The Regents of the University of California

COMMITTEE ON FINANCE
November 19, 1998

The Committee on Finance met on the above date at Covel Commons, Los Angeles campus.

Members present: Regents Atkinson, Bagley, Connerly, Davies, Gould, Johnson, Khachigian, Leach, Lee, Miura, Parsky, and Willmon; Advisory member Taylor

In attendance: Regents Chandler, Clark, Espinoza, Hotchkis, Kozberg, Montoya, Nakashima, Ochoa, and Preuss, Regent-designate Vining, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Hershman, and Hopper, Chancellors Cicerone, Dynes, Orbach, Vanderhoef, and Yang, Laboratory Director Browne, and Recording Secretary Nietfeld

The meeting convened at 4:55 p.m. with Committee Chair Johnson presiding.

1. **AUTHORIZATION TO SEEK ADDITIONAL FUNDING FOR DEVELOPMENT OF THE UC MERCED CAMPUS**

Regent Johnson stated that she was withdrawing her recommendation that The Regents (1) reaffirm the September 1997 resolution authorizing the continued planning and development of the Merced campus contingent upon the provision of State resources adequate both to develop the new campus and to ensure the continued health and enrollment expansion of the existing campuses; (2) endorse the President's recommendation, as proposed in the 1999-2000 Budget for Capital Improvements, to seek at least $50 million in State capital outlay funds for the Merced campus (in addition to the $55 million provided as a part of the 1998 Higher Education Capital Outlay Bond Fund) by 2001-02 and additional capital funding from future bond measures to fund the development of initial facilities needed to accommodate 1,000 students in fall 2005 and 5,000 students in 2010; and (3) seek State funding to develop adequate long-term operating budget support for the projected enrollment capacity for UC Merced. Instead, she proposed that the item be for discussion at today's meeting in order to permit the President time to speak with Governor-elect Davis before any action is taken.

Regent Johnson recalled that at the September 1997 meeting, The Regents authorized continued planning and program development for the tenth campus as follows:

> "To enable the University to (1) maintain overall undergraduate access at the levels contemplated in the California Master Plan for Higher Education and (2) fulfill its teaching, research, and public service mission in the San Joaquin Valley, The Regents authorize continued planning for and development of a tenth campus of the University of California at the previously approved Lake Yosemite site in Merced County. This

authorization recognizes the need to continue academic program planning in coordination with planning of the physical site and the adjacent campus community. In addition, this authorization will enable the University of California to proceed with the formal steps of the statewide approval process. It is understood that exercise of the option agreement to acquire the campus site and commencement of construction at the site is contingent on further action by The Regents and on the provision of State resources adequate both to develop the new campus and to ensure the continued health and enrollment expansion of the University's existing campuses."

Regent Johnson emphasized the dual goal of funding the existing campuses and UC Merced, because the existing campuses will experience the predicted enrollment surge well before UC Merced enrolls its first students. When the existing campuses have reached their maximum enrollment capacities, UC Merced will be crucial to UC's ability to fulfill its promise to admit all eligible students. She then called upon Vice President Hershman to address the item.

Vice President Hershman recalled that since the September 1997 authorization, considerable progress has been made in obtaining increased operating and capital resources from the State for both the UC Merced campus and the University system as a whole:

- The 1998-99 State budget provides the University with an increase of $270 million in permanent State general funds and an additional $70 million in one-time funds to address critical infrastructure needs. The result is a 15.6 percent increase in State general funds, which includes funding for 6,000 more students than were funded in 1997-98.

- A new, multi-year compact for the operating budget is anticipated, which would include predictable funding for annual enrollment increases.

- Core State operating support for UC Merced planning and development activities increased from $4.9 million in 1997-98 to $9.9 million in 1998-99. An additional one-time appropriation of $1.5 million was made in 1998-99 to support development of the network of distributed learning centers throughout the San Joaquin Valley.

- Proposition 1A , approved by the voters on November 3, 1998, provides more than $830 million in general obligation bond funding for the University's capital program over the four-year period 1998-99 to 2001-02. Within this amount, $55 million is designated for development of UC Merced beginning in 2000-01.

Despite these positive budget developments, additional funding will be required for construction of the UC Merced campus to support enrollment of the 1,000 students at the campus site beginning in fall 2005 and a projected increase in capacity to 5,000 students by fall 2010. The University has previously indicated that approximately $250 million in capital funding would be required to open the campus by 2005, with another $150 million required to support an enrollment capacity of 5,000 students by 2010. It is apparent that capital funding available through the recently-approved general obligation bond act and potential additional bonds approved after 2002 will not provide sufficient funding for construction of UC Merced or to meet the capital expansion and rehabilitation needs at the existing campuses. Additional State funding mechanisms need to be identified and non-State sources need to be secured to support construction of UC Merced.

Mr. Hershman continued that additional reviews of long-term University enrollment demand undertaken since September 1997 reaffirm the need to expand the University's enrollment capacity. Both internal and external studies conclude that student demand in 2010 will exceed the capacity of UC's existing campuses. Given the capacity of each campus as defined in its approved Long Range Development Plan, the University expects to be able to accommodate 40,000 new students at existing campuses and an additional 5,000 students at the Merced campus. Based on the latest projections of annual enrollment demand, there could be an additional 5,000 to 10,000 students who could not be accommodated, reaffirming the need to expand the University's enrollment capacity. The administration is exploring options for accommodating this demand and will report to The Regents by February 1999.

Regent Johnson recalled that at the October meeting, during the discussion of the 1999-2000 budget for current operations, the Regents had identified five significant areas of concern: student-teacher ratios, deferred maintenance, libraries, seismic safety, and research infrastructure. She noted her intention to request quarterly reports on the progress that is being made in these five areas when her recommendation is considered for action.

In response to a question from Regent Connerly regarding the intention of the resolution, Regent Johnson stated that it seeks to establish the concept that funding for the existing campuses will not be used to support the tenth campus. She believed that the September 1997 resolution supported this position in its provision that construction of the tenth campus is contingent on "...the provision of State resources adequate both to develop the new campus and to ensure the continued health and enrollment expansion of the University's existing campuses." In addition, her resolution endorses the recommendation contained in the 1999-2000 Budget for Capital Improvements to seek at least $50 million in new State capital outlay funds for the Merced campus by 2001-02.

Regent Connerly observed that Governor-elect Davis had made it clear that development of the Merced campus should be accelerated. In addition, the University has been proceeding with the assumption that the campus will be built, even without additional funding from the State. Regent Johnson noted that it is the intention of Speaker Villaraigosa to provide additional funding for the new campus. Regent Connerly believed that, while it is appropriate for the University to seek additional funding, the commitment to construct the Merced campus has been made.

Regent Davies asked that between now and the January meeting there be more work done on Regent Johnson's resolution because it appears that the University will build the tenth campus only when it has met all the needs of the existing campuses. He added that the intention of the Regents is to seek funding for the existing campuses and for the tenth campus.

Regent Johnson suggested that the Merced campus would provide the same benefit to the Central Valley as the Riverside campus does to the Inland Empire. On the other hand, projections show that the existing campuses will be able to accommodate enrollment growth for a number of years if their Long Range Development Plans are modified to permit that growth.

Regent Espinoza reported that, in his visits to the campuses, he had found tensions which have resulted from the pressures of enrollment growth. He stressed that development of the tenth campus is of tremendous importance because of the positive effect it will have on both the Central Valley and the state as a whole.

Regent Connerly expressed his concern that, if the resolution were to pass at a future meeting, it would put the Board at variance with its previous intentions with respect to UC Merced. He stressed that the Regents have made the decision that the tenth campus is a part of the University of California. Because of that decision, funding for UC Merced should be sought as an integral component of the University's budget rather than as a separate element. He urged the Regents not to pursue the philosophy reflected in the proposed resolution.

Regent Johnson reiterated her concern that construction of a tenth campus is dependent upon funding from the State to do so. She recalled the devastating effect on the University of the economic crisis of the early 1990s and expressed her fear that another downturn could have a similar effect. She felt that it would be irresponsible for the Board not to protect the existing campuses.

Regent Connerly suggested that, in light of Regent Johnson's statement, the resolution should have been placed before the Committee for action in order to achieve an understanding of the nature of the Board's commitment to the reality of a tenth campus.

President Atkinson stressed that while the University is committed to opening UC Merced with 1,000 students in 2005, economic circumstances could result in a failure to meet that commitment. He noted that when the decision was made to go forward with the tenth campus, it was with the understanding that it would not impede the normal development of the other campuses. The President did not believe, however, that it was the intention of the University that every campus' requirements must be met every year before proceeding with the development of UC Merced. He agreed with the perception that the resolution could be interpreted as a backing away from the University's commitment to build the tenth campus.

2. **DELEGATION OF AUTHORITY TO THE PRESIDENT TO SET FEES FOR SELF-SUPPORTING DEGREE PROGRAMS**

The President recommended that authority be delegated to the President to set fees for self-supporting professional degree programs and to approve the use of fee revenue from a self-supporting professional degree program to support salaries of ladder-rank faculty members teaching in these programs. The President will report to The Regents annually on the fees charged for these programs.

It was recalled that authority for setting fees, with certain limitations, is delegated to the President in Standing Order 100.4(g):

> The President shall fix and determine the amount, conditions, and time of payment of all fees, fines, and deposits to be assessed against students of the University, except that the President shall secure the Board's approval prior to the assessment of the University Registration Fee, Educational Fee, tuition fees, compulsory student government fees, and fees and charges required in connection with the funding of loan financed projects, except parking facilities and housing projects.

The Regents has authorized the President to set fees for summer sessions and for University Extension programs, which are self-supporting programs, and the President has delegated this authority to the chancellors for programs within their individual jurisdictions. The current action would include setting fees for self-supporting professional degree programs within the President's authority.

Traditionally, the University's academic programs have been offered for full-time attendance during normal working hours, and the University's fee policies and approval processes have been designed to keep fees low and to complement State support for full-time programs. In recent years, however, the University has begun to respond to the needs of working professionals by offering a number of part-time and alternatively scheduled professional graduate degree programs and is now actively engaged in expanding the number and types of programs offered to these students. At the July Regents meeting, the President announced a new degree initiative, the Master of Advanced Study, which will expand the University's advanced degree programming for working adult professionals. Pilot programs are expected to be approved and implemented for the 1999-2000 academic year. Most of these programs are expected to be self-supporting.

The development of appropriate academic program criteria and fee policies for this new kind of academic program has undergone considerable discussion. In 1994, a Universitywide Task Force on Part-Time Professional Master's Degree Programs advocated that the University expand opportunities for clearly-defined groups of students not served by the University's regular programs. In 1995, the Advisory Committee on Policy for High Fee Part-Time Professional Programs urged the University to create a climate of encouragement and support for creative new approaches to delivering part-time professional education. These studies culminated in a new Policy on Self-Supporting Part-Time Graduate Professional Degree Programs which was issued by the President in June 1996. This policy sets forth the conditions under which self-supporting part-time graduate professional degree programs may be established and provides that they must be fully self-supporting or they must become self-supporting within three years. To be considered self-supporting, the program fees or other non-State discretionary funds must generate sufficient revenue to cover the full direct and indirect costs of the program, including overhead costs and faculty salaries. Guidelines for determining whether these programs are self-supporting have been developed by the Budget Office in consultation with the campuses. If approved, this delegation would permit the use of any fee revenue generated above the full costs of the program to be used to support ladder-rank faculty. Upon approval of this delegation, the President will issue a policy for the use of alternative fund sources, including fee revenue from self-supporting professional degree programs, to support ladder-rank faculty salaries.

Currently, in addition to the full-time professional degree programs offered as part of the University's regular curriculum, five campuses offer a total of ten part-time or alternatively scheduled graduate professional degree programs in the evenings and on weekends to accommodate working professionals who are unable to enroll in traditional degree programs. These degree programs include seven programs offering the Master of Business Administration, one program offering the Master in Public Health, one program offering the Master of Science in Engineering, and one program offering the Doctorate in Education. These programs are comparable in quality to the regular academic programs, and they have been approved by the campuses' Academic Senates. The programs that currently are self-supporting receive no State funds for instructional workload. For programs that are implementing a self-supporting phase-in plan, no State funds will be provided when the phase-in is complete. Student enrollments in these programs are not included in campuses' long-range projections of State-budgeted enrollments. Because these programs receive no State support, they are, by definition, driven by local market conditions. As a result, their fees must reflect the costs individual programs incur and the differential demand for each program. Unlike fees paid by students in the University's traditional programs, these fees will differ from one program to another and must be based on more complex market analyses, which may vary from year to year, and perhaps even term to term. As a consequence, the operation of the growing number of these special programs would be greatly facilitated if responsibility for fee approval were delegated to the President.

Upon approval of this delegation, a new process will be instituted in which the chancellors will recommend to the President a fee level for each self-supporting graduate professional degree program offered on their campuses and will provide analyses, projections, and assurances that the fee level plus any other necessary non-State discretionary funds will generate sufficient revenue to cover the full costs of the program.

In response to a question from Regent Montoya, President Atkinson stated that approval of any new self-supporting degree programs would require review by the Academic Senate. Faculty Representative Dorr continued that graduate degree programs are developed by the faculty and approved by the Academic Senate's Graduate Council, the systemwide Coordinating Committee on Graduate Affairs, the Provost and Senior Vice President, and the President. The California Postsecondary Education Commission must concur with the implementation of each new graduate degree program. Until recently, approval of a campus' new graduate degree title rested with The Regents. The Regents has now delegated that authority to the President. The approval for new schools must come to The Regents for approval.

Regent Willmon referred to the following statement in the item: "If approved, this delegation would permit the use of any fee revenue generated above the full costs of the program to be used to support ladder-rank faculty." He asked whether supplemental programs currently generate revenue which exceeds their cost and, if so, how that revenue is being used. He also requested clarification on how ladder-rank faculty salaries would be supported through this income.

President Atkinson assured Regent Willmon that the statement was not correct and should have been deleted from the item. He added that the University's policies are clear with respect to funding for ladder-rank faculty salaries. Faculty who participate in self-supporting degree programs are paid in a way similar to the payment to faculty who consult outside the University.

President Atkinson confirmed for Regent Willmon that at present no degree programs are offered through University Extension.

Regent Lee referred to Attachment B to the item, which lists the self-supporting graduate professional degree programs offered by each campus and their cost. He asked for an explanation of why an M.B.A degree can be obtained at the Davis campus for approximately one-half the cost at other campuses. Vice President Hershman noted that, because the programs are self-supporting, they must fully recover their costs. President Atkinson pointed out that a range of variables influences what these costs are.

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

3. UNIVERSITY OF CALIFORNIA FINANCIAL REPORT

Vice President Broome stated that she would review the University's financial position and operating results for fiscal 1998, which ended on June 30, 1998, focusing on the current operations of the University which are presented in the Statement of Current Funds Revenues, Expenditures and Other Changes. The Current Fund records the primary operating activity as distinguished from other funds, which record either the holding of long-term assets or financing activities.

In 1998 the University recorded total revenues of $12.1 billion. For financial statement presentation purposes, the University is required to include Department of Energy Laboratory revenues and expenditures in its financial statements. Vice President Broome noted that her comments would be focused on the University's current fund activities, excluding the DOE laboratories.

The University recorded $12.1 billion in expenses and fund transfers. Of this amount, $2.7 billion was attributable to the DOE laboratories. Over $6.6 billion was spent for educational and general purposes, almost $2 billion was expended at the medical centers, and over $500 million was attributable to auxiliary services. The University was able to transfer $355.8 million in current funds to finance construction and to transfer funds to the Endowment. The net result was a decrease of approximately $1.3 million in Current Fund equity.

Turning to the change in 1998 current fund activity in relation to 1997, Vice President Broome reported that current operating revenues of $9.4 billion increased by more than $350 million over last year. The largest growth was in funding from the State of California, which increased by $138 million. Revenue from the federal government, which includes appropriations, grants, and contracts, grew by $87 million due to an increase in both award levels and the number of awards granted.

Educational activities and medical center revenues were affected by the formation of UCSF Stanford Health Care, which is a separate non-profit corporation. Because this is now a separate legal entity, revenue related to operating agreements with UCSF Stanford Health Care for the use of University employees, facilities, and technical expertise are not recorded by the University. Additionally, because UCSF Medical Center is no longer included in the University's operating results, medical center revenues were substantially reduced.

Private gifts, grants, and contracts, which include donations, grants, and contracts for research and student aid, grew in excess of $50 million. This growth in private funding reflects increased fundraising efforts by the campuses. This reflects only a portion of the private funding for the University because a major portion of gifts are raised and reported by the University's nine campus foundations.

The growth in student tuition and fees of approximately $50 million is attributable to increases in enrollment and nonresident tuition and to the phasing in of various professional school fees.

During the past year, operating expenditures of $9 billion grew by approximately $390 million. Investment in instruction, which includes academic salaries and other expenditures related directly to instructional programs, increased by over $180 million. The major portion of this growth is attributable to faculty salary adjustments that reflect the University's continued effort to regain a competitive position with other institutions. During fiscal 1998, faculty received 2 percent range and 3 percent parity adjustments, in addition to merit increases. The growth in research spending of over $120 million is related primarily to increased funding from federal sources for research in a variety of academic disciplines, including medicine, engineering, physical sciences, and public health. In addition, funds were contributed by private industry participating in the cooperative research program, which attracts California business investment in research undertaken by University researchers and students. Institutional support expenditures, which include various current expenditures of the University of a general character such as administrative activities throughout the system, increased by about $80 million. This increase primarily represents investments in systems and technology. Staff salaries were also increased.

Medical center expenditures declined about $100 million, which is attributable to the exclusion of the UCSF Medical Center from the University's operations.

Vice President Broome briefly discussed the University's financial position in terms of the strength of the balance sheet and growth in the fund equity. The major change in equity this past year was attributable to the investment markets. The equity in the retirement fund grew by over $6 billion. Endowment Funds grew by $719 million, to nearly $3.9 billion, primarily due to appreciation in the fair value of investments but also to $26 million in private gifts. The University's equity in its Plant investment grew by $635 million this past year to over $11.5 billion. The increase in equity is attributable to growth in capital projects and to equipment purchases and library expenditures. Ms. Broome noted that, after the retirement system, the majority of the University's fund equity is attributable to the physical plant. Loan fund equity increased by $13 million to $310 million. These funds primarily represent loans to students from both federal and University programs.

As indicated previously, the current fund equity decreased by about $1 million this year. This decrease followed a $386 million investment of current funds in the physical plant and also transferred funds to the Endowment. Total equity grew from $50.6 billion to over $58 billion this past year, primarily due to market gains.

Regent Davies asked that copies of Vice President Broome's slides be distributed to the Regents.

[The **University of California Financial Report** was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

4. **REPORT OF NEW LITIGATION**

General Counsel Holst presented his **Report of New Litigation**. By this reference, the report is made a part of the official record of the meeting.

The Committee went into Closed Session at 5:45 p.m.

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The meeting adjourned at 6:00 p.m.

Attest:

Secretary