

The Regents of the University of California

**COMMITTEE ON FINANCE**

July 16, 1998

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

Members present: Regents Atkinson, Bagley, Connerly, Davies, Johnson, Khachigian, Leach, Lee, Miura, Parsky, and Willmon

In attendance: Regents Chandler, Espinoza, Gould, Hotchkis, Kozberg, Montoya, Nakashima, Ochoa, Preuss, and Sayles, Regents-designate Taylor and Vining, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young representing Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Hershman, and Hopper, Chancellors Carnesale, Cicerone, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, Vice Chancellor Bainton representing Chancellor Bishop, and Recording Secretary Bryan

The meeting convened at 10:55 a.m. with Committee Chair Johnson 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 recommendation of the Committee on Grounds and Buildings that the 1998-99 Budget for Capital Improvements and the 1998-2001 Capital Improvement Program be amended pertaining to Los Angeles: I. Northwest Housing and Parking, Phase II.

B. *Approval of Student-Sponsored Increases in Undergraduate Student Fees, Santa Barbara Campus*

The President recommended that effective Fall Quarter 1998, fees for undergraduate students at the Santa Barbara campus be increased as follows:

- (1) The Associated Students Fee be increased from \$40.80 to \$43.00 per undergraduate student per quarter to provide support for the Associated Students Program Board, the campus Bicycle System, and Isla Vista Community Improvements.
- (2) An Intercollegiate Athletics Scholarship Fee of \$9 per undergraduate student per quarter be established.

- (3) The University Center Fee be increased for undergraduate students from \$6 to \$15 per student per quarter for maintenance and improvements.

C. ***Approval of Student-Sponsored Graduate Student Fees, Santa Barbara Campus***

The President recommended that effective Fall Quarter 1998, the following new fees be charged to graduate students at the Santa Barbara campus:

- (1) Establishment of a Bicycle System Improvement Fee of seventy-five cents per graduate student per quarter.
- (2) Establishment of a Multicultural Center Fee of seventy-five cents per graduate student per quarter.

D. ***Approval of Undergraduate Student Health Insurance Fee, Santa Cruz Campus***

The President recommended that effective with the Fall Quarter 1998, an Undergraduate Student Health Insurance Fee be charged all registered undergraduate students at the Santa Cruz campus, subject to the following conditions:

- (1) The cost of the insurance premium shall be \$360 per student per calendar year, subject to a five percent cap on annual adjustments based on changes in medical costs and benefit levels.
- (2) The fee will be collected through the regular registration process beginning Fall Quarter 1998.
- (3) Participation in the health insurance plan will be mandatory; however, if students provide evidence of comparable coverage from another source, participation in the mandatory plan may be waived.

E. ***Increase in Undergraduate Student Governance Fee, Santa Cruz Campus***

The President recommended that the Student Governance Fee be increased for undergraduate students from \$2.00 per student per quarter to \$2.50 per student per quarter for the period of Fall Quarter 1998 through Spring Quarter 2001 to establish a student-run restaurant and cultural center, and that the fee be reduced by fifty cents per student per quarter effective Fall Quarter 2001.

F. *Approval of Waiver of Subrogation Rights, National Aeronautic and Space Administration, Office of the President*

The President recommended that he be given blanket authorization to execute a National Aeronautic and Space Administration (NASA) clause which requires assumption by the University of third-party liability, action which is restricted to The Regents under Standing Order 100.4(dd)(9). The clause is required by NASA for all awards.

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

2. **UPDATE ON 1998-99 STATE BUDGET AND BOND ISSUE FOR EDUCATION**

Associate Vice President Hershman noted that the State does not yet have a budget, but he provided an update on where the University stands with the Legislature and the Governor. He recalled that in May it was reported that there was about \$4 billion more revenue available for 1997-99 than had been in the Governor's original January budget. Based on this, the Governor presented a May revision which allowed for about \$1 billion in tax relief, which over a five-year period would build to about \$3.5 billion.

The Governor put aside \$1.5 billion as a reserve and provided for some one-time money for UC and permanent funding for K-12 and higher education. The Legislature has been working on the Governor's proposal and has come up with its own plans in the Assembly and the Senate, adding money for K-12, higher education, health and welfare, and State employees' salaries. The Governor's tax proposal reduction was rejected, and the reserve was brought down considerably. Since then, the Democrats have offered an alternative proposal containing a \$1 billion tax credit for the Vehicle License Fee. The Conference Committee has almost completed a budget which sets aside \$1 billion in tax relief in the budget year and provides a \$400 million reserve.

Mr. Hershman mentioned some important aspects of the budget that is before the Conference Committee. The Governor's original budget had a \$175 million increase for the University, based on the compact as well as other actions to reduce student fees and provide for program improvements. In the May revision, the Governor added about \$134 million, \$85 million of which was for deferred maintenance, instructional equipment, instructional technology, and libraries. He supported the full enrollment of another 3,200 students. He also provided some additional money for a research program in substance abuse. The Conference Committee's actions on the May revision included improvements to enrollment funding and support for Subject Matter improvements, but it also reduced one-time money for UC by \$15 million. The committee augmented the University's budget in other areas by about \$55 million. These areas include \$23.5 million for outreach, \$5.5 million for agricultural research and Cooperative Extension, and \$1.4 million for a program to support funding for teacher training.

Mr. Hershman indicated that he expected to present a revised budget plan for Regental approval at the November meeting. He believed that the final budget will be a good one for the University.

Mr. Hershman then commented on the capital budget, which started, based on the compact, with \$150 million. During the spring negotiation process, all education segments argued for capital funding of \$250 million per year per segment, with a total bond issue over four years of \$3 billion. The Legislature approved the \$250 million program for 1998-99, dependent upon the bond issue. In addition, the Conference Committee approved \$20 million more in general funds for the Merced campus to provide for infrastructure and other capital purposes. Ten million dollars of that is dependent on whether the money is spent during the budget year. Recently, the Assembly approved a \$9 billion, four-year bond issue for the November ballot that includes \$2.5 billion for higher education and \$6.5 billion for K-12. That is less than the \$3 billion hoped for but more than has been received in recent years. The Senate rejected the Assembly proposal, however. There are still significant issues to be negotiated. The bond issue will go into a Conference Committee. Mr. Hershman believed that it is not likely the \$2.5 billion will be increased. UC's capital budget is dependent upon this bond issue.

Regent Bagley expressed his disappointment that the University has raised student fees during the past nine years. He believed that by increasing fees by \$2,000, The Regents rescued the State; therefore, the current budget surplus should be used to roll back tuition. Regent Leach noted that universities around the country are increasing fees far more than the University has. He believed that, once the budget process is completed, the President should express his appreciation to the Governor and the Legislature for putting the University in the position of not having to raise fees this year. Mr. Hershman noted that some student fees will be reduced this year and possibly next year.

Committee Chair Johnson asked about deferred maintenance. Mr. Hershman explained that \$5 million has been cut from the deferred maintenance allocation, leaving \$20 million. He noted that the University itself will be financing \$65 million for deferred maintenance. That total of \$85 million is a small beginning toward producing the \$500 million that is actually needed.

President Atkinson pointed out that the teaching credential program mentioned by Mr. Hershman will be systemwide. Any student receiving a UC bachelor's degree in any field may become fully credentialed by completing two summer sessions and a nine-month internship paid for by the schools. The funds provided by the Governor for the program will pay for the cost of the student enrollment during the summer months. He believed it was a very important program that will help provide much-needed teachers quickly. He emphasized that UC receives no State support for its summer or extension programs, which serve 500,000 students a year.

Regent Espinoza was grateful to the Governor and the Legislature for providing budget support for outreach. He asked whether their priorities matched those outlined by the Outreach Task Force. Mr. Hershman responded that \$20 million, or about two-thirds of the increase, will go toward student academic development programs. About \$4.7 million will go toward partnerships, about \$2 million toward community college outreach, just over \$2 million into graduate and professional outreach, and \$.5 million into charter schools. The allocation puts more into the student-oriented programs and more into the partnership proportionally than the University might have wished. Regent Ochoa believed that the budget was a great leap forward in improving the University's outreach efforts. President Atkinson noted that an outreach program plan would be presented to the Regents in September.

In response to a question from Regent Montoya, Mr. Hershman noted that there is \$10 million in the K-12 budget for Scholastic Achievement Test preparation, and part of the UC augmentation will also help with that effort. President Atkinson reported that this summer UC will sponsor an internet site which will help students prepare for the SATs.

Regent Connerly commented that there are many non-profits and foundations prepared to support outreach. He suggested identifying those and determining whether they could complement the University's proposals. President Atkinson pointed out that during the past decade the University has acquired a great deal of funding from such entities. He agreed to provide an accounting of those funds to the Regents at the September meeting.

Regent Connerly noted that the University's financial aid model raises fees to generate more money for financial aid. Mr. Hershman responded that the University will benefit in terms of the financial aid available per student by the fact that the Governor reduced the fee by 5 percent. Also, there is a \$42 million budget for Cal Grants that should help the University achieve the mid-point of the range in the financial aid model, improving the University's ability to provide financial aid. President Atkinson emphasized that when the University increased fees, one-third of that increase went toward student aid. As fees are reduced, the University will keep the money in its budget for financial aid. Regent Connerly believed that costs are being raised for middle-income families to offset the revenue that taxpayers in general would otherwise be paying. He was concerned that those families are being pinched by the financial aid model. Mr. Hershman reiterated that there has not been a fee increase for several years. He believed that the federal credit with respect to fees that is available helps the middle-income student. The University's own financial aid is also helping more middle-income students than in the past. President Atkinson re-emphasized that as student fees go up, one-third of the money goes to financial aid, but as student fees go down, the pool of dollars remains the same.

Regent Chandler asked about UC Merced funds. Mr. Hershman responded that the Conference Committee has approved \$10 million in operating money for the tenth

campus. At issue was an augmentation of \$50 million proposed by former Speaker Bustamante for capital outlay. That was reduced to \$20 million. Ten million dollars of it is available for a period of years for infrastructure. The second \$10 million would be available only if the University can spend it during the budget year. The issue is still being negotiated.

3. **ENDORSEMENT OF PUBLIC EDUCATION FACILITIES BOND ACT IN 1998**

The President recommended that, contingent upon approval by the Legislature and the Governor of legislation to place a general obligation bond measure on the November ballot providing funds for University facilities and infrastructure improvements, The Regents endorse such a measure. It was further recommended that the President and other University officials be authorized to organize an information program to explain the critical role of the bond measure in the University's efforts to ensure that projected enrollment growth can be accommodated, that buildings are seismically safe, that essential infrastructure is repaired or replaced, and that critical fire and life safety improvements are made at the nine University of California campuses.

It was recalled that this bond measure will provide needed funds for facilities and infrastructure improvements at California's public schools, the California Community Colleges, California State University, and the University of California. Funding for the University's 1998-99 State-funded capital outlay budget is contingent upon voter approval of a general obligation bond measure. Approximately one-third of the bond funds would be appropriated to the University of California.

Although a bond measure has not yet been passed by the Legislature or approved by the Governor, the University, in coordination with California State University and the California Community Colleges, has been working with the Governor and members of the Legislature to place a bond measure on the November ballot. In the hope that a measure will be approved by the Legislature and the Governor, and recognizing that the Board of Regents does not meet in August, it is recommended that The Regents endorse a bond measure during the July meeting, contingent upon approval of a bond measure for the November ballot by the Legislature and the Governor. The deadline for inclusion of a measure in a supplemental ballot is August 27, 1998. Regental endorsement of a 1998 bond measure will provide the action necessary for the University to initiate an informational campaign in support of the bond measure.

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

4. **AMENDMENT OF EXTERNAL FINANCING FOR NORTHWEST HOUSING AND PARKING, PHASE II, LOS ANGELES CAMPUS**

The President recommended that the financing action approved by The Regents in May 1997 and the administrative approval in June 1997 with respect to financing for the

Northwest Housing and Parking, Phase II project be amended as shown below, with the understanding that all other actions approved in May 1997 and June 1997 in connection with said project remain unchanged:

**deletions shown by strikeout, additions by shading**

- A. Funding for the Northwest Housing and Parking, Phase II, project be approved as follows:

<u>Fund Source</u>	<u>Amount</u>	
External Financing	\$61,930,000	\$72,029,000
University of California Housing System Net Revenue Fund	\$ 8,000,000	\$ 9,000,000
UCLA Parking System Reserves	\$ 1,700,000	\$ 100,000
Total	\$71,630,000	\$81,129,000

The Treasurer be authorized to obtain external financing not to exceed \$61,930,000 \$72,029,000 to finance construction of the Northwest Housing and Parking, Phase II project, 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) With regard to the housing portion of the project (~~\$61,730,000~~) (\$72,029,000), University of California Housing System fees for the Los Angeles campus shall be established at levels sufficient to meet all requirements of the University of California Housing System Indenture and to provide excess net revenues sufficient to pay the debt service and to meet the related requirements of the proposed financing; and
- (3) ~~With regard to the parking portion of the Northwest Housing and Parking, Phase II project (\$200,000), parking fees for the UCLA Parking System shall be established at levels which, together with other related user fees, will be sufficient to provide excess net revenues to pay the debt service and meet the related requirements of the proposed financing; and~~
- (4)(3) The general credit of The Regents shall not be pledged.

It was recalled that in May 1997, The Regents approved the Northwest Housing and Parking, Phase II project in response to the continuing unmet demand for housing at the Los Angeles campus. The project included approximately 1,346 residence hall bed spaces, related parking, student programming, 12 faculty/staff apartments, and recreational facilities. The total project cost of \$71,630,000 was to be funded from a

combination of external financing (\$63,630,000) and University of California Housing System (UCHS) Net Revenue Funds, Los Angeles campus (\$8,000,000). Of the total external financing authorized (\$63,630,000), the housing portion represented \$61,730,000 and the parking portion represented \$1,900,000.

In June 1997, the campus obtained administrative approval to decrease the amount of external financing relative to the parking portion to \$200,000 and fund the difference of \$1,700,000 from UCLA Parking System reserves. At this time, the campus is requesting Regents' approval of an increase to the Northwest Housing and Parking, Phase II project of \$9,499,000 (13.3 percent), for a total project cost of \$81,129,000.

### **Budget Augmentation Information**

The proposed augmentation represents a net increase of \$9,499,000 resulting from cost increases (+) totaling \$15,512,000, and cost offsets (-) of \$6,013,000. Factors affecting the project costs include scope changes initiated by the campus, scope changes in response to community concerns, unforeseen construction conditions, cost estimation adjustments, and other variables as described below:

**Scope Changes Initiated by the Campus (+\$2,417,000)**, which include the following components:

- An expanded auditorium facility (+\$1,685,000) for student and conference use;
- An expanded food services loading dock (+\$350,000); and
- Extension of Bruin Walk (+\$382,000) to integrate the project with the core campus.

**Scope Changes in Response to Community Concerns (net impact - \$751,000)** include:

- Elimination of the parking structure (-\$5,771,000). The project is now proposed to provide 129 spaces: 46 new surface spaces and the restoration of an 83-space surface lot;
- A new decentralized system (+\$1,123,000) for power distribution, heating, and cooling;
- Additional landscape and hardscape (+\$618,000);
- Incorporation of residential units into the commons building (+\$1,884,000), which consists of a more fire-resistive (steel, concrete) type of construction;



These modifications resulted in significant additional surveys and testing costs on the project (+\$522,000). Additionally, delays in starting the main contract for 7 months due to redesign work has escalated costs (+\$873,000).

Programmatic changes undertaken in response to community concerns include the following: housing space has been decreased by 21,185 asf; administrative space has been decreased by 155 asf; program and support areas have decreased 12,021 asf; and dining services has increased by 4,024 asf.

Residential beds were decreased by 54 bedspaces, which represents a less than 1 percent reduction of the total inventory of on-campus beds relative to the original proposal, and will not negatively affect the campus' ability to meet anticipated housing needs. The Long Range Development Plan identified the need for 9,600 on-campus bed spaces by the year 2005. When the Northwest Housing and Parking, Phase II project is concluded, the inventory of on-campus housing bed spaces will increase by 1,292, to a total inventory of 6,438 spaces. A decrease of 221 parking spaces will be addressed in the near term by reassigning parking spaces to other structures and lots near the proposed project.

#### **Cost Increases Due to Cost Estimation Variables (+\$2,310,000)**

Early budget assumptions prior to the CIP amendment in May 1997 did not anticipate some of the decisions made subsequently with regard to site conditions, quality expectations, design constraints, and construction methodologies of the project. Increases to the project costs due to inadequate estimating assumptions include the following:

- Auditorium Technology (+\$337,000). The quality level of the original cost estimate was not sufficient for the level of student and conference use required.
- Sound Attenuation (+\$148,000). The original project documents specified a double layer of gypsum board and resilient channels between each residential unit; the original estimate had assumed a single layer with no channel.
- Roofing (+\$253,000). The original roofing assumed composite shingles. The budget increased to provide for cement roofing tiles, which will provide a longer life cycle cost (40 years) and better protection against water infiltration.
- Foundations (+\$1,572,000). Original estimate provided only for slab-on-grade construction for the wood-frame residential units. Foundation support columns are required for the wood-frame residential units due to site conditions (+\$157,000). These same site conditions also required partial basements (+\$1,415,000).

#### **Unanticipated Construction and Site Conditions (+\$3,565,000)**

Unforeseen and undocumented site conditions and unknown construction conditions have added costs to the project:

- Site Costs (+\$694,000) have increased due to lack of accurate as-built drawings, which necessitated the re-routing of a 10-inch water main, replacement of electrical services, and reconfiguring main sewer lines.
- Construction Delays (+\$1,781,000) totaling approximately 150 days have occurred due to rain to date and site work conditions.
- Market Conditions (+\$1,090,000) have increased project costs due to lack of available subcontractors and a competitive bid atmosphere.

**Soft Costs and Finance Costs (net impact +\$1,958,000)**

- Interest Expense (+\$700,000) has increased due to overall projected cost increase and schedule delays.
- Contingency (+\$1,500,000) has been increased concurrent with anticipated higher construction costs.
- Internal Fees have been decreased (-\$242,000) due to management and staff changes to the project.

**Financial Feasibility**

The total project cost, estimated to be \$81,129,000, is to be funded from a combination of external financing (\$72,029,000), UCHS Net Revenues (\$9,000,000), and UCLA Parking System Reserves (\$100,000). The UCHS portion of the total project is \$81,029,000, to be funded from external financing (\$72,029,000) and UCHS Net Revenues (\$9,000,000). Assuming a debt of \$72,029,000 amortized over 27 years at 6.5 percent interest, average annual debt service is estimated at \$5,728,000 and operating expenses are estimated at \$7,034,000, for a total annual expense of \$12,762,000. Repayment of the debt would be from student rents generated by the proposed facilities and by subsidies from existing UCHS facilities. Rates for Northwest Housing, Phase II would be \$8,644 per year (room and board for 9 months) for the first full year of occupancy. The parking portion of the total project cost is \$100,000, to be funded from UCLA Parking System reserves.

Regent Lee noted that the cost of the project increased by 13 percent while the space decreased by 20 percent. He wondered why all students will have to pay increased housing costs to support this project. Chancellor Carnesale responded that it has been a general philosophy to charge all students about the same amount for housing. Vice Chancellor Morabito noted that many of the components of this project are available to the entire campus resident population and that, even though rates will increase for

all students to support the project, those rates remain within the middle range of all UC rates. Senior Vice President Kennedy observed that the University's housing program seeks to provide student housing at below-market rates. If individual projects were priced differently, it would be unlikely that new projects could be built. The costs must be spread across all student rent scales.

Regent Montoya noted that in May 1997 students voiced concern about the inclusion of basketball courts within the project. Mr. Morabito commented that, although no courts are included in this complex, other courts are available and more court sites are expected to be added in the future.

Regent-designate Taylor believed that a student's experience is enhanced by living on campus for his or her first two years and that there is an overwhelming need for housing. He believed the proposal was solid.

Regent Connerly pointed out that changes that had to be made in the foundation and roofing added to the project's expense. Construction costs generally have increased, also. He supported the project.

Regent Espinoza asked whether alternatives to recovering the costs of building the facilities by using student fees were considered. He asked also if there were a way to spread the costs over a longer period of time. Mr. Carnesale explained that the projects must be self-supporting, because State funds provided for other purposes may not be used for housing. The timing is based on what is appropriate for the expected useful life of the structure.

Regent Lee maintained that a way must be found of providing adequate housing without increasing the costs for all the students at a campus. President Atkinson responded that the University is permitted to use as financing only the rent that flows from the project. When a new project is brought on, it is followed by an increase in fees the following year for all the housing stock on that campus. On the other hand, the campus' competitive prices will still be below market, and as time passes, that differential will increase. He noted that in the 1960s, UCLA was housing about 10 percent of its students on campus. He saw no other alternative to fund housing than to increase student fees. Chancellor Carnesale emphasized that the costs are not fees but are actually rents paid only by students in campus housing.

Senior Vice President Kennedy reported that many student housing models have been considered over the years. The model chosen for UCLA is believed to be the best to use given its small, compact configuration.

Upon motion duly made and seconded, the Committee approved the President's recommendation, with Regent Lee voting "No," and voted to present it to the Board.

## **REPORT OF THE GENERAL COUNSEL**

General Counsel Holst presented his **Report on New Litigation**, which by this reference is made an official part of the meeting record.

[The **Report on New Litigation** was mailed to all Regents in advance of the meeting, and a copy is on file in the Office of the Secretary.]

The meeting adjourned at 12:05 p.m.

Attest:

Secretary