

## Minutes of Meeting

November 7, 2017

**I. Consent Calendar**

- Approval of UCPB November 7, 2017 agenda
- Approval of UCPB October 3, 2017 minutes

**ACTION: UCPB approved the consent calendar.****II. Announcements**

- *Joshua Schimel, UCPB Chair*

Joint Leadership Budget Call: The Provost hosts a monthly conference call on budget topics for members of the administration and the Academic Council, including the UCPB chair. The October call featured updates on several topics that UCPB will discuss today, including the proposed Regents budget and enrollment plan for 2018-19, and an update on the AB 97 budget redirection for enrollment funding.

UCPB ANR Task Force: At least two members of UCPB's Task Force on Agriculture and Natural Resources are rotating off the Task Force. Chair Schimel is working with UCOC to identify replacements, particularly faculty with ANR-related insight and experience and from Agricultural Experiment Station campuses not currently represented on the Task Force.

ACSCOLI Meeting: Vice Chair Steintrager will represent UCPB at meetings of the Academic Council Special Committee on Laboratory Issues (ACSCOLI).

UCPB Meeting Schedule: The December 5 UCPB meeting will begin at 10am to accommodate a change in the SWA flight schedule. The January 9 meeting will be a videoconference, and UCPB will return to a 9:30am start time in February.

**III. The "\$48 Fix"**

A working group that includes former UCPB chairs has proposed a [plan](#) to restore tuition-free public higher education in California. "The \$48 Fix: Reclaiming California's Master Plan for Higher Education" calls on the state to implement an annual income tax surcharge to replace tuition that the working group estimates would be \$48 for median-income households.

UCPB members noted that the report is useful to the extent that it highlights the importance of public higher education to California and the effect of state budget cuts on access, affordability, and quality. Members also favor reducing tuition if new funding makes such a reduction viable. However, it was noted that the "\$48 Fix" is neither fiscally nor politically feasible. First, the \$48 headline is misleading. The proposed tax schedule makes clear that a \$48 surcharge would apply only to individuals making between \$39,000 and \$40,000, while the surcharge on other incomes would be dramatically higher. For example, household incomes of between \$150,000 and \$200,000 would be hit with a surcharge of \$1,114. The "fix" amounts to a 12.7 percent across-the-board increase on the current state tax liability. As these details are better understood, the plan will have little chance of gaining traction in the public or Legislature.

In addition, the plan does not represent a viable long-term fiscal solution for the University of California budget. The plan would establish a fixed amount of funding into the future without acknowledging the need to address inevitable cost increases; nor does it guarantee that any new tax revenue would actually reach the University.

Members noted that it is important to speak directly to the public about the importance of funding higher education; however, there was also concern that the plan could have the unintended consequence of releasing the state from its responsibility to fully fund the Master Plan. The State needs a higher education funding plan that is politically and fiscally feasible. The University should continue to engage the state with messages that make a compelling case for funding by highlighting the unique UC mission, and showing that investing in UC's research and graduate education missions contribute to the undergraduate experience and benefit the state workforce and economy.

**ACTION: UCPB will send a brief memo to the Academic Council summarizing its views.**

#### **IV. Faculty Salaries Consultative Group**

A group led by UCFW that includes the chairs of UCPB, UCAADE, and UCAP, are discussing a plan for closing the 8-10 percent gap between UC faculty salaries and faculty salaries at comparison institutions. Issues to address are the amount of salary increase to request, a time frame for closing the gap, and specific recommendations for distributing salary increases. Senate Chair White has asked the group to propose a plan for closing the gap over two to three years. Last year, UCFW [asked UCOP](#) to apply all available monies to the systemwide salary scales.

Chair White noted that UC's quality derives from its ability to recruit and retain the best faculty. The salary gap has consequences; exit surveys show that uncompetitive salaries are the biggest factor in faculty decisions to leave the University. Competitive salary scales also help ensure the relevance and strength of UC's merit and promotion system.

The cost of a salary plan differs dramatically depending on whether money is directed to elevating the published salary scales, or to across-the-board increases. Raising the scales by ten percent, for example, would involve a total salary spend equivalent to only four percent of salaries; but it would capture many off-scale differentials and would help faculty at underfunded campuses and humanities faculty in general. It would be more expensive to provide across-the-board increases to all faculty, certainly if the increase is applied to total salary, including off-scales.

- UCPB members noted that it is unclear that faculty whose salaries are already at the comparison level, as a result of recruitment and retention actions involving off-scales, should see increases equivalent to other faculty. It was noted that an annual merit-based system may not fully appreciate that it can be difficult to measure the conduct of scholarship in a calendar year. It was noted that the consultative group should avoid being too prescriptive in its recommendations and should consider specific faculty sectors that need targeted attention.

#### **V. Consultation with Academic Senate Leadership**

- *Shane White, Academic Senate Chair*
- *Robert May, Academic Senate Vice Chair*

Budget Act: AB 97 requires UC to share the \$15 million cost of enrolling 1,500 new undergraduates in 2018-19 using state general funds redirected from systemwide programs and services. In early

October, Council sent President Napolitano a [letter](#) identifying principles to guide the consideration of cuts. UC will be proposing a \$10 million contribution using redirects from several small single-campus systemwide programs and the UCOP administrative budget.

Transfer Pathways: The UC Provost has assembled a Task Force to consider associates degrees based on UC pathways in physics and chemistry that may be acceptable to confer a guarantee of transfer admission to a UC campus.

DACA: The University has sued the Department of Homeland Security over its decision to rescind the Deferred Action on Childhood Arrivals (DACA) program. In the meantime, the University is offering support and services to undocumented students and considering how to support degree completion in the event a student is deported.

GSR Unionization: Governor Brown recently signed [Senate Bill 201](#), amending the Higher Education Employer-Employee Relations Act to expand the definition of “employee” to include all UC student employees. The legislation provides Graduate Student Researchers with the opportunity for union representation beginning January 1, 2018. UC had asked the Governor to veto the bill, based on concerns that unionization could increase costs and alter the faculty-student educational relationship from mentor-mentee to employer-employee. UC now has a neutral position on the bill and is considering the best process for managing its implementation.

- UCPB members noted that cuts to the University budget are less visible to the outside world than they are internally; faculty and students know that UC class sizes are increasing and students have fewer opportunities to interact with faculty.

## **VI. Consultation with UCOP**

- *Kiernan Flaherty, Associate Vice President, State Government Relations*
- *David Alcocer, Associate Vice President and Director, Operating Budget*

State Budget Landscape: UC has faced significant budget challenges in Sacramento. Following the 2017 state audit of UCOP expenditures, the state withheld \$50 million from the UC budget pending the University’s implementation of several audit recommendations and two projects identified by the Governor related to transfer admission and activity-based costing intended to reduce the University cost structure. UC is on track to meet these conditions and expects the state to release the \$50 million closer to the end of FY 2017-18.

The Legislature has been focused on enhancing access and affordability for California undergraduates, but its funding of new enrollments has not been consistent with the traditional marginal cost of instruction formula. The 2017-18 Budget Act asks UC to redirect funding from its current budget to support the enrollment of 1,500 new California undergraduates, and the University is working to ensure that campuses have the funding and infrastructure to support this growth. The University is also emphasizing that its financial aid system, combined with Cal Grants and Pell Grants, preserves affordability in the context of total cost of attendance.

Legislation: The Office of State Governmental Relations (SGR) monitors bills introduced in the CA Legislature for their potential impact on UC. Nearly 3,000 bills were introduced last year; SGR took positions on more than 130, issuing support letters on 16 and oppose letters on eight. UC secured the Governor’s veto of Senate Bill 574, which would have restricted UC’s ability to contract for services; however, the Governor did sign SB 201 to create collective bargaining rights for graduate student researchers. The Governor approved all five of UC’s sponsored bills, including bills to extend the California Umbilical Cord Blood Collection Program, the Breast Cancer Research Fund

tax check-off, and funding for a summer school STEM program for high school students. UC has asked the Governor to sign SB 171, which will allow the UC medical centers to retain more Medicaid funding.

2018-19 Regents Budget: The Regents will discuss a proposed UC operating budget and tuition/fee plan in January, when better information is available about the Governor's intentions regarding the four-year budget framework agreement and the state's expectations for enrollment growth. UCOP is expected to propose a 2.5 percent net increase in resident tuition (\$288) and a 5 percent increase in the student services fee (\$54); however, financial aid would cover the entire increase for more than 57 percent of students and partially cover an additional 18 percent. The budget will also propose a 3.5 percent increase in nonresident undergraduate tuition, a smaller increase than past years following campus concerns about the competitive market.

2018-19 Enrollment Plan: UCOP has received 2018-19 enrollment plans from the campuses. The plans for California undergraduate enrollment growth totaled 2,600, an unexpectedly high number in view of the 1,500 new enrollments UC is considering under the limited state funding scenario anticipated next year, and given existing over-enrollment concerns and challenges. UCOP will be working with campuses to develop a feasible systemwide enrollment framework.

2:1 Transfer: UCSC and UCR have assembled ambitious plans for increasing community college transfer enrollments to achieve the 2:1 freshman-to-transfer ratio requested in the Budget Act. The Department of Finance and the Governor's office are reviewing the plans, which do not propose reductions in California freshmen.

Activity-Based Costing: The Budget Act asks UC to complete activity-based costing (ABC) pilot programs at UCR, UCD, and UCM, as a way to enhance understanding of instructional costs. The Department of Finance is reviewing a report from UCR on its ABC pilot study and reports from UCD and UCMs on their ABC scoping studies.

## **VII. UCPB Member Reports/Campus Issues**

Student Representatives: The graduate representative reported that the Biomedical Sciences (BMS) program at UCSF is preparing new mandatory mentorship training for faculty who take on BMS students after rotations. Students are curious and excited to see how it will influence other programs. The undergraduate representative reported on a Berkeley mentorship program that is fostering relationships between undergraduate and graduate students to help prepare undergraduates for the transition to graduate education and/or professional life.

Responsibility Centered Management: It was noted that UCR is in its second full year using the Responsibility Centered Management (RCM) budget decision-making model. The experience has clarified the need to balance decentralization with sufficient central funding that can support campus-wide priorities and decision-making. UCPB members observed that an incentive-based budget allocation model that shifts resources to follow changing enrollment needs could ultimately help drive the shift and potentially starve certain areas of campus.

Other Reports: The Berkeley CAPRA is reviewing a report on self-supporting programs and will be participating in a long-term strategic academic planning exercise and discussing a plan floated by the administration to transfer a portion of debt associated with the new football stadium to the general campus. The UCSB Committee on Planning and Budget chair is a member of the Chancellor's Coordinating Committee on Budget Strategy, which is discussing a new strategic academic plan for the campus. The UCSC CPB is discussing a Long Range Development Plan for

the UCSC campus, and the UCLA Classroom Advisory Committee is doing an inventory of classroom space and study space.

## **VIII. Self-Supporting Program Proposals**

### **o UCI Master of Software Engineering**

Lead UCPB reviewer Christian Shelton reported that UC Irvine's proposed Master of Software Engineering is a four-quarter program that will provide at least 40 students annually with programming and related technical knowledge, professional development, and practical training. The business plan anticipates a \$340,000 bridge loan from the School of Information and Computer Sciences to fund development that the program will repay over three years.

Both the business plan and market analysis are sound, but there is a potential concern related to the plan for indirect cost recovery, which anticipates \$300 per student per quarter as the sole indirect cost paid to the campus, as well as \$4,000 in extra net revenue generated annually per student. It is possible that the annual campus overhead expense for 40 students could exceed this amount. In addition, no external letters of support were included in the proposal packet.

UCPB members noted that the proposal is missing the UCOP cost analysis template, which limits UCPB's budget evaluation. The Guidelines ask SSGPDP proposals to use the template to provide a full accounting of the projected direct costs incurred by the program, the average indirect costs incurred by the school offering the program, and the indirect costs incurred by the campus and school related to campus resources.

**ACTION: UCPB will send CCGA Professor Shelton's report and a summary of comments.**

## **IX. Asset Optimization**

### **o Nathan Brostrom, Executive Vice President and Chief Financial Officer**

UC has an array of asset optimization initiatives intended to increase revenues and reduce administrative expenses. Until 2008, UC kept all working capital in the Short Term Investment Pool (STIP), a low-risk investment pool available to all UC campus groups based on overnight liquidity. In 2008, a study of campus STIP balances identified \$2 billion of liquidity in excess of UC's working capital needs. The CFO Division determined that a partial reallocation of STIP funds to a new Total Return Investment Pool (TRIP) could generate additional unrestricted revenues for the campuses at low risk. Campuses were permitted to invest up to 50 percent of their long-term working capital in TRIP, and between 2008 and 2017, campuses shifted much of their working capital to TRIP. (UCOP requires campuses to invest at least 25 percent of working capital in STIP.)

Since 2008, UC's pool of working capital increased from \$8 billion to \$14 billion, largely due to growth at the medical centers. Approximately \$9 billion of the \$14 billion total is now invested in TRIP, which has a five-year return rate of 6.6 percent, about 5 percent higher than STIP's return of 1.5 percent, a difference of \$50 million.

The UC Chief Investment Officer manages STIP funds, TRIP funds, and funds in the UC General Endowment Pool (GEP), the Regents' main vehicle for investing endowed gift funds. The GEP is higher on the risk-return spectrum than TRIP and STIP; although it is designed to sustain boom and bust cycles, and smoothing ensures a predictable funding stream and lower volatility. In addition, each campus maintains separate foundation assets and some use a separate management company to

invest a portion of those assets, although the GEP tends to offer lower fees and higher returns. The GEP's latest five-year earnings average is 9.4 percent.

For five of the past six years, UC has borrowed some excess liquidity from STIP to help fund the Annual Required Contribution (ARC) to UCRP, which has helped increase the Plan's funded ratio by about six percent.

Optimizing assets provides the University with a resilient and predictable revenue stream that helps supplement unpredictable state funding. The CFO Division sees opportunities to further enhance return potential for campuses by encouraging them to move additional STIP and TRIP funds to longer duration investments. The CFO Division is performing cash flow analyses to help campuses identify positive effects and potential strains associated with moving assets.

- UCPB members noted that campuses could have paid lower fees and sometimes realized higher returns by allowing the CIO to manage their foundation assets, although others noted that campus foundation asset allocation strategies, while different from the CIO's, are still valid, and that past performance is no guarantee of future results.

## **X. Alternative Funding Models**

Chair White asked UCPB to assess potential funding models that could serve as alternatives to Funding Streams and allow all UC campuses to attain an equitable level of funding and achieve the same trajectory of excellence. He noted that even after the successful implementation of rebenching, which equalized the per-student allocation of State general funds across campuses, UC is not offering students equal opportunities or resources. For example, the University spends fifty percent more dollars on the education of Berkeley students compared to Riverside students.

In response to the state funding cuts of the recession, all campuses sought to increase nonresident enrollment to generate more revenue, but the historically better-resourced campuses had a greater capacity to attract nonresidents, which generated new inequities. The Regents locked in these inequities when they established a differential policy cap on nonresident enrollment. The cap hurts the historically less-resourced campuses and undermines the understanding of UC one University. Some have criticized the imbalance as a kind of institutional racism.

Several ideas have been proposed, including "socializing" nonresident tuition or the delta between in- and out-of-state funding above the marginal cost of education, and asking campuses above the 18 percent cap to reduce nonresident enrollments as other campuses approach 18 percent. (The new policy does not include a systemwide cap on nonresident enrollment.)

- UCPB members expressed concern about any plan that actively redirects revenue generated by specific campuses. An alternative funding model should, like rebenching, lift the bottom without hurting other campuses.
- It was noted that the benefits of increasing nonresident tuition revenue have been concentrated at the few campuses most able to draw nonresidents, but the political backlash and associated financial pain have been broadly distributed across the system.
- It was noted that campuses have different capital needs and liabilities, but the rationale for identifying systemwide capital funding priorities has not always been clear. Capital funding could be a mechanism to address inequities and equalize resources, should new resources

become available. UCPB might identify principles to guide the prioritization of capital funding needs across campuses.

- It was suggested that a subgroup of current and former UCPB members outline the issues, coordinate data collection, and discuss possible recommendations. The group might begin by quantifying inequities in relation to the resources available to support undergraduate education across the campuses; and then identify potential mechanisms to address inequities; and analyze potential benefits and costs associated with those mechanisms.

**ACTION: Chair Schimel will draft a charge for the subgroup.**

## **XI. Review of the Institutes for Transportation Studies (ITS) MRU**

UCPB and CCGA have been asked to appoint one member each to be consultants to UCORP for the five-year review of the [Institutes for Transportation Studies](#) Multi-Campus Research unit. Review materials will be available in December. The UCPB consultant will receive the materials and be invited to attend relevant portions of UCORP meetings, and UCPB will be invited to submit comments and recommendations to UCORP for inclusion in the final report to UCOP.

**ACTION: UCPB member Professor Kaufman will represent UCPB.**

## **XII. Report on the Negotiated Salary Trial Program (NSTP) from the Fourth Year NSTP Taskforce**

UCPB reviewed a draft letter summarizing the committee's views about the [report](#) on the Negotiated Salary Trial Program (NSTP) from the Fourth Year Taskforce. The letter attempts to capture the balance of opinion expressed by UCPB members in October.

- Members noted that UC has no metric for evaluating the success and effectiveness of the pilot. Any renewal and/or extension of the pilot should include a plan for developing success metrics. Members also noted that it would be difficult for the University to cancel the pilot in locations where it is already in effect; and to allow it at some campuses but not others would "bake in" inequities across the system.

**ACTION: A revision will be circulated to UCPB for final comment and approval.**

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