

The Regents of the University of California

**COMMITTEE ON FINANCE**

January 20, 2005

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

Members present: Regents Blum, Bustamante, Connerly, Dynes, Hopkinson, Lozano, Moores, Ornellas, Parsky, and Sayles; Advisory members Juline, Rominger, and Blumenthal

In attendance: Regents Anderson, Johnson, Lansing, Marcus, Montoya, Novack, Pattiz, Preuss, Ruiz, and Wachter, Regent-designate Rosenthal, Faculty Representative Brunk, Secretary Trivette, Associate Secretary Shaw, General Counsel Holst, Treasurer Russ, Provost Greenwood, Senior Vice Presidents Darling and Mullinix, Vice Presidents Broome, Gomes, Gurtner, and Hershman, Chancellors Birgeneau, Bishop, Carnesale, Córdoba, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Laboratory Director Chu, and Recording Secretary Bryan

The meeting convened at 11:50 a.m. with Committee Chair Blum presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETINGS**

Upon motion duly made and seconded, the minutes of the meetings of September 22 and November 17, 2004 were approved.

2. **CONSENT AGENDA**

A. *Amendment of the Budget for Capital Improvements and the Capital Improvement Program and Approval of External Financing for Multi-Use Stadium, Davis Campus*

The President recommended that:

- (1) The Committee concur with the recommendation of the Committee on Grounds and Buildings that the budget for the Multi-Use Stadium project, Davis campus be amended as follows:

From: Davis: Multi-Use Stadium – preliminary plans and working drawings – \$2,794,000 funding comprised of preliminary plans from campus funds (\$1,146,000) and working drawings from gifts (\$1,378,000).

To: Davis: Multi-Use Stadium – preliminary plans, working drawings, construction and equipment – \$29,750,000 to be funded

from external financing (\$20,795,000), Facilities and Campus Enhancement and Legal Education Enhancement and Access Program net revenues (\$2,950,000), and gift funds (\$6,005,000).

- (2) External financing be obtained not to exceed \$20,795,000 to finance the Multi-Use Stadium project, subject to the following conditions:
  - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - b. Repayment of \$17,400,000 of the external financing shall be from the Multi-Use Stadium portion of the Facilities and Campus Enhancement (FACE) student fees approved by student vote in February 1999 and by The Regents in May 1999, the Multi-Use Stadium portion of the Legal Education Enhancement and Access Program (LEEAP) fee approved by student vote in April 1999 and by The Regents in May 1999, and a portion of user fees, which shall generate net revenues sufficient to pay debt service and to meet all related financing requirements.
  - c. Repayment of \$2,500,000 of the external financing shall be from the Activities and Recreation Center (ARC) and Aquatics Complex portions of the FACE student fees approved by student vote in February 1999 and by The Regents in May 1999, and the ARC and Aquatics Complex portions of the LEEAP fee approved by student vote in April 1999 and by The Regents in May 1999, and a portion of user fees, which shall generate net revenues sufficient to pay debt service and to meet all related financing requirements.
  - d. Repayment of \$895,000 of the external financing shall be from University of California Davis Beverage Pouring Rights.
  - e. The general credit of the Regents shall not be pledged.
- (3) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
- (4) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

**B. *Approval of External Financing for Engineering Unit 3, Irvine Campus***

The President recommended that:

- (1) The President be authorized to obtain external financing not to exceed \$8,591,000 to finance the Engineering Unit 3 project, subject to the following conditions:
  - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - b. Repayment of the debt shall be from the Irvine campus' share of the University Opportunity Fund.
  - c. The general credit of The Regents shall not be pledged.
- (2) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.
- (3) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

**C. *Approval of Standby and Interim Financing for Education and Social Sciences Building, Santa Barbara Campus***

The President recommended that:

- (1) He be authorized to obtain interim financing not to exceed \$2,258,000 and standby financing not to exceed \$5,000,000, for a total of \$7,258,000, prior to awarding a construction contract for any gift funds not received by that time and subject to the following conditions:
  - a. Interest only, based on the amount drawn down, shall be paid on the outstanding balance during the construction period.
  - b. Repayment of any financing shall be from gift funds, and in the event such gift funds are insufficient, from the Santa Barbara campus' share of the University Opportunity Fund.
  - c. The general credit of The Regents shall not be pledged.
- (2) The Officers of The Regents be authorized to provide certification to the lender that interest paid by The Regents is excluded from gross income for purposes of federal income taxation under existing law.

- (3) The Officers of The Regents be authorized to execute all documents necessary in connection with the above.

Concerning Item A., *Amendment of the Budget for Capital Improvements and the Capital Improvement Program and Approval of External Financing for Multi-Use Stadium, Davis Campus*, Regent Anderson noted that of the \$29 million required for the project, \$20 million will come from student fees, which to her seemed excessive despite the fact that it had been approved by a student referendum. She observed that UC Davis has the highest student fees of any campus and that there is no mechanism to provide a built-in return to aid from these fees. She was informed that, for the stadium project, the Davis students built in a return to aid of \$18 on the \$126 per quarter that undergraduates pay and a 100 percent return to aid for Pell grant recipients.

Vice President Hershman recalled that, at the request of Regent Hopkinson, the issue of campus-based fees would be discussed at the March meeting. Regent-designate Rosenthal asked that students be consulted in preparation for that presentation. Regent Anderson believed that campus-based fees should be monitored on a systemwide basis in order to gain an understanding of the impact they have on the issue of affordability. She urged that the March presentation address return to aid across the system with regard to campus-based fees.

In response to a question asked by Regent Montoya, it was reported that nearly 6,000 undergraduates and graduates voted on the stadium referendum, not including the law students. The measure passed by 67 percent for undergraduates and graduates and 69 percent for law students, well exceeding the minimum voting pool requirement and resulting in the largest student referendum turnout in the campus' history.

Regent Bustamante asked how much of the total cost of the funding was from gift funds. He was informed that \$20 million of the \$29 million is financed and that external gift funds of approximately \$6 million are being raised for the project. He believed that the campus should do a better job of soliciting gifts from the community. He suggested that, notwithstanding that in this case the students decided it was appropriate for them to provide two-thirds of the funding, the Regents consider the propriety of expecting such levels of student support. Committee Chair Blum believed that UC Davis had been quite successful in its overall fundraising efforts. Regent-designate Rominger agreed, noting that the campus is embarking on a \$900 million capital campaign that will provide the public with many opportunities for supporting capital growth.

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

### 3. **UPDATE ON THE 2005-06 GOVERNOR'S PROPOSED BUDGET**

President Dynes stated that the Governor had fulfilled his compact with the University in his proposed budget, acknowledging the University's contribution to the global economy. President Dynes noted with concern, however, the withdrawal of some one-time money the University had received at the end of last year's budget process as part of the agreement for the continued funding of academic preparation programs, formerly known as outreach. He reported his intention to work with the Governor and the Legislature during the coming year to demonstrate the importance of these programs and to seek restoration of this funding.

Vice President Hershman opened his presentation by addressing the overall Governor's Budget. He observed that there are no further cuts to the University's base budget, faculty and staff will receive a cost-of-living increase for the first time in several years, enrollment is funded sufficiently to maintain a degree of growth that honors the Master Plan, and student fee increases will be retained by the University to meet its priorities. The Governor is proposing a balanced budget plan without raising taxes and using only a portion of the remaining economic recovery bonds. He is proposing \$9 billion of policy adjustments, none of which relate to higher education.

Mr. Hershman reported that the Governor's proposal includes normal COLAs and workload funding for K-12. There are no new pay increases for State employees, they must pay about half their retirement costs, and a five-day furlough and reduction in the number of their holidays are suggested. In addition to the Governor's budget proposals, he makes some policy proposals that are controversial. One related to the budget process entails making across-the-board reductions and continuing programs at existing funding levels if a budget is not passed on time. The Governor proposes school reforms including merit-based pay, changes in the way Proposition 98 is calculated, and pension reforms for State and local government. He suggests that through a Constitutional amendment all new UC and CSU employees be offered defined contribution rather than defined benefit retirement programs. The Governor has also proposed legislative redistricting, to be determined by a panel of retired judges, and a reorganization plan for State government that involves creating a new entity called the Office of Higher Education and Financial Aid that would take over the responsibilities of the California Postsecondary Education Commission and the Student Aid Commission.

Turning to the University's budget, Vice President Hershman reported that the Governor is fully funding Cal Grants for eligible UC students. The basic 3 percent adjustment included in the Compact is provided, which will allow the University to grant pay increases. UC Merced, which had been receiving basic funding, receives funding for enrollment growth of 1,000 students, and one-time funding to recognize its faculty recruitment requirements is increased from \$10 million to \$14 million.

Mr. Hershman reported that the bad news in the budget proposal was that in the final discussions on the 2004-05 budget between the Speaker and the Governor's Office, it was decided that just over \$30 million that is provided related to outreach, enrollment, and the

labor institutes, is one-time money. An agreement was reached to provide enough to fund enrollment, but there is a reduction of \$17.3 million related to student academic preparation programs and a reduction of \$3.8 million in the augmentation the Legislature provided for the institutes of labor and employment. He was optimistic that the University could yet reach an agreement with the Governor and Legislature to augment the budget for student academic preparation programs.

Mr. Hershman believed it was likely that a budget would be approved in July that would be little changed from the budget that The Regents had approved.

Mr. Hershman proposed scheduling a presentation on the federal budget for a future meeting. Research funding and Medicare and Medi-Cal budget reforms are sources of concern for the University. Committee Chair Blum requested that, in addition to financial aid, the presentation cover all federal funding that the University receives. Regent Anderson asked that the presentation on financial aid in March include information regarding changes in the formula for Pell grants.

Regent Lozano commented that, while generally the budget was favorable to the University, the Regents had passed a resolution reaffirming their commitment to academic preparation. She believed it was imperative to advocate on behalf of the University for the restoration of those budget funds. Regent Pattiz added that it was important to show support for the students on this issue.

Regent Hopkinson commended those involved who were able to attain a relatively high level of support for the University. She noted, however, that a shortfall remains in research funding. Every effort will need to be made in order to recapture funding that has been lost in recent years.

Regent-designate Juline reported that the University's alumni associations had scheduled their day in the capitol on February 15 to advocate on the University's behalf. He welcomed Regents to participate.

#### 4. **ESTABLISHMENT OF CAMPUS-BASED STUDENT FEES, MERCED CAMPUS**

The President recommended that, effective fall 2005 and continuing for five years through summer 2010, the following student fees be established at the Merced campus:

- A. Health Services Fee of \$50 per student/per semester which will end at that time unless The Regents approves an extension of the fee not to exceed an additional five years or students vote to continue the fee.
- B. Transportation Fee of \$35 per student/per semester which will end at that time unless The Regents approves an extension of the fee not to exceed an additional five years or students vote to continue the fee.

- C. Student Life Fee of \$15 per student/per semester which will end at that time unless students vote to continue or amend the fee.
- D. Associated Students Fee of \$10 per student/per semester which will end at that time unless students vote to continue or amend the fee.
- E. Graduate Student Association Fee of \$10 per student/per semester which will end at that time unless students vote to continue or amend the fee.

It was recalled that the Merced campus will open in 2005-06 with an estimated enrollment of 1,000 students, 60 faculty, and 275 staff. UC Merced is expected to grow rapidly, adding about 800 students per year. The campus will open with facilities to meet the teaching, research, and public service missions of the University and provide housing for approximately 600 students.

University policy provides that compulsory campus-based fees may be established or increased following the passage of a student referendum. Exceptions to this requirement are made when fees are needed to address the life-safety needs of students or to meet legal requirements. Consistent with University policy, on established campuses all new student fees except life-safety fees are approved through student referenda and are subject to final approval by the President, in accord with Regents' Standing Order 100.4(g).

As it is critical that basic services and programs which would be funded ordinarily by student referenda be in place when the campus opens, Regental approval of the proposed fees is needed in advance of the arrival of students next fall. This proposal will serve as an interim measure, allowing the campus to open with basic services and programs. The proposed fees will cease to be collected at the end of summer 2010 unless additional actions are taken to extend them. For the Health Services Fee and the Transportation Fee, The Regents will have to approve an extension of the fees not to exceed an additional five years, or students will have to approve the fee through referenda. Students will have to hold referenda no later than spring 2010 to continue or amend the Student Life Fee, Associated Students Fee, or Graduate Student Association Fee.

University policy requires that students be consulted with respect to the establishment of all compulsory campus-based student fees. In the absence of students at the campus, establishment of these fees was discussed with the UC Council on Student Fees in September 2004. The Council is composed of students from all the UC campuses who serve on their campuses' Registration Fee Committees, which are advisory to the chancellor of each campus on the appropriate uses of such fees.

In May 2003, The Regents approved, without a student referendum, a student Recreation Fee for the Merced campus to support construction and operation of the campus Recreation and Wellness facility. University policy provides that a student referendum is not required when a fee is necessary to meet contractual obligations. Because revenue from the Recreation Fee is needed to pay off the debt service for construction of the facility, a referendum on the Recreation Fee will not be required.

University policy permits, but does not require, campuses to set aside a portion of revenue from campus-based student fees for financial aid purposes. The University is engaged in a review of its policy on student referenda, including whether campuses should be required to set aside a portion of revenue from campus-based student fees for financial aid purposes. Recommendations are expected to be presented to the Regents at the March 2005 meeting for implementation by fall 2006. It is expected that the student fee referenda conducted by the Merced campus on the proposed fees will be consistent with those policy recommendations.

### ***Health Services Fee***

A Health Services Fee of \$50 per student per semester is proposed to provide basic treatment and prevention services enabling students to pursue their academic goals in an optimal state of physical and emotional health.

Medical and mental health issues have been identified as leading causes for student withdrawals from the University and, as a result, beginning fall 2001 The Regents has required major medical insurance as a non-academic condition of enrollment for undergraduates at all UC campuses. Students either demonstrate they have existing coverage, typically through a parent's policy, or they purchase an insurance plan from the University to meet this requirement. The health insurance that all students must have to enroll at the university is designed to cover long-term, major medical, emergency, and specialty cares. To complement the coverage provided by such medical insurance, as well as to keep the insurance affordable to students, UC campuses provide primary care services to students through their on-campus Student Health and Counseling Centers. By providing on-campus health and counseling services at low or no direct cost to students, students can receive the primary care they need while keeping their major medical insurance costs affordable. The Health Services Fee will fund campus-provided primary care services. It is not an insurance premium, nor may it be waived by students who come to campus with a private health insurance plan or HMO.

On-campus health and counseling services are critical to a residential campus. Because UC Merced's long range development plan calls for housing 50 percent of all students on campus, a minimum standard of primary care must be made available to its students. These services include public health education, illness prevention services, individual and group health education services such as nutrition and substance use issues, illness documentation and verification, advice nurse services, primary care, reproductive health services, immunization, allergy and antigen services, limited laboratory and pharmacy services, and mental health services. Revenue from the Health Services Fee will be used to help create the infrastructure for, and support the delivery of, primary care on-campus health services to all UC Merced students. These funds will supplement Registration Fee revenue and revenue from special fees for such services as blood tests, flu shots, and x-rays.

Beginning in fall 2005, a Student Health Advisory Committee composed of students, faculty, and staff will provide oversight and recommendations regarding the services the



Health Services Fee will support, the purposes for which fees-for-service will be charged, and future changes in the Health Services Fee.

All the campuses support their health services through revenue from the Registration Fee and fees-for-service. UC Merced will designate registration fee funds for student health services and will charge selected fees-for-service, but enrollments in the early years will not generate sufficient registration fee funds fully to support health services and keep medical insurance premiums affordable. Two campuses – Davis and Santa Barbara – at the request of the student body have a specific fee to support health services.

### ***Transportation Fee***

A Transportation Fee of \$35 per student per semester is proposed to provide student transportation among both campus and off-campus locations, including express service to the campus' facilities in Atwater and downtown Merced.

Merced County Transit buses operate Monday through Saturday, 7 a.m. to 6 p.m. Consequently, the campus needs to provide residential students with evening and Sunday service to facilitate shopping, entertainment, and connections with train and bus services. Transportation services have been planned to maximize service and minimize cost. For example, late-night shuttle service to off-campus locations will be performed on-demand, similar to taxi service, instead of at scheduled times.

Automobile traffic at UC Merced will be limited to the campus perimeter; shuttle vehicles will be used to transport students and staff to their destinations. Campus shuttles will provide students with a safe mode of travel in inclement weather and in the evening hours. The shuttles will also accommodate the needs of physically-challenged individuals.

Students will participate in transportation planning through participation on the campus' Transportation Committee once the undergraduate and graduate student governments form and select representatives.

Three campuses have a separately designated transportation fee. At the Davis campus, through referenda students have allocated a portion of student government fees to support transit services. At other campuses, such an allocation is made by the Associated Students. At UC Merced, however, student government fees initially will yield a very modest pool of funds that will be designated to support student government activities; moreover, a stable funding source for transportation must be assured so that services are available at the outset.

### ***Student Life Fee***

A Student Life Fee of \$15 per student per semester is proposed to provide services, activities, and programs that continue the learning process beyond the classroom and into the co-curricular lives of both undergraduate and graduate students. These functions

include leadership development, cross-cultural programming, campus events, student activities, community service and volunteer programs, clubs and organizations, arts and lecture series and programs, and welcome week and family programs to involve the parents of UC Merced students.

With UC Merced's rural setting, there is a great need to provide extra-curricular and co-curricular programs that encourage students to remain engaged with the campus and to prevent attrition. In addition, because the Joseph Edward Gallo Recreation and Wellness Center will not open until fall 2006, at the earliest, it is critical that activities and programs be available to the 1,000 students who will be living on the campus in the early years. Activities, lectures series, and other programming will aid in retention and students' satisfaction with their UC Merced experience. When the campus is open, a Student Program Board will be created that will advise the Vice Chancellor for Student Affairs and the Director of Student Life on the allocation of these funds.

### ***Associated Students of UC Merced Fee***

An Associated Students Fee of \$10 per student per semester is proposed that would fund the Associated Students of UC Merced, the officially recognized organization to represent all undergraduate students. The UC Merced undergraduate student government will provide an opportunity for students to advocate for their needs while also providing some funds for student-centered programs and services. It will be a priority upon the opening of the campus to assist the students in creating an Associated Students of UC Merced organization.

Examples of likely undergraduate student government expenditures include sponsoring campus-wide events and activities, membership in the UC Student Association, funding requests from various clubs and organizations, and advocating for undergraduate student interests. For 2005-06, the funds generated from the fee will be managed by a student board that will be established in the fall 2005 semester. The primary function of the board will be to create a formal student government structure with officers, boards, and commissions, and to prepare for the first elections in the spring. The formal government thereafter will be elected annually and will oversee expenditure of these funds.

### ***Graduate Student Association Fee***

A Graduate Student Association fee of \$10 per student per semester is proposed that will be used to fund the Graduate Student Association of UC Merced. The Graduate Student Association will be the officially recognized representative of all graduate students enrolled at the campus. Graduate student government will provide an opportunity for students to advocate for their needs while also providing some funds for programs and services that meet the special needs of graduate students. It will be a priority upon opening of the campus to assist the students to create a Graduate Student Association.

Examples of likely Graduate Student Association expenditures include support for attending research symposia, sponsoring graduate student activities, funding requests

from various clubs and organizations, advocating for graduate student interests, and communicating with faculty, staff, and graduate students.

For 2005-06, the funds generated from the fee will be managed by a graduate student board that will be established in the fall 2005 semester. The primary function of the board will be to create a formal graduate student government structure with officers, boards, and commissions and to prepare for spring elections. The formal government thereafter will be elected annually and will oversee expenditure of these funds.

With the recreation fee approved in May 2003, UC Merced's compulsory campus-based fees, not including any health insurance premium, will total \$512 per year, which is comparable to the 2004-05 average of compulsory campus-based fees of \$628 at all UC campuses.

Vice President Hershman emphasized that the set of fees was created to meet the highest priority needs of the campus, with the understanding that within five years, students would have an opportunity to vote on fee issues.

Chancellor Tomlinson-Keasey reported that of the total student life expense fee, the campus fee is 8 percent; other sources of funding will supply 92 percent of that budget. The campus fee is 20 percent of the health and counseling fee; other revenue sources will provide 80 percent of that budget.

In response to a question asked by Regent Anderson, Ms. Tomlinson-Keasey reported that there was no return to aid included in these fees. She noted, however, that the campus policy will conform to any decision that may be made by the Regents following their March discussion on financial aid.

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

## 5. **UPDATE ON STRATEGIC SOURCING**

Committee Chair Blum believed that, in the interest of running the University more efficiently, cost savings opportunities needed to be identified and acted upon with the primary goals of closing the approximately 15 percent salary gap and reducing the student-faculty ratio. It may be possible to achieve these goals by the end of 2007 through a combination of savings and a major advocacy program to raise additional funds through efforts such as outreach to small contributors, including alumni. He emphasized the importance of the Regents' participation and the backing of the Office of the President in these efforts. The campuses and other parts of the UC system must be prepared to identify and implement sensible ways to save money in areas such as purchasing. He emphasized that any savings generated by campuses would be used primarily towards achieving the two goals mentioned. He reported that at the March meeting the Regents would be provided with a progress report on this undertaking that would include goals and timetables.

As a follow-up to the November presentation on Strategic Sourcing, Associate Vice President Hafner and Director Collins discussed product and services specific to information technology, including the Information Technology Licensing and Procurement Program, which saves the University more than \$25 million annually on a spending volume of approximately \$150 million. The program's success is the result of active participation by all ten campuses, the five medical centers, the three national laboratories, and the Office of the President. Under the direction of the Office of the President, University institutions consolidate their spending on computer hardware and software and achieve significant savings. Equally important are dramatic reductions in administrative overhead that result from consolidated contracts and reduced transaction volumes.

While the IT Licensing and Procurement Program has existed since 1994, Ms. Hafner reported that she had initiated a major expansion upon her arrival in the UCOP Division of Business and Finance in July 2002. Recognizing an opportunity to benefit campuses through systemwide action, she worked with the UC IT Leadership Council to build sponsorship for this more aggressive program. Large software contracts have been the primary focus of the recent program expansion. Unique characteristics of software procurement, along with the business climate in the software industry, create an environment well-suited to consolidating contracts, negotiating significant discounts, and obtaining more flexible terms and conditions.

Mr. Collins reported that, in order to achieve savings, existing software licensing agreements are renegotiated, numerous campus contracts with the same vendors are consolidated, and new agreements are launched. For example, ten major mainframe software maintenance agreements were consolidated into one agreement, resulting in savings of approximately \$1.5 million per year. In another example, 81 contracts for desktop software were consolidated into one, resulting in annual savings of more than \$1 million. The new contracts have many other advantages, including the ability to move software assets around the University.

Regent Johnson asked how extensive strategic sourcing was within the University. Senior Vice President Mullinix reported that it is done with an expanding number of commodities such as office supplies. Regent Bustamante observed that, particularly in areas such as office supplies, it should be noted that it benefits the State economy to purchase from California vendors.

Regent Moores believed that the University likely over-licenses software. He asked about opportunities to tailor global licenses to specific products. Mr. Collins responded that the University is hoping in the longer term to move away from contract negotiations and toward software asset management. It is an enormous challenge, however, which is complicated by the problem of the multiple budgets involved.

Regent Marcus believed that strategic sourcing was essential to the long-term well being of the University. He suggested that the Regents bring in consultants to review the University's expenditures, set some goals, and produce an annual report.

Regent Anderson noted the existence of a Presidential policy on green buildings, one section of which states that the University will use its purchasing power to promote the availability of resource-efficient products. She hoped that policy would be kept in mind as initiatives are developed.

6. **UPDATE OF STUDY ON THE FEASIBILITY OF QUARTERLY FINANCIAL REPORTING**

It was recalled that at the November 2004 meeting of the Committee on Audit, Vice President Broome reported that a feasibility study was under way to identify issues related to reporting financial information on a quarterly basis. Ms. Broome presented an update on the status of the study and discussed the culture and process changes as well as the investment in the University's financial systems and staff that would be necessary to support quarterly financial reporting on a basis consistent with the annual audited financial statements that are presented to the Committee each year.

Ms. Broome recalled that some Regents had expressed a desire to see more frequent Universitywide financial information, possibly in the form of financial statements prepared in accordance with Generally Accepted Accounting Principles. These types of systemwide financial statements are prepared annually, because of the effort involved and because operating decisions throughout the year are not based on GAAP statements but rather on budgets established at the beginning of the year and then on operations in the departments. The University's medical centers and some auxiliaries prepare monthly financial information upon which they make operating decisions. Medical center financial statements are provided to the Board every month. The accounting system that is used across the University, however, is designed to collect transactional financial and encumbrance information so that campus departments can manage their funds at the account, the fund, and the department levels. These form the starting point for the Office of the President's development of annual financial statements. This system is maintained primarily on a cash basis, although it may have some accruals for some auxiliaries. These systems work very well on a day-to-day basis for monitoring and controlling revenues and expenditures. An extensive effort is required, however, at year end by both the campuses and the Office of the President to produce GAAP financial statements from these systems. This is because they do not contain all the information; they are cash basis statements that do not have inventory valuations, capital expenditure, or depreciation, which are loaded annually and developed. In order to provide GAAP-basis quarterly statements, a closing process comparable to that done at year end would have to be conducted.

Vice President Broome reported that, in order to determine what is involved and what this change in process would cause, a group of campus controllers and Office of the President financial personnel had studied the entire process and prepared a briefing paper. This briefing paper will be distributed shortly as a framework for further discussion; however, the preliminary draft shows that shifting to quarterly reporting would be an extensive, labor-intensive process that would probably cost \$10.5 million, \$7 million of which would be permanent funding and \$3.5 million of which would be one-time investment,

primarily for systems design. Additionally, it would take almost two years because of the systems design and the requirements that are involved. Given this fact and the fact that Regental decisions are based on budgeted funds, alternatives are being explored for providing the Regents with meaningful financial information at a substantially lower cost. The group of controllers and budget office personnel have determined a strategy for this and are developing a way to provide financial highlights on a cash basis, not on an accrual basis, that would give the Regents a way to measure progress against stated goals. This effort will not be without problems, as records are maintained on a cash basis. Also, they are not maintained on the same basis on which the budget is developed. Despite these challenges, Ms. Broome believed that meaningful information could be developed. Some of the revenue items that would be looked at are year-to-date research, medical centers, auxiliaries, gifts, core support, and year-to-date cash expenditures by very broad categories. This must be done within the framework of the overall policy developed by The Regents. As an example, The Regents approves the University's budget, which reflects the Board's priorities and spending plan for the coming year, and the overall capital budget. The Regents also approves individual projects and any external debt associated with that budget. Financial indicators, including the related controls and accountability measures that are in place, will need to be discussed in terms of the dynamics of the Regental policy and its implementation in a decentralized environment.

Committee Chair Blum acknowledged that, although he had wanted to see campus-by-campus reports similar to the kinds of reports on the hospitals, which he found to be useful, he had not had in mind requiring GAAP reporting by the quarter. He believed that the Regents wanted something that provides a sense of what the balance sheets and income statements of the different campuses look like, although he noted that whatever method is developed may continue to need refining.

Regent Hopkinson commented that generally she was an advocate of more review and more transparency whenever possible. In the case of the University, however, she was skeptical that more interim information would be beneficial. She could not envision what a balance sheet might show that would be helpful in decision making and oversight. She was of the opinion that it would be more useful to receive the campus budgets.

Regent Marcus expressed surprise that the University could have been in existence for so long without closing its books monthly. He believed that the question of the usefulness of closing the books more often could best be determined by the Council of Chancellors and the President.

Regent-designate Juline observed that at the beginning of the year The Regents approves a budget and sets forth certain objectives. The piece missing is the ultimate reporting back when the year is over as to whether the objectives had been achieved.

Committee Chair Blum commented that the overall goal is to run the University on a more efficient basis. One of the ways to tell if that is happening is by seeing how individual campuses are doing. He believed that the Regents needed some reasonable set of numbers, at least on a quarterly basis, that allows them to see what the different

schools and campuses are doing and help them determine the amount of progress that is being made. Regent Ruiz agreed that it would benefit both the Regents and the organization to receive sufficient feedback on the University's financial status.

Regent Parsky suggested that he invite a small group of Regents to meet with Vice President Broome in order to develop a process for informing the Regents on a quarterly basis as to how the University is doing, whether campus by campus or overall, with respect to the budget that The Regents had approved.

7. **REVIEW OF FIDUCIARY OVERSIGHT AND INVESTMENT OPTIONS FOR THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM DEFINED CONTRIBUTION PLANS**

Regent Parsky reported that the Treasurer was preparing an analysis of the impact of any proposals to shift the University's overall retirement system from a defined benefit to a defined contribution plan. In consideration of this, it was decided to postpone this item.

8. **REPORT OF NEW LITIGATION**

General Counsel Holst presented his routine report on new litigation. Through this reference the report is made a part of the official record of the meeting.

The meeting adjourned at 1:20 p.m.

Attest:

Secretary