University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
December 4, 2012

I. Announcements

- *Jean-Bernard Minster, UCPB Chair*
- *Bill Jacob, Academic Senate Vice Chair*

The Academic Council has sent a resolution to the vice provost for academic personnel regarding the proposed Negotiated Salary Trial program, noting that the three campuses designated to participate in the trial (UCSD, UCI, and UCLA) should be free to participate as long as their divisional Senates agree. Provost Dorr has indicated that the program will begin in July 2014. It was noted that UCSD has decided to participate; Irvine has declined; and UCLA is still discussing its participation. UCPB members agreed that it would be important for the committee to review quantitative data evaluating the effectiveness of the plan.

The Regents held a special meeting in November to appoint new Berkeley and Riverside campus chancellors. Governor Brown attended the meeting and stated his opposition to any tuition increases for 2013-14. The Academic Senate chair and vice chair also met with the governor several days after the meeting to discuss online education, tuition, student debt, and other topics.

II. Consultation with UCOP

- *Patrick Lenz, Vice President for Budget and Capital Resources*
- *Debora Obley, Associate Vice President for Budget and Capital Resources*
- *Nathan Brostrom, Executive Vice President, Business Operations*

Proposition 39

UC leaders met with state legislative staff to discuss the possibility of funding some UC capital projects with revenue from Proposition 39, the *Income Tax Increase for Multistate Businesses Initiative*, which will fund green energy projects in the state. Legislative staff indicated that they intend to direct much of the Proposition 39 revenue to critical capital needs in the K-12 sector, but they also recognize that UC has the experience and expertise to implement innovative green projects quickly. UC believes several projects identified by the UC Climate Solutions Steering Committee have a good chance to be funded, including a biomethane production facility that would help UC achieve carbon neutrality.

The State Budget

Following passage of Proposition 30, UC expects to receive funding from the state to offset a 2012-13 tuition increase deferral, and a 6% increase to its base budget. However, the state may not be willing or able to fund a second tuition buy-out. The Governor has asked UC not to raise tuition in 2013-14, and at the November Regents meeting he noted concerns about unsustainable cost increases and student debt. He also suggested that online education could help save money. UCOP will be providing information to the Governor about UC's ongoing efforts and successes in lowering costs, increasing efficiencies, and improving the delivery of education through online education and other means. A portion of the January Regents meeting will focus on online education. UC has taken $1 billion in state cuts and assumed much of the state's pension responsibility. UC will need some combination of new state revenue, tuition increases, and alternatives such as debt restructuring to meet the critical priorities outlined in its 2013-14 expenditure plan. UCOP hopes the Regents will agree to establish a predictable, consistent tuition policy. UCOP will continue to consult students on the development of the budget and engage them about revenue options, including tuition. Students are encouraged to remain engaged on quality issues.

Rebenching

UCOP is implementing the first year of budget rebenching. Rebenching will use a portion of any new state money to increase the per-student funding of all underfunded UC campuses to the level of the highest funded campus over the next several years. Bringing all campuses to that level will require a total of $222 million. The president agreed with the Rebenching Task Force recommendation to rebench with $37 million of any new state money per year over six years to meet that target, but decided that $37 million would be too large a share of the small new state money pool this year, which was $94 million. Instead, $17 million or 18% of that new money will be directed to the five campuses below the per-student funding median. The rest (after cost adjustments for set asides and funding the UCSF and UCM corridors) will be distributed according to the new weighted distribution formula. UCOP intends to rebench with at least the full $37 million next year and possibly some or all of the remaining $20 million from this year. Rebenching will not reduce state funding to any campus.

Long Range Enrollment Plan

UCOP is updating UC's long-range enrollment plan, which has not been updated since 2008, for use with rebenching and to reflect new circumstances such as Funding Streams, the deterioration of state funding, new projections about educational demand and workforce needs, and campus academic goals. UCOP will be sending each campus a template to initiate an iterative discussion throughout spring 2013 about campus and systemwide goals, Master Plan expectations, and other considerations. The final UC plan will require campuses and the system to reach agreement on a number of issues.

III. Consultation with UCOP – "Budget 101" Part III: Marginal and Average Cost

- *Debora Obley, Associate Vice President for Budget and Capital Resources*
- *Clifton Bowen, Assistant Director, Budget and Capital Resources*
- *Elisabeth Willoughby, Principal Analyst, Budget and Capital Resources*

UCOP uses two figures—marginal cost and average cost—to describe the cost of a UC education, although neither accurately describes the amount truly needed and necessary to deliver a UC quality education.

"Marginal cost" (a theoretical concept, meaning the cost of educating one extra student, and a concept that only makes statistical sense when dealing with a large population) is in fact a politically negotiated calculation, intended to reflect the state funding UC needs to educate each additional general campus student above the budgeted number within the University's existing physical infrastructure. The marginal cost methodology incorporates several components, including the cost of additional faculty needed to meet the official budgeted 18.7:1 student-faculty ratio and 62:1 student-TA ratio targets, as well as additional costs associated with instructional equipment, student services, libraries, maintenance, and other areas. The figure excludes nonresidents and student tuition revenue. Most recently, marginal cost has been calculated as $10,331.

The next time UC begins negotiations with the state about the calculation, UC will argue that budget cuts make the real budgeted student enrollment number used in this calculation at least 11,000 less, and perhaps as much as 37,000 less, than the number currently used by the state in this calculation.

"Average cost" of education refers to the amount UC actually spends per general campus student (resident and non-resident undergraduate and graduate students) on average, across the system. The calculation includes state general funds, UC funds, and tuition, and excludes financial aid. Average cost is not a measure of the money UC needs to educate a student. It does track the decline in per student spending over time and the shift in the cost burden from state to student. The average cost, or average expenditure per student, has declined by about 25% since 1990-1991, and was estimated to be $16,530 in 2012-13. This decline reflects efficiency increases on UC's part. However, primarily because of budget cuts, as of today, tuition has surpassed state funds to become the largest component of average cost, for the first time in history.

UC will need to identify new quantitative metrics that can accurately measure quality (or loss thereof), and to determine the level of investment necessary to maintain quality and to deliver the Master Plan promise of access to a high quality education.

Discussion: UCPB members noted that the average cost figure is misleading because it underestimates the real cost of educating a student at a UC level. At a research university there should be no distinction made between the cost of educating a graduate student and an undergraduate because the functions and costs are interconnected and interdependent. It was agreed that "Budget 101" #4 will cover financial aid.

IV. Proposed Open Access Policy

ISSUE: A systemwide open access policy proposed by UCOLASC would give UC a limited, non-exclusive right to make published UC faculty scholarship available in an existing open-access online repository housed at the California Digital Library.

Discussion: UCPB members were mixed in their support for the policy although they also thought open access was perhaps the inevitable future model for scholarly communication. Some members thought the "opt-out" provision made the policy flexible enough to accommodate different needs and disciplines, but others thought that even with the opt-out provision, a "one-size-fits-all" policy would be inappropriate without further study. There was concern that while the policy is less relevant to faculty in science-based disciplines where the norm is to publish articles in open access venues, the policy could damage some scholars in the arts and humanities, who publish embedded copyrighted materials – such as text, images, and video – which cannot be made open access without incurring substantial copyright risk. There was also concern that the policy could create new costs for some faculty, as large commercial publishers move to an open access budget model that asks authors to pay a fee to have papers published open access. Such a model may reduce the cost of journals for libraries, by shifting these costs to the author's grant fund, which could ultimately increase the cost of research. Moreover, it was not clear to all members that this shift would in fact produce significant savings in the library budget, as libraries would still need to maintain some of the costly subscriptions. There was stronger support for a version of the policy that would be flexible enough to adapt to different needs, that would be approved locally, and that would be based on an "opt in" model in which the default was not open access.

Action: Chair Minster and committee analyst will draft memo for committee review.

V. Member Items and Other Updates

Flexible Benefits

There have been calls on at least one campus for flexible spending accounts that offer employees a menu of benefits such as health care and dependent day care. It was noted that new family-friendly benefits could aid faculty recruitment and retention; however, there were concerns that such a "cafeteria" plan could end up restricting the overall amount available for benefits. It was suggested that UCPB and UCFW ask UCOP to conduct a study about the cost of a cafeteria plan and similar programs in place at other universities. It was noted in particular that a tuition remission benefit for UC faculty dependents might also benefit recruitment and retention issues.

Long-term enrollment planning

Members discussed the role in long-range enrollment planning of projections regarding demographic changes in the California population and the UC student body over the next few decades. It was also noted that there is a link between reduced funding for campus recruitment and retention centers and decreased diversity, and that international student recruitment carries extra costs and takes away resources from other admissions functions. It was noted that some campuses treat the $70 application fee as part of the general fund and may return only a fraction of that fee to admissions offices for recruitment, evaluation, yield, and other admissions functions and activities. Several members argued that the returned portion of the fee should be earmarked for recruitment efforts.

Composite Benefit Rate Proposal Update

UCPB reviewed a new scenario detailing the impact of the composite rate project on faculty summer salary. Under the new scenario, grants would be charged a fringe rate that is still 20% above the cost of the benefit, which would in effect reduce funds available for summer salary by 20%. Senate Chair Powell met with U.S. Department of Cost Allocation representatives to discuss the addition of a separate rate for summer salary. The DCA is open to such an addition. He encouraged UCPB members to ask campus leaders to support a plan with a separate rate for summer salary.

VI. Consultation with UCOP – CFO Division

- *Peter Taylor, Chief Financial Officer*
- *Maria Anguiano, Chief of Staff and Strategic Initiatives Director, CFO Division*

The CFO Division oversees a range of systemwide finance programs and projects, including new common technology systems like UC Path; risk reduction programs such as UC Care; operational improvement projects such as Working Smarter and the implementation of composite benefit rates; "P$200," a project to save $200 million in annual materials procurement costs; and various debt restructuring and financing modeling projects.

UC Path

UCPath will consolidate transactional HR functions such as payroll processing, benefits administration, and core workforce administration across the campuses at a new Shared Service Center near the Riverside campus. (Some critical functions will remain on campuses.) Ideally, the project will improve service quality and save money by eliminating rework. The first phase of UCPath is a new payroll system expected to go live at three campuses on either July 1 or October 1 pending successful testing in February. Unfortunately, some 800 staff throughout the system will be made redundant, although several hundred new positions are being created in Riverside.

Discussion: UCPB members noted that campuses are concerned that any cost savings generated from UC Path will come at the expense of service quality and will create fewer opportunities for direct contact between staff and faculty.

Action: UCPB will collect questions they have about UCPath for CFO Taylor to address in February.

Capital Markets

The CFO division is pursuing several capital market strategies. These include an upcoming sale of $1 billion of existing general revenue bonds that will allow the University to take advantage of historically low interest rates and save $100 million over the life of the bonds. In addition, the CFO division continues to pursue an agreement with the state to refinance State Public Works Board lease revenue securities, which would allow UC to use its more favorable credit rating to refinance the debt and increase the flow of unrestricted money ($1 billion or $100 million annually for ten years) to general campus operations. The CFO Division has new cash forecasting capabilities that is helping to minimize cash liquidity and squeeze as much as possible out of capital market opportunities. The Division is modeling options for leveraging cash to help fund UC's pension costs by determining the amount UC can move from Short Term Investment Pool (STIP) accounts to the Total Return Investment Pool (TRIP) to maximize returns.

Meeting adjourned at 4:00 p.m.
Minutes prepared by Michael LaBriola
Attest: Jean-Bernard Minster