The Regents of the University of California

COMMITTEE ON FINANCE
September 17, 1998

The Committee on Finance met on the above date at UCSF-Laurel Heights, San Francisco.

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

In attendance: Regents Chandler, Espinoza, Gould, Hotchkis, Kozberg, Montoya, Ochoa, and Preuss, Regent-designate Vining, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, and Yang, Executive Vice Chancellor Grey representing Chancellor Vanderhoef, and Recording Secretary Nietfeld

The meeting convened at 11:25 a.m. with Committee Chair Johnson presiding.

1. **CONSENT AGENDA**

Increase in Cost and External Financing for San Rafael Student Housing Addition, Santa Barbara Campus

The President recommended that the actions approved by The Regents in January 1998 with respect to financing for the San Rafael Housing Addition, Santa Barbara campus, be amended as shown below, with the understanding that all other actions approved in January 1998 in connection with said project remain unchanged:

Deletions shown by strikeout, additions by shading

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A. Funding for the San Rafael Student Housing Addition, Santa Barbara campus, be approved as follows:

External financing	~~$42,000,000~~	43,951,000
University of California Housing System Net Revenue Fund	3,000,000	
Total	~~$45,000,000~~	46,951,000

B. The Treasurer be authorized to obtain external financing not to exceed ~~$42 million~~ $43,951,000 to finance the construction of the San Rafael Student Housing Addition, Santa Barbara campus, subject to the following conditions:

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

(2) As long as the debt is outstanding, University of California Housing System fees for the Santa Barbara campus shall be established at levels sufficient to meet all requirements of the University of California Housing System Indenture and to provide excess net revenues sufficient to pay the debt service and to meet the related requirements of the proposed financing.

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

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Regent-designate Taylor noted that the financial feasibility analysis projects an interest rate of 6.5 percent, when actual interest rates are about 5.1 percent. He asked whether any savings on the interest rate would benefit the students who pay rent to finance the debt service. Senior Vice President Kennedy explained that the Office of the Treasurer provides a pro forma interest rate which is used for financial feasibility analyses. Once the bonds have been sold, the actual interest rate is used to compute the operating costs. He recalled that the University has been refinancing most housing loans to take advantage of lower interest rates.

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

2. **APPROVAL OF REIMBURSEMENT ARRANGEMENT AND EXTERNAL FINANCING FOR THE PREPAYMENT OF SERVICE CONTRACTS FOR CALREN-2 PROJECT, OFFICE OF THE PRESIDENT**

The President recommended that:

A. The President, or his designee, be authorized to execute agreements necessary to provide for pro rata reimbursement to the University by each CalRen-2 project participant for its share of the costs associated with financing the prepayments of the telecommunications service contracts with Pacific Bell and Qwest Communications Corporation entered into by the Office of the President for the CalRen-2 project.

B. The Treasurer be authorized to obtain external financing not to exceed $11,365,000 to fund the prepayment of such service contracts with Pacific Bell and Qwest Communications Corporation for the CalRen-2 project, subject to the following conditions:

(1) Repayment of the debt shall be from such reimbursements and from funds allocated by the President.

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

(3) The Officers of The Regents be authorized to provide certification that interest paid by The Regents is exempt from federal income taxation under existing law.

(4) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

Associate Vice President Lynn recalled that in July 1997 The Regents approved the University's participation as a founding member of the Corporation for Education Network Initiatives in California (CENIC) with other post-secondary educational institutions to implement an advanced telecommunications network for education and research. The University's nine campuses and the Office of the President (UCOP) are participants, along with Stanford University, the University of Southern California, the California Institute of Technology, the Jet Propulsion Laboratory, and the California State University system.

Under the leadership of UCOP, CENIC has designed CalRen-2, a high-speed network connecting all CENIC participants and the Internet. Part of the design involves the provision of telecommunications services from Pacific Bell ($9,205,000) and Qwest ($2,160,000), with funding to be provided through a combination of funds from each participating member and National Science Foundation grants.

Since approval of the project, UCOP has served as the contractor for CENIC's participants in arranging and financing the prepayment for the telecommunications services for the network. The University benefits from the entire set of services, the largest share of which is used to connect UC campuses to the network. UCOP will be reimbursed from a combination of NSF funds granted on behalf of each of the participating universities, and each university will be billed for the balance of its share of expenses pursuant to a Memorandum of Understanding.

The Office of the Treasurer has been working with the Office of the President, the Office of the General Counsel, and external bond counsel to design financing that will take advantage of the prepayment options in the three-year telecommunications service contracts, resulting in savings ranging from 10 percent (Qwest) to 13 percent (Pacific Bell) of the cumulative cost of services. The financing will take the form of a lease to be repaid from reimbursement payments and from funds allocated by the President.

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

3. **APPROVAL OF RESOLUTION TO EXCLUDE ACCESS TO CLASSIFIED INFORMATION FOR A REGENT**

The President recommended that The Regents adopt the following resolution pertaining to the University's respective Department of Defense and Department of Energy Facility Security Clearances, as follows:

> WHEREAS, current Department of Defense and Department of Energy Regulations contain a provision making it mandatory that the Chairman of the Board, Chief Executive Officer, and those other officers and officials who are to have access to classified information meet the personnel clearance requirements established for a contractor's facility clearance; and
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> WHEREAS, said Regulations permit the exclusion from the personnel clearance requirements of certain members of the Board of Regents, provided that this action is recorded in the University Regents' Board Minutes;
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> NOW, THEREFORE, BE IT DECLARED that the Chairman of the Board, at least an official quorum of the Board of Regents, and the Chief Executive Officer at the present time do possess, or will be processed for, the required security clearance; and
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> BE IT RESOLVED that in the future, when any individual enters upon any duties as Chairman of the Board, as a replacement for one of the cleared quorum of the Board, or as the Chief Executive Officer, such individual shall immediately make application for the required security clearance; and
>
> BE IT RESOLVED FURTHER that the following member of the Board of Regents shall not require, shall not have, and shall be effectively excluded from access to all classified information in the possession of the Corporation and does not occupy a position that would enable him to affect adversely Corporate policies or practices in the performance of classified contracts for the Department of Defense, U.S. Department of Energy, or contracts with other Federal User Agencies of the National Industrial Security Program:

NAME	TITLE
Max Espinoza	Regent

It was recalled that the University has security agreements with the U.S. Department of Defense (DOD) and the U.S. Department of Energy (DOE) in connection with research performed by the University involving classified national security information and the University's management of the DOE laboratories. At present, the University holds classified contracts involving research in the national defense. Classified research undertaken by the University is not performed on campus but is carried out off-campus, often at military installations. Weapons design work takes place at the Lawrence Livermore and the Los Alamos National Laboratories.

The University's security agreement with DOD incorporates the National Industrial Security Program Operating Manual (NISPOM). NISPOM, which applies to the DOD, DOE, and other Federal User Agencies, provides that the Chief Executive Officer, the Chairman of the Board of Regents, and at least a quorum of the Board of Regents have security clearances and that all other Regents have clearances unless specifically excluded from access to classified information in the possession of the University. The exclusion provision of the security agreement further requires that the University, by formal action of the Board of Regents, invoke such exclusion procedures designating the names of all Regents not in process for or who are ineligible for DOD/DOE clearances and that this action be made a matter of record in the minutes of the Board.

The Committee was informed that Regent Espinoza is unable to apply for any government security clearances (DOD Secret or DOE "Q"), pending the granting of his U.S. citizenship. Currently, he must be excluded from all matters or deliberations that would affect corporate policies or practices followed in the performance of classified work under contracts for the DOD, the DOE, or other Federal User Agencies under NISPOM. Although he must be excluded from possession of classified matter and from other deliberations, as specified above, Regent Espinoza, along with other non-cleared guests, will be allowed to visit the weapons laboratories in accordance with procedures for uncleared visitors. Therefore, in accordance with NISPOM procedures, the resolution is recommended for adoption by the Board of Regents. The proposed action is consistent with past resolutions.

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

4. **AUTHORIZATION TO INDEMNIFY THE FEDERAL GOVERNMENT IN REGARD TO UNIVERSITY USE OF FEDERAL LAND**

The President recommended that the President and his designees, after consultation with the General Counsel, be authorized to enter into agreements with, and to agree to the terms of land use permits required by the federal Departments of Agriculture and Interior for use by the public of federal land in connection with such use by the University and its employees, students, invitees, and guests, notwithstanding the fact that such permits and agreements may require assumption by the University of liability for the conduct of persons other than University officers, agents, employees, students, invitees, and guests.

The Committee was informed that for many years the University has obtained licenses and permits from the federal government to use federal property for research, teaching, and recreational purposes. The University’s uses included laboratories studying water purity in Lake Tahoe, photography workshops, geology classes, and a variety of other educational and recreational outings. When obtaining federal permits and licenses, the University provided proof of indemnification to the federal government, but at a lessened risk than that required of other federal land users. There is a long history of negotiation with the federal agencies on the subject of liability connected with University use of federal land. During the past few years, various UC programs have been canceled as a result of the inability to resolve this long-standing dispute.

Because the government considers the University's use of federal lands to be essentially the same as use by any private business, the government is now holding the University of California to the same use requirements as other federal land users. Such users are required to provide evidence of liability insurance and to indemnify the government against damage arising in connection with their use. The form of indemnification now required is broader, in the opinion of the General Counsel, than that permitted by the current delegation of authority with respect to liability found in Standing Order 100.4(dd)(9).

The Office of the President believes the benefits to the University from maintaining its programs on federal lands outweigh the additional potential risk that may result from conforming to the federal government's standard liability. As a result, it is recommended that additional authority be granted for the limited purpose of executing United States Forest Service and Park Service agreements and permits.

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

5. **ADOPTION OF FINAL 1998-99 BUDGET FOR CURRENT OPERATIONS AND BUDGET FOR CAPITAL IMPROVEMENTS, AND PRELIMINARY DISCUSSION OF 1999-2000 BUDGET**

A. The President recommended that the 1998-99 Budget for Current Operations, as modified by actions of the Legislature and the Governor, be adopted.

B. The President recommended that the Committee concur with the recommendation of the Committee on Grounds and Buildings that the 1998-99 Budget for Capital Improvements, as modified by actions of the Legislature and the Governor, be adopted.

President Atkinson observed that the University's 1998-99 budget is one of the best in this century. The University will receive an unprecedented 15.6 percent increase in State general funds. In addition, the Legislature and the Governor agreed to place a general obligation bond measure on the November ballot that would provide $2.5 billion over four years for higher education. The President thanked the Governor and the Legislature for their extraordinary support through the budget process. He described the funding levels provided in the budget as an eloquent statement of their commitment to providing Californians with continued access to a quality higher education. He took special note of Speaker Villaraigosa for his efforts, which the Governor supported, to increase the level of bond funding for the University and to provide funding to expand its outreach efforts. Due to the leadership of the Speaker, there was an augmentation of $38.5 million in the University's budget for outreach. President Atkinson recalled that the Outreach Task Force had recommended that the University double its spending on outreach over a five-year period from $60 million to $120 million. With the $38.5 million allocation, the University will be able to spend $130 million on outreach during 1998-99. This level of funding indicates an understanding on the part of the Governor and the Legislature that the University is committed to its outreach programs. The President also acknowledged the Regents who had worked in support of the University's budget.

Turning to the highlights of the budget, President Atkinson reported that the University will continue to be able to accommodate all eligible California high school graduates wishing to enroll. The budget provides funding for 6,000 more students than were funded last year. For the fourth consecutive year, there will be no increase in mandatory systemwide student fees, and fees for California undergraduate residents will be reduced by 5 percent. The University will maintain current levels of financial aid despite the fact that fees will not increase. More students will also be able to get financial aid because the Legislature and the Governor significantly increased funding for the Cal Grant program.

President Atkinson recalled that a key issue for the University had been to restore competitive faculty salaries, which is necessary to recruit and retain the best faculty. With the 1998-99 budget, faculty salaries should be at the mean of the Comparison 8 institutions. In addition, the budget funds a series of research initiatives, in recognition by the Governor and the Legislature that the University's research mission is critical to the well being of the State.

The President then called upon Vice President Hershman to highlight a few major elements of the State budget, discuss the changes to the budget The Regents approved in November, and describe the budget for 1999-2000. Mr. Hershman reported that the 1998-99 State budget is based on the assumption that the California economy will continue to be strong, with general fund revenues projected to grow by about 4.2 percent over the 1997-98 base. The final State budget includes several complicated tax cuts totaling about $1.4 billion, including the first year of a phased reduction in the vehicle license fee in 1998-99.

Mr. Hershman reported that the final budget includes significant increases above the mandated Proposition 98 level for K-12 education and the community colleges, with a funding increase for K-12 in excess of 7 percent. The increase will be about 14 percent for the California State University. Funding for the Student Aid Commission, which supports the Cal Grants program, will increase by almost 20 percent.

Vice President Hershman called the Committee's attention to the table *Summary of the 1998-99 Requested Budget Increase*, which outlines the budget plan approved by the Board in November. It was developed on the basis of the four-year compact with the Governor and on AB 1318 (Ducheny), which provided for a five percent reduction in mandatory systemwide fees for undergraduate California resident students. The budget plan has since been modified based on gubernatorial and legislative actions and needs to be approved as amended.

Turning to the table *1998-99 Budget Increase: State Funds*, Mr, Hershman reported that the final 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. Because a portion of this increase offsets a loss of student fee revenue, real spending from a combination of State funds and fee revenue will rise 11.4 percent in 1998-99.

In addition to the funding initially provided to support enrollment growth of 2,000 more students, the final budget includes $23 million to fund the 3,200 students the University had projected it would over-enroll in 1998-99 and $6 million to support an additional 800 undergraduate students enrolled in engineering and computer sciences. The budget includes $33.5 million to expand outreach programs which, when added to the $5 million of University funds which will be reallocated internally for outreach, brings the total increase in outreach funds to $38.5 million. The budget bill includes a plan to direct the expenditure of these funds in a manner which is largely consistent with the recommendations of the Outreach Task Force. The budget requires that all funds for student-centered and school-centered programs at each campus and in the Central Valley be matched by the schools on a one-to-one basis, at a total of $31 million.

Mr. Hershman reported that the final budget restores funding for the California Subject Matter Projects. The University worked closely with the Governor and the Legislature to reach agreement on the governance structure and the academic content of the projects. As a result, the Governor restored the full $12.2 million for these programs. The budget also contains the following:

- $6.5 million for start-up funding for academic programs and planning for the Merced campus, including $1.5 million in one-time funds for satellite learning centers
- An increase of about $30 million to support high-priority research programs
- An augmentation of $2.5 million to increase enrollment at the School of Veterinary Medicine and to establish a clinical site in Southern California.

The budget provides $70 million in one-time funds for deferred maintenance, instructional technology, instructional equipment, and library materials.

The final State budget includes $211.4 million to support the University's capital outlay program, an increase over the $150 million included in the Governor's January budget. With the increased funding, the University will be able to move more quickly on several critical seismic, life-safety, and modernization projects. The Governor was able to provide a higher level of capital outlay funding because of the agreement with the Legislature to place a $9.2 billion general obligation bond measure for education on the November ballot. The bond measure, Proposition 1A, includes $6.7 billion for K-12 and $2.5 billion for higher education over a four-year period. The $2.5 billion is a higher level of bond authority than proposed as part of the four-year compact and should provide about $210 million a year to support the capital improvement program.

Regent Bagley recalled that in 1960 the State general fund provided 60 percent of the University's operating budget; that figure is now approximately 30 percent. During the budget crisis of the early 1990s, due to the decrease in State support, the Board was forced to double student fees. He pointed out that, even with the budget approved by the Governor and the Legislature for 1998-99, the University still lags far behind the level of support it received in previous decades. Regent Bagley suggested that the University should oppose any tax cuts until a higher level of funding is provided by the State. He pointed out that following federal tax reform in 1986, sales tax was no longer deductible from personal income tax. As a result, any cut in the sales tax results in 100 percent of the cut remaining in the state. On the other hand, 30 to 40 percent of any tax cut that is deductible goes to the federal government. This should be taken account during the coming year's budget negotiations.

Regent-designate Taylor referred to the one-time allocation of $70 million which will be used for deferred maintenance, instructional equipment, instructional technology, and the libraries, and asked how the funds would be internally allocated. Vice President Hershman explained that some of these funds are provided to the campuses based upon enrollment. With respect to deferred maintenance, each campus has provided a list of projects to be funded. When the $20 million is added to the $65 million provided by The Regents through debt financing, the total of $85 million will permit the University to make progress on deferred maintenance. In response to a question from Regent Preuss, Mr. Hershman stated that over $400 million in unfunded deferred maintenance will remain.

Regent Chandler expressed concern about the cuts in funding for Cooperative Extension, noting that as a result Cooperative Extension is losing the ability to disseminate research results to the public. She hoped that efforts would be made in the coming years to restore that funding. Vice President Hershman noted that the augmentation for Cooperative Extension which had been provided by the Legislature had been cut from the budget by the Governor. He added that the 1999-2000 budget will include Cooperative Extension in the University's list of priorities.

President Atkinson continued that agriculture is a high priority for the University. During the 1990s massive budget cuts had a direct impact on Cooperative Extension. He reported that a President's Advisory Commission on Agriculture had been established which will bring leaders from agriculture from around the state to discuss key issues in California agriculture.

Regent Espinoza raised the issue of the matching funds which schools involved with the University's outreach programs will be asked to provide. Vice President Hershman explained that because the budget act requires a one-to-one match, the campuses will need to ensure that the schools do supply matching funds or in-kind contributions to demonstrate their commitment to the program.

Regent Connerly asked whether the final budget provided the University with sufficient flexibility with regard to the funds allocated for outreach programs. Vice President Hershman noted that there are requirements in the budget bill about how the money is to be spent, but the administration feels that these requirements are in keeping with The Regents' priorities. For example, the budget requires that $15 million be spent on student-oriented programs and $15 million be spent on partnerships with local schools.

Regent Connerly pointed out that, by reducing fees in a period of economic prosperity, the University was doing the opposite of what might be expected. He cautioned that the tendency has been to raise fees when the economy is not good, which hurts students and their families. Vice President Hershman recalled that the University has argued before the Legislature that fee increases should be moderate and gradual and that there is the need for a long-term policy to address this issue. He added that student fees will be a key feature of the new compact being negotiated with the Governor, as they have been in the past.

Regent Willmon observed that, during the electoral seasons, California voters are being asked what issues are important to them. Campaigns are learning that the top issue is education. He noted that an important element of access is the financial burden that families must accept in order to send their children to the University of California. While he was in support of raising faculty salaries, he also believed that families bear a disproportionate share of the cost of education compared with even the recent past. He hoped that, in formulating the 1999-2000 budget request, the University would consider whether student fees should place such a burden on families, thereby serving as a barrier to access. Vice President Hershman recalled that AB 1318 required that the University not raise fees during 1998-99 or 1999-2000.

Turning to the 1999-2000 budget, Vice President Hershman explained that it will build on the successful strategies of the last several years. The University has also been working closely with the Governor on a new compact and, in planning for 1999-2000, assumes that an agreement will be reached. The goals of the 1999-2000 budget will include funding to maintain competitive faculty salaries, keep staff salaries at least equal to inflation through a combination of merit increases and cost-of-living adjustments, and support enrollment growth of about 4,000 students. The University will propose several new initiatives, including a multi-year proposal to fund the libraries, as well as several new research initiatives. If the State's fiscal situation permits, the University plans to request that the one-time funding provided in the current year for deferred maintenance, instructional technology, instructional equipment, and library materials be continued in 1999-2000.

As noted above, consistent with the provisions of AB 1318, the University will ask the State to provide funding equivalent to the income that would have been received from a fee increase. With respect to graduate student fees, the University is waiting to see what decision the Governor makes with respect to SB 1896 (Peace), a measure which would provide graduate academic resident students with a 5 percent reduction in mandatory systemwide fees, contingent upon funding being provided in the 1999-2000 budget, and lift the freeze on the Fee for Selected Professional School Students. The bill provides that these students are exempt from the fee reduction. The University strongly supported this bill and is hopeful that the Governor will sign it. If the Governor signs the bill, the University will ask the State to buy out the fee reduction for resident graduate academic students.

Vice President Hershman continued that the capital outlay budget is based on the passage of Proposition 1A in November. Proposition 1A, if approved by the voters, will provide annual capital outlay budgets of about $210 million annually for four years. In 1999 and the next several years the University's capital outlay program will continue to emphasize seismic improvements, as well as new science and engineering buildings to accommodate projected enrollment demand. While the bond issue sets aside $55 million in funding for the Merced campus, more funds will be required to construct Merced campus facilities.

Mr. Hershman noted that there are several significant uncertainties facing the fiscal future and the 1999-2000 budget, including uncertainty about the economy and whether the growth enjoyed by California can be sustained. Proposition 9, which was placed on the ballot through the initiative process, would modify the actions taken by the Legislature last year to restructure the electric utility industry. Proposition 9 would prohibit electric utility companies from recovering certain costs from ratepayers and would provide for an additional 10 percent rate reduction. He emphasized that there are serious legal questions regarding Proposition 9, and the precise fiscal impact will depend upon a court's interpretation regarding the application of the initiative's provisions. Implementation of all the provisions of the initiative could result in a significant negative impact to the State's general fund within the next two budget years.

Vice President Darling discussed Proposition 1A, reporting that preliminary polling data show that voters favor the bond measure. Proposition 1A is the largest bond measure in history, and that fact will be considered by voters. Furthermore, while the economy remains strong, stock market volatility and international uncertainties could affect voter sentiment between now and November. Mr. Darling noted that the ballot arguments in favor of Proposition 1A were signed by the California Taxpayers Association, the California Teachers Association, the Congress of California Seniors, the California Professional Firefighters, and the California Chamber of Commerce. The ballot arguments against Proposition 1A were signed by Assemblyman Tom McClintock, the National Tax Limitation Committee, Ted Costa of People's Advocate, a group calling itself the California Republican Assembly, and Senator Ray Haynes.

Vice President Darling reported that University employees may not use University time or resources to advocate in favor or against a bond measure. The Office of the President is working closely with the Office of the General Counsel to ensure that University employees fully and completely follow the law in this regard. A separate organization, Californians for Higher Education (CHE), is spearheading the efforts to pass Proposition 1A. Mr. Darling added that he and Chancellor Orbach represent the University on the CHE board, which includes representatives from the California State University and the community colleges. Recently CHE, together with representatives from the K-12 education community and the business community, selected two firms to conduct the campaign on behalf of Proposition 1A.

Information about Proposition 1A, legal guidelines for participation in ballot campaigns, and the arguments that will appear in the November supplemental ballot pamphlet have been distributed to each campus. The Office of the President is working with the campuses to prepare informational materials on projects that will be funded if the bond passes, and alumni, donors, parents, friends, and other members of the campus community are being informed about the importance of the bond measure. The administration is enthusiastic about the impact the bond measure will have and is fully aware of how crucial its passage is to the University. CHE, the campuses, and the Office of the President are working hard to ensure its passage in November.

Vice President Hershman concluded the presentation by noting that the 1999-2000 budget will be presented to the Board at the October meeting, with the intention that an expenditure plan be approved in November. No action on student fees will be taken until the Governor's budget is released in January.

In response to a question from Regent Connerly, Vice President Darling explained that University employees are not permitted to advocate the passage of a ballot measure. They may provide a balanced perspective by stating what the benefits would be as well as stating the opposing view. The University is allowed to participate in an educational campaign which is being conducted by the campuses and the Office of the President to disseminate information to their various constituencies. In response to a further question from Regent Connerly, Mr. Darling reported that this University campaign has a small budget, with the majority of activities taking place through Californians for Higher Education. Regent Connerly suggested that the University might wish to consider a higher level of funding for the University's efforts on behalf of Proposition 1A. Mr. Darling reported that higher education will have contributed more than $1 million toward the campaign, while K-12 would contribute significantly more.

General Counsel Holst commented on Regent Connerly's suggestion that the University become a major participant in an educational campaign, noting that the limitations that are imposed on the University derive from State law which prevents public agencies from participating as an advocate of ballot measures, including bond issues. The University has established a set of guidelines which permit it to engage in informational efforts to acquaint the voters with matters related to bond issues. Vice President Darling added that the guidelines also provide that the University is not able to introduce new means of communication that are not a part of the standard means of communication with its constituencies. Furthermore, the University is not permitted to reach out to groups with whom the campuses would not ordinarily communicate in the course of their educational activities. The University is doing everything possible, within these constraints, to educate its constituencies about Proposition 1A.

In response to a comment by Regent Johnson regarding further contributions to CHE by the Office of the President, Vice President Darling explained that the University may allocate only funds from campus foundations which are the earnings on unrestricted gift funds. The University must also weigh the value of these dollars for educational purposes against the importance of the bond issue. The chair of CHE, who has extensive experience running campaigns for K-12, is comfortable with the amount of funding being provided by the University.

Regent Gould observed the importance of making the public aware of what the University will be able to accomplish with its 1998-99 budget, which will also set the context for the ballot measure and for the new Governor and legislature. He requested that copies of editorials pertaining to Proposition 1A be circulated to the Regents. At the suggestion of Chairman Davies, it was agreed that a sample of such editorials would be included in the weekly Clipping Packet. Vice President Darling noted that, because UC Merced would be a recipient of funds from the bond issue, the City of Merced had contributed to Californians for Higher Education.

Regent Ochoa believed that individual Regents could play a greater role in promoting the bond measure. Vice President Darling stated his intention to seek Regents' participation in the campaign.

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

6. LEGISLATIVE REQUESTS RELATED TO LONG RANGE PLANNING

Regent Davies noted for the record that, due to a conflict of interest, he would not participate in the discussion of this item.

Vice President Hershman reported that, as part of the final actions on the 1998-99 State budget, the Legislature approved supplemental language asking the University to conduct a feasibility study to assess the ability of the University to accommodate projected enrollment on existing campuses and the Merced campus beyond 2010. If enrollment demand is likely to be greater than the capacity predicted by the campuses' long range development plans, it is the Legislature's intent that the University evaluate options for accommodating future enrollment. The options the Legislature has asked the University to evaluate include, but are not limited to, development of a new campus, development of off-campus centers, and increasing the LRDP targets of one or more existing campuses.

The Legislature also approved SCR 92 (Peace), which endorses a site of approximately 1,100 acres in Chula Vista as a location for a possible future University of California campus. The resolution states that the timely acceptance of an offer to donate the proposed Chula Vista site for possible use as a future UC campus is necessary to preclude urbanization of the site. The resolution, which states legislative intent that the normal process of review by the California Postsecondary Education Commission be employed, asks the University to decide within thirty years after receiving the land whether to locate a University of California campus on the site.

The University will explore various options as requested by the Legislature and present the analysis, along with an updated enrollment plan considering new Department of Finance estimates, to The Regents by February 1999.

President Atkinson stressed the importance of performing enrollment studies beyond the year 2020, noting that the University had performed many studies which have tended to focus on the years prior to 2010. The legislation provides an opportunity for the University to re-examine a number of important issues.

Regent Khachigian stated her opposition to the University's receiving land in Chula Vista for a future campus because she did not believe that the University should be in the position of accepting land predicated upon building a future campus there. She recalled the enormous time that was spent in selecting Merced as the site for the tenth campus. Regent Johnson agreed that it would be unwise for the University to be put in a reactive position.

In response to a question from Regent Chandler, Vice President Hershman stated that the bill would not preclude the University from looking at other future campus sites. The University will proceed as the bill asks by looking at future enrollment projections and how increased enrollment may be accommodated on existing campuses.

7. **Y2K UPDATE**

Vice President Kennedy recalled that at the July meeting Regent Sayles had requested an update on the year 2000 problem, and he called upon Associate Vice President Lynn for the report. Mr. Lynn observed that the most well-known problem associated with the arrival of the next century is the fact that computers were designed to read only the last two digits of a four-digit year. The University recognizes the seriousness of the problem and is taking steps to address it on a campus-by-campus basis. The scope of the problem is very broad, affecting administrative systems, medical centers, building control systems, and communications systems. In addition, many instruments have date dependencies, raising concerns about problems with medical instruments as well as air conditioning in critical facilities such as the medical centers.

Associate Vice President Lynn explained that the administration has focused on mission-critical applications, while providing educational support and announcements to the campuses so that less-critical needs can be addressed at the local level. There are three basic approaches to the year 2000 problem: replace existing systems, modify existing systems, and rely upon vendor certification of year 2000 compliance. Mr. Lynn reported that the last approach was not proving to be fruitful because many law firms are advising their clients to not be too specific about certification due to concerns about future liability problems. In addition, many computer companies would prefer to sell new systems rather than to certify existing ones.

Mr. Lynn recalled that previously he had reported that 23 percent of critical administrative systems had been tested as year 2000 compliant. While that figure is now 30 percent, this is not quite as far along as had been expected. More progress has been made than this figure would imply, however, as many more systems have been modified or replaced but not yet tested. Testing is being delayed pending release of underlying vendor products that have not been delivered on schedule. The administration expects to adhere to the rest of the planned schedule for the remaining 220 systems.

Associate Vice President Lynn reported that the medical centers intend to have their systems upgraded or replaced by summer 1999. A well-publicized problem having to do with medical instruments has proven to be less serious than previously anticipated, with the major problem found in time-stamping instruments. The incremental cost to the medical centers, including the cost of replacement instruments, will total $15 million to $20 million.

With respect to building control systems, Mr. Lynn observed that this problem has also been exaggerated; University personnel have found very few problems in University facilities. He assured the Regents that elevators would not crash on January 1, 2000.

Associate Vice President Lynn concluded his remarks by noting that testing with outside suppliers such as banks remains to be done. The University is developing contingency plans even though no serious problems are anticipated.

Regent Ochoa asked whether UC alumni in the computer industry might be able to assist in addressing the YK2 problem. Mr. Lynn agreed that such assistance would be of help.

In response to a question from Regent Hotchkis, Mr. Lynn stated that the University is performing dress rehearsals for January 1, 2000.

8. **REPORT ON ANNUAL ADJUSTMENT TO THE SALARY APPROVAL THRESHOLD AND THE SENIOR MANAGEMENT SALARY GRADE RANGE SCHEDULE, AS REQUIRED BY THE REGENTS**

The President reported that the annual salary rate requiring Regental approval will increase from $156,100 to $160,000, in accordance with the California Consumer Price Index, effective October 1, 1998. An adjustment of 2.5 percent will be applied to range structures applicable to senior management positions, effective October 1, 1998. This adjustment of the salary range structures will not affect individual salary increases for incumbents, which are based strictly on performance.

Section 12.3(m)(3) of the Bylaws and Section 101.2(a)(2) of the Standing Orders of The Regents permit approval of compensation levels by the President to a maximum figure established annually relative to increases in the Consumer Price Index. The President is responsible for reporting the percentage of increase to the Board annually.

9. **REPORT OF NEW LITIGATION**

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

The meeting adjourned at 1:00 p.m.

Attest:

Secretary