The Regents of the University of California

COMMITTEE ON FINANCE
July 15, 1999

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

Members present: Regents Atkinson, Bagley, Connerly, Davies, Hopkinson, S. Johnson, Lee, Montoya, Pannor, and Preuss

In attendance: Regents O. Johnson, Khachigian, Kozberg, Lansing, Taylor, and Vining, Regent-designate Kohn, Faculty Representatives Coleman and Dorr, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Vanderhoef, and Yang, Laboratory Director Browne, and Recording Secretary Bryan

The meeting convened at 10:25 a.m. with Committee Chair S. 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 recommendations of the Committee on Grounds and Buildings that the 1999-2000 Budget for Capital Improvements and the 1999-2002 Capital Improvement Program be amended to include the following projects: (1) San Diego: A. Engineering Building Unit 3A - Bioengineering; and (2) San Diego: B. Cogeneration Addition to the Central Utilities Plant.

B. ***Proposed Student-Sponsored Recruitment and Retention Centers Fee, Berkeley Campus***

The President recommended that, effective fall semester 1999, a mandatory Recruitment and Retention Centers Fee of $3 per student per semester be assessed to all enrolled students at the Berkeley campus.

C. ***Proposed Student-Sponsored Increases in Graduate Student Association Fee, Riverside Campus***

The President recommended that, effective with fall 1999, the Graduate Student Association Fee at the Riverside campus be increased from $10 per graduate student per quarter as follows:

Academic Year	Fee per Graduate Student per Quarter
1999-2000	$12
2000-2001	$14
2001-2002	$16
2002-2003	$18
2003-2004 and thereafter	$20

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

The President recommended that, effective with the fall quarter 1999, fees for students at the Santa Barbara campus be approved as follows:

Undergraduate students only:

- An increase in the existing Associated Students Fee of $.75, from $43.00 to $43.75 per undergraduate student per quarter;
- A new Events Center Support Fee of $4.00 per undergraduate student per quarter; and
- For the 1999-2000 academic year only, a new Campus Track Repair Fee of $4.50 per undergraduate student per quarter.

Graduate students only:

- An increase in the existing Graduate Student Association Fee of $1.50, from $8.00 to $9.50 per graduate student per quarter.

Undergraduate and graduate students:

- A new Shoreline Fee of $3.00 per student per quarter.

[For speakers' comments, refer to the minutes of the July 15 morning session of the Committee of the Whole.]

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

2. **EXTERNAL FINANCING FOR SEISMIC SAFETY CORRECTIONS, FEMA PROGRAM PHASE 1, BERKELEY CAMPUS**

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

A. Funding for Seismic Safety Corrections, FEMA Program Phase 1, Berkeley campus, be approved as follows:

Fund Source	Amount
Federal Emergency Management Agency (FEMA)	$41,960,000
External financing	32,000,000
State	13,987,000
Campus funds	4,153,000
Total	$92,100,000

B. The Treasurer be authorized to obtain long-term external financing not to exceed $32 million for Seismic Safety Corrections, FEMA Program Phase 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) Repayment of the debt shall be from the Berkeley campus' share of the University Opportunity Fund.

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

C. The Treasurer be authorized to obtain interim external financing not to exceed $10 million to finance, if necessary, cash flow needs in connection with the FEMA Hazard Mitigation Grant Program for seismic correction costs associated with this project, subject to the following conditions:

(1) Interest on any advance shall be paid from income distributed from the Russell Springer Memorial Foundation Fund to the Berkeley campus.

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

(3) It be recognized that should significant disallowance of expenses occur in the post-audit reviews of this seismic project, the campus would, if necessary, return to The Regents to seek the appropriate approval for long-term external financing of some or all of those costs.

D. The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is exempt from federal income taxation under existing law.

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

The Committee was informed that the project will eliminate serious seismic safety deficiencies and correct accessibility and life safety deficiencies in four Berkeley campus buildings, Barrows Hall, Hildebrand Hall, Latimer Hall, and Silver Laboratory, which total approximately 559,000 gross square feet and 337,000 assignable square feet. Three of these buildings house instruction and research programs and one, Silver Laboratory, houses an organized research unit. They were identified in the campus' SAFER seismic action plan and are among its highest priorities for seismic safety improvements.

The Berkeley campus has received a grant under the Hazard Mitigation Grant Program of the Federal Emergency Management Administration for this project. FEMA will fund 75 percent (up to a $41,960,000 maximum) of certain structural and related costs and requires the remaining 25 percent to be matched by non-federal funds. State funding has been proposed for the matching share, $13,987,000. The Berkeley campus and external financing will provide the remaining funds necessary to complete the project.

Corrective work in these four buildings will improve their resistance to seismic forces and provide substantial life-safety protection to their occupants during a large earthquake. All four buildings are located close to the seismically active Hayward fault, which crosses the eastern edge of the central Berkeley campus. Recent studies have shown that these buildings could sustain major damage or collapse in a large earthquake and that each poses a high safety risk to the occupants. Hildebrand Hall is rated seismically “Very Poor,” while Latimer Hall, Barrows Hall, and Silver Laboratory are rated seismically “Poor.”

Each individual building will receive seismic strengthening in accordance with its specific structural needs. Upon completion of the work, each building will achieve a seismic rating of “Good.” Hazardous material abatement and mandatory correction of fire and life safety and accessibility deficiencies will be completed in each building as part of the project. Each building will require relocation of some or all of its occupants in a manner that ensures the integrity of the academic programs. The campus will use several strategies to accommodate these programs during construction, including placing temporary structures on the campus, doubling up staff in existing facilities, and adapting existing space in which to relocate building occupants. Wherever possible and cost-effective, renovated space used for relocation will be permanent for future occupants.

Because this project includes the very specific and unique design elements associated with seismic retrofit of four buildings, no comparable costs from other projects are available.

Financial Feasibility

The project is estimated to cost $88.9 million, plus financing costs of $3.2 million, for a total capitalized project cost of $92.1 million. The project will be funded from a combination of FEMA funds ($41,960,000), State funds ($13,987,00), external financing ($32 million), and campus funds ($4,153,000).

Based on a debt of $32 million amortized over 27 years at 6.5 percent interest, the average annual debt service is estimated to be $2,545,000. Repayment of the debt will be from the Berkeley campus' share of the University Opportunity Fund. Opportunity Funds are a portion of the indirect costs recovered from federal contracts and grants. Thirty-four percent of the campus' estimated Opportunity funds generated in 2002-03 (the first full year of operation) will be pledged for debt. Both Opportunity Fund pledge and payment levels fall within prescribed limits.

The FEMA program operates on a reimbursement basis following expenditure by the campus and billing to the Office of Emergency Services (OES), the State agency that disburses FEMA's HMGP funds. A short-term $10 million financing requirement was developed using estimates of reimbursement timing. These estimates were based upon discussion with OES staff and are consistent with UCLA's experience with FEMA project reimbursements timing.

The campus has identified the Russell Springer Memorial Foundation Fund (Springer Fund) as the unrestricted endowment whose income will be used to pay debt service on the short-term loan. The Springer Fund is a Fund Functioning as Endowment which is invested in the General Endowment pool and had a market value on May 31, 1999 of over $65.3 million. Investment income on the Springer Fund in the 1997-98 fiscal year was $1.87 million. Under the new endowment spending policy, the payout to be distributed for fiscal year ending June 30, 1999 is estimated to be approximately $1.9 million. General Counsel reviewed the terms of the Springer endowment and concluded that the campus may use the income as proposed.

Should some claims for FEMA reimbursements be disallowed, repayment of any of the State funds drawn down will be paid from unrestricted funds available to the Berkeley campus. Depending on the magnitude of any disallowances, the campus may need to return to The Regents to seek long-term permanent financing.

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

3. **EXTERNAL FINANCING FOR COGENERATION ADDITION TO CENTRAL UTILITIES PLANT, SAN DIEGO CAMPUS**

The President recommended that, subject to the approval to amend the 1999-2000 Budget for Capital Improvements and the 1999-2002 Capital Improvement Program to include the Cogeneration Addition to the Central Utilities Plant (CUP), San Diego campus:

B. Funding for the Cogeneration Addition to the Central Utilities Plant, San Diego campus, estimated at $30,868,000, be approved for external financing.

C. The Treasurer be authorized to obtain external financing not to exceed $30,868,000 to finance the Cogeneration Addition to the Central Utilities Plant, San Diego 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) Repayment of the external financing shall be from the University's annual appropriation from the State of California and other lawfully available funds of The Regents.

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

D. 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.

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

It was recalled that cogeneration is a proven technology for generating electricity and steam simultaneously from natural gas. Steam is used at the CUP to generate chilled water for air conditioning as well as for building heat.

Cogeneration was planned for implementation at the San Diego campus in 1995, but execution of the project was rendered uneconomical as a consequence of Assembly Bill 1890 that governed the transition period of the phased deregulation of the electric utility industry. With the pending completion of the deregulation transition period, the project will again be financially advantageous. The project is expected to result in savings over 30 years of $111.6 million in nominal dollars ($36.6 million net present value). The decision of the San Diego campus to pursue cogeneration is supported by the successful example of previous cogeneration projects at other University of California campuses, as well as by an exhaustive analysis, assisted by external consultants, of the specific parameters of a project tailored to the needs of the San Diego campus.

Project Description

The Cogeneration Addition to the Central Utilities Plant will generate up to 28 megawatts of electricity for the campus and generate an average of 95,000 pounds of steam per hour. This size plant is a good match with the existing equipment configuration and growth needs for the foreseeable future. At the time of project completion, 28 megawatts will support approximately 95 percent of main campus peak electrical demand. The 95,000 pounds of steam per hour generated will provide approximately 65 percent of CUP peak steam demand. The campus will continue to purchase electricity from a utility provider and will generate steam with conventional boilers as needed when demand exceeds cogeneration capacity and during scheduled maintenance periods.

Elements of the project will include construction of an approximately 8,750 gross square foot addition to the CUP; installation of a natural gas-fueled turbine generator with emissions controls and related support systems, a waste heat recovery steam generator, and electrical equipment to control the output of the generator; and realignment of a service access road. The expected life of the equipment is greater than 30 years. The high operating efficiency of the equipment will allow the campus to generate electricity at a lower cost per kilowatt-hour (kWH) than if purchased in the utilities market.

Project Cost and Projected Savings

The $30,868,000 million project budget is based on an engineering and conceptual design study performed by Parsons Energy & Chemicals Group, Inc. This group has been involved in other successful University of California cogeneration projects, including the UCLA Chiller/Cogeneration project. Other UC cogeneration projects entailed the complete replacement of central plants. As this project will require only a small building addition, there are no comparable projects from a cost comparison standpoint. Project financial feasibility analyses were performed by HMH Resources, Inc., including comparisons and analyses with successfully completed cogeneration plants at the San Francisco and Los Angeles campuses, as well as other private sector projects completed in the last 10 years.

Project and operating costs will be paid from the portion of the University's annual State appropriation for the purchase of utilities on the San Diego campus and from utility recharges to campus auxiliary enterprises. The cogeneration project costs will be included in the calculation of the charges assessed to auxiliary enterprises for their utility consumption.

The University will request approval from the Department of Finance to expend State budget support funds toward the debt service for the project. This approval will be required before the financing may be obtained.

Financing Plan

All of the estimated cost of $30,868,000 will come from external financing. It is planned to use a lease financing structure similar to that approved by The Regents for cogeneration facilities at the Los Angeles and San Francisco campuses. Lease financing permits the financing of a project although no "revenues" are produced to repay the financing. Rather, the project will be leased by The Regents, with the payment of "rent" instead of debt service.

An important component of lease financing is the use of the annual State appropriation to the operating budget of the University. The Regents will covenant to include the rent in the annual operating budget submitted to the Governor. As long as the University has beneficial use and occupancy of the project, The Regents will be obligated to pay the rent, regardless of whether the operating budget approval by the Legislature for that fiscal year included an appropriation adequate for that purpose.

Financial Analysis

The financial analysis of the project is based on a thirty-year comparison of business as usual (BAU - status quo) expenses against cogeneration case expenses, presented in both nominal and net present value (NPV) dollars.

The following major assumptions were incorporated into the financial feasibility analyses:

- *Project Costs*: The total project budget of $30.87 million will include a construction and equipment budget of $24.56 million, $4.94 million for project design services, project management, permits, and budget contingency, and $1.37 million for capitalized interest during construction.

- *Sources and Uses of Funds*: The primary source of funds for the proposed project, including repayment of external financing and payment for operation and maintenance costs, will be the annual State appropriation for purchased utilities allocated to the San Diego campus and revenues generated by recharges to auxiliary enterprises. The major uses of State and other funds available for the purchase of utilities will be for utility purchases, plant operation and maintenance costs, and payment of financing costs. The San Diego campus' purchased utilities cost in FY 1997-98 was $20.3 million, of which approximately $13.8 million, or 68 percent, was from the State, and $6.5 million, or 32 percent, was from self-supporting non-State-funded activities such as housing and dining services, parking and transportation services, and the student center. Such operations will continue to pay their pro rata shares of utilities costs.

- *Energy Costs*: The forecasts for electricity and gas rates are based on current prices remaining constant in real terms and escalated by only the annual inflation factor.

- *Inflation*: Inflation is assumed at 3 percent per year throughout the period of analysis.

- *Interest Rate*: The assumed tax exempt interest rate for the financing is 6.5 percent, with a 27-year repayment term.

- *Utility*: Purchases: Utility expenses for the proposed project include fuel purchases for operating the new cogeneration plant and electricity purchases from the utility provider when cogeneration is off-line for repair or when campus demand exceeds cogeneration capacity. The analysis assumes no sale of excess electricity generated by the cogeneration facility and thus no dependence upon electrical sales revenues.

- *Operations and Maintenance Costs*: Total operations and maintenance (O&M) costs will increase substantially under the cogeneration case due to the increased requirements in cogeneration related services. These increased O&M costs are included in the savings calculations. Boiler-related O&M will actually decrease somewhat, although the economic analysis does not incorporate any benefit from those potential savings. These and other conservative assumptions in the analysis will likely cause the actual financial impact of the project to be even more favorable than presented herein.

- *Utilities Tariff*: San Diego Gas & Electric has filed an application with the California Public Utilities Commission seeking approval of tariff changes. It is unknown whether it will obtain approval for its application, and it is not possible to forecast other tariff changes that may be implemented during the 30-year course of the analysis. Therefore, the cogeneration project economic model incorporates the current and approved tariff structure, adjusted for the anticipated 15 percent decrease in large consumer rates.

- *Consumption*: The future increase in campus electrical consumption is conservatively estimated at 1.6 percent per year.

The project is expected to result in savings over 30 years of $111.6 million in nominal dollars. In terms of NPV, savings are estimated to be approximately $36.6 million. If the campus does not build the proposed cogeneration plant, it will incur necessary capital improvement expenses of $11.6 million (added boilers, main electrical substation expansion) by the year 2018.

Sensitivity analyses were prepared to determine the proposed project's economic resiliency to changes in electric and natural gas prices. These analyses indicate that electric prices would have to decrease to unprecedented levels, and gas prices would have to increase to unprecedented levels in each year in order to negate the projected savings.

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

4. **EXTERNAL FINANCING FOR ENGINEERING BUILDING UNIT 3A - BIOENGINEERING, SAN DIEGO CAMPUS**

The President recommended that, subject to the approval to amend the 1999-2000 Budget for Capital Improvements and the 1999-2002 Capital Improvement Program to include the Engineering Building Unit 3A -- Bioengineering, San Diego campus:

A. Funding for Engineering Building Unit 3A -- Bioengineering, San Diego campus, be approved as follows:

Fund Source		Amount
Grant funds		$ 17,200,000
Gift funds		12,200,000
External financing		6,945,000
Campus funds		387,000
	Total	$ 36,732,000

B. The Treasurer be authorized to obtain external financing not to exceed $32,545,000 to finance a portion of the construction of the Engineering Building Unit 3A -- Bioengineering, San Diego campus, subject to the following conditions:

(1) Short-term external financing shall not exceed $25.6 million, as necessary until gift and grant funding commitments are received by the campus:

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 gift and grant funds, and should such funds be insufficient, from the San Diego campus' share of the University Opportunity Funds.

(2) Long-term external financing shall not exceed $6,945,000:

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 San Diego campus' share of the University Opportunity Funds.

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

D. 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.

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

It was recalled that the non-State-funded Engineering Building Unit 3A -- Bioengineering project will construct 63,000 assignable square feet of new, on-campus undergraduate instructional space, research laboratories, and a technology transfer center supporting activities of the UCSD Bioengineering Department. The facility will include 3,035 asf of undergraduate wet and dry class laboratory space, 36,150 asf of wet research laboratories, 820 asf of dry research laboratory space, 19,030 asf of office, conference, and administrative space, and a 3,965 asf vivarium. Class laboratory space will consist of design and computer laboratories. Research laboratory space will include individual modular laboratories and specialized core lab facilities in support of the Department's core research areas. Other shared, specialized facilities will include an MRI spectrometer room, animal quarters, and procedure rooms. A multimedia conferencing facility will serve as instructional space as well as accommodate colloquia. Finally, the building program includes a Technology Transfer and Clinical Development Center that will act as an "incubator" for students and researchers to further develop projects and products for application in the bioengineering industry and to establish industry partnership.

The UCSD Bioengineering program was launched in 1966 as a part of the Department of Applied Mechanics/Engineering Sciences (AMES). From the onset, this program has been closely allied with related instructional and research activities administered by the School of Medicine. In 1994, in recognition of the importance of the discipline and the excellence of the program, the Department of Bioengineering was established as the first department of its field in the University of California system. In 1995, the National Research Council of the National Academy of Science, National Academy of Engineering, and the Institute of Medicine published a comprehensive report in which they ranked the UCSD Bioengineering graduate program first in the nation for effectiveness in teaching and second for scholarly quality. In 1999, the UCSD Department of Bioengineering was judged by *US News & World Report* to be the second best department of its kind in the nation (with Johns Hopkins University ranked first and the Massachusetts Institute of Technology ranked third).

The proposed project is necessary to satisfy academic and enrollment growth in UCSD's Department of Bioengineering. Factors contributing to the department's growth include implementation of the State's Engineering Initiative stimulating growth in engineering fields; emerging interdisciplinary bioengineering fields such as bioinformatics, computational bioengineering, and genomics; and a vibrant local and national biotechnology industry that is generating high demand for researchers. The proposed project is required for the Department of Bioengineering to fulfill its leadership role in defining the discipline's new frontiers in education and research.

Financial Feasibility

The total project cost is estimated to be $36,732,000, funded from a combination of grant funds from the Whitaker Foundation ($17.2 million), gift funds pledged by the Powell Foundation ($8 million), additional gifts to be raised ($4.2 million), external financing ($6,945,000), and campus funds ($387,000). The grant and gift funds will be collected over time. Approval for short-term external financing is requested in order to meet Regental policy to have funds on hand when the bid is awarded. In addition to campus funds of $387,000, it is anticipated that the campus will have received grant funds of $2.8 million and gift funds of $1 million at bid award time. If grant and gift funds on hand are less than expected at time of bid, the campus will advance funds to the plant account and be reimbursed upon receipt of the grant and gift funds. Short-term external financing is requested for the balance of the anticipated collection of gifts and grants, $25.6 million. Gift and grant funds will continue to be collected during the construction phase and after completion. The anticipated length of this short-term financing is expected to be eight years from bid award, which corresponds to the schedule of gift and grant payments. As gift and grant funds are received, the campus will prepay outstanding principal on the short-term loan. Although it is anticipated that gift and grant funds be sufficient for debt service, the San Diego campus' share of the University Opportunity Fund has been pledged as an additional source of repayment.

Based on long-term debt of $6,945,000 amortized over 27 years at 6.5 percent interest, the estimated average annual debt service will be $552,000. Repayment of the debt will be from the San Diego campus' share of the University Opportunity Fund. Opportunity Funds are a portion of the indirect cost recovery from federal contracts and grants. Including the short- and long-term financing, 49 percent of the campus' estimated Opportunity Funds will be pledged for debt service in FY 2002-03, the fiscal year of project completion. Both Opportunity Fund pledge and payment levels fall within prescribed limits.

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

5. **PROPOSED HEALTH SCIENCES COMPENSATION PLAN**

The President recommended that the existing General Health Sciences Compensation Plan and Medical School Clinical Compensation Plan be combined and replaced by the Health Sciences Compensation Plan, as set forth in the Attachment.

The Committee was informed that the University of California, like other universities across the country, has a long history of using specialized compensation plans to establish the base salaries and additional compensation for faculty in the health sciences. Compensation plans provide the framework under which universities are able to attract and retain outstanding health sciences faculty and encourage a balance among teaching, research, and other service activities, including clinical practice. At the University of California, The Regents has approved the Medical School Clinical Compensation Plan (MSCCP) and the General Health Sciences Compensation Plan (GHSCP) as policies governing compensation plans in the Schools of Medicine and other health sciences schools.

The MSCCP was substantially revised in 1993 after extensive study and consultation. It applies to faculty with patient care responsibilities in the Schools of Medicine. The GHSCP has not been updated since 1988 and applies to other health science faculty, such as faculty in the Schools of Dentistry, Pharmacy, and Nursing, regardless of whether they have patient care activities. The GHSCP also applies to School of Medicine faculty who do not have patient care responsibilities. The MSCCP and GHSCP evolved separately largely for historical reasons and not because of any basic difference in compensation plan objectives or philosophies.

The Health Sciences Compensation Plan, which is a consolidation of the two existing plans, will provide a consistent framework for the salary and benefits of all Plan members. It is closely patterned after the MSCCP approved by The Regents in November 1993 and amended in March 1994. Like the MSCCP, the consolidated Plan is designed to provide the policy framework under which chancellors, in consultation with deans and appropriate Academic Senate committees, develop and submit to the President for approval campus implementing procedures. Some changes in MSCCP format and language have been made for clarity, but the Plan differs from the MSCCP in only two substantive respects. First, the membership requirements of the MSCCP and the GHSCP have been combined and incorporated into the proposed Plan. As a result, the Plan will create a single, consolidated Regents' compensation plan policy for the health sciences schools. Second, the Plan differs from the MSCCP in that it will permit the President to issue guidelines on outside professional activities so that faculty who participate in the Plan may be treated more in line with other faculty at UC and at comparison universities. The MSCCP contains a very brief but relatively rigid policy requirement with respect to faculty consulting activities and other comparable outside professional activities. It limits the amount of outside professional service income that Plan members may retain to "twenty-one days of occasional service (other than patient care) per fiscal year, to governmental agencies, to non-profit health- or education-related organizations, to continuing medical education programs administered by the

University, or to University Extension if such service has been approved by the Dean and the Chancellor." In contrast, the policies governing UC general campus faculty and health sciences faculty at comparison institutions are not as restrictive with respect to the number of days devoted to outside professional activities or the types of consulting and other income that may be retained. Rather than continue with the existing MSCCP requirement, Section IV.D.1 of the proposed Plan states that Plan members may retain income from occasional outside professional activities (other than patient care) in accordance with Guidelines on Occasional Outside Professional Activities by Health Sciences Plan Participants issued by the President and campus implementing procedures. This proposed change is consistent with Regents' Standing Order 103.1.(b) under which the President is delegated authority to issue regulations governing arrangements for private employment by officers, faculty members, or other employees of the University.

The Office of the President has been working with campus management and the Academic Council to develop the proposed Guidelines on Occasional Outside Professional Activities by Health Sciences Plan Participants. In no event will the Guidelines permit Plan members any greater latitude than that which is allowed other faculty under the existing University Policy on Outside Professional Activities of Faculty Members (APM 025). The new Guidelines on Occasional Outside Professional Activities by Health Sciences Plan Participants will include additional review and approval requirements beyond those contained in APM 025 to assure that any changes in current compensation plan practices are made in a controlled manner, with appropriate assessment of their impact, and also to identify and resolve in a timely manner any potential conflicts between faculty commitments to their University obligations under the Compensation Plan and their occasional outside professional activities.

Provost King emphasized that, except as discussed above, the new Plan retains all the key provisions of the existing MSCCP including the philosophy, purpose and goals, review and approval authority, components of compensation and funding, benefits, campus accounting and budget methods, and implementation and transition arrangements. The Medical School Compensation Plan and the General Compensation Plan membership requirements have been merged and incorporated into the proposed Plan, which will have the effect of merging the salary scales and the retirement benefit eligibility. The new Plan permits the President to issue guidelines on occasional outside activities so that health sciences faculty can be treated more in line with their general campus colleagues.

Regent Preuss asked whether the item changes the methodology by which certain health faculty may interact with outside entities and receive money. Provost King reiterated that the plans are being merged into a single plan and the President is chartered to issue guidelines that will permit the retention of a certain amount of outside income. Associate Vice President Boyette indicated that the policy would not be more lenient than the policy for general campus faculty. Regent Preuss observed that the University contributes to the economic well-being of the state as a generator of industries and a participant in building economic growth. He moved that the President's recommendation be amended to read as follows:

> The President recommends that the existing General Health Sciences Compensation Plan and Medical School Clinical Compensation Plan be combined and replaced by the Health Sciences Compensation Plan, as set forth in the Attachment, with the understanding that the final guidelines on Occasional Outside Professional Activities by Health Sciences Plan participants be presented to The Regents for review and approval.

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

6. **1999-2000 COMPENSATION PLANS FOR SENIOR MANAGERS**

Report on the Annual Adjustment to the Senior Management Salary Grade Range Schedule

It was recalled that the President is responsible for reporting the percentage increase that will be applied to salary range movement for senior management positions each fiscal year. Ideally, UC's salary range midpoints should reflect market average salaries, but over time, rapid growth in competitive salaries has caused the midpoints to fall behind the market considerably. Therefore, for 1999-2000, a 10 percent adjustment has been applied to UC's senior management salary range structure, including the structure for deans, to be effective October 1, 1999. Adjustment of the salary range structure will not affect individual salary increases for incumbents, which are based on performance and other factors.

Market-based Equity Adjustments

The University employs a market-based analysis in establishing senior management compensation levels, using survey methodologies similar to those used for faculty and staff salaries. Adoption of this market methodology, along with internal alignment of salaries for chancellors and senior systemwide officers, has been endorsed by the California Postsecondary Education Commission (CPEC).

Current competitive survey data indicate that salaries for key UC senior managers continue significantly to lag the market. In addition, the internal alignment of salaries for certain systemwide officers has been affected adversely by market-based adjustments for the chancellors.

Relocation Allowance Policy

Since 1992, the Relocation Allowance Policy has permitted only senior managers recruited from out of state to receive up to 25 percent of their annual base salary as a one-time incentive to relocate to California. Prior to 1992, a relocation allowance was also available as an added incentive to recruit preferred candidates residing in California and from within the UC system. This change in policy has been a major concern of the campuses, as it often makes successful recruitment of top candidates difficult.

At the September meeting it will be proposed that the relocation allowance once again apply to candidates within California and within the UC system when necessary to attract them for key positions.

Regent Hopkinson asked for more information about the ways in which the University's comparison institutions are used in relation to the various campuses, about the cost of the recommendations in each category, and how relocation payments are determined. Associate Vice President Boyette responded that the Mercer Report, which was distributed to all Regents, contains a list of educational institutions used for comparisons. Senior Vice President Kennedy explained that the list is used primarily to establish faculty salaries. The institutions were selected based on discussions with the Department of Finance and the Legislative Analyst and were approved by CPEC. He noted that the comparison salaries are averages of those from the comparison institutions. Individual salaries are set within a range based on the size and complexity of the campus and the experience of the person in the position. The all-university set of comparisons includes 14 public and 12 private universities. Ms. Boyette commented that the dollar impact of the equity adjustments, excluding those proposed for deans, is about $336,000. The general categories are set using market averages. She reported that the use of relocation assistance is discretionary. In some cases it is related to higher costs of living in the new area and can include some out-of-pocket expenses beyond moving expenses. She suggested that when the proposal is presented, she would provide examples that will illustrate how the methodology works in practice. President Atkinson noted that the relocation allowance is not governed by any formula that relates to specific costs. It is within the authority of the Chancellor to tap the base budget of that campus for relocation allowances. Ms. Boyette suggested that she meet with any Regents interested in learning more about the salary-setting methodology and relocation allowances.

Regent Lee noted that UCSF is a unique campus and that care should be taken in setting the salaries of its chancellor and upper-level management. President Atkinson commented that the comparisons of chancellors and deans of medical schools are made across all UC medical schools.

Regent Taylor asked that the September proposal contain further information on the policies used by other higher education institutions when providing relocation assistance. He noted that the private sector has substantial relocation packages that are capped. He acknowledged that the chancellors' salaries lag behind the market, but he observed that there is a growing gap between their salaries and those of executive vice chancellors and deans. He suggested it might be useful to know how the salaries of people in those positions compare to similar jobs in other public institutions.

In answer to a question about the September presentation, Regent Connerly was informed that the current and proposed salaries for positions in the senior manager category will be itemized. He stressed that the University needs a very strong rationale for comparing itself to anything other than similar public universities. He expressed dissatisfaction with the use of three salary tiers for chancellors, which he believed implied that the campuses are not equal. He believed that relocation assistance could be described more accurately as a recruitment incentive and should be explained more clearly at the September meeting.

Committee Chair Johnson agreed that the tiering of chancellors' salaries needed analysis. She reported that a group will be set up to review the salary-setting process and that it will report back to the Board as its work progresses.

Regent Montoya asked whether CPEC had reviewed the tier system and made recommendations. Senior Vice President Kennedy responded that CPEC was consulted about the tier system and concluded that the present system was appropriate and should be continued. Regent Montoya was concerned also about including benefits packages when considering salaries. Mr. Kennedy recalled that a comparative survey of benefits packages was done by Mercer that was mailed to all Regents in advance of the meeting. Committee Chair Johnson commented that the Regents are well aware of the need to provide fair compensation in order to remain competitive. She believed they should not bow to pressure to do otherwise.

Regent Pannor was uncomfortable with the fact that the University has the most highly paid public employees in the state. She hoped that employees and prospective employees could be persuaded to consider factors other than salaries as important. Ms. Boyette agreed that the University has some devoted employees, but she observed that there are other nice workplaces. For most people, there is a point at which discrepancies in salary levels cannot be ignored. Chairman Davies recalled that the issue of the use of the All-University Set for salary comparisons had been examined extensively in the past and had been deemed fair by CPEC, the Legislature, and the Governor.

Regent Bagley noted that the salaries at the levels of vice chancellors and others have become compacted and should be considered, as well as those of the Officers of The Regents and their offices. General Counsel Holst reported that there have been recent equity adjustments for attorneys in his office. Mr. Kennedy commented that each year he consults with the Chairman of the Board and the Chair of the Committee on Finance concerning salary recommendations for Officers of The Regents.

Faculty Representative Dorr reported that the compensation plans for senior managers was discussed with the Academic Counsel. She believed that salaries can be indicative of status to many people but that faculty tend to think about salary ranges and salaries for individuals based on ranges and merit not as symbolic of value but as reflections of the size and scope of the campus. She noted that UC has been defined by the State and the Board as a premier research university that bears comparison with both public and private institutions. She cautioned against losing sight of the importance of sustaining that quality.

Regent Lansing acknowledged that the University must remain competitive in salaries, but she maintained that the tier system is problematic. She thought it should be a goal to make all the campuses equal. Chairman Davies informed the Committee that, as suggested by Committee Chair S. Johnson, he would appoint a group of Regents to study the tier system for Chancellors' compensation.

7. **ADOPTION OF FINAL 1999-2000 BUDGET FOR CURRENT OPERATIONS AND THE BUDGET FOR CAPITAL IMPROVEMENTS**

A. The President recommended that the 1999-2000 Budget for Current Operations, as modified by actions of the Legislature and the Governor, be adopted.

B. The President recommended that the Committee concur with the recommendation of the Committee on Grounds and Buildings that the 1999-2000 Budget for Capital Improvements, as modified by actions of the Legislature and the Governor, be adopted.

Operating Budget: In November 1998, The Regents approved a 1999-2000 expenditure plan as described in a document titled *1999-2000 Budget for Current Operations*, dated October 1998. The expenditure plan was developed in anticipation of agreement on a new four-year compact with the Governor and recognized the enactment of AB 1318 (Ducheny, Statutes of 1998) which implemented a five percent reduction in mandatory systemwide fees for undergraduate California residents and a two-year freeze on mandatory systemwide fees for all other California residents.

The Committee was informed that The Regents' budget request has been revised to reflect several technical changes. The technical changes in the basic budget, which are consistent with The Regents' priorities and the policy parameters upon which the initial budget was developed, take into account the following:

- Providing faculty with a 2.9 percent increase in salaries as compared to the 2.2 percent initially proposed. The Regents' budget included an average 2 percent cost-of-living salary adjustment for all eligible faculty and staff. The budget also included an additional salary adjustment for ladder-rank faculty of 0.2 percent, the amount estimated to maintain parity with the average faculty salary level at comparison institutions. Based on updated information received in December from the eight comparison institutions used by the University to help determine faculty salaries, the budget was adjusted to provide faculty with a 0.9 percent parity increase. This is consistent with the Regents' goal to provide faculty with competitive salaries. As a result, the resources needed to fund the parity adjustment for faculty and thus to maintain competitive salaries were revised upward by $4.3 million, from $1.3 million to $5.6 million.

- The price increase was reduced by $3.2 million to reflect more recent estimates of a 2.5 percent inflation rate in 1999-2000 versus the 3 percent estimate included in the initial Regents' budget. As a result, funding for the price increase was reduced from $18.8 million to $15.6 million.

- The Regents' budget requested funding to support an estimated increase of 4,000 FTE students in 1999-2000. Based on actual 1998-99 enrollments and a larger-than-anticipated increase in applications from both first-time California freshmen and California Community College students, the revised budget includes funding for enrollment growth of 5,500 budgeted FTE students in 1999-2000 (3.7 percent increase), an increase of 1,500 FTE students over earlier estimates.

- To balance the basic budget consistent with the total funding available under the anticipated compact, funding for instructional equipment was reduced from $6 million to $3.3 million.

- The revised Regents' budget includes funding for unavoidable costs including annuitant health benefits ($8.5 million) and an increase in debt service ($4.7 million) to pay for capital projects that were not included in the initial budget. The Department of Finance traditionally calculates these costs based upon the most recent available data and, consistent with the principles of the compact, provides the funding separately.

The revised Regents' budget request includes a budget increase totaling $217.7 million, including $167.4 million in State general funds, for fixed costs, workload, and program growth funded as part of the anticipated compact.

The $167.4 million in State general funds provided to support the University's basic budget are comprised of $94.2 million, which represents a 4 percent increase to the prior year's general fund base, $43.3 million to fund budgeted enrollment growth of 5,500 FTE students at the agreed-upon marginal cost, $16.6 million to offset the revenue associated with holding fees constant, $4.8 million for the increase in debt service related to capital outlay projects funded by lease revenue bonds, and $8.5 million for the increased cost of annuitant health benefits.

In addition to funding the expenditure plan approved by The Regents in November, the final State budget provides support for a number of important initiatives above the funding levels anticipated in the compact. These initiatives were either proposed by the University as high priorities for funding in addition to the increases in the basic budget, proposed by the Governor or initiated by the Legislature and approved by the Governor.

Among the initiatives funded in the final State budget are the following:

- $25 million to support core needs, including deferred maintenance ($7.1 million), instructional technology ($7.1 million), instructional equipment ($7.1 million), and library materials ($3.7 million). The 1998-99 State budget provided $70 million in one-time funding for these purposes, and The Regents had requested, as a matter of priority, that these funds be continued in 1999-2000. The University has significant permanent shortfalls in these core areas. A key element of the University's negotiations with the Governor on a new partnership has been to find a permanent solution rather than to continue to address these problems on an ad hoc basis as one-time funds are available. Thus, the University asked the Legislature, which has long recognized problems in these budget areas, to provide permanent funding rather than one-time funding. As a result, the Legislature augmented the budget by $25 million. The Governor sustained the funding and noted that "future funding for these purposes will be agreed upon with the University of California as part of the partnership agreement currently being negotiated."

- $26.5 million to reduce fees by 5 percent for California residents enrolled in either undergraduate programs or in graduate academic programs. Consistent with the provisions of SB 1896 (Peace, Statutes of 1998), the University had requested that the State provide the University with $3.5 million, above the funding levels provided in the compact for the basic budget, to pay for the costs of reducing mandatory systemwide fees by 5 percent for resident graduate academic students. The Governor supported this initiative and provided the funding in the "May Revision" budget. In addition, he proposed that mandatory systemwide student fees for California resident undergraduates be reduced by an additional 5 percent, bringing the total reduction in student fees for California resident undergraduates to 10 percent below 1997-98 levels.

- $17.2 million for several outreach and K-12 academic improvement initiatives, including K-3 Professional Development Reading Institutes, a Teacher Scholars program, a Principal Leadership Institute, a summer pre-intern teaching academy serving teachers who have emergency credentials, English Language Learners Professional Development Institutes, the development of a Summer School for Math and Science for the brightest high school students, the development of on-line Advanced Placement courses, and $1.5 million to expand outreach programs for graduate and professional schools, focusing on medical and law schools and engineering and science disciplines. These programs continue the high priority the University has given to helping improve the academic preparation of K-12 students in California.

- Nearly $21 million in new funding to expand existing State-supported research on alcohol and substance abuse, AIDS, and neurological disorders, and to provide State support for research on brain injury and violence prevention. Included is a $5 million augmentation for the Industry-University Cooperative Research Program, a collaborative research program initiated by The Regents in 1996-97 which promotes research partnerships between UC and private industry in fields critical to the state's economy. The University had requested $5 million as the final increment in a four-year plan to build the program's annual budget to $20 million in State and University support and $20 million in matching industry support.

- $1.5 million for the California Digital Library (CDL), bringing the total permanent budget for this effort to $5.5 million. As part of a multi-year plan to address library needs, the University had requested $2.5 million above the basic budget to expand the CDL. The Legislature took action, which was approved by the Governor, to provide the University with the additional $1.5 million for the CDL.

- $2 million for the University's agricultural Cooperative Extension programs. Funding for the Cooperative Extension program was identified by The Regents as a high priority to help restore the additional cuts taken by these programs in the early 1990s. The Governor included the $2 million in his "May Revision" budget which is contingent upon the University's transferring to the State property in Santa Clara County that is currently used by Cooperative Extension. The Regents will be asked to take action on the transfer of the property at a future meeting.

- About $730,000 for several initiatives, including $120,000 to do a feasibility study on whether the University of California should support the development of a new law school, $150,000 to ensure that all students under the age of 18 at the time of enrollment are properly immunized for Hepatitis B, and $400,000 to assist Merced County in its planning efforts related to the development of the UC Merced campus.

The final budget provides the University with a permanent increase of $261.6 million in State general funds. When one takes into account the reduction of the $72.5 million in one-time funds ($70 million of which was used for core needs as discussed above), the net increase is $189 million in State general funds. With this level of increase, the University's 1999-2000 State general fund budget totals $2.708 billion, a 7.5 percent increase over 1998-99.

Capital Improvement Budget: The final State budget includes $215 million for capital improvement projects for the University of California. This reflects several changes from The Regents' Budget approved in November 1998, at a net increase of $5.5 million, and will allow the University to accelerate several projects.

After November 1998, the Berkeley campus received a Federal Emergency Management Agency (FEMA) grant of $41.96 million to fund part of the cost to correct seismic hazards in four academic buildings (Latimer Hall, Barrows Hall, Hildebrand Hall, and Silver Laboratory). The State agreed to provide $13,987,000 in the 1999 Budget Act as a matching share, and the campus will provide the remaining $36,153,000 of the estimated cost. To make this possible, the Berkeley LeConte seismic corrections project and the Northern Regional Library Facility Phase 3 project have been deferred one year, releasing State funds in 1999-2000 and

2000-01 for reallocation to the FEMA Program project. The LeConte project is also located in the same area as two of the FEMA projects, so rescheduling LeConte will reduce construction conflicts between the projects.

The Davis campus has also received external funding that allows a component of the Life Sciences Alterations Phase 1 project to be implemented immediately as a separate project, so the scope and budget of the current project were correspondingly reduced. The State included a new project in the budget to address seismic deficiencies in Santa Barbara's Broida Hall; these deficiencies were identified during design of a current renewal project for the building, and action at this time will allow the seismic corrections work to be implemented with the renewal work. Another seismic item, the Parnassus Services Seismic Replacement Building, was added for the San Francisco campus to accelerate action on an additional life safety project.

A New Partnership: During the four-year period beginning in 1995-96 and ending in 1998-99, the University's annual budget request was developed within the framework of a compact with the Wilson administration. The University and the State have both more than honored the commitments included in the compact. Recognizing the mutual benefits of the compact, the 1999-2000 budget was developed in anticipation of reaching agreement with the Davis administration on a new partnership. While negotiations with the Governor are continuing, the funding provided by the State for the 1999-2000 budget is consistent with the principles currently being discussed.

In his January budget, the Governor indicated his interest in working with the University to develop a new partnership in which the State would agree to provide adequate resources to maintain access to a quality, affordable higher education, and the University (and the California State University) would agree to meet several specific goals in areas of importance to the State.

Coincident with the signing of the 1999-2000 budget, the Governor reiterated his commitment to work with UC (and CSU) to finalize a new partnership in the near future, noting that he expects "…the partnership agreement to encompass funding stability, negotiated goals, measurable performance objectives, and accountability."

Regent Leach asked President Atkinson to express the appreciation of the Board to the Governor for his generous support of the University.

Regent Kozberg cautioned against paying attention to life safety and seismic issues at the expense of programmatic needs. Mr. Hershman believed the University needs more capital outlay money. It currently receives about $210 million a year for capital needs. The needs for seismic improvement, renovation, and enrollment growth equal about $500 million a year. Campuses are trying to make the best use of their allocations. He reported that the case for better support will have to continue to be made with the Governor and the Legislature.

In response to a question by Regent Connerly, President Atkinson reported that the Outreach Task Force envisioned a budget of $60 million over the $60 million in its base budget, to equal $120 over five years. Regent Connerly asked if there was a systemwide itemization of what the future budget for outreach would represent. Mr. Hershman reported that a table in the last Regents' budget itemized that figure and it would appear in the next budget, including all augmentations. President Atkinson noted that there are many activities that amount to outreach that are not included in the outreach budget, such as summer reading institutes for K-3 teachers. He reported that in the future, the outreach budget will include K-12 educational programs.

Regent Preuss was pleased that tuition for foreign students was increased less than in recent years. He believed that they are potential benefactors who will contribute to the state's economy.

Regent Kozberg believed that it would be helpful to see the budget presented in terms of State, federal, and private portions. President Atkinson reported that henceforth the budget will be presented showing all sources and will include supplemental schedules with projections for all campuses for three years.

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

8. **PROPOSED REDUCTION IN EDUCATIONAL FEE FOR RESIDENT STUDENTS FOR 1999-2000**

The President recommended that, effective with the fall term 1999, the Educational Fee be reduced as follows:

A. By $180, from $2,896 to $2,716 per year for California resident undergraduate students only.

B. By $190, from $3,086 to $2,896 per year for California resident graduate academic students only. California resident graduate students subject to the Fee for Selected Professional School Students will continue to pay $3,086 per student per year.

The Committee was informed that the *1999-2000 Regents' Budget for Current Operations* did not include any changes in mandatory systemwide student fees for the following reasons:

- AB 1318 (Ducheny, 1997) provided funding to reduce mandatory systemwide student fees by 5 percent below 1997-98 levels for resident undergraduate students in 1998-99. The Legislature also expressed intent that, for 1999-2000, mandatory systemwide fees for resident undergraduate students be maintained at the same level as in 1998-99 and that adequate funding be provided in the Budget to enable this policy to be implemented.

- SB 1896 (Peace, 1998) expressed legislative intent that mandatory systemwide fees charged to resident graduate academic students be reduced by 5 percent in 1999-2000, subject to the funding being provided in the State budget, thus leaving implementation of the policy to future funding decisions by the Governor and the Legislature.

It was recalled that the Governor's January budget provided sufficient funds for the University to ensure that there would be no increases in mandatory systemwide student fees for 1999-2000. However, the budget did not provide funds to reduce fees for graduate academic students as provided in SB 1896. The 1999-2000 State Budget Act, adopted by the Legislature and signed by the Governor, approves funding levels proposed in the Governor's "May Revision," including sufficient funds to "buy out" a 5 percent reduction in mandatory systemwide fees for California resident undergraduate students (bringing 1999-2000 fees about 10 percent below 1997-98 levels) and consistent with the provisions of SB 1896, a 5 percent reduction in mandatory systemwide student fees for California resident graduate academic students. The fee reduction is not applicable to resident graduate students who are subject to the Fee for Selected Professional School Students. Even though mandatory systemwide fees will be reduced, the Budget provides sufficient revenue so that financial aid funding is not reduced. As a result, funding for financial aid for needy students is improved.

Consistent with the funding levels provided in the final budget, the following reductions in mandatory systemwide fees are recommended for 1999-2000:

A. $180 (5 percent of the total systemwide undergraduate fees for 1998-99) reduction in the Educational Fee for California resident undergraduate students.

B. $190 (5 percent of the total systemwide graduate fees for 1998-99) reduction in the Educational Fee for California resident graduate academic students. The fee reduction is not applicable to graduate students who are subject to the Fee for Selected Professional School Students.

With the proposed reduction, the Educational Fee will be $2,716 for resident undergraduate students. The University Registration Fee will remain at $713 for all undergraduate students. The average of all mandatory systemwide and campus-based fees for California resident undergraduate students for 1999-2000 is projected to be $3,857, about $1,453 below the projected average of fees charged at the University's four public salary comparison institutions.

With the proposed reduction, the Educational Fee will be $2,896 for resident graduate academic students. The University Registration Fee will remain at $713 for all graduate students. The average of all mandatory systemwide and campus-based fees for California resident graduate academic students for 1999-2000 is projected to be $4,448, about $2,347 below the projected average of fees charged at the University's four public salary comparison institutions.

The Educational Fee will remain at $3,086 for California resident graduate students who are subject to the Fee for Selected Professional School Students. Currently, the University's fees for these students are lower than the average of in-state tuition and fees charged to professional school students at the four public salary comparison institutions used for fee comparison purposes and are projected to remain below that average for 1999-2000.

The Educational Fee will remain at $3,086 for all nonresident undergraduate and graduate students. Nonresident students will also continue to pay the Nonresident Tuition Fee, University Registration Fee, miscellaneous campus fees, and, if applicable, the Fee for Selected Professional School Students.

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

9. **PROPOSED INCREASE IN NONRESIDENT TUITION FOR 1999-2000**

The President recommended that effective with the fall term 1999, the Nonresident Tuition Fee be increased by $420 (4.5 percent), from $9,384 per nonresident student per year to $9,804 per nonresident student per year.

It was recalled that an increase in nonresident tuition is proposed as part of the *1999-2000 Regents' Budget for Current Operations*. In addition to paying nonresident tuition, out-of-state students also must pay the Educational Fee, the University Registration Fee, miscellaneous campus fees, and, if applicable, the Fee for Students in Selected Professional Schools.

The *1999-2000 Regents' Budget* proposed an increase in the Nonresident Tuition Fee of 4.5 percent over the 1998-99 level; however, the Governor's January Budget left the University with a shortfall of $51 million from funding levels anticipated under a new compact and, to compensate for a portion of the shortfall, proposed an increase of 10 percent in the University's nonresident tuition level. The 1999-2000 State Budget Act restored the $51 million shortfall as proposed in the Governor's "May Revision" budget. It is therefore recommended that a $420 (4.5 percent) increase in the Nonresident Tuition Fee, as originally proposed in The Regents' Budget, be approved.

Consistent with State policy, with the proposed increase the University's 1999-2000 charges for nonresident undergraduate and graduate students will be higher than the State-funded marginal cost of instruction and less than the projected average of tuition and fees charged at other public institutions. The University's fees for nonresident undergraduate students are expected to be about $569 less than the average of tuition and fees charged to nonresident undergraduate students at the four public salary comparison institutions used for fee comparison purposes. Nonresident graduate fees are expected to be about $453 less than the average of tuition and fees charged to nonresident graduate students at the four public salary comparison institutions used for fee comparison purposes.

The proposed fee increase will generate about $5 million in new revenue.

The University intends to continue using increases in nonresident tuition to help fund the Deferred Maintenance and Facilities Renewal Program. For 1999-2000, it is anticipated that the $5 million in nonresident tuition income associated with the 4.5 percent fee increase and additional revenue generated by the recent increase in nonresident enrollment will be used to finance approximately $60 to $66 million of debt to help fund high-priority deferred maintenance projects.

Regent Lee commented that UC is an international institution that should welcome out-of-state and foreign students. He noted that many foreign students stay and contribute to American society, but he observed that those who return to their homes take democratic ideals with them and become ambassadors for this country. He hoped that tuition for foreign students would be held at levels sufficiently low to allow foreign students to attend.

Regent Leach asked whether there were statistics showing how many non-state students continue to pay out-of-state fees for more than their first year. Mr. Hershman explained that undergraduate non-resident students pay non-resident fees during their entire stay. Graduate students who are citizens become California residents after one year and pay in-state fees. There is legislation that governs the issue.

Senior Vice President Kennedy pointed out that many foreign graduate students in sciences and engineering get support from research contracts and grants. UC remits their fees and charges them to federal contracts and grants and other supporters of research programs, preventing these students from being faced with the entire burden of out-of-state tuition.

Regent Preuss commented that this should be an important budget issue. He acknowledged that in the current environment the nonresident tuition increase was understandable, but he encouraged the administration to work harder in the coming years to prevent further increases.

Regent Montoya asked how the University's comparison institutions treat nonresident tuition. Mr. Hershman responded that in the category of nonresident tuition the University compares itself to other public universities and charges slightly less than the average of their fees.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Lee and Preuss voting "no."

10. EXTERNAL FINANCING FOR THE 1999-2000 UNIVERSITYWIDE DEFERRED MAINTENANCE AND FACILITIES RENEWAL PROGRAM

The President recommended that:

A. Funding for the 1999-2000 Universitywide Deferred Maintenance and Facilities Renewal Program be approved in an amount not to exceed $66 million from external financing.

B. The Treasurer be authorized to obtain external financing in an amount not to exceed $66 million to finance the Universitywide Deferred Maintenance and Facilities Renewal Program, subject to the following conditions:

   (1) Average annual debt service shall not exceed $6 million (this limitation is intended solely as a limit on the amount of scheduled debt service and not as a limitation on the extent of the pledge on nonresident tuition income).

   (2) Repayment of the debt shall be from nonresident tuition income.

   (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 excluded from gross income for purposes of federal income taxation under existing law.

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

It was recalled in February 1998 The Regents approved the first year of a new approach to facilities renewal that would provide significant levels of funding over the next several years. The Regents authorized the Treasurer to sell bonds that provided $64.8 million for deferred maintenance and capital renewal for 1998-99, with repayment of the bonds from a portion ($6 million) of the increase over the prior year's UC general funds, specifically nonresident tuition funds. Only high-priority projects with long-term benefits to the University are eligible to be funded through this mechanism. To demonstrate how urgently these funds were needed, campuses had committed over $38 million - more than 60 percent of the total funds provided from this program - within the first six months of the fiscal year.

Continuation of the University's Plan

For the second year, it is proposed that University long-term financing be used for deferred maintenance and facilities renewal projects. The basic tenets of the University's plan are as follows:

- University financing will be issued each year over a period of at least five years to fund Priority 1 deferred maintenance and facilities renewal projects that have a minimum useful life of 15 years.

- The source of funds to be pledged and used for repayment of the debt will be Nonresident Tuition Income.

- The amount of funding to be provided for debt service on an annual basis will be limited to no more than five percent of the annual increase in UC and State general funds.

- The amount of funding to be provided for project costs annually will be influenced by current interest rates at the time of financing, which will determine the amount of principal which a specific debt service payment could support.

If this program is continued as planned, it is anticipated that $300 - $325 million will have been made available over a five-year period, through 2002-03, for deferred maintenance and facilities renewal projects. This will have a significant impact on reducing the highest priority deferred maintenance projects within the backlog and will fund many facilities renewal projects.

It is anticipated that this financing program will be augmented on an annual basis with State or UC general funds as temporary or permanent funding becomes available.

As described in the 1999-2000 Regents' Budget for Current Operations approved in November 1998, one of the casualties of the budget reductions of the early 1990s was the University's physical plant. To make matters worse, these cuts followed years of insufficient funding for ongoing as well as deferred maintenance. As a result, the University is faced with maintenance and facilities problems that cannot be addressed adequately with existing resources. Insufficient funding related to maintaining existing facilities falls into three major categories: ongoing maintenance, facilities renewal, and deferred maintenance.

Ongoing Maintenance: The 1999-2000 Regents' Budget for Current Operations includes an increase of $4 million to the base budget for annual building maintenance, above and beyond that required to fund new space. This increase builds on the 1997-98 State funding increase of $7.5 million and the increase of $6 million that was provided in 1998-99. These increases are consistent with the concept endorsed by the Legislature to develop a multi-year plan to fully fund ongoing building maintenance. However, based on State-recognized workload standards, building maintenance has been underfunded for some time. Even with three years of increases to the base, building maintenance will remain underfunded by about $45 million annually in 1999-2000. This deficit means that we are being funded at approximately 70 percent of the existing need.

Facilities Renewal: Facilities renewal is a program systematically and predictably to replace or renew components of buildings and infrastructure to extend the useful life of facilities. The University constructs buildings and infrastructure systems to last 50 to 100 years. However, some systems in buildings, or components of those systems, need to be replaced or renewed more often. Normal use inevitably causes wear and tear on building systems, causing them to wear out, and they must be replaced, regardless of how well they are maintained. Heating, ventilation, and air conditioning systems, elevator control systems, and roofs are a few examples of these systems, and normally, these systems would have useful lives of 25-30 years. If funding for proper and timely annual maintenance is not available, the useful life of these systems is shortened, and they wear out more rapidly. Infrastructure that constitutes the major support systems for the campuses include items such as electrical and water distribution systems, roads, sidewalks, and bridges. These are extensive, complex systems that are costly to maintain or replace.

In the past, the University has not specifically budgeted for this category of expense on an annual basis. Many such projects have gone unfunded until they become emergencies. When they are funded, it can be as a part of ongoing maintenance, the deferred maintenance program, or as part of a major capital improvement project which renews building systems at the same time that programmatically-driven renovations are being made. There are, however, only limited funds in the capital budget to address the replacement of building systems.

Deferred Maintenance: Two major factors contribute to creating the deferred maintenance backlog: insufficient ongoing maintenance funding, and underfunded facilities renewal. Both of these problems lead to the deterioration of University capital assets and ultimately affect the quality of facilities provided for teaching and research. When laboratory and research space is outdated or substandard, the ability to attract and retain outstanding faculty and students is compromised.

The age of University buildings is another major contributing factor. There were tremendous growth and expansion throughout the University during the 1950s and 1960s. Almost one-half of the space that now houses State-supportable programs was constructed during those two decades, and almost two-thirds of all State-supportable space was built before 1970. The systems in these facilities, many of which are now 35 to 45 years old, have exceeded or will soon exceed their useful lives.

Funding History

Deferred maintenance funding in recent years has been inconsistent. Permanent, annual State funding allocations for deferred maintenance ended in 1993 as part of State operating budget cuts affecting many areas of the budget. Prior to this, State funding of nearly $20 million per year had been provided. In 1994-95, the State authorized the University to use $25 million in long-term financing to pay for high-priority deferred maintenance projects. A second authorization for $25 million was included in the 1995-96 budget. Consistent with agreements with the State, repayment of the debt is included in the University's State-funded budget.

The 1996 State Budget Act appropriated $5 million in general obligation bonds for deferred maintenance, and the University allocated another $19 million in one-time funds for deferred maintenance. The University re-appropriated $7.9 million in excess general funds for deferred maintenance in 1997-98.

In addition to the nearly $65 million in projects that are being funded through the 1998-99 debt-financed program, the State provided the University with $20 million in one-time funds for deferred maintenance in 1998-99.

With approval of this recommendation, $60 - $66 million would be provided from external financing for project funding in 1999-2000. Additionally, the 1999-2000 State Budget Act includes a general fund appropriation of $7.1 million for deferred maintenance.

Financial Feasibility

As outlined in the University's Plan, mentioned above, the amount available for debt service for the Deferred Maintenance and Facilities Renewal Program will be limited to no more than 5 percent of the annual increase in the UC and State general fund operating budget. For the 1999-2000 project financing the University would use $6 million per year for debt service to be funded from the nonresident tuition income, as was done in 1998-99. Because this is the second year of the program, a total of approximately $12 million per year will be used to pay debt service for both years.

Depending on interest rates at the time of financing, it is estimated that about $65 million will be available for project costs.

It is anticipated that an annual incremental increase of about $6 million per year will be available for debt service in future years. This is a conservative estimate assuming moderate increases in fees and enrollments over the next several years.

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

11. **REPORT OF NEW LITIGATION**

The General Counsel presented his report of new litigation. By this reference the report is made a part of the official meeting record.

The meeting adjourned at 12:30 p.m.

Attest:

Secretary