The Regents of the University of California

COMMITTEE ON GROUNDS AND BUILDINGS
COMMITTEE ON FINANCE
November 14, 2002

The Committees on Grounds and Buildings and Finance met on the above date at UCSF–Laurel Heights, San Francisco.

Members present: ***Representing the Committee on Grounds and Buildings***: Regents Atkinson, Bustamante, Hopkinson, Johnson, Kozberg, Ligot-Gordon, Lozano, Marcus, Moores, and Sainick; Advisory member Seigler
Representing the Committee on Finance: Regents Atkinson, Hopkinson, Lee, Ligot-Gordon, Lozano, Montoya, Moores, and Sayles

In attendance: Regents Blum, Davies, Eastin, Lansing, and Terrazas, Regent-designate Murray, Faculty Representatives Binion and Pitts, Secretary Trivette, Associate Secretary Shaw, General Counsel Holst, Provost King, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Doby, Drake, Gomes, Gurtner, and Hershman, Chancellors Bishop, Carnesale, Cicerone, Córdova, Greenwood, Tomlinson-Keasey, Vanderhoef, and Yang, and Recording Secretary Bryan

The meeting convened at 10:50 a.m. with Committee on Grounds and Buildings Chair Marcus presiding.

1. **APPROVAL OF UNIVERSITY OF CALIFORNIA 2003-04 BUDGETS FOR CURRENT OPERATIONS AND CAPITAL IMPROVEMENTS**

The President recommended that:

A. The Committee on Finance recommend that the expenditure plan included in the **2003-04 Budget for Current Operations** be approved.

B. Subject to concurrence of the Committee on Finance, the Committee on Grounds and Buildings recommend that the 2003-04 Budget for Capital Improvements be approved as presented in the document titled **2003-04 Budget for Capital Improvements**.

C. The Committee on Finance concur with the above recommendation of the Committee on Grounds and Buildings.

[The **2003-04 Budget for Current Operations** and **2003-04 Budget for Capital Improvements** were mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

Vice President Hershman discussed both budgets and the options for budget reductions being contemplated by the Department of Finance, focusing his comments on the main budget issues facing the University. He reported that there has been no resolution concerning the budget cuts that are expected for the current year. In view of the large deficit, the State has asked the University to plan for cuts in the current year of up to 5 percent and has asked it to plan for cuts of up to 20 percent in next year's budget.

Mr. Hershman reported that it was decided to base the University's budget on its Partnership Agreement with the Governor but also to evaluate options for future budget cuts. Normally, the University would present a five-year projection of all funds for all campuses, but in the current environment it will be necessary to wait until the Governor's Budget is released in January and to use it to inform the University's five-year plan. It is hoped that a final budget will be accepted by July.

Regent Blum noted that the State's contribution to the 2002-04 General Fund is expected to increase by $289 million, or 9 percent, yet cuts of 5-to-20 percent are being proposed. He asked whether money could be transferred for use among the various sections of the University and its medical centers. Mr. Hershman explained that the hospitals must use their profits to support their own capital needs. Other funds, such as gifts and federal resource money, must be spent as designated.

Mr. Hershman reiterated that the University's budget request is based on the Partnership Agreement, with the assumption that there will be additional fee income related to enrollment growth and to an increase in student fee levels. He pointed out that $7 billion in federal money supports the University and the Department of Energy laboratories it manages. Federal money provides half of the University's research funding, significant amounts for student grants and loans, and one-third of its total hospital revenue. He believed that budget deficits will prevent the approval of appropriation bills in the short term and that the University's expected increases in research money may not materialize. Hospital funding is experiencing cuts in Medicare indirect medical education rates, and cuts in funding for Medicaid funding for disproportionate share hospitals will be made permanent. The Medicaid upper payment limit is expected to be cut also. These cuts affect all five of the University's medical centers. He noted that the remarkable growth in private support for the University has fallen off slightly in the past year and is expected to remain depressed.

Mr. Hershman recalled that there had been dramatic increases in State support in the 1980s, then the support dropped during the early 1990s, and, although it has picked up again in recent years, this year it has started to fall. The University has never recovered from the financial difficulties of the early 1990s, during which salaries for faculty and staff fell behind the market. He recalled that because of those difficulties, the University entered into a compact with the Wilson administration which was followed by a Partnership Agreement with the Davis administration that appeared to be a solution to maintaining quality in the anticipation of huge enrollment growth.

The Partnership Agreement was felt to provide the minimum funding needed. The agreement provided that either there would be fee increases that would go along with growth in per capita personal income, or the State would buy out the fee increase. This year there is neither a fee increase nor a buyout. The University, on the other hand, has exceeded its enrollment plan by nearly 10,000 students; graduate enrollments have grown more in the past several years than in the previous two decades; Regental approval of student eligibility in the local context has led to greater accessibility; the University has instituted dual admissions, which has enhanced transfer from community college; and graduation rates have improved dramatically. Mr. Hershman observed that, by any measure, the University has not just met but has exceeded its commitments under the Partnership. He pointed out that the Partnership has not been funded fully for the past two years, leaving the University $237 million short of the funds that were presumed to have been committed.

Mr. Hershman described the situation at the time the Governor signed the State budget, when a deficit of $23 billion was projected. The 2001-02 and 2002-03 budgets were balanced by one-time actions, including fund transfers and loans to build up revenue, and by the tobacco settlement, and it appeared that there would be a $1 billion reserve. Then the situation quickly deteriorated, and the Department of Finance indicated that the revenue projections upon which the budget was built were overly optimistic. Much of the problem with the State's revenue situation was caused by declining capital gain and stock option revenue. The combination of a recession, the September 11 attack, and the decline of capital gain and stock option revenue has thrown the State's fiscal situation into chaos, and the declines may be permanent. In the face of that situation, the University is presenting a Partnership budget as a starting point to negotiations. Based on the Partnership, its requests include general fund increases of 4 percent for salaries and 1 percent for core needs, restoration of the one-time cut in the current year for core needs, funding for enrollment growth, funding for the remaining campuses for summer sessions, and either a student fee increase or the equivalent in terms of a buyout, for an overall 9.9 percent increase. Mr. Hershman acknowledged that, while the University has asked for what it actually needs, under the circumstances an increase of that size has no chance of being accepted by the State.

Mr. Hershman then focused his remarks on salaries, enrollments, fees, and financial aid. He noted that faculty salaries are 7.5 percent behind the norm. The University will suggest in its budget negotiations that the highest priority should be to stabilize that decline. A 4 percent increase in staff salaries will be necessary just to stay even. In the face of large enrollment growth, the campuses are in the process of reevaluating their enrollment plans. Campuses that have been funded for summer sessions have experienced an 80 percent increase in those programs this year, and community college transfers have also grown dramatically. Graduate enrollments have exceeded expectations. The result of all of this growth is that the student-faculty ratio has deteriorated.

Mr. Hershman noted that in constant dollars, using the Partnership formula of per-capita personal income, student fees in 2002 are lower than they were in 1971. If the University had implemented a long-term fee policy based on the Partnership, undergraduate student fees would be about $2,300 higher in the current year. The University's fees for graduate education are also below average. Non-resident fees are close to the comparison group. Grant aid in 2000-01 totaled $650 million, which is almost the same amount as the total fee revenue that was collected from students. He was hopeful that any proposals to increase fees would recognize the need to provide more financial aid.

Although Mr. Hershman stated that the exact dimensions of the coming budget cuts are not known, he reported that priorities were being established. These include maintaining access and quality for planned enrollment levels, protecting the base budget, funding core instructional budgets, and funding growth at the marginal cost. The University's budget request of $72 million, to cover 8,000 students and for funding for faculty and staff salaries, will remain firm.

Mr. Hershman reported that in the face of this situation, all options for cutting costs are being examined closely. Within the Partnership budget, delaying restoration for core budgets, although not advisable, is one option. Delaying State funding for summer sessions for the remaining four campuses is another. He recalled that in the mid-1990s the State reduced student fees by 10 percent. In the current situation it may not be possible to maintain that reduced level. The University is working with the California Postsecondary Education Commission on establishing a fee policy and will put forth a proposal to CPEC for endorsement. It has been suggested that colleges and universities be returned to their historical role of deciding fee increases within a framework when the budgets are put together in November. If regular fee increases were adopted, large swings in fees could be prevented. Another option is to have a fee increase that is set for a period of years until the State can afford to fund the Partnership.

Mr. Hershman listed options for cuts in base budgets. He believed that the most substantial cuts would be in administration, student services, and public service programs. Consideration is being given to making cuts in public services across the board rather than to individual programs. The University has sustained huge cuts in research during the past few years. In this area it may be advisable to cut selected programs rather than to cut across the board. Agriculture in particular has been subjected to large cuts in the recent past.

Mr. Hershman briefly discussed the State-funded capital budget, noting that the passage of the most recent bond issue ensures a certain level of funding for the University for the next few years. The University has built its capital budget accordingly and will focus on enrollment growth when determining which projects will go forward.

President Atkinson invited the president of the UC Student Association, Mr. Stephen Klass, to comment on the budget. Mr. Klass stated that he was pleased to see that maintaining quality and accessibility were budget priorities and that there was emphasis on graduate student growth and support. On the other hand, he believed that many of the issues relating to student fees were troubling. He believed that any discussion on student fees must take into account the total cost of attendance, which is fees plus housing, books, and transportation and is the true financial obstacle to a college education for many students. He stated that when the total cost is considered, UC is the most expensive among its comparison institutions. UCSA objects to the suggestion that while raising fees it would be acceptable to cut student services. This would go against the intent of the student fee, which is to pay for services outside of the core instructional budget.

Regent Hopkinson noted that to date the University has a $237 million deficit. If it receives no budget increase, it will have an additional $421 million deficit. She pointed out that adding the expected further cuts describes a problem of huge scope.

Regent Lee noted that the budget has a built-in legal non-resident fee increase of about 4 percent, making the fee about $12,000. He pointed out that some illegal non-residents will pay $3,700. He believed that attending a California high school should not give them the same status as legal non-residents. Regent Lee then inquired about the plan for raising salaries. Mr. Hershman responded that the University will propose in its budget for next year that, if the Partnership is funded, employees should receive a 6 percent salary increase. Regent Lee advised that it would be in their own best interests for employees to put pressure on the State to fund the Partnership Agreement.

Regent Davies believed that it should be assumed that the coming budget cuts will be very large. Although he supported the idea of making the highest priorities maintaining quality and providing funding for faculty and staff salary increases, he believed that those goals will not be attained, given the scope of the problem. The State deficit may be as much as $30 billion. He was skeptical that the University could make budget cuts in the areas suggested that could make up for a $650 million deficit. He believed that early retirement programs may be necessary and that student fees must be increased, and probably by more than 10 percent. If a policy had been followed of increasing fees annually according to family income increases, the University would not be faced with a major rise in fees at this point. He pointed out that maintaining quality does not include just maintaining faculty and staff salaries, it also includes maintaining all of the programs that the University has developed. Mr. Hershman agreed that the cuts are likely to be significant and that large fee increases will need to be considered. The level of funding provided by the Partnership was what the State committed itself to providing. Cutting back from that is tantamount to cutting the workload budget. He believed that the budget cuts the University will be forced to make in areas such as student services, administration, and research clearly will affect quality. A fully funded Partnership Agreement was the minimum needed to maintain it.

Regent Terrazas believed that budgeting by priority was the best approach. Everything must be on the table. He also believed that there are certain stakeholders in the University who are better prepared and equipped to deal with the severity of the budget cuts that are being discussed. He stated that on the list of priorities he would place maintaining staff salaries ahead of maintaining faculty salaries and that he would make raising student fees the last option. He continued that, if these areas must be cut, they should be the first to be restored once additional funding becomes available. He believed that those least able to defend themselves should be the last ones cut.

Regent Eastin agreed with Regent Terrazas. She believed that students should be protected from having to pay high fees, given the State's high return on its investment in the University's students. She recalled that the generation of the 1960s invested in facilities and kept fees low, putting education first among its values. She urged that before raising student fees the Regents should lobby the State to restructure the tax system.

Regent Davies emphasized that the University has proposed a student fee increase every year in its Partnership funding request.

It was the opinion of Regent Bustamante that before any consideration is given to raising fees, every effort should be made to get the Partnership Agreement fully funded. He was concerned by the fact that no ideas had been expressed for generating more income for the University. He suggested forming a task force to provide some suggestions to the Legislature on alternative State actions, such as raising the tobacco tax, that could resolve the salary, research, and fee situations.

Committee on Grounds and Buildings Chair Marcus noted that raising fees was only one of many options that would have to be considered.

Regent Montoya expressed concern about the difference between the financial benefits of a professional education versus an undergraduate education. She believed that if fees must be raised, they should be raised only at the professional level.

Regent Hopkinson supported the approach of discussing all options in order to determine priorities and direction. She commented that Mr. Hershman's report provided valuable information that gave perspective to the situation.

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

2. **UNIVERSITY OF CALIFORNIA 2002-03 TO 2006-07 NON-STATE CAPITAL PROGRAM**

The Committees were informed that the report, **University of California 2002-03 to 2006-07 Non-State Capital Program** is the first of regular annual reports that will be developed to provide an overview of campus longer-term capital plans. It provides a projection of the capital program expected to be proposed for funding from non-State sources during the five-year period 2002-03 to 2006-07 and of future facilities to be developed using non-State sources. Specific projects funded from non-State sources will continue to be brought to the Board for approval at its regular meetings, when the scope and cost of projects are final and the feasibility of funding plans is confirmed. It is anticipated that the scope, cost, and funding plans of future projects will change to some degree by the time they are presented for approval.

The report has a chapter for each campus that includes the following information:

- An overview of the campus planning context in which the projection of non-State funded projects has been developed.

- A table that displays the list of projects that the campus estimates it will bring forward for approval during the five-year period, followed by a summary of the total project costs and anticipated fund sources that will support the Non-State Capital Program.

- A brief narrative description of each capital project proposed for funding from non-State sources during the five-year period.

The Non-State Capital Program is based on the campuses' best estimates of non-State fund sources that will be available for defined capital projects over the five-year period. These fund sources include debt financing, campus resources, gifts, capital reserves, and federal funds. In addition, the number of projects with funding plans that rely on both State and non-State sources, such as the California Institutes for Science and Innovation and medical center projects that address seismic safety requirements, has increased in recent years. The State capital funds displayed in the project tables include only the amount of State funds associated with projects that are jointly funded from both State and non-State sources, and do not include all projects included in the State-funded capital improvement program.

Some campus capital development has taken place through land lease agreements and other development arrangements with third party entities. These projects are not normally included in the capital budget but rather are approved through a variety of contractual agreements. Potential third party developments on the campuses are included in the report, however, in order to display the full range of capital development activities expected to take place on the campuses over the next five years.

While the lists of campus projects address a wide range of facilities needs, the campus capital programs outlined in the report do not meet all identified capital needs. The campuses have included only those projects that they believe can be sufficiently defined in terms of scope and cost at this time and for which a reasonable funding plan can be defined. For example, potential projects to meet identified needs may not be included in the program because alternative solutions are still being evaluated or funding sources cannot be identified, especially for projects that would be approved in the fourth or fifth year of the Non-State Capital Program. Some campuses are evaluating the feasibility of capital campaigns to raise gift funds for capital purposes or are in the process of identifying the priority projects to be included in a future gift campaign.

Vice President Hershman recalled that the comprehensive capital budget that has been developed provides a planning context for the campuses. The total amounts for which campuses anticipate requesting approval for the next five years are similar to the amounts requested for the previous five. Unfortunately, the plan may turn out to be optimistic, given the economy.

[The **University of California 2002-03 to 2006-07 Non-State Capital Program** was mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

3. **UPDATE OF THE HOUSING TASK FORCE**

In presenting an update from the presidential task force, Senior Vice President Mullinix reported that housing is essentially a local issue. There is extensive analysis done at the campus level to revise and extend housing priorities and plans and develop models for financing and for meeting academic needs. With the plans that the campuses have identified, they may be able to increase the percentage of students housed during this period of extraordinary growth from the current 26 percent to 38 percent by 2011, but to do so will require an enormous amount of new construction and an increase in third-party development. All but one campus have a program to expand for sale and rental housing, principally for faculty but also for staff.

Former Regent Jeff Seymour discussed opportunities for attracting private developers. He noted that the suggestion of the task force to create 18,000 privately-developed beds in ten years would be a significant challenge to achieve. The task force suggested creating new links with private developers through friends of the University and alumni in the industry. It supported developing incentive plans. California State code allows for incentives for special-use projects, including housing for the aged and disabled. The type of incentives include density bonuses, mixed-use zoning, and opportunities to expedite the development process. The task force was hopeful that it could examine the potential of amending the existing statute to include university housing. In its report, the task force discussed streamlining construction and planning of projects to be done under ground leases and suggested that there should also be a focus on streamlining the RFP process, which can be drawn out and expensive. Finally, it was the conclusion of those on the task force that it is essential to have Regental oversight, either through a committee or other Regental body, to move housing forward.

Regent Hopkinson noted that the report is comprehensive in that it deals with both students and faculty. She observed that the recommendations for student housing, although complicated, may be easier to implement than the recommendations for faculty housing. Mr. Mullinix pointed out that the bulk of assistance the University provides with regard to faculty housing is financial. Early in the process of analyzing the University housing needs, the Regents approved a group of financing changes to the home loan program that were suggested by the task force. It transpired that the programs were so successful that campuses had much more demand for the funds than funds available. To increase that allocation, the task force decided to liquidate the mortgages in the portfolio. The University has sold in excess of $300 million worth of mortgages and will issue revised planning guidelines to the campuses.

Regent Hopkinson suggested considering a shared equity approach. Mr. Mullinix responded that the use of pension fund was examined with a view toward establishing a shared equity program but that it was discovered that it is almost impossible to lend such funds to current employees. There is no restriction on endowment and foundation funding, however. Committee Chair Marcus advocated exploring all options further.

Regent Terrazas agreed that the shared equity idea should be explored. He asked whether the process of building on the core campuses could be simplified. Mr. Mullinix responded that common designs are being explored, as are modularization, off-site construction, and systemwide component construction. Mr. Seymour agreed that there is a need to simplify the bid process and to expedite construction without reducing quality.

Regent Lee noted the issue of providing sufficient housing is a statewide concern. He asked whether it would be feasible for the University eventually to provide housing for every freshman. Mr. Mullinix reported that the goal is for every campus to be able to provide housing for every first-year student who requests it. Although the University is substantially behind in providing the number of housing units needed to achieve the goal of providing housing for 38 percent of all its students, it is believed that all first-year students will be able to be accommodated, as will a significantly larger proportion of first-year transfer and upper class students.

Regent Kozberg asked what first steps were the most important to take. Mr. Mullinix responded that one is to develop a robust tracking process for in-house construction to be sure that it continues to produce sufficient units on time, and to try as part of that process to speed up construction and hold down costs. Another is to explore third-party development more thoroughly. Mr. Seymour believed that the two areas of focus should be Regental oversight and incentives. He noted that it may be possible to establish incentives through existing statute. The incentives in the State government code include density bonuses, mixed use zoning, and modification of development standards. These incentives are being used in relation to the construction of senior housing and housing for the disabled.

[The University of California Housing Task Force Report, entitled **UC Housing for the 21st Century**, was mailed to all Regents in advance of the meeting, and copies are on file in the Office of the Secretary.]

The meeting adjourned at 1:00 p.m.

Attest:

Secretary