The Regents of the University of California

COMMITTEE ON FINANCE
May 11, 2016

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

Members present: Regents Davis, Gould, Island, Kieffer, Newsom, Ortiz Oakley, and Reiss; Ex officio members Lozano, Napolitano, and Varner; Advisory members Hare and Ramirez; Staff Advisors Acker and Richmond

In attendance: Regents De La Peña, Elliott, Gorman, Oved, Pattiz, Pérez, Sherman, and Zettel, Regent-designate Schroeder, Faculty Representative Chalfant, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Provost Dorr, Executive Vice President and Chief Financial Officer Brostrom, Executive Vice President and Chief Operating Officer Nava, Senior Vice Presidents Henderson and Peacock, Vice Presidents Brown, Budil, Duckett, and Sakaki, Chancellors Block, Blumenthal, Dirks, Gillman, Hawgood, Khosla, Leland, Wilcox, and Yang, Acting Chancellor Hexter, and Recording Secretary Johns

The meeting convened at 9:30 a.m. with Committee Chair Kieffer presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of March 23, 2016 were approved.

2. **CONSENT AGENDA**

A. ***Adoption of Expenditure Rate for the General Endowment Pool***

The President of the University recommended that the expenditure rate per unit of the General Endowment Pool (GEP) for expenditure in the 2016-17 fiscal year remain at 4.75 percent of a 60-month moving average of the market value of a unit invested in the GEP.

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

The President of the University recommended that the endowment administration cost recovery rate remain at 55 basis points (0.55 percent)[1] and apply to distributions from the General Endowment Pool (GEP) to be made after July 1, 2016, from the eligible assets invested in the GEP. The funds recovered shall be

[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.

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.

C. ***Authority to Indemnify the City and County of San Francisco for an Encroachment Permit for Parnassus Avenue Streetscape Improvements, San Francisco Campus***

The President of the University recommended that:

(1) The President or her designee be authorized to approve the terms of an encroachment permit for installation and maintenance of streetscape improvements within the public right of way. This agreement includes a provision whereby the University will indemnify, defend, and hold harmless the City and County of San Francisco (City), its officers, agents, and employees, for any injury, death, damage, or loss arising directly or indirectly out of the installation, maintenance, operation, and the existence of UCSF streetscape improvements in the City's right of way, excluding claims to the extent arising from the City's acts of gross negligence or willful misconduct.

(2) The President or her designee, after consultation with the General Counsel, be authorized to approve and execute any additional documents necessary in connection with the above.

D. ***Authority to Indemnify the State of California, Department of Transportation for Encroachment Permit Related to Posting Signage for UC Davis Tahoe City Field Station, Davis Campus***

The President of the University recommended that the President be authorized to approve and execute the Standard Encroachment Permit with the State of California, Department of Transportation, which contains an indemnification provision by which the University would assume third-party liability for posting signage for the UC Davis Tahoe City Field Station.

E. ***Approval of Indemnification Term in Data Request and Release Process for Non-Disclosure Agreement with Energy Utilities, Davis Campus***

The President of the University recommended that the President be authorized to approve and execute the California Public Utilities Commission standard Non-Disclosure Agreement with Southern California Gas Company, San Diego Gas and Electric, Pacific Gas and Electric, and Southern California Edison, which contains an indemnification provision by which the University would assume third-party liability for any damages or claims related to UC Davis' use, maintenance, or disclosure of the utilities' customer data.

[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.]

Committee Chair Kieffer briefly introduced the items.

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

3. **UPDATE ON THE 2016-17 STATE 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.]

Associate Vice President Debora Obley began the discussion by noting that the Governor was expected to issue his May Revision to the State budget later that week, after the conclusion of the Regents meeting. She recalled that items for the University in the Governor's January State budget proposal included a four percent base budget adjustment, $25 million in one-time cap and trade funds for energy-related projects, $35 million in one-time deferred maintenance funding, and $170 million in a second installment of Proposition 2 funds to be contributed to the unfunded liability of the UC Retirement Plan (UCRP).

Two important budget issues had been resolved in recent weeks. Conditions had been met for release of $96 million in Proposition 2 funds appropriated by the State in the 2015-16 Budget Act for the UCRP unfunded liability. The conditions included approval of a retirement program that limits pensionable salary consistent with the California Public Employees' Pension Reform Act of 2013. With changes adopted by the Board at the March meeting, UC had completed the requirements for release of these funds. Conditions had also been met for release of enrollment growth funding included in the previous year's Budget Act. UC provided evidence, demonstrating to the Director of the California Department of Finance that it would enroll 5,000 more California resident undergraduates by 2016-17 compared to 2014-15. Figures released the previous month indicated that freshman admissions were up by more than 8,400 students for fall 2016, a 14.7 percent increase over the previous year. UC was well on its way to meeting this goal. While the University had not yet received official notification from the Director that funds had been released for either of these items, he indicated that UC's actions seemed sufficient for release of the funds.

The previous day, State Assemblymember Kevin McCarty, chair of the Assembly Budget Subcommittee on Education Finance, proposed a six-year plan for funding enrollment increases at UC. His plan calls for an increase of 5,000 undergraduates per year through 2022-23, ultimately adding 30,000 to UC's undergraduate population, and for a reduction in nonresident enrollment by 1,700 students per year until UC reaches a nonresident undergraduate cap of ten percent. The plan would fund the additional cost of enrollment growth and make up for the loss of nonresident tuition revenue with three sources. Half the cost would be met by increasing nonresident supplemental tuition by four percent per year, above the five percent currently planned by the University, for total increases of nine percent every year. One-fourth of the cost would be met by additional efficiencies, beginning at $20 million and building up to $50 million annually, and one-fourth would be met with additional State funding, beginning at $20 million and increasing to $206 million over the six-year period. The plan would also appropriate $3 million to establish an Office of the Inspector General for UC Finances, to oversee the University's budget.

Ms. Obley outlined a few of the University's many concerns about Mr. McCarty's proposal. The aggressive growth called for in the plan exceeds what would normally be required of UC under the California Master Plan for Higher Education (Master Plan) and would be difficult to accommodate on UC campuses over a sustained period. The State was continuing to back away from funding its agreed-upon share of the cost of increased enrollment. The notion that the State's share of this cost would be funded by more cuts within UC's budget is problematic. The University already funds a great deal of this cost through internal measures and builds efficiencies into its budget plan every year. The budget for the current year included over $100 million in expected revenue from internal actions to cut costs and generate new revenue. The high price of nonresident tuition and the aggressive cap on nonresident enrollment would have the greatest impact on those campuses that are still trying to increase nonresident enrollment. The establishment of an Inspector General to oversee UC finances would be a matter of particular concern. Such an overseer was established for the California Department of Corrections and Rehabilitation when it was under investigation by the federal government. If UC were failing at its mission or producing terrible outcomes an extraordinary action to create an oversight board would be more understandable, but UC's outcomes are unmatched by other public universities and often rival private institutions. The University receives high rankings from rating agencies and has been expressly cited for its sophisticated and experienced financial management.

UC would work with Mr. McCarty and other members of the State Legislature in the coming weeks to help them understand UC's concerns about this proposal. The next steps in the budget process would be further hearings and then a conference committee to work out the differences between the Senate and Assembly versions of the State budget. The Legislature was expected to act by June 15 to adopt a final version of the budget, and the Governor was expected to sign the Budget Act by June 30.

Regent Ortiz Oakley acknowledged UC's concerns about the McCarty proposal, but viewed this as an opportunity for a worthwhile discussion with the Legislature about enrollment growth in a way that would support students, student services, and UC's ability to add housing. Executive Vice President and Chief Financial Officer Brostrom responded that UC planned on having such discussions. The University has long-term plans to increase enrollment within its capacity and within Master Plan parameters. There was middle ground for these discussions.

Regent Gould recalled that UC's own current budget plan included increased graduate student support. He asked if this issue had been addressed by the Legislature or the

Governor’s administration. Ms. Obley responded that this issue was still being worked on. Increased graduate student support was not included in the Governor’s January budget proposal. There is interest in this matter among members of the Legislature. The University hopes that funding for graduate student support will be included in the final Budget Act. Regent Gould observed that it was critically important for UC to deal with all the elements of growth that must accompany increased enrollment of California resident undergraduates.

Regent Pérez emphasized that the proposal outlined by Ms. Obley had been unanimously adopted by the Assembly Budget Subcommittee on Education Finance. It represented a strong statement by the Budget Committee in one House of the Legislature. The proposal for an Inspector General to oversee UC finances reflected distrust that the University should try to resolve as quickly as possible.

Committee Chair Kieffer expressed frustration at the fact that while the University is highly regarded and succeeds in creating social and economic mobility, it could do a better job of understanding and characterizing issues that affect UC. Some of the information that circulates among the public about the University is inaccurate and misleading.

Student observer Paul Monge reported on UC Student Association (UCSA) lobby visits to the Legislature and UCSA requests to legislators for increased funding: $125 million in General Fund revenue to make up for detrimental cuts to UC over the last ten years, $6 million to support increased graduate student enrollment that would be necessary along with the enrollment of 10,000 additional undergraduates, $171 million in one-time funding for unfunded UC liabilities, and $35 million for deferred maintenance. UCSA encourages the growth of Cal Grant programs A and B. There has been an increase in the number of students who rely on these programs, including middle-class students.

Mr. Monge than addressed the Professional Degree Supplemental Tuition (PDST) proposal to be discussed in the following item. Eleven percent of this new PDST revenue was to be used for program enhancements. Students would like this percentage to be slightly higher. He concluded with the aspiration for a University that was wholly funded and would not have to rely on PDST.

4. **ESTABLISHMENT OF PROFESSIONAL DEGREE SUPPLEMENTAL TUITION FOR TWO GRADUATE PROFESSIONAL DEGREE PROGRAMS**

The President of the University recommended that the Regents approve the establishment of Professional Degree Supplemental Tuition for two graduate professional degree programs – Master of Science in Biomedical and Translational Science at UC Irvine and Master of Public Policy at UC San Diego – at the levels indicated in Display 1.

DISPLAY 1: Proposed Professional Degree Supplemental Tuition Initial Levels Effective Fall 2016

	Residents	Nonresidents
Biomedical and Translational Science		
Irvine	$10,491	$10,491
Public Policy		
San Diego	$8,376	$8,376

[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.]

Committee Chair Kieffer briefly introduced the item. Provost Dorr recalled that this proposal for establishment of Professional Degree Supplemental Tuition (PDST) for two programs was first presented to the Regents at the January 2016 meeting, along with other PDST proposals. The other proposals were found to be problematic and President Napolitano withdrew the item, anticipating a substantive discussion of PDST and PDST policy at the July meeting. There were several reasons for bringing back this particular PDST proposal at this time. The programs and their students would benefit from a timely decision about revenue available to the programs and cost to the students. The proposed PDST amounts were moderate, within the range of existing PDST at UC, and met all the requirements of PDST policy. PDST would support the high quality of these two programs.

Ms. Dorr recalled that professional degree program fees were established by the Regents in 1994 to allow UC's professional programs to maintain program quality following dramatic cuts in State support. The conditions that led to the establishment of PDST continued into the present. UC programs charging PDST and the range of charges have changed since 1994, but the function of PDST remains the same, to ensure that UC's professional degree programs are outstanding. PDST is paid in addition to tuition and Student Services Fees and nonresident supplemental tuition for nonresident students. In November 2014, the Regents authorized the President to approve increases in PDST up to five percent. Proposals for new PDST or for increases greater than five percent must be approved by the Regents.

The Master of Science in Biomedical and Translational Science at the UC Irvine School of Medicine is a graduate professional degree program that prepares students for careers in health policy administration and research. This two-year program trains students to conduct, interpret, evaluate, and apply interdisciplinary clinical research and uses evidence-based medicine in order to facilitate the translation of laboratory discoveries into clinical practice. The majority of the students enrolled are current medical students, fellows, or junior faculty. PDST would be required of new students entering the program. The program enrolls about 16 students annually, and the proportion of underrepresented minorities in the program has increased every year, from eight percent in the first year to 34 percent currently.

The Master of Public Policy at UC San Diego was a new program that would begin in fall 2016. It was planned with an assumption of PDST revenue. This two-year program prepares students for policy-making careers in a global context.

Both PDST proposals comply with all aspects of PDST policy. Both programs submitted the multi-year plan required of them. Faculty and current or expected students were consulted about the plans. Campus graduate student leaders had the opportunity to review the plans, which were endorsed by campus graduate deans. Both proposals have the strong support of their chancellors. Both proposals have been reviewed by the Office of the President regarding strategies for increasing enrollment of students from underrepresented groups and low-income backgrounds, financial aid strategies, affordability goals, manageability of student debt, revenue expenditure plans, cost-cutting and fundraising efforts, and the student consultation process. Both proposals meet financial aid requirements by devoting one-third of PDST revenue to student aid. PDST was currently charged by 64 graduate professional degree programs in 38 disciplines. In the current year, PDST ranged from $4,200 to $40,500, with a median among PDST levels of $12,600. Both proposed PDST levels fell below this midpoint.

Regent Zettel expressed support for this proposal, stressing the excellence of these programs.

Regent Reiss stated that she was comfortable with approving this proposal prior to the extensive review of PDST to be presented at the July meeting due to the thoroughness with which every element of PDST policy had been considered, such as faculty and student input. The proposed PDST levels were below the median for public universities.

Regent Ortiz Oakley asked if the University had already made any PDST commitments to these programs and about the possible impact if the Regents did not approve this proposal. Ms. Dorr responded that no commitments had been made. The website for the programs provides information about what fees might be but is careful to make clear that these fee levels were not yet known for certain. The Master of Science in Biomedical and Translational Science program already exists and would continue even without this PDST, although perhaps at a reduced level. In the case of the Master of Public Policy program, the San Diego campus might choose to delay opening of the program for a year. Before the January meeting, there was an expectation, based on past history, that these PDST levels would be approved. There was a desire on the part of the campuses to bring this proposal back to the Regents for approval.

Regent Ortiz Oakley emphasized the importance of UC’s graduate programs. He cautioned that increasing fees could have a detrimental impact on diversity in these programs. He hoped that UC would invest in improving the diversity of its graduate programs. The University must be aware of the students’ perspective so that it can direct funds appropriately in these programs and must advocate for more State support. The Regents must be mindful of the current levels of graduate tuition and bring this issue to the attention of the Legislature.

Regent Elliott expressed concern about the fact that some UC financial aid funds would support nonresident students in these programs. Committee Chair Kieffer observed that in general at UC, students who pay full tuition are subsidizing education for students who do not pay full tuition.

In response to another remark by Regent Elliott, Executive Vice President and Chief Financial Officer Brostrom confirmed that new undergraduate nonresident students would not be eligible for return to aid.

Committee Chair Kieffer asked if incoming students were receiving adequate notice about a change in fees. Ms. Dorr responded that students were informed about the possibility of PDST.

Regent Davis questioned the rationale for bringing this item to the Regents before the full discussion of PDST planned for the July meeting, noting that the upcoming discussion would be relevant to these two programs. Ms. Dorr responded that this question had been discussed at the Office of the President and the discussions concluded that, given the fact that the current proposed PDST levels align with policy and that future modifications to PDST policy would not likely change the operation of these two programs substantially, it would be better for students if PDST levels were approved at this time.

Regent Davis asked about existing criteria used to determine PDST levels, and if these criteria include consideration of the likely salaries of students when they complete these programs. Ms. Dorr responded that UC takes into account job and salary expectations and tries to ascertain what a reasonable debt load for students in these programs would be, in the same way that it considers the debt load of undergraduates.

Regent Davis expressed puzzlement at the assumption that the upcoming discussion of PDST at the July meeting, which might be a thorough and aggressive analysis of all PDST levels, would not affect this proposal in any significant way. Ms. Dorr anticipated that the upcoming discussion would address the area of policy concerned with determining a reasonable comparator for the total cost of attendance, the area where there has been the most disagreement. If, following this discussion, the Regents would like to consider more changes to PDST levels, then this would require engagement of a broader group of people, including students, faculty, and administrators to develop proposals. Proposals including significant changes to PDST would require more work, and all existing programs would need to be brought into alignment with policy changes.

Committee Chair Kieffer stated that the Regents understood the rationale for the proposed action and his view that it would align within the policy to be developed by the Regents. The upcoming discussion would be thorough.

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

5. REMARKS OF THE UC STUDENT ASSOCIATION PRESIDENT

President of the UC Student Association (UCSA) Kevin Sabo welcomed President Napolitano's statements of support for undocumented students made earlier that day. The previous month, UCSA voted to call for the resignation of Chancellor Katehi because it could not ignore a pattern of disservice to students. Students should have a greater role in the recruitment, hiring, and evaluation of senior administrators. The recent report by the California State Auditor had called some UC practices into question, such as the high salaries of numerous UC administrators. The argument that high salaries are needed for UC to remain competitive and to attract the best talent was not sufficient. UC students' efforts to lobby for State funding for the University had been undermined by a series of shameful scandals. UCSA had been told that there was not sufficient funding to offer competitive salaries to mental health providers at certain campuses. Mental health providers choose to work at one of the several prisons in the Central Valley rather than at UC Merced. Mr. Sabo acknowledged UC's many positive accomplishments, but emphasized that the Regents must prevent administrative missteps before they occur, discipline faculty members who engage in sexual misconduct against students, and find solutions for student hunger and homelessness. UC student housing must be affordable.

The meeting adjourned at 10:15 a.m.

Attest:

Secretary and Chief of Staff