

The Regents of the University of California

JOINT MEETING
COMMITTEE ON FINANCE
COMMITTEE ON GROUNDS AND BUILDINGS
October 16, 1997

The Committee on Finance and the Committee on Grounds and Buildings met jointly on the above date at the UC Davis Cancer Center, Sacramento.

Members present: *Representing the Committee on Finance:* Regents Atkinson, Brophy, Davis, Johnson, Lee, Levin, McClymond, and Sayles; Advisory Members Miura and Willmon

Representing the Committee on Grounds and Buildings: Regents Atkinson, Johnson, McClymond, Montoya, Nakashima, Parsky, and Sayles; Advisory Member Willmon

In attendance: Regents Davies, Gonzales, Leach, 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, Dynes, Greenwood, Orbach, Vanderhoef, Wilkening, and Yang, Vice Chancellor Bainton representing Chancellor Debas, and Recording Secretary Bryan

The meeting convened at 11:15 a.m. with Committee on Finance Chair Brophy presiding.

1. **APPROVAL OF FINAL 1997-98 BUDGET FOR CURRENT OPERATIONS**

The President recommended that:

- (1) The Committee on Finance recommend to The Regents that the 1997-98 Budget for Current Operations, as modified by actions of the Governor and the Legislature, be approved.

- (2) The Committee on Finance recommend to The Regents that one-time temporary actions to absorb the \$12 million undesignated cut included in the University's 1997-98 Budget be approved.

It was recalled that in November 1996, The Regents approved a 1997-98 expenditure plan as described in a document titled **1997-98 Budget for Current Operations**, dated October 1996.

The final budget has been modified based on legislative and gubernatorial actions. As discussed with The Regents in September, the final 1997-98 State Budget provides the University with an increase of \$121.5 million in State general funds, which is a 5.9 percent increase.

The final State Budget provides support for a number of expenditures not included in the 1997-98 Budget for Current Operations dated October 1996. The Legislature and the Governor provided additional funds as follows: \$1 million for student academic outreach; \$1.1 million for several legislative and gubernatorial priorities (including \$235,000 for the Enology and Viticulture Program, \$400,000 for the International Thermonuclear Experimental Reactor, and an augmentation of \$500,000 for the Charles R. Drew University of Medicine and Science program); \$4.9 million to begin planning for the tenth campus and to expand academic programs in the San Joaquin Valley; and \$4.5 million for the UCSF-Rural Health Initiative to provide medical services in an area that is underserved.

The University's 1997-98 Budget had been developed on the basis of the four-year compact with the Governor and had received widespread approval through the budget process. The University's final 1997-98 Budget included a one-time undesignated cut, originally of \$12 million. This cut is the result of the State's making a court-ordered payment of \$1.3 billion to the Public Employees Retirement System late in the budget process. Restoration of the cut will be a high priority in the University's 1998-99 budget request.

Associate Vice President Hershman reported that the President's recommendation should be updated in response to actions taken by the Governor earlier in the week when he signed AB 1571, which provided an extra \$2.5 million to the University. The unallocated cut mentioned above was reduced, therefore, from \$12 million to \$9.5 million. Mr. Hershman indicated that at least half of that savings will be restored to the budget for deferred maintenance. Options with respect to salaries are still being considered.

Regent Johnson moved, and it was duly seconded, that the President's recommendation be amended as follows:

- A. The 1997-98 Budget for Current Operations, as modified by actions of the Governor and the Legislature, be approved.
- B. One-time temporary actions to absorb the \$9.5 million undesignated cut included in the University's 1997-98 Budget be approved.
- C. The President be authorized to allocate the unanticipated \$2.5 million augmentation provided for the University in the Governor's final 1997-98 budget as follows:

- (1) \$1.25 million for deferred maintenance.
- (2) To determine the appropriate distribution of the remaining \$1.25 million.

Then, upon motion duly made and seconded, the Committee on Finance approved the President's recommendation, as amended, and voted to present it to the Board.

2. **UNIVERSITY OF CALIFORNIA 1998-99 BUDGET FOR CURRENT OPERATIONS**

It was noted that the University's proposed 1998-99 Regents' Budget entitled **1998-99 Budget for Current Operations** had been mailed to all Regents on October 6, 1997. The Budget, modified as appropriate based on discussion at this meeting, will be presented for approval by the Board at the November 1997 meeting.

President Atkinson issued the following statement regarding AB 1415, The Higher Education Partnership Act, which the Governor vetoed:

"Wilson's veto of AB 1415 is a disappointment. I remain hopeful, however, that we can solve the serious long-term funding needs of public higher education in our state. Even though the Governor vetoed this specific measure, he affirmed his strong commitment to higher education, its importance to the future of our state and his desire to develop an alternative funding method. Speaker Bustamante demonstrated his personal commitment to higher education as well in the vision and leadership he displayed with regard to AB 1415 as did the Legislature in its support of this measure.

"We will continue to work with the Governor, the Speaker, and the Legislature to ensure that California's colleges and universities are adequately funded to maintain their quality and affordability as we face the enormous challenge ahead of accommodating the large number of students who will seek admission. AB 1415 would have provided the stable base of funding needed to serve these students. Now, unfortunately, the outlook for them is less certain. Working together, we can remove this uncertainty."

President Atkinson reported that the California Business Higher Education Round Table, with a grant from the Hewlett Foundation, supported a project called the Rand Project on Higher Education. A special committee of the Round Table, working with a number of financial experts and economists, is analyzing information from the Round Table report and other reports and recent legislation with the goal of determining what kinds of expectations exist for the University over the next five years. He indicated that an overview of those expectations will be presented to the Regents in January.

President Atkinson noted that despite the unprecedented cuts of the early 1990s, the University has managed to maintain its remarkable quality. He believed that would not have been possible without the help of the State, which has honored the four-year compact by providing additional funds to “buy out” proposed student fee increases; or without the help of alumni and friends who pledged more than \$700 million this year to support the University; or the Congress and the President, who have made federal research a high priority and have provided financial relief for students and their families. He noted, however, that the faculty-to-student ratio is at 19.5 to one, an all-time high.

President Atkinson then discussed the 1998-99 Regents’ Budget, which represents an assessment of what is needed for the University to meet its responsibilities to California and a blueprint of its aspirations for the future. The funding provided in this budget will make possible the following actions:

- Restoration of competitive faculty salaries.
- Continued honoring of the Master Plan and provision of a space for all eligible California high school graduates wishing to attend the University.
- Expansion of investment in research targeted to critical sectors of the state’s economy.
- Acceleration of investments in technology so that students will continue to have access to state-of-the-art instruction.
- Placing a special emphasis on repairing and renovating aging facilities.

The President commented also that planning for the tenth campus and the expansion of academic programs in the San Joaquin Valley are moving ahead, and that the administration will devote significant efforts to implementing the Outreach Task Force Report.

Mr. Hershman then discussed the proposed budget request for next year in detail. He acknowledged that, notwithstanding the Governor’s veto of AB 1415, the Governor and the Legislature have demonstrated their continued commitment to higher education by supporting the compact and providing the University with funding to “buy out” proposed student fee increases and to support other high priorities. He pointed out that with the compact coming to an end in 1998-99 and the veto of AB 1415, it is necessary to craft a new agreement that will build upon the successes achieved under the compact.

Mr. Hershman stated that this year’s budget proposal reflects extensive consultation. The proposal was developed within the context of the compact and the four-year

budget plan. While changes are not expected in the proposed expenditure plan, it is clear that there will be less income from student fees and more from the State general fund to support the plan. The budget proposal was discussed with the chancellors, the Academic Senate, the Council of Vice Chancellors, the budget and planning officers, and appropriate student representatives. It was also reviewed at several stages of development by the Executive Budget Committee, which is charged with general budget oversight, including responsibility for recommending the annual budget request. The group is chaired by President Atkinson and includes the chair and vice chair of the Academic Senate, the chair of the University Committee on Planning and Budget, two chancellors, one academic vice chancellor, three vice presidents, and Associate Vice President Hershman.

Mr. Hershman recalled that it is planned to present the 1998-99 expenditure plan to The Regents at the November meeting. In January, the Governor's proposal will have been received. At that time modifications and any changes in student fees that may be necessary will be recommended, and approval will be sought for proposed increases in nonresident tuition. He noted that the current budget proposal does not include an increase in general student fees and that it is hoped that, with continued economic growth, the State would again be in a position to buy out proposed increases. In addition, the Governor signed AB 1318, which provides for a five percent reduction in general fees for undergraduate resident students and a two-year fee freeze for California resident students enrolled in graduate or professional school programs. The bill also appropriates funding to offset the fee reduction. Given these actions, it was deemed appropriate to wait until January to take action on student fees.

Regent-designate Willmon requested that the Governor's veto message on AB 1415 and Speaker Bustamante's remarks be circulated so that those who wish to may thank them for their positive comments and their commitment to higher education.

Mr. Hershman noted that the total projected operating budget is about \$12 billion, which includes about \$2.6 billion for the Department of Energy Laboratories. An increase of about 3.8 percent is projected in the regular operating budget for the campuses. He pointed out that federal funds make up slightly more than half of the funding for research, State funds make up less than 20 percent, and other sources, including private funding, account for the rest. He reported that the picture overall for federal funding for research is encouraging. It is expected that the National Institutes for Health, for instance, will receive a seven percent increase. Federal funds for financial aid are also expected to increase, and there has been tremendous growth in private gifts and grants.

Mr. Hershman noted that the University's share of the State general fund budget has stabilized since the Governor's compact was developed and the economy has strengthened. There is concern, however, that the University will continue to be faced

with diminishing support unless some permanent funding mechanism is developed that will accommodate enrollment, which is projected to reach 185,000 students by 2010.

Mr. Hershman commented that in the 1998-99 budget proposal, State and UC general funds, plus student fee revenue, total nearly \$3 billion. An increase on the expenditure side of about 5 percent is proposed. Top priorities include restoration of the undesignated one-time cut caused by the action to pay PERS and funding for salary increases, merits, and enrollment increases. The student-to-faculty ratio has reached its highest point. It is hoped that it can be reduced to 18.7 to one. Expansion of the California Digital Library, cooperative research with industry, and instructional technology are also priorities. Mr. Hershman observed that, although an additional \$6 million will be requested from the State this year to fund building maintenance and deferred maintenance, the University will need to float a debt of about \$50 million per year for ten years to meet the demands in these categories. Regent Leach asked for more specific information about the priorities and requirements in these categories. Mr. Hershman explained that specific categories that were agreed upon by the Legislature give priority rankings to the various types of building maintenance and deterioration problems. He believed that a permanent source of income should be devoted to funding the cost of building maintenance and deferred maintenance. Regent Leach asked that a future meeting agenda include a description of what is included in deferred maintenance and an explanation of how the campuses and the Office of the President determine the priorities for this funding category.

Mr. Hershman noted that because for the last three years there have been no fee increases and that because this year there will be a five percent State-mandated reduction for undergraduate resident students, UC will be about \$1,100 below the average cost of its public comparison institutions. Regent Davis believed that this was a significant move on the part of the State Legislature.

Mr. Hershman reiterated that, in addition to the compact, the University has had a list of special priorities that the State has funded, such as instructional technology, cooperative research, and outreach. The University intends to work with legislative leaders to establish a partnership with schools that would provide extra Proposition 98 money for outreach. It is hoped also that a program can be established to match State funds with federal contracts and grants monies to support special individual projects. The University currently allocates about \$60 million from all sources for outreach.

After recalling the recent history of the University's capital budget, Mr. Hershman indicated that its focus continues to be on seismic, life safety and other infrastructure improvements. Because enrollment is starting to grow again, the \$150 million per year provided under the compact will need to be increased. It is estimated that through 2010 the annual capital budget will need to be about \$400 million for seismic corrections, life safety improvements, and modernization. About \$125 million a year would be related to projected enrollment growth, and \$25 million would be needed for

the Tenth Campus. The University hopes to combine its request with those of the California State University system and the community colleges and to put a bond measure on the ballot in June that would generate \$750 million a year for at least two years.

Regent Leach thanked Associate Vice President Hershman for doing an exceptional job of negotiating the University's budget allocations.

The Committees recessed for lunch at 12:20 p.m.

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The Committees reconvened at 1:50 p.m. with Committee on Grounds and Buildings Chair Nakashima presiding.

Members present: *Representing the Committee on Finance:* Regents Atkinson, Brophy, Davis, Johnson, Lee, Levin, McClymond, and Sayles; Advisory members Miura and Willmon

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In attendance: Regents Davies, Gonzales, Leach, 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, Dynes, Greenwood, Orbach, Vanderhoef, Wilkening, and Yang, Vice Chancellor Bainton representing Chancellor Debas, and Recording Secretary Bryan

3. **UNIVERSITY OF CALIFORNIA 1998-99 BUDGET FOR CAPITAL IMPROVEMENTS**

The University's proposed 1998-99 Regents' Budget entitled **1998-99 Budget for Capital Improvements** was mailed to all Regents October 6, 1997. The Budget, modified as appropriate based on discussion at today's meeting, will be presented for approval by the Board at the November 1997 meeting.

Mr. Hershman noted that the Budget for Capital Improvements lists the University's capital projects. He reported that the State has always honored The Regents' priorities in this category.

The meeting adjourned at 2:10 p.m.

Attest:

Secretary