

The University of California's  
Response to the  
Senate Finance Committee  
Regarding their January 25, 2008 Inquiry  
on Affordability and Endowments



*University of California Office of the President  
1111 Franklin Street, 12<sup>th</sup> Floor  
Oakland, CA 94607-5200*

## ***University of California Overview***

The University of California (“UC”) had just 10 faculty members and 38 students at its inception in 1869. Today, the UC system includes more than 214,000 students and more than 170,000 faculty and staff, with more than 1.5 million alumni living and working around the world.

UC researchers are pioneers in agriculture, medicine, technology and the environment. Thousands of jobs, billions of dollars in revenues, and countless everyday household items – from more plentiful fruits and vegetables to compact fluorescent light bulbs – can be traced back to UC discoveries that benefit the State of California and the nation as a whole. UC’s ten campuses at Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz provide exciting environments that foster world-class educational and research opportunities. Besides world-class classrooms and labs, UC has dozens of museums, concert halls, art galleries, botanical gardens, observatories and marine centers – academic resources but also exciting gathering places for the community. Another half million people benefit each year from UC Extension’s continuing education courses and from Cooperative Extension’s agricultural advice and educational programs located throughout the state.

UC is also involved with the management of three U.S. Department of Energy national laboratories at Berkeley, Los Alamos, and Livermore. These labs conduct a wide range of interdisciplinary research activities, with a particular emphasis on serving the defense needs of the United States – including response to terrorism and homeland defense. The labs have become unparalleled research and development centers whose programs and activities address national interests and concerns in areas such as energy, environment, and health.

UC’s five medical centers support the clinical teaching programs of the University’s medical and health sciences schools and handle more than three million patient visits each year. The medical centers provide a full range of health care services in their

communities and are sites for the development and testing of new diagnostic and therapeutic techniques.

UC is also actively involved in locations beyond its campuses, national labs and medical centers — in places throughout California, around the world and online. In all of these locations, the University stays focused on its fundamental mission of teaching, research, and public service.

### ***Endowments and Private Support***

UC was established in 1868 as a land grant institution, and it has never lost its commitment to serving the people of California. Over its 140-year history, the State of California has recognized the benefits of UC and provided significant financial support to help UC attain and maintain its stature. However, in the initial 25-50 years of its existence, UC relied more on gift, private grant, and endowment income (“GG&E”) than at any other time in history. GG&E represented approximately 65% of the University’s operating budget for its first 25 years, and approximately 48% for the first 50 years. In addition to essential operating support, private philanthropy was also essential in allowing UC to construct buildings at the Berkeley campus, as well as other campuses in the UC system. Finally, the need for gifts to provide support for future generations was also evident at the University’s inception. As UC President Daniel Coit Gilman stated in his inaugural address in 1874, the State of California *“has been, and is likely to be, liberal in its appropriations, but we must look to men of wealth to provide the richer and more complete endowments which will place our University by the side of her older sisters at the East.”*

The first major donor to the University was Regent Edward Tompkins who made a gift to establish UC’s first endowed chair – a chair in oriental languages at the flagship Berkeley campus. In the ensuing years, UC attracted other generous gifts, but gifts to establish endowed chairs and other types of endowments were not significant until

recent years.<sup>1</sup> While a number of factors contributed to this modest increase in new endowments, a significant factor was the strong, sustained support from the State of California – especially in the years following World War II. Moreover, the Board of Regents was concerned that any major fundraising efforts by UC might be counterproductive to our relationships with private institutions. As a result, in 1961, the Board adopted a “Gentlemen’s Agreement” which stated:

*“This policy acknowledges the private institutions’ heavy dependence upon gifts and endowments for their support, and stipulates that every effort will be exerted not to interfere in any way with their sources of support. It provides that the University shall limit its fund-raising efforts to its “immediate family”, and further provides that the University shall not embark on widespread public solicitations...”<sup>2</sup>*

The University’s Policy on Gifts and Endowments shared this perspective that the State of California was providing, and should continue to provide, full support for the core functions of the University.

*“The Regents, in their fiduciary capacity as trustees of Endowment Funds, reiterate their long-standing policy that endowment funds and income therefrom should be used for the enrichment of University programs and not for programs for which state funds are deemed requisite for the necessary educational activities of the University.”<sup>3</sup>*

---

<sup>1</sup> After more than a century, UC had a total of only 52 endowed chairs (in 1977). In 1987, this had grown to 243 chairs, and this more than doubled over the next decade to 561 chairs in 1997. At the end of this past fiscal year, this had more than doubled again as we added 94 new chairs – bringing our total to nearly 1,400. Close to 30% of all endowed chairs have been established in the last 4 years.

<sup>2</sup> This policy was not formally rescinded until earlier this decade, when all acknowledged the changes that provided State support of scholarships at private institutions, as well as increased private support to public institutions. In recent years, many of our campuses have been involved in very successful comprehensive campaigns.

<sup>3</sup> See <http://www.universityofcalifornia.edu/regents/policies/6054.html>

Of course, adherence to the above Policy was achieved by engaging in discussions with prospective donors to ensure that any restrictions that they imposed on their gifts were appropriate, and that their endowment would augment – and not supplant - support provided by the State.

While private support was not a primary focus of the governing board of UC, there have always been alumni from the UC campuses who wished to give back to the institution that had provided them with opportunities and laid the groundwork for their future success. This interest led to the formation of Campus Foundations to foster support for the individual campuses – which while part of the UC system, each has a separate and unique identity.

The Campus Foundations at Berkeley and UCLA were initially established in the 1940's by the campus alumni associations and later evolved into entities separate and distinct from the alumni associations; the Campus Foundations at the other campuses did not go through the same process, but all ten Campus Foundations share the same mission and purpose which is defined under UC Policy as follows:

*Each campus may have a single Campus Foundation, bearing the name of the campus, that is organized and operated for the purpose of fostering private giving, managing gift and endowment funds, and providing other support for the benefit of the campus. The Campus Foundation is the only entity permitted by The Regents of the University of California to hold funds for investment purposes for the benefit of the campus it supports.<sup>4</sup>*

Gifts in support of a particular UC campus can be made to the University (“The Regents of the University of California”) or to the Campus Foundation associated with that campus. The Campus Foundations are also able to hold and invest endowments and funds functioning as endowments. Further, the Campus Foundations may then opt to

---

<sup>4</sup> POLICY ON SUPPORT GROUPS, CAMPUS FOUNDATIONS, AND ALUMNI ASSOCIATIONS  
<http://www.universityofcalifornia.edu/regents/policies/6078.html>

use the services of the University's Treasurer's Office, or rely on external investment managers.

Amongst the reports that UC prepares each year are two detailed reports that provide information on the fundraising results and the endowment investment results for University gift funds. The ***Annual Report on Private Support***<sup>5</sup> includes information such as private support for each campus; sources, purposes, and types of gifts; and additions to endowments. The ***Annual Endowment Report***<sup>6</sup> provides investment performance, management fees, spending policies, and other information for all ten UC Campus Foundations as well as for the Regents General Endowment Pool. [Copies of the most recent reports are enclosed for your easy reference.] These reports are presented to the UC Board of Regents at a public meeting, and made available to the public on our web-site.

---

<sup>5</sup> See <http://www.ucop.edu/uer/instadv/annual/2007.pdf>

<sup>6</sup> See <http://www.ucop.edu/treasurer/foundation/foundation.pdf>

# ***Specific Responses***

## ***Tuition and Financial Aid***

- 1) Please provide the number of undergraduate and graduate students year-by-year for the last ten years.**

The following is a summary of UC enrollment for this time frame.

### **University of California Enrollments**

**CHART "A"**

<b>Year</b>	<b>Undergraduates</b>	<b>Graduates</b>
1997 - 1998	126,880	35,901
1998 - 1999	130,332	36,185
1999 - 2000	134,387	36,652
2000 - 2001	138,803	37,124
2001 - 2002	146,037	39,079
2002 - 2003	151,976	41,769
2003 - 2004	155,175	43,860
2004 - 2005	154,423	44,031
2005 - 2006	154,953	44,398
2006 - 2007	159,424	45,301

Note: The above represents Full Year equivalent enrollment for the academic year.

Enrollment over the past ten years has increased as UC had sought to fulfill its commitment under the Master Plan.

2) Please provide the total cost of undergraduate tuition (including all fees) -- both sticker and average, mean and median -- year-by-year for the last ten years. Please provide the amount of tuition assistance (not including loans or work study) that the university has provided to undergraduate students year-by-year for the last ten years. For the most recent year, please provide the percentage of students receiving university grants (for example 25%; 50%; 75% and 100% of tuition and fees). Please provide the average grant amount.

**CHART "B"**

**ALL UNDERGRADUATES AT THE UNIVERSITY OF CALIFORNIA**

<b>School Year</b>	<b># of Undergraduate Students</b>	<b>Required In-State Fees \$\$\$<sup>1</sup></b>	<b>Total Grant and Scholarship Aid \$\$\$</b>	<b>% of Students Receiving Grants and Scholarships</b>	<b>Average Grant and Scholarship Aid \$\$\$</b>
1997-98	126,880	\$4,212	\$349,840,192	48.5%	\$5,264
1998-99	130,332	\$4,037	\$378,269,997	50.4%	\$5,340
1999-00	134,387	\$3,903	\$392,355,961	48.6%	\$6,011
2000-01	138,803	\$3,964	\$426,643,439	48.0%	\$6,398
2001-02	146,037	\$3,859	\$476,674,942	49.2%	\$6,640
2002-03	151,976	\$4,017	\$525,215,813	50.5%	\$6,332
2003-04	155,175	\$5,530	\$655,660,509	56.7%	\$7,452
2004-05	154,423	\$6,312	\$710,896,070	54.2%	\$8,494
2005-06	154,953	\$6,802	\$769,706,070	54.4%	\$9,134
2006-07	159,424	\$6,852	\$828,408,523	53.2%	\$9,759

<sup>1</sup> Systemwide Educational Fee and Registration Fee, plus average required campus miscellaneous fees.

**CHART "C"**

**Non-resident UC Undergraduates**

<b>School Year</b>	<b>% of Non-Resident undergraduates at UC <sup>7</sup></b>	<b>Fees + Tuition To non-Resident undergrads \$\$\$<sup>8</sup></b>
1997-98	3.3%	\$13,196
1998-99	3.6%	\$13,611
1999-00	4.0%	\$14,737
2000-01	4.2%	\$15,238
2001-02	4.2%	\$15,167
2002-03	4.1%	\$15,785
2003-04	3.9%	\$19,260
2004-05	3.6%	\$22,788
2005-06	3.6%	\$24,106
2006-07	3.6%	\$25,020

---

<sup>7</sup> These non-resident undergraduates are included in count of "All undergraduates" in chart "B" above. Based on Fall enrollment.

<sup>8</sup> Includes Education Fee, Registration Fee, and average required campus miscellaneous Fees, **PLUS** non-resident tuition. Grant and scholarship aid for non-residents included in grant and scholarship aid for all undergraduates in Chart "B" above.

## CHART “D”

### Managing the Net Cost For California residents living on campus

ESTIMATED NET COSTS, 2008–09*	DEPENDENT				INDEPENDENT
	Samuel	Sonja	Sallna	Soren	Stephen
Annual parent income	\$20,000	\$40,000	\$60,000	\$80,000+	n/a
<b>Total estimated costs</b> Living on campus	23,980	23,980	23,980	23,980	23,980
<b>Grant aid</b> Does not have to be repaid	14,820	13,270	9,620	3,370	13,110
<b>NET COST TO FAMILY</b>	<b>\$9,160</b>	<b>\$10,710</b>	<b>\$14,360</b>	<b>\$20,610</b>	<b>\$10,870</b>
<b>MEETING THE NET COST</b>					
<b>Student loan</b> Low Interest	4,160	4,160	4,160	4,160	5,870
<b>Student wages</b> From part-time job during school year (14 hrs/wk @ \$9.60/hr)	3,000	3,000	3,000	3,000	3,000
<b>Student savings</b> From full-time work during summer	2,000	2,000	2,000	2,000	2,000
<b>Parents' earnings, savings or loans</b>	0	1,550	5,200	11,450	n/a
<b>TOTAL</b>	<b>\$9,160</b>	<b>\$10,710</b>	<b>\$14,360</b>	<b>\$20,610</b>	<b>\$10,870</b>

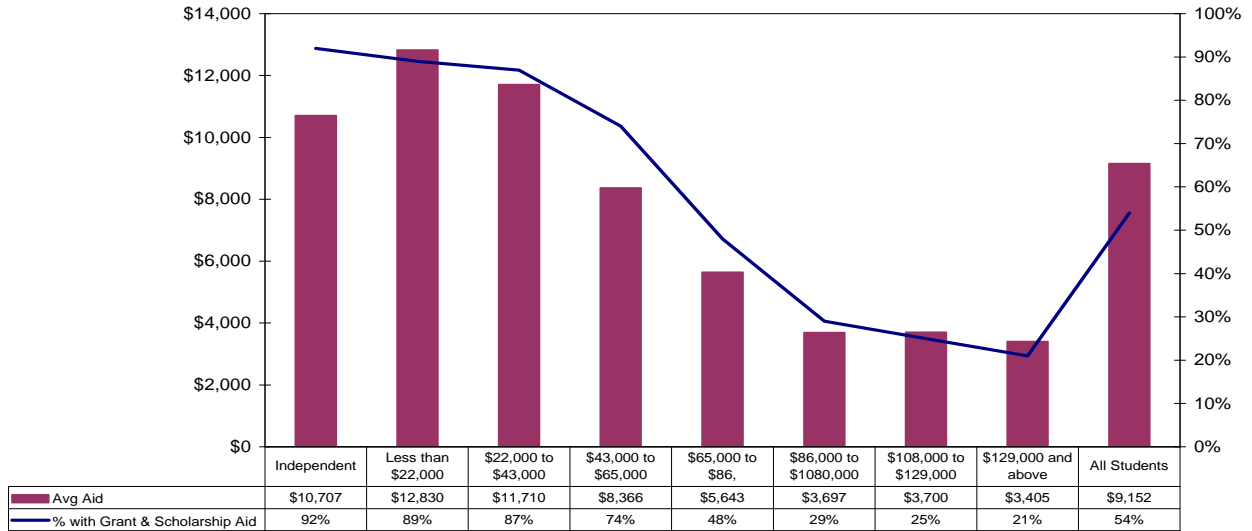
\*Examples throughout this brochure and on our website are intended to be instructive and are not guarantees of financial aid. Nor are they guaranteed to represent actual costs incurred at UC by all students.

The above charts provide answers to the questions posed above. It is worth noting that the fees for in-state students have increased by \$2,640 over the past decade. However, the average grant and scholarship aid has increased even more significantly as it has almost doubled to its current rate of almost \$9,800. Perhaps even more impressive is that this was achieved during a time when UC increased its total enrollment. As a result, the total grant and scholarship aid increased from approximately \$350 million to almost \$830 million.

The chart above (Chart “D”) is an example of how a financial aid package is constructed for families at various income levels. This is also an example of the information that we provide to prospective students and their families. This particular chart is from a pamphlet titled, “Financing Guide for Students and Parents.”<sup>9</sup>

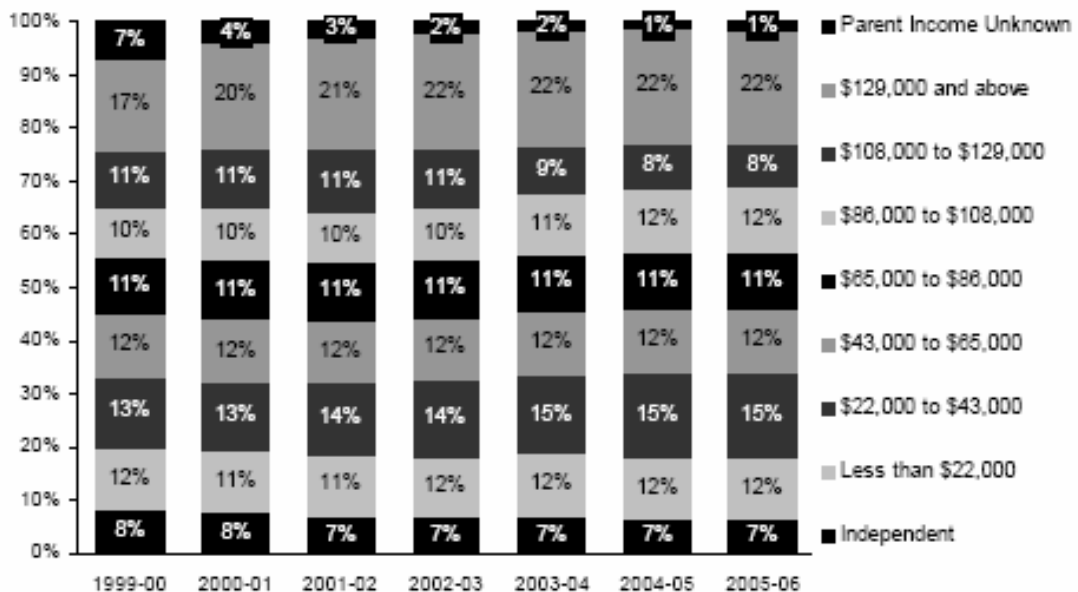
<sup>9</sup> See [http://www.universityofcalifornia.edu/admissions/payingforuc/finguide\\_fr.pdf](http://www.universityofcalifornia.edu/admissions/payingforuc/finguide_fr.pdf)

**Figure 1-2**  
**Grant and Scholarship Aid Recipients and Average Award by Parent Income, Academic Year 2005-06**



These charts illustrate the average aid to students according to their parental income.

**Figure 1-20**  
**Trends in the Parent Income of UC Undergraduates, 2005-06 Constant Dollars**



**3) Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low-income defined? What is the amount spent on these efforts?**

UC's financial aid policy is designed to provide access to all the students that we admit.<sup>10</sup> We endeavor to accomplish this by providing enough grant support from ALL SOURCES so that students can realistically afford to attend. This policy includes the following:

1. Parents are expected to contribute the share that the federal need analysis assigns to them, if any, based on the parents' income and assets as reported on the FAFSA (Free Application for Federal Student Aid) each year, and
2. All students seeking financial aid are expected to work part time during the school year and full time during three out of four summers and also to borrow an amount each year that will result in "manageable" repayments based on imputed percents of real earnings after college, and
3. Enough grant and scholarship aid from all sources (federal, state, and institutional) will backfill the financial aid package up to the cost of attendance.

Students and parents are informed of the UC policies in several ways. The University of California provides training workshops across the state on an on-going basis for the California high school and community college counselors who work with students who are most likely to attend college in this state. These activities involve special efforts to inform and assist low-income students by working with the adults closest to them. In addition, UC has user-friendly web sites for prospective students and their families,<sup>11</sup> myriad printed materials provided to middle and high school students, as well as community college students, describing the academic requirements for UC as well as

---

<sup>10</sup> See <http://www.universityofcalifornia.edu/regents/policies/6076.html>

<sup>11</sup> See <http://www.universityofcalifornia.edu/collegeprep/welcome.html> and [http://www.universityofcalifornia.edu/admissions/payingforuc/fin\\_aid.html](http://www.universityofcalifornia.edu/admissions/payingforuc/fin_aid.html)

the financial aid opportunities. UC also participates in several state programs to encourage college attendance, including CALSOAP and California Colleges on Line, and also in several large scale “financial aid information” activities, including the annual COLLEGE GOAL SUNDAY call-in and CASH FOR COLLEGE counseling that takes place each spring that emphasize FAFSA completion. Each of our nine comprehensive campuses throughout the state conducts outreach activities that include academic preparation and recruitment as well as financial aid information and application assistance to both students and their parents. Finally, we provide encouragement to middle and upper-income families to save for college as part of our public message, and the University provides a payroll-deduction option for its own employees to save for family members in California’s 529 College Savings plan, “*ScholarShare*.” As a public university, the University of California recruits aggressively and directly from every public high school in the state of California—including those that serve primarily low income communities. For EVERY high school,

1. We help them identify and promulgate lists of college preparatory courses so that all students are informed about college requirements.
2. We work with the counselors to identify the top 10-15% of their students before they begin 12th grade and communicate directly with those students, encouraging them to apply to college and specifically to the University of California.
3. We hold nine day-long counselor conferences that attract over 5,000 high school and community college counselors every year, informing them on the details of academic preparation for and the application process for applying to college and specifically to the University of California. Updates on available financial aid and the process for applying are also included. The University spends well over \$100,000 per year on informational materials for conference participants to use with prospective students and their families.

All of our nine undergraduate campuses conduct hundreds of visits apiece every year to high schools across the state. In addition, each campus has transfer agreements with

several of the state's community colleges to help their students gain admission to the University of California as juniors.

In addition, the University operates dozens of specific programs, designed to improve preparation and college-going rates for low-income and first-generation college students and those attending under-resourced and low-performing schools. These include a college writing preparation program, PUENTE, as well as large statewide and national programs like MESA and the Early Academic Outreach Program and many local efforts focused on specific schools.

The University of California attempts to help prepare and recruit students who meet our academic standards, and we realize that family income affects where people live, and therefore, attend secondary school as well as attitudes about college, the availability of and participation rates in honors or advanced placement classes, and many other cultural and financial issues related to college attendance. Because our focus in recruitment is not just on finding low-income students, but on identifying low-income students who can successfully attend the relatively selective University of California, the task before us is much more challenging and requires an academic information and preparation component which requires a longer investment of time and involvement and which, of course, costs more than access to less selective college options.

The University of California has consistently enrolled a higher percentage of low-income Pell Grant recipients than any other comparable research university in the country. Our preparation and recruitment efforts with students from low-income backgrounds are working.

At the University of California, we refer to students as "grant eligible" as a proxy for "low income," since low income doesn't necessarily get at differences in family size or other significant circumstances that might make a student eligible for grant support, despite an apparently "middle" income range. Most students from families of three or four people with one in college will be at least partially grant eligible with incomes that range

up to around \$60,000 here in California, where subsistence costs are significantly higher than the federal need analysis formula recognizes.

Certainly, students from larger families may be at least partially “grant eligible” even with family incomes somewhat higher than \$60,000. Similarly, students from two-person families with incomes of \$60,000 may not qualify for much or any grant assistance.

At the University of California, our Education Finance Model focuses on keeping the student “work/loan” amount “manageable.” We monitor the incomes of real graduates to measure reasonable repayment amounts based on actual post-graduation salaries and the percent of income needed to repay student loans acquired while enrolled at the University. Also, we monitor the actual work hours and hourly wages of employed students while they are enrolled to ensure that they are not working more than half time and that the earnings expectations that we include in our model are appropriate, given the real wages of student workers, both on and off campus. We gauge our expectations of student employment such that the student’s time-to-degree is not protracted and so that the hours per week do not have a negative impact on the student’s academic performance in college, as measured by GPA.

While our Education Finance Model uses the federal need analysis to determine how much parents are expected to contribute to the student’s cost of attendance, we offer parents financing options if they have not saved enough or cannot dedicate enough from current earnings to come up with their identified share (the federally defined “parent contribution.”) Because HEA Title IV need analysis does not recognize substantial differences in costs of living in the “lower 48 states,” the University of California works with families that the federal government would not consider “needy” enough to qualify for grant assistance, who are nevertheless in our high-priced housing market – even subsistence housing - unable to pay their expected parent contributions without significant reliance on loans and other financing assistance. So, for example, most of our campuses provide monthly payment plans and a few will accept credit card payments to help with family cash flow challenges, and all of our campuses provide parents with access to federal PLUS loans to help make up for needed amounts not

saved ahead of time and not available from current earnings. In addition, the University of California provides a high level of information and assistance to families with respect to the Hope and Lifetime Learning Tax Credits, as many of our families who pay out of pocket get some relief by claiming such credits. We provide supplemental information about the federal tax credits to students and families to explain eligibility and provide access to on-line information about each student's payments and grant aid for use in filing taxes.

More than \$30 million is spent annually on outreach programs for academically-disadvantaged and low-income students by the University of California. This total is in addition to other private, local, and federal programs (e.g., GEARUP, Upward Bound) also administered by the University. Finally, each University of California campus conducts outreach programs to boost the academic preparation and the awareness of the admissions application and financial aid process for students and their families at under-resourced and under-performing high schools in the region of the state where the campus is located. The collective budget associated with these efforts at our nine comprehensive campuses are estimated in the "tens of millions" of dollars each year, and most of those activities are focused on students who might not otherwise prepare for or apply to college.

**4) Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents and the public provided an opportunity to comment on tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?**

Upon recommendation of the President, The UC Board of Regents determines when fee increases are necessary and the amount of fee increases to be implemented. The Regents' Student Fee Policy<sup>12</sup> provides the following with regard to changes in the Educational Fee (a fee comparable to tuition at other institutions):

“In recommending to the Board the annual Educational Fee level, the President shall take into consideration the following factors:

1. the resources necessary to maintain access under the Master Plan, to sustain academic quality, and to achieve the University's overall mission;
2. the full cost of attending the University, including the cost of housing, food, healthcare, books and supplies, transportation, and other academic and personal expenses;
3. the amount of support available from various sources to assist needy students in funding the full cost of their education;
4. overall State General Fund support for the University; and
5. the full cost of attendance at comparable public institutions.”

Over the past several years, the Board's decisions also have been informed by a series of compacts and agreements with the last three Governors. These compacts have provided comprehensive statements regarding the minimum resources needed for the University to accommodate enrollment growth and sustain a quality education institution

---

<sup>12</sup> See <http://www.universityofcalifornia.edu/regents/policies/6069.html>

to which students seek admission, and have addressed the Administration's intent regarding student fee increases.

The Board of Regents' Committee on Finance first meets to consider specific actions that have been recommended by the President, and then votes to recommend actions by the full Board of Regents. Following the committee meetings, fee increases are approved at a meeting of the full Board.

The Regents Public Comment Policy<sup>13</sup> provides that members of the public, including students and parents, are invited to address The Regents of the University of California whenever The Regents or any of its Committees meets in open session in accordance with established guidelines.

In addition, in preparation for his or her recommendations to the Board on student fee issues, the Regents' Student Fee Policy also provides that the President must solicit faculty and student views on the level of the Educational Fee, through appropriate consultation processes. The Board membership also includes a student Regent with full voting privileges and responsibilities.

Finally, representatives of the University of California Student Association are regularly invited to speak at Regents meetings on issues of interest and concern to students, including the budget, student fees, and financial aid issues.

The UC endowments provide an increasingly important role in providing financial assistance to students, and this will likely be even more valuable in the years to come. This past year, various endowment funds provided approximately \$69 million in student financial support. [Additional support was also provided to graduate students via fellowships, and other similar funds.] This represented approximately 20% of the total endowment payout of approximately \$350 million.

---

<sup>13</sup> See <http://www.universityofcalifornia.edu/regents/pubcom.html>

## ***Endowment and Investment Management***

- 5) Please explain how your university's endowment is managed and the role of the Board of Directors? What are your university's endowment payout and investment policies? What is the mission of your university's endowment? When was the last time that the university's endowment policy was reviewed? When will it next be reviewed?**

The UC endowments consist of funds where "The Regents" serve as trustee, and funds where the Campus Foundations serve as trustee. When The Regents are trustee, the endowment fund is almost always invested in the General Endowment Pool (GEP)<sup>14</sup>, which is managed by the Treasurer and Chief Investment Officer, a corporate officer of the University of California, reporting to the President and the Board of Regents. The Treasurer's Office is responsible for managing the investments and cash of the University of California system. The Treasurer's Office currently manages a portfolio of retirement and endowment funds totaling more than \$73 billion – of which approximately \$6.4 billion was in endowment funds as of June 30, 2007.

The Regents Committee on Investments has oversight responsibility for the GEP, and the framework for management is set forth in the Investment Policy Statement,<sup>15</sup> which is made available to the public and was last revised in May 2007. The Policy Statement states that *"the mission of the GEP is to provide a common investment vehicle, which will generate a stable and continuously growing income stream, for (most but not all of) the University's endowments and quasi-endowments, for which the University is both trustee and beneficiary."* Furthermore, the *"overall investment goal of the GEP is to preserve the purchasing power of the future stream of endowment payout for those funds and activities supported by the endowments, and to the extent this is achieved, cause the principal to grow in value over time."* There is no set schedule for when this

---

<sup>14</sup> The exception being an unusual situation where a donor's term precluded such an investment, or a gifted asset could not be readily disposed.

<sup>15</sup> See <http://www.ucop.edu/treasurer/invpol/GEP%20IPS%20May%202007.pdf>

Investment Policy Statement will be reviewed, as changes are adopted when deemed appropriate.

However, The Regents Committee on Investments and the Regents Finance Committee makes a determination as to the payout rate for the endowment on an annual basis. Currently, the payout rate is 4.75% of a 60-month moving average, which was adopted at the March 2007 Regents meeting. As noted in the Regents Item<sup>16</sup> in which this action was last taken, the Committee weighs a number of factors in determining the amount to be distributed currently. This same weighing of long-term and short-term factors is also reflected in the California Uniform Management of Institutional Funds Act.<sup>17</sup>

The Campus Foundations have similar investment policies and endowment payout policies as the GEP, as each Campus Foundation has a Committee on Investments that has responsibility for the Foundation's endowment funds. The ***Annual Endowment Report*** provides information on each Campus Foundation's "Endowment Investment Objective", "Endowment Spending Policy", and other pertinent information.

[Although there are modest differences between the endowment spending policies of the GEP and the Campus Foundations, they all have a similar purpose of providing a stable source of support for the research, teaching, and public service activities of the University of California – today, and for future generations. As we review the actual performance over the past ten years, we can only conclude that the Regents and Campus Foundations are quite successful in achieving this objective.]

The investment returns for University endowments over the past ten years have been stellar – including at UC. However, there has also been great market volatility during this time frame, especially during the 2001, 2002, and 2003 fiscal years. Given the wide range of asset allocations utilized by various endowments, and thus generating a wide

---

<sup>16</sup> See <http://www.universityofcalifornia.edu/regents/regmeet/mar07/f4.pdf>

<sup>17</sup> CA Probate Code Section 18500 et. seq. Specifically, Section 18506(b).

range of returns, we have placed more focus on comparing our performance against an appropriate benchmark.

Although we have attempted to address questions on behalf of all the UC endowments – the Regents' GEP and the Campus Foundation endowment pools – it may be useful to more closely examine the performance of the GEP during this past ten-year period. While returns were generally impressive, the GEP had returns of -6.9%, -9.5%, and 5.4% during the 2001, 2002, and 2003 fiscal years – and these returns exceeded the benchmark returns during this period. Even during periods when the endowment lost value, it continued to make distributions to support our faculty and students.

The payout formula must consider the long-term investment horizon. While it would be wonderful if our endowments could achieve a return of approximately 20% every year – as was the case in the fiscal year ending June 30, 2007 – it is essential to remind ourselves that the annualized return for the GEP for the past ten years was only 9.2%. The capital market assumptions provided by our general consultants are now even more conservative at 7.0% and may differ from those of our peers.

A specific analysis of the investment returns for the UC Campus Foundations for the past ten years would highlight modest differences in investment returns from year to year, and perhaps different capital market assumptions as to projected returns in the future. However, the message would be consistent – investment returns for the past ten or fifteen years cannot serve as the sole basis for establishing a current endowment expenditure payout rate. Please note that this view is shared by other institutions that have experienced strong endowment returns. As Cambridge Associates indicated in their letter to the Senate Finance Committee, *“It is easy to see how an extended period of strong capital market performance can tempt various interested parties to extrapolate these gains into the future. However, history demonstrates that doing so is short-sighted and places a priority on benefitting the current generation at the expense of future generations of students. Decisions on investment and spending policies should*

*be left to trustees, who have both a legal and a fiduciary responsibility to act in the best interests of their institutions.”*<sup>18</sup>

The UC endowment consists of thousands of individual funds that are comingled, for investment purposes only, with other funds in the GEP or the Campus Foundation endowment pools. However, there are occasions when an individual endowment fund may not be invested in one of these pools. This may occur when real estate or a specific asset is contributed to UC, and it may not be feasible or prudent to sell this immediately upon receipt. The income generated would support the purpose designated by the donor; upon disposition, the proceeds would generally be invested in the GEP or Campus Foundation endowment pool along with other UC endowment funds. [In general, the value of endowment funds not invested in the UC endowment pools is immaterial.]

---

<sup>18</sup> Cambridge Associates’ Letter to the Senate Finance Committee Regarding their January 24, 2008, Inquiry to Large Colleges and Universities.

- 6) Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars). What is the amount of donations the endowment has received year-by-year for the last ten years? Please provide the percentage of investment in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States.

The year-by-year growth of UC endowments for the last ten years has been significant. As noted in the 2007 *Annual Endowment Report*, the University had approximately \$9.7 billion in endowments managed by The Regents and the Campus Foundations as of June 30, 2007. The table below summarizes the growth of the total endowment over this period of time:

**University of California Endowments**  
(market value \$000)

Year	Beginning Balance	Additions	Ending Balance (includes additions, returns on investment, less payout distributed)	Percentage Increase or (Decrease)
1997 - 1998	\$4,021,402	\$180,516	\$4,951,801	23.1%
1998 - 1999	\$4,951,801	\$150,296	\$5,761,003	16.3%
1999 - 2000	\$5,761,003	\$213,592	\$6,567,303	14%
2000 - 2001	\$6,567,303	\$206,733	\$6,207,201	<b>-5.5%</b>
2001 - 2002	\$6,207,201	\$214,275	\$5,634,620	<b>-9.2%</b>
2002 - 2003	\$5,634,620	\$255,319	\$5,834,221	3.5%
2003 - 2004	\$5,834,221	\$229,756	\$6,642,182	13.8%
2004 - 2005	\$6,642,182	\$194,446	\$7,277,097	9.6%
2005 - 2006	\$7,277,097	\$295,523	\$8,138,221	11.8%
2006 - 2007	\$8,138,221	\$280,520	\$9,616,067	18.2%

The allocation into various asset classes is also provided in the **Annual Endowment Report**. Specifically, Table 3 on page 8 provides detailed asset class information and is reproduced below for easy reference.

Table 3 Allocation of Managed Endowment Funds by Asset Class As of June 30, 2007									
Campus	Asset Class Allocation								Net Total Return
	U.S. Equity	Non-U.S. Equity	Alternative Equities*	U.S. Fixed Inc.	Non-U.S. Fixed Inc.	Cash Equiv.	Absolute Return	Total	
Berkeley	23.0%	27.7%	14.5%	14.4%	0.0%	2.9%	17.5%	100.0%	20.2%
Davis **	28.0%	27.6%	7.9%	15.6%	4.9%	0.2%	15.8%	100.0%	19.7%
Irvine	36.4%	23.2%	7.5%	10.5%	3.1%	1.5%	17.8%	100.0%	19.1%
Los Angeles	21.6%	24.3%	21.1%	8.6%	0.0%	0.0%	24.5%	100.0%	17.8%
Merced **	28.0%	27.6%	7.9%	15.7%	4.9%	0.2%	15.8%	100.0%	19.8%
Riverside	21.0%	34.7%	16.6%	15.2%	0.0%	0.0%	12.6%	100.0%	21.7%
San Diego **	40.6%	20.4%	8.8%	11.6%	3.8%	0.2%	14.7%	100.0%	19.2%
San Francisco	38.5%	21.9%	3.6%	15.8%	1.0%	8.4%	10.8%	100.0%	18.3%
Santa Barbara **	27.0%	27.2%	7.5%	15.0%	4.7%	3.4%	15.1%	100.0%	20.1%
Santa Cruz **	28.0%	27.6%	7.9%	15.6%	4.9%	0.3%	15.8%	100.0%	19.8%
Regents' GEP	28.0%	27.6%	7.9%	15.7%	4.9%	0.2%	15.8%	100.0%	19.8%
Weighted Avg.	28.0%	26.7%	9.6%	14.6%	3.7%	0.8%	16.5%	100.0%	19.5%

\* Alternative Equities consist largely of private equity funds, real estate, natural resources and other asset types.

\*\* Foundation endowment assets invested primarily in The Regents' GEP, HIP and/or STIP funds.

Note that the method of rounding may produce the appearance of minor inconsistencies in various totals and percentages, but the differences do not affect the accuracy of the data.



**7) Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined? Are there any other long term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?**

The UC endowment consists of thousands of individual funds that are invested for the long-term in the Regents General Endowment Pool or the endowment pools managed by the University's Campus Foundations. Approximately two-thirds of the University endowments are sometimes referred to as "true endowments" where the donor has explicitly stated that the principal of the fund cannot be expended; these funds are also defined as endowment funds under the California Uniform Management of Institutional Funds Act as follows:

*"Endowment fund" means an institutional fund, or any part thereof, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument.*<sup>19</sup>

In addition, approximately one-third of the University's endowment funds are "funds functioning as endowments" (FFE) or "quasi-endowments." These are funds where the donor may not have explicitly stated that the principal can never be expended; however, there is clearly a requirement or expectation that the funds not all be expended on a current basis. This might be a medical research fund that is used to support a particular field of research, including purchasing equipment. The donor has provided flexibility to expend more than annual payout from the fund in instances where payout would not be sufficient. This flexibility to expend more than the current year's annual payout is also beneficial with scholarship funds, fellowship funds, and funds designated for support of a particular department.

Often, a bequest received for "scholarship" purposes but not designated by the donor as a true endowment will be established as an FFE named for the donor, with the goal of serving many generations of students.

---

<sup>19</sup> CA Probate Code Section 18501(a).

Further detailed definitions as to endowments and similar funds can be found in the University's financial statements; UC's Annual Financial Reports are available to the public on our web-site at <http://www.universityofcalifornia.edu/finreports/index.php>

This site includes detailed information for the current fiscal year, as well as prior fiscal years.

In addition to the UC endowments, there are other funds classified as long-term investments on the University's financial statements. Specifically, this is the portion of the University's Short Term Investment Pool (STIP) that is comprised of fixed or variable income securities with a maturity date beyond one year. Maturities were slightly extended during this past fiscal year in order to increase the yield on these funds; as a result, approximately \$5 billion of the \$7.5 billion of STIP had a maturity date beyond one year.

STIP is an investment pool that allows the participating funds to maximize the returns on short-term cash balances by taking advantage of economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for payroll, construction expenditures, and other operating expenses for campuses and medical centers is invested in the STIP. In addition, available cash in the University of California Retirement System,<sup>20</sup> and endowment payout awaiting expenditure is invested in STIP. In short, STIP consists of thousands of individual funds that are to be expended for specific well-defined purposes. They are aggregated for investment purposes only in order to achieve investment returns that would not be possible if invested independently.

---

<sup>20</sup> The University of California Retirement System ("UCRS") had a balance of \$59.7 billion as of June 30, 2007

**8) What has been the cost of management of the endowment year-by-year for the last ten years?**

The cost for managing the UC endowments is also fully described in our **Annual Endowment Report**. For the current year, the cost of managing the GEP is 74 basis points. This is comprised of 65 basis points that are attributable to external money managers, and 9 basis points that are attributable to our internal costs. These 9 basis points consists of 6 basis points related to administrative costs and 3 basis points related to investment management and custodial expenses. The weighted average for all UC endowments for the most recent fiscal year is 81 basis points.

The UC Campus Foundations have always relied primarily on external money managers. Over the past decade, the GEP has also shifted its investment strategy so that there is a greater use of outside money managers. This has resulted in an increase in the weighted average estimate for costs incurred in managing UC endowments (GEP and Campus Foundations) as summarized below:

**University of California Endowments – Management Fees**

<b>Year</b>	<b>Weighted Average Cost of Management</b>
1997 - 1998	.37
1998 - 1999	.39
1999 - 2000	.33
2000 – 2001	.28
2001 - 2002	.27
2002 - 2003	.19
2003 - 2004	.25
2004 - 2005	.26
2005 - 2006	.31
2006 - 2007	.81

**9) What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years? What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years? If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body. If there is a material variation between actual and targeted, please explain. What were the top 10 major expenditures from the endowment last year?**

The GEP and Campus Foundation endowments do not have a single endowment rate that is used for all UC endowments. As noted previously, the endowment spending policies are included in the **Annual Endowment Report** which has been compiled in its current form by the University's Treasurer's Office for the past several years.<sup>21</sup>

The various expenditure rates range from 4.5% to 5%, and all employ a rolling average. In times when the investment returns are increasing, this results in a payout that is closer to 4 to 4.5% of current market value. However, when returns are decreasing, the payout rate may actually be greater than 5% of current market value. The use of a rolling average-payout rate is beneficial to current students as it provides greater assurance that their scholarship awards will not decrease during their time at UC. If the payout were simply 5% of current market value, the awards are much more likely to be variable and to increase or decrease during a student's tenure.

Expending more of the endowment's investment returns also interferes with the donor's objective of ensuring that the fund is able to maintain its purchasing power in order to adequately support future generations of students.

In general, there is not any material difference between the targeted payout rate and the actual payout rate. In some instances, an individual endowment fund may not make a distribution (or there may be a distribution that is returned to principal) when it is not

---

<sup>21</sup> Reports on all University endowments have been provided to the Regents Committee on Investments since 1978, though the format has changed somewhat over the years.

possible to expend the payout on a current basis. For example, this may be due to a vacancy for an endowed chair, due to the untimely death or resignation of the chairholder. There are also certain financial-aid funds that are restricted to students from a particular high school, etc.<sup>22</sup>

The expenditures from endowment payout for the past ten years are as follows:

**University of California Endowments –  
Expenditures from Endowments**

Year	Current Fund Expenditures
1997 - 1998	\$179,938,000
1998 - 1999	\$176,180,000
1999 - 2000	\$196,608,000
2000 – 2001	\$221,523,000
2001 - 2002	\$228,054,000
2002 - 2003	\$247,707,000
2003 - 2004	\$270,512,000
2004 - 2005	\$306,597,000
2005 - 2006	\$325,025,000
2006 - 2007	\$347,469,000

---

<sup>22</sup> Examples of restrictive funds: students from Napa high school studying viticulture and enology at UC Davis; first generation Portuguese students studying in specific fields at UC Berkeley; Jewish orphans studying engineering at UC Berkeley, etc.

This past year, UC expended approximately \$350 million of payout from the GEP and Campus Foundation endowment funds. This grand total consisted of expenditures from thousands of individual endowment funds that supported virtually every area of the University. The University's financial statements report these expenditures in the following broad categories:

- **Research** – As one might expect at a University such as UC, the largest area of endowment support was for research at approximately \$90.3 million this past fiscal year. Much of this was devoted to medical research, primarily at our five Medical Centers. [During this past fiscal year, approximately one-half of all private support raised was for the Health Sciences.] This function records the expenditures of all separately organized research units, including research institutes, centers, bureaus, laboratories, and stations. Museums are included when their collections are primarily employed by those engaged in research.
- **Instruction** - \$70.2 million was in support of Instruction. This includes the payout from endowed chairs and professorships. All current expenditures of instructional departments, including expenditures for research done as a part of regular instructional programs are included under this function. Expenditures for Summer Sessions and University Extension programs are also under this function. These expenditures may be for salaries, staff benefits, office expenses and equipment, laboratory expenses and equipment, or other departmental expenses. Museums may be included if they are intended primarily for instruction.
- **Student Financial Aid** - As financial-aid funds constitute approximately 20% of the total UC endowments, there was approximately \$69 million utilized for this purpose. Under this function are all expenditures for scholarships, fellowships, and prizes. This is more fully described in other sections of this report.
- **Institutional Support** – Approximately \$58 million was supported by endowments in this past fiscal year. This includes various current expenditures

of the University as a whole that are of a general character and not related to any specific division, exclusive of the libraries and plant operations. Examples of departments whose expenditures are included in this function are the alumni office, public information office, and University Press. This function includes expenditures of the general administrative offices serving the University as a whole, including all costs of the offices of The Regents, President, vice-presidents, chancellors, business officers, accounting officers, personnel, etc.

- **Academic Support** – The \$43.9 million expended in this area is in support of specific programs housed in colleges and departments that a donor has designated. This function records the gross expenditures of all activities which are organized and operated in connection with educational departments and which are conducted primarily as necessary components of professional training programs. These activities include running optometry and dental clinics, cafeterias and nurseries, demonstration schools, etc.
- **Public Service** – The \$11.9 million incurred this past fiscal year is comprised of numerous activities that are primarily geared to serving the general public. Examples of Public Service activities include holding campus cultural events, operating museums intended primarily for the public, and providing Cooperative Extension.
- **Operation and maintenance of plant** – The \$6.2 million in fiscal year 2007 is from funds provided to UC to help us maintain our classrooms and other facilities. This includes all expenditures for salaries and wages, supplies and expense, and equipment required to maintain and operate the physical plant used by the University, including janitorial service, grounds maintenance, utilities, and major repairs.
- **Student Services** – The University expended \$2.7 million of endowment payout that was designated for specific student services this past fiscal year. This encompasses services to the student body as a whole. Examples are

expenditures for student health services, counseling programs, placement centers, and graduation ceremonies, and expenditures of the offices of the registrar, dean of students, and director of admissions.

- **Medical Centers** – Approximately \$1 million was for the support of our medical centers this past fiscal year. This was primarily for non-medical programs to assist hospital patients and their families.

The expenses summarized above are solely the expenditures that were funded via distributions from the UC endowment funds. Additional expenses in all of these categories are funded by other sources.

- 10) How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor? Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid? Please provide the top five types of restrictions on the endowment by category. What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official – such as a set-aside for a specific program? Please provide the investment return to the endowment year-by-year for the last ten years.**

As is the case with other public institutions, the State has historically provided financial support for core operations. Even as state support has diminished, there is still a perception that funding may not be necessary for purposes such as scholarships – as UC fees are still a fraction of the tuition and fees assessed by our private peers.

In addition, the Policy on Gift and Endowments has helped focus gifts in certain areas.

*The Regents, in their fiduciary capacity as trustees of Endowment Funds, reiterate their long-standing policy that endowment funds and income therefrom should be used for the enrichment of University programs and not for programs for which state funds are deemed requisite for the necessary educational activities of the University.”<sup>23</sup>*

Donors to UC have often viewed their support as providing the “margin of excellence” or even the “icing on the cake” to augment the support from other sources.

The amount of unrestricted support that UC receives is generally around 2%. This past fiscal year, the total private support that was unrestricted was \$25.8 million (out of a total of approximately \$1.3 billion in gifts for current use, capital projects, and endowment). Gifts to endowment totaled approximately \$280 million – and the

---

<sup>23</sup> See <http://www.universityofcalifornia.edu/regents/policies/6054.html>

unrestricted portion of this endowment was even less than the overall 2% rate for unrestricted gifts to UC.

As noted in a previous question, gifts for endowment are comprised of “true endowments” and “funds functioning as an endowment.” Even in these later instances, the donors will often restrict the use of a fund, but will leave the fund type open or will specifically request that an FFE be established, so as to allow the greatest future flexibility in the use of principal. UC views the invasion of an FFE principal as the exception rather than the rule, so that justification must be presented before principal funds may be withdrawn.

Of the total endowment, approximately 30% is restricted to need based scholarships available to graduate and/or undergraduate students, while approximately 20% is restricted to undergraduate financial aid only.

The ***Annual Report on Private Support*** reports how gift funds are to be used by UC. While there may be variations from year to year, the areas of support for the past decade have been relatively consistent.

Inevitably, the majority of gifts are restricted to departmental support. Such restrictions support particular academic divisions, departments or units and may be further restricted for a specific purpose within that academic unit. This category also includes endowed chairs and professorships, which has become a very popular gift vehicle for our donors and currently accounts for approximately \$1.6 billion of our total endowment of approximately \$10 billion.

The next most restricted area is research, including medical research. In fact, 50% of our gift total, as broken down by academic discipline, is for the health sciences.

The third largest restriction is for campus improvement. This covers a large area of restrictions that includes support for capital projects and ongoing operations of the physical plant. This restriction may also include gifts of real and personal property,

including works of art that are to be used by the University. Finally, it includes gifts to purchase and restore library materials and to support the activities of campus libraries.

Student support is the fourth highest restriction and includes all forms of financial aid for both graduate and undergraduate students. Last year, gifts for student financial support brought in approximately 9% of all private support. Moreover, much of this is further restricted by the donor to support of students in particular academic disciplines, students from a particular geographical locale, etc.

The fifth largest restriction is for a mix of other purposes, primarily including non-instructional services, such as museums, exhibits, patient care, public service, and intercollegiate athletics.

Occasionally gifts will have further restrictions placed on them by an administrative body at the University. However, the current practice is to keep gifts as unrestricted as possible, so as to allow for the maximum flexibility. Gifts may also be allocated to a particular campus or program, but without imposing further restrictions on the use of the fund.

[In the past, it was thought wise to allocate and further restrict funds so as to support a particular program or academic area with the result that administratively restricted gifts account for approximately 12-15% of our total endowment. Many of these actions related to bequests received by the University, and were often based on specific areas that a donor might have supported during his/her lifetime and the most pressing needs of the Institution at that time.]

The investment returns for the UC endowments over the past ten years are detailed on the attached ***Annual Endowment Report***; specifically, table 10 on page 38 which provides Annual Total Returns, Average Annualized Total Returns, and Cumulative Total Returns for the GEP and each of the UC Campus Foundations.

**11) Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee? Who pays the fee (the endowment, general funds)? Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager. Please list what endowment-related bonuses, if any, either the college or university president or the investment manager has received year-by-year for the last ten years.**

Investment Management Agreements with external managers include either asset-based fees or asset-based fees along with performance-based fees. Performance is compared to that of an appropriate benchmark. The contracts are reviewed and approved by the Chief Investment Officer and the Managing Director. The fees are netted out of the return.

The only University employees whose compensation is tied in any fashion to the performance of the UC endowments are those who participate in the Treasurer's Office Annual Incentive Plan. This plan was developed by the Committee on Investments based upon recommendations from Mercer Investment Consulting, and the terms of this program are made available to the public. The most recent action related to this program was the adoption of the current performance factors at the Committee on Investments meeting in May 2007.<sup>24</sup>

In short, the Annual Incentive Plan (started in fiscal year 2003) provides the opportunity for employees in the Treasurer's Office to be rewarded if the investment performance of the GEP and the investment performance for the retirement funds managed by that office exceed predetermined benchmarks. Results were tabulated by Mercer Human Resource Consulting. Investment returns were calculated by State Street and Cambridge Associates, and reviewed by the University's Internal Audit Department at

---

<sup>24</sup> See <http://www.universityofcalifornia.edu/regents/regmeet/may07/i4.pdf>

the Office of the President. At the end of each plan year, the Treasurer will submit a report to The Regents summarizing overall results of the Plan for the year,<sup>25</sup> including the payment of actual incentive awards. Awards are paid out over a three-year period. No other University administrators – including the President or any of the Chancellors at the ten UC campuses – receive any compensation based upon the performance of the endowment pools.

The following table represents the amount paid each year as part of the Annual Incentive Program (attributable to the GEP).

### **Annual Incentive Awards**

<b>Year</b>	<b>Incentive Award – Amount Applicable to GEP</b>
2002 - 2003	\$43,618
2003 - 2004	\$100,885
2004 - 2005	\$171,751
2005 - 2006	\$163,048
2006 - 2007	\$186,775

---

25 See <http://www.universityofcalifornia.edu/regents/regmeet/jul07/re102.pdf>