

- *Robert May, Academic Senate Vice Chair*

Campus Funding Model: Chair White noted that UC implemented budget “rebenching” to rebalance the historical state general funds distribution formula that was unfairly favoring the older UC campuses, to ensure that every UC resident undergraduate receives an identical state fund allocation, regardless of their campus. Rebenching was successful, but then campuses responded to the deep state funding cuts of the recession by sharply increasing the number of nonresidents, which led to political pressure for a nonresident enrollment cap and culminated in a decision by the Regents to implement a cap that differs across campuses. The differential cap could work against the goals of rebenching by establishing a two-tier funding system. Chair White asked UCPB to consider options for a more equitable funding model that allows all campuses to attain the same level of funding. UCPB may wish to discuss ideas such as “socializing” nonresident tuition across campuses that support the principle of UC as a single University of ten campuses.

- UCPB members noted that some UC campuses chose to generate revenue by increasing nonresident enrollment; that helped those campuses financially but has had the unintended consequence of hurting the system politically. It was noted that the Legislature views the University’s quality and success through the lens of undergraduate throughput rates. The University would benefit from metrics that showcase UC’s unique mission as distinct from CSU’s.

Total Remuneration: Chair White noted that although UC’s health and welfare benefits are largely competitive with those offered by UC’s “Comparison 8” group of institutions, UC faculty salaries lag comparators by 10 to 12 percent. UC has managed only incremental progress on the salary gap in recent years. Chair White invited UCPB to work with UCFW, UCAP, and UCAADE on a plan for addressing the gap that incorporates discussions about the systemwide salary scales, the role of discretionary spending, and salary equity by gender and ethnicity.

Response to State Audit and Budget Act: The Senate is monitoring the University’s response to last year’s State audit of UCOP budget and accounting practices, and several specific audit recommendations embedded in the [Budget Act of 2017](#). The Budget requires UC to enroll 1,500 more resident undergraduates in 2018-19, with costs supported by funding redirected from systemwide programs and UCOP operations. President Napolitano has appointed an Executive Budget Committee to advise her on options for reallocating \$15 million from the UCOP Division of Academic Affairs to support the new enrollments. At its September meeting, the Academic Council unanimously endorsed a [set of principles](#) to guide the review of systemwide programs and services in Academic Affairs and the consideration of cuts to those programs. The principles support giving priority to programs that benefit the core UC academic mission and that support multiple campuses, in a process that includes input from the Academic Senate.

Retiree Health: Vice Chair May noted that UC funds the retiree health care benefit on a pay-as-you-go basis. The benefit has a liability of between \$15 and \$20 billion, and UC has always listed the liability as a footnote on its balance sheet, but new GASB rules require all liabilities to appear on the ledger, which could affect UC’s credit rating. In June, the Senate learned about a UC administration proposal to eliminate the 70 percent floor on the University’s contribution to retiree health. After the Senate and other constituencies expressed strong concerns, the item was postponed to the November Regents meeting. Over the summer, UCFW, HCTF, and TFIR analyzed cost projections for retiree health and found that it is a sustainable benefit and the new rules to not represent an emergency. At the September Council meeting, the President announced

her intention to postpone action and assemble a working group charged with making recommendations to the Regents about retiree health affecting the 2019 budget.

Transfer Enrollment: The State budget bill withholds \$50 million from the University contingent on its demonstrating a “good faith effort” to meet a 2:1 ratio of freshmen to transfer enrollments at all campuses except Merced by 2018-19. UC is meeting the ratio on a systemwide basis, but UCSC and UCR are not expected to achieve it by next year due to a variety of factors including a lack of qualified applicants.

LSOE/Teaching Professor: Last year, the Senate considered proposed APM revisions related to the Lecturer with Security of Employment (LSOE) faculty series. Council agreed with several of the proposed changes, including the concept of a new title series that includes a rank and step system, sabbatical privileges, and a research requirement, but did not endorse the specific proposed title, “Teaching Professor,” and expressed mixed views about some of the proposed advancement criteria.

DACA: The University is defending undocumented students affected by the Trump Administration’s decision to rescind the Deferred Action on Childhood Arrivals (DACA) program. It recently sued the Department of Homeland Security over the decision to rescind DACA.

IV. Consultation with UCOP

- *David Alcocer, Associate Vice President and Director, Operating Budget*

Overview of the Office of Budget Planning and Analysis: The Budget Office is responsible for the University’s operating budget. It prepares UC’s annual budget request to the State that outlines its resource needs, and the annual budget plan approved by the Regents. The Office also develops allocation policies and methodologies for state general funds and tuition, sets policies for tuition, fees, and financial aid, and conducts long-term financial planning and analysis.

Overview of the University budget: UC “core funds” comprise \$7.8 billion, or 25%, of the University’s \$31.5 billion budget. (Medical centers represent the largest share at 31%). Core funds consist primarily of tuition and fees (\$3.4 billion) and state general funds (\$3.1 billion). The University expends core funds to support basic operations, including academic salaries (27% of core funds), staff salaries (19%), employee benefits (19%) financial aid (16%), and operation and maintenance of plant (18%).

The University’s share of the State budget has declined over time, and has not recovered from the two most recent downturns in State support. Beginning in 2011-12, the revenues UC received from tuition and fees exceeded revenues received from the State, both as a proportion of the core funds budget and in real dollars. Since 2000-01, UC’s core funds per student, adjusted for inflation, have declined 34.1%, reflecting the immense growth in student enrollment combined with declining State support, as well as the redirection of more core funds revenue to support student financial aid and debt obligations.

Recent State Funding Context: Two years ago, the University and Governor agreed to a four-year funding framework that includes 4% annual base budget adjustments and an infusion of one-time Proposition 2 funds to support UCRP. In exchange, the State permitted UC to consider inflation-based tuition adjustments beginning in 2017-18, and required it to implement several programmatic initiatives related to reducing costs and improving student access and success.

Funding Streams and Rebenching: In the past, UCOP pooled all core fund revenues centrally and allocated them to campuses using a formula that incorporated base budget cost increases, funding for enrollment growth, and funding for maintenance of space. In 2011, UC implemented “Funding Streams,” which allows campuses to retain all funds they generate, including nonresident supplemental tuition, and funds UCOP from a fixed assessment on campuses expenditures.

A 2010 audit found that over time, older UC campuses enrolling a large number of graduate students had gradually become better funded on a per student basis, compared to younger campuses enrolling primarily undergraduates. The audit also noted that the less well-funded campuses enrolled a higher proportion of underrepresented minority students. In response, UC implemented “rebenching,” a six-year plan to gradually equalize the per student funding allocation formula and bring all UC campuses up to the level of the highest funded campus. Rebenching established separate funding corridors for UCSF and UCM. It also established a \$15 million set-aside for each campus to support core activities and created a category of set-asides for specific systemwide programs, including the Agricultural Experiment Station and Scripps Institute, to avoid penalizing campuses housing those programs. President Napolitano accelerated rebenching by one year, and it achieved its narrow scope in 2016-17.

- UCPB members noted that it is not always clear what principles the University used to establish some of the rebenching set-asides. It should apply additional scrutiny to State money that is not allocated directly to the education of students.

Current Issues: UCOP will be engaging the State on a variety of budget issues, including the long-term funding framework, enrollment growth funding, provisions in the Budget Act connected to \$50 million in funding for the University, the right mix of tuition and state funding, and a contingency plan for weathering a future recession without raising tuition.

V. UCPB Member Campus Reports/Issues

- The UCSB representative invited UCPB members to share local policies and practices concerning 1) the use of undergraduate majors in lower division classes for teaching mentoring; 2) the use of research overhead on campuses; and 3) the role of campus Committees on Planning and Budget (CPBs).
- The UCLA representative noted that the UCLA campus is grappling with the increasing pressures on classroom and laboratory space stemming from the large influx of new undergraduates and a decreasing number of graduate students available to help as Teaching Assistants. The campus is limited by bylaws prohibiting undergraduates from acting as TAs.
- UCPB members discussed the extent to which departments are providing campus CPBs with budget cost analysis templates for Self-Supporting Graduate and Professional Degree Programs (SSGPDPs) both in the original proposals and in the three-year reviews of approved proposals.
- The undergraduate student representative noted that students at his campus (Berkeley) have been discussing the costs associated with “Free Speech Week”; students experiencing housing and food insecurity; and campus safety issues. Additionally, he and other students are working with the administration to improve course content affordability and accessibility.

VI. Consultation with UCOP – CFO Division

o Nathan Brostrom, Executive Vice President and Chief Financial Officer

CFO Division Overview: The CFO Division’s primary focus is building a solid and sustainable financial model for the University that can support current and future generations of faculty and students. The Division oversees the operating budget, financial and capital projects, corporate accounting, procurement and risk management services, and UC Path. The Division has successfully leveraged other parts of the budget to manage the University’s significant underlying liabilities and support the core academic mission, through asset management initiatives such as borrowing from STIP to fund UCRP and introducing the Total Return Investment Pool, and debt restructuring through lease revenue bond sales to achieve cash flow savings.

Financial Statements: At the November Regents meeting, UCOP will present a 2018-19 operating budget proposal, 2016-17 financial statements, actuarial valuations for UCRP and retiree health, an update on the Merced 2020 project, and a capital finance plan. The financial statements indicate a small overall improvement in UC’s net position compared to last year as a result of strong investment returns. Specifically, UCRP showed a \$4.4 billion improvement that increased its funded ratio to 85% (market basis), although it still has an \$11 billion unfunded liability.

Capital Strategies: The University hopes to work with the next Governor on a plan for returning to the traditional mechanisms of general obligation bonds and lease-revenue bonds to fund capital growth and renewal. In the meantime, UC has been funding capital through the AB 94 mechanism, which authorizes it to use a portion of its State general fund allocation to fund debt service for state-eligible capital projects. UCOP is planning a systemwide review of campus seismic safety deferred maintenance needs, using a new database called the Integrated Capital Asset Management Program, which will allow UC to track its deferred maintenance liability more precisely over time.

Student Housing Initiative: The University is using Limited Project Revenue Bonds and public-private partnerships to fund several housing projects to support the President’s Student Housing Initiative goal of 14,000 new beds.

UC Path: UC Path is the University’s new systemwide payroll and academic personnel system that will replace aging campus systems with a shared service center based in Riverside. UCOP is implementing UC Path at University locations on a rolling basis, beginning with UCOP last year; UCR, UCM, and UCLA in December; and other campuses in 2018.

Pension: The University’s actuaries perform an annual calculation of UCRP’s actuarial valuation and unfunded liability. The calculation incorporates an assessment of UCRP’s assets and liabilities, demographic assumptions such as retirement age and mortality, and economic assumptions about inflation, salary growth, employee contributions, and the market performance of assets. The biggest driver of the calculation is the assumed rate of return over time, otherwise known as the discount rate, currently 7.25%. The new UCRP pension tier will have a modestly positive effect on the unfunded liability.

- UCPB members requested a future presentation about the overall UC budget structure, its debt portfolio, the role of STIP and TRIP, philanthropy, contracts and grants, risk management activities, along with an overview of the UC investment portfolio and investment strategy.

VII. Self-Supporting Program Proposals

Chair Schimel summarized the divisional and systemwide review process for SSGPDP proposals. He noted that campus graduate councils work with planning and budget committees to evaluate proposals for academic quality, rigor, need, and financial viability. At the systemwide level, CCGA leads the main review with financial analysis provided by UCPB, who assigns a lead reviewer to assess the business plan and market analysis. The [CCGA Handbook](#) allows new programs a three-year phase-in period to achieve self-supporting status, after which the program must show that it is able to recoup the full cost of its operation. CCGA asks programs to report annually on the financial performance of new programs following the phase-in period.

- UCPB members noted that proposing programs sometimes fail to provide a strong justification for SSGPDP costs and expenses or show how the financial plan will scale as a program expands. It is also unclear to what extent approved programs submit a third-year review to CCGA. Regularizing the follow-up reporting is important for accountability – to help the Senate determine if the program is working and to compare the initial analysis and projections to reality.
- It was agreed that UCPB should check with CCGA about the status of three-year reviews, and if necessary, write to the Provost through the Academic Council about emerging SSGPDP questions and concerns, and asking him to communicate with his campus counterparts about the importance of providing financial information to the Senate.

○ UCLA Doctor of Nursing Practice

Lead UCPB reviewer Ann Jensen Adams reported that UCLA's proposed Doctor of Nursing Practice (DNP) is intended to train existing nurse practitioners for advanced clinical and leadership roles, including the ability to translate research into practice and to identify elements of practice that would be suitable for new research. It is a much-needed program according to the Institute of Medicine. UCI, UCD, and UCSF have opened, or plan to open similar DNP program. Professor Adams recommends that UCPB approve the proposal, but also notes a few potential areas of concern. These relate to the sustainability of UCLA's five-year business plan, which projects a deficit in the first year followed by a surplus in year two and subsequent (but declining) surpluses in years three to five, as well as the sustainability of plans for UCLA School of Nursing faculty to teach DNP students on an overload basis, and for a half-time Program Director to oversee the DNP program. UCPB members noted that the financial model as presented appears viable and sustainable but will work only if the program meets its current assumptions, and the surplus margins are tight. CCGA should monitor the financial status of the program closely and insist on a three year follow-up report.

ACTION: UCPB will send a report to CCGA.

○ UCI Master of Software Engineering

ACTION: UCPB member Professor Shelton volunteered to lead the review and report to UCPB in November.

VIII. Systemwide Senate Review: Report on the Negotiated Salary Trial Program (NSTP) from the Fourth Year NSTP Taskforce

A [report](#) on the Negotiated Salary Trial Program (NSTP) from the Fourth Year NSTP Taskforce is currently under systemwide review. The five-year NSTP has been in effect since 2013 at UCI, UCLA, and UCSD. The program is modeled on the Health Sciences Compensation Plan, and is intended to add flexible options for generating faculty salary funding by allowing eligible general campus faculty to supplement their income with certain non-state resources. The report is largely positive about the NSTP; it recommends renewing the pilot for another term and expanding it to other campuses where there is interest.

- Some UCPB members expressed support for extending the pilot and allowing more campuses to experiment with negotiated salaries. They pointed to evidence cited in the report that the program has helped address faculty recruitment and retention cases in specific departments and disciplines, and not, as some had feared, affected faculty teaching effort or diverted funding from graduate students. The program is a useful tool for addressing uncompetitive salaries in the context of declining state support. Ideally, the published salary scales would be more competitive, but it is unrealistic to assume there will be funding or determination to fix them in the near future.
- Other members noted that the program benefits a select group of faculty who are able to obtain outside funding for salaries, and could exacerbate existing salary inequities by giving one subset of faculty differential access to additional compensation. Moreover, the program reduces the University's incentive to address the larger faculty salary competitiveness problem and undermines the UC merit and promotion system by further reducing the already slow momentum that exists to fix the systemwide salary scales. The salary scales are the backbone of UC's rank and step system and its best tool for enhancing quality and productivity.

ACTION: A letter summarizing UCPB's views will be drafted and circulated to the committee for comment. Review at the next meeting.

IX. Campus Structural Deficits

UCPB members discussed best practices for recognizing the signs of an upcoming structural budget deficit and identifying steps needed to correct long-term imbalances and protect the educational mission.

Berkeley representative Carson noted that the Committee on Academic Planning and Resource Allocation led an investigation into the Berkeley's budget deficit, and incorporated recommendations into its annual [Budget and Policy report](#) to the Chancellor in May 2017. CAPRA found that the campus had increased spending disproportionately in non-academic parts of campus, including the central administration; took too long to recognize the deficit and realign spending decisions with revenue, and then made decisions to restructure operations and centralize services without adequately considering alternatives. CAPRA's recommendations included focusing resources on the core instruction and research missions and budget cuts on non-academic areas of the campus that had grown disproportionately, and improving the financial analyses undertaken for new campus capital projects. CAPRA also pushed for more information-sharing with faculty and leadership changes. CAPRA's annual budget report has enabled it and the larger Senate to be a more effective presence on the budget.

UCPB members noted that a crisis will often catalyze faculty into action to demand changes and lead to more effective shared governance. Engaging faculty in shared governance on the budget can help lead to better decisions, although the Senate has an advisory role on the budget and is not always privy to information that will allow them to determine if the campus is on a fiscally sound track.

X. 2017-18 UCPB Priorities

UCPB members identified several high priority issues for UCPB in the 2017-18 academic year, including the Agriculture and Natural Resources Task Force; metrics for measuring the effect of budget decisions on educational quality; a critical analysis of the State audits and potential measures of efficiencies; a funding model that works for all campuses, including possible redistribution models that work as alternatives to rebenching and funding streams; an examination of online education as a potential means of saving money; and the effect of differential nonresident enrollment caps on campuses.

Meeting adjourned at 3:30 pm
Minutes Prepared by Michael LaBriola, Principal Committee Analyst
Attest: Joshua Schimel