

**UNIVERSITY COMMITTEE ON PLANNING AND BUDGET
MEETING MINUTES – JUNE 10, 2008**

I. Chair's Announcements

ISSUE/REPORT: Chair Newfield reviewed statements from the 'May revise' version of the Cuts Report based on recalculations. There are new revenues, however there are \$195 million in new mandatory expenditures that include a number of unavoidable cost increases. This excludes year 2 of the salary scales plan and other costs, which total \$145 million. Therefore, UC is still faced with the 'Schwarzenegger Scenario,' albeit with a brief delay. In Sacramento, the Senate Education Committee is proposing the non-funding of campus enrollment increases, which is essentially a cut in the MCOI per student. Budget Subcommittees in both Houses propose there be no funding for new starts or for capital projects already approved for 2008-09. Most campuses are planning for significant cuts that will vary from 3% to 10%. There is a rumor that the proposed budget includes no funding for COLA and no adjustments to the faculty salary scales.

Chair Newfield briefed the committee on the Hong case at UCI, who was denied a merit increase and sued on the grounds that it was denied due to statements he made in environments where his academic freedom was constitutionally protected. Professor Hong sued a number of UC administrators as individuals and lost in a circuit court case. The Office of General Counsel (OGC) clarified that there is no constitutional protection for academic speech, but is based on University policy. Council also had a lengthy debate on BOARS' proposed eligibility proposal, but passed with a vote of 12-7. There was a slight modification from the original proposal of the eligibility guarantee. Chair Newfield also discussed a presentation to Council on salary scales. In year one of the faculty salary plan, the proportion of faculty off scale would be lowered from 77% to 58%. The estimated costs to continue elements of the plan in year two include: merits are \$18.4 million; merits plus 2.5% COLA are \$33.7 million; and merits plus COLA plus scales are \$64.5m (these figures exclude health sciences). Council also conditionally approved Riverside's new public policy and medical schools. The campus will have to determine the funding source.

II. Consent Calendar**A. Approval of the Agenda****B. Approval of the Draft Minutes from the May 6, 2008 Meeting**

ACTION: Members unanimously approved the consent calendar with a minor modification to the minutes.

III. Enrollment Growth: Budgetary Impact on Campuses— *Chair Newfield, Abel Klein*

ISSUE: The 2008-09 State budget does not include any funding for enrollment growth and this will require campuses to self-fund access for the additional students. Professor Klein presented data on enrollment growth to illustrate that the costs are not equally distributed among the campuses and will be a burden to some campuses more than to others. The costs should be shared by the system.

DISCUSSION: Professor Klein noted that the problem was that campuses had to offer students admission before the May Revise. The correct approach would be to calculate the extra burden

and share this amount equally across the campuses. The \$40 million for MCOI could be taken out of the budget and given to every campus. Every campus will get less money but the campuses that took on more growth would get more money.

In the past, there have been separate processes for the distribution of budget cuts and enrollment growth monies to the campuses. This year, the budgets will be cut and campuses will have the added burden of funding the enrollment growth. It was noted that, this year, campuses will also not be reimbursed for over-enrollment. One member asked if this budgetary burden translates into a real burden on the ground. Enrollment growth is translated into faculty FTEs; however, these FTEs are not distributed as new FTEs, but as fungible money that is used for other purposes. Professor Klein reported that this year, Irvine was careful not to over-enroll. However, the previous year many campuses went way beyond their proposed targets, due to a lack of control from systemwide, which had dramatic consequences. Campuses do not know their official enrollments until the second week of October but the budgets for all campuses are set July 1st. If the actual enrollment is 2% short of the target, a campus must return money to UCOP. The proposal that campuses that enroll more students receive more money is not fair and there should be a level playing field in terms of how much any given campus can expand their enrollment.

Another member mentioned that this will probably come up next year and therefore more data should be reviewed. The committee cannot make a strong recommendation without new data on enrollment and how it has been funded in the past two years. It will also be a different playing field within UCOP. Another consideration is the growth of Merced and the expenses associated with this should be a priority. However, the most important question is what is the right way to distribute money around the University. One approach would be to divide the total state appropriation for a campus by the total number of students to determine which campuses should get more and which should get less. This would end the use of a single formula for the whole system. Professor Klein pointed out that before the President Atkinson, those campuses with higher enrollments (Berkeley and Los Angeles) had much higher base funding. After President Atkinson negotiated the rules with the Department of Finance (DOF), those campuses that grew later received a lower appropriation per student. In addition, these rules have resulted in lower levels of funding for newer graduate programs.

Overall, the committee viewed this as a one-off situation: that it will be one year and campuses will not take anymore students and that campuses will not take any more until receiving reimbursement for this growth. It is possible that this problem will be corrected. In response to the University's promise that it will not take any more students until the State provides more money, the Legislature could refuse to increase the budget. There is no mechanism to change the past and no mechanism to change student-faculty ratios. The committee should look at bringing equality to the funding for undergraduate education and view funding for graduate students as a separate issue.

The options for the committee include: 1) Endorse Professor Klein's proposal to make recommendations to change the current situation; 2) Collect data and plan a response and recommendations to address enrollment growth in advance of the issue arising again next year; and 3) address this issue using a whole budget approach rather than a year-by-year approach. In

terms of the data that is needed, the committee already has data on appropriations by campuses historically and for this year. Also needed is data on campus enrollments from 2000 until now; budgeted enrollment and actual enrollment; the rate at which enrollment was paid; and any plus or minuses in any given year for previous enrollment numbers. A subcommittee will examine the data which may help identify a mechanism for dealing with the 2008-09 year. Members agreed with the suggestion that the committee write a memo identifying and clarifying the dimensions of the problem, and stating that UCPB is gathering more information to suggest mechanisms for addressing it.

ACTION: Professor Klein will draft a statement, which will be sent out to the committee for further refinement. A subcommittee will be formed to examine the statement (Abel, Andrew, and Bjorn).

IV. Announcements from Patrick Lenz, Vice President of Budget

ISSUE/REPORT: VP Lenz reported that both Houses of the Legislature approved the May Revise. The Assembly continues to hear UC issues within the Budget Subcommittee. The Legislature has been trying to gauge the issues, as proposed in the Governor's January budget, that will impact the budget. In the meantime, they have been trying to gauge what the Republicans would be interested in regarding revenue issues, e.g., the proposal to change the lottery. There is another bill in the Legislature that would take away the corporate tax exemption for convicted felons. The yacht tax will probably be approved, but this will only generate \$26 million. There is an issue regarding state debt service that is applicable to higher education, and Senator Cheney will not be supportive of any bonds that will use the General Fund to fund the debt service. They decided to delete all of the capital projects associated with the November 2008 bond. For UC, this amounts to \$350 million for 2008-09. In the education arena specifically, there are a number of concerns. One is that K-12 has not spent \$8 billion dollars from their last bond measure. The community colleges can raise local bonds, however, UC cannot. Meanwhile, UC is arguing that capital construction would boost the California economy in an environment where housing construction has completely stopped. Each of these projects has a meaning and story behind them, but they may be at risk if the Legislature delays addressing this issue.

There are items in the budget that UC will propose to have deleted or vetoed. One of these is the AFSCME collective bargaining; there is language that would redirect \$15 million from UCOP and campus administrations to AFSCME employees. VP Lenz has pleaded with both Houses not to do this while UC is in the collective bargaining process. Currently, UC is not at an impasse with AFSCME, but has put on the table an offer to bring all of these employees up (however, not to the requested \$15/hour. A second piece of language is a recommendation adopted in the Senate Budget Subcommittee, which states that "any increased cost for enrollment or compensation incurred by the UC and the CSU will not be part of a future state obligation." Finally VP Lenz noted that if appropriate resources necessary for enrollment growth are not provided by the State, UC will manage its enrollment appropriately.

DISCUSSION: Members noted that debt service should be postponed until after the budget is done. VP Lenz remarked that the option to go to the voters for a general obligation bond is no longer being considered because the environment is too prohibitive and a campaign would be

costly. Another option might be a lease-revenue bond, which would not need to go to the voters, although it would mean a slightly higher debt service. The Legislature is focusing on having a solution to the budget by July 15th; therefore the strategy is to address the facilities projects after this date. The Legislature can say that a campus can wait on its plans, however this delay would result in the loss of any private funds already donated. Approximately \$22.7 million in unspent bonds from 2004 and 2006 will be used to complete projects that are underway based on a recommendation from the Legislative Analyst's Office. Members raised the issue of the targeted enrollment growth for 2008-09. Who is paying for this enrollment? VP Lenz responded that although the campuses will receive some revenue from the student education fees, essentially the campuses will have to absorb the cost. Five years ago, the Legislature passed a bill that the State would not provide funding for enrollment growth, which violated the Master Plan. Nine months later the Legislature did provide money in the budget when UC was reducing the number of students to be enrolled, but after a one year delay. One member asked if it is appropriate for this burden to be handled at the campus level or is there a larger plan to share it more equitably across the system. The committee presented the idea of ranking the campuses by dividing the state appropriation for a campus by the number of students. VP Lenz responded that what UCOP has attempted to do with this budget is an effort to be more transparent, which has generated a large amount of discussion about how the University has treated the budget in the past. UCOP recognizes that there have been problems in the past which were dealt with in a piece-meal fashion. It was pointed out that it is very difficult to make substantive changes in a down fiscal year; UC has also been in a down fiscal year for about 15 years. VP Lenz reiterated that one of the objectives was to try to be more transparent, recognize the issues, and try to address them. A second thing was not to make the changes so dramatic for this one year.

VP Lenz noted that the committee should not look at the budget only in relationship to enrollment growth and that there were efforts to minimize the impact of the growth. Even after the restoration of \$98 million, UCOP still has another \$100 million in mandatory costs that need to be funded. Members argued that the State will get the wrong message if UC continues to absorb students no matter what funding is available. If UC is going to bring growth into alignment with the resources provided by the State, how do we do it? Will Merced be the exception? What about UCSF? How would we implement this? VP Lenz agreed that this committee should make recommendations for dealing with this issue in future years, but indicated nothing can be done for 2008-09. In July 2009, there should be a presentation to the Regents on the fiscal picture and the ongoing issues for UC.

V. UC Merced Budget – Chair Newfield, Evan Heit

ISSUE: Chair Newfield indicated that more detail should be added to the following recommendations from the memo:

- All Merced students be fully funded by the system;
- UCOP increase UCM's base funding of \$10 million to a number that is to be decided;
- UCOP address infrastructure expenses;
- For capital projects continuation, SE2 open in 2011 not 2012 and the Castle laboratory space be accelerated; and
- UCM growth by better accounted for by the system.

DISCUSSION: The recommendations were revised to the following:

- Since the shortfall of I&R space threatens both faculty recruitment and academic quality, capital construction at Merced should be given the highest priority among UC's capital projects; and major current projects be expanded (SE2) and accelerated by one year (Castle).
- UCOP should address the infrastructural expenses unique to starting up a new UC research campus.
- All Merced students be fully funded at the higher marginal cost of instruction appropriate for a new campus: UCPB estimates this figure to be \$12,500. [this number would be the current budget divided by the number of students].
- That UCOP work with the Merced campus to design a strategic growth plan that clearly articulates the total quantity of resources required for the campus to achieve equal quality with the other UC campuses.

Chair Newfield stressed the importance of determining an appropriate UCM MCOI. Taking the general fund appropriations to each campus and dividing it by the total amount of students is a simple index to rank the campuses by their relative wealth and poverty. The Merced Administration is focusing much more on the capital budget rather than on the operations budget. That is a more acute problem, and the recommendation should reflect that need.

ACTION: This draft will be finalized for the July Council meeting.

VI. Proposal for a School of Nursing at UC Davis – *Andrew Dickson and Tony Norman*

ISSUE: Three educational tracks are proposed, however there is not a curriculum for any of the tracks. It was asked if it has been formally approved by the divisional Senate? There was an original stipulation on the gift of \$100 million to have the School open by September 2008, which is not possible in the best of circumstances.

DISCUSSION: Members agreed that there is no curriculum and the budget is not mature either. The response should be firmer on budget. The School needs to hire a future Dean and others to plan the curriculum. There should also be clarification on whether the divisional Senate voted on the proposal.

ACTION: Chair Newfield will finalize the response in time for the July Council meeting.

VII. A Discussion of Campus Budget Planning— *Chair Newfield*

ISSUE: Chair Newfield briefly discussed the budget cuts for campuses. These cuts will range from 3% to 10% depending on the methodology used. Committee members were encouraged to share the impact of the cuts on their campuses and ideas on how to manage the cuts.

VI. UCOP Restructuring in the Context of the Roles Report – *Guest: EVP Katherine Lapp and AVP Michael Reese*

ISSUE: EVP presented information regarding the restructuring at UCOP, noting that currently there are 1,749 people at the Office of the President in Oakland; many are performing systemwide functions. She noted that there are two types of restructuring initiatives—centralizing basic internal support functions (e.g., 'utilities), and transform key outward-facing functions. The following units are being restructured PC / Desktop, UCOP budget office,

HR&B, Communications (includes brand management), Institutional Research, Academic Affairs, Business Resources, Facilities, Legislative Analysis, Information Strategy, and External Affairs. Regarding HR&B, the question is whether UC retirement benefits could be administered by an external vendor at higher quality at same price. A decision will not be made until October; it would take 12 to 16 months to implement such a transition in an appropriate way. There were also reductions in the HR&B budget (8% reduction to the FTE budget). With regard to institutional research, this is ongoing and is based on work at UCSC. The concept is to have residing in one place the corporate data on UC. As it stands now, enrollment data is stored in multiple places and it may not always be consistent or reliable. Restructuring this unit is essential to allow UC to respond to data requests in a timely manner. Regarding business resources—currently every unit has their own accounts payable positions (98-100 FTE currently; through restructuring UCOP can get reduce this down to 40 FTE). The facilities unit needs to be restructured to support new capital approval process. The Legislative Analysis unit also needs to be centralized in one place.

DISCUSSION: Members asked if there will be any new Vice Presidents? EVP Lapp noted that among senior management, there has been a 10% reduction in FTE. It was asked if Academic Affairs might be given to the campuses. EVP Lapp responded that two-thirds of UCOP FTE are engaged in ‘academic’ related activities. These units include Academic Advancement (12 FTE), Student Affairs (197 FTE), Office of Research and Graduate Studies, Educational Relations, and Academic Information and Strategic Services.

Chair Newfield noted his concern around the transparency of the thinking and rationale, and asked for more information on the ‘detail design’ phase? AVP Michael Reese responded that public documents have been created at every stage of the restructuring process. He added that the high-level design is very conceptual. EVP Lapp remarked that the first round was driven by budget savings goals (approximately \$56 million). This work design emerged from the discovery that there is tremendous duplication at UCOP. One member asked if any questions have arisen regarding the effectiveness of some units within UCOP as perceived by the campuses? EVP Lapp responded that on the business side, especially in the facilities redesign, the capital design process complements what is going on at the campuses. Similarly, UCSC expertise has been brought in for the redesign of the Institutional Research unit. Another member asked if the restructuring could be equally applied to the campuses. EVP Lapp responded that there is also a workgroup called the ‘Campus Efficiencies Work Group,’ which is aware of the lessons learned from the restructuring at UCOP.

Chair Newfield also outlined the basic points in the draft UCPB memo regarding restructuring. First, the letter identifies a number of principles: proactive long-term planning; clearer, less-siloed interaction; Academic Senate needs self-review; UCOP culture shift to open collaboration; Reorganization by function, not department; UCOP first priority is Presidential support (the Roles Report); UCOP’s secondary job is systemwide support functions (Roles Report—bottom of the pyramid); Retain system support functions (SSF) with clear system leverage (Roles Report). EVP Lapp remarked that the group directly responsible is very large and involves both high-level and low-level people. AVP Reese added that while there was indeed a short-term budgetary target, but in achieving this goal UCOP leadership discovered that its very budgetary process was problematic and even chaotic, which needed to be structurally corrected. Academic

Council Chair Michael Brown mentioned that originally restructuring was the outgrowth of ‘CompGate’; savings were only a fringe benefit.

Members also talked about confidentiality and transparency; Chair Newfield expressed his view that UCOP has not opened up sufficiently to garner the support of the campuses. He also remarked that the ‘Roles Report’ allows for a split in culture at UCOP. Part of the organization allows for an increase in the executive power of the President; he advocated for a set of principles to guide the restructuring going forward. EVP Lapp challenged the notion that there has not been a shift towards more collaboration, especially with the campus units associated with communications. There has also been an effort to communicate with staff through brown bag lunches, resume workshops, etc. Chair Newfield said that the idea of UCPB’s draft memo is to point out some of the ambiguities in the documents associated with the restructuring. The first two documents—Blum and Monitor—were much more focused on turning UCOP into a clear services provider. On the other hand, the Roles Report emphasized Presidential support. In short, it seems that restructuring is still being driven by budgetary forces and concerns; there could a tendency to jettison the service functions as costly (e.g., HR&B), leaving standing this Presidential support function. This could result in a very top-down organizational, which also has cultural implications. UCPB’s following recommendations are based on this analysis: 1) Restructuring should not be driven by short term budgetary targets; UCOP should recognize that “Systemwide Support Functions” are *more* important to the campuses than “Presidential Support Functions”; 2) *Prior* to final decisions about service restructuring, UCOP should solicit systematic advice from a broad cross-section of the service-users of the campuses as to which services should or should not be devolved, how, and to what extent; 3) Regarding academic planning, UCOP should focus on finding and developing resources to support the ambitions and goals of the campuses, and to coordinate and synthesize bottom-up goals across the campuses; 4) The systemwide Senate should pursue Regent Blum’s recommendation that it evaluate its own operations in order to improve its own effectiveness; and 5) Academic functions in UCOP should devolve to campuses, but services should remain.

AVP Reese said that these reports represent high-level design. The major issue now is how UCOP addresses the grey area on the ‘frag’ chart, or the parts of the organization that provides systemwide services. An inventory of the systemwide services is certainly necessary for the new President. Once that is done, a number of questions need to be asked. One is why does UCOP perform these services? Another is if UCOP were not to perform these services anymore, which university entities should do them, or should they be contracted to third-party vendors? Finally, the risks associated with each of these actions needs to be identified. It was also noted that Academic Affairs originally was exempt from the restructuring; it is now on the table as well. It was also mentioned that incoming President Yudof has suggested a role for faculty input, separate from the Senate, on ideas and special projects. Regarding recommendation #3, it was noted that individual campus units are becoming increasingly nervous as UCOP units are restructuring; there is the fear that these campus units may not have the appropriate persons to call upon with the expertise that they have relied over time—especially in times of crisis.

The following specific suggestions were also made regarding UCPB’s draft memo: 1) The ‘Senate’ should receive more emphasis in the memo; 2) it should be reduced substantially; 3) the recommendations should be place up front--perhaps in an executive summary or a preamble; and

4) the principles and recommendations should be separated out from the documents, or the documents should be framed in an historical manner. It was also noted that the word Regent Blum used in his letter was not ‘effectiveness,’ but ‘efficiency.’

ACTION: Analyst Todd Giedt will send the ‘restructuring’ presentation by email; UCPB will submit its ‘Restructuring Memo’ for the July Council meeting.

VI. Senate Scorecard: State of UCPB and Senate Issues – Chair Newfield

ISSUE: Chair Newfield reviewed and outlined the state of Senate issues, listing a number of issues that originated in 2006-07: 1) The Mercer Report on slotting and SMG compensation; 2) The DANR Review, which was ignored by UCOP; Council resolution on budget trends and the ‘Futures Report,’ which was presented to The Regents; 3) The TALX sale of W-2 information; 4) HHMI pension changes, which did receive eventual Senate review; 5) The EAP budget model, which remains unresolved; 6) The restart of contributions to UCRP; 7) The DoE LLC lab structure, which did not receive formal Senate input; 8) UCOP reorganization/restructuring, which has remained unclear; and 9) UC Professional schools’ fees hike. In 2007-08, the Senate was consulted on the following issues: 1) The Presidential search; 2) The hiring and the use of consultants (Mercer, Monitor, Kissler); 3) The implementation of salary scales for Year 1; 4) November budget priorities; 5) Budget cuts – size and implementation (e.g., enrollment freeze); 6) Communication of the ‘Cuts Report’ and its findings; 7) The EAP review and a viable budget model (remains unresolved); 8) HR&B outsourcing (RFP); and 9) the Lab LLCs.

He also outlined possible solutions and recommendations from his perspective: 1) Closer, and more open, ties among the three intersegmental Senates; 2) Cultural change about data sharing at UCOP; 3) Larger Senate representation on joint work groups (WGs); 4) Fewer joint WGs; and 5) a Senate self-study of workflow, reporting, and outcomes (University-Senate Office – Academic Council – systemwide communications between the Divisions, the Academic Council, the Senate Chair, the President, and The Regents).

DISCUSSION: Chair Newfield remarked that access to information via consultants has not improved from his perspective (e.g., UCPB reports were written with data that was publicly available). Chair Brown added that UCOP is advocating for warehousing budget data for more centralized budget planning, as well as centralizing its analytical functions. UCOP will also be systematizing reports that are made annually to the Legislature, Senate, etc. Over the past year, it may indeed have been the case noted that budget personnel did not actually have access to the data that UCPB requested.

VIII. Executive Session

Members did not hold an executive session.

The meeting was adjourned at 4:00 p.m

Attest: Christopher Newfield, UCPB Chair
Prepared by: Todd Giedt, Committee Analyst