The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
COMMITTEE ON FINANCE
August 30, 2001

A Special Meeting of the Committee on Grounds and Buildings and the Committee on Finance was held by teleconference on the above date at the following locations: 1111 Franklin Street, Room 12322, Oakland; 1130 K Street, Suite 340, Sacramento; 501 West Broadway, Suite 900, San Diego; 2121 Murphy Hall, Los Angeles campus; 5123 Cheadle Hall, Santa Barbara campus; 4148 Hinderaker Hall, Riverside campus; 135 N. Grand Avenue, Los Angeles; 777 California Avenue, Palo Alto; 509 West Weber Avenue, 5th Floor, Stockton; and 5757 W. Century Blvd., Suite 604, Los Angeles.

Members present: ***Representing the Committee on Grounds and Buildings***: Regents Atkinson, Connerly, T. Davis, Hopkinson, O. Johnson, S. Johnson, Kozberg, Morrison, and Seymour

Representing the Committee on Finance: Regents Atkinson, Connerly, Hopkinson, S. Johnson, Kozberg, Montoya, Moores, Morrison, and Preuss

In attendance: Regents Davies, Marcus, and Sayles, Regent-designate Terrazas, Faculty Representative Viswanathan, Secretary Trivette, General Counsel Holst, Senior Vice Presidents Darling and Mullinix, Vice President Hershman, and Recording Secretary Nietfeld

The meeting convened at 9:10 a.m. with Committee on Finance Chair Preuss presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice had been given in compliance with the Bylaws and Standing Orders for a Special Meeting of the Committee on Grounds and Buildings and the Committee on Finance,, for this date and time, for the purpose of adopting the final 2001-02 Budget for Current Operations and the Budget for Capital Improvements.

2. **ADOPTION OF FINAL 2001-02 BUDGET FOR CURRENT OPERATIONS AND THE BUDGET FOR CAPITAL IMPROVEMENTS**

The President recommended that:

A. The Committee on Finance recommend that the **2001-02 Budget for Current Operations**, as modified by actions of the legislature and the Governor, be adopted.

B. Subject to the concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the funding proposed for the **2001-02 Budget for Capital Improvements**, as modified by actions of the legislature and the Governor, be adopted. For those projects not previously approved by the Board, approval by The Regents will be sought as projects are developed, consistent with Regental policy.

C. The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings that the funding proposed for the 2001-02 Budget for Capital Improvements, as modified by actions of the legislature and the Governor, be adopted. For those projects not previously approved by the Board, approval by The Regents will be sought as projects are developed, consistent with Regental policy.

President Atkinson noted that the purpose of the Special Meeting was to take final action on the 2001-02 budget, which had not been adopted by the legislature at the time of The Regents' meeting in July.

Vice President Hershman reported that he, along with President Atkinson, Senior Vice President Darling, and Assistant Vice President Arditti, had been in talks with the Governor and members of the legislature about next year's funding as well as the proposed bond issue. He recalled that at the July meeting he had anticipated that the Governor would act in response to the State's economic situation by making cuts to the State budget. The Governor subsequently vetoed over $5 million of the budget that was passed by the legislature. Mr. Hershman noted that education had been a top priority for the Governor and the legislature, with education budgets growing by five to six percent. The State made significant cuts to the transportation budget. There will be a constitutional amendment put before the voters concerning a gasoline tax. The State has budgeted no money for salary increases for its employees, subject to collective bargaining.

Mr. Hershman discussed future implications arising from the 2001-02 budget. In spite of the cuts, the State was forced to reduce its reserve from $6.3 billion to $2.6 billion in order to achieve the budgeted spending levels. In the current year, spending is exceeding revenue by $3.7 billion, a trend which cannot continue. The University has received the message from the Governor, the legislature, and the Department of Finance that next year's budget may not meet basic needs. This message must be considered within the context of issues such as program development, student fees, and enrollment growth. Revenue from capital gains and stock options are predicted to continue to decline, at least into the near future.

2001-02 Operating Budget

Vice President Hershman recalled that The Regents had approved an expenditure plan at the November 2000 meeting as described in the 2001-02 Budget for Current Operations. The expenditure plan was built upon the successful strategies of the last six years and reflected projected income and expenditure levels in both State and non-State funded programs. The only changes proposed at this time are those related to State funds as a result of actions taken by the Governor and the legislature on the budget.

The expenditure plan for State-funded programs approved last November was developed on the basis of the four-year Partnership Agreement with the Governor. The funding principles embodied in the Partnership Agreement represent the minimum needed to maintain quality while accommodating enrollment growth over this decade.

Although the Governor's Budget released in January proposed full funding for the University's expenditure plan under the Partnership, the deteriorating fiscal situation in the state resulted in proposed changes to the Partnership funding in the Governor's May Revision to the State budget that were ultimately adopted in the final Budget Act. Vice President Hershman referred to Attachment 1, which compares the Regents' expenditure plan as approved last November and proposed in the January Governor's Budget with the Partnership funding changes proposed in the May Revision and approved by the legislature. The changes in Partnership funding contained in the final budget act are the same as those discussed at the July Regents' meeting.

As displayed in Attachment 1, The Regents approved a four percent increase in the University's basic budget to fund compensation, benefit, and other increases, including continuation costs for 2000-01 salary increases, merit salary increases for faculty and staff, a two percent cost-of-living adjustment for faculty and staff, a one percent parity adjustment to keep average faculty salaries competitive with those at the comparison institutions, and $10 million for parity adjustments for staff. The budget request also included funding for 5,700 new FTE students based on the marginal cost of instruction, funding to avoid student fee increases, and an additional one percent to fund the core needs of maintenance, instructional technology, instructional equipment, and libraries.

The Governor's May Revision proposed significant changes to the January budget, including a reduction of $90 million from the funding provided under the Partnership. This reduction decreased by half, or $60 million, the funding provided under the Partnership for the basic budget, thereby significantly reducing the funding available for compensation and other fixed costs, and eliminated the additional one percent originally proposed for core needs.

Mr. Hershman noted that column two of Attachment 1 shows the proposed revised expenditure plan under the Partnership necessitated by the Governor's May Revision and the final Budget Act. Funds available under the Partnership were first distributed among fixed and/or unavoidable costs, including continuation costs related to 2000-01 salary increases, merit salary increases for faculty and staff, salary increases for teaching assistants and clerical staff consistent with collective bargaining agreements, a 9 percent increase in health benefits for faculty and staff, and funding for maintenance of new space that comes on line during the budget year. The remaining Partnership funds are sufficient to allow for an average 0.37 percent cost-of-living adjustment for faculty and staff (excluding teaching assistants and clerical staff who are being treated separately) and a 2 percent price increase for nonsalary budgets. This will require eliminating the $8 million originally proposed for strengthening undergraduate education to add to the pool of funds available for compensation increases and reducing the funding available for debt financing for deferred maintenance projects from $6 million to $4 million. The $4 million remaining for this purpose will allow financing of about $40 to $45 million of deferred maintenance projects. This proposal was approved at the July meeting.

Vice President Hershman drew the Regents' particular attention to the fact that the budget will not provide adequate salary increases for the faculty and staff, which will lead to the University's lagging its comparison institutions with respect to the faculty.

Funding was retained in the budget for State-funded summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses and for cost increases to student fee-funded programs. Enrollment growth was also fully funded, including an additional $12.8 million proposed in the May Revision to accommodate an additional 1,400 FTE projected over the 5,700 originally proposed by The Regents.

In addition to Partnership funding, the Governor proposed both permanent and one-time funds for other initiatives above the Partnership. Attachment 2 summarizes the increases to the 2001-02 budget. In addition to the funding provided under the Partnership, the legislature approved the following proposals initiated by the Governor:

- Permanent and one-time funding for energy costs. The Governor's May Revision included $100.6 million for energy costs: $55.9 million in the current year based on actual costs and $44.7 million in ongoing funding for the budget year and beyond based on a projection of actual costs in 2001-02 discounted by 20 percent to assume savings related to conservation and efficiencies. However, the legislature approved only $75.6 million.

- $2 million to expand the research program of the Center for the Medical Investigation of Neurodevelopmental Disorders (MIND Institute) on the Davis campus;

- A $5 million reduction in the funding for the California Professional Development Institutes, bringing funding for program costs into alignment with funding for teacher stipends

Mr. Hershman commented on one-time funding initiatives, as shown in Attachment 2. They include $14 million for development of campus Internet2 infrastructure. There was a shift of $3 million from the operating budget of the MIND Institute to be used for planning a new facility for the Institute. This shift is reflected in the capital budget (Attachment 3).

As part of his final actions on the budget, the Governor vetoed nearly $3 million from the University's base budget, including the following:

- $2 million from outreach. This veto is in addition to an action taken by the legislature and included in the final budget to redirect $5 million of funds from longer-term school-University partnership outreach programs to build up funding for shorter-term outreach programs. The budget act specifies the programs that are to receive redirected funds. However, in his veto message, the Governor makes clear his decision that the University have discretion in distributing this reduction among outreach programs. The intention is to achieve the $2 million reduction by providing less of an increase to those programs slated to receive redirected funds. Consequently, funding will be increased by $3 million instead of $5 million for MESA, the Early Academic Outreach Program, Puente, and other recruitment and admission activities at the campuses.

  There is concern that funding will not be adequate to increase community college transfers through the dual admissions program. The University was not encouraged by the State to expect any more funding during this budget year. Efforts will continue to be made to obtain funding for this program.

- $500,000 from the Multi-Campus Research Unit for Labor Studies. This program had received a $6 million increase in the 2000-01 budget to expand labor issues research. This veto still leaves the program with $5.5 million for this purpose.

- $310,000 from the substance abuse research program at the San Francisco campus. The program retains $24 million for research.

In addition to the Governor's initiatives, the final Budget Act contains funding for legislatively-initiated augmentations that were sustained by the Governor:

- $3 million in one-time funds for marijuana research, continuing the funding provided in the current year.

- $5 million to increase clinical teaching support for teaching hospitals and clinics, in recognition of the serious financial situation of the teaching hospitals, neuropsychiatric institutes, and dental clinics.

- $1 million for spinal cord injury research, adding to the $1 million provided for this purpose in the current year.

- $318,000 for other research programs, including $100,000 for the UCSF Center for Lesbian Health Research, $118,000 for an agricultural extension center in Monterey County; and $100,000 for the UCLA Advanced Policy Institute.

The final budget provides the University with an increase of $162.7 million in State General Funds. With this increase, the University's 2001-02 State General Fund operating budget totals $3.357.5 billion, a 5.1 percent increase over 2000-01.

2001-02 Capital Improvement Program

The final State budget includes general obligation bond funding of $206.9 million for capital projects approved by The Regents in November 2000. In addition, the budget provides $99.9 million in State General Funds and $224.6 million in lease revenue bond funds, for a total of $531.4 million. Attachment 3 displays the University's 2001-02 capital budget by fund source.

The total includes $95 million in General Funds for the four California Institutes for Science and Innovation. The State fully funded the second $75 million increment for the first three institutes. The Governor added the fourth institute in his January budget proposal at $33 million for the first year, but this funding was reduced in the final budget act as part of a larger agreement between the Governor and the legislature to build up the State's reserve. Under legislation accompanying the budget, the fourth institute will receive $20 million per year for the first two years and $30 million per year for the next two years.

Lease revenue bond funds are used for three projects at UC Merced and for three new projects added to the capital program by the Governor in his January proposal. As part of the agreement between the Governor and the legislature, lease revenue bonds replace General Funds that had originally been planned in the Governor's January budget. Construction of the initial site development and infrastructure for the Merced campus and its first two buildings is funded though $158.6 million in lease revenue bonds. As originally proposed in January, State General Funds of $1.9 million will be used to support design of the third Merced building.

The three new capital projects added by the Governor in his January budget request include the Davis campus Center for the MIND Institute ($3 million of General Funds for construction and $30 million of lease revenue bonds for construction and equipment); the Riverside campus Heckmann Center for Entrepreneurial Management ($10 million in lease revenue bonds for design, construction, and equipment); and the San Francisco-Fresno Medical Center ($26 million in lease revenue bonds to complete design and for construction and equipment). Project documentation was prepared by the campuses and submitted to the State in support of those projects and revised during review in accordance with agreements concerning scope and budget reached with the Department of Finance and the legislature.

The projects proposed for general obligation bond funding, the Merced campus, and the first three science institutes represent no change from the University's capital funding request approved by The Regents in November 2000 as the 2001-02 Regents' Budget for Capital Improvements.

The Regents are asked at this time to approve the level of funding authorized by the State for the fourth institute; final project proposals are being developed and will be brought before the Board when ready. Approval is also requested for the shift in fund source from General Funds to lease revenue bonds for the Merced projects and for inclusion in the 2001-02 Capital Improvement Budget and the 2001-06 Capital Improvement Program of the Riverside campus Heckmann International Center for Entrepreneurial Management and the San Francisco-Fresno Medical Center.

The Riverside campus proposes to construct the Heckmann Center Complex-Phase 2 project to provide multi-disciplinary, multi-function instruction, research, and distance learning facilities for graduate level programs in entrepreneurial management and related business curricula. This facility, and the gift-funded Phase 1 facility, are part of an overall plan to provide modern teaching and research space to serve programs in the A. Gary Anderson Graduate School of Management and to strengthen intersegmental opportunities with California State University San Bernardino and the local community college, College of the Desert. The Heckmann Center will be located in the city of Palm Desert in the Coachella Valley and will provide graduate-level business programs with an emphasis on entrepreneurship to an area that is historically under-served by higher education.

The San Francisco campus proposes to construct the UCSF-Fresno Medical Education and Research Center. This will replace academic program space in the University Medical Center in Fresno that is scheduled for closure at the end of 2003 and will provide space to consolidate UCSF-Fresno programs from several sites and for expansion of existing programs. The project site is a parcel in downtown Fresno at the location of the Community Regional Medical Center (CRMC). The project will provide an academic center for UCSF's undergraduate, graduate, and continuing medical education programs, and clinical and research programs. UCSF-Fresno's medical mission in the Central Valley is to help increase the availability of physicians and the quality of medical care in the area. The location of the new facility at the CRMC site, where Fresno Community Hospital is located, will bring UCSF Fresno students, researchers, and administration together to create a more efficient health care and educational delivery system. The land for the project will be donated to the University by the City of Fresno, the Fresno Redevelopment Agency, and the Community Medical Centers.

Vice President Hershman recalled that at the May meeting The Regents amended the 2000-01 Capital Improvement Budget and the 2000-03 Capital Improvement Program to include the Davis campus MIND Institute at a total budget of $38,840,000 ($3,546,000 of State General Funds for preliminary plans and working drawings, $28,566,000 of State lease revenue bond funds and $3 million through an additional State appropriation for construction, and $3,728,000 of Hospital Reserves for construction). The 2001 Budget Act modified this distribution of funds, providing $30 million of State lease revenue bond funds for construction rather than $28,566,000 as planned, reducing the requirement for Hospital Reserves to $2,294,000. The total cost of $38,840,000 is thus comprised of $3,546,000 of

State General Funds for preliminary plans and working drawings, $30 million of State lease revenue bond funds and $3 million of State General Funds for construction, and $2,294,000 of Hospital Reserves for construction. The Regents are asked at this time to approve these changes in funding level by fund source; the total budget has not changed.

Vice President Hershman reported that the legislature is considering an education bond issue. Controversy has arisen over the timing of the ballot measure, the amount, and the allocation between K-12 and the segments of higher education. The higher education segments have a proposal of $4.8 billion before the legislature's conference committee. The bond issue, which is important for the University's capital growth, should be on the ballot in either March or November 2002.

Regent Connerly asked whether the process to scale back programs would be campus-driven or directed by the Office of the President. Mr. Hershman stated that the administration would continue to work jointly with the campuses, as well as with the State government. The process will involve consultation with the Regents over the course of the coming year. The administration hopes that the situation will be temporary and that the state economy will improve. The University will need to consider its short-term alternatives versus the longer-term goals in light of the prospects for federal and private support.

Regent Connerly raised the issue of faculty salaries, noting that if the University falls behind other institutions, that would suggest that they do not face similar economic difficulties. He stressed the urgency of this issue. He asked for an outline of the steps that the administration plans to propose over the next three to six months to address the budget situation. Vice President Hershman stated his intention to discuss all of the options with the Regents at the September meeting. He believed that the University would need to consider how far behind it is willing to let faculty salaries fall. Consideration must be given to the fact that the Governor and the legislature have asked the University not to raise student fees. If the University were to increase fees, the amount of the increase could be taken out of the budget.

Regent Preuss pointed out that the University had admitted more additional students than projected and that the State had funded these additional FTE on a per-capita basis. Such funding, however, will not support the needed infrastructure to accommodate these students. The University may find itself unable to fulfill the mandate that it has accepted with respect to enrollment.

Vice President Hershman stressed that the administration had made clear to the State that all options must be on the table. President Atkinson, in his testimony before the conference committee on the bond issue, clearly conveyed the University's needs to the State.

In response to a question from Regent Preuss, Mr. Hershman anticipated that a report on the University's long-term funding needs would be presented to the Regents in November. Regent Preuss asked that a preliminary discussion take place at the September meeting.

President Atkinson reported that the California Teachers Association was proposing that K-12 receive the majority of the funding from the bond issue, which would put higher education in a hopeless situation. As reported by Mr. Hershman, the agreement that the University has reached with Speaker Hertzberg and the other two segments was that the needs of higher education would be $4.8 billion over the coming four-year period. This would provide the University of California with approximately $333 million per year. The University's actual needs, as calculated using traditional formulas, are in the $600 million range. The intention is to seek federal funding and private giving to make up the difference.

Regent Hopkinson asked for clarification of what The Regents were being asked to adopt and referred to information that had been provided in the past on a campus-specific basis. Mr. Hershman noted that the changes to The Regents' budget reflected the changes made by the Governor and the legislature during the process of approving the final budget act. These changes will be reflected when the campus data are updated. He confirmed for Regent Hopkinson that The Regents were being asked to approve the budget that was adopted in November 2000, with the changes as described above. The next step will be to conform the campus budgets to these changes. Regent Hopkinson requested that the final documents be provided to the Regents.

Regent Hopkinson acknowledged the efforts of the administration in obtaining a 5.1 percent increase, given the State's financial situation, and pointed to the strong support from the Governor and the legislature for the University.

Vice President Hershman commented that one major issue that will unfold in the coming year is when the State's economy will recover. President Atkinson noted that the State's revenues were fairly healthy; the major loss has been in the area of stock options.

Chairman S. Johnson referred to the report on graduate education that would be presented at the September meeting. She suggested that the report include a discussion of how any new programs would be undertaken, given the constraints on the budget.

(For speaker's comments, see the minutes of the August 30, 2001 meeting of the Committee of the Whole.)

Upon motion duly made and seconded, the Committees approved the President's recommendation and voted to present it to the Board, Regents Atkinson, Connerly, Hopkinson, O. Johnson, S. Johnson, Kozberg, Montoya, Moores, Morrison, Preuss, and Seymour voting "aye." [1]

The meeting adjourned at 9:50 a.m.

Attest:

Secretary

[1] Roll call vote required by State law on all actions taken in meetings held by teleconference