

The Regents of the University of California

**COMMITTEE ON FINANCE**

July 21, 2005

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

Members present: Regents Blum, Dynes, Hopkinson, Juline, Lee, Parsky, Preuss, and Wachter; Advisory member Blumenthal

In attendance: Regents Island, Johnson, Kozberg, Lansing, Lozano, Marcus, Moores, Pattiz, Rominger, Rosenthal, and Ruiz, Regents-designate Coombs, Ledesma, and Schreiner, Faculty Representative Brunk, Secretary Trivette, General Counsel Holst, Provost Greenwood, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Doby, Gomes, and Hershman, Chancellors Birgeneau, Bishop, Carnesale, Denton, Drake, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 9:50 a.m. with Committee Chair Blum presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of May 26, 2005 were approved.

2. **CONSENT AGENDA**

A. ***Amendment of the Budget for Capital Improvements and the Capital Improvement Program and Approval of External Financing for Davis Hall North Replacement Building, Berkeley Campus***

The President recommended that, subject to the concurrence of the Committee on Grounds and Buildings:

- (1) The 2005-06 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: Berkeley: Davis Hall North Replacement Building – preliminary plans, working drawings, construction, and equipment – \$117,650,000, to be funded from the State through the California Institutes for Science and Innovation program (\$87,325,000) and gifts (\$30,325,000)

To: Berkeley: Davis Hall North Replacement Building – preliminary plans, working drawings, construction, and

equipment – \$161,490,000, to be funded from the State through the California Institutes for Science and Innovation program (\$87,325,000), gifts (\$54,165,000), and external financing (\$20,000,000).

**Deletions shown by strikeout, additions by underscoring**

- (2) The President be authorized to obtain external financing not to exceed \$20,000,000 to finance the Davis Hall North Replacement Building project, subject to the following conditions:
- a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - b. Repayment of the debt shall be from the Berkeley campus' share of the University Opportunity Fund.
  - c. The general credit of The Regents shall not be pledged.
- (~~2~~ 3) The President be authorized to obtain standby financing not to exceed ~~\$15,325,000~~ \$18,754,000 and interim financing not to exceed \$12,050,000, for a total of \$30,804,000, prior to awarding a construction contract for any gift funds not received by that time and subject to the following conditions:
- a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - b. Repayment of any financing shall be from gift funds and, in the event such gift funds are insufficient, from the Berkeley campus' share of the University Opportunity Fund.
  - c. The general credit of The Regents shall not be pledged.
- (~~3~~ 4) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
- (~~4~~ 5) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

**B. *Amendment of the Budget for Capital Improvements and the Capital Improvement Program and Approval of External Financing for Sierra Terraces Housing Project, Merced Campus***

The President recommended that:

- (1) Subject to the concurrence of the Committee on Grounds and Buildings, the 2005-06 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:
  - From: Merced: Sierra Terraces Housing Project – preliminary plans \$990,000 to be funded from University of California Housing System (UCHS) Net Revenue Reserves.
  - To: Merced: Sierra Terraces Housing Project – preliminary plans, working drawings, construction, and equipment – \$21,942,000 to be funded from external financing.
- (2) External financing be obtained not to exceed \$21,942,000 to finance the Sierra Terraces Housing – Phase 1 project, subject to the following conditions:
  - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - b. As long as this debt is outstanding, University of California Housing System fees for the Merced campus shall be established at levels sufficient to provide excess net revenues sufficient to pay the debt service and to meet the related requirements of the proposed funding.
  - c. The general credit of The Regents shall not be pledged.
- (3) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
- (4) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

C. ***Amendment of the Budget for Capital Improvements and the Capital Improvement Program for Long Hospital 13, Moffitt Hospital 13 (South) Acute Care Unit Remodel, and Moffitt Hospital 13 (North and East) Intensive Care Unit Remodel, San Francisco Campus***

The President recommended that the 2005-06 Budget for Capital Improvements and the Capital Improvement Program be amended to include the following project:

San Francisco Campus: Long Hospital 13, Moffitt 13 (South) Acute Care Unit Remodel, and Moffitt 13 Hospital (North and East) Intensive Care Unit Remodel – preliminary plans, working drawings, construction, and equipment – \$36 million to be funded from hospital reserves.

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

3. **UNIVERSITY OF CALIFORNIA 2005-06 FINAL BUDGET AND PRELIMINARY DISCUSSION OF 2006-07 BUDGET**

The President recommended that the changes, reflected in the Attachment, to the University of California 2005-06 budget plan for State General Funds be approved, consistent with the final Budget Act approved by the Legislature and the Governor.

Vice President Hershman recalled that at its November 2004 meeting the Board had approved a total budget plan for the University for 2005-06. The Governor and the Legislature have adopted a final State budget that requires some modifications to the University's budget.

The final State Budget Act provides a total of \$2.843 billion in State General Funds for the University's budget. This is a 5 percent increase over the previous year. Mr. Hershman discussed the revisions made to the State-funded budget since The Regents approved the University's budget.

***UC Merced***

The budget includes \$14 million in one-time funds needed to open the campus in fall 2005. This is an increase of \$4 million over the one-time funds received for this purpose in the current year. These funds will be combined with the ongoing base appropriation of \$10 million in permanent funds, the enrollment growth funding for the campus' first 1,000 students, and student fee revenue the campus will receive from its students to help support the campus' operating expenses. The one-time funds are necessary to help fund faculty salary and recruitment costs, instructional technology, library materials, student services, and expanded general support needed to operate the campus, all of which are critical to the campus' ability to open in the fall.

The President recommends approval of an additional \$4 million in one-time funds for 2005-06. Other funding for UC Merced was included in the budget plan approved by the Board in November 2004.

### ***Labor Research***

The budget plan approved by The Regents in November 2004 included continuation of \$3.8 million in one-time funding provided in 2004-05 for labor research. This funding has been eliminated from the University's budget. The Governor's January budget had proposed eliminating these funds because they were regarded as one-time only; however, the Legislature had augmented the University's budget to restore the funding. As part of the final actions taken on the budget, the Governor vetoed the funds, consistent with his January proposal.

This program has been the subject of considerable interest in Sacramento for several years. The University took steps to reconfigure the program to address concerns raised by those who have not supported funding for this research in the past. In doing so, the University distributed one-third each to the existing Institutes for Industrial Relations on both the Berkeley and Los Angeles campuses. The University used the remaining one-third of the funds to create a systemwide competitive faculty research grant program, similar to competitive grant programs operated in other research areas. The Governor's veto indicates these steps have not adequately addressed the concerns raised by the Administration and others in recent years.

### ***Science and Math Initiative***

The Governor's May Revision proposal to include \$750,000 in the University's budget to help launch the science and math initiative was approved in the final budget act. The funds provided by the State will be matched one-to-one by the University and will be used to support resource centers on campuses that will oversee programs, student advising, and school placements; monitor student progress; coordinate student transportation; and provide program assessment and data to the campus and systemwide program offices. The initiative will enable students to obtain a baccalaureate degree in mathematics, engineering, or the sciences, and complete the coursework and field experiences that will prepare them to become a secondary science or mathematics teacher in four years including one summer. The University's goal is to produce 1,000 science and mathematics teachers annually by the year 2010. By the year 2020, it is anticipated that more than half of California's secondary science and mathematics teachers will be UC-educated.

In addition to the funding in the University's budget, the final budget act included authorization for 300 additional APLE warrants (Assumption Program for Loans for Education), which provide loan forgiveness funds for teachers. The existing APLE program gives priority to teachers in math and science; however, the Governor has indicated his intention to seek legislation to specify that these additional 300 grants will

be for students who participate in the University's and the California State University's science and math initiative programs.

### ***Other Technical Adjustments***

The budget also includes funding for annuitant benefits and lease revenue bond payments. The budget plan previously approved by The Regents recognized that these adjustments would be made by the State based on estimated costs, as has been done in previous years.

### ***Student Academic Preparation Programs***

The final budget package sustains one-time State funds of \$17.3 million for student academic preparation programs in 2005-06. The Governor's January budget had proposed elimination of these funds; the Legislature augmented the University's budget to restore them. That augmentation was approved by the Governor on a one-time basis, with the "understanding that the University will work with the Administration to fully evaluate the cost-effectiveness of each program and eliminate those that cannot demonstrate an adequate return on investment."

The University has developed a new accountability framework that is being implemented by the campuses and systemwide programs for 2005-06 which requires specific evidentiary outcomes in order for programs to continue to receive funds. If programs are not able to comply, funds will be re-distributed to other programs within the Student Academic Preparation and Educational Partnerships program. The University has developed technology that can be used to evaluate academic transcripts, providing access to additional data points on every participant in the program. Thus, comparisons can be made much more precisely between students who participate and similarly-situated students who do not participate. It is anticipated that the new framework will permit the University to provide the information needed to assess the cost-effectiveness of these programs.

### ***The University's 2006-07 Budget***

The University's budget is funded from a variety of sources. Consistent with past practice, the University's budget plan for 2006-07 will incorporate projections for funds from all sources, including federal funds, student fee revenue, UC general funds, and State funds. It is expected that the budget document presented to the Board in November for consideration will reflect continued constraints on federal funding brought on by the federal deficit and continued cuts in reimbursements for academic medical centers.

Similar to the budget for 2005-06, the University will base its budget plan for 2006-07 on the Compact with the Governor. The Compact calls for the following basic provisions for 2006-07:

- Base budget adjustment of 3 percent to be used to fund increases for salaries, employee health benefits, and other cost increases.

- Enrollment funding for 5,000 FTE students at the agreed-upon marginal cost of instruction. This rate of growth is consistent with the Master Plan goal of accommodating eligible students.
- Student fee increases of 8 percent for undergraduates and 10 percent for graduate academic students. With regard to professional school fees, the Compact provides that UC is to develop plans for professional school fees while considering several factors, including the need to preserve and enhance the quality of the professional programs. Each professional school will develop a three-year plan for fee increases that will be presented to the Board for consideration in November as part of the approval of the 2006-07 budget plan.

The State's fiscal situation remains very constrained. Both the Governor and the Legislative Analyst project a significant continuing structural deficit into 2006-07 in the range of \$4 billion to \$6 billion. It will be difficult to convince the State to provide funding above the Compact for new initiatives until the structural deficit is addressed; however, it is important to identify the University's highest priorities for additional funding when the State's fiscal situation improves. The University's budget document will include a discussion of funding needs in high priority areas as identified in the Regents' priority list, including restoring faculty and staff salaries to competitive levels, restoring the student-faculty ratio, and addressing other basic support needs.

There are several issues that will be given additional focus as the budget for 2006-07 is developed. These include the marginal cost formula used to determine the amount of funding UC receives from the State for enrollment growth. Consistent with legislative intent language, representatives from UC, the California State University, the Department of Finance, and the Legislative Analyst will meet over the summer and fall to consider possible changes to the agreed-upon marginal cost formula. They also include improving graduate student support, development of a multi-year plan for professional school fees, and the amount of fee increase revenue returned to aid for financially needy students.

The Compact specifies that the Governor will support \$345 million per year for UC's capital outlay program, to be financed either through a new General Obligation bond or lease-revenue bonds. A decision on whether to place a new bond measure on the November 2006 ballot has not yet been made by the Legislature and the Governor. Based on the Compact, the University is in the process of developing a multi-year capital outlay plan for \$345 million per year in either General Obligation or lease-revenue bond funding. Consistent with past practice, this plan will be presented to the Board for approval at the November meeting. The University's capital program will continue to include projects that address the University's high priority needs for seismic and life-safety improvements, enrollment growth, modernization of outdated facilities, and infrastructure.

Regent Hopkinson believed that the total budget and campus budgets for the 2005-06 year should be made available to the Regents. Regents Pattiz and Rominger agreed that it would be helpful to have that information. President Dynes noted that he had requested

that more detailed budget information be prepared for presentation at the September meeting. He indicated that the Office of the President would work with the Committee to determine the appropriate level of detail.

Regent Juline asked about the budget needed to support the science and math initiative. Mr. Hershman reported that the campuses would have to match the \$750,000 allocated by the State. Ultimately, the initiatives will require an expenditure of about \$25,000 per student.

In response to questions asked by Regents Juline and Kozberg, Vice President Hershman reported that, although a complete evaluation of student academic preparation will be available in the spring, a schedule for presenting the information and at least portions of the report should be available at the September and November meetings.

Regent Rosenthal asked what would be the immediate effect on the labor centers of a \$3.8 million budget reduction. He was concerned that, as one unit of the University had been specifically selected by the Governor, other areas might be at risk. President Dynes responded that it was not novel for the Governor to veto a line item in the University's budget. Funding for the labor institutes that was included in the budget did not go through academic review; it was not created by the academic process, it was created politically, along with several research programs. He reported that Vice President Hershman and the campuses were in the process of identifying funds that could be made available to sustain the centers while questions concerning the Governor's expectations await answers.

Regent Hopkinson asked how a final decision is made when the University has not established a priority for a program that is funded by the Legislature and then deleted in the University's budget, and someone wants to reimpose it without authorizing additional funds. President Dynes responded that there is no particular procedure involved. There was an agreement between the Speaker and the Governor after the deletion of the labor institutes in the budget. Apparently the Governor intends to inform the University as to whether he expects it to find funding to maintain those programs. Regent Hopkinson was concerned about the lack of Regents' involvement in the decision. Vice President Hershman reported that the issue would be discussed further at the September meeting.

Committee Chair Blum commented on the extent of the Governor and Legislature's authority over the University's activities. General Counsel Holst recalled that the California Constitution gives The Regents full powers of the organization and government of the University, subject to some very limited authority of the Legislature, as expressed in the Constitution. That authority has been expanded somewhat by judicial opinions. He noted that the budget authority of the Legislature and the Governor limits the University's independence.

President Dynes invited Ms. Jen Lilla, President of the University of California Student Association, to comment on the budget. Ms. Lilla recalled that the Regents had established some budget priorities for the 2004-05 budget, adopting a set of principles



that made the preservation of quality a priority and upheld the University's commitment to the Master Plan to protect access and affordability. A Compact with the Governor that was signed that year interpreted maintaining quality as meaning that faculty would receive salary increases starting in 2005-06 and the academic budget would be increased in 2008-09. Affordability and accessibility were not addressed. She believed that if students lose access, maintaining quality will have lost its importance. She urged the Regents to use their power to improve affordability, which she believed was the cornerstone of the University's public mission, by increasing the percentage of return-to-aid; defining a reasonable burden of debt and outside work for students; defining an acceptable level of family contribution; ceasing to raise fees; and reversing the trend toward the privatization of the professional schools.

[For speakers' remarks, refer to the minutes of the July 20 and 21, 2005 meeting of the Committee of the Whole.]

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

#### 4. **CAMPUS AND SYSTEMWIDE EFFICIENCIES (IT)**

Senior Vice President Mullinix invited Associate Vice President Hafner to discuss software sourcing initiatives and system development being done through multi-campus initiatives that should result in improved quality of services and cost reductions.

Associate Vice President Hafner provided an update on Universitywide initiatives. She reviewed the IT Strategic Sourcing program, which is now in its fourth year. Prior to that time, the University had few systemwide agreements; now it has 45 hardware-software agreements. The Strategic Sourcing program is focused on reducing the acquisition and maintenance costs of technology, increasing the number of consolidated agreements systemwide, establishing more flexible terms and conditions with vendors, and allowing more information to be gathered in order to avoid having to consult vendors to determine the University's spending rates. In fall 2005, the actual expenditure on information technology throughout the University will become available. The figure is anticipated to be between \$350 million and \$400 million a year. Over three years, the program has channeled over \$180 million in IT expenditures through systemwide and multi-campus negotiated agreements, resulting in \$30 million in annual savings for the University. It is expected that program growth and expansion will produce significant additional benefits and savings to the University.

Ms. Hafner discussed examples of cost-effective campus and systemwide IT management initiatives as well as potential opportunities for future IT-related savings. She reported that in 1997, each of the UC campuses had its own network. Now there is a single, integrated high-speed network that serves not only the University but the California State University system, the community colleges, private colleges, and K-12. This change in the delivery model has resulted in large savings and has provided greater capability,

which will increase. It positions the University to be more competitive in its research enterprise and provide higher service quality to its institutions.

Ms. Hafner reported that the University's previous system for tracking effort on federal contracts and grants was outdated. Vendors were identified to build a new system. Five campuses took the initiative to join with the Office of the President to develop the system, which will be in deployment as a pilot in October and released systemwide in January. The system will have a single set of requirements and save \$1.6 million. Another example of an effort under way to assess the possibility of adopting a single set of requirements systemwide is the academic personnel review process. It is one of the most time-consuming activities involving faculty. Every campus has its own process and system. There is an opportunity to take a best practice and extend it to the whole.

Ms. Hafner noted there are national efforts under way in which the University is participating. The benefit is that systems are being developed that are alternatives to the vendor marketplace, with its spiraling costs.

Ms. Hafner observed that another example of how to cut costs is to provide services to one another. The University spends millions of dollars per year on backup and recovery services for all computer operations. A model is being piloted in August in which one campus will provide those services to another. Other efforts under way include consolidating research computing platforms, decommissioning mainframe computers, and consolidating data. Ms. Hafner stated that, based on the IT spending diagnostic, further cost-savings opportunities will be sought and cost-benefit analyses performed to enhance progress in some of these areas.

Committee Chair Blum noted that potential savings could run to \$50 million per year. He asked how much would be spent on IT this year and next. Ms. Hafner responded that the purpose of the spending diagnostic is to capture the total expenditure. Although \$180 million in expenditures have been channeled through the systemwide agreements, the total spent remains to be calculated. She expected the expenditure to increase, although at a slower rate. Committee Chair Blum suggested running an Internal Rate of Return from the expenditures in order to quantify the productivity of the savings effort.

Regent Lee noted that the greatest savings may be achieved if all ten campuses work together. He advocated eliminating the use of analog technology, referring to the expanding use of internet supported telephone service.

Regent Ruiz asked whether the quality of the University's systems was being improved. Ms. Hafner believed that the move to standards and single systems provides a platform to improve the quality of service.

Senior Vice President Mullinix introduced Vice Chancellor Brase, who provided an overview of the UC Irvine program for administrative process improvements, which has been in effect for more than a decade, and to provide data on efficiency measures, cost

savings, and the use of the administrative cost savings stemming from the UC Irvine program.

Mr. Brase recalled that he had been asked in 1991 to put in place a program that would help prepare for future fiscal stringencies and inhibit the development of a complex bureaucracy. The core campus administrative functions include accounting, administrative information systems and computing, human resources, environmental health and safety, procurement, police, and a few others. He recalled that as budget cuts began in the early 1990s, an attempt was made to streamline, simplify, and reengineer administrative processes that either had high inherent costs or created costs for others on campus. He showed slides to illustrate the accountability structure of a process. As steps were removed and processes made more transparent, control and accountability improved. Training requirements were looked at as symptomatic of over-complexity. The goal was to reduce training, with the idea that the ideal administrative system or process would be so intuitive and simple, and would have built into it sufficient self-help features, that someone used to working in an information economy could approach a task for the first time and proceed mistake-free.

Mr. Brase noted that there was a force pushing against reform. The number of regulatory programs and statutory mandates for accounting, environmental health and safety, human resources, and procurement were the main reason for a more than five-fold increase in human resources from 1990 to 2005. There was a compelling need to push in the opposite direction. The campus set about attacking processes. An example was the process being used for expense reimbursement of various types, including travel and honoraria. This system is large, processing in excess of 70,000 transactions per year. The system was transformed from paper forms to web-based activity, and finally became entirely paperless. Another example has to do with the human resources classification process to determine the appropriate job classification for staff positions. Following reengineering, user training became unnecessary. The new system is intuitive and self-guided.

Mr. Brase commented that, although these examples do not provide a conclusion about workload and productivity, there are some broad trends that allow conclusions to be drawn. Program data gathered between 1991 and 2005 indicate a 96 percent increase in regulatory workload for the period. Another measurement of administrative workload is enrollment, which increased by 50 percent during the period. The number of employees increased by 38 percent. No one of these factors alone is a good indicator of administrative workload, but the composite reflects the mean of these factors. Over the 14 years, administrative workload at UCI increased by 82 percent and productivity increased by 81 percent. He believed that maintaining seamless growth on the Irvine campus and continually mounting high-quality academic programs was possible during a period of general economic stringency and fiscal problems mainly because of improvements in administrative efficiency and productivity.

Mr. Brase reported that the tools used by the Irvine campus to achieve its efficiency and productivity goals may be viewed on the campus website.

Regent Juline observed that it was important to convey to the Legislature the success of the program at the Irvine campus. He looked forward to hearing reports on the efforts at other campuses.

5. **BEST PRACTICES FOR SUSTAINABILITY IN TRANSPORTATION**

Senior Vice President Mullinix reported that presentation of this item would be deferred to the September meeting.

[For speakers' comments, refer to the minutes of the July 21, 2005 meeting of the Committee of the Whole.]

6. **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 meeting adjourned at 11:10 a.m.

Attest:

Secretary