The Regents of the University of California

COMMITTEE ON FINANCE
September 18, 1997

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

Members present: Regents Atkinson, Bagley, Brophy, Connerly, Davis, del Junco, Johnson, Lee, Levin, and McClymond; Regents-designate Miura and Willmon

In attendance: Regents Clark, Davies, Gonzales, Khachigian, Montoya, Nakashima, Preuss, and Soderquist, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Darling, Gomes, Gurtner, and Hopper, Chancellors Berdahl, Carnesale, Debas, Dynes, Greenwood, Orbach, Wilkening, and Yang, Executive Vice Chancellor Grey representing Chancellor Vanderhoef, Laboratory Directors Hecker, Shank, and Tarter, and Recording Secretary Nietfeld

The meeting convened at 3:20 p.m. with Committee Chair Brophy presiding.

1. **CONSENT AGENDA**

A. ***Amendment of the Budget for Capital Improvements and the Capital Improvement Program***

The President recommended that the Committee concur with the recommendations of the Committee on Grounds and Buildings that:

(1) The 1997-98 Budget for Capital Improvements and the 1997-2000 Capital Improvement Program be amended to include the following projects: Berkeley: B. University Village Redevelopment, Step 1 and Santa Cruz: A. Bay Tree Bookstore.

(2) The 1997-98 Budget for Capital Improvements and the 1997-2000 Capital Improvement Program be amended as follows:

From: Santa Cruz: C. College Nine Apartments -- preliminary plans, working drawings, construction, and equipment -- $10,280,000 to be funded from external financing ($9,377,000) and Group A Housing System Net Revenue Funds ($903,000).

To: Santa Cruz: B. College Nine Apartments -- preliminary plans, working drawings, construction, and equipment -- $16,493,000 to be funded from external financing

($14,171,000) and Housing System Net Revenue Fund ($2,322,000).

B. ***External Financing for Safety Improvements Program, Phase 3, Berkeley Campus***

The President recommended that:

(1) The Treasurer be authorized to obtain a standby loan commitment not to exceed $5 million to finance, if necessary, a portion of the Safety Improvements Program, Phase 3, Berkeley campus, 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 debt service and fees shall be from the Berkeley Campus Fee; and

c. The general credit of The Regents shall not be pledged.

(2) 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.

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

C. ***External Financing for Equine Analytical Chemistry Laboratory, Davis Campus***

The President recommended that:

(1) Funding for the Equine Analytical Chemistry Laboratory be approved as follows:

External Financing	$ 6,560,000
Accumulated Parimutuel Reserves	4,814,000
	$11,374,000

(2) Contingent upon Assembly Bill 874 becoming law, the Treasurer be authorized to obtain external financing not to exceed $7,165,000 to finance part of the cost of construction of, and a debt service reserve for, the Equine Analytical Chemistry Laboratory, Davis campus, 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 Davis campus' share of the University Opportunity Fund; and

c. 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 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 in connection with the above.

D. ***Establishment of Medical School Student Association Fee, San Francisco Campus***

The President recommended that, effective fall 1997, a Medical School Student Association Fee of $5 per medical school student per quarter be established at the San Francisco campus.

E. ***Amendment of Acquisition of and Financing for Property and Water Rights for Potential Development of Faculty and Student Housing, Santa Barbara Campus***

The President recommended that the financing actions approved by The Regents in September 1992 and March 1993 authorizing and amending the acquisition of and financing for property and water rights for potential development of faculty and student housing at the Santa Barbara campus be amended as shown below, with the understanding that all other terms of said action remain unchanged:

deletions shown by strikeout, additions by shading

The Regents authorize the purchase of real property consisting of up to, at the University's option, 174 acres of land adjacent to the southwest intersection of Storke and Whittier Roads, Santa Barbara County, commonly referred to as the West Devereux parcel (Real Property), together with a water entitlement of up to, at the University's option, ~~250~~ 200 acre feet per year (Water Entitlement), from The University Exchange Corporation (seller), for a purchase price not to exceed ~~$13,375,000~~ $11,875,000, plus closing costs estimated at $30,000, said Real Property to be held for potential development, after appropriate planning and environmental review, as faculty for-sale housing and student rental housing.

* * *

(4) Funding for the purchase of the Real Property and Water Entitlement be approved as follows:

Funding Source	Amount
External financing	$10,875,000
University of California Housing System Net Revenues	1,000,000
Campus funds	30,000
Total	$11,905,000

~~(4)~~(5) Subject to the approval of the President in consultation with the Chairman of the Committee on Finance and the Chairman of the Board, the Treasurer be authorized to obtain financing not to exceed ~~$12,405,000~~ $10,875,000 to finance a portion of the purchase cost of the Real Property and Water Entitlement, subject to the following conditions:

a. Repayment of ~~80~~ 54 percent of the debt as of June 30, 1997 shall be from ~~otherwise unencumbered discretionary funds available to the Chancellor of the Santa Barbara campus and the President~~ the Santa Barbara campus' share of the University Opportunity Fund to be held in the Office of the President in amounts sufficient to pay allocable debt service;

b. Repayment of ~~20~~ 46 percent of the debt as of June 30, 1997 shall be from net revenues of ~~Group A Housing System~~ the University of California Housing System, with the condition that so long as such portion of the debt is outstanding, ~~Group A Housing~~ University of California Housing System fees at the Santa Barbara campus shall be established at levels sufficient to meet all requirements of the ~~Group A Housing System~~ University of California Housing System Revenue Bond Indenture and to provide excess net revenues sufficient to pay the debt service and related requirements of this portion of the proposed financing, with the understanding that any amounts from the Net Revenue Fund used shall be reimbursed to the Net Revenue Fund by the campus if, for any reason, a University of California Housing System facility is not constructed on the Real Property to be acquired; and

c. The general credit of The Regents shall not be pledged.

~~(5) The President be authorized to allocate an amount not to exceed $1,000,000 from the Group A Housing System Net Revenue Fund to finance a portion of the purchase cost of the Real Property and Water Entitlement, with the understanding that said amount shall be reimbursed to the Net Revenue Fund by the campus if, for any reason, a Group A Housing System facility is not constructed on said Real Property.~~

~~(6) The President be authorized to allocate excess net revenues from the Group A Housing System Net Revenue Fund sufficient to pay the debt service and related requirements on the external loan component noted in (4)b. above, with the understanding that any amounts from the Net Revenue Fund used for this purpose shall be reimbursed to the Net Revenue Fund by the campus if, for any reason, a Group A Housing System facility is not constructed on the Real Property to be acquired with such loan.~~

~~(7)~~(6) ...

~~(8)~~(7) ...

F. ***Increase in Transit System Fee, Santa Barbara Campus***

The President recommended that:

(1) Effective with the fall quarter 1997, the mandatory Transit System Fee for undergraduate and graduate students at the Santa Barbara campus be increased from $5.90 to $7.50 per student per quarter.

(2) For the duration of the contract between the Santa Barbara Metropolitan Transit District (SBMTD) and The Regents, the Chancellor of the Santa Barbara campus be authorized to approve any future fee increases required by the contract, as authorized by student referendum, to be indexed to the regular adult transit fares charged by the SBMTD.

G. ***Amendment of External Financing for Bay Tree Bookstore, Santa Cruz Campus***

The President recommended that the actions approved by The Regents in November 1990 with respect to financing for the Bay Tree Bookstore, Santa Cruz campus, be amended as shown below, with the understanding that all other actions approved in November 1990 in connection with said project remain unchanged:

Deletions shown by strikeout, additions by shading

(1) ~~Financing~~ Funding for the Bay Tree Bookstore project, Santa Cruz campus, at an estimated total cost of ~~$6,290,000~~ $11,332,000, be approved as follows:

Fund Source	~~Amount~~	Amount
Bay Tree Bookstore reserves	~~$ 1,290,000~~	$ 3,366,000
External financing	~~5,000,000~~	6,966,000
Registration Fee reserves		1,000,000
	~~$ 6,290,000~~	$ 11,332,000

(2) The Treasurer be authorized to obtain funds not to exceed ~~$5,000,000~~ $6,966,000 to finance the construction of the 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. With regard to $5,217,000 of the financing, ~~D~~debt service and related requirements of the debt shall be repaid from revenues of the Bay Tree Bookstore operations; ~~and~~

c. With regard to $1,749,000 of the financing, repayment of the debt shall be from University Registration Fees; and

~~c~~d. The general credit of The Regents shall not be pledged.

H. ***Increase in Project Scope, Cost, and External Financing for College Nine Apartments, Santa Cruz Campus***

The President recommended that the financing actions approved by The Regents in January 1991, September 1991, and May 1992 with respect to College Nine Apartments, Santa Cruz campus, be amended as shown below, with the understanding that all other financing actions by The Regents regarding said project remain unchanged:

Deletions shown by strikeout, additions by shading

(1) F~~inancing~~ Funding for the College Nine Apartments, Santa Cruz campus, at an estimated total cost of ~~$10,280,000~~ $16,493,000, be approved as follows:

Fund Source	~~Amount~~	Amount
External financing	~~$ 9,377,000~~	$14,171,000
~~Group A~~ University of California Housing System Net Revenue Fund	~~903,000~~	2,322,000
	~~$10,280,000~~	$16,493,000

~~(2) College Nine Apartments, Santa Cruz campus, consisting of 256 bed spaces, auxiliary areas, and 3,800 assignable square feet of student activity space, at a total cost of $10,280,000, be added to the Group A Housing System and be administered in accordance with the terms and conditions of the Group A Housing System Revenue Bond Indenture of November 1, 1958, and with all other Regents' policies governing Group A Housing System operations.~~

~~(3)~~(2) The Treasurer be authorized to obtain financing not to exceed ~~$9,377,000~~ $14,171,000 to finance a portion of the construction and related costs of College Nine Apartments, Santa Cruz campus, 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 the ~~housing portion of the~~ debt ~~($8,505,000)~~ is outstanding, ~~Group A~~ University of California Housing System fees for the Santa Cruz campus shall be established at levels sufficient to meet all requirements of the ~~Group A~~ University of California Housing System Revenue Bond Indenture and to provide excess net revenues sufficient to pay the debt service and related requirements on ~~this amount of~~ the proposed financing; and;

~~c. As long as the student activities portion ($872,000) of the debt is outstanding, the Student Activities Fee shall be established at a level sufficient to meet all debt service and related requirements on this amount of the proposed financing; and~~

~~d~~c. The general credit of The Regents shall not be pledged.

~~(4) The President be authorized to allocate $703,000 from the Group A Housing System Net Revenue Fund to pay a portion of the project costs, said amount to be in addition to the $200,000 allocated in July 1989 for planning studies.~~

~~(5)~~(3) ...

~~(6)~~(4) ...

~~(7) The President be authorized to allocate excess net revenues from the Group A Housing System Net Revenue Fund sufficient to pay the debt service and related requirements of the proposed loan.~~

I. ***External Financing for Graduate Commons Project, Santa Cruz Campus***

The President recommended that:

(1) Funding for the Graduate Commons project, Santa Cruz campus, be approved as follows:

Fund Source	Amount
External financing	$ 814,000
Chancellor's Funds	187,000
Graduate Student Facilities Fee Reserves	1,190,000
Registration Fee Reserves	16,000
	$2,207,000

(2) The Treasurer be authorized to obtain external financing not to exceed $814,000 to finance the Graduate Commons project, Santa Cruz campus, 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 service and related requirements of the proposed financing and payment of the operating and maintenance expenses of the facility shall be from the Graduate Student Facilities Fee charged to each enrolled graduate student at the Santa Cruz campus, Santa Cruz campus Registration Fees, and rental income; and

c. The general credit of The Regents shall not be pledged.

(3) The Regents approve an increase in the Graduate Student Facilities Fee of $16 per quarter per enrolled graduate student for the construction and operation of the Graduate Commons project, said fee increase to commence when the facilities are built and available for use and ending 27 years thereafter.

(4) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is exempt from gross income for purposes of federal income taxation under existing law.

(5) The Officers of The Regents be authorized to execute all documents and agreements in connection with the above.

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

2. FINAL 1997-98 STATE BUDGET AND OUTLOOK FOR 1998-99 STATE BUDGET

The President expressed gratitude to the Governor and the Legislature for a budget that represents a third year of fiscal stability for the University and recognizes higher education's importance to the economic well-being of the State. The budget is a victory for the University's students and their families because systemwide general student fees will remain stable for a third consecutive year. The budget represents a significant step closer to restoring competitive faculty salaries. In addition, it provides sufficient general fund revenues to maintain access and affordability by funding the core academic programs. The University will be able to continue offering a space to all eligible California undergraduates who wish to attend the University and in turn provide students the classes they need to graduate.

President Atkinson reported that the budget also provides for a $12 million undesignated cut which was the result of a one-time payment to the Public Employees Retirement System (PERS) required by a decision of the California courts. Restoration of the $12 million will be one of the highest priorities for the University in the 1998-99 budget.

The President recalled that the University has been through fiscally difficult times, especially in the early 1990s. The cuts sustained during those years were deep and painful, and the University has yet to recover from them. The University's share of the State's general fund has declined dramatically over time, and credible projections indicate further declines are possible. In addition, dramatic increases in enrollment are projected over the next ten to fifteen years. President Atkinson stated his concern that there be adequate resources to maintain quality, accommodate growth, and keep UC affordable. The University has achieved fiscal stability over the last three years because of the Governor's compact with higher education, which ends with the 1998-99 budget. The administration has been working closely with the Legislature to craft a bill that would ensure funding for minimum budget needs and recognize enrollment growth. The President reported that the Legislature has approved AB 1415, which accomplishes these goals, and expressed his appreciation to Speaker Bustamante for his continued leadership in keeping funding for higher education a priority. This measure is now before the Governor for action.

Associate Vice President Hershman recalled that during the spring the focus of the budget hearings was on augmentation because the economy was doing well. Revenue was coming in significantly higher than projected for the current year because of a healthy economy. Over a two-year period, State general fund revenues have exceeded budgeted amounts by about $2 billion, with almost all of the increase going to fund K-14 programs, consistent with the provisions of Proposition 98. In July, however, controversy arose over a variety of issues, including salary increases for State employees, local government relief, and tax relief. At the same time, the Governor was negotiating with the public employees on how to structure the court-ordered payment of $1.3 billion to the Public Employees Retirement System. In light of a stalemate over salary increases and tax relief, the Governor chose to make the payment to PERS immediately. This action left the State with a fiscal problem for 1997-98 even though revenue was plentiful. The result was that the Legislature had to cut over $1.5 billion from the budget as it had been structured by the conference committee. There were extensive discussions between the Legislature and the Governor on how to make these cuts. University representatives participated in these discussions in order to ensure that funding would be provided to buy out the proposed general student fee increase. The conference committee decided to reduce the University's budget by a $12 million one-time undesignated cut.

Mr. Hershman reported that State general fund expenditures, excluding the $1.3 billion payment to PERS, are up by a little more than 5.5 percent. The budget includes a ten percent increase for K-14 which is in addition to the extra funding the schools received for 1996-97. Funding for UC and CSU went up about six percent, and prisons received an increase of about five percent. All other parts of the budget remained essentially the same as they were last year. The State has a reserve of about $110 million. The Legislature and the Governor were willing to reduce the reserve because there is a belief, based on various analyses, that the State could see increased revenue in 1998-99 as a result of changes in the federal tax law related to capital gains. Revenues will exceed the permanent State budget by about $1 billion in 1997-98, giving the State some additional revenue available to spend in 1998-99. The Legislature and the Governor made decisions which effectively commit this funding on a permanent basis to phasing in tax reductions over a three-year period, principally aimed at the middle-income tax payer; providing relief for local government through increased State funding for the trial courts; and providing State employees with a salary increase. The Legislature and the Governor concluded that these actions could be afforded in future years given the one-time nature of the PERS payment and because the State's economy is continuing to grow.

Mr. Hershman reported that the University's 1997-98 budget received widespread support in both houses of the Legislature during the budget process. The University received an increase of $121.5 million in State general funds, or 5.9 percent. The 1997-98 budget provides $78.5 million under the compact, $4.4 million for unavoidable costs such as debt service on lease-revenue bonds, and an additional $37 million to buy out the student fee increase. The budget also includes $2 million to support the Supercomputer Center, an additional $1 million for student academic outreach, $1.1 million for several legislative priorities, $5 million to begin planning for the tenth campus and to initiate academic programs in the San Joaquin Valley, and $4.5 million for the San Francisco-Fresno Rural Health Initiative. The budget makes permanent the $5 million allocation for the Industry-University Cooperative Research program. The 1997-98 budget recognizes the additional $50 million in federal Medicaid dollars received in 1996-97 and a similar amount to be received in 1997-98 to help pay for the costs of providing a medical education in a clinical setting. The budget also provides an additional $8.2 million for the Tobacco-Related Disease Research program and an additional $2 million for the Breast Cancer Research program. The 1997-98 State budget provides the University with $171.7 million in general obligation bonds, with funding of $150 million to support the capital improvement program and $21.7 million to match federal FEMA funds to replace the earthquake damaged medical center at Los Angeles.

Mr. Hershman then turned to the one-time reduction of $12 million in the 1997-98 budget. The proposed plan for dealing with this reduction is based on two basic principles: any actions should be one-time in nature because the $12 million reduction was the result of a one-time payment to the Public Employees Retirement System, and there should be no across-the-board or undesignated cuts to the campuses. With these principles in mind, the administration first looked at salary increases, which represent the largest share of the budget increase, and came to the conclusion that salary increases should be delayed by one month, from October 1 to November 1, 1997. This will allow employees to receive the level of salary increase originally proposed while saving $6 million, which is about half of the undesignated cut. With respect to the remaining $6 million, there is extra income of $12.5 million for 1996-97 that would normally be used for deferred maintenance. Every effort will be made during the year to find one-time savings in order to provide these funds for deferred maintenance. There is a bill before the Governor, AB 1571 (Ducheny), which seeks to restore some of the funding in the 1997-98 budget that was vetoed by the Governor. For the University, the bill could provide up to an additional $2.75 million.

Mr. Hershman reported that the University's basic budget strategy for 1998-99 will be similar to the strategy taken by The Regents in 1996-97 and in 1997-98. The budget will be developed on the basis of the compact, which has been funded by the Governor and the Legislature. Under the compact, the University can expect to receive funding equivalent to the revenue that would be generated by a combination of a four percent increase in State general funds and a ten percent increase in general student fees, plus funding for debt service on capital outlay. The Legislature has approved AB 1318, which provides for a five percent reduction in systemwide general fees for undergraduate resident students and a two-year freeze in the systemwide fees for resident students enrolled in graduate and professional school programs. This measure is now before the Governor for action. The administration believes that the State will again be in the position to buy out any student fee increases, and this assumption will be used as the budget is formulated.

The University's basic goals for the 1998-99 budget are the following:

- to restore competitive faculty salaries
- to continue to fund the University's merit program, which is key to recruiting, retaining, and rewarding the best faculty and staff
- to keep pace with inflation for non-salary budgets
- to fund the enrollment of an additional 2,000 students
- to achieve $10 million in savings by continuing to improve productivity.

Funding will be provided to continue previous initiatives to support the operation and maintenance of the physical plant, to ensure that students continue to have access to state-of-the-art instructional technology, and to expand the Industry-University Cooperative Research Program. There will be two new initiatives, one relating to the development of a California Digital Library and another dealing with deferred maintenance. The administration will propose a strategy for deferred maintenance that involves debt financing in order to generate $50 million to $60 million over the next several years.

Consistent with the actions taken by the Board in the last two years, the budget will identify priorities for funding beyond the compact should the State's revenue situation permit. Additional priorities include funds to expand student academic outreach programs, additional funding for the tenth campus to bring the core funding up to the $10 million that had been proposed originally, as well as funding to move more quickly in the area of instructional technology.

With respect to capital outlay, the proposal for 1998-99 will conform to the $150 million provided under the compact and will focus on seismic and life-safety as well as other needed improvements. There will also be a need for new projects to accommodate anticipated enrollment growth. The funding of the 1998-99 capital improvement program is dependent upon the Legislature's placing a bond measure on the either the June or November 1998 ballot. The detailed budget proposal will be presented to the Regents in October for discussion, with approval of an expenditure plan scheduled for November.

Associate Vice President Hershman expressed his appreciation to Speaker Bustamante for his leadership on AB 1415, as well as to staff members who contributed to its success. The bill provides that the State would continue to maintain a proportional share of the State general fund budget for the University of California, using 1998-99 as the base. The University would receive additional resources for annual enrollment growth which exceeds 1.5 percent. In addition, it is anticipated that there will not be an increase in general student fees over the next several years. The provisions of the bill would be reviewed in four years and a decision made to continue or modify it. The University has agreed to several important goals, such as honoring the Master Plan, providing the classes students need to graduate in a timely manner, expanding student outreach efforts, and ensuring that students have a smooth transition from one segment of public higher education to another. In many ways this bill is a continuation of the compact, recognizing that the Legislature has bought out proposed general student fee increases for the last three years. The major difference is that enrollments are projected to grow by two percent, rather than the one percent that has been funded under the compact. If signed by the Governor, AB 1415 would take effect in 1999-2000. With respect to AB 1318, this measure provides that the systemwide fees for undergraduate resident students be reduced by five percent, effective in 1998-99. It appropriates the funding to buy out this fee reduction and provides that systemwide fees for California resident students enrolled in graduate or professional school programs be frozen at 1997-98 levels for two years.

Regent Davis recalled that the idea of linking appropriations and fee increases to a dependable index was first raised in 1995 when he expressed concern about ongoing student fee increases. This idea resulted in two bills, AB 1318 and AB 1415, as described above, which are evidence of a strong priority in Sacramento for higher education. He added that because AB 1318 has a two-year life and AB 1415 would run for four years, it will be necessary to do some long-term planning beyond the sunset provisions for these bills.

In response to a question from Regent Bagley, Associate Vice President Hershman reported that the University spends $100 million per year on all programs related to K-12, with an outreach component of $60 million. With the 1996-97 and the 1997-98 augmentations from the State and matching funds from the University, there has been a $4 million increase in funding that is available on a permanent basis for outreach. Mr. Hershman suggested that it is incumbent upon the University to work with the schools to provide outreach money from Proposition 98 funds. One of the University's goals over the coming year will be to work with the Governor and the Legislature to set aside money to be used for outreach purposes.

Regent Connerly asked Mr. Hershman to describe in greater detail the $10 million in productivity cuts. Mr. Hershman explained that under the compact with the Governor, the University would continue to make efforts to be more productive, with a target of $10 million in savings per year during the four-year term of the compact. Those productivity savings may be reallocated for other purposes, including faculty salaries.

Regent Connerly pointed out that the budget which was adopted by The Regents in November 1996 is not the same budget that was approved by the Legislature and asked whether, at some point, the Board would have the opportunity to adopt the new budget. Mr. Hershman responded that the administration did not view any of the changes in the 1997-98 budget as permanent. As outlined above, the intention is to make up the one-time $12 million reduction through a one-month delay in salary increases and through use of excess income from the prior year's budget which would normally be used for deferred maintenance. Regent Connerly submitted that the final budget of the Board of Regents should be adopted by The Regents.

Faculty Representative Weiss recalled that originally salary increases were awarded to employees on July 1. During the budget crisis the date was delayed to October 1 in order to achieve savings. She asked whether the proposed delay to November 1 for 1997-98 would extend beyond the current year. Mr. Hershman responded that the budget plan for next year will include a restoration of the October 1 date as one of the University's highest priorities, subject to approval by The Regents.

Regent Johnson recalled that Mr. Hershman had mentioned debt financing as a method for funding deferred maintenance. Mr. Hershman explained that three years ago the University had an arrangement with the Legislature by which the University funded $25 million of deferred maintenance and the State paid the debt service. The University will propose a similar arrangement for 1998-99. If the State chooses not to do so, the loan could still be obtained by the University.

(For speaker's comments, see the minutes of the September 18, 1997 meeting of the Committee of the Whole.)

3. **EXTERNAL FINANCING FOR UNIVERSITY VILLAGE REDEVELOPMENT, STEP 1, BERKELEY CAMPUS**

The President recommended that, subject to approval by The Regents of amendment of the Budget for Capital Improvements and the Capital Improvement Program to include this project:

A. Funding for University Village Redevelopment, Step 1, at an estimated total cost of $55,400,000, be approved as follows:

Fund Sources	Amount
External financing	$45,400,000
University of California Housing System Net Revenue Fund	10,000,000
	$55,400,000

B. The Treasurer be authorized to obtain financing not to exceed $45.4 million for University Village Redevelopment, Step 1, Berkeley 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 this debt is outstanding, University of California Housing System fees for the Berkeley campus shall be established at levels sufficient to meet all requirements of the University of California Housing System Revenue Bond Indenture and to provide excess net revenues sufficient to pay the operating expenses and the debt service and related requirements of the proposed financing.

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

C. 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.

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

The Committee was informed that University Village consists of 920 units of student family housing and related facilities on a 62-acre site located in the City of Albany, three miles northwest of the Berkeley campus. University Village has two distinct types of housing. An older section consisting of 420 units in 54 buildings on 24.7 acres is the remnant of World War II temporary housing built by the federal government for shipyard workers in the 1940s. These units are now at the end of their useful life and need to be replaced. A newer section of 500 units was built by the University in the early 1960s in 50 buildings on 22.2 acres. These units are incurring increasingly higher maintenance costs and should undergo a major renovation or be replaced. The infrastructure supporting the housing also requires replacement.

Project History

The campus began planning for the replacement of University Village in 1990. Evaluations of existing conditions were conducted, including the building structures and materials, infrastructure, community facilities, and natural environment. The electric and plumbing systems in the 420 units built in the 1940s are obsolete and worn out. In addition, these units have problems with deteriorating foundations, floors, cabinetry, heaters, and windows, and with dry rot, asbestos, and peeling lead-based paint. Similarly, the 500 units built in the 1960s are incurring increasingly higher maintenance costs due to faulty sewer lines; obsolete plumbing, heating, and electric systems; rotting windows; worn-out counters and floors; leaking balconies; and exteriors that need watersealing and new paint.

The University Village infrastructure supporting the housing has deteriorated to the point where sewer, water, and gas lines need replacement. In addition, the Village needs to provide the capability for its student residents to take advantage of advances in data and telecommunications technology in support of academic programs. The community facilities, while in better condition than the units, will need some major renovation or replacement in the not-too-distant future.

The University Village master development program will be carried out in several steps to alleviate financial constraints on the campus housing system and to ease the transition from the historically low rents to the higher rents. Because of the high estimated cost of a full renovation program including the 1960s units and their better condition when compared with the 1940s units, the replacement of the older units is the first priority. The Step 1 project will replace most of the 1940s units and one area of 1960s units that is surrounded by the older units. The second and third steps will address the remainder of the units and the community facilities, respectively. The decision to proceed with the second and third steps will be made at a later time when the financial impacts are sufficiently defined.

Project Scope

The project will be undertaken in summer 1998 and be completed by August 2000 using a design-build delivery method. Three design-build teams have been prequalified, and these teams are submitting master plan proposals for the eventual replacement of all 920 units. The proposal that provides the best value while meeting all the campus' design and program criteria will be selected for the project.

The project will demolish 268 of the 1940s units along with 88 of the 1960s units and will construct a minimum of 390 new units in the same location. The unit mix will include a minimum of 292 two-bedroom units and 98 three-bedroom units. The mix of two- and three-story buildings will be arranged in courtyards to accommodate families with children. Uncovered parking will be provided at a ratio of 1.3 spaces per unit.

The deteriorated infrastructure will be replaced as appropriate for the Step 1 improvements, including new sewers and water and gas distribution lines. The overhead electric utilities will be replaced underground, and new data and telecommunications infrastructure will be installed. The infrastructure replacement will allow for continued service for the units not being replaced in this first step.

A minimum of 770 units will be available for rent at all times during the project in order to minimize disruption to tenants of the existing units and to continue to accommodate the housing needs of the students.

Demand Analysis

The Committee was informed that the Berkeley campus provides housing to approximately 30 percent of its married and student family households in 920 units at University Village and an additional 76 units at Smyth-Fernwald. About two-thirds of the family housing students are graduate students, and over half are international students. It is a campus goal to continue to provide student family housing at approximately this ratio because access to affordable, quality housing is an important factor in the ability of these students to attend the University, as well as in the recruitment of high-caliber research and teaching assistants.

University Village has traditionally provided housing for student families at rents that are considerably below market rates for the area. In summer 1995, the campus formed a task force to resolve several issues surrounding student family housing. The task force, which included student representatives from University Village and Smyth-Fernwald, recommended that the target rents for the replacement housing at University Village be set at 15 percent below market rents. Market rents were compiled from the campus' Community Living Unit, which provides listings of housing available for rent to students in the community. A second source of data was a comprehensive survey of all apartment projects with 40 or more units in the competitive East Bay market area, prepared by a firm specializing in this type of data. The resultant 15 percent below-market rents were then compared with several private and public universities that are considered comparable with the Berkeley campus, as well as other UC campuses, to ensure the rents remained competitive. These proposed rents were also compared with a 1994 Student Housing and Transportation Survey, updated to current dollars, which indicated that the average rents paid by married students for two- and three-bedroom units in the private market are approximately 25 percent higher than those proposed for the new units in the Village. On this basis, monthly rents for the first full year of operation (2001-02) will be $861 and $976 for new two- and three-bedroom, one-bath units, respectively. By setting the rent for the new units at these levels, the average rent per new unit will be approximately $3,500 per year more in 2001-02 than for the remaining 1960s units. This increase in rental rates will assist in meeting the project's debt service requirements, as will the net increase of 34 units. The new units will cost about $1,700 less per year to operate due to lower maintenance costs and the separate metering of some utilities.

The rents for existing units at University Village are significantly less than the target 15 percent below-market level recommended by the task force. The campus housing administration has worked with residents to implement a schedule of rent increases for the existing units that will bring rents closer to the target level, allow the accumulation of reserve funds to contribute towards the housing replacement program, and also increase net revenues to support the increased debt service.

The waiting list for family housing has historically ranged between 500 and 700 applicants. The current waiting list of 683 applicants includes 557 new applicants. In addition to the new applicants, there are 126 current Village residents on the waiting list to transfer from a 1940s unit, because of their obsolete and deteriorating condition, to a 1960s unit. There has been no decrease in the number of applicants on the waiting list since the rent increases were implemented.

Financial Feasibility

The total project cost is estimated at $55,400,000, to be funded from a combination of University of California Housing System Net Revenues and external financing. Based on debt of $45,400,000 at 7 percent interest amortized over 27 years, the average annual debt service is estimated at $3,788,000 and operating expenses are estimated at $4,121,000, for a total annual expense of $7,909,000. Payment of the debt service will be from student housing fees.

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

4. **AMENDMENT OF UNIVERSITY OF CALIFORNIA TAX-DEFERRED 403(B) PLAN--UCSF-STANFORD TRANSFER PROVISIONS**

The President recommended that the University of California Tax-Deferred 403(b) Plan (UC 403(b) Plan or Plan) be amended to allow Participants terminating from the University of California, San Francisco (UCSF), Medical Center and hiring at UCSF Stanford Health Care, to elect either to leave their assets in the UC 403(b) Plan or transfer all or a portion of their assets to the UCSF Stanford Health Care 403(b) plan. Participants with a promissory note may elect to repay the loan in full or transfer the promissory note and the assets in the fund(s) from which the loan was taken. In keeping with current Plan rules, Participants with UC 403(b) Plan balances of less than $2,000 will be required to transfer their balances to the UCSF Stanford Health Care 403(b) plan. Proposed Plan language is attached.

It was recalled that The Regents have been considering the creation of a nonprofit public benefit corporation, UCSF Stanford Health Care. The proposed effective date for this transaction is November 1, 1997. In connection with this transaction, certain employees currently working at the UCSF Medical Center will be employed at UCSF Stanford Health Care. Some employees, who have either reached retirement age or have long-term service, will be given the option to remain UCSF employees and be leased to the new corporation. The remaining employees will be hired at UCSF Stanford Health Care.

The term "separation from service," as used by the Internal Revenue Service (IRS), is not synonymous with termination of employment with respect to participants in Internal Revenue Code Sections 401(k), 403(b), and 457 plans. If termination of employment involves the spinoff of an operation to another employer and the employee performs the same job for the new employer, the employee is not considered to have separated from service. This is known as the "same desk rule." According to counsel, the same desk rule applies to UCSF employees who will be terminating employment at UCSF and hiring at UCSF Stanford Health Care to perform the same job. Although these employees will be considered to have terminated from UCSF for employment and labor purposes, for purposes of participation in the UC 403(b) Plan, they are not considered to have separated from service.

Therefore, since these employees have not separated from service, they will not be entitled to receive distributions from the UC 403(b) Plan unless they are age 59½ or they wish to withdraw only their pre-1989 Accumulations in the UC-managed funds. In addition, payroll deduction will no longer be available to employees as a means to repay any outstanding loans in the UC 403(b) Plan. Employees with loans must either repay their loans in full or be in default. Loans in default are deemed distributions and, as such, are subject to federal and State income taxes as well as federal and State excise taxes for early distributions if the Participant is under age 59½.

UCSF Stanford Health Care is currently designing a retirement program, part of which is a Code Section 403(b) plan similar to the UC 403(b) Plan. The UCSF Stanford Health Care 403(b) plan is being designed to accommodate the needs of the UCSF employees who will be hired at UCSF Stanford Health Care.

The University recommends that all UCSF employees who are participating in the UC 403(b) Plan and who will be hired at UCSF Stanford Health Care be given the option after terminating from the University to transfer all or a portion of their Accumulations and promissory notes for loans, if any, to the UCSF Stanford Health Care 403(b) plan. Participants who are transferring promissory notes to the UCSF Stanford Health Care 403(b) plan will also be required to transfer their Accumulations in the fund(s) from which the loan was taken. There are approximately 200 employees in the affected population with current loans from the UC 403(b) Plan. Consultants representing UCSF Stanford Health Care have agreed that the UCSF Stanford Health Care 403(b) plan will accept the assets and promissory notes transferred from the UC 403(b) Plan. Participants with outstanding loans at UC would thereby avoid having to either repay their loans in full or default and incur a taxable distribution.

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

5. **REPORT ON ANNUAL ADJUSTMENT TO THE REGENTAL SALARY APPROVAL THRESHOLD AND THE SENIOR MANAGEMENT SALARY GRADE RANGE SCHEDULE**

The President reported that the annual salary rate requiring Regental approval will increase from $153,000 to $156,100, in accordance with the California Consumer Price Index, effective November 1, 1997, subject to Presidential action on the University's budget.

A corresponding two percent adjustment will be applied to range structures, including those applicable to senior management positions, effective November 1, 1997, consistent with range movement for other levels of staff. These adjustments of the salary range structure 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.

6. **FOLLOW-UP ON THE JULY DISCUSSION OF DOMESTIC PARTNER BENEFITS**

Senior Vice President Kennedy recalled that in July 1997 the Committee on Finance had discussed a report on domestic partner benefits. At the conclusion of the discussion, the President was asked to consider the Regental views expressed at that meeting and to develop appropriate plans concerning the extension of benefits to domestic partners of University of California faculty, students, staff, and retirees, under his existing authority.

Mr. Kennedy reported that the President, after consultation and consideration of such issues as the competitiveness of the benefits offered to UC faculty and staff, costs to the University, UC retirement policies, and administrative and operational matters, now proposes to institute domestic partner benefits in two areas that are not currently available at the University of California. The President is prepared to implement health care benefits for same-sex domestic partners and to issue guidelines for student family housing that will allow chancellors to broaden eligibility to include new categories of students unless discussion indicates otherwise.

Health Care Benefits for Same-Sex Domestic Partners

In 1994 the Academic Council recommended that health, pension, and other benefits be extended to the domestic partners of UC faculty and staff. Since then, the Office of the President has consulted extensively throughout the University community. This consultation process among faculty, staff, students, senior management, chancellors, the Academic Senate, the Council of UC Staff Assemblies, and the UC Student Association, revealed strong support for offering such benefits.

During the Committee's discussion in July the point was made that the University of California is not in step with a national trend, in both public and private institutions, toward offering some form of domestic partner benefits, and that the lack of such benefits is affecting the University's ability to recruit and retain the most qualified faculty and staff, as well as the most outstanding graduate students. Nationally, the list of universities granting domestic partner benefits is growing. Of UC's comparison eight universities, four private institutions (Stanford, MIT, Yale, and Harvard) and two of the four public universities (the University of Michigan and SUNY Buffalo) offer health benefits to the domestic partners of their employees and retirees. Such benefits are becoming more widely available in both the public and the private sectors. Their availability is thought to strengthen competitiveness, improve morale, and promote diversity in the workforce.

After consultation about these issues, the President has concluded that offering health care benefits to same-sex committed partners would strengthen the University's ability to compete for faculty and staff, without involving significant costs. At the July 1997 Regents meeting, the public comment period included many faculty and staff testimonials about the commitments exemplified in domestic partner relationships within the University community. Many emphasized the negative impact the current lack of health care benefit coverage has on University employees. The adoption of such benefits would also make the children of same-sex domestic partners eligible for health care benefits.

Eligibility for Domestic Partner Benefits

Mr. Kennedy explained that, in order for an employee to be eligible for domestic partner benefits, certain prerequisites would need to be fulfilled. These prerequisites are still being developed but are likely to include the following types of requirements. The first prerequisite would be to meet the University's definition of domestic partner: an unmarried partner of the same sex as the University employee who is eligible for benefits. In addition, both partners must be at least 18 years of age; unmarried to any other person and uncommitted to any other domestic partner; not related by blood to a degree of closeness that would prohibit legal marriage in California; living together in a long-term relationship of indefinite duration with an exclusive mutual commitment similar to that of a marriage; and financially responsible for each other's well-being and for each other's debts to third parties.

The second requirement would be to sign and file with the University an affidavit declaring that the above-mentioned conditions have been met and that the partners have shared a common residence for at least twelve consecutive months. The third prerequisite would be to supply documentary proof of mutual financial support.

Cost of Domestic Partner Benefits

Financially, the University estimates the annual cost of providing domestic partner health benefits (medical, dental, and vision care) to same-sex partners at UC would range from $1.9

million to approximately $5.6 million. These estimates are based on the experience of other institutions and businesses, as the University has no means to determine with accuracy the number of individuals who would sign up for benefits. Generally, the University of California portion of a benefit expense is borne by the fund source that pays the employee's salary. For State-supported faculty and staff, the General fund budget pays for the employer's benefit expense. For a hospital worker at one of the medical centers, the medical center's revenue pays the employer's benefit expense. The portion of these estimated expenses borne by the General fund would be approximately 38 percent. Campuses support the funding cost for retiree health benefits through a general overhead fee charged against all retirement-covered salary. Those costs are included in the estimated range of expenses noted above. Provision for these benefits could be included in the next open enrollment and be effective January 1, 1998.

Guidelines for Student Family Housing

Since the inception of student family housing programs at the University of California, shared occupancy of units has been substantially limited to married couples and to students with children. In recent years, however, the changing nature of the student community and fluctuations in local housing markets have led students in different kinds of shared living relationships to request student family housing. Typically these requests come from undergraduate, graduate, and professional students living with domestic partners or with blood relatives--often a parent, brother, or sister. Further, they come at a time when demand for student family housing among those historically accommodated--married couples, and married and unmarried students with children--has diminished at some campuses.

The possibility of broadening the eligibility categories for student family housing was discussed throughout the University community and has gained the widespread support of students, faculty, and staff. The continued fiscal viability of student family housing programs, competition with other universities to attract the most qualified students, and concern for the morale and well-being of UC students all play a role in this support.

Authority over the administrative aspects of student family housing is vested with the chancellors under Regents' Standing Order 100.6, which charges each chancellor with responsibility for the organization and operation of the campus, its internal administration, and its discipline. This authority includes establishing eligibility criteria for occupancy of student family housing units.

The President has concluded that there are advantages to issuing systemwide guidelines for student family housing at this time. These guidelines, dealing with categories of eligibility for occupancy and housing assignment priorities, would allow individual chancellors discretion and maximum flexibility in determining housing eligibility at their campus while providing consistency across campuses. In essence, these guidelines would reaffirm that the chancellors, under their existing authority, may adjust the housing applicant eligibility pool to meet local market conditions and the needs of their individual campuses, including the accommodation of students and their domestic partners, students living with blood relatives, and others, subject to the understanding that students with children will continue to be guaranteed first priority.

Regent Davies reported that Governor Wilson had asked him to convey his serious reservations about the wisdom of proceeding with a policy change at this time. He requested that the President not proceed but rather that he schedule the matter for Regental action at the November meeting. Regent Davies stated that, speaking for himself, he did not quarrel with the fairness of domestic-partner benefits but that he did have serious reservations about the effect the policy change might have on the University's budget negotiations in Sacramento. He suggested that, until the University is assured on those grounds, the Regents should accede to the Governor's request.

Committee Chair Brophy stated his intention of taking a straw poll of the Committee members as to whether the matter should be delayed until November. General Counsel Holst advised that, while the item is before the Committee for discussion, it would be within the Chairman's prerogative to obtain an advisory vote. Regent Johnson suggested that the Regents might like to comment on the President's proposal first.

Regent Johnson believed that there should be stringent financial requirements for obtaining domestic partner benefits, including the partner being named in a will, a shared mortgage, or a share in mutual funds because there could be potential for fraud in the absence of such documentation. She recalled that one of the public speakers had commented that this was a decision whose time had come. Regent Johnson suggested, however, that the issue had been raised with the Regents only recently and that more time should be given to considering the issue.

Regent Davis pointed out that at the July meeting the Regents decided that this matter would be delegated to the President because it falls within his authority. President Atkinson recalled that at the July meeting he was instructed to return to the Regents with a proposal for domestic partner benefits. The proposal which he has put forth does not require Regental approval, but he does expect that the Board will give an indication of its stand on the matter.

Regent Davis drew the Committee's attention to the list of prestigious institutions that offer domestic partner benefits, including Stanford, Yale, Harvard, and M.I.T. The notion of domestic partner benefits is generally well accepted in academia and in many corporate communities. Regent Davis noted that the question now before the Committee is whether the decision should be made by the President or by the Regents. By allowing the President to act, the Regents would be expressing their confidence in him as an administrator. If the Regents chose to act, they would be deciding exactly what benefits, if any, should be offered and what cost, if any, to pass on to the employees. He suggested that domestic partner benefits were crucial to the University's remaining a preeminent academic institution.

Regent Connerly recalled that this issue was first brought to his attention three years ago, at which time he was informed that the matter was being tabled pending a study. Although the study has been completed, the administration has declined to act due to various outside factors. He suggested that, if the Regents accept the fundamental premise that the University is discriminating against some of its employees, then the matter should not be deferred. The Regents of the University of California is a separate constitutional branch of the State government. Regent Connerly stated that, while he has great respect for the Governor, there comes a time when principle matters more than anything else. He asked that the President act now because people's lives are being affected by the failure to do so.

Faculty Representative Weiss commented that over the past week there has been an invigorated morale at the University over the proposal being put forth by the President. She pointed out that it will be disheartening to the faculty and other members of the UC family if this proposal is not taken seriously. She encouraged the Regents to allow the President to move forward with the proposal, which represents an important step towards equity and competitiveness with the University's comparison institutions.

Regent McClymond expressed concern that by not acting on the issue the Regents would be breaking faith with people who have been very patient and who have been led to believe that the decision would be made by the President.

Regent Soderquist believed that extending domestic partner benefits to same-sex partners represented a business decision. It is the responsibility of the Regents to see that the University runs efficiently, which cannot take place in the absence of good employees. The University should treat its employees the same way that other employers do.

Regent Brophy stated that he had listened carefully to the remarks of the Regents and had come to the conclusion that the decision should be made by the President, as outlined by Senior Vice President Kennedy, and that no Regental vote should be scheduled for the November meeting.

Regent Bagley suggested that, if budget negotiations are involved, the President not act until November. Regent Brophy did not agree that how the Regents proceed would influence the Governor's actions with respect to AB 1415.

(For a subsequent announcement by Chairman del Junco concerning this matter, see the minutes of the September 18, 1997 Special Meeting of The Regents of the University of California, page 3.)

(For speakers' comments, see the minutes of the September 18, 1997 meeting of the Committee of the Whole.)

The Committee went into Closed Session at 4:40 p.m.

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The meeting adjourned at 5:20 p.m.

Attest:

Secretary