University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
November 1, 2011

I. Consent Calendar

**Action:** UCPB approved the October 2011 minutes and the November 2011 agenda.

II. Chair’s Announcements

- Jim Chalfant

The UCFW Task Force on Investments and Retirement (TFIR) has issued comments in response to the Governor’s Twelve Point Pension Reform Plan. TFIR notes that the UC Retirement System already incorporates several aspects of the Governor’s plan; the University has already taken steps to reform UCRS in ways that align with the Governor’s plan; and there are several areas in which the Governor’s plan would not serve UC’s best interest.

In early October, the President’s Budget Rebenching Task Force reviewed the Senate’s plan for rebenching state budget allocations. Although there seemed to be general agreement with the Senate’s principles at that meeting, the UC Berkeley administration representatives on the Task Force have since proposed an alternative plan, which recommends rebenching only “new money” incrementally rather than total base budgets. Alternative proposals have also been circulated by administration participants from UC Davis and UC Irvine. It is unclear whether rebenching with new money means applying all state funds disproportionately to underfunded campuses from this point forward, or alternatively, continuing to fund existing, historical base budgets while allocating only new growth money under a new model. The proposals also cite a concern that the Senate’s rebenching formula violates a principle of “do no harm.”

Academic Council discussed the online education pilot project with Provost Pitts and President Yudof in October. Chair Chalfant, along with UCEP members and organizers of the pilot project are meeting to review the results of a marketing study of the potential market for UC online courses. The initial results point to academic preparation in California as the possible best target audience. Chair Chalfant noted that UCPB should focus on the budgetary issues associated with the project and leave course approval issues to UCEP.

Council also heard about a developing Faculty Salaries Task Force plan for improving the competitiveness of UC faculty salaries, and endorsed a UCORP statement about the importance of research to UC’s core mission, which highlighted the interconnectiveness of teaching and research.

The Regents will not act on Lawrence Berkeley National Laboratory’s proposed second campus in November, due in part to concerns from the Senate and others about the cost of the debt financing under consideration. LBNL is now developing a less costly option.

**Discussion:** It is unclear what is meant by “new money” and how it would be applied to the existing differentials. It is unlikely that there will be new state money in the foreseeable future, but even if there were, there are different options for distributing it. One of the only new sources of revenue in the near term will be nonresident tuition, which UC could use to help meet rebenching goals if there is an unwillingness to rebench the total base. The difference between an “earmark” and an “assessment” is also unclear, as are the principles for determining how a systemwide program is funded if not through a formula that applies to every general campus.

Without rebenching, Funding Streams as it exists is unsustainable and will have to be reopened.
There was also concern expressed about the online education project’s potential effect on campus and systemwide budgeting, and how it could affect less well-resourced campuses, and a comment that UCOP’s intentions and goals for UCOE are unclear.

III. Consultation with UCOP – Budget Outlook

- Patrick Lenz, Vice President for Budget and Capital Resources
- Debora Obley, Associate Vice President for Budget and Capital Resources

It is critical for the Regents to define the University’s priorities before the Governor releases his 2012-13 budget in January. To this end, UCOP is bringing a four-year expenditure plan to the Regents in November; UCOP is also working with the State Director of Finance to clarify how the administration is likely to treat UC in the 2012-13 budget and the State’s commitment to University priorities like UCRP. After they clarify the revenue situation, UCOP will return to the Regents in January with a list of budget trade-offs. The Regents would then be expected to make specific revenue decisions and adopt a University budget in March.

Uncertainty about State revenue has made it difficult for UC to plan beyond the short term. UCOP’s plan provides a framework for establishing priorities, which the Regents will have the flexibility to adjust depending on State revenue. It also assumes savings from Working Smarter, and new revenue from indirect cost recovery, philanthropy and nonresident tuition. The plan is not a “Compact” in the sense that it involves an expectation from the State; rather, it will allow UC to govern its own destiny with or without state participation.

To address the growing likelihood of a $100 million mid-year general fund reduction, UCOP is planning several one-time “bridging” actions, including the use of reserves and STIP earnings. It is not clear, however, whether the mid-year cut will become permanent; UCOP believes a permanent cut will require a specific 5.9% tuition increase offset. Associate Vice President Obley noted that in the event of a mid-year fee increase, UC would amend financial aid packages to account for the extra cost.

The State may be facing a budget gap of between $5 billion and $8 billion next year, an improvement over the $26 billion gap of two years ago, but still a major problem. UC will ask the state for less than half the amount it has asked for in previous years, in recognition of that fiscal situation. The University has an additional $362 million in mandatory cost increases that the State is not funding. UC’s main budget messages are that there should be no additional cuts to the UC budget, including the $100 million trigger cut, but that if UC is forced to take the trigger cut, it should be one-time only. UC is also emphasizing that is addressing the financial aid needs of its most needy students and is not turning away eligible students; indeed, one of the University’s main cost drivers is providing access to more students. UC also recognizes that some of its cost drivers – benefits, compensation, merit increases, health care costs – are not popular with the public, but these priorities must also be addressed to maintain the excellence of the enterprise.

There is an ongoing need to educate the administration and legislature about the progress UC has already made in relation to the Governor’s 12-Point Pension Plan. UC is the only State entity that is addressing its pension funding problem internally. In fact, the State should look to UC as a reform model, and would do well to implement the measures UC has already passed. Both UC and local governments will question the wisdom of writing pension legislation into the Constitution, and UC will certainly oppose anything that challenges UC’s constitutional autonomy.

UCOP continues its efforts to engage legislators and staff and advocate directly for support. The University recently invited key policy and fiscal staff to spend one day each at UC Merced and UC Davis to give them a better appreciation of the high quality work happening at
UC and the challenges presented by the state’s disinvestment. One of UC’s big challenges is having to continually re-educate term-limited members with limited institutional memory about the University, but there is optimism that legislators who have attended UC, have experience with UC, or understand UC’s contributions to the State, will be champions for the University.

**Discussion:** It is important for the University to have stable and predictable long-term revenue assumptions. UC should push back on the Governor’s proposal to cap the pension benefit at 75% covered compensation blended with Social Security. One member remarked that a plan that potentially eliminates that State from the traditional funding partnership could work against UC by giving the State an easy out.

**IV. Consultation with UCOP – Rebenching**

- **Debora Obley, Associate Vice President for Budget and Capital Resources**

Associate Vice President Obley was asked to explain the difference between an “earmark” and a systemwide “assessment.” She said the Rebenching effort focuses on the current formulas for distributing state general funds to the campuses with a goal of explaining the current variances (i.e. differences between campuses in per student funding) and/or proposing a way to eliminate them through redistribution. The “earmarks” associated with Rebenching are programs funded with State general funds that have a systemwide purpose and should be excluded from rebenching so that a particular campus does not bear the full funding responsibility—for example, Scripps, the Agricultural Experiment Stations, and SAPEP. Under Funding Streams, the revenues from UCOP’s assessment funds systemwide programs like the Division of Agriculture and Natural Resources, Cooperative Extension, and others. Some campuses are now questioning whether they want to continue supporting programs that do not benefit them directly with their Funding Streams assessment.

She said UCOP’s thinking and the thinking of the Task Force about rebenching is constantly evolving. Some believe this is the wrong time to undertake rebenching, as campuses are struggling with cuts and have been operating under the current scheme for years. Some are advocating a principle of “do no harm,” interpreted to mean that UC should not redistribute money from one campus to another. Some administrators want to address the variances gradually (perhaps over ten years or more) rather than redistribute the total base at once, although rebenching the base is not off the table. She remains optimistic that the State will again support the University sometime in the future, so there will, in fact, be new money, and there are many possibilities as to how it can be distributed to address the current variances. She added that restoration of the $100 million trigger cut would not be considered “new money.”

**Discussion:** Ultimately, Rebenching has to be about eliminating the variances, not just explaining them. We need clear principles that define what makes a program an earmark or an assessment, and we need a budget that is designed to work for the campuses, not to service appearances. One member noted that all systemwide priorities, including AES, should be funded by the UCOP assessment. Another member objected to the concept of “harm”, noting that the campuses currently receiving fewer dollars per student are experiencing harm, and it should not be considered harm to remedy that inequity.

One member noted that new nonresident tuition revenues would benefit certain campuses, particularly those with richer base budgets, which will exacerbate the funding inequalities. Senate Chair Anderson noted that the advantage some campuses have in their ability to raise nonresident tuition is part of the Senate’s rebenching proposal equation. UC Berkeley will be in a position to collect $300 million in additional NRT revenue each year, and if
rebenching does not happen, past recommendations for socializing NRT across the campuses will be back on the table.

One member remarked that UC Berkeley’s proposal reproduces the current system and pushes the problem down the road. In ten years, UC could have an even more complicated system for allocating state revenue than it has now. AVP Obley responded that she expects the final solution to be one that is simple, transparent, and addresses the variances so that dollars per student reflect a more level playing field across the system.

V. Discussion with Academic Senate Leadership

  o Robert Anderson, Academic Senate Chair

The Senate is cautiously concerned about the Governor’s pension proposal. The Governor has indicated that he intends the proposal to apply to UC, but it is unclear whether that would require a constitutional amendment. Parts of the proposal would negatively affect the University, particularly the pension benefit, which is too low to be competitive, and the Social Security-Defined Benefit hybrid, which is too complex to be manageable. The hybrid plan is also a political liability, because it would create huge benefit differentials between higher and lower income people.

UC’s Defined Benefit Plan benefits the University greatly, in part by providing an incentive for faculty to retire at the right time. It is the best option going forward. The second best option, and one that is better for UC than the Governor’s proposal, might well be a Defined Contribution Plan equivalent to the plans offered by UC’s competitors. TFIR will continue monitoring the progress of the proposal and communicating their analyses to the broader Senate.

Graduate Student representative Green noted that the UC Student Association unanimously opposes UCOP’s multi-year plan, which the UCSA views it as a way to lock in tuition increases and believes it is irresponsible for seeking approval expenditures in advance of a revenue plan. He said the UCSA has a new budget campaign that includes a platform of reforming the corporate provision of Proposition 13 and raising taxes on the wealthy. He asked Chair Anderson for the Senate’s support.

Chair Anderson said he would welcome the chance for the Senate to consider the UCSA position. He said that between additional fee increases and State funding, he prefers State funding. UCOP had intended to bring the Regents an expenditure and revenue plan at the same time, but the Regents decided to explore additional revenue options such as corporate philanthropy before making a final decision. Some Regents are unwilling to consider fee increases as a way to make up for state revenue shortfalls, and others believe it would be more advantageous for UC to seek State revenue annually rather than locking in a four-year plan. He said it would be difficult to raise large sums through corporate fundraising; most of the money UC receives from private sources is earmarked for specific purposes, and almost none is set aside for undergraduate instruction. A better plan may be Superintendent of Public Instruction Tom Torlakson’s proposal for a ballot measure for a new tax earmarked for higher education.

Discussion: Chair Chalfant noted that the Senate should continue to emphasize that restoring the health of UCRP should not come at the cost of reducing further competitive total remuneration for faculty and staff.

VI. Task Force on Competitiveness in Academic Graduate Student Support

Chair Chalfant, Vice Chair Minster, Marilyn Westerkamp and Erik Green represent UCPB on the Academic Council Task Force on Competitiveness in Academic Graduate Student Support
(CAGSS), which also includes members of UCORP and CCGA. CAGGS has been charged with drafting a report that addresses UC’s ability to compete with other institutions for outstanding applicants to academic graduate programs, as well as trends and barriers to competitiveness; the implications of recent tuition increases; and potential strategies for increasing competitiveness.

CAGGS recognizes that UC’s goal of attracting the best graduate students and faculty in the world involves a positive feedback loop, in which better faculty attract better graduate students, and better graduate students attract better faculty. CAGGS reviewed UCOP’s 2010 graduate student support survey, which shows the gap between UC’s net average stipend offer and those from competing institutions increased by $1,600 in the past four years. CAGGS is discussing several recommendations, including abolishing nonresident tuition for academic graduate students to help level the playing field for international graduate students. (The Senate’s 2006 Memorial to the Regents demonstrated overwhelming faculty support for eliminating NRT.) Recognizing that the administration is unlikely to support eliminating NRT, CAGGS is looking other recommendations for meeting this goal short of that; for example, extending the amount of time NRT is waived after advancement to candidacy, decoupling NRT from the funding source, and waiving tuition for graduate students funded by the University. CAGGS also reviewed data showing that graduate students are equally or more expensive than post-docs, and data about the effect of increased fees on the ability of departments to hire TAs or fund internal fellowships from a fixed or reduced budget.

VII. Academic Council Special Committee on Agriculture and Natural Resources

Last year, at the request of UCPB, CCGA, and UCORP, Council appointed a special committee to engage with the Division of Agriculture and Natural Resources (ANR). The Senate has long felt there should be more faculty involvement in ANR decision-making and more transparency about the ANR budget.

Chris van Kessel, UCPB’s representative on ACSCANR, said ANR has agreed to give the Senate two seats on it Program Council, the key ANR governing body. This is a great accomplishment for the Senate and shared governance.

With an unrestricted budget of roughly $60 million, ANR is UC’s largest centrally funded academic program. It is comprised of 700 faculty across four campus units at Davis, Berkeley and Riverside, and includes the Cooperative Extension (CE) office at UCOP, which administers county-based nutrition, health, and agricultural education programs such as 4-H and the Master Gardener program, which are not normally considered part of UC’s core academic mission. In addition, the Agricultural Experiment Station (AES) has a $58 million budget that is included in the base budgets of Davis, Berkeley and Riverside and supports research that is more closely oriented to UC’s core mission. Most of that budget supports salaries for AES faculty, nearly all of whom have a split appointment.

As the State’s role in funding UC declines, the Senate is looking at the viability of all centrally funded research programs, including but not limited to ANR, is challenging the traditional notion that ANR/AES are untouchable parts of the UC budget, and is thinking about how the AES and ANR budgets should be treated under Funding Streams and rebenching. Some campuses that have not normally paid attention to ANR or its budget now are doing so, because of Funding Streams.

It was noted that the CE programs are UC’s only connection in some regions of the state. At the same time, it was suggested that those programs are often anachronistic and far from mission critical.

It was noted that the indirect cost recovery rate for agricultural research is very low (often less than 10%). It is bad policy to allow the cross subsidization of research at ANR that may not
be UC quality. It was noted that other agencies, including those associated with the State, have been able to negotiate deeply discounted indirect cost rates with UC; some of those agreements should also be rethought. UC is in a different era now.

VIII. Consultation with UCOP

  o Susan Carlson, Vice Provost for Academic Personnel

Vice Provost Carlson is halfway through her second year as vice provost. She came to UC from Iowa State University, where she spent 30 years as a faculty member and administrator. She also has a faculty appointment in the English Department at UC Davis.

  She said the Faculty Diversity subcommittee of the President’s Council on Campus Climate, Culture, and Inclusion is reviewing the diversity of campus Senate committees, including planning and budget committees. She distributed 5-year demographic data showing gender and ethnic representation on P&Bs compared to the general faculty pool, noting that the main issue continues to be the overall diversity of the UC faculty, rather than representation on specific committees.

  The 3% salary increase for UC faculty taking effect October 1 was based on a positive merit review in the past four years and will be applied to both the base and off-scale components of salary, and to Above-Scale salaries. UCOP has asked campuses to report on how many faculty did and did not receive the increment.

  Provost Pitts appointed a joint Senate-Administration Task Force to develop options and recommendations for awarding salary increases to faculty over the next four years based on the assumption that revenue will be available for annual 3% increases. The Task Force agrees that competitive faculty salaries are critical to UC’s excellence and that by any measure, salaries continue lag the market. There is also general agreement that the salary scales are central to UC’s merit and promotion process. The Task Force is modeling a possible consensus recommendation involving two mechanisms; first, basing an increase to the systemwide salary scales on the third lowest campus average salary of the nine campus averages, for each rank and step. Second, using the Irvine system, which moves a faculty member with a successful merit review to the average salary of all Irvine faculty at the new step and rank, which is generally higher than the systemwide scale. This system rewards faculty who stay at Irvine, and also has the benefit of tying the salary increment to a merit review.

  Chair Anderson noted that setting the scales at the nine campuses median is too expensive, but setting it at the third lowest benefits every faculty member who is on scale, as well as faculty who are the furthest behind, with a moderate overall effect on the salaries budget. It also provides a mechanism for increasing the scales regularly over time. It will be more costly for some campuses, but those campuses want to raise salaries, and pushing up the average would also push up the scales. He added that that money must be found for competitive faculty salaries.

  Vice Provost Carlson said that APM 668 would remove some of the pressure on State general funds by allowing campuses to use other funding sources to supplement faculty salaries in certain situations. The policy is intended to be one tool to help campuses address current salary challenges, and will not replace peer review. She has heard concerns that the policy will change the culture, but noted her view that the culture has already changed. Recruitment and retention are already motivating salary, and more faculty in biological sciences are seeking to move part of their appointment to the health sciences part of campus only to take advantage of the Health Sciences Compensation Plan (HSCP); thus, the policy is not initiating a change but catching up with what is already happening on an ad hoc basis and creating a transparent process for it. The policy will not replace anyone’s off-scale salary and it will be up to each campus whether or not to implement it.
The revision to APM 670 is designed in part to make it more difficult for faculty to move into a new Academic Programmatic Unit, which determines the calculation of the x-prime component of the HSCP. There is concern that some APUs are indefensibly small.

IX. Discussion of APM 668

**Discussion:** Members noted that there is little support for APM 668 so far in most of the campus planning and budget committees.

Several concerns were expressed. First, the policy could potentially apply to any faculty member. Its widespread use would effectively create a new salary scale, rewarding some types of faculty initiative and effort but not others, and in doing so reduce any momentum that exists for fixing the scales. It would reduce the role of the faculty in merit and promotion cases while giving additional authority to deans and department chairs—in particular, making it easier for administrators to remove or bypass the salary setting authority of those CAPs/Budget Committees that do have such a role.

The policy could exacerbate existing salary inequities and create new inequities, both within and across departments on a campus, as well as across campuses. It could lead departments to favor some types of research over others—for non-academic reasons—and create distinctions among faculty based primarily on their ability to generate revenue rather than on their research and teaching accomplishments. It could fundamentally change the UC culture by creating incentives for faculty to seek more lucrative grants and do certain kinds of research only for its higher salary potential.

It is likely that the salary increment funded by the grant would not exist purely as an add-on to the grant, but would require the faculty member to divert the portion of the grant funding the salary away from another area. This could hurt graduate education, leading to fewer research opportunities for graduate students and post-docs, as grant money normally used to fund them would now provide for faculty salaries.

There are very few departments that would be able to implement APM 668 on a department-wide scale, so another flaw in the policy, and the element that distinguishes it from the HSCP, is that it is based on individual negotiation rather than on an academic program unit as in the HSCP. The proposed policy thus lacks the HSCP’s communalization of funds and could foster a sense that a department or unit is treating some faculty differently.

One member spoke strongly in support of the proposed policy, noting that it would be a welcome new tool for campuses to recruit and retain excellent faculty particularly in specific disciplines. For example, one of the only ways UC has to attract senior faculty in the biological sciences is by allowing them a split appointment in the medical school so they can participate in the HSCP and receive a higher salary. The overall impact will be to bring more money into the faculty salaries pool. Grants are already being used to supplant or augment state funded salary, and the new policy could help reduce the pressure on the pool of money available for off-scales. Moreover, the proposed policy includes a statement about respecting local culture and allowing each campus to implement the policy as it sees fit, so CAPs would not necessarily be left out of the decision-making loop, and a campus might apply the policy only to those with sufficient history of grant funding or restrict the length of the negotiated salary.

**Action:** Committee Analyst will draft a memo for review over email or iLinc.

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The meeting adjourned at 4:00 pm
Minutes prepared by Michael LaBriola
Attest: James Chalfant