

The Regents of the University of California

COMMITTEE ON FINANCE

January 20, 2000

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, Parsky, and Preuss; Advisory member Miura

In attendance: Regents Bustamante, O. Johnson, Khachigian, Kozberg, Lansing, Moores, Taylor, and Vining, Regent-designate Kohn, Faculty Representatives Coleman and Cowan, Secretary Trivette, Associate Secretary Shaw, General Counsel Holst, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, Gomes, Gurtner, Hershman, and Pister, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Nietfeld

The meeting convened at 9:40 a.m. with Committee Chair S. Johnson presiding.

REPORT ON 2000-01 GOVERNOR-S BUDGET

President Atkinson expressed his appreciation to the Governor for the budget which he had provided for the University for 2000-01. He then called upon Vice President Hershman for his presentation on the details of the Governor-s budget.

Mr. Hershman reported that the budget reflects increases in revenue and expenditures of approximately 5 percent following adjustment for the current year. The Governor-s projection of revenues for 2000-01 is cautious. The Legislative Analyst has released a report which suggests that between 1999-2000 and 2000-01 there will be \$3 billion more in revenue than is projected in the Governor-s budget. This was acknowledged by the Department of Finance at a recent hearing. The DOF has warned that, because much of the revenue will result from taxes on capital gains, the surplus funds should not be used for permanent purposes. The Governor-s budget proposes a total increase in expenditures of 4.5 percent. The Governor has set aside a reserve for litigation and for legislative priorities. The University will need to work closely with the Governor and the legislature over the coming months in preparation for the May revision. Vice President Hershman continued that K-12 and the community colleges each received a 6.5 percent increase in the budget. There are many initiatives in the K-12 budget related to teacher recruitment, training, and retention. Health and welfare will also receive increases of 6.5 percent, while prisons will receive 4 percent. The California State University was treated similarly to the University of California in the Governor-s budget. Mr. Hershman reported that there is an increase of 7,000 Cal Grants in the budget, or 13 percent, which is a priority for the legislature.

Turning to the University's share of the Governor's budget, Vice President Hershman recalled that a packet of information had been provided to the Regents prior to the meeting which included the University's press release, a summary of the budget, and material from the higher education section of the budget. He referred to the table which had also been included in the packet entitled "University of California 2000-01 Budget: Governor's Budget Proposed Increase in State General Funds." The budget provides funding for enrollment growth of 6,000 students, and it ensures no increases in mandatory systemwide or professional school student fees. The Governor's budget also provides funding for continuation costs for 1999-2000 salary increases, merit increases for eligible employees, cost of living adjustments averaging 3 percent for faculty and 2 percent for other eligible employees, parity adjustments for other selected employees, an 8 percent increase for health benefit costs, and core funding equal to 1 percent of the budget for building maintenance, instructional technology, instructional equipment, and libraries. The funding for UC initiatives above the basic budget under the partnership between the University and the Governor totals \$26.1 million, with \$20 million of that amount to fund research initiatives. Other programs which are funded include the California Digital Library, academic development and outreach initiatives, and agricultural Cooperative Extension.

The Governor's initiatives in the University's budget provide \$69.9 million for teacher development programs. Vice President Hershman acknowledged the efforts of Assistant Vice President Polkinghorn to achieve this funding. Mr. Hershman added that it was the intention of the Office of the President that a detailed presentation be made to the Regents on the Governor's initiatives, which represent an enormous commitment on the part of the University to K-12 schools. Other K-14 initiatives include Advanced Placement on-line courses, a summer school for math and science, and algebra and pre-algebra academies. As a result of these initiatives, funding for outreach for 2000-01 will total over \$250 million. This reflects the strong commitment of the Regents to outreach.

Vice President Hershman reported that the Governor's budget provides one-time funding of \$25 million for equipment for the teaching hospitals. With respect to the capital budget, the Governor has provided the full amount of \$212.7 million that was requested by The Regents. This amount includes \$14 million for UC Merced for planning for infrastructure as well as the campus' first two buildings. In addition, the Governor provides \$75 million in general funds for three research centers in science and innovation. This funding is consistent with the Governor's strong belief that UC research is important to the economic health of the state. The location of the centers will be chosen through a competitive process, and it is hoped that campuses will join together to propose multi-campus efforts. The budget requires that each dollar of State funds be matched by two dollars of non-State funds, including federal and private sources. Mr. Hershman observed that the Governor had clearly indicated his confidence in the University by the funding which he has provided.

There are several issues that remain to be resolved in the spring. The University must complete its efforts with respect to accountability under the partnership. Another important consideration is year-round operations (YRO), and the University will seek \$50 million in additional funding for students who enroll in the summer session in order to reduce fees and to provide financial aid. Faculty

support will also need to be provided. Vice President Hershman noted that the Governor's Budget states that initial findings suggest that, while YRO will not result in savings, it is a necessary component of an overall strategy to accommodate enrollment growth. The findings, to date, suggest that conversion to YRO should be evaluated on a campus-by-campus basis to determine appropriate action.® With respect to UC Merced, the Governor has made a commitment to accelerating the opening date by one year, and the University will develop a new budget proposal in response. A final outstanding issue is how the operating expenses for the new research centers will be funded. The May revision to the budget will be issued on May 14, 2000. Vice President Hershman stated his intention to keep the Regents informed throughout the budget process.

In response to a question from Regent Davies regarding the University's accountability under the partnership, Vice President Hershman explained that an agreement had been reached that the State would fund a 1 percent increase in the total budget for maintenance, instructional technology, instructional equipment, and libraries, building to a total of \$100 million over the next four years. Because this does not fund the total need in these areas, the University will continue to seek savings to meet the rest of the need.

Regent Connerly asked what student fees would be at present if there had been a modest annual increase over the past six years. Mr. Hershman estimated that they would be about \$1,500 higher, which is roughly in line with the University's comparison institutions. Regent Connerly pointed out that if the economy declines, the University will face pressure to raise its fees. Vice President Hershman reported that some legislators are interested in reducing fees even further. The University's response will be to suggest that summer session fees be reduced to equal those of the regular year. Regent Connerly recalled that while he had consistently voted against fee increases during bad economic times, it seemed to him that it would be prudent to set aside some of the State's buyout funds for a rainy day rather than asking students and their families to pay higher fees if and when the economy declines. He urged the administration to express the University's concern in this regard to the Governor and the legislature. Vice President Hershman noted that student fees remain a very political issue; fee policies have been instituted but they have rarely been followed. Regent Bagley pointed out that when revenues fall, the State tends to use the Board of Regents to raise money to help to balance the budget.

At the request of Regent Pannor, Vice President Hershman discussed how student services needs would be met during times of increased enrollments. He noted that the budget formula has a student services component which corresponds to increases in enrollment and estimated that the budget would provide about \$1,000 per student for student services.

Regent Lee pointed to the difficulty in providing 6,000 additional students with adequate housing. Senior Vice President Kennedy recalled that he had recently sent to the Regents a report on the student housing that is under construction which will provide an additional 12,000 beds. In addition, a task force which includes three Regents in its membership has been established to explore other models that might be available to the University, such as private-sector involvement and bonds.

In response to a remark by Regent Kozberg, President Atkinson observed that the Governor's research centers represent part of a broader conception of California at the cutting edge of research and development. The centers will draw not only UC faculty but also people from industry and from other institutions to provide a nucleus of activity in any given area.

Regent Montoya reported that in her discussions with professional school deans, the deans have supported an increase in professional school fees in order to fund scholarships as well as to raise the salaries of their faculty. They feel that they lack the flexibility to compete in the academic marketplace. Vice President Hershman reported that the Governor, following much discussion, had decided for the first time to buy out any professional student fee increase. The additional money which the buyout provides will be allocated to the professional schools.

Regent Parsky referred to the high level of funding that is being provided to the University for outreach and asked whether this point was stressed in the University's press release regarding the Governor's budget. He was informed that this information was included. Regent Preuss suggested that the amount of money which the University devotes to its outreach programs be featured in a publicity piece which would stress the commitment of the State and the University to this effort. Vice President Darling stated that there are fact sheets on each of the outreach programs which could be provided to the Regents. Regent Preuss stressed that \$250 million is a substantial allocation which represents the equivalent of one-quarter of a campus budget.

Regent Bustamante requested a presentation on the University's outreach efforts. Provost King reported that a full presentation would be made at the March meeting. Regent S. Johnson suggested that the presentation on the Governor's initiatives also be scheduled for the March meeting.

Regent S. Johnson drew the Committee's attention to the \$6 million allocation which represents the first step in a multi-year plan to strengthen the quality of undergraduate education. With respect to capital outlay, she suggested that the University's seismic needs should be included in the projects which are funded by the surplus. Vice President Hershman believed that the Governor and his administration intended to use the surplus for one-time spending; the University's seismic needs would fit well with that strategy. In addition, the State has imposed \$400 million of seismic requirements on the University's teaching hospitals through SB 1953 which will be difficult for the campuses to fund. President Atkinson agreed that the acceleration of a number of capital projects appeared to be realistic from the University's viewpoint.

In response to a question from Regent Vining regarding support for outreach, Vice President Hershman recalled that \$60 million was provided when the proposal to fund outreach was first developed by the Outreach Task Force. President Atkinson added that the University spent approximately \$40 million on outreach prior to the passage of SP-1.

Regent Hopkinson suggested that the University's capital needs and the coming of Tidal Wave II be tied together in discussions with the Governor. Vice President Hershman reported that the Office of the President had tried to engage in that discussion but that the timing was not optimal. An

infrastructure task force is examining the total capital needs of the state. The University will take this opportunity to press its case with the state government. He continued that a presentation on the University's capital needs to the Regents would be useful. The California Postsecondary Education Commission has studied the capital needs issue and has recommended \$1 billion in annual funding for higher education. President Atkinson recalled that as recently as the 1980s there was an understanding that the State would be responsible for all instruction and research facilities. More recently the University has been forced to devote a great deal of private support to construction of facilities for instruction and research.

Vice President Darling made a brief presentation on the fiscal year 2000 federal budget. He recalled that the University administration had been deeply concerned that the spending limits on federal funds would severely constrain federal funding for research, education, and health care. The actual results were much more positive. FY2000 research highlights include a 10 percent increase for basic research, with the biggest increase, at 14 percent, going to the National Institutes of Health. In order to fund the NIH increase, Congress will hold back \$4 billion until the last day of the fiscal year. The Department of Defense received a 10 percent increase in funding, which reverses the decline that has occurred for the past ten years. The Department of Defense is a major source of funding for the University's science and engineering departments.

Mr. Darling reported that the education budget fared extremely well. The Pell Grants, which are the primary building-blocks for need-based financial aid, rose by \$175 per student grant, to a total of \$3,300 per student. This funding was made possible by an effort by President Atkinson and Congressman McKeon, who advocated an increase larger than that requested by the Clinton administration. Graduate education rose by a significant 63 percent, and funding for the GEAR-UP program, which is a federal outreach program, grew by 67 percent. This increase represents a major opportunity for the University to seek additional funding from the federal government to supplement other sources of funding for outreach.

Vice President Darling addressed the impact of the Balanced Budget Relief Act of 1999 on the University's medical centers. At the result of lobbying on the part of Congressman Thomas and Regent Khachigian, the medical centers will receive a direct benefit of \$20 million over the next three years from Medicare. Vice President Gurtner stressed that this is not new funding but rather cost cuts that were avoided. Mr. Darling acknowledged the contribution of Assistant Vice President Sudduth, who led the successful strategy for an adjustment to the funding formula.

Vice President Darling noted the extension of the research and development tax credit for the next five years. California will be the major beneficiary of the federal tax credit because it has a more research-intensive economy and more corporations that spend money on research than other states.

Regent Preuss asked what impact the increased federal funding for graduate education would have on the University's becoming more competitive in attracting graduate students, noting that the University's proportion of graduate to undergraduate students is relatively low. Vice President Darling noted that the most important effect will result from the increased research funding because

many of the University's graduate students are supported by federal grants. Vice President Hershman added that the additional funding provided by the State for engineering and computer sciences would also contribute to support for graduate students. President Atkinson stressed that the University's departments compete well for graduate students. Regent S. Johnson reported that each of the general campus chancellors has expressed a desire to increase the graduate student population. President Atkinson responded that such a growth is anticipated. Regent Khachigian emphasized that the East Coast medical schools were opposed to the restoration of funding to the University of California and would fight to rescind the decision. Mr. Darling reported that a major initiative led by Vice President Gurtner would seek to retain these funds.

In response to a question from Regent Bustamante regarding the competitiveness of the University's research facilities, President Atkinson explained that in a typical year the best graduate students will apply to the top five universities in the nation. A department such as that of mathematics at Berkeley will compete on equal terms with the top two or three. Vice President Darling drew attention to the report which is issued by the National Research Council of the National Academic of Sciences every decade, program by program, of the major research universities in the country. This study ranked the Department of Mathematics at the University of California, Berkeley, as the top in the country in 1993. A number of intervening benchmarks have supported this ranking.

Regent Bustamante asked for a list of the documents that provide rankings of the University's research programs. President Atkinson agreed to put together a packet of information for the Lieutenant Governor.

Turning to the federal fiscal year 2001 budget, Vice President Darling reported that there will be a \$40 billion deficit at the beginning of the year. On the positive side, large surpluses should provide a cushion. Priorities include Social Security, debt repayment, and tax cuts. Research and education will be major priorities for the budget.

(For speaker's comments, see the minutes of the January 20, 2000 Committee of the Whole.)

The meeting adjourned at 10:50 a.m.

Attest:

Secretary