The Regents of the University of California

COMMITTEE ON FINANCE
May 16-17, 2001

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

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

In attendance: Regents Eastin, 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, Provost King, Senior Vice President Mullinix, Vice Presidents Drake and Gurtner, Interim Vice President Gómez, Chancellors Bishop, Carnesale, Cicerone, Orbach, Tomlinson-Keasey, and Vanderhoef, and Recording Secretary Bryan

The meeting convened at 1:10 p.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 March 15, 2001 were approved.

2. **APPROVAL OF PEDIATRIC RESEARCH NETWORK AGREEMENT AT THE LOS ANGELES AND SAN FRANCISCO CAMPUSES**

The President recommended that he be given authorization to approve the formation of a Pediatric Research Network at the Los Angeles and San Francisco campuses and execute the Pediatric Research Network Agreement among the parties participating in the Research Network.

It was recalled that the purpose of the Glaser Pediatric Research Network (the Network) is to engage in pediatric clinical research. The members of the Network are Baylor College of Medicine, Children's Hospital-Boston, UCLA on behalf of the Mattel Children's Hospital, Stanford University, UCSF, and the Elizabeth Glaser Pediatric Research Foundation (the Foundation), which was established by the Elizabeth Glaser Pediatric AIDS Foundation in 1999 to provide funding and participate as a working organization in the Network. In 1999 the Elizabeth Glaser Pediatric AIDS Foundation spent over $7 million on research and treatment grants, scientist awards, student intern awards, and other program services. The Foundation is funding the start-up costs of the Network. UCLA and UCSF will receive funding for fellowships, grants to cover salary and benefits for researchers, funding for research projects, and opportunities to participate in clinical trials. Participation in the Research Network requires approval of The Regents because the Network has been identified as an unincorporated association, which means that UCLA and UCSF are participating in a new organization.

Potential Third Party Liability

In a separate legal entity, such as an unincorporated association, there is a potential for liability to third parties for members of the entity. This risk has been minimized through insurance and indemnification requirements. Each member of the Network is required to insure its activities in amounts that satisfy the University requirements and to name the other parties as additional insureds. Each member also is required to indemnify the other members for its acts or omissions. Finally, the Network cannot take any action that obligates the University under a contract without the University's approval.

Use of University Name and Fund Raising

The Foundation is responsible for fund raising for the Network. The initial funding for the Network is estimated at $4 million per year for the first two years. UCLA and UCSF are not required to participate in any fund raising and are not restricted from conducting their own fund raising. The Foundation has prepared a fundraising policy detailing how it plans to raise money for the Network and will inform UCLA and UCSF of its activities. UCLA and UCSF each have been asked to designate a contact person to receive and review prospective donor lists and to communicate with the Foundation regarding potential overlapping fundraising activities.

The Network Agreement contains restrictions on the use of the UCLA and UCSF names. The Network can use the UCLA and UCSF names in conjunction with fundraising purposes, the development of potential Network study sponsors, and general descriptions of Network activities. The Network may identify UCLA and UCSF as members of the Network that support the Network's goals and may also describe the Network studies in which the institutions are participating. The Permitted Uses of Name attachment to the Network Agreement provides an example of the Network's use of the member institutions' names. All other materials that use the University names must be approved by the University and be consistent in tone, style, and context with the example provided.

Protection of the University's Intellectual Property Interests

The Network Agreement contains several sections describing the treatment of any intellectual property developed or created by the Network or the members. Intellectual property developed solely by a member is owned by that member. Jointly developed intellectual property is owned by the members who developed it. Members who jointly develop intellectual property will coordinate management of such property. Licensing revenue after deduction for cost of patenting is shared 45 percent to the Network, 45 percent to members who developed the intellectual property, and 10 percent to the Network for costs. All of these provisions were extensively reviewed by the University's Office of Technology Transfer (OTT) and the Office of General Counsel.

Contingent upon UCLA and UCSF taking certain actions to accommodate University policy requirements and federal obligations, OTT will approve the non-standard royalty-sharing provision of the Network Agreement.

Research

The Network will engage in pediatric clinical research supported by private sponsors such as pharmaceutical companies, the National Institutes of Health, or the Foundation. The Network will serve as a model for clinical research on behalf of all children by promoting more rapid collaboration among the members and fostering an environment that facilitates innovative early clinical studies. The Network will also create a forum for addressing important policy issues that will affect pediatric research. Participation in the Network gives UCLA and UCSF access to additional sponsored research opportunities and funding and greater opportunities for collaboration with other prestigious children's hospitals.

UCLA and UCSF are not required to participate in any research study and may also pursue their own research outside the Network. If UCLA and UCSF desire to participate in a study, they will each sign a research study agreement for that particular study. The Agreement describes the rate for indirect cost payments for studies funded by the Glaser Pediatric Research Foundation, pharmaceutical companies, and the NIH, as well as non-study overhead costs of Network staff members employed at the member institutions. Sample forms to be used for these research agreements have been reviewed by the Office of Contracts and Grants Administration at UCLA and UCSF. UCLA and UCSF may withdraw from any study at any time, subject to the terms of the Network Agreement.

Finances and Governance

The Network is governed by the Foundation Board of Directors, which shall raise, allocate, and disburse funds. UCLA and UCSF are not required to contribute any funding to the Network. The Network shall have a management committee made up of researchers from each member that shall oversee the operations of the Network, including management of Network staff. The Network shall maintain a separate bank account on its behalf. All funds contributed to the Network shall be paid into the account, and all funds expended in connection with the Network shall be paid out of the account. UCLA and UCSF have the right to have an audit conducted of the Network finances, and the Foundation shall prepare an accounting of the funds annually and shall provide the management committee with financial reports. As a tax-exempt organization, the property of the Network is dedicated to charitable purposes, and no part of the income will inure to the benefit of any officer, director, or member or to the benefit of any private person.

UCLA and UCSF are members of the Network for a five-year term but may withdraw at any time, subject to the terms of the Network Agreement. Upon withdrawal, UCLA and UCSF shall have no obligations, duties, or liabilities except those expressly set forth in the Network Agreement. The Network Agreement specifies that compensation for site directors and other Network staff will continue for 60 days following the member institution's withdrawal, and support for fellows will continue until the end of the academic year or not less than 180 days. The member institution must also continue the participation of its research subjects enrolled in all Network studies through the conclusion of those studies and take any action necessary to protect the welfare of its research subjects. Member institutions continue to have access to Network study data generated by the institution in the course of a Network study.

If the Foundation withdraws from the Network, it must give the members six months' notice.

The Foundation shall continue to fund the research studies and fellowships in effect for one year. There are no specific provisions addressing dissolution of the Network, except that upon termination, any Network assets remaining after payment of all debts and liabilities of the Network shall be distributed to one or more nonprofit, tax-exempt organizations selected by the Board of the Network. As UCLA and UCSF do not contribute any assets to the Network beyond space and institutional resources necessary to conduct research studies, there are no campus assets at risk if the Network dissolves.

Legal Action

The Foundation Board of Directors (the Board), as the governing body of the Network, has the sole and exclusive authority to bring all legal action on behalf of the Network. UCLA and UCSF retain the right to bring legal action regarding any infringement claims to their intellectual property. Before bringing any legal action on behalf of the Network, the Board must notify the members and allow them the opportunity to express concerns, and if any member advises that the legal action will affect that member, the Board must strongly consider such concerns before proceeding.

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

3. **DELEGATION OF AUTHORITY TO THE PRESIDENT TO ESTABLISH PER-UNIT FEES FOR SELECTED PART-TIME GRADUATE DEGREE PROGRAMS**

The President recommended he be delegated the authority to establish per-unit fees, equivalent to fees charged during the regular academic year, for selected part-time, State-supported, graduate degree programs.

The President will report to The Regents annually on the fee levels established for such degree programs.

It was recalled that authority for setting fees, with certain limitations, is delegated to the President in Section 100.4(g) of the Standing Orders of The Regents:

> The President shall fix and determine the amount, conditions, and time of payment of all fees, fines, and deposits to be assessed against students of the University, except that the President shall secure the Board's approval prior to the assessment of the University Registration Fee, Educational Fee, tuition fees, compulsory student government fees, and fees and charges required in connection with the funding of loan financed projects, except parking facilities and housing projects.

The University intends to encourage enrollment of students in selected, high-priority, State-supported graduate degree programs by offering these programs on a part-time basis. It is anticipated that enrollments in these high-priority graduate degree programs would be encouraged if fees were charged on a per-unit basis rather than under the existing fee policy for part-time enrollment in graduate degree programs, which provides that:

> Part-time graduate students who are approved to enroll for one-half or less of the regular course load stipulated in Academic Senate Regulation 702 or who are pursuing an approved part-time program as otherwise defined by the Academic Senate, shall pay the full University Registration Fee and one-half the Educational Fee, except for those students enrolled in special part-time professional degree programs covered by the Policy on Self Supporting Part-Time Graduate Professional Degree Programs.

Accordingly, it is proposed that the President be authorized to approve fee levels equivalent on a per-unit basis to the Educational Fee and the University Registration Fee charged during the regular academic year for selected State-supported, part-time graduate degree programs that are determined in consultation with the Academic Senate. The President would also be authorized to approve a per-unit fee equivalent to the nonresident tuition fee, as applicable, and in consultation with the Chancellors, per-unit fee levels equivalent to the campus-based fees charged during the regular academic year.

It is anticipated that per-unit fees would be established for professional master's and doctoral degree programs, such as a Master's in Education and doctoral programs in Education (Ed.D) to help address the state's manpower needs in K-12 education or to meet other high-priority needs.

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

4. **APPROVAL OF INCREMENTAL FUNDING OF FIXED-PRICE CONSTRUCTION SUBCONTRACTS, LAWRENCE LIVERMORE NATIONAL LABORATORY**

The President recommended that, as an exception to Standing Order 100.4 (dd)(1) and (8), and subject to appropriate University pre-bid concurrence and approval of the Department of Energy, Lawrence Livermore National Laboratory (LLNL) be authorized to solicit and execute incrementally funded, fixed-price construction subcontracts at LLNL for the construction of Building 140, Sensitive Compartmented Information Facility, and for the construction of Building 155, Chemistry and Materials Science Office Building. Both projects are authorized in connection with work done under the University's master operating contract for LLNL, where the total value of the individual subcontracts would exceed the amount appropriated for project work on a fiscal year basis.

It was recalled that LLNL has proposed awarding an incrementally funded subcontract to obtain cost savings during the two-year construction of the B-140 project. The project is estimated to cost $15 million, of which approximately $10 million has been requested to date in the DOE FY 2002 budget. Similarly, an incrementally funded subcontract will provide cost savings during the 18-month construction of the B-155 project. The B-155 CMS Office Building is estimated to cost $7 million, of which $2.6 million is already funded with the remaining $4.4 million requested for the DOE FY 2002 budget.

Use of incrementally funded contracting, which avoids restraints imposed by the one-year duration of congressional appropriations, has been used previously at the DOE laboratories and does not pose a substantial risk to The Regents. Incremental funding of fixed-price construction contracts allows an agency to enter into a contract to have a facility built over several years for a fixed total price, but limits the agency's obligation at any time to the amount of funds currently available and allotted to the contract. The contractor promises to complete construction for a fixed price only if the agency provides the full amount of the requisite funding, in increments, over the term of the contract. The agency is not obligated to reimburse the contractor if available funds are exhausted. The special conditions of the contract spell out in detail the method of funding and the manner in which work may be adjusted, suspended, or terminated in the event later appropriations are reduced or eliminated. Incremental funding is routinely used by federal agencies for construction contracting, and the national laboratories have adopted the practice in the past decade. The principal advantage is the opportunity to award a construction contract over fiscal year boundaries, avoiding the artificial parceling of the project into multiple contracts. Such a contract allows the introduction of cost saving methods and other economies associated with continuous performance. The LLNL construction subcontracts would remain subject to existing pre-bid University review procedures, including approval as to legal form by the Office of General Counsel.

Subcontracts premised on incremental funding cannot be considered risk free. Although they provide for termination if funds are curtailed, an absolute limitation on the University's potential liability cannot be assured.

The risk to The Regents is mitigated by DOE's contractual obligation to indemnify the University provided that indemnification obligation is sufficiently funded by reserve contingency funds or by the availability to DOE of appropriated funds that can be applied to the LLNL contract. The UC-DOE contract No. W-7405-ENG-48 provides in subparagraph (e) (2) of Clause I.087 Insurance-Litigation and Claims, that the University shall be reimbursed "...for liabilities (and reasonable expenses incidental to such liabilities, including litigation costs) to third persons not compensated by insurance or otherwise without regard to and as an exception to the clause of this contract entitled Obligation of Funds."

DOE's contractual assurances regarding indemnification significantly reduce the risk of any financial exposure for the University. In addition, sufficient amounts would be maintained by LLNL as reserve contingency funds over the fiscal year periods to cover in all material respects contractor termination costs in the event of non-appropriation.

Regental approval is required because the provisions of Standing Order 100.4(dd)(1) and (8) prohibit construction contract awards in excess of appropriated funds. Approval for the proposed exception to the Standing Order is necessary in order to provide sufficient time to prepare the necessary contractual documents for incremental funding.

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

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 Committee recessed at 1:15 p.m.

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The Committee reconvened on May 17, 2001 at 9:00 a.m. with Committee Chair Preuss presiding.

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, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Drake, Gomes, Gurtner, and Hershman, Interim Vice President Gómez, Chancellors Berdahl, Bishop, Carnesale, Cicerone, Dynes, Greenwood, Orbach,Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

6. **UPDATE ON THE 2001-02 STATE AND FEDERAL BUDGETS**

Committee Chair Preuss commented on long range planning, recalling that the University had accepted responsibility for educating the top 12.5 percent of high school graduates and noting that, as a result, it is estimated that its student body will grow by 43 percent during the coming decade. He believed that it may not be safe to assume that the University will be able to increase its capacity to such a large degree without sacrificing its high quality. He suggested that the Board would need sufficient information to determine whether it will be possible to achieve this goal and whether the University is on the correct path to do so. He observed that the federal and State budget allocations continue to be insufficient to meet the University's needs. Although the University receives funds on a per-student basis, the money is not proffered until the students arrive. Preparations for their arrival, which include building classrooms and housing and hiring faculty, may be underfunded or unfunded. He noted that 7,000 new faculty will need to be hired by 2010, which means that 620 must be hired per year until then. The current hiring level is 308 per year. Also, to stay even with its responsibilities, the University will need to educate 43 percent more graduate students; however, its graduate student population is declining by 2 percent per year. It is obvious that the University needs more money in order to meet its responsibilities. He believed that the Regents must strive to provide defensible funding estimates to the State and federal administrations. To that end, he suggested the establishment of an annual or semi-annual reporting structure to show where the University is situated on its line of demand for the next decade and to provide a useful tool to illustrate to legislators how much support the University needs in order to live up to its obligations to the public.

Regent Connerly agreed with the need for such a report. He believed that there is a disconnect between the expectations of the public, the demands of the legislature, and the realities of what the University can do. A model that more visibly portrays the relationship between the University's needs and its goals would help the Regents articulate the University's position to the public.

Chancellor Dynes also endorsed the proposal. He noted that the campuses have been going through planning processes that could be brought together in such a way as to make clear what the University's overall needs are to meet its vision of the future. Chancellors Vanderhoef, Berdahl, and Greenwood reported that the need for space and the funding to start it up were their most pressing issues and that they had statistics that would paint a clear picture of the challenges the campuses are facing. Regents Kozberg, Hopkinson, Lee, and Regent-designate Seymour also supported Committee Chair Preuss' proposal.

Chairman S. Johnson emphasized that the State provides the University's core funding. She believed that the capital aspect of the coming growth was the most important consideration. She stressed that funding demands for mandatory student health insurance, graduate students, maintaining the student-to-teacher ratios, proposed admissions changes, and library support will have an effect on the quality of the education the University can provide. She supported Regent Preuss' proposal and requested that the report he had called for contain specific, accurate projections and be submitted to the Regents every six months. President Atkinson affirmed that many of the measurements that it would be useful to include in the report were readily available from the campuses. Regent Preuss agreed that the report should be semi-annual, and he suggested that it be given a clear, descriptive name to signify its importance.

Vice President Hershman then provided an update on the 2001-02 budget. He emphasized that the University will continue to need not just State money but also private and federal money to fulfill its mission. He reported that the University's budget had been threatened by members of the Assembly all spring. The Governor's May revision, which made reductions in both revenue and expenditures to deal with the State's economic situation, is based on the assumption that the State will sell $13.5 billion in revenue bonds to pay for energy costs. The new revenue estimate for the General Fund is $74 billion and for expenditures is $80 billion.

Mr. Hershman reported that the growth rate in California personal income is projected to decline by 2 percent in the current year and 5.6 percent in 2002. It is difficult to project what will happen after that. Regent Parsky noted that technology has a tremendous impact on the California economy. He did not foresee that sector returning to its previous healthy level. Regent Lee believed that could be possible if the capital gains tax were cut. The Department of Finance estimates that the reduction in income from stock options revenue for the State could reach 37 percent. Mr. Hershman observed that, despite these factors, the Governor was projecting economic growth. Mr. Hershman noted that expenditures for transportation were delayed and that extra money for local government, housing, and many other categories was cut from the budget. The Governor protected K-12 education, however, which did not receive similar cuts.

Mr. Hershman recalled that one of the reasons the University entered into the partnership with the Governor was to ensure that the quality of its programs would be maintained. He was distressed that the partnership funding had been reduced severely and that there was no indication that it would not suffer further cuts in the future. He noted that, on the plus side, the University would receive $12.8 million related to enrollment growth for its projected 1,400 additional students and $100 million for the increased cost of natural gas. On the minus side, $90 million was cut from the partnership. The increase in basic funding was reduced from 5 percent to 2 percent, resulting in cuts of $60 million that would have been used for faculty and staff salaries and $30 million intended for maintenance, instructional technology, equipment, and libraries, leaving about 2 percent for increases in salaries and benefits, of which merit awards use 1.5 percent. He had been informed that the State did not have any money to pay for salary increases for State employees and therefore did not feel that UC and CSU should get salary increases. Some one-time money was removed for deferred maintenance and research initiatives that heavily supported graduate students, but capital outlay was left intact, as was funding for the new science institutes.

Mr. Hershman reported that the Assembly had taken no action on the University's budget. The hearings in the Assembly have been difficult, and he was hopeful that there would be improvement soon. The Assembly Democrats have indicated a desire to put more outreach money toward immediate results rather than longer-term school partnership efforts.

Regent Bagley commented that he was pessimistic about the State's ability to issue revenue bonds without a dedicated flow of revenue to pay them off. If in cases making their way through the courts it is determined that utilities have to be given the opportunity of making a reasonable return, it will be impossible for the State to issue the bonds it is counting on. He was also pessimistic about the effect that term limits were having on the legislature.

Regent Connerly recalled that it had occurred to him during the past few years of good economic times that the University may have been building an organization that was not sustainable. He hoped that the model Regent Preuss had requested would provide insight into the amount of funding needed to ensure quality in the face of growth. He believed that the compact with the Governor had been flawed from the start in that it required the University to provide a level of service without any assurance that the necessary State support to sustain that level would be continued. He acknowledged that pressure to repeal SP-1 had been part of the Assembly's threat to the University's budget, and he wondered what other kinds of threats might be made in the future. Mr. Hershman hoped that any other threats from the Assembly would disappear, but Regent Preuss was concerned that The Regents' repeal of SP-1, if taken as an effort to appease the Assembly and protect the University's budget, could have set a dangerous precedent.

Regent Connerly noted further that there is the perception that the University's outreach programs were not producing perceptible results. He was disturbed by the fact that many legislators thought an entity other than the University would do a better job. He emphasized that the University is not responsible for the academic deficiencies in its applicant pool. Mr. Hershman believed that individual legislators understood the problem, but he observed that many of the University's outreach programs were constructed to produce results ten years out. President Atkinson recalled that the outreach plan had been viewed as faulty by many legislators who believed that the goal should not be to prepare students to be ready for college-level work but rather should prepare them specifically to enter the University of California. Mr. Hershman believed it will finally become an issue of how much money should be put into longer-term versus shorter-term efforts. Chairman S. Johnson stated that in publicizing the University's outreach efforts, it should be emphasized that no eligible student has ever been denied entry to UC.

Regent Kozberg noted that the success of the University's outreach program is illustrated by the fact that other colleges are taking students who are the product of those efforts. Regent Lansing suggested that the Regents form small groups to visit key legislators to advocate for the University.

Regent Davies stated that he had always assumed the partnership with the Governor was an agreement that the State would help the University to the extent possible. If the State does not have the resources, the Governor is not in a position to uphold the contract. He believed that the Regents should assume that the political attacks from the Assembly were going to continue and should develop their planning on that basis.

Regent Montoya commented that if the University is going to be focusing more on short-term results in outreach, the focus should be on programs that have a high academic content and involve ladder faculty who can inspire students and give them more insight into what attending the University could mean for them.

Regent Marcus noted that the budget cut represented only $90 million out of a $16 billion budget. He suggested that the University create its own solutions to closing the budget gap and use its resources to the maximum benefit.

Mr. Hershman acknowledged that the State is not in a position to give the University the budget it needs. He believed that if it appears that the economic problems are going to continue for several years, it may be necessary for the University to evaluate its position and strategy with respect to funding. The economy requires that the University assess its minimum needs for the near term. He suggested it may be time to reevaluate student fee levels.

Regent Sayles believed that, with respect to the outreach programs, appropriate measures of success should be found in order to satisfy the Legislature. He suggested that it would be helpful to state realistic long- and short-term expectations more clearly. President Atkinson believed that the appointment of Interim Vice President Gómez, who will be spending time in Sacramento, will prove beneficial in informing the Legislature about the University's goals and success rates for outreach.

Mr. Hershman was concerned that the University's 2002-03 budget request might be unrealistic given the State's fiscal condition. He estimated that an 11 percent State increase would be necessary to meet projected basic needs. He emphasized that the dilemma is not just with State money; federal and private money are also threatened. He recalled that $6 billion a year comes to the University from the federal government.

Recently, the President and the Congress have indicated their desire to preserve Social Security and Medicare and have made a commitment to reducing the national debt and cutting taxes. The University's federal allocation is projected to grow only by the rate of inflation for the next several years, and its research money is in jeopardy.

Senior Vice President Darling reported that the Congressional Budget Resolution has been considered the primary tool for controlling federal spending. It has been successful over time, although in the last three years members of both parties have broken the resolution by spending more than was permitted under its rules. The federal budget is divided into two components: one is mandatory spending, such as interest on the public debt, Social Security, and Medicare entitlements; the other is discretionary spending that the President and Congress may alter each year through the annual appropriations process and that accounts for all the money the University receives from the federal government. The overall amount of that discretionary money for which the University may compete has been lowered. He mentioned that there were several challenges, including the fact that no increases will be provided for student financial aid and for research. The Balanced Budget Act, which has benefitted the University's hospitals for the last two years, is not on the President's or Congress' agenda, and the Department of Energy science budget will be constrained for the next few years. It is feared that money will not be available to enable the University to maintain the level of security required by its contracts to manage the Department of Energy laboratories.

On a positive note, Mr. Darling reported that there is hope for regulatory relief on several fronts. The higher education community has been asked to recommend changes that will simplify some of the regulations the DOE has imposed on the University. Also, there is interest in reducing the regulatory burden on hospitals, particularly with regard to Medicare and Medicaid billing requirements. There may be some changes to tax laws that will allow for expanded deductibility of interest on student loans, and a greater portion of student fellowships and scholarships will not be subject to federal taxation. Also, a bill has been proposed that would allow donors to donate a portion or all of an Individual Retirement Account to charitable organizations without incurring a tax event, a move that could have a monumental impact on higher education. Lastly, with regard to employees, there are pension reforms that could be beneficial in terms of tax law. One would increase the amount that employees could set aside for retirement on a pre-tax basis.

In conclusion, Mr. Darling reported that the chancellors recently visited Washington to meet with members of Congress, the Secretary of Energy, and other governmental leaders and that efforts are under way to have faculty and students testify before the California delegation. In July, there will be a meeting of medical leadership in Washington, which the University's deans and hospital directors will attend, to discuss healthcare policy issues. Lastly, work is ongoing with the National Science Coalition to try to raise research funding in Congress, particularly for the physical sciences.

Regent Marcus asked whether the increase in enrollment has been funded. Mr. Hershman responded that it had, for 7,100 students. The amount per student is

$9,100 from the State, or a total of $63 million. Regent Marcus believed that the University's cost per student was less. Mr. Hershman explained that it is actually more. He noted that to accommodate the expected increase in students, more classes and sections must be offered and more faculty must be hired.

Chancellor Carnesale stated that the problem is that the University gets from the State the same marginal increase per student even when the growth is no longer marginal. The marginal cost model does not work with an increase as large as 40 percent over ten years. Regent Marcus maintained that creative suggestions would help the shortfall. He believed that the distribution of students may need to be adjusted. He stressed the importance of illustrating to the Legislature that the University is managing its system in the best way possible. Mr. Hershman recalled that when 2,000 faculty were lost in the early 1990s, the remaining faculty were asked to teach more classes. Students, however, want not just more classes but also smaller classes, which are expensive to administer. The quality of their educational experience has become a major issue. Regent Marcus believed that, depending on the type of class, the student-to-teacher ratio could be irrelevant.

[For speakers' remarks, refer to the May 16, 2001 minutes of the Committee of the Whole.]

7. **POLICY CONSIDERATIONS GUIDING THE DEVELOPMENT OF THE 2002-03 STATE BUDGET**

It was recalled that, following the process established last year for development of the annual budget, discussions on the 2002-03 budget would begin with the outline of the basic principles and funding considerations discussed below. These principles, and their budget implications, will be discussed in more depth at the July and September meetings. The budget will be presented to The Regents in November for approval.

The University's basic budget is funded from a variety of sources, including State General Funds, revenue from student fees, UC General Funds (nonresident tuition and funding related to indirect cost recovery on contracts and grants are the two major sources of UC General Fund income), federal funds, teaching hospital revenue, gifts and endowments, and income from self-supporting enterprises. The University's annual budget plan is based on best estimates of funding available from each of these sources.

While State funds are not the only source of support for the University's budget, they provide the core support for faculty, libraries, and other operations essential to offering students a high-quality education. This core support enables the University to leverage funds from other sources, such as research dollars from the federal government or private donations. Thus, while the annual Regents' Budget provides details on all fund sources, including historical context and future prospects, the focus of the document is on State funds and other general purpose funds, such as student fee revenue, that provide the foundation upon which the rest of the budget depends.

The University's annual budget request to the State is a statement of resources needed to maintain access and ensure the excellence of the University's programs. Funding requests in the budget reflect both long-term and short-term objectives that have been identified and reaffirmed in the University's ongoing planning and consultation process. Through that process, basic principles emerge that are used to develop the University's budget request each year. These principles derive from the University's needs in terms of its tripartite mission of teaching, research, and public service, the role of the University of California in K-12 and higher education, and the role the University plays in the state's economic growth and development.

Budget development is influenced by agreements reached with the Governor and the Legislature; primary among these is the Partnership. For each of the last seven years, the University has built its budget request on the basis of agreements reached with the Administration regarding funding principles. This occurred first with the Compact, an agreement negotiated with Governor Wilson covering the years 1995-96 through 1998-99. Under the Compact, the University's budget was stabilized after years of budget cuts, and the ability to plan for the future was restored.

The four-year Partnership Agreement with Governor Davis provides the basis for the budget request for State funding each year through 2002-03. This agreement reflects the Governor's view that while K-12 and the higher education segments need adequate State support, they also must be held accountable for specified outcomes.

The state's energy crisis and declining revenues related to a slowing economy mean that the state's fiscal situation remains highly uncertain. Development of the 2002-03 budget will occur in the context of the University's assessment of the state's economic circumstances.

Principles for Development of the 2002-03 Regents' Budget

The major principles and funding strategies guiding the development of the 2002-03 Regents' Budget are to maintain quality, access, and affordability, and to develop initiatives that respond to critical state needs in research and public service. These principles are similar to those that have been used in recent years and reflect discussions with the Regents and other internal constituents, such as chancellors, faculty, students, and staff, as well as the Governor and the Legislature.

Principle: Maintaining Quality

The quality of the University's education and research program is among the highest in the nation. This quality has been achieved because the faculty and staff are committed to providing a rich academic environment in which opportunities for intellectual growth are widely available and achievement be recognized and rewarded. It is imperative that this high quality be preserved and enhanced by recruiting and retaining the best faculty, students, and staff and by maintaining excellent programs. Resources are needed to provide the following:

Merit Increases. Merit increases reward excellence, which is critical to the preservation of quality. Merit increases are not automatic. Academic merit increases are awarded only after extensive review of individual achievements. Staff merit salary increases are awarded to eligible individuals based on performance.

Compensation for Faculty. Competitive salaries are needed to attract and retain the best faculty. The quality of the faculty, more than any other factor, determines the quality of the institution. One of the biggest challenges facing the University as it grows over the next decade is the recruitment and retention of the best faculty. Approximately 7,000 new faculty will need to be hired during this decade (4,000 associated with retirements and normal turnover, and 3,000 associated with enrollment growth). To attract those faculty, the University must pay competitive salaries. A lag in faculty salaries sends a negative message about the University across the nation. Nothing is more certain to undermine quality than an inability to offer competitive salaries.

The proposal each year is derived from a methodology developed by the California Postsecondary Education Commission (CPEC) for estimating the gap between the average salaries paid at eight comparison institutions and those paid by UC, based on information from other institutions that is available in the fall. As a result of the budget cuts in the early 1990s, UC's average salaries fell significantly behind the average of its comparison institutions. By 1998-99, the University had closed that gap and begun to request funds for a parity adjustment, in addition to the cost-of-living adjustment (COLA) for all employees, sufficient to keep faculty salaries at the average of the comparison institutions.

The 2001-02 Regents' Budget estimated a gap of 3 percent and included funding to cover that gap. However, final information gathered from comparison institutions too late to include in the budget estimate indicated that the gap had been underestimated by about 1 percent. Therefore, the amount budgeted for faculty salaries is short by about $7 million. The University has informed the administration and the Legislature of this shortfall. It is as yet unclear if the 2001-02 budget will include funding to close this gap. If it does not, it will be necessary to address this $7 million shortfall in the budget for 2002-03, along with any further increases required to meet the new calculation for 2002-03 salaries.

Compensation for Staff. As with the faculty, the University competes regionally and nationally for high-quality staff. Salaries play a crucial role in attracting and retaining excellent staff. The University has been moving toward a more market-based model in setting staff compensation ranges, but the market has become increasingly volatile, and as a result it has become more difficult to recruit and retain qualified staff.

The University's budget plan usually includes a proposal for a cost-of-living increase for all employees so that salaries at least keep pace with inflation. In the past, this COLA was based in large part on those provided to State civil service employees. That pattern was disrupted, however, with the budget cuts in the early 1990s, when UC employees received no COLAs for three years. More recently, salary increases for

State employees have been above those provided to UC employees. The funding gap between salary increases in recent years for UC employees compared to what they would have been if COLAS of 2 percent per year had been granted in the early 1990s is about 4 percent, before accounting for parity increases that may be funded in 2001-02. This gap is of great concern to the University.

The 2001-02 budget included an additional $10 million (within basic budget funding provided under the Partnership) above normal COLA and merit adjustments for parity increases for non-faculty staff. This included funding needed to support the collective bargaining agreement between the University and representatives of the University's teaching assistants. In addition to the $10 million included within Partnership funding, the University requested $14 million above the Partnership. Together, this funding would have been sufficient to support an average 2 percent increase for non-faculty staff above the normal 2 percent COLA plus merit increase included in the basic Partnership.

While the $14 million requested above the Partnership was not included in the Governor's January budget, the University has continued to inform the administration and the Legislature of the high priority UC places on further increasing staff salaries. The final outcome of this issue for the 2001-02 budget is still uncertain; however, bringing staff salaries to more competitive levels will be a high priority in 2002-03, regardless of the outcome of the 2001-02 budget negotiations.

Price Increases for Non-Salary Budgets. Programs can deteriorate without adequate funds to keep up with rising costs. The budget plan each year includes resources to offset the impact of inflation for the non-salary portion of the budget. The University generally requests an increase based on the estimated rise in inflation.

Support for Improving the Quality of Undergraduate Education. A key measure of quality and competitiveness with other research institutions is the student-to-faculty ratio. Until 1990-91, the University's budgeted student-to-faculty ratio was 17.6:1. This ratio was already higher than two of its public salary comparison institutions and significantly higher than all of its private comparison institutions. With the budget cuts of the early 1990s, the student-to-faculty ratio deteriorated even further, rising to 18.7:1. As the State's fiscal situation began to improve, The Regents identified restoration of the student-to-faculty ratio to its traditional level as one of its highest priorities. The budget for 2000-01 included $6 million within the basic budget funds provided under the Partnership as the first step in a multi-year plan to reach a budgeted ratio of 17.6:1; the budget for 2001-02 included an additional $8 million for this purpose, also within the basic funding provided under the Partnership. This funding is being used to improve the quality of undergraduate education by hiring faculty and providing more opportunities for smaller seminars, reduced class size, assignments involving work with faculty on research projects, and academic advising for students.

Funding for Core Needs. The University has identified four essential but chronically underfunded budget areas that are inextricably linked to the quality of its academic programs: building maintenance, instructional equipment replacement, instructional technology, and libraries. Permanent funding shortfalls in these areas were estimated to total $150 million in 1998-99. The budget for 2002-03 will represent the final year in a four-year plan to address these funding shortfalls based on a funding principle in the Partnership Agreement to provide an increase for the targeted areas each year equivalent to 1 percent of the State-funded base budget. With funding provided in the 1999-00, 2000-01, and 2001-02 budgets, over $80 million in State funds has been targeted for this purpose; at the end of four years, the State will have contributed over $110 million toward funding the gap. The remainder of the shortfall will be funded by redirecting resources within the University. Both the University and the State have worked to provide adequate funding for these core needs because of their importance to the quality of UC.

Funding for Deferred Maintenance. Adequate support for deferred maintenance has been among the most intractable funding problems in the University's budget. Chronic underfunding for ongoing maintenance has exacerbated the problem. Consequently, the deferred maintenance backlog of high-priority projects alone is estimated to be over $500 million. The funding provided through the Partnership for core needs will help address the ongoing maintenance problem and thus stop the exponential growth of the deferred maintenance backlog.

In order to increase the funding available for deferred maintenance, the University developed a program using increased income from University funds (nonresident tuition) to pay for debt service on approximately $60 million to $65 million in long-term financing to begin addressing critical, high-priority projects. This program was begun in 1998-99 and is anticipated to continue at least through 2002-03, at which time over $300 million will have been made available for deferred maintenance projects.

One-Time Funding Needs. While the Partnership Agreement provides needed State support for the University's basic budget and for core, unfunded areas, there continue to be extraordinary needs that small increments of funding cannot adequately address. These include additional funding for deferred maintenance, instructional equipment replacement, instructional technology, capital outlay funding, and other one-time needs. The University will continue to request funding for such one-time needs, as State resources are available.

2001-02 Budget: Funding Considerations for Maintaining Quality

As proposed in the Partnership Agreement, the State will provide basic operating budget adjustments of 4 percent per year on the State General Fund base and an additional 1 percent of the base for the four core needs for ongoing building maintenance, instructional equipment, instructional technology, and library materials. The Partnership acknowledges that the State may provide one-time funding for high-priority needs, such as deferred maintenance, libraries, equipment, and instructional technology. These funds, which would be contingent upon the State's fiscal situation, would be in addition to the funds provided to support the University's basic budget.

Each year, the University's expenditure plan for its basic budget needs takes into account both Partnership funding and an estimate of General Fund income earned by UC. Except for special one-time funding needs, any additional resources to maintain program quality must be funded from the base budget increases in the Partnership and from increases in UC General Fund income. This means distributing the Partnership and UC General Fund income among several high priorities, each of which plays an important role in maintaining and enhancing quality.

The Partnership Agreement also assumes the University will do everything possible to increase private and federal support to help maintain quality and support its needs. Private support has grown from a little over $100 million in 1980 to over $1.2 billion in 2000-01. Federal support, too, continues to grow, although the rate of growth has varied over the last two decades. In the 1980s, federal research support rose by about 10 percent per year. In the early 1990s, the growth rate slowed dramatically to about 4 percent per year and then was flat in 1996-97. More recently, the federal budget situation improved such that the rate of growth has been nearly 10 percent per year. However, the outlook for the federal budget and the University's ability to sustain this rate of growth in the future are of concern.

Principle: Maintaining Access Under the Master Plan

The Master Plan calls for UC to accept students from among the top 12.5 percent of California high school graduates and to provide professional and graduate academic education through the doctorate level. The University remains strongly committed to the Master Plan and to offering a place in the University to all qualified undergraduate students who wish to attend. As more students are enrolled, adequate resources are needed to fund portions of the budget that are affected by enrollment workload growth.

Annual Enrollment Growth. Over the last several years, the University had been projecting an annual enrollment growth rate of 5,000 FTE students (or about 3 percent), based on assumptions presented to The Regents in October 1999 about expected growth in the number of Master Plan-eligible students, transfers from the community colleges, and graduate students essential to meeting California's workforce needs. However, enrollment trends in the last several years have significantly exceeded the University's projections, causing them to be reassessed for annual rates of enrollment growth. A growth of 6,000 to 6,500 students per year for the next several years is now projected.

Eligibility Under the Master Plan. Every few years, the California Postsecondary Education Commission conducts a study of the proportion of California public high school graduates eligible for admission to UC and CSU. The most recent report, based on 1996 high school graduates, indicated that 11.1 percent of California high school graduates met the academic course, scholarship, and test requirements specified by UC for eligibility.

To achieve a pool of eligible students in the top 12.5 percent of California high school graduates as envisioned in the Master Plan, The Regents approved revised guidelines for freshman admission to the University in March 1999. The new guidelines provided a "4 percent" path to eligibility for freshmen applicants entering the University in fall 2001 and beyond. Under this policy, 11th grade students who rank among the top four percent of their high school class are eligible for admission to UC if they have completed a University-defined pattern of courses. The freshman class for 2001-02 will reflect the first results of the 4 percent path to eligibility. Indications are that a significant number of applicants and admitted students will enter the University through this path. In addition, the University faculty revised the Eligibility Index for entering freshmen to require that all students meet or exceed a minimum total score on the index, which includes a combination of the high school grade point average on specified academic subjects, scores on the Scholastic Assessment Test I, reasoning test (SAT I), or ACT test, and scores on three Scholastic assessment Subject Tests (SAT II). With these changes, it is anticipated that UC's eligibility requirements will yield a pool of the top 12.5 percent of California high school graduates. Nevertheless, based on historical patterns, the University's enrollment growth projections assume a continued enrollment of about the same proportion of the California high school graduating class as has been enrolled in recent years.

<u>Community College Transfers</u>. The Partnership Agreement with the Governor calls for an increase of 6 percent per year in the number of students who transfer from community colleges to UC, an increase from 10,150 transfers in 1998-99 to 15,500 transfers in 2005-06. In 1999-2000, the University made major progress toward this goal by increasing transfer enrollments from community colleges by 6.6 percent. In 2000-01, the University is doing everything possible to meet this goal again. The University's enrollment growth projections for 2002-03 will include an assumption that these numerical goals will be achieved.

<u>Graduate Enrollment Growth</u>. At the graduate level, student enrollment growth is planned by projecting the needs of higher education, the state, and the nation, and balancing that assessment with the State's and the federal government's ability to provide sufficient resources. The University's estimates for annual enrollment growth assume graduate enrollments will increase by at least 1,000 students per year. Both the need for and the resource implications of even greater growth at the graduate level are being reviewed.

As part of the 2001-02 budget, The Regents announced The Regents' Initiative for a Comprehensive Plan for Graduate Enrollments and Associated Resource Needs. President Atkinson appointed a commission to explore in depth the issues related to providing adequate graduate student support in a competitive market. That commission has now completed most of its work and will report at the September Regents meeting.

<u>Teacher Credential Program</u>. In response to the significant demand for teachers in the state, the University developed a plan to more than double the number of students enrolled in UC education credential programs from over 1,200 in 1999-2000 to nearly 2,600 by 2002-03. Annual growth in the program is estimated to be 500 FTE per year. The growth in credential program students is included within the University's annual

enrollment growth projections. The University is also committed to increasing public higher education's capacity for producing education doctorates by 50 percent over the next five years and 100 percent over the next ten years.

The University is also working on a new initiative in Educational Leadership for the 2002-03 budget that will include proposals to strengthen the University's collaboration with the California State University on joint doctoral degree programs and help fund a new Institute for Educational Leadership that would provide comprehensive educational programs, policy perspectives, information, data, and research related to educational leadership in K-12 schools.

Engineering and Computer Sciences. Technology is driving demand for more employees with degrees in engineering and computer science. The need for more highly trained workers with advanced degrees in these disciplines is especially critical. Consequently, as much as one-third of the growth in projected graduate student enrollment and significant growth in undergraduate majors will occur in engineering and computer science. With the 2002-03 budget, the University will be in its fifth year of an eight-year plan to increase by 50 percent, or 24,000, the number of students in engineering and computer sciences between 1998-99 and 2005-06. This plan calls for enrollment growth in these disciplines of about 1,000 FTE per year, included within the University's overall annual enrollment growth projections. Although it was intended to be an eight-year plan, the campuses are likely to meet their eight-year targets by 2002-03. Therefore, campuses may be asked to revise their targets upward for future years.

State-Supported Summer Instruction. As part of its effort to accommodate an increase of more than 50,000 students between now and 2010, the University is planning to phase in expanded summer instruction, making available to students State-supported summer instruction that is similar in quality to course offerings during the regular academic year. Fees during summer are already equivalent (on a per-unit basis) to those charged during the regular academic year, but financial aid must also be provided that is at least equivalent to that provided during the regular academic year. It is the University's plan to support enrollment increases in the summer as part of the workload funding provided for annual enrollment growth. However, State support must be obtained for existing summer enrollment.

The State is beginning to phase in support for existing summer enrollment with funds provided in 2001-02 for UC-matriculated summer students at the first three campuses – Berkeley, Los Angeles, and Santa Barbara. It is important to begin at these three campuses because, under current Long Range Development Plans, they are all reaching their limits for accommodating students during the regular academic year. A total of $21 million included in the Governor's Budget will support 3,422 students (based on the marginal cost of instruction) during summer of 2001 at the three initial campuses. The University proposes to phase in the remaining campuses in the 2002-03 budget.

2001-02 Budget: Funding Considerations Related to Maintaining Access. By agreement with the State, funding for enrollment growth is provided on the basis of the marginal cost of instruction, a calculation developed with the participation of UC, the California State University, the Department of Finance, and the Legislative Analyst. Components of the calculation include salary and benefits for additional faculty; related instructional support, such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; and support for libraries and student services. Marginal cost is provided for each additional student and is used in addition to student fee income to help support instruction. The University estimates that increases will total approximately 6,000 to 6,500 students for 2002-03. In 2001-02, the State-funded portion of the marginal cost was $9,158 (the student fee-funded portion totaled $1,718) per student. This figure will be recalculated for the 2002-03 budget.

Capital Outlay. As enrollment increases, the University must provide facilities needed for growth and ensure that existing facilities are safe and suitable for the academic program. The University estimates it will need approximately $500 million per year in capital funding for core academic space, about half of which would be used for projects related to enrollment growth and the other half for projects related to seismic and life-safety needs, infrastructure, and renovation of space that can no longer support the academic program. The University received $210 million per year from the State in Proposition 1A bond funding for four years through 2001-02. This amount is insufficient to meet its needs. It is hoped that the State will support a larger bond issue for the four-year period beginning in 2002-03, as well as provide one-time funding for capital outlay, depending on the availability of State resources. Office of the President staff have been meeting with representatives from the community colleges and the California State University to develop a joint proposal for the higher education portion of the next education bond measure. This proposal will make clear the significant needs of all three segments and the importance of providing additional funds to build up the segments' capacity to accommodate the additional students expected to enroll in higher education.

Principle: Maintaining Affordability

The University has a long-standing commitment to affordability. Mandatory systemwide and campus-based undergraduate student fees average $3,964 in 2000-01, which is about $1,400 below the average of the University's public comparison institutions, and financial aid for needy students has increased dramatically in recent years. University students receive nearly $1.1 billion in financial aid from all sources, over half of which is in the form of grants.

While it is important to maintain affordability, programs supported by fees must be cost-adjusted along with the State-funded portion of the budget.

For the last seven years, the State has provided funds adequate to maintain student-fee-funded programs without the need for a student fee increase and, since 1998-99, has actually funded a 10 percent fee reduction for undergraduate students and a 5 percent reduction for graduate students. Furthermore, a significant amount of financial aid for needy students has been added both because of increases in Cal Grant funding and because the State has maintained student financial aid funding in the University's budget at its existing levels despite fee reductions. These actions have helped keep UC affordable.

2000-01 Budget: Funding Issues Related to Affordability

The University's budget plan each year includes an assumption that funding equivalent to a student fee increase will be provided to support cost adjustments for fee-supported programs similar to those provided to State-supported programs. This funding may be derived either from a student fee increase or from a State-funded "buyout," depending on budget negotiations with the Governor and the Legislature. The Partnership Agreement proposes that any student fee increases would not exceed the increase in California per capita personal income and that at least one-third of any additional fee revenue would be used for financial aid.

Principle: Initiatives to Respond to Critical State Needs in Research and Public Service

The University's budget each year reflects an assessment of high-priority needs within the state in many different areas, including research, in which new knowledge discovered by the University enhances the quality of life and helps to stimulate economic development and job creation; public services areas, such as outreach, K-12 teacher professional development, and Cooperative Extension; and other programs that serve an identified statewide need. These are areas in which the University has a unique role to play or in which University expertise can be brought to bear on a major problem facing the state. As in past years, the annual budget request will include proposals for new initiatives that serve statewide needs in the context of the availability of State funding.

Research. The University of California plays a unique role in the state's economic development. The University attracts large amounts of federal funding into the state, its research leads to new knowledge that stimulates creation of new industries, and it acts as a magnet to business and industry seeking relationships with research institutions that can contribute to developing new products for the marketplace. University research also provides the setting for hands-on training of graduate students, so they are better able to apply their knowledge once they enter the work force. Each year, the University proposes funding above the basic Partnership support for research proposals that are designed to address critical state needs. In recent years, research funding increases have been used to help with an initiative to provide additional support for graduate students by designating all or a portion of the increase for new Research Assistantships. It is anticipated that the University once again would emphasize support for graduate students as part of the research initiatives proposed in the 2002-03 budget.

In addition to funds requested for new research, the University will seek funds for the California Institutes for Science and Innovation. Recognizing the critical role University research plays in the state's economy, the Governor proposed the creation of three world-class centers of scientific excellence to maintain California's premier standing in science and technology fields and provide the technological underpinnings of the state's future economic growth. The Governor's proposal was to provide the University with $75 million per year from 2000 to 2004, for a total of $300 million, for the development and construction of three science institutes, with the funding to be matched on a two-to-one basis by non-State funds. The Legislature supported his proposal by adopting AB 2883 (Villaraigosa) authorizing establishment of the institutes and providing the first increment of funding in the 2000-01 budget. The Governor's Budget for 2001-02 includes the second phase of funding for the first three institutes, which were selected last fall. These institutes are the following:

- The California Institute for Science and Innovation in Bioengineering, Biotechnology, and Quantitative Biomedicine, with UC San Francisco as the lead campus in partnership with UC Berkeley and UC Santa Cruz;

- The California Nanosystems Institute, led by UCLA in partnership with UC Santa Barbara;

- The California Institute of Communications and Information Technology, with UC San Diego as the lead campus in partnership with UC Irvine.

The Governor also proposed the first of three increments of funding ($33 million each year for three years) for a fourth institute, The Center for Information Technology Research in the Interest of Society, led by UC Berkeley in collaboration with UC Davis, UC Santa Cruz, and UC Merced.

The proposals selected through a peer review process exceeded expectations, both in terms of the quality of the programs and in terms of matching funds. It is anticipated that the matching funds from all four institutes will reach a 3-to-1 ratio of non-State to State funds. The University will include the next increment of funding for the four institutes in the 2002-03 budget request. Support will be sought for a fifth institute in agricultural genomics.

Public Service. In 1996-97, the Outreach Task Force issued its landmark report recommending that funding for outreach should be doubled over five years in order to accomplish the goals set out in the report. In recent years, the State has provided significant increases for public service programs to help educationally disadvantaged students become eligible for UC and to help K-12 schools and community colleges improve their performance.

K-12 Student Outreach Programs. Since 1996-97, funding for outreach programs operated by the University increased dramatically. Given the significant infusion of funds for outreach programs in recent years, it is important to continue to focus on implementation and evaluation of these programs.

Community College Transfer Programs. The administration and the Legislature have shown a growing interest in the need to increase transfers from community colleges to UC. The MOU with the California community colleges, which calls for an increase of 6 percent per year in the number of students who transfer from community colleges, has already sparked considerable cooperative activity between UC and California Community Colleges. More importantly, the proposal to establish a new dual admissions program is under active consideration in the University. This program would enable students who fall between the top 4 percent and the top 12.5 percent of their high school class, but are not statewide eligible, to be admitted simultaneously to a community college campus and a UC campus. After satisfactorily fulfilling their freshman and sophomore requirements at a community college campus, they would complete their upper-division studies at the UC campus to which they were previously admitted. If ultimately approved, this new effort will require a much greater tracking, articulation, and support service infrastructure than is currently in place.

Student Services. Student service programs were hurt by the severe budget cuts of the early 1990s. Funding for these programs has not been restored. The strain on student service budgets has been exacerbated over time by the increasing demand for services to students with disabilities. Many of the services those students require are expensive, and as a result limited student services funds have become even more scarce.

The Regents requested $6 million in 2001-02 for expanded student services as part of a multi-year plan to rebuild student service budgets. The Governor's Budget included $3 million for these programs. While the outcome of that proposal is not clear at this time, the University anticipates requesting funding for these programs over the next several years.

2002-03 Budget: Funding Considerations Related to New Initiatives. As indicated above, the proposed Partnership Agreement acknowledges that State resources above the basic budget funding may be provided for new or expanded special initiatives or programs approved by the Governor and the Legislature, including special research initiatives, outreach, and other public service programs to improve K-14 schools. Consequently, in addition to the third year of funding for the Science Institutes, consideration will be given to proposals for new and expanded efforts in selected areas in research, public service, and student services for the 2002-03 budget.

The meeting adjourned at 10:35 a.m.

Attest:

Secretary