

The Regents of the University of California

**COMMITTEE ON FINANCE**

March 15, 2001

The Committee on Finance met on the above date at the James E. West Alumni Center, Los Angeles campus.

Members present: Regents Atkinson, Bagley, Connerly, Davies, Fong, Hopkinson, S. Johnson, Kozberg, Lee, Miura, Parsky, and Preuss; Advisory member Morrison

In attendance: Regents O. Johnson, Kohn, Lansing, Marcus, Montoya, Moores, and Sayles, Regents-designate T. Davis and Seymour, Faculty Representatives Cowan and Viswanathan, Secretary Trivette, General Counsel Holst, Assistant Treasurer Young, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gurtner, and Hershman, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Orbach, Tomlinson-Keasey, Vanderhoef, and Yang, Executive Vice Chancellor Simpson representing Chancellor Greenwood, and Recording Secretary Bryan

The meeting convened at 9:30 a.m. with Committee Chair Preuss presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of January 17, 2001 were approved.

2. **APPROVAL OF STUDENT-SPONSORED INCREASE IN ASSOCIATED STUDENTS FEE TO SUPPORT THE ENVIRONMENTAL AFFAIRS BOARD, SANTA BARBARA CAMPUS**

The President recommended that, effective with the fall quarter 2001, the Associated Students Fee at the Santa Barbara campus be increased by \$0.25 from \$45.00 to \$45.25 per undergraduate student per quarter.

It was recalled that the Associated Students spring election on April 25-26, 2000 included a ballot measure to increase the Associated Students Fee to support the activities of the Environmental Affairs Board (EAB), which is a student-led, student-run, registered campus organization overseen by the ASUC as part of its operations. The EAB provides programs and services that are informational and educational in nature to raise ecological awareness and promote environmental perspectives, primarily with UCSB students, but also in coordination with the surrounding community. Revenue from the fee increase will be used for office supplies, informational workshops, and materials and resources for educational events and environmental awareness. With the

fee increase, EAB members are hoping to focus their education efforts on preserving and enhancing the natural environment of UCSB and its surrounding communities.

For approval of increases in the Associated Students Fee, the campus requires a 20 percent voter turnout with two-thirds of those voting on the ballot measure voting to approve the increase. Of the 16,363 undergraduate students eligible to vote, 5,180 students (31.7 percent) voted in the spring general election. Of the 4,315 undergraduate students voting on the Associated Students Environmental Affairs board measure, 3,594 students (83.3 percent) voted to approve the fee increase.

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

Chairman S. Johnson commented that it had come to her attention that students working in University retention and recruitment centers had written letters to minority students who had been admitted to the University that discouraged them from attending. She noted that these centers are funded through student fees. She requested that the President and the General Counsel look into the matter and report their findings to the Board at the May meeting. Regent Sayles expressed concern that the rights of students under the First Amendment be addressed in the review. Committee Chair Preuss and Regent Davies believed that the report should clarify what efforts are funded and how the funding is being used, particularly at the Los Angeles and Berkeley campuses. Regent Fong noted that there are a number of test cases making their way through the courts regarding the responsibilities of student groups and their use of funds. He believed that the actions of student groups at UCLA and UCB may have been distorted.

### 3. **UPDATE ON UC STUDENT, FACULTY, AND STAFF HOUSING**

Vice President Mullinix reported that the availability and cost of housing on campuses and in nearby communities are issues of concern. He noted that housing problems affect everyone in the UC community. The University has an array of programs which address housing needs, but these are focused on specific sub-groups. Given the severe difficulties with the availability and cost of housing, concerns have been raised that the targeted programs are insufficient to meet the needs. The University cannot provide housing for all members of the UC community, but it may be possible to expand housing assistance in targeted areas to facilitate the provision of housing more efficiently and effectively.

Mr. Mullinix reported that during his consultations with members of the Academic Senate, the chancellors, academic and administrative vice chancellors, housing directors, and campus housing committees he had been reminded that housing is a local problem, the solution to which must meet the specific needs of each campus and of its divergent groups. He believed it will be necessary to develop an appreciation of the totality of the problem and a sense of how programs currently in place may address the problem. With these considerations in mind, Chairman S. Johnson established a task force of members within the University community and some outside specialists in the

field of housing that will return to the Board with a report in early fall. The group will address the comprehensive need for housing and the ability to meet that need by examining three areas where improvement may be possible. The first is to examine the traditional way in which the University provides housing units on campuses to see if there are more efficient and effective construction methods. The second is to explore new ways of using third-party assistance that may provide housing more quickly, reduce costs, and expand land use. The third is to examine new ways of providing financing assistance to home buyers.

Mr. Mullinix noted that this year the occupancy of the University's residence halls is 106 percent of design capacity, while the occupancy of apartments is 103 percent. Many students cannot obtain University housing at all. A growth in student population of 46 percent is projected by 2010. The University has a plan to increase student beds by 42 percent by 2005, but the cost of providing this housing is substantial and capital resources are limited. In addition, while the 1999 California median home price was \$221,000, or 66 percent above the national average, the type of housing that attracts faculty and senior managers has a 2000 median price of \$446,000. Availability is also problematic.

Regent Preuss, acknowledging that student housing is over-occupied, asked what percentage increase in housing is needed. Mr. Mullinix believed a minimum increase of 130 percent will be necessary. He emphasized that the measures that are planned and a continuation of the current model will be insufficient to meet future requirements.

Regent Hopkinson believed that housing is the University's most volatile current issue. She hoped that tools could be found to help cope with the problem.

Regent Connerly suggested that State representatives from the Department of Housing and Community Development, the League of Cities, the Treasurer, and the Chamber of Commerce should be asked to serve on the University's housing task force. He believed that the University may be able to describe the parameters of the problem, but it will need outside help to solve it.

Regent Kozberg suggested that graduate student housing be included in the focus of the task force. She agreed that outside expertise would be helpful. Regent Lee noted that faculty housing is also critical. He suggested taking a creative approach when analyzing opportunities for land use.

Regent-designate Seymour emphasized that both short- and long-term solutions are required. He hoped that a package of options could be developed that will offer both.

Regent Marcus believed that the solution to the University's housing problems lies with the use of resources. There must be the will to provide the necessary financial support to expand housing availability.

Regent S. Johnson hoped that the task force would focus on how to provide housing that would attract and retain faculty and students. She observed that the mayor of Oakland, former Governor Jerry Brown, is working to promote the idea of housing UC Berkeley students in downtown Oakland. Although she believed a better solution would be to find more land close to campuses, she acknowledged that all creative suggestions should be considered.

Regent Davies suggested that the task force view its job not as one that addresses the allocation of resources but rather as one that finds and develops new solutions to the problem of housing.

Committee Chair Preuss indicated that the report of the task force will be presented jointly to the Committee on Grounds and Buildings and the Committee on Finance.

#### 4. **UPDATE ON THE STATE AND FEDERAL BUDGETS**

Vice President Hershman commented on the overall State fiscal situation, recalling that in January he had indicated that the Governor was being very cautious in his estimates of revenue. Since that time, the Legislative Analyst has examined the Governor's revenue estimates and has concluded that there would be no recession but that there would be an economic slowdown. Both the Department of Finance and the Legislative Analyst are indicating that in the current year revenues are likely to increase, in large part due to activity from the previous year. However, even though there may not be a recession, next year's revenues may be less than the Governor's Budget predicts. The energy situation has brought about concerns about the amount of money the State is spending and about negative effects on the State's economy in general. The Legislative Analyst has suggested that the Legislature should postpone approval of most of the one-time money that is in the budget. Earlier, the Senate budget committee took action to eliminate \$1.9 billion from the Governor's Budget, including \$350 million of money destined for the University, but a portion of those funds was restored to the University, including money for UC Merced and for three of the four science institutes. All other one-time money was put on a list to be reconsidered by the Senate in May. Several other items on the agenda, including undergraduate education, improvements to the student-faculty ratio, and year-round operations, had their budget allocations approved.

Mr. Hershman recalled that applications to the University increased by 8 percent this year. He reported that enrollment estimates have been revised and the revisions will be considered in the May budget revision.

Mr. Hershman was optimistic that the upcoming bond issue will increase the University's level of funding. Education continues to be a priority in Sacramento for capital funding.

Committee Chair Preuss asked what the attitude was in Sacramento concerning the need to fund the expected growth in University enrollees. Mr. Hershman responded that the subject dominates every conversation he has with State leaders. He believed they

recognize that the needs must be met, particularly with respect to capital funds. The partnership guarantees funding for basic costs. President Atkinson added that numerous fund sources will be required in order to support increased enrollments. He believed there was a commitment by the Legislature to provide support, but he recalled that during the last economic downturn the University did not receive even sufficient basic funding.

Regent Montoya asked whether the 8 percent growth in applications included those from community colleges. Mr. Hershman responded that the figure was for freshman applications alone, but he noted that applications from community college students increased by about 6 percent.

Regent Bagley observed that the budget surplus is being expended by the State to buy energy, a circumstance that could continue for months. It is proposed to have a revenue bond issue to pay that money back, but a bond issue is not possible without revenue, and the Governor is stating that there will be no rate increases. If the situation does not change, by summertime there will be a crisis and the economy will recede. Mr. Hershman believed a rate increase was inevitable. Resolving the problem is crucial to making the Governor's Budget work.

Regent S. Johnson asked about the capital outlay bond proposal being carried by Speaker Hertzberg. The University needs \$500 million annually, but it expects to receive only \$210 million from the bonds. She wondered whether the political will existed, particularly in light of the power crisis, to support bonds for higher education capital outlay. Mr. Hershman believed that most legislators are supportive and view higher education as a top priority. The lease-revenue bond matter will likely be decided in May, while action on the general obligation bond measure may be substantially delayed. He noted that all higher education segments are working together on the bond issue, although the community colleges want more than the historic one-third share, despite the fact that they have access to additional funds from local school bonds. The community colleges feel that they are absorbing the largest share of new enrollments and should be compensated accordingly. The Governor has not yet indicated his position on the issue.

Regent Kozberg asked whether lease-revenue bonds count against the State's debt limit. Mr. Hershman reported that the University has a number of lease-revenue bonds through the State that do count against that limit. If the rate-payers repay the energy bond, that will not count against the debt limit.

Regent Sayles, recalling that the State surplus was originally projected to be about \$9 billion, asked what it is projected to be given the energy situation. Mr. Hershman believed that if the energy issue could be solved through lease-revenue bonds, the best estimate that the Legislative Analyst and the Department of Finance have projected is about \$2.5 billion, assuming the Governor's Budget is funded by the Legislature.

Mr. Hershman then briefly discussed the federal budget, which provides nearly \$6 billion to the University. These funds are particularly important with respect to research support. He commented on the proposal by President Bush to implement a tax cut over ten years that amounts to about \$1.6 trillion. To support this proposal, growth in discretionary spending would need to be held at 4 percent initially and at about the rate of inflation during the full ten years. If the plan is instituted, there will not be sufficient growth in the amount of research money the University receives, an amount that has been increasing by about 10 percent annually.

Associate Vice President Sudduth noted that, although it is early in the budget process in Washington, there are indications that the budget will not provide another round of “give backs” from Medicare, previous cuts to which were partially restored during the past two years. On the research front, the budget request that the Administration has sent to Congress does include a nearly 14 percent increase in funding for biomedical research at the National Institutes of Health. The University is by far the largest recipient of NIH research money in the country. Other research budgets, however, may get an increase of inflation or less.

Mr. Sudduth reported that the Senate Finance Committee has reviewed a piece of the President’s tax proposal called the Affordable Education Tax Act. Congress is examining some provisions within the tax cut with a view toward making college more affordable for students and their families. This bill would expand student loan interest deductions and would create tax-free status for some scholarship funds, particularly those designed for students who go into work in health professions in underserved regions of the country. The bill would also exclude from taxes assistance that an employer provides to a student to return to school for undergraduate or graduate education. Finally, in the budget request that the President sent forward there is a request for an increase in student financial aid, including Pell grants.

5. **REPORT ON NEW LITIGATION**

General Counsel Holst presented his **Report on New Litigation**. By this reference the report is made a part of the official record of the meeting.

The meeting adjourned at 10:45 a.m.

Attest:

Secretary