The Regents of the University of California

COMMITTEE ON FINANCE
March 19, 2014

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

Members present:	Regents Flores, Gould, Island, Kieffer, Reiss, and Ruiz; Ex officio members Lansing, Napolitano, and Varner; Advisory members Jacob, Leong Clancy, and Saifuddin; Staff Advisors Barton and Coyne
In attendance:	Regents De La Peña, Feingold, Makarechian, Schultz, Sherman, and Zettel, Regent-designate Engelhorn, Faculty Representative Gilly, 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 Andriola, Beckwith, Brown, Duckett, Lenz, Mara, and Sakaki, Chancellors Blumenthal, Desmond-Hellmann, Drake, Katehi, Khosla, Leland, Wilcox, and Yang, and Recording Secretary Johns

The meeting convened at 10:35 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 January 22, 2014 were approved.

2. **UPDATE ON THE UNIVERSITY OF CALIFORNIA 2014-15 BUDGET**

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

Vice President Lenz began his discussion by noting that the recommendations of the California Legislative Analyst's Office (LAO), released after the January Regents meeting, would be considered by the Legislature in its budget deliberations the following week. Mr. Lenz stated that the LAO was essentially recommending that the Legislature reject the Governor's 2014-15 budget recommendations for the University. The LAO's recommendations include a workload budget, sharing of costs, enrollment funding, performance outcome measures, capital facilities, and awards for innovation in higher education.

Before the severe reductions UC faced in 2011-12, UC received a workload budget from the Governor and Legislature. The workload budget recommended by the LAO would recognize mandatory costs and high priorities such as enrollment growth. The LAO was recommending a base budget increase of $118 million, based on an inflationary increase of about 2.2 percent. In addition, the LAO recommended that the State fully fund $64 million for its contribution to the UC Retirement Plan (UCRP) and $4 million for UC retiree health benefits. This would provide UC with a total budget increase of $186 million or about 6.5 percent, compared to the Governor's increase, proposed in January, of five percent or $142 million.

The University appreciates the LAO's recommendations to fund UC mandatory costs, but it has concerns about the overall LAO revenue recommendation, because it includes a "share of cost" commitment. The LAO was proposing that the $186 million budget increase be funded in part by State General Funds, and in part by a student tuition increase of 3.8 percent. The net dollar amount generated by such an increase, after financial aid, would be approximately $78 million. While the overall LAO recommendation for the UC budget is $44 million higher than the Governor's January proposal, the General Fund component would be $34 million less because of the tuition recommendation.

Mr. Lenz recalled that even when the State budget process is completed on time, the budget decisions affecting UC enrollment always occur after UC has already set its enrollment for the year. The LAO was proposing that this issue be examined over a two-year period. Mr. Lenz stated his view that consideration of a three-year period would be logical and would allow UC to pursue a number of goals regarding future community college transfers, enrollment at UC Merced, unfunded student enrollment, and faculty and infrastructure needs.

Mr. Lenz expressed concern that the LAO proposal contained no enrollment growth funding for UC in 2014-15 and 2015-16; it did include a recommendation for two percent enrollment growth at the California State University (CSU) in 2014-15, but no increase in 2015-16. The LAO proposal recognized that CSU enrollment was more than 26,000 students below its commitment according to the California Master Plan for Higher Education, while UC has been able to maintain its enrollment commitment. Mr. Lenz recalled that three years earlier, former CSU Chancellor Reed took action to reduce CSU enrollment by 20,000 in the face of State budget reductions. UC decided to continue to serve its students at higher than the budgeted level. Mr. Lenz expressed the University's disappointment at this LAO recommendation regarding enrollment growth. He recalled that the Governor's January budget proposal would provide $155 million for three percent enrollment growth for the California Community Colleges. Growth in the number of community college students would put increasing pressure on UC and CSU to take more transfers.

The LAO recommendations regarding enrollment growth also include funding for a new eligibility study, with updated information on trends within the college age population, to determine if UC and CSU were meeting their respective Master Plan commitments for student access. The study would review high school graduation transcripts. The last such study was carried out in 2007 at a cost of about $600,000. The entity that oversaw that study, the California Postsecondary Education Commission, is no longer in existence, but most of the work was carried out by UC and CSU.

The LAO also recommended that the Legislature adopt performance outcome measures. This was an important issue for the Legislature, and Mr. Lenz anticipated that additional State funding for UC, CSU, and the community colleges would not be provided without some expectations about improved performance outcomes.

The LAO expressed some concern about the transparency and accountability of UC's capital process; Mr. Lenz stated his view that these concerns were not warranted.

The LAO was recommending that the Legislature reject the $50 million in one-time funding proposed by the Governor for awards for innovation in higher education, with the goals of increasing the number of undergraduate degrees, reducing time to degree, and easing transfer for community college students.

Executive Vice President Brostrom observed that, while the University was grateful for the Governor's commitment to a multi-year funding plan, in the current year alone, it left UC approximately $124 million short of the budget approved by the Regents in November 2013. Most of the shortfall was in three areas. In pension funding, UC had included a $64 million increase in the employer contribution to the UCRP in its budget. He recalled that the State makes this contribution for CSU and the community colleges annually, but not for UC. The second area of shortfall was in enrollment funding. Campuses have shown that they can accommodate more students, but cannot do so without additional enrollment funding from the State. The third area was deferred maintenance, a growing liability for the campuses. Small deferred maintenance costs can quickly become more expensive replacement needs.

Recognizing the Governor's wish that UC not add to the base budget, UC is examining sources of one-time funding. The State Controller's revenue estimate for February was $1 billion higher than the Governor's estimate. UC anticipated that there would be substantial one-time funds that UC could use very effectively for deferred maintenance, UCRP contributions, and capital programs. These points should be emphasized by the University and its advocates in upcoming meetings with legislators and the Governor's staff.

Committee Chair Ruiz asked about the status of UC's administrative efficiency efforts, another matter the University must communicate to the State when seeking funding. Mr. Brostrom responded that UC's financial model depends on leveraging alternative revenue streams and administrative efficiencies. The Working Smarter initiative had a five-year goal of reducing administrative costs by $500 million. He anticipated that the initiative would achieve $460 million by the end of June. In the area of alternative revenues, the University had moved about $5 billion from the Short Term Investment Pool to the Total Return Investment Pool; this would generate over $100 million annually for the campuses.

Regent Makarechian expressed concern about the year-to-year decline in UC assets. Continuing to borrow more money to pay for operating expenses could lead to dire consequences for the University. The Governor expected the University to maintain its current tuition levels until at least 2016-17. In the past year, the University educated 7,500 students for whom it received no State funding. Regent Makarechian enumerated various cost increases the University was facing and emphasized that the State was not meeting its obligations for the University's retirement system. He warned of the University's increasing debt obligation, insufficient revenue, and the downgrading of its credit rating, which would increase the cost of financing. He cited various projections and stressed that there was a fundamental flaw in the University spending more than it earns. Chief Financial Officer Taylor responded that these projections were correct on a non-cash basis. On a cash basis, the University had had a slight surplus over the past two years. Pension and retiree health costs were the largest single financial threat to the long-term health of the University.

Regent Makarechian cautioned that while the University might have excess cash flow at present, this could not be expected to last. Mr. Brostrom responded that a significant financial impact on UC was the resumption of contributions to the UCRP during the height of the financial crisis. In the following year, UC would contribute $1.3 billion to its pension system, an expense the University did not have four years previously. The resumption of contributions was a responsible action that would help the University achieve a higher funded level for the UCRP, but a very difficult action. He stressed the need for the University to stabilize its pension system. UC has been examining long-term budget models. The most significant costs for UC are labor: the number of staff, compensation levels, and employee and retiree benefits. UC is also considering long-term tuition models that are moderate, predictable, and necessary to shore up the University's operating budget and address its unfunded liabilities.

Regent Makarechian stated his view that it was unreasonable to agree to freeze tuition until 2016-17. Mr. Brostrom responded that the University would be having a meeting with the Director of the State Department of Finance the following Wednesday. UC would communicate that it is not viable to freeze tuition in this way.

Regent Lansing expressed opposition to raising tuition. She stated that the University should focus on the inequity of the State's treatment of UC, compared to CSU and the community colleges, regarding contributions to the UCRP. It did not make sense for the University to be treated differently. The Governor was committed to a tuition freeze; the University must demonstrate its many efforts to raise alternative sources of revenue and emphasize the fact that without State contributions, UC would be compelled to raise tuition.

Regent Kieffer asked about the percentage of UC students who pay no tuition or only partial tuition. Mr. Brostrom responded that in the current year, one-half of UC students were paying no tuition. Another 20 percent of students receive a partial offset through grants. Only 30 percent pay the full amount.

Regent Kieffer asked if there had been a substantial increase in UC student debt. Mr. Brostrom responded in the negative. Over half of UC students acquire no debt during their time at the University. The average debt is $18,000, $7,000 less than the national average.

Regent Kieffer stated that tuition should be viewed within the existing fiscal context. Sometimes the perception of UC's situation was inaccurate, or not focused on real problems. Mr. Brostrom added that the Middle Class Scholarship program would begin the following academic year, and would help students with annual family income up to $150,000. The University has modeled the effects of a moderate tuition increase of four or five percent; students with family income up to $80,000 would not be affected and continue to pay no tuition. For families with higher income, up to $150,000, most of the increase would be bought out by the Middle Class Scholarship program. Families with income over $150,000 would pay the full increase, about $3,000. Mr. Brostrom emphasized the importance of moderate and predictable tuition for students and their families for the period of a student's enrollment at the University, without sharp increases.

Regent Gould recalled that the University's $25 billion in unfunded liabilities for its retirement system and retiree health benefits was only about 12 percent of the total unfunded liability for State employees' and teachers' retiree health and benefits. The University's situation is part of a larger problem. While the Regents tend to focus on current-year budgets, the University needs to consider a longer-term model in planning for tuition and retiree health benefits.

President Napolitano explained that she had asked her staff to develop three- and five-year budget models in order to demonstrate possible tradeoffs if certain decisions or assumptions change. For example, the models would show the effect on UC's operating budget if tuition is frozen for the next three years and there is no relief for the UCRP and retiree health benefits. She stressed that there would be a direct tradeoff based on which major cost drivers are accepted or can be relieved in some manner, whether with one-time funding or increased base budget funding. As the State budget process continued, the University would be discussing these models, with three- and five-year projections, with a zero deficit level, and demonstrating which assumptions need to be satisfied.

Chairman Varner observed that the Regents approve annual budgets with a focus on UC liabilities, but leaving revenue sources as an unanswered question. The University's plan for moving forward should include a reasonable and predictable tuition increase, balanced with State revenue. In its discussions with the Governor and Legislature, UC must make the case that contributions from the State will affect UC tuition levels. He stressed the need for a balanced budget and reduced obligations.

Regent Makarechian emphasized the important role of students in advocacy for the University in Sacramento, the need for operational funding for UC, and the fact that the Regents would prefer no tuition increase. The State was underfunding the University but expecting tuition to remain at the same level. He reiterated the grave danger of continued borrowing and a drop in UC's credit rating.

Regent Reiss concurred with earlier statements to the effect that UC must focus on securing State contributions to the UCRP, but stressed that the University must not neglect long-term questions. The University's basic response to reduced State support has remained the same: increasing tuition, making cuts, and fundraising.

Faculty Representative Jacob referred to the 2007 eligibility study mentioned earlier by Mr. Lenz. He explained that this study contained data about many subjects beyond student eligibility: course-taking patterns, "a-g" course requirement completion, and school populations. Significant changes were afoot in the K-12 system with the adoption of Common Core standards. The data set from the 2007 study would assist the University in addressing questions about its undergraduate admissions, and a new eligibility study should be carried out.

Regent Island stated that tuition increases should be considered in a wider context. Middle class students were bearing the brunt of the increases. The larger question was whether the University has an appropriate cost structure, one that would obviate the need for continual tuition increases. Mr. Brostrom responded that the University would address this question with the Governor and his staff. Over the past five years, the University's general fund did increase by 15 percent; when there were State reductions, UC raised tuition. All these additional funds went to the UCRP and financial aid, none to the operating budget. Academic spending remained flat, and staff numbers at most campuses have decreased. In some instances this resulted in greater efficiency and productivity, but other effects were bad, such as increase in the student-faculty ratio and time to degree. One area where UC has made progress is systemwide initiatives to bring down costs for the campuses through economies of scale.

Regent Flores stated that absent State support, the University would have to increase fees. This was an essential message that would have to be conveyed to legislators. Students understand this issue and would lobby with in Sacramento with Regents. The University must avoid sharp tuition increases, have a realistic understanding of its costs and prospects for funding, and be honest with students.

Regent Kieffer observed that all public universities in the U.S. were facing the same financial challenges. He stated that UC has already taken steps in the right direction and made significant progress in increasing administrative efficiencies and reducing costs. Mr. Taylor added that Moody's, even though it downgraded the University's credit rating, recognized UC for these initiatives and efforts.

Student observer Vanessa Garcia presented comments on behalf of student observer Tony Milgram. She expressed student concerns about the Governor's proposal to allocate $50 million for innovation designed to increase the number of degrees and reduce the time to degree; reducing time to degree could in fact reduce the quality of a UC education and increase stress for students. Ms. Garcia also expressed concern about certain LAO budget recommendations for the University, noting that the Middle Class Scholarship Act would not go into full effect until 2018. Although a proposal for an increase in professional degree supplemental tuition had been withdrawn from the Regents' agenda for that day, this matter raised concerns for students. The University should not consider increasing this tuition without making significant improvements to graduate and professional education. She voiced students' support for funding of campus capital projects under the funding mechanism provided by AB 94. The University did not have enough space to accommodate all the students it is being encouraged to admit; academic spaces on campus are critical to student success and should be priority. Ms. Garcia concluded by emphasizing the importance of free speech at UC as well as the protection of well-being of all members of the UC community.

3. **APPROVAL OF NEW PROFESSIONAL DEGREE SUPPLEMENTAL TUITION FOR THE MASTER OF SCIENCE IN BIOMEDICAL AND TRANSLATIONAL SCIENCE, IRVINE CAMPUS**

This item was withdrawn.

4. **CONFORMING AMENDMENT OF THE 2014-15 BUDGET FOR STATE CAPITAL IMPROVEMENTS AND APPROVAL OF EXTERNAL FINANCING UNDER FUNDING MECHANISM AB 94 FOR THE 2013-14 AND 2014-15 STATE CAPITAL PROGRAM**

The President of the University recommended that:

A. Subject to the concurrence of the Committee on Grounds and Buildings, the amended 2014-15 Budget for State Capital Improvements as shown in Attachment 1 be approved.

B. The President of the University be authorized to obtain external financing not to exceed $132,309,000 (plus related interest expense and financing costs) for 2013-14 State Capital projects. The President requires that:

(1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

(2) The primary source of repayment for the external financing of $132,309,000 plus related interest expense and financing costs shall be from State appropriations. Should State appropriation funds not be available, the President shall have the authority to utilize any legally available funds to make debt service payments.

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

C. The President of the University be authorized to obtain external financing not to exceed $277,812,000 (plus related interest expense and financing costs) for 2014-15 State Capital projects. The President requires that:

(1) Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.

(2) The primary source of repayment for the external financing of $277,812,000 plus related interest expense and financing costs shall be from State appropriations. Should State appropriation funds not be available, the President shall have the authority to utilize any legally available funds to make debt service payments.

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

D. For all projects supported by this action that have already received design approval, the Regents determine that no further California Environmental Quality Act action is required.

E. The President of the University be authorized to execute all documents necessary in connection with the above.

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

Vice President Lenz explained that this item concerned the 2013-14 and 2014-15 Budgets for State Capital Improvements, approved by the Regents in November 2013. There was one additional project, seismic replacement for Tolman Hall at the Berkeley campus, to be considered by the Committee on Grounds and Buildings later that day. The addition of this project would bring the 2014-15 Budget for State Capital Improvements to $277.8 million.

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

5. **APPROVAL OF PARTICIPATION IN THE THIRTY-METER TELESCOPE CONSTRUCTION AND OPERATION**

The President of the University recommended that the Regents:

A. Approve the University's participation in the formation and operation of TMT International Observatory LLC, a non-profit limited liability company (Entity) that shall construct, own and operate the Thirty-Meter Telescope Observatory (Project), subject to the following terms and conditions:

(1) The Entity will be jointly owned by the University, the California Institute of Technology and ministries, departments, or agencies of the governments of China, India and Japan, and such other scientific organizations as may be admitted under the Entity's organizational documents.

(2) The Entity shall be governed by a Board of Governors (Board) and the University shall be entitled to appoint three (3) Governors. The Governors shall receive no compensation from the Entity other than reimbursement of reasonable expenses.

B. Approve the commitment and contribution of funds and resources on behalf of the University toward construction of the Project in an amount not to exceed $175 million.

C. Approve the commitment and contribution of University funds and resources toward the ongoing operation of the Project.

D. Authorize the President of the University to oversee the University's participation in the Project and Entity, including (a) the initial determination of whether to vote affirmatively in favor of the Decision to Proceed with construction, or to withdraw from the Project; (b) approval and execution of documents reasonably required to accomplish the foregoing; (c) approval of modifications, addenda, or amendments thereto and; (d) to make University appointments to the Board of the Entity. This authority may not be redelegated.

[Background material was provided 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 this project had been discussed at the January meeting. The $175 million UC contribution toward construction would be met by a $125 million gift from the Gordon and Betty Moore Foundation and by $50 million in private fundraising.

Regent Kieffer emphasized the importance of this project, which would place the University in the forefront of astronomical research. Committee Chair Ruiz commended the element of international partnership and collaboration in the project. Regent Makarechian praised Chancellor Yang's work in bringing the project to fruition. Regent Schultz remarked that the Keck Observatory is an outstanding installation. The Thirty-Meter Telescope Observatory would expand the possibilities for this research.

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

6. **UPDATE REGARDING IMPLEMENTATION OF THE ROBINSON/EDLEY REPORT ON RESPONSE TO PROTEST ON UNIVERSITY OF CALIFORNIA CAMPUSES**

[Background material was provided 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 noted that the campuses have carried out significant efforts to implement the recommendations of the Robinson/Edley report, to formalize administrative processes, increase communication across campus sectors, provide police training and capability in de-escalation and crowd management, and provide administrative overview and education regarding crisis management. Forty-one of 49 recommendations had been implemented or were in the process of being implemented. The remaining eight recommendations were modified to align more clearly with best practices in this field; all eight have been implemented in this revised form. As a result of this report and the implementation of recommendations, UC campuses were following a University tradition of balancing the right of freedom of expression and civil disobedience on one hand and the safety and security of those who attend UC's campuses on the other.

UC Davis Provost and Executive Vice Chancellor Ralph Hexter observed that working on the recommendations systemwide had shown that there were more differences in practice among the campuses than necessary. From the perspective of one campus, UC Davis, the process had led to improved oversight and clarity, and effective mechanisms and structure for responding to events and crises. Associate Vice President Lynn Tierney stressed that the campuses did not wait for official implementation of the report to proceed with activities. The report had provided an opportunity to share best practices systemwide.

7. **AUTHORIZATION TO RETIRE AND REFUND EXISTING TAX-EXEMPT DEBT OBLIGATIONS FOR THE CHILDREN'S HOSPITAL OF OAKLAND BY THE UCSF HEALTH SYSTEM, SAN FRANCISCO CAMPUS**

The President of the University recommended that:

A. The President be authorized to retire and refund the existing Association of Bay Area Governments (ABAG) Finance Authority for Nonprofit Corporations Refunding Revenue Bonds (Children's Hospital and Research Center at Oakland) Series 2007A (the CHRCO Bonds) in an amount not to exceed $55.5 million in outstanding principal, plus additional related financing cost, subject to the following conditions:

   (1) As long as the debt authorized to refinance the CHRCO Bonds is outstanding, UCSF Health System gross revenues shall be maintained in amounts sufficient to pay the debt service and meet the related requirements of the authorized financing.

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

B. The President be authorized, after consultation with the General Counsel, to approve and execute a loan agreement between the Regents (on behalf of UCSF Health System) and the Children's Hospital and Research Center at Oakland for repayment of the authorized financing.

C. The President be authorized, after consultation with the General Counsel, to approve and execute any documents necessary in connection with the above, and any amendments or modifications, provided such amendments or modifications do not materially increase the obligations of the Regents.

[Background material was provided 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 briefly introduced the item.

Regent De La Peña recalled that the University's negotiations and agreement with Children's Hospital and Research Center at Oakland (CHRCO) had been complex, with an imperative of avoiding any risk to UCSF. He expressed concern that UCSF might be burdened with CHRCO liability, and asked about information included in the background material, which indicated that UCSF planned to request an additional $50 million in external financing for CHRCO capital improvements. UCSF Medical Center Chief Financial Officer Barrie Strickland explained that the proposed action was to refund existing CHRCO tax-exempt debt, approximately $55 million. This action would eliminate current restrictive bond covenants. CHRCO would continue to carry and be responsible for the debt; this was an opportunity to use a different debt obligation. The additional $50 million was included in the original financial forecast for the project and associated with funding for seismic improvements and information technology implementation. CHRCO's debt capacity was sufficient to sustain this.

Committee Chair Ruiz asked about covenants that would be removed. Ms. Strickland responded that the retirement and refunding of the existing debt would have the benefit of eliminating any potential pre-existing compliance issues surrounding the tax-exempt status of CHRCO bonds; eliminating restrictive financial and operating covenants concerning sale, lease, disposition of any properties, consolidation, mergers, or acquisition; and eliminating the liquidity requirement of 75 days cash on hand, or almost $100 million.

In response to further questions by Regent De La Peña, Ms. Strickland stated that UCSF considered this retirement and refunding during its due diligence on this transaction, and determined that this was a favorable opportunity. The debt obligation would remain on CHRCO's books, but be a different debt instrument. Mr. Taylor explained that when UC makes the loan to CHRCO, the loan is shown as an asset; the liability is on CHRCO. He expressed confidence that CHRCO has the ability to repay.

Regent De La Peña expressed concern about this scenario, given possible financial changes in the future. Mr. Taylor responded that under current protections this was a good arrangement for CHRCO and a comfortable arrangement for UCSF. He stressed the University's confidence in this matter and in the safeguards included in the arrangement.

Regent Makarechian expressed concern about risk to the University if it adds debt to its balance sheet while its credit rating is being lowered, and asked about the rationale for this action. Committee Chair Ruiz stated that while the proposed action was based on a sound business decision, communication about it could have been better managed. Mr. Taylor acknowledged that credit downgrades were painful for the University, but noted that the UC still has a debt capacity of $2 billion to $3 billion.

Committee Chair Ruiz underscored the University's need to address its long-term financial concerns.

Regents Makarechian and De La Peña asked about the timing of this action. Ms. Strickland responded that under acquisition financing rules, debt can be refinanced within six months of a transaction without violation of the debt provisions. This transaction was effective January 1, so the proposed action would have to be completed by June 30. This debt already resides on CHRCO books; it was not new debt. It would be consolidated into the UCSF Medical Center's financial statements pursuant to Governmental Accounting Standards Board Statement 14. Ms. Strickland stated that this action was not borrowing more money, but maintaining an existing loan obligation.

Regent De La Peña reiterated his concern about risk to the University and the uncertainty about the success of this undertaking. Mr. Taylor responded that CHRCO financial statements would be combined with UC statements.

Regent Kieffer asked if the University is ultimately responsible for this obligation as part of its agreement with CHRCO. Ms. Strickland responded that CHRCO would retain its private status as a separate legal entity. It would be affiliated with the University, and the Regents are the sole member of its governing board. General Counsel Robinson stated that, because this is a separate legal entity, the University would not have responsibility for liability.

Regent Kieffer stated that he could not conceive of the University failing to address a liability in this agreement, even if it had no legal obligation to do so. Chancellor Desmond-Hellmann explained that this affiliation agreement is complex and had always involved risk. The University is focused on efforts to make this an outstanding children's hospital. She expressed confidence that all relevant parties, including the Committee on Health Services, had examined this transaction very carefully. The hospital would be a private entity. She noted that there might also have been a risk if the UCSF Benioff Children's Hospital had remained on its own, as an undersized children's hospital. While the transaction with CHRCO was risky, there might be a greater risk of continuing to operate in the current environment with a smaller children's hospital only in San

Francisco. Chancellor Desmond-Hellmann stressed that the campus takes these risks and its fiduciary duty very seriously.

Regent Kieffer noted that while the University might not be legally responsible for CHRCO liabilities, it might still be morally and politically responsible. He asked if the proposed action would save money, and if this was the principal reason for the transaction. Mr. Taylor responded that this action would result in slight present-value savings to CHRCO and relieve CHRCO of burdensome covenants, allowing it to operate more efficiently.

Regent Kieffer observed that if this action allowed CHRCO to operate more efficiently, CHRCO would be more likely to be successful. Mr. Taylor responded that the main reason for the action was to eliminate the operating covenants.

Regent Makarechian asked which operating covenants, if lifted, would provide efficiency and cost savings, and asked about refinancing restrictions. Mr. Taylor responded that the restrictions to be eliminated were restrictions on debt and timing of debt, sale, lease, or disposition of property, mergers, and the liquidity covenant. The requirement of 75 days cash on hand is difficult to comply with, and UC hospitals do not always meet this standard. UC would not let its hospitals borrow money unless they have 60 days cash on hand. The longer cash on hand period puts CHRCO at a competitive disadvantage, locking up cash that cannot be invested in the enterprise. The new arrangement would also make CHRCO reporting easier.

Regent Makarechian reiterated his concerns about the risks in acquiring a new entity and in the proposed action. Mr. Taylor expressed his view that this action would enable UCSF and CHRCO to be more successful than they would otherwise be.

Committee Chair Ruiz stated his view that this was a good business decision.

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

2014-15 BUDGET FOR STATE CAPITAL IMPROVEMENTS ($000s)
CCCI 6151

Additions shown by underscoring; deletions shown by strikethrough

CAMPUS	PROJECT	PHASE	2014-15 REQUEST	FUTURE STATE FUNDS	NON-STATE FUNDS
ANR	Intermountain Research Extension Center	PW	$ 200	$ 1,786	$ 100
DV	Walker Hall Renewal & Seismic Corrections	C	27,917	509	
DV	Chemistry Seismic & Life Safety	PW	3,482	30,418	
IR	Business Unit 2	E	1,094		3,281
IR	Primary Electrical Improvements Step 4	DC	19,462		
MC	Central Plant/Telecomm Reliability Upgrade	C	15,183		
SD	Campus Life/Safety Improvements	WD	49,010		
SB	Infrastructure Renewal Phase 1	C	12,136		
SC	Coastal Biology Building	C	64,127	1,100	
SC	Life Safety Upgrades	PWC	10,201		
B	Tolman Hall Seismic Replacement	DC	$ 75,000		$75,000
	TOTAL STATE PROGRAM		**$ ~~202,812~~**		**~~3,381~~**
			$ 277,812	**$ 33,813**	**$ 78,381**