The Regents of the University of California

COMMITTEE ON FINANCE
October 21, 2008

A Special Meeting of the Committee on Finance was held on the above date by teleconference at the following locations: 1111 Franklin Street, Room 12322, Oakland; Board Room, James West Center, Los Angeles Campus; 5123 Cheadle Hall, Santa Barbara Campus; Kolligian Library, Room 232, Merced Campus; 180 Geary Street, Suite 500, San Francisco; 3110 Main Street, Santa Monica; 3750 University Avenue, Suite 610, Riverside; 8965 Lindblade Street, Culver City; 1130 K Street, Suite 340, Sacramento; 501 S. Alta Avenue, Dinuba; 7575 East Princess Drive, Scottsdale, Arizona.

Members present: Regents Blum, Gould, Hopkinson, Island, Scorza, Varner, and Yudof; Advisory members Bernal, Nunn Gorman, and Croughan; Staff Advisor Johansen

In attendance: Regents Johnson, Pattiz, Reiss, Ruiz, Schilling, and Shewmake, Regent-designate Stovitz, Faculty Representative Powell, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, Executive Vice President Lapp, Vice President Lenz, and Recording Secretary Lopes

The meeting convened at 11:00 a.m. with Committee Chair Gould presiding.

1. **READING OF NOTICE OF MEETING**

For the record, it was confirmed that notice was given in compliance with the Bylaws and Standing Orders for a Special Meeting of the Committee on Finance for the purpose of approving the final 2008-09 budget plan for current operations.

2. **PUBLIC COMMENT**

There were no speakers wishing to address the Committee.

3. **APPROVAL OF THE FINAL 2008-09 BUDGET PLAN FOR CURRENT OPERATIONS**

The President recommended that changes, as described in the Attachment, to the University of California 2008-09 budget plan be approved.

[Background material was mailed to the Committee in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Executive Vice President Lapp reminded the Regents that the budget plan for 2008-09 was presented at the November 2007 meeting. She reported that, with the adoption of the final State budget, there are $3.032 billion in State General Funds for the University's budget. This is approximately $48.7 million less than the State General Fund budget for the University for the previous year. She explained that the $48.7 million includes a recent reduction of $33.1 million, previously brought to the Regents' attention. With the expected cost increases that must be funded, the University will need to redirect $148.7 million from existing resources, the equivalent of a five percent reduction in State funds. The revised budget for 2008-09 was provided to the Committee with this item. The budget reflects $3 billion in 2007-08 State General Funds, which together with UC general funds and student fee revenue total $5.2 billion. In January, the Governor anticipated a reduction to the University budget of $108 million. In the May Revise, however, the Governor restored $98.5 million to the University budget. A line-item veto for funding to the labor research institutes of $5.4 million is also reflected.

Ms. Lapp advised that on October 10, the University was notified of an additional $33.1 million reduction. UC general funds provide indirect cost recovery of $24.5 million. She reported a projected $7 million reduction in the UC general fund due to a decrease in Short Term Investment Pool (STIP) revenue as a result of a change in the timing and manner of the State allocation of funds. Ms. Lapp reported that the student fee revenue is $160.4 million, total new revenue is $129 million, and total operating revenue is $5.36 billion.

Ms. Lapp indicated that 2007-08 expenditures totaled $5.1 billion. The Office of the President's savings target remains $28.1 million.

The 2008-09 funded campus expenditures include $12.1 million in professional school cost increases and growth covered by fees for those schools, $57.5 million in student financial aid funded by a redirect of one-third of student fee revenue, $8 million in student mental health funded through increases in registration fees, and $10 million for the California Institutes for Science and Innovation to be funded through one-time funds provided by the Office of the President. Together, these funded campus expenditures total $87.6 million.

Ms. Lapp reported that partially funded or unfunded expenditures include a continuation of costs of salary increases approved in October 2007, academic merit increases totaling $27.5 million, health benefit increases totaling $29.6 million, the financial aid for the 5,000 students accepted by the University without revenue at a total of $78.7 million, the approved graduate student support at $10 million, and the purchased utility debt of approximately $40 million. She indicated that the partially funded or unfunded expenditures total approximately $218 million, leaving net campus reductions at $148 million.

Ms. Lapp informed the Committee that issues recommended for deferral include faculty salary market adjustments and all staff and academic compensation increases, with the exception of the academic merit increases, which will be funded.

Faculty Representative Croughan requested that the reference to $20 million for the faculty salary plan in the Deferred for Consideration in 2009-10 category be modified to reflect the actual total cost of the salary plan. Ms. Lapp indicated that change would be made.

Chairman Blum stressed that the downsizing of the Office of the President remains a priority for the Regents. He reported that the campuses have been offered the services of consultants to make recommendations for campus efficiency. Only one chancellor has made use of those services. He observed that the current financial emergency creates an opportunity for the President, the Executive Vice President, and a chief financial officer to work with the campuses to ensure plans for downsizing. Chairman Blum related that, historically, campuses retain favored programs at the expense of class size.

President Yudof stated that the budget conforms to available resources and is the irreducible minimum. He commended the Academic Council for their cooperation and support. He reported that a letter has been sent to the chancellors advising them that he and Executive Vice President Lapp will be meeting with each of them to discuss their campus plans for this budget and their plans for the future, in light of the prolonged downturn and reduction in State revenue.

Chairman Blum advised that unless a new source of revenue is found, the financial situation may not improve. He expressed concern that the 2009-10 budget may be worse.

Regent Hopkinson recommended that the University explore opportunities to increase non-State revenue. She requested an explanation of the campuses' use and priorities for the $78 million enrollment growth expenditure, net financial aid, and expressed concern that class size and faculty-student ratio not deteriorate.

President Yudof explained that the $78.7 million enrollment growth net financial aid figure is a provisional number. There was a mandate that the University accommodate 5,000 additional students, and that the campuses determine how best to distribute the additional students. He expressed doubt that any money would be saved by not taking the additional students and explained that campuses like Merced can support the additional enrollment. He explained that, though there may be a temptation to increase class size and not fill faculty vacancies, campuses will be encouraged to leave the instructional budget, a significant portion of the campus budget, alone. He warned that the University may not be able to avoid all negative impacts on the instructional side.

Regent Hopkinson expressed concern about the possible implications of using $10 million shown from the Office of the President for the California Institutes for Science and Innovation. She also expressed concern regarding the footnote that indicates that internal campus funds will be redirected for faculty salary increases for retention purposes, recommending that decisions regarding funding available to address faculty salary inequities be based on the likelihood of actual departure and not further exacerbate the inequity.

Faculty Representative Croughan concurred with Regent Hopkinson's concern and stressed the importance of the faculty salary plan to improve the University's faculty market scale. She expressed regret that the current budget is not able to support the faculty salary plan, but acknowledged that it is not an option. She reported that the faculty are disappointed that there could not be a small range adjustment for them, but understand the need for the reductions because faculty tend to be long-term, have survived budget cuts in the past, and understand that the budget situation will improve again. The faculty are optimistic that year two of the faculty salary plan will be postponed by only a year. Ms. Croughan acknowledged Regent Hopkinson's point as well-taken and expressed gratitude on behalf of the faculty for the Regents' support. She observed that the campuses will have significantly reduced discretionary funds, limiting their ability to match outside offers.

Regent Gould requested an explanation regarding the funding for the California Institutes for Science and Innovation. Associate Vice President Obley explained that the $10 million is one-time money, packaged together. The Office of Financial Management produced an unexpected $6 million from the sale of securities, and the Legislature reduced all line-item provisions in the budget related to special research programs, such as those carried out at the UC Davis M.I.N.D. Institute, by 10 percent. That line-item reduction left $3.4 million in the budget.

Chairman Blum raised the issue of the UC Retirement Plan (UCRP). He reported that only fifteen months ago the plan was at 110 percent of funding. The plan is now at 80 percent funding, or below. He stressed that there must be a focus on the restart of contributions. He stated that he believes the University has the only defined benefit plan to which no one has contributed for many years. He remarked that if the plan is not funded, funding would have to come directly from the annual budget.

President Yudof advised the Committee that the issue of the UCRP will be addressed at the November meeting. The University must restart contributions. There will be discussion regarding provisions, long-range savings plans, and hold harmless agreements. The UCRP cannot remain solvent and meet its obligations without restarting contributions. The proposal will be presented to the Board in November and the change would take effect July 1, 2009. He assured the Committee that there will be adequate time for review.

Regent Schilling observed that the situation may require more than just a resumption of contributions. She opined that the University should consider changing the plan and study examples like General Motors or Boeing, which had to shut down defined benefit retirement plans.

Regent Gould reiterated that the Board would like a report about what is happening on the campuses, as well as a report that sets forth the re-engineering of the University's basic costs to allow the University to be financially solvent in the future.

Chairman Blum noted an additional concern, the fact that, due to the current market situation, estimates are that philanthropic giving will be reduced by at least 50 percent for next year. This must be taken into consideration while the University is looking for other sources of funding such as alumni giving and contributions.

Regent Johnson asked about the status of funding for outreach and asked that she be kept informed regarding reductions in the Office of the President. Ms. Lapp responded that there has been no change with regard to student outreach programs. President Yudof advised that the Office of the President is down to 1,350 employees. He explained that reductions are being made in all areas, with a focus on academic affairs, personnel, travel, and consultants. There will be a report in November. Every office is being reexamined to determine what needs to be retained. He indicated that he would like to see the Office of the President down to 1,000 employees in the next year, depending on human resources and how services are handled for retirees.

Regent Gould requested that when the Office of the President reports on the campuses and their ability to accommodate the reductions imposed on them, he would like a progress report regarding the continued restructuring in the Office of the President.

Upon motion, duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board, Regents Blum, Gould, Hopkinson, Island, Scorza, Varner, and Yudof (7) voting "aye."[1]

The meeting adjourned at 11:30 a.m.

Attest

Secretary and Chief of Staff

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[1] Roll call vote required by the Bagley-Keene Open Meeting Act [Government Code §11123(b)(1)(D)] for all meetings held by teleconference.

ATTACHMENT

F1

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of October 21, 2008

APPROVAL OF THE FINAL 2008-09 BUDGET PLAN FOR CURRENT OPERATIONS

RECOMMENDATION

The President recommends that the Committee on Finance recommend to the Regents that changes to the University of California 2008-09 budget plan as described in this item be approved.

BACKGROUND

The Board approved a budget plan for the University for 2008-09 at the November 2007 meeting that reflected the resources needed from core operating funds to support a normal workload budget as well as several initiatives of importance to the University and the State. The Legislature has now adopted a final budget act and the Board is being asked to approve a final budget plan consistent with changes included in the final budget act and revised estimates of income. The budget plan for State funds is significantly changed from that approved last November. Executive Vice President Lapp will make an oral presentation on this item at the Board meeting.

The final State budget act provides a total of $3.032 billion in State General Funds for the University's budget (excluding one-time funding for Merced and lease revenue payments). This is $48.7 million less than the State General Fund budget for the previous year and includes a post-budget act cut of $33.1 million to the University's budget. With expected cost increases that must be funded, it is estimated the University will need to redirect a total of $148.7 million from existing resources, which is equivalent to a 4.9 percent reduction in State General Funds.

Attachment 1 is a display showing the revised budget plan for 2008-09. Described below are major elements of the proposed revenue and spending plan.

Proposed Revenue for 2008-09

The revised budget plan shows the $108.7 million reduction proposed in the January Governor's Budget as well as the restoration of $98.5 million proposed in the May Revise and ultimately included in the final budget act. An action taken in October to further reduce the University's budget by $33.1 million is also reflected. This action occurred after the final budget act had been passed. During negotiations on the budget, legislative leadership and the Governor agreed that the Department of Finance would take an additional $340 million in reductions from State agencies once the budget was completed. This agreement is not reflected in the budget act itself, but will be reflected in the Final Change Book, a publication that shows each budget change to State-funded programs in more detail than the budget act. A portion of that reduction is being achieved through an Executive Order issued by the Governor to eliminate contract and temporary employees from the State-funded roster. The $33.1 million reduction assigned to the University is the University's proportionate share of the remainder that must be saved from State agencies.

In addition, the plan adjusts the earlier estimate of $20 million in UC General Funds to $17.2 million to reflect more recent information about actual revenue from indirect cost recovery and nonresident tuition, as well as the loss of interest income due to a change in the way the State provides monthly distributions. The plan retains the $160 million in student fee revenue, including $12.1 million (net of financial aid) associated with increases in professional school fees. The revenue from the professional school fee increase will be allocated directly to the professional schools. Thus, for 2008-09, the University can expect increased revenue of approximately $129.0 million.

Proposed Expenditures for 2008-09

Major elements of the proposed spending plan include the following:

- an assumption that at least $28 million in savings is achieved through the restructuring of the Office of the President;
- professional school cost increases and enrollment growth – the $12.1 million (net of financial aid) from increased professional school fees will be used to help fund cost increases at the professional schools;
- return to aid of one-third of the increased fee revenue to be used to provide financial aid for needy students – most needy students with family incomes of $60,000 or less will receive grant aid to offset the fee increase and most needy middle income students with family income below $100,000 will have one-half of their fee increase covered with grants;
- a second increment of new funding for student mental health, funded from the Registration Fee increase – with the $8 million added to these programs in 2008-09, a total of $12 million will have been infused into these programs over a two-year period;
- one-time funding of $10 million for operational support for the California Institutes for Science and Innovation;
- continuation costs totaling $32.4 million for salary increases incurred during the 2007-08 budget year (salary increases were effective October 1, so the one-fourth of the year that was not previously funded must now be funded);
- academic merit increases for the approximately one-third of the faculty who are eligible for these increases in the budget year ($27.5 million);
- health benefit cost increases are expected to rise by $29.6 million, significantly more than has been budgeted in recent years;

- enrollment growth of approximately 5,000 FTE ($78.7 million based on the marginal cost of instruction) – campuses accommodated planned enrollment growth because to do otherwise would have given inadequate notice to students and their families who made plans based on an assumption enrollment slots would be available;
- a third increment of funding to augment graduate student support ($10 million);
- purchased utilities have been underfunded for several years on many campuses – all campuses will experience 20 percent – 30 percent increases in gas and electricity costs in the coming year.

Not included in the expenditure plan for 2008-09 are several items that have been identified by the Regents as high priorities but which are being deferred in order to avoid making significantly higher cuts to existing programs that would be necessary in order to provide funding in the new fiscal year. These include salary increases for faculty and staff, additional funding for the second year of the four-year faculty salary plan, and funding to continue to restore support for instructional programs (student-faculty ratio). These items continue to be a very high priority and are under consideration for inclusion in the University's request for 2009-10.

The new expenditure plan from core operating funds for 2008-09 totals $5.361 billion and, as stated earlier, will require $148.7 million in funds redirected from existing programs.

(Attachment)

University of California
2008-09 Budget - Final Budget Plan
(dollars in millions)

<u>REVENUE</u>		
2007-08 Operating Revenue		
State General Funds	$ 3,080.7	
UC General Funds	$ 576.8	
Student Fee Revenue	$ 1,574.2	
Total	$ 5,231.7	$ 5,231.7
2008-09 New Revenue		
State General Funds (January)	$ (108.7)	
State General Funds (May revision)	$ 98.5	
Labor Research Line Item Veto	$ (5.4)	
October 10, 2008 reduction	$ (33.1)	
UC General Funds	$ 24.5	
Projected Reduction in UCGF (STIP loss)	$ (7.3)	
Student Fee Revenue	$ 160.4	
Net New Revenue	$ 129.0	**$ 129.0**
Total 2008-09 Operating Revenue		$ 5,360.7
<u>EXPENDITURES</u>		
2007-08 Operating Expenditures	$ 5,231.7	$ 5,231.7
UCOP Savings	$ (28.1)	**$ (28.1)**
2008-09 Campus Expenditures		
Funded:		
Professional School Cost Increases and Growth	$ 12.1	
Student Financial Aid	$ 57.5	
Student Mental Health	$ 8.0	
California Institutes for Science and Innovation	$ 10.0	
Subtotal	$ 87.6	**$ 87.6**
Partially Funded or Unfunded:		
Continuation Costs of October 1, 2007 Salary Increases	$ 32.4	
Academic Merit Increases (1.78% of base)[1]	$ 27.5	
Health Benefit Cost Increases[2]	$ 29.6	
Enrollment Growth Net of Financial Aid (5,000 FTE students)	$ 78.7	
Graduate Student Support	$ 10.0	
Purchased Utility Deficits	$ 40.0	
Subtotal	$ 218.2	**$ 218.2**
Net Campus Reductions[3]		**$ (148.7)**
Total 2008-09 Operating Expenditures		$ 5,360.7

(1) In addition, campuses will likely use additional funds from internal redirection to provide faculty salary increases for retention purposes.
(2) Estimated cost to maintain employer share at 87%. Additional reserve funds will be used on a one-time basis to offset increases in employee contributions and reduce the impact on take-home pay.
(3) Does not include non-salary price increase of $25 million.

Deferred for Consideration in 2009-10	
Faculty Salary Market Adjustments	$ 20.0
Academic and Staff Compensation (5%)	$ 125.1
Total Expenditures for Future Discussion	$ 145.1