall be authorized to direct the activities of UCLA Office of Intellectual Property and Industry Sponsored Research (OIP-ISR) staff, including with respect to: (i) serving as the sole recipient of invention disclosures from UCLA inventors; (ii) prosecution and defense of UCLA patents; (iii) negotiation of licensing agreements for UCLA IP; (iv) negotiation of UCLA's ISR contracts (excluding the kinds of contracts that are currently handled by other UCLA offices); (v) negotiation of material transfer agreements, non-disclosure agreements and certain other contractual agreements relating to ISR; (vi) assessment of candidates for proof-of-concept grants; (vii) coordination of technology transfer activities with UCLA technology incubators and accelerators, such as the Institute for Technology Advancement at the Henry Samueli School of Engineering and Applied Science, the Business of Science Center, and other incubators and accelerators that may be created at UCLA; and (viii) any other activities currently under the purview of UCLA OIP-ISR (collectively, "IP/ISR Management"). The Newco Board shall make risk-based business decisions on ISR contracts, especially on large ISR contracts that typically include patent and licensing agreements and inherently require risk-based decisions. With respect to ISR and agreements relating to ISR, Newco will, consistent with current practice, negotiate and approve agreements that are consistent with University policy and published University practices, and are consistent with the academic interests of the involved UCLA researchers. The Executive Director of UCLA OIP-ISR shall report to Newco and shall be responsible for regularly informing the University of any and all of Newco's activities.

(3) Flow of Funds: Royalty income, licensing income, licensing equity and ISR funds (collectively, the "IP/ISR Proceeds") shall continue to flow to UCLA through the Regents. The University shall continue to make any mandatory distributions, as required under University policy, and other discretionary distributions. The UCLA Chancellor, through existing delegated authority from the President, shall continue to have the authority to allocate a portion of IP/ISR Proceeds that are within his or her spending discretion to fund the activities of Newco, in consultation with Newco's Board and UCLA leadership. No funds shall flow to separate Newco accounts; all funds allocated to Newco by the UCLA Chancellor shall be held in University accounts. Newco shall obtain the President's prior approval before engaging in any fundraising activities. To ensure financial transparency, all funds that are managed by Newco, regardless of source, shall remain in UCLA's accounts.

(4) Outside Contractors: Newco shall be authorized to instruct the Executive Director of UCLA OIP-ISR to retain outside contractors, as needed, to assist with certain aspects of IP/ISR Management, such as: (i) patent prosecution, (ii) pre-patent application research, (iii) market studies and (iv) the development of database management software; subject to the University's authority over the budgets and operational plans of Newco and UCLA OIP-ISR and University Oversight set forth in Section B.5 below.

(5) University Oversight: The President shall have the right to conduct periodic reviews of Newco's programs and operations, and to require Newco to submit reports to the President, to ensure that Newco is operating at a level consistent with the University's standards of excellence. In addition, Newco shall continue to report UCLA invention and licensing data and ISR data into the relevant systemwide databases. The Regents and the President shall retain the right and the authority to inspect the records of Newco at any time. Notwithstanding Newco's status as an independent entity, Newco's authority shall be subject to the existing authority of the General Counsel under University policy, which shall include the authority to: (i) initiate, direct and resolve any proceedings involving the Regents as a party (including any proceeding involving prosecution or defense of University patents); (ii) approve any use of retained counsel; (iii) approve the legal form and substance of all contracts proposed by Newco with respect to UCLA IP and ISR, to the extent necessary to guard against legal liability and/or reputational risk; (iv) provide legal advice concerning any claims or disputes arising out of contracts managed by Newco; and (v) approve the legal form and substance of all agreements and amendments thereto proposed by Newco to which the Regents are to be a party, to the extent necessary to guard against legal liability and/or reputational risk and to ensure compliance with University policies.

(6) Term: The initial term of the Technology Management Agreement shall be not less than five (5) years and a formal review of the Board performance shall be conducted within two (2) years from the start of the initial term and no longer than at five (5) year intervals thereafter; provided, however, the Regents and the President each shall have the absolute right to terminate the Technology Management Agreement at any time with or without cause. The termination of the Technology Management Agreement shall result in the automatic dissolution of Newco's Board.

(7) Indemnification: The President shall be authorized to agree to terms in the Technology Management Agreement by which the Regents agree to indemnify, defend and hold harmless Newco's officers and directors against third-party claims made against them arising in connection with their activities under the Technology Management Agreement, except to the extent any such claims arise out of the alleged fraudulent or other intentionally wrongful acts or omissions of said officers and directors.

C. Authorize the President, following consultation with the General Counsel, to approve and execute: (i) any documents reasonably required to accomplish the above; and (ii) any modifications, addenda or amendments (collectively, "amendments") thereto; provided, however, that the authority to approve and to execute the Articles of Incorporation, Bylaws, and Technology Management Agreement and any amendments thereto may not be delegated by the President.

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Provost Dorr began the discussion by explaining that UCLA was seeking approval to create a 501(c)(3) non-profit corporation, Newco, which would be owned by the Regents and whose purpose would be to manage and enhance the value of intellectual property created by UCLA and to manage UCLA's research contracts with industry sponsors. Newco was designed through a process of extensive consultation with faculty, administration, and external experts over the previous two years. The proposal has received thorough review by the Office of the Provost, and is consistent with the recommendations of the October 2012 Regents' Report of the Working Group on Technology Transfer. UCLA describes the proposal as a "single variable change" in its present system of technology transfer: the sole change would be the independent board of directors of Newco, who would make business decisions concerning intellectual property and industry-sponsored research. Ms. Dorr noted that the UCLA community, including the UCLA division of the Academic Senate, is very much in favor of this proposal.

UCLA Vice Chancellor for Research James Economou stated that UCLA is generally ranked in 12th place in global rankings of research universities. Traditional performance criteria for universities include levels of sponsored research, faculty citations and awards, test scores, and funding per student. He stated his view that the University is excessively concerned with rankings and feels compelled to try to outperform its peers in terms of externally determined criteria. He described this as a "performance trap" in which the university with the most money wins. Outstanding research universities might not currently be achieving the greatest possible impact on society, finding solutions for problems that cannot be solved in legislatures, courts, or the private sector.

These universities should define their challenges, those with the best chance of measurable solutions and outcomes. This requires an entrepreneurial mindset, with the University neither emulating nor competing with peer institutions, but defining its own goals. Research universities in the 21st century would require better structures for efficient technology transfer, robust industry partnerships, and a culture of entrepreneurship. It makes no sense for universities to make discoveries and invent new technology without an efficient way to deliver these to society through commercialization and the private sector. Entrepreneurship is the translation of a good idea into reality for the benefit of society, and the work of the University is not done until there is some benefit to society.

UCLA underperforms in key measures of entrepreneurship: number of inventions and disclosures per research dollar, and industry-sponsored research as a percentage of research expenditures. UCLA has been following an outdated model of technology transfer, with an aversion to risk, a lack of real-world business experience, and a lack of accountability. When a faculty member made a disclosure, a provisional patent application was submitted. Technology transfer staff worked to secure a licensing agreement as quickly as possible, to avoid the costs of conversion to a regular patent, international filings, and ongoing patent expenses. There was an understandable concern about accumulating unreimbursed patent expenses with 450 disclosures annually. The transfer of intellectual property usually occurred early on in the process, involving venture capital and biotechnology start-up companies, and the value transition point occurred later on, far from the University.

Only about one in 1,000 disclosures at a major research university will be a "home run," generating millions of dollars in revenue in licensing and royalties. A small number of disclosures will each generate no more than $1 million. Most disclosures will not make much money, but they are nevertheless important to faculty and students, and universities should deliver innovations and discoveries to society, even if they do not make money in the process. There may also be unrecognized home runs among these discoveries; the University has missed opportunities in the past. A shrewd, businesslike approach to identifying and capitalizing on disclosures with a potential for financial success is an important element in the overall success of an entrepreneurial university.

William Ouchi, a distinguished professor at the UCLA Anderson School of Management, has worked with other faculty to develop a blueprint for a new paradigm, an ecosystem for entrepreneurs at UCLA. The overall goal is to keep research discoveries and scholarship within the University for a longer period of time, where these can undergo rigorous scientific refinement and business mentoring, business-driven patent and investment processes, and opportunities to partner with industry. Competitive proof of concept grants may be used to mature select intellectual property portfolios and perhaps place them in campus business incubators. Business advisory boards and entrepreneurs-in-residence are established in various schools at UCLA to help faculty inventors. Fully integrated into this entrepreneurial university are educational programs. UCLA undergraduates have flocked to an oversubscribed certificate program offered by the Price Center for Entrepreneurial Studies at the Anderson School.

The longer discoveries can be kept within the University environment, the greater the opportunity for successful faculty start-up companies, maturation of intellectual property, and creation of substantial academic-industry partnerships. This team approach to entrepreneurship will allow UC to develop more mature new spinoff companies and directly license and better protect intellectual property. The value transition point will move closer to the University and faculty inventors.

Dr. Economou stated that this effort could best be funded by increasing the frequency of successful inventions and capitalizing on all of them. A recent example was a prostate cancer drug, now approved by the U.S. Food and Drug Administration, developed by two UCLA faculty members. After all the various expenses are paid, the campus' share from the development of this invention, to be distributed at the discretion of the Chancellor, would be approximately $140 million over the next five years. This amount was far greater than the cost of the salaries and benefits of the technology transfer staff and unreimbursed patent expenses from other inventions. Funding from successful inventions would be an appropriate incentive for schools that generate the inventions, and the Chancellor might wish to invest in proof of concept grants or in specific technology platforms, as well as in other scholarship and campus priorities.

Dr. Economou briefly outlined the proposed reporting structure. UCLA technology transfer and industry-sponsored research staff would report to the Newco board of directors. This board would include individuals who are leaders in the fields of pharmaceutical manufacturing, technology and engineering, and venture capital. Members of the UCLA division of the Academic Senate would also serve on the board. Newco board members will not receive compensation for their services and not have disqualifying financial interests. In consultation with the Office of General Counsel, the President and campus will ensure that Newco's charter documents and internal policies hold Newco's directors to the same standards that apply to University officials. All finances will be maintained in University accounts. Among the safeguards introduced is the ability of the Regents, the President, or the Chancellor to dissolve the Newco board without cause and at any time. An oversight committee will be appointed by the Chancellor, including deans, Academic Senate representatives, and senior campus administrators. There will be annual reports to the Chancellor, the UCLA Academic Senate division, the President, and the Regents.

Dr. Economou concluded by noting that the proposal has the support of all relevant campus stakeholders. This entrepreneurial ecosystem would allow UCLA to distinguish itself as a preeminent public research university.

Regent Makarechian stated that the Newco proposal reflected recommendations by the Working Group on Technology Transfer. The Working Group also recommended the formation of a committee of the Board of Regents to focus on this area. Innovation, entrepreneurship, and job creation are among the important goals of a research university. Regent Makarechian expressed his wish to ensure that the Board of Regents would be setting policy for the operations of local entities like Newco, so that there is a consistency in operations across the UC system. It should be understood that Newco would be subject to policies set by the Board of Regents.

Committee Chair Varner stated that a committee would assist campus entities like Newco, oversee the process, and ensure opportunity and efficiency.

Regent Island asked about how the proposed structure would accomplish the goal of effective technology transfer, how faculty would contribute to the marketing of technology, and if the proposed vehicle would in fact be an impediment to what is a worthy goal. Dr. Economou responded that the proposal was the product of about three years of research. Professor Ouchi and his group studied successful and unsuccessful commercialization strategies at other universities nationwide. In order to capitalize on its "home run" inventions, the University needs to bring to the campus business acumen and expertise in the venture capital, high technology, and pharmaceutical fields. The Newco board and oversight committee include appropriate Academic Senate representation.

Regent Mendelson expressed support for a committee of Regents for general oversight of technology transfer, but emphasized the importance of local innovation and oversight. He cautioned against the Regents or the Office of the President having too much control. About 15 years earlier, all licensing was processed at the Office of the President, and the process was stifling. The University would benefit not only from licensing royalties but also from equity in new companies. Regent Mendelson recalled past cases in which an original intellectual property or license turned out not to be as successful as expected, but subsequent inventions developed by the same company proved to be significant. The University can benefit from owning stock in such companies.

Regent Kieffer concurred that technology transfer developments must occur on the campus level. He asked how the organizational culture of UCLA had changed. Dr. Economou responded that UCLA encourages faculty to create start-up companies, file patent disclosures, and set up relationships with the private sector. The campus' conflict of interest committee assists faculty with navigating this process, a process characterized by transparency.

Regent Kieffer praised Dr. Economou for his emphasis on the University's technology transfer efforts as a contribution to society.

Committee Chair Varner stated that any committee established for oversight of technology transfer was not meant to be stifling or to add unnecessary bureaucracy, but to assist the campuses and provide access to resources.

Regent De La Peña stated that the recommendations of the Working Group on Technology Transfer were concise and not meant to be stifling. A committee of Regents could work well with the structure proposed for Newco, with some modifications. He asked if it is possible for an outside board without any UC employees to make UC fiduciary decisions, or if not, what UC advisory presence there must be. General Counsel Robinson responded that it is possible, if the board is structured appropriately and the University has certain controls with respect to that board. He stated that the Newco proposal includes sufficient controls to avoid legal problems regarding fiduciary responsibilities.

Chairman Lansing stated that this would be an excellent program and welcomed the fact that both UC faculty and outside experts would be involved. She anticipated that the proposal would result in a better technology transfer system that would produce additional revenue for the University and work for the good of society.

Regent Blum observed that the technology transfer system at UC Berkeley was not functioning effectively. Inventors and developers must be involved in a project over time, be informed about the status of the invention, and receive some benefit from it. He cautioned against excessive bureaucracy.

Regent Pattiz expressed enthusiastic support for the proposal and stated that a Regental oversight committee would not be an impediment, but an encouragement. The proposal might be model for other campuses as well.

Regent Makarechian stated that one reason for a committee of Regents would be to address the problem of lack of funding for technology transfer at the campuses. From interviews with representatives of technology transfer at a number of research universities, it emerged that this issue needs to be a focus for the highest level of a university to ensure adequate funding.

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 12:15 p.m.

Attest:

Secretary and Chief of Staff

Table A: Approval of FY2013-14 CapEquip Authorization

UC Location	FY 2012-13	Description of Expected Equipment Purchases
Berkeley	$ 5,000,000	Research equipment, telecommunications equipment, other equipment, software, and refinancing of certain existing capital equipment leases
Davis	10,000,000	Science and laboratory equipment, animal caging, facilities maintenance equipment, computer software, UC Path
Irvine	4,000,000	Research equipment, medical equipment, IT equipment
UCLA	5,000,000	Computer hardware, copying equipment, office equipment, furniture & fixtures, musical instruments, medical equipment, diagnostic equipment, research equipment, laboratory instrumentation and equipment, theatrical equipment, shop equipment, communications and networking equipment, vehicles, computer software, fabricated items, and refinancing of existing capital equipment leases.
Merced	1,845,000	Student Housing, Phase 4 (The Summits), Project 906270 equipment; vehicles for fleet services
San Diego	5,000,000	Research, medical and diagnostic equipment; budget software and refiancing of certain existing capital equipment leases.
San Francisco	15,000,000	Scientific equipment, information technology/network and office equipment
San Francisco - Medical Center	25,000,000	Medical/diagnostic/scientific equipment, information technology/network, and office equipment
Santa Cruz	180,000	Vehicles
Office of the President	80,000,000	PPS replacement system (i.e., a single payroll system and a single human resources system that will be deployed across all ten campuses and five medical centers)
Total Authorization:	**$ 151,025,000**	