

The Regents of the University of California

COMMITTEE ON FINANCE

January 18, 2006

The Committee on Finance met on the above date at the Price Center, San Diego campus.

Members present: Regents Dynes, Gould, Hopkinson, Juline, Lee, Núñez, Parsky, Preuss, Schwarzenegger, and Wachter; Advisory members Ledesma, Schreiner, and Oakley

In attendance: Regents Island, Johnson, Kozberg, Lansing, Lozano, Pattiz, Rominger, Rosenthal, Ruiz, Sayles, and Schilling, Regent-designate Coombs, Faculty Representative Brunk, Secretary Trivette, General Counsel Holst, Interim Treasurer Berggren, Senior Vice Presidents Darling and Mullinix, Acting Provost Hume, Vice Presidents Broome, Foley, Gomes, Gurtner, and Hershman, Chancellors Bishop, Carnesale, Córdoba, Denton, Drake, Fox, Tomlinson-Keasey, Vanderhoef, and Yang, Vice Chancellor Burnside representing Chancellor Birgeneau, Acting Laboratory Director Kuckuck, Auditor Reed, and Recording Secretary Bryan

The meeting convened at 9:05 a.m. with Committee Vice Chair Preuss presiding.

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

Upon motion duly made and seconded, the minutes of the meeting of November 16-17, 2005 were approved.

2. **UPDATE ON 2006-07 GOVERNOR'S PROPOSED BUDGET**

Vice President Hershman reported that the State's high reserve has allowed the Governor to propose some major increases in expenditures in his budget plan. The Governor's budget supports the Compact fully and includes student fee buyouts for undergraduate, graduate, and professional students. A remaining issue of concern, however, is the ongoing structural deficit which, although improved over the recent past, is \$4.7 billion for 2006-07. The Governor's budget is dependent upon additional revenue expected to appear during the next few years. The other major concern is the funding of social service programs.

Vice President Hershman reported that the Governor is proposing a ten-year plan encompassing \$68 billion, \$38 billion of which is for education. New General Obligation bonds over the ten years would be part of a total program of over \$200 billion, including federal, private, and other sources of funds. The initiative that the Governor is proposing includes not only education but transportation, water, public safety, and the courts in a major effort to rebuild the state. He is also proposing a debt ceiling of 6 percent of the State General Fund, a level that may be reached within the next few years. Speaker

Núñez is carrying the bond bill on education as part of the total plan. In the short run a bond issue will include \$12.4 billion – \$7 billion for K-12 and \$5.4 billion for higher education. The ten-year plan will provide UC and CSU with \$345 million a year in bond funding, which is consistent with the University's agreement with the Governor. The Governor's total plan for UC includes an inflation adjustment factor for the last five years totalling \$4 billion. He is asking the Legislature to approve a series of bond issues that would go on the ballot. In addition to the University's normal funding, there is an extra amount for the medical schools – \$400 million over ten years – to be focused on educating students to serve in under-served areas.

Mr. Hershman then focused on the University's budget for State General Funds of just over \$2.8 billion and the 3 percent base adjustment, which includes funding for enrollment growth of 2.5 percent. There is an increment of funding for the science and mathematics initiative. The University's academic preparation program has been of concern. It is hoped that the justification of each of its programs will persuade the Governor and Legislature to augment the University's budget to provide the necessary funds. He recalled that the Regents' action at the November 2005 meeting provides that if the fees are bought out there would be no fee increase. There is a continuation of start up funding for UC Merced of \$14 million in addition to its enrollment and base budget monies. The capital budget was fully funded at \$340 million, and the Department of Finance has approved all the projects.

Mr. Hershman observed that overall the Governor's budget is a positive one for the University.

President Dynes welcomed Ms. Felicia Cruz, Chair of the UC Student Association Board of Directors, who spoke about the accessibility, affordability, and quality of a UC education. Ms. Cruz voiced UCSA's support for divestment from Sudan and funding for academic preparation programs and UC's labor centers. She reported that students hope to work with the Governor's Office, the Regents, and the University to develop long-term solutions to the problem of rising student fees.

Regent Lozano commented regarding student academic preparation, the funding for which has deteriorated over the past few years, recalling that the University was to supply the Governor's Office with a report regarding the effectiveness of these outreach programs. She asked about the Governor's rationale for cutting their funding. President Dynes responded that a preliminary but extensive report was supplied containing quantitative measures of the effectiveness of the programs. Vice President Hershman believed that the final report to be released in the spring will provide a basis for securing additional funding. Many legislators view the funding of these programs as a priority.

Regent Núñez expressed satisfaction with the Governor's decision to buy out student fees. He reported that many legislators hope to restore funding for academic preparation, which contributes to equitable representation at the University. Receiving the University's final report will be crucial to the negotiations. He believed that the labor

research centers also deserved attention. He stressed the importance of developing a long-range plan for investing in higher education.

Regent Ruiz commented on the importance of academic preparation particularly to minority students. He believed it was key for achieving the University's diversity goals. President Dynes affirmed his commitment to reinstating academic preparation programs.

In response to a question asked by Regent Lee, Mr. Hershman explained that tuition would not be increased for in-state undergraduate, graduate, and professional students and out-of-state graduate students but, in keeping with State policy, out-of-state undergraduate students' fees will increase by 5 percent. The Regents, chancellors, and faculty have made it a priority to freeze the out-of-state fee for graduate students but to recognize the State policy of increasing the out-of-state undergraduate fees to cover cost increases. Committee Vice Chair Preuss stressed the necessity of considering the issue further for next year.

Regent Hopkinson believed the budget was good news for the University in many ways, but she cautioned against losing focus on long-term budget problems and quality issues, recruitment, and all their associated concerns. She thanked the Speaker for championing the issue of a student fee buy out.

[At this point, Governor Schwarzenegger joined the meeting.]

Chairman Parsky welcomed Governor Schwarzenegger and thanked him for supporting the University and for appointing new Regents to the Board. On behalf of the Regents, he expressed appreciation for the proposal to fully fund the Compact, which will provide the University with much-needed fiscal stability. He thanked him also for the nearly \$4 billion in bond funding for UC that has been included in his infrastructure plan. The University's future depends upon being able to pay competitive salaries for faculty and staff. Finally, he expressed his gratitude that, when additional revenues became available, the Governor proposed that student fees be bought out for next year.

Governor Schwarzenegger thanked the Regents for their leadership of the University – a system that is the envy of the world. He stated that he was proud of developing a math and science teachers' initiative that is a model program for the nation; it will help to put the best teachers in the state's classrooms. He was proud also of succeeding in keeping the Los Alamos National Laboratory under UC management and of the special partnership embodied in the Compact. He recalled that when he had taken office the state was in poor fiscal and economic shape, which threatened the stability of higher education. UC leadership worked with him and his staff to build a compact that would provide a way to protect higher education and the quality of the UC system and ensure stability and predictability for the system and for students and their parents who were planning for a UC education. He advocated taking advantage of the state's economic recovery to help students. He noted that his budget commits an extra \$130 million to both the UC and CSU budgets so that after four years of fee increases, this year students will not have to pay more for a great education. He encouraged the Regents to work with his Office and

the Legislature to retain that provision in the final budget. For California to achieve its potential, its young people must achieve their potential. The state's universities need to be expanded to handle more than half a million new students in the next ten years. He stated that he was looking forward to working with the Regents to maintain the University as the flagship of public education in this country.

President Dynes applauded the Governor's contribution and commitment to the University and expressed enthusiasm for the cooperation between the Governor and the Speaker. He pledged his commitment to working with both of them to ensure that the University maintains its high quality.

Committee Vice Chair Preuss thanked the Governor for recognizing the benefits the University provides to the state and for supporting it financially.

Regent Johnson thanked the Governor for supporting students. She was hopeful that his office would continue to listen and respond to the needs of students.

Regent Lozano thanked the Governor for his commitment to education. She believed that the University's academic preparation initiatives deserved to be funded.

Regent Lee stated that as an immigrant he was particularly aware of the value of education. He noted that keeping costs low was very important and would pay dividends to the state later on.

Regent Pattiz joined in the thanks for the Governor's leadership on the issue of tuition. He thanked him also for his role in helping the University to retain its management of the Los Alamos laboratory.

Regent Lansing thanked the Governor for buying out student fees. She voiced her support for outreach programs and expressed the belief that the University would have some positive results with which to illustrate their importance. She also expressed her appreciation to the Speaker for his support.

Regent Rosenthal also thanked the Governor for his support but noted that over the past several years the University's professional schools have experienced dramatic fee increases to the point where they were facing quasi-privatization. He noted that the law schools are training not just business lawyers but also social advocates and need appropriate funding to stay competitive and maintain access.

Speaker Núñez expressed his support for academic outreach programs and expressed confidence that the University would be able to prove that they can be successful. He believed that the new spirit of good will and cooperation that the Governor had spread throughout the state and in Sacramento would be good for California in terms of infrastructure development and commitment to education.

Regent Rominger added his thanks for the Governor's investment in education. He agreed with Regent Rosenthal that the University's professional school fees had become unreasonable and could harm the state's competitiveness in the global marketplace in areas such as agricultural research.

Faculty Representative Brunk supported the Regents' appeal for establishing stable funding for academic preparation. He believed these programs were necessary to assure access to the University for the state's diverse population.

Governor Schwarzenegger responded to a question from the audience as to why taxes could not be raised on the richest and the resultant revenue used to improve the state's schools. He stressed that creating equal education in the state was one of his highest priorities and that since he had become Governor he had taken the first steps to ensure that schools in all areas of the state are provided with sufficient textbooks and high-quality teachers.

Committee Vice Chair Preuss thanked the Governor for attending the meeting and emphasized that the Regents would always welcome his participation.

3. **PLANNING FOR PROFESSIONAL SCHOOL FEE INCREASES, 2007-08 AND 2008-09**

It was recalled that at the November 2005 meeting, the Board agreed that issues related to planning for professional school fee increases for 2007-08 and 2008-09 would require continued discussion and that "Guiding Principles for Professional School Fees" should be presented to the Board for action no later than the May 2006 meeting.

Acting Provost Hume recalled that in the early 1990s The Regents had adopted a policy allowing approved professional schools to charge a professional differential fee, to be set by The Regents, to help build and maintain quality despite declining State support. The policy has been successful as one of a range of measures taken by those schools. In consultation with the professional school deans, executive vice chancellors, campus provosts, and chancellors it has been determined that the most productive way for the Regents to continue to provide oversight and adapt to changing circumstances is for them to adopt guiding principles to be applied under the existing Regental policy. He highlighted key points within a draft set of guidelines: differential fees are to be combined with State support, not replace it; the chancellors would use all of the professional differential fees in direct support of the programs, including financial aid and loan forgiveness; different fee levels may be approved by The Regents at different campuses in the same discipline; and the schools will use a substantial fraction of the differential fees for financial aid and loan forgiveness. Modest and predictable fee increases will continue to be sought, taking into account fee levels at the highest-quality public institutions elsewhere in the country. He suggested that the Committee on Finance consider the guidelines with a view toward approving them at the March meeting.

Vice President Hershman commented that for most of its professional school programs the University's fees are generally in line, with some exceptions. Just to cover cost increases in professional school programs will require increases of about 6 percent. One complication in the calculations is the consideration of future employee contributions to the retirement system.

Committee Vice Chair Preuss commented that cost, accessibility, and quality are linked in terms of providing the best possible education. He stressed the importance of finding the resources to keep the University's professional schools highly ranked. Regent Lee echoed the need to secure more support for these schools.

Regent Rosenthal expressed concern about benchmarking the professional schools to peer public institutions, noting the trend in public education to move professional schools toward a private model. He did not believe that the University's law and business schools should be compared to those of the University of Michigan or the University of Virginia. He requested clarification of the term "public peer institutions," stating that if UC intends to move toward a private model, it should disclose that as a policy decision. Mr. Hershman responded that the public peer institutions had been agreed to by the California Postsecondary Education Commission for all comparisons. Regent Rosenthal maintained that these are no longer peer institutions with relation to law or business schools.

Regent-designate Schreiner commented that on the issue of cost and quality he shared Regent Rosenthal's and Regent Lee's concerns about privatization, but he emphasized that if the University does not maintain the quality of the professional schools, the issue of accessibility will cease to be relevant.

Regent Kozberg asked about loan forgiveness programs for those students who move into the social or public service sectors. Acting Provost Hume reported that he would provide her with a response, as there was variation among professional schools with respect to loan forgiveness. Regent Preuss believed it would be helpful to learn what percentage of professional school graduates decide to work in these areas and to what extent their loans are forgiven. Vice President Hershman reported that the Office of the President is working with individual schools in an attempt to enhance these loan forgiveness programs. Regent-designate Ledesma noted that the University fulfills one of its missions by producing graduates who work in the public sector. She agreed that financial aid and funding opportunities for professional and graduate students should be enhanced.

Regent-designate Coombs emphasized the importance of not just consulting with but also involving graduate and professional school student leaders in the development of strategies to assure that program quality is being maintained and that key elements of programmatic quality are being rebuilt.

Faculty Representative Oakley commented on the need for assertive leadership systemwide in the development of effective loan repayment programs so as to give students who are directed toward public service continued access to the best law schools.

He believed that there should be enforceable standards to guide campuses in expanding the size and scope of their loan repayment assistance programs for 2006-07.

[For speakers' comments, refer to the minutes of the meetings of the Committee of the Whole on January 18 and 19, 2006.]

4. **AUTHORIZATION TO SUBMIT APPLICATION FOR PROPOSITION 61 GRANT FUNDING AND TAKE RELATED ACTION TO RECEIVE PROPOSITION 61 FUNDING ON BEHALF OF UCLA MEDICAL CENTER**

The President recommended that:

- A. The Regents approve the submission, on behalf of UCLA Medical Center, of the Proposition 61 grant application to the California Health Facilities Financing Authority (the Authority) under The Children's Hospital Program for grant funding in the amount of \$30 million less administration and issuance cost (the Grant).
- B. The Regents authorize the President or his designee, after consultation with the General Counsel, to execute grant contract documents and take such further actions, including but not limited to (1) the establishment of a new bank account, (2) execution and delivery of such additional, related instruments, certificates, statements, and documents as are reasonably required to obtain the Grant, and (3) payment of such other fees and expenses and such other and further actions as the President or his designee, in their discretion, may deem necessary or desirable in connection with the Grant, the performance of obligations thereunder, and any extension or renewal thereof, the taking of such action or the preparation, execution, and delivery of such additional documents, agreements or instruments to be conclusive evidence of the authority conferred hereby.
- C. Any action taken by the President or his designee, in furtherance of the matters authorized by the foregoing actions, is hereby ratified, approved, and confirmed as the act and deed of The Regents.

It was recalled that Proposition 61, enacted by California voters on November 2, 2004, provides for a \$750 million statewide General Obligation bond issuance to construct, expand, remodel, renovate, furnish, equip, finance, or refinance eligible children's hospitals. Proposition 61 earmarks \$30 million, less issuance and administrative costs, for each of the five UC children's hospitals. Each UC children's hospital operates as a "hospital within a hospital" of each of the five general acute care hospital campuses.

Proposition 61 funds are available to each UC children's hospital for eligible costs incurred after January 31, 2003. All funds that have not been exhausted by June 30, 2014 become available for any eligible project from any eligible hospital. It is anticipated that each UC medical center will pursue its earmarked funds prior to June 30, 2014.

Proposition 61 charged the California Health Facilities Financing Authority (the Authority) with developing the payment program for eligible hospitals consistent with the provisions of the statute. Over the course of the year, UC has worked closely with the Authority staff on developing a grant structure.

In October 2005, the UCLA Medical Center submitted an application for Proposition 61 grant funding. The application was for reimbursement of expenses related to the construction of replacement space for the Mattel Children's Hospital within the larger Westwood Replacement Hospital Project. The UCLA Center for Health Sciences houses in a single integrated facility nearly all of the patient care, clinical education, and biomedical research facilities of the Westwood campus, including the inpatient care activities of the UCLA Medical Center and Mattel Children's Hospital.

On December 1, 2005, the Authority approved the UCLA application for grant funding. As a condition of the grant, the Authority requires that the governing board of each hospital delegate specific authority to a senior executive to execute each grant application and all related documents for each hospital and to take all other related actions. Currently, only the UCLA Medical Center has a pending grant application.

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

5. **REPORT ON ADMINISTRATIVE EFFICIENCIES, SAN DIEGO CAMPUS**

Vice Chancellor Relyea discussed the efforts under way at the San Diego campus to address significant growth while controlling administrative costs. He reported that the campus has used the principles of the New Business Architecture to manage growth and provide support services that are scalable. The approach is designed to control administrative and infrastructure costs and identify best practices that can be implemented. In order to accomplish those things, it is necessary to recruit, develop, and retain the best people, eliminate bureaucracy by streamlining processes and removing steps that do not add value, focus core support systems and processes into a single integrated business portal, implement enabling technology to provide tools that will increase productivity, and build assessment metrics into the process to ensure that goals are met. The challenge has been to assure that business systems and infrastructure can support growth. The campus has experienced a 26 percent increase in students and a 30 percent increase in research growth, but a 17 percent reduction in State revenues. Because of its heavy emphasis as a federal contractor, the campus has experienced a significant increase in reporting requirements and mandates by government agencies.

Mr. Relyea recalled that he had worked with a team of managers at other UC campuses and the Office of the President to develop a framework to begin restructuring many of the ways business operations are conducted. He reviewed the six areas of the New Business Architecture. The first component is the business portal, which reduces costs by eliminating paper-intensive and labor-intensive processes and making them web-based, and integrating all transactions systems and training. The next component recognizes that

in order for the institution to be successful it must develop its staff, be a competitive employer, and give its staff the appropriate tools and support. Even if they are well trained and productive, their efficiency can be hampered by complex processes and policies. Often the key to eliminate costly paper-based processes is to make strategic investments in technology that can improve essential services to students, faculty, and staff. The financial component of the architecture keeps the focus on the financial system for managing resources effectively. Finally, the framework must have a component that evaluates how to meet these business objectives.

Mr. Relyea provided some examples of efficiencies in each of these areas. He observed that the way to drive down costs and manage growth is by centralizing the various support offices' websites into a single business portal, moving away from paper-based transactions to web-based transactions, such as research support processes, and core financial functions such as accounting and payroll. The business portal is considered one of the most effective administrative productivity tools in the country.

Mr. Relyea observed that traditionally colleges have been required to spend significant resources to train staff due to the complexity of government rules and regulations. The San Diego campus has attacked this issue by bringing on line a number of web-based training programs to reduce the cost and provide flexible methods of delivering training. Electronic equipment has replaced more expensive traditional recruitment processes. Many self-service applications have been developed that increase productivity by eliminating steps. The guideline is that the new tools must be intuitive, reduce costs, and require minimal training. An example is the new web-base leave activity report.

A campuswide effort was launched to deploy tiger teams to streamline the most costly core business processes. Mr. Relyea reported that many of their conclusions and recommendations have been built into the business portal and its applications. One of the areas that was reviewed was the disbursements process. By streamlining procedures and implementing new tools within the central business portal, it has been possible to manage an increasing amount of workload without increasing staff cost.

Mr. Relyea noted Universitywide efforts to leverage the size of the institution in order to lower the cost of goods and services it purchases. UC San Diego employs access to these new contracts through the business portal, which has produced significant savings. As mentioned previously, the campus has seen a tremendous increase in research grants in the past few years. When coupled with increasing governmental agency regulations, the workload associated with managing those grants has prompted the development of a dashboard that allows faculty and their support staff more effectively to manage each of their research projects. Research grants also involve purchasing transactions. The campus has migrated from paper invoices to electronic fund transfers for the majority of these transactions. These process changes and tools have allowed for further stretching of the productivity of employees in managing research activities.

Mr. Relyea observed that one of the most complex systems that drives workload and cost at the campus is the University financial system. By migrating from manual data entry

and reporting to web-based entry and queries, the cost of manually preparing journals is avoided and the accuracy and timeliness of the entries are improved. Moving the University fee deposits to electronic checks has made it possible to reduce workload and avoid nearly \$1 million a year in credit card transaction fees.

Mr. Relyea reported that the cost of energy has been reduced by projects to make campus facilities more energy-efficient. By focusing on these kinds of investments, the average energy usage of new construction and retrofitted facilities is half that of older research buildings. In addition to making buildings more efficient, the cost of electricity must be reduced. By operating its own power plant, the campus has paid back its initial \$30 million investment and continues to avoid millions of dollars in additional cost each year.

The final part of the new business architecture is the evaluative part. Mr. Relyea reported that the campus has applied the principles of the balanced scorecard over the last decade to monitor the financial performance of operations, how its constituents view its services, the effectiveness of its processes, and the development of its employees. While this is fairly new to universities, it has been part of the strategic direction of many large companies. In summary, Mr. Relyea reported that the campus has been cited nationally for its innovative practices to reduce costs.

Regent Juline asked whether decentralized decision-making at the University has resulted in ten different business architectures. Mr. Relyea responded that the new business architecture he had described is being followed by all ten campuses. There is collaboration among the campuses to ensure that information is shared.

Committee Vice Chair Preuss asked how much savings had been realized. Mr. Relyea responded that all savings together over the last four to five years exceed \$50 million. By saving \$8 million in energy costs this year, for instance, because the campus is seriously underfunded the deficit for that commodity will be \$10 million rather than the \$18 million it would be if electricity had been bought off the grid.

Regent Lozano asked whether there is a strategic infrastructure plan that looks at business systems and ties to a long-term funding strategy so as to assure comparability of key business systems across the University to gather and analyze data efficiently. She believed that in the interest of transparency and oversight, key business systems should be in place to allow for that. Senior Vice President Mullinix responded that no overall plan to modernize systems is in place. Plans have been developed to integrate existing systems and try to exploit opportunities using those systems. He noted that the California State University system embarked on a plan to modernize its systems. Although it is a less complex system than the University, the reported cost was substantially beyond \$400 million. The University did have a plan to expand its data warehouse capabilities in Oakland to build on the legacy systems as well as some of the enterprise resource planning installations that have been done on individual campuses and be able to roll up data better. Funding constraints have prevented this plan from moving forward. He noted, however, that an across-the-board effort reporting system is being developed and

an analysis has begun to assess the prospects of introducing a systemwide payroll system. President Dynes noted that the University has gone through over a decade of decentralization; the trend in terms of efficiencies is now heading in the other direction.

6. **REPORT ON NEW LITIGATION**

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

The meeting adjourned at 11:00 a.m.

Attest:

Secretary