

The Regents of the University of California

**COMMITTEE ON FINANCE
COMMITTEE ON GROUNDS AND BUILDINGS**

October 14, 1999

The Committees on Finance and Grounds and Buildings met jointly on the above date at UCSF - Laurel Heights, San Francisco.

Members present: Representing the Committee on Finance: Regents Atkinson, Bagley, Davies, Hopkinson, S. Johnson, Montoya, Pannor, and Preuss

Representing the Committee on Grounds and Buildings: Regents Atkinson, Davies, Hopkinson, O. Johnson, S. Johnson, and Pannor; Advisory member Kohn

In attendance: Regents Lansing, Sayles, and Taylor, Faculty Representatives Coleman and Cowan, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice President Kennedy, Vice Presidents Darling and Hershman, Chancellors Berdahl, Bishop, Carnesale, Greenwood, Orbach, Tomlinson–Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 2:28 p.m. with Committee on Finance Chair S. Johnson presiding.

**UNIVERSITY OF CALIFORNIA 2000-2001 BUDGET FOR CURRENT OPERATIONS
and UNIVERSITY OF CALIFORNIA 2000-2001 BUDGET FOR CAPITAL
IMPROVEMENTS**

President Atkinson introduced Mr. Eli Ilano, Chairman of the UC Student Association, who commented that he had spent the last few weeks learning about the funding compact with the Governor and the implications of the budget proposals for students. He believed that, rather than accepting budget constraints and trying to do the best within them, the administration should present to the Governor and Legislature a budget that represents everything the University needs in order to provide the best education for its students. He suggested expanding academic programs to replace those that have been cut, in addition to expanding to meet enrollment pressures. Student services also need to be geared to meet the need for improved retention programs, child care, and campus safety. He advocated reversing the trend of depending on student fee money to pay for instruction and discretionary budgetary items and returning to the guiding principles contained in the California Master Plan for Higher Education.

Vice President Hershman noted that the 2000-2001 budget document had been mailed to all Regents in advance of the meeting. By agreement with the Department of Finance, the University's budget was prepared within the framework of what is believed will be a multi-year partnership agreement with the Governor. Those negotiations are ongoing. Also in the budget are some priorities above core funding levels, as determined by the President. Regental

approval of the expenditure plan will be sought at the November meeting, and at the January meeting the plan will be reevaluated following announcement of the Governor's budget.

Mr. Hershman discussed details of the budget proposal. He noted that overall a 6.7 percent increase is being requested from the State. There is a 7.7 percent increase in education, registration and professional school fees, and there is a small increase for the teaching hospitals. There is uncertainty about the future of federal funding levels, which are projected to increase by 3 percent in 2000. The \$5.3 billion in federal funds that support the University are for the DOE laboratories, research, student financial loans and gifts, and the hospitals, through Medicare and Medicaid. There have been dramatic increases in federal research money over time, but besides federal funds, 17 percent of the research support comes from the State, and 29 percent comes from other sources. The faculty's effort on research is paid for through the instructional budget, which includes other State money specifically directed to research.

Mr. Hershman reported that State, federal, and private money will be needed in order to handle the projected enrollment growth. University administrators are lobbying hard to get more money for research, student financial aid, and hospital funding, but the necessity to increase private giving will continue.

Mr. Hershman recalled that the University received good budgets during the 1980s and less generous ones during the 1990s. In the past two years there has been a 24 percent increase in State support, but the University has been left \$900 million short of full workload funding. Only minor progress has been made in restoring those losses. There is an initiative in the partnership with the Governor to get funding for the core areas of maintenance, instructional technology, equipment, and libraries, but progress has been slow. Faculty salaries have caught up to the University's comparison institutions, and staff salaries have kept up with inflation only. There have been no student fee increases since 1994, and students are paying less toward the cost of their instruction, but the fees that students have paid have had to be used to help support the University's budget.

Mr. Hershman pointed out that the University will need a 7 percent increase per year for the foreseeable future just to maintain its current status. That level of increase would provide for cost increases and enrollment growth. Most economists predict a 5.5-to-6 percent increase in State revenue per year.

Regent Bagley suggested that when the State has budget surpluses, the money should be invested in capital outlay and infrastructure. He believed that the Governor should not cut federally deductible taxes but instead should put that money aside for capital outlay.

Mr. Hershman noted that one of the greatest challenges the University faces is how to support the expected increase in enrollments over time. One suggestion is that the Governor and Legislature provide funding for a summer schedule equivalent to the rest of the year if a decision is made to expand summer enrollment. Regent S. Johnson noted that a full summer schedule would require hiring more faculty. Faculty Representative Coleman stated that faculty would have different calendars. There would be a redistribution from the current program of teaching

nine months and using the remaining three for scholarship. He believed an increase in faculty of 25 percent would be necessary. More financial aid would have to be available also.

Committee Chair Johnson, recalling the current \$900 million shortfall, hoped the Governor would make permanent the proposed increase of 1 percent each year in State support to deal with regular building maintenance, libraries, and instructional technology and equipment. Mr. Hershman reported that discussions on the subject have been positive.

Regent Hopkinson asked where the compact with the Governor appears in the University's proposed budget. She expressed concern that there is no set schedule for approval of the compact or partnership by The Regents. Mr. Hershman explained that the partnership was described in documents distributed and discussed at length at the previous meeting. President Atkinson noted that the compact, now termed partnership, has been discussed extensively with the Regents over the past four years. Each year, modifications have been made in consultation with the Governor and have been reported to the Board. There is no single moment when the Regents sign off on them. The budget is developed on the basis of having a partnership, which provides a certain resource level but does not dictate how the money is spent. He believed that the Regents have, in effect, signed off on the partnership as each budget has gone forward. Committee Chair Johnson noted that the budget is still flexible at this stage and that Regents are free to suggest changes. Regent Hopkinson believed that although the partnership may not dictate line items, it dictates a commitment which implies goals and priorities. President Atkinson noted that The Regents signs off on the budget at the November meeting. All discussions that have taken place during the year have been focused on that budget, within the framework of the partnership that is a carry over from discussions year by year. Regent Hopkinson requested that at a future meeting the Regents discuss the timing process of the budget as it relates to the partnership. She maintained that the Regents should discuss formally as a group what they are charging the staff to negotiate on behalf of University. Committee Chair Johnson believed that the lengthy discussions that occur during the year provide sufficient time for the Regents to indicate their budget priorities. The budget cycle, with its sequence of opportunities for the Regents to provide their input, has been revealed many times in detail by the administration. She noted that she has voiced her desire to place more emphasis on deferred maintenance issues every year and has seen the issue receive stronger attention in the budget as a result. President Atkinson suggested that if Regent Hopkinson would like to suggest changes in the budget process she should make her specific wishes known to him and Vice President Hershman. He believed that the process has been developed with the full support of the Regents. Mr. Hershman suggested meeting with Regent Hopkinson to explain the ways in which the various fund sources are used.

Mr. Hershman noted that the budget proposal encompasses State general funds, University general funds, and student fees. Through the partnership, in the current proposal, the State would provide a 4 percent increase to the base, or \$104 million. In addition, it would provide 1 percent for core funding for items such as maintenance, technology, equipment, and libraries, and would fund enrollment growth at an agreed-upon marginal rate. In addition, either the State or students would provide the equivalent of a 4.5 percent increase in student fees to fund the cost increases of student-fee-funded programs. There is no guarantee the State will follow its

practice of buying out those increases. The budget also includes an increase in University general fund income for nonresident tuition.

Regent Pannor asked whether funds to strengthen the quality of undergraduate education will be used to extend student services. Mr. Hershman explained that these are related mainly to the academic program, in particular to improving the student-faculty ratio.

Mr. Hershman noted that on the expenditure side there is a provision to fund salary increases. A 2 percent general cost-of-living increase is suggested for faculty and staff. This will leave faculty salaries short of those needed to match UC's comparison institutions, and Regents' policy has been to provide faculty salaries equivalent to comparison institutions. Therefore, the suggested package for faculty is a merit pool of over 1.5 percent, plus 2 percent for COLA and a 1 percent parity allocation.

Mr. Hershman reported that the highest funding priority in the budget is enrollment, which is expected to increase by 6,000 students in 2000-2001. The State provides \$8,600 per student, a long-standing negotiated amount adjusted for changes in cost. It is hoped that the current student-faculty ratio can be improved to 18:1 with the funds in the budget and that, as more faculty are hired, there can be general improvements in the quality of undergraduate education. Returning to the level of quality the University enjoyed before massive budget cuts will likely take eight years. In answer to a question from Regent Taylor, Mr. Hershman indicated that the chancellors will report to the Regents how they spent their budget allocations to further this goal. Regent Pannor expressed her concern that the money would not go to increase student services. President Atkinson pointed out that reducing the student-faculty ratio should have positive effects on students generally. Mr. Hershman suggested working with Regent Pannor and UC student associations to develop proposals that target selected areas of particular importance to students.

Mr. Hershman discussed the budget for maintenance of new space and deferred and general maintenance. He recalled that for the past few years, the budget has paid special attention to deferred maintenance by using debt financing and nonresident tuition income to pay off the long-standing debt for this item. It will take several more years to solve the problem by this method. Regent Vining noted that an anticipated one-time surplus next year could make it possible to reduce the size of any new bond issue. Mr. Hershman believed that there will need to be a new bond issue of \$60 million each year for the next few years in order to pay off the current debt. It is hoped that improved funding levels will make it possible to keep the University's newer buildings in better shape and avoid accumulating such a large maintenance backlog.

Mr. Hershman reported that, although progress has been made in upgrading instructional technology, about \$30 million more is needed to bring it up to a good standard. He noted that another few years of special funding will be necessary to bring libraries up to a high standard, also. He pointed out that, although there were large student fee increases during the 1990s, fees have been reduced during the past few years. The fees for undergraduates are lower than those of the public institutions the University uses for comparison purposes. President Atkinson noted that a large portion of those fees goes to scholarships and student support. The money is no

longer being used, as it was in the 1970s, to support the operations of the institution but rather is being diverted to student aid. President Atkinson indicated that he would mail to all Regents a history of student aid levels over the years.

Mr. Hershman reported that nonresident tuition, which has increased by 3 percent in the last six years, compares to what other public institutions charge. A new multi-year plan is being developed that will increase fees for professional school students in line with the University's comparison institutions.

Mr. Hershman reported that the University's proposed outreach budget is \$178 million. It includes a proposal to develop an off-campus center in Santa Clara associated with UC Santa Cruz.

Mr. Hershman discussed some initiatives that the University is suggesting over and above the partnership with the Governor. The possibility is being analyzed of whether the State could add permanent core funding to support these. One of the initiatives is to commit a substantial amount of funding to support graduate student research.

Committee Chair Johnson noted that the budget does not include any new monies for agricultural research, which she considered critical to the state. She recalled that in the past there was a \$2.5 million augmentation in this category. Mr. Hershman observed that there is a funding request that will allow additional employees to be hired by Cooperative Extension. President Atkinson explained that the base budget for agricultural research continues to receive a standard increase from the State with the goal of restoring funds cut during the early 1990s. Regent Johnson stressed the importance of continuing to apply research findings for the benefit of the state's inhabitants. She stated her preference for putting forth new initiatives in environmental science. President Atkinson pointed out that there is an environmental science initiative that relates to agricultural issues. There are also initiatives to develop an algebra institute and to improve reading in kindergarten and grade school. Regent Johnson believed that the University should spend less money on social issues and more on issues that fit within its core mission as a land grant institution, such as the support of agricultural development in the state.

Mr. Hershman noted that the University's \$210 million for capital outlay is far short of the \$500 million needed to fund enrollment growth, seismic upgrades, and life safety measures. It is hoped that the Governor and Legislature will agree with the need for a larger bond issue on the next ballot. The campuses have developed priority lists using the limited funds currently at their disposal.

Mr. Hershman reported that funds are being requested for a five-year development program for UC Merced to support site development, infrastructure, and planning for the first two campus buildings. A Long Range Development Plan and an Environmental Impact Report must be prepared before the Department of Finance will release money appropriated to the University. The University is making its budget request with the understanding that the detailed justification and project plans will be completed soon.

Regent Hopkinson asked whether it will be possible to accommodate enrollment for UC Merced beyond the initial 5,000 students. Chancellor Tomlinson-Keasey explained that enrollment growth at the tenth campus will make its steepest climb between 2005 and 2010. President Atkinson reported that he has put in place a team to try to develop a special arrangement with the Governor that would speed up the approval process for the Merced campus. Chairman Davies commented that the Governor has indicated recently that UC Merced is his highest priority in higher education. Mr. Hershman believed that it will be necessary to issue another bond to supplement the \$55 million allocated thus far for infrastructure and planning. He urged the Regents to work to convince the Governor and the Legislature of the importance of this funding.

[For speakers' comments, refer to the minutes of the October 14 afternoon meeting of the Committee of the Whole.]

The meeting adjourned at 4:15 p.m.

Attest:

Secretary