The Regents of the University of California

COMMITTEE ON FINANCE
July 17, 2013

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

Members present:	Regents Blum, Flores, Island, Kieffer, Newsom, Reiss, and Ruiz; Ex officio members Lansing, Varner, and Yudof; Advisory member Powell; Staff Advisors Barton and Coyne
In attendance:	Regents De La Peña, Feingold, Makarechian, Schultz, and Zettel, Regents-designate Engelhorn and Leong Clancy, Faculty Representative Jacob, Secretary and Chief of Staff Kelman, Associate Secretary Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President Brostrom, Chief Financial Officer Taylor, Senior Vice Presidents Dooley and Stobo, Vice Presidents Lenz, Mara, and Sakaki, Chancellors Block, Blumenthal, Desmond-Hellmann, Dirks, Drake, Katehi, Khosla, and Yang, Acting Chancellor Conoley, and Recording Secretary McCarthy

The meeting convened at 10:05 a.m. with Committee Chair Ruiz presiding.

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

   Upon motion duly made and seconded, the minutes of the meeting of May 15, 2013 were approved.

2. **UPDATE ON BUDGET FOR 2013-14 AND PRELIMINARY DISCUSSION OF 2014-15 BUDGET**

   Executive Vice President Brostrom began the discussion by noting that the University had enjoyed a very favorable outcome in the State budget process this year. UC faces significant structural challenges, but the current budget provides some measure of fiscal relief and stability, which can serve as a basis for careful planning and deliberate forecasting.

   Vice President Lenz pointed out that many of the budget challenges faced by UC are also faced by the California State University (CSU), and noted that UC and CSU work together effectively to advocate for higher education.

   In approximate numbers, the State General Fund budget for UC in 2013-14 showed a dramatic increase of $469 million, or nearly 20 percent; from $2,377,000,000 in 2012-13 to $2,846,000,000 in 2013-14. Of the $469 million increase, $125 million came as a tuition buyout in the 2012-13 fiscal year, and $125.1 million was a five percent base budget adjustment, part of the Governor's multi-year funding plan for UC. In January the Governor proposed a budget that would provide five percent base budget increases for UC in 2013-14 and 2014-15, followed by four percent increases in the two subsequent fiscal years. The State General Fund increase also included $6.4 million in additional funding for annuitant health benefits and $10.2 million to fund lease revenue bond debt service.

Mr. Lenz called attention to the most significant change in the UC budget, a transfer of slightly more than $200 million in general obligation bond debt service to the University. This shift in obligation to the University would increase UC's base budget, so that when the State Department of Finance calculates UC's five percent increase for 2014-15, this would be calculated on a base that is $200 million higher. The transfer was part of the University's debt restructuring proposal. This proposal, the result of two years of work with the State, had been rejected by both the State Assembly and Senate in budget deliberations, but through collective efforts, UC was able to prevail. The proposal includes the State's recognition of its obligation to fund $67.2 million as part of its employer contribution to the UC Retirement Plan. This has freed up $67.2 million in the base budget adjustment, and has allowed UC to achieve other budget priorities.

Mr. Lenz briefly recalled that during the spring discussions, UC was faced with performance/outcome measures proposed by the Governor's administration that raised concerns for faculty and students. One concern was the difficulty of comparing outcomes for UC and other flagship universities with different student populations. An earlier proposal by the Governor for a unit limit on State-subsidized courses had been eliminated. This unit cap would have had a greater impact on CSU and community college students than on UC students, but the University feels this result is better for students overall.

Another issue under discussion with the State is enrollment targets. The Legislature has the desire to set specific enrollment targets based on the funding UC receives. Mr. Lenz stated that the University is not opposed to this idea and is proud of the fact that in spite of budget reductions, UC has maintained California resident enrollment and increased the number of community college transfer students. In this case, however, the number proposed was based on an assumption that the State was fully funding all UC students, which is not the case. UC enrolls about 9,100 full time equivalent students for whom the State provides no funding. Until the State provides this funding, UC will disagree on enrollment target assumptions.

Budget language concerning the cost of education was revised in response to UC concerns. The University was also concerned about a request by the American Federation of State, County and Municipal Employees (AFSCME) for a redirection of $4.5 million, for what Mr. Lenz described as a non-existent memorandum of understanding. The Governor vetoed that provision, along with a number of other earmarks.

Success in securing its debt restructuring proposal allowed UC to accomplish two other priorities: $15 million for the UC Riverside School of Medicine and funding for a classroom and academic office building at the Merced campus.

Mr. Lenz concluded by describing the Middle Class Scholarship Program to be developed by the California Student Aid Commission in 2013-14 and implemented in 2014. Program funding would be increased over four years, with a cap at the end of the four years of about $305 million. UC is seeking discussions with the Student Aid Commission on how the Program would be implemented in order to avoid duplication of existing UC efforts and to ensure that UC students can take best advantage of the Program. Mr. Lenz noted that the Legislature and the Governor are aware that UC has done very well in providing financial aid for its neediest students, but stressed that efforts were necessary to assist middle-income students, who have been subject to dramatic fee increases resulting from reductions in State funding.

Regent Feingold asked, in case there were a tuition increase in the future, if the University would be able to factor specific information into its calculations about the Middle Class Scholarship Program and what monies would be available. Mr. Lenz responded in the affirmative.

Committee Chair Ruiz referred to one of the performance/outcome measures recommended by the State concerning the number and proportion of community college transfer students. He expressed concern about whether UC could admit all UC-eligible students if the number were to increase substantially. Mr. Brostrom responded that in the fall all UC campuses would be working on long-range enrollment plans, examining both freshman enrollees and community college transfer students. Increasing the number of transfer students is a high priority for all campuses. Mr. Brostrom hoped that with more stable funding UC's transfer student population would grow. He noted that UC Davis is incorporating a community college on its campus, in the West Village, facilitating access to UC Davis for these students.

President Yudof noted that he had increased the target for community college transfer students annually. It was difficult to meet this target in the current fiscal climate, when the number of community college students might be reduced by as many as 400,000. The current trend pointed toward a reduction in the numbers of transfer students, although there might be an increase in the long term. He stressed that the University should make every effort to accommodate these students. President Yudof also pointed out that while there had been an assumption that the community college transfer pool would be more diverse than UC's general applicant pool, this turned out not to be the case.

Committee Chair Ruiz recalled that UC educates about 9,000 students for whom it receives no State funding and predicted that this over-enrollment would continue in the future. He suggested that these students should be included in the overall budget, rather than counted separately, demonstrating that UC is moving more students through its system at a lower cost. Mr. Lenz stated that UC does not separate these students in its budget. He emphasized, however, that when the State establishes performance/outcome measures and expectations, these must be based on a fair starting point. The University should clearly establish what it finds to be an appropriate level of funding per student, and use that number for purposes of setting any performance measure, such as enrollment growth. It is important that UC have thorough discussions with the State on this point.

Regent Flores referred to background material provided for the discussion which stated that 150 additional online courses would be offered at UC over the next three years. She asked if and how student input would be considered in determining which courses would be offered, and at which campuses. She observed that the Office of the President's efforts have focused on how online content would be provided, rather than on the coursework or content itself. President Yudof responded that UC's strategy is to offer gateway courses that are currently overcrowded, such as general education requirements and prerequisites for popular majors. In some cases, courses toward a major might also be offered. This is a decentralized process, carried out campus by campus. Faculty would make judgments about appropriate coursework to be offered online. He stressed that UC should ensure that campuses are engaging students in this process of development.

Regent Makarechian requested clarification of the mechanics of the debt restructuring proposal. Mr. Brostrom responded that the State issues two types of debt for UC, lease revenue bonds and general obligation bonds. Lease revenue bond debt service had always been part of the State's appropriation to UC. The State has given the University the ability to restructure and refinance that debt, which yields savings for UC. The Governor had now moved general obligation bonds into the University's appropriation as well. These bonds would not be restructured; they are combined with the debt service for the Department of Corrections and Rehabilitation, CSU, and other State facilities and it would not be possible to disentangle them. Instead, these bonds serve the purpose of increasing the University's base budget, so that UC would receive more operating funds in future base budget adjustments. Mr. Brostrom described the general obligation bond debt service as a pass-through arrangement: the State provides funds to UC, and UC returns it for payment of general obligation bond holders.

Regent Makarechian asked if the University had increased its obligation in this process. Chief Financial Officer Taylor responded that UC has no obligation for these general obligation bonds; the obligation is entirely the State's. These bonds build UC's base budget, but with no increase to the University's liability.

3. CONSENT AGENDA

A. *Faculty Housing Reserve Fund – Reallocation of a Portion of the Original Investment and Earnings*

The President recommended that $10 million of the Faculty Housing Reserve Fund balance be reallocated to address important academic priorities.

[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.]

Regent Flores asked if the funds in question were unrestricted and if they could be directed toward academic preparation or diversity efforts. Chief Financial Officer Taylor responded that these monies would be completely unrestricted. The President and the Board would have full authority to determine their use, including for outreach programs. He anticipated that market conditions might allow the transfer of another $10 million in the following year.

B. ***Technical Amendment of Approval of Professional Degree Supplemental Tuition Levels for 2012-13***

The President, with the Provost's endorsement, recommended that the *Approval of Professional Degree Supplemental Tuition Levels for 2012-13,* approved at the July 2012 meeting, be amended as follows:

Additions shown by underscoring; deletions shown by strikethrough

The President, with the Provost's endorsement, recommends that the Committee on Finance recommend that the Regents approve the proposed Professional Degree Supplemental Tuition levels ~~for 2012-13~~ <u>effective August 1, 2012</u> for the 57 programs shown in Attachment 1<u>, 2012-13 Proposed Professional Degree Supplemental Tuition Levels</u>.

[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.]

Provost Dorr explained that this technical amendment would change language referring to Professional Degree Supplemental Tuition levels, clarifying that these levels, effective August 1, 2012, would remain as approved until a change to them is approved.

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

4. **PROFESSIONAL DEGREE SUPPLEMENTAL TUITION LEVELS FOR NEW PROGRAMS AND NURSING PROGRAMS EFFECTIVE AUGUST 1, 2013**

The President, with the Provost's endorsement, recommended that the Regents approve the proposed Professional Degree Supplemental Tuition increases, effective August 1, 2013, for the University's four Nursing programs, and the Professional Degree Supplemental Tuition levels, also effective August 1, 2013, for Games and Playable Media (Santa Cruz), Health Services – Physician Assistant Studies (Davis), Technology and Information Management (Santa Cruz), and Translational Medicine (Berkeley/San Francisco), as shown in Display 1.

DISPLAY 1: Proposed Professional Degree Supplemental Tuition Initial Levels and Increases Effective August 1, 2013

	Current PDST Levels		Proposed Increases				Proposed PDST Levels Effective 8/1/2013	
			Resident		Nonresident			
	Resident	Nonresident	$	%	$	%	Resident	Nonresident (a)
Nursing								
Davis	$7,740	$7,740	$618	8.0%	$618	8.0%	$8,358 (b)	$8,358 (b)
Irvine	$7,740	$7,740	$618	8.0%	$618	8.0%	$8,358 (b)	$8,358 (b)
Los Angeles	$7,740	$7,740	$618	8.0%	$618	8.0%	$8,358 (b)	$8,358 (b)
San Francisco	$7,740	$7,740	$618	8.0%	$618	8.0%	$8,358 (b)	$8,358 (b)
Games and Playable Media								
Santa Cruz	N/A	N/A	N/A	N/A	N/A	N/A	$28,900 (b)	$28,900 (b)
Health Services - Physician Assistant Studies								
Davis	N/A	N/A	N/A	N/A	N/A	N/A	$10,440 (b)	$10,440 (b)
Technology and Information Management								
Santa Cruz	N/A	N/A	N/A	N/A	N/A	N/A	$23,000 (b)	$14,000 (b)
Translational Medicine								
Berkeley (Jt. San Francisco)	N/A	N/A	N/A	N/A	N/A	N/A	$30,330 (b)	$30,330 (b)

(a) Some schools have opted to set PDST levels for nonresident students lower than those for resident students in the same program in acknowledgement of the $12,245 in Nonresident Supplemental Tuition that nonresident students must pay in addition to mandatory systemwide charges and PDST. For those schools, total charges for nonresident students continue to be above those for resident students.
(b) Total charges (i.e., PDST plus required tuition and fees) are expected to exceed the total tuition and/or fees charged by public comparison programs.

[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.]

Provost Dorr introduced this proposed action concerning Professional Degree Supplemental Tuition (PDST) levels for eight professional degree programs. For four nursing programs, the PDST levels would increase by eight percent or $618 over the previous year’s level. The proposed total PDST for these programs would be $8,358, a comparatively low level. The remaining programs were proposing PDST for the first time. Two at UC Santa Cruz are focused on technology and take advantage of relationships with Silicon Valley. The third program is at UC Davis and focuses on health services; the fourth program, in translational medicine, is offered jointly by UC Berkeley and UC San Francisco.

Ms. Dorr explained why the four nursing programs had been selected for a PDST increase. These programs have helped address a shortage of nurses in California by training more students and keeping fees comparatively low. In doing so, the University expected that federal funding through the Workforce Investment Act (WIA) would support a five-year program of increased enrollments. PDST levels were kept low, but WIA funds were later withdrawn. The nursing programs are unexpectedly educating more students than they would have otherwise enrolled without the expected funds, and this has created significant problems. In light of these circumstances, some PDST increase seems essential for these programs effective in August 2013. Without these increases, the programs would be hard pressed to maintain current student-faculty ratios, and program quality would suffer. Initially, in November 2012, all four programs proposed a 35 percent PDST increase to be effective in August 2013 as part of a three-year plan calling for annual increases. The University decided to propose only an eight percent increase, which admittedly provides far less funding than a 35 percent increase would have provided. The 35 percent increase would have been $2,700 per student; at eight percent, the increase is $618. The increase would affect about 800 students, a little over half of all students in UC's various nursing programs. About 70 percent of students in UC nursing programs graduate with debt; that percentage has not changed over a decade, while the nominal dollar amount has increased. Given the job market for nurses and their starting salaries, the average total debt is manageable by credit industry standards. The eight percent increase in nursing PDST would add about a quarter of a million dollars in revenue to the four programs, after return-to-aid has been subtracted. The increase would help to bridge a gap caused by withdrawal of WIA funding.

Ms. Dorr briefly reviewed the four programs charging PDST for the first time, with tuition ranging from $10,000 to $30,000. The University has carried out an affordability analysis for these programs, which are targeted to individuals who can afford this expense. In some cases, students would have employer support for earning the degree, and some graduates could anticipate substantial salaries. Three of the four are new programs to be launched this year, and faculty and staff have spent years developing them. These programs cannot be launched without approval of the proposed PDST levels. The programs had already admitted students for the coming academic year. Students knew what the likely PDST levels would be and would be surprised if UC were unable to offer programs as designed. Ms. Dorr stressed the value of these programs for campuses, students, and the state.

All eight PDST proposals have undergone an extensive review process, including consideration of multi-year plans, the rationale for fee levels, affordability, and diversity concerns. Consultation included faculty, students in the programs or likely to enroll, student leadership on campus, and deans.

Ms. Dorr concluded by reporting that the University is working to develop a regular schedule for PDST that would bring proposals for the following year to the Regents in November, or at the latest in January, which would provide adequate planning time for students. She anticipated that the PDST task force, which includes student, Academic Senate, and administration representatives, would have a proposal to present to the Regents in January 2014.

Regent Island expressed disappointment that the University was proposing a fee increase in the wake of California voters' approval of Proposition 30 and the Governor's efforts to provide additional funding for UC. The University should seek a different approach, other than student fee increases, to addressing revenue shortfalls. Regent Island referred to the Technology and Information Management program at UC Santa Cruz and asked why the proposed PDST levels for resident and nonresident students differed by $9,000, with a $23,000 PDST level for residents and $14,000 for nonresidents. Ms. Dorr responded that this program has a substantial likelihood of attracting many students from outside California. Nonresident students pay nonresident supplemental tuition in addition to PDST, and it was decided in this case that the nonresident tuition is sufficiently high that the total cost of the program might place it beyond the reach of these students. For this reason nonresident PDST was decreased so that the total cost would approximate the cost for California residents, and so that students would more likely find the program affordable.

Executive Vice President Brostrom recalled that over the past five years, UC had experienced a $900 million State funding reduction, together with $1.2 billion in mandatory cost increases, mostly connected with resumption of contributions to the UC Retirement Plan. UC raised student fees dramatically, but this covered only about 38 percent of the funding cut and mandatory costs. Every campus has gone through an extensive process of seeking additional revenues and cutting costs. Mr. Brostrom emphasized that the University has approached this problem first and foremost by making cuts to administrative expenditures and finding new revenue streams, not by raising tuition.

Regent Island stated his view that the nursing program PDST increase would raise relatively little money, about $250,000, and that in the current climate the institution would have been better served if it had been possible to avoid this increase in some way. Ms. Dorr responded that there was substantial debate about this proposal; every solution put forward was unsatisfactory in some way, including the current proposal.

In response to a question by Regent Makarechian, Mr. Brostrom referred to a chart in the background material that displayed the percentage of graduates of UC nursing programs with debt and the average debt at graduation from 1999 to 2011. The percentage of graduates with debt has remained consistent at about 75 percent, while the amount of debt has increased from about $20,000 in 1999 to about $50,000 in 2011, in nominal dollars, not adjusted for inflation.

Regent Flores expressed her opposition to any PDST increases and agreement with the sentiments expressed by Regent Island. Undergraduate tuition freezes like the one in the current year should be met with freezes in PDST levels. She praised the University's approach of reviewing PDST increases on an individual, case-by-case basis as an appropriate procedure that should be continued in the future. Regent Flores stated her view that decisions on PDST for new programs or first-time PDST warrant a unique and uniform review process, and that she would bring recommendations to the PDST task force.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Flores and Island (2) voting "no."

5. **BUDGET FOR OFFICE OF THE PRESIDENT FOR FISCAL YEAR 2013-14**

The President recommended that the University of California Office of the President fiscal year 2013-14 budget, 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.]

Executive Vice President Brostrom recalled that the University has implemented a new funding model for the Office of the President (UCOP). The proposed UCOP budget for the coming year would be approximately $587 million, a 4.7 percent increase from the 2012-13 base. About $260 million of the budget was restricted funds. Increases in restricted funding reflected growth in Health Sciences, the Office of the Chief Investment Officer, and patent revenue. Unrestricted fund increases came from investments in systemwide initiatives, such as the UCPath payroll system, which would have its first operational budget this year, and the P200 initiative to improve systemwide procurement. All other increases were absorbed through other budget reductions. There is an ongoing effort to rationalize the UCOP budget, for example to eliminate excess recharges. UCOP plans to engage in multi-year budgeting so that campuses can be advised of the possible impact on their budgets and is continuing detailed budget reviews of all its units.

Regent Makarechian asked about two increases in the UCOP total budget for general administration, an almost $6 million increase for Health Sciences and a $3 million increase for the Office of the Chief Investment Officer. Mr. Brostrom responded that the Health Sciences increase came from a systemwide assessment being used to examine strategic opportunities for the UC health system. Considering the amount of assets UC has under management, $80 billion, the budget for the Office of the Chief Investment Officer is modest, only $20 million to $22 million. The increase for this office would allow the University to make more strategic investments in the future and was paid for by investment returns in the UC Retirement Plan and the General Endowment Pool; it was not part of the unrestricted budget.

Regent Makarechian requested further clarification regarding the Health Sciences increase. Senior Vice President Stobo recalled that the University had founded the Center for Health Quality and Innovation a few years earlier to improve patient care quality and safety at UC and to disseminate best practices systemwide. The Center was funded by an assessment on each medical center; the total assessment was $18 million to fund the Center over five years. The Center is housed in Health Sciences and Services at UCOP. The incremental monies are used to fund projects at the campuses related to patient care, safety, and outcomes, with the idea of developing improved standards of practice throughout UC. There is no increase in administrative staff.

Faculty Representative Jacob asked about the $4 million reduction to admissions and enrollment services, presumably due to savings from the online application system, and expressed his concern that UC’s outreach and pipeline programs be protected. He asked if the $15 million increase for the UCPath project represented additional costs.

Mr. Brostrom responded that with respect to the online application system for admissions, UC had renegotiated its vendor contract and moved the system in-house, resulting in higher service quality and savings of $4 million. It was one example of UC efforts to achieve systemwide efficiencies. The increase for UCPath represented the first year of the payroll project's operating budget, as distinguished from its implementation budget. The University had purchased a building for the ongoing UCPath service center in Riverside and was hiring staff for the project launch planned for July 2014.

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

6. **UNIVERSITY OF CALIFORNIA RETIREMENT PLAN – UNIVERSITY AND MEMBER CONTRIBUTION RATES FOR PLAN YEAR 2014-15**

The President recommended that:

A. University contribution rates to the University of California Retirement Plan (UCRP or Plan) beginning in Plan Year 2014-15 be 14 percent for all member classes other than Tier Two and seven percent for Tier Two members.

B. Member pretax contribution rates beginning in Plan Year 2014-15 be increased to eight percent for 1976 Tier members (as defined in the Plan) and nine percent for Safety members, subject to collective bargaining. Member contributions, other than the contributions of 2013 Tier members (as defined in the Plan), shall continue to be reduced by $19 per month.

C. The University contributions and the member contributions for the Lawrence Berkeley National Laboratory (LBNL) segment of UCRP be made on the same basis as in paragraphs A. and B. above, subject to the terms of the University's contract with the Department of Energy and subject to collective bargaining for represented members at LBNL.

D. Authority be delegated to the Plan Administrator to amend the Plan document as necessary to implement these changes.

[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 would set UC Retirement Plan (UCRP) contribution rates for plan year 2014-15, beginning July 1, 2014. The employer contribution would rise to 14 percent for both the original 1976 tier and new 2013 tier of employees, but not for Tier Two members. He recalled that a new UCRP tier went into effect on July 1, 2013. The contribution for employees in the original tier would rise to eight percent; for safety members it would rise to nine percent, and for members of the new tier it would remain at seven percent. These rates reflect a gradual increase from current rates. In the current fiscal year, the University was paying 12 percent and employees 6.5 percent.

The proposed contribution rate totals 22 percent and exceeds the Normal Cost of about 17.6 percent, but does not yet meet the University's Annual Required Contribution to both pay the Normal Cost and cover the UCRP's unfunded liability. The University feels this action is appropriate at this time and it has the support of the Academic Senate.

Staff Advisor Barton emphasized the importance of a salary program for policy-covered staff and expressed her hope that the University would remain mindful of the need to recruit and retain a highly qualified, talented workforce to ensure the University's quality and accessibility. The salary increase that would take effect in the current month was a significant step forward in helping to offset increases in UCRP contributions and rising health care costs.

Faculty Representative Powell asked about the consequences in 2013-14 of not meeting the UCRP funding policy level. Mr. Brostrom responded that meeting the Annual Required Contribution in 2013-14 would require an additional $1 billion for the UCRP and a total contribution rate of 28.6 percent. Covering just the interest on the unfunded liability requires about $750 million. The University feels that a gradual increase in contributions would be less detrimental to the campuses. Mr. Brostrom acknowledged that the assumption of 7.5 percent earnings on the UCRP in fact represents borrowing at 7.5 percent from future generations. The University has concluded that the proposed action is a reasonable compromise between the impact on UC's current operating budget and the future.

Mr. Powell asked about other approaches used in the past to achieve the Modified Annual Required Contribution and about future prospects. Mr. Brostrom described two different forms of borrowing undertaken by the University. UC borrowed about $1 billion for the UCRP from the Short Term Investment Pool, which earned a 1.5 percent to two percent return. This measure reduced employer and employee contributions. UC also borrowed for the UCRP from its commercial paper program. The current cost of commercial paper was less than 0.5 percent and the University expected to earn between 11 percent and 12 percent on the UCRP this year. The University is seeking any excess liquidity to deposit in other accounts or in the General Endowment Pool, and examining the possibility of future loans to the UCRP.

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

7. ALLOCATION OF LOS ALAMOS NATIONAL SECURITY LLC AND LAWRENCE LIVERMORE NATIONAL SECURITY LLC FEE INCOME TO BE EXPENDED IN FISCAL YEAR 2013-14

The President recommended that he be authorized to expend, for the following purposes and in the following amounts, from the University's net share of Los Alamos National

Security (LANS) and Lawrence Livermore National Security (LLNS) LLC income earned between January 1, 2013 and December 31, 2013, the following amounts:

A. Supplemental compensation and other payments (including accruals) approved by the Regents for certain LANS LLC and LLNS LLC employees, from July 1, 2013 through June 30, 2014. – $1.2 million ($1.5 million in 2012-13).

B. An appropriation to the Office of the President budget for federally unreimbursed costs of University oversight of its interest in LANS LLC and LLNS LLC, paid or accrued July 1, 2013 through June 30, 2014, including but not limited to an allocable share of the costs of the President's Executive Office, the Provost, the Academic Senate, Human Resources, Financial Management, Compliance and Audit, Laboratory Management Office, Research Security Office, Federal Government Relations, Office of Research, Office of the General Counsel, Office of the Secretary and Chief of Staff to The Regents, and the University-appointed Governors on the Boards of the LLCs – $4.9 million ($5.12 million in 2012-13).

C. An appropriation in 2013-14 to a post-contract contingency fund – $1.3 million (no change from 2012-13) and also approval to increase the post-contract contingency fund reserves collected from LLC income from $9 million, as approved by the Regents in September 2007, to $23 million.

D. An appropriation for contingency for factors affecting the final fee – $1.39 million ($0.7 million in 2012-13) and also approval to increase the factors affecting the final fee reserves collected from LLC income from $3 million, as approved by the Regents in May 2009, to $5 million.

E. An appropriation in 2013-14 for research projects, to include National Laboratory research projects as well as other research projects – $15.28 million. ($18.28 million in 2012-13).

[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, as part of the University's contracts with Los Alamos National Security and Lawrence Livermore National Security, UC receives an annual allocation, and this item recommended expenditures for the allocation. This year UC would receive net fee income of approximately $24 million from these contracts, less than in previous years. The University is seeking to increase the amount of post-contract contingency funding, due to uncertainty about changes in federal government oversight.

In response to a question by Committee Chair Ruiz, Mr. Brostrom observed that the fee income from the Laboratories fluctuates. Two years earlier it was about $30 million but had gone down to $24 million in the current year.

In response to a question by Regent Zettel, Mr. Brostrom responded that there was uncertainty about changes in how the federal government oversees and monitors the National Laboratories. Although the current long-term contract would not expire for another 12 to 15 years, there was uncertainty about whether management of the Laboratories would be put out to bid again or might be returned to University oversight. Vice President Mara observed that the Laboratory fee income has always been on a sliding scale. In the case of the Los Alamos National Laboratory, the federal government felt that the challenges would be especially great in the first years of the contract, so it was clear to the University that this fee income would decrease over time. The fee income is also tied directly to the size of the federal budget. Mr. Mara noted that these two National Laboratories and their contracts are different from other National Laboratories, which generally receive a fixed and lower fee. Sandia National Laboratories receive about 1.5 percent of their gross operating budget, while the Los Alamos and Lawrence Livermore National Laboratories receive about 3.5 percent. Fee income is also related to performance, and there can be variation from year to year.

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

8. **AUTHORIZATION TO EMPLOY THE UNIVERSITY'S GENERAL REVENUE BOND CREDIT TO RETIRE STATE PUBLIC WORKS BOARD DEBT**

The President recommended to the Regents:

A. Retirement, refunding or defeasing of State Public Works Board (SPWB) debt issued on behalf of the University using debt of the University's general revenue bond credit in an amount to retire, refund, or defease not to exceed $2.41 billion of existing SPWB par plus financing costs.

B. That the President be authorized to take all necessary actions, following consultation with the Chairman of the Board, in connection with retiring the SPWB debt issued on behalf of the University and issuing debt under the University's general revenue bond credit to fund such retirement, including, without limitation, implementing a plan of finance which may include fixed rate debt, short term (including rolling notes or bonds) and floating rate debt and principal deferral, and any combination thereof, all on terms deemed appropriate by the President, and to execute and deliver related financing documents.

[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 this debt restructuring proposal had been discussed by the Board over the past 18 months and had now been approved by the Legislature. The goal of the proposal is to put UC in a position to achieve $80 million in cash flow savings, compared to the debt service that the State would otherwise be obligated to pay. These savings could be used for UC operations, most importantly for the University's employer contribution to the UC Retirement Plan. The savings target is predicated on market conditions, but also on a balanced level of fixed rate, short term, and floating rate debt and interest rate hedges. This would allow UC to extract more value from monies that were currently flowing to Wall Street investors. Mr. Taylor anticipated that the restructuring would distribute UC's debt service obligations more evenly year by year.

Regent Makarechian praised the proposed action and sought assurance that it would not affect the University's credit rating. Mr. Taylor responded that this action would not affect UC's current rating. The State Public Works Board debt, although issued by the State, is already calculated into UC debt ratios by rating agencies. The University is taking existing debt that already counts against it and restructuring it, using higher ratings and structuring tools unavailable to the State. There would be no increase in UC's overall outstanding debt.

Regent Makarechian asked if increasing the general revenue pledge of the University from approximately $9.7 billion to $12.5 billion would affect UC's credit rating. Mr. Taylor responded in the negative, and stated that this action is viewed positively by the rating agencies. UC is increasing the resources available to pay the debt it is pledging to bondholders.

Regent Feingold recalled that there had been criticism a few months earlier regarding the choice of fixed rate debt versus variable rate debt. He asked if the Board delegated these decisions to the President in the past. Mr. Taylor responded that the Board has delegated to the President full authority to make these decisions in response to market conditions. He expressed confidence that this transaction would give the University flexibility and put UC in a stronger negotiating position with its lenders.

Regent Feingold asked when the $2.4 billion in debt would be replaced. Executive Director Sandra Kim responded that initial action would occur by the middle of September 2013.

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 11:30 a.m.

Attest:

Secretary and Chief of Staff

Attachment 1

FY 2013-14 BUDGET SUMMARY OFFICE OF THE PRESIDENT	TOTAL BUDGET			UNRESTRICTED BUDGET			
	TOTAL FY 2012-13	CHANGE	TOTAL FY 2013-14	TOTAL FY 2012-13	CHANGE	% CHANGE	TOTAL FY 2013-14
GENERAL ADMINISTRATION	**$ 137,047,609**	**$ 18,821,638**	**$ 155,869,247**	**$ 93,765,779**	**$ 5,893,205**	**52%**	**$ 99,658,984**
OP Core Administration	**73,557,410**	**6,500,772**	**80,058,182**	**54,307,331**	**273,090**	**1%**	**54,580,421**
Academic Affairs	19,076,116	(162,475)	18,913,641	18,980,496	(251,869)	-1%	18,728,627
Finance	5,714,627	(287,562)	5,427,065	3,051,326	(400,000)	-13%	2,651,326
Business Operations	27,355,536	(1,315,989)	26,039,547	16,466,172	605,681	4%	17,071,853
President's Exec. Office	2,598,656	12,969	2,611,625	2,316,781	-	0%	2,316,781
Health Sciences	3,040,515	5,942,274	8,982,789	3,040,515	120,478	4%	3,160,993
External Relations	11,806,893	2,235,975	14,042,868	10,452,041	198,800	2%	10,650,841
Lab Management	3,965,067	75,580	4,040,647	-	-	-	-
Academic Senate	**1,826,779**	**(4,536)**	**1,822,243**	**1,792,341**	**-**	**0%**	**1,792,341**
Regents Officers	**41,918,245**	**3,937,461**	**45,855,706**	**18,891,460**	**627,174**	**3%**	**19,518,634**
General Counsel	11,885,626	848,949	12,734,575	10,169,800	760,574	7%	10,930,374
Secretary/COS	3,302,597	7,000	3,309,597	3,297,597	7,000	0%	3,304,597
Ethics & Compliance	5,429,106	(136,208)	5,292,898	5,424,063	(140,400)	-3%	5,283,663
Chief Investment Officer	21,300,916	3,217,720	24,518,636	-	-		-
Centrally Funded *Debt service, rent, business processing, undistributed benefits and other*	**16,488,067**	**7,708,195**	**24,196,262**	**15,517,539**	**4,313,195**	**28%**	**19,830,734**
Systemwide Institutional Support	**3,257,108**	**679,746**	**3,936,854**	**3,257,108**	**679,746**	**21%**	**3,936,854**
CENTRAL SERVICES	**203,888,357**	**10,947,140**	**214,835,497**	**80,142,109**	**9,111,381**	**11%**	**89,253,490**
ACADEMIC AFFAIRS							
Admissions/Enrollment Services	12,002,128	(4,169,500)	7,832,628	11,023,528	(4,155,000)	-38%	6,868,528
Financial Aid Services	2,006,831	-	2,006,831	2,006,831	-	0%	2,006,831
Technology Transfer	45,168,586	840,882	46,009,468	2,310,092	(180,538)	-8%	2,129,554
Other Academic Initiatives	800,000	-	800,000	800,000	-	0%	800,000
BUSINESS OPERATIONS							
Compensation, Retirement, Benefits	36,938,508	349,479	37,287,987	4,685,854	(150,000)	-3%	4,535,854
Information Technology Services	12,390,661	6,931,103	19,321,764	9,776,520	4,545,244	46%	14,321,764
Systemwide Budget/Facilities	6,560,329	427,068	6,987,397	6,229,586	106,910	2%	6,336,496
CHIEF FINANCIAL OFFICER							
Banking, Tax, Accounting, Audit and BOI	11,752,924	98,647	11,851,571	6,233,571	174,880	3%	6,408,451
External Financing	890,093	243,882	1,133,975	-	-	-	-
Office of Loan Programs	1,637,361	50,228	1,687,589	-	-	-	-
Risk Services	600,102	(256,021)	344,081	-	-	-	-
Strategic Sourcing	1,270,831	5,211,301	6,482,132	1,270,831	5,211,301	410%	6,482,132
UC Path	-	15,473,103	15,473,103	-	15,473,103		15,473,103
EXTERNAL RELATIONS							
Institutional Advancement	3,392,470	(1,614,566)	1,777,904	-	-	-	-
Advocacy Communication	200,000	-	200,000	200,000	-	0%	200,000
LIBRARY & PUBLISHING SERVICES							
Including California Digital Library and UC Press	45,716,731	735,097	46,451,828	18,411,721	1,747,500	9%	20,159,221
SYSTEMWIDE FACILITIES	16,750,650	(14,085,000)	2,665,650	16,750,650	(14,085,000)	-84%	2,665,650
SYSTEMWIDE INSTRUCTION PROGRAMS	5,810,152	711,437	6,521,589	442,925	422,981	95%	865,906
SYSTEMWIDE PROGRAMS AND INITIATIVES	**219,915,201**	**(3,355,368)**	**216,559,833**	**131,350,390**	**3,928,537**	**3%**	**135,278,927**
ADMISSIONS & FINANCIAL AID (CETAD)	**146,000**	**-**	**146,000**	**146,000**	**-**	**0%**	**146,000**
AGRICULTURE & NATURAL RESOURCES (ANR)							
ANR Systemwide	81,716,950	-	81,716,950	58,457,288	3,395,000	6%	61,852,288
ANR OP	4,133,410	(7,904)	4,125,506	3,357,089	-	0%	3,357,089
PREPARATION AND ACCESS	**15,957,762**	**1,518,880**	**17,476,642**	**10,957,762**	**1,518,880**	**14%**	**12,476,642**
PRESIDENT'S INITIATIVE	**10,000,000**	**-**	**10,000,000**	**10,000,000**	**-**	**0%**	**10,000,000**
PUBLIC SERVICE	**625,000**	**-**	**625,000**	**625,000**	**-**	**0%**	**625,000**
RESEARCH	**107,336,079**	**(4,866,344)**	**102,469,735**	**47,807,251**	**(985,343)**	**-2%**	**46,821,908**
GRAND TOTALS	**$ 560,851,167**	**$ 26,413,410**	**$ 587,264,577**	**$ 305,258,278**	**$ 18,933,123**	**6%**	**$ 324,191,401**