University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
December 6, 2011

I. Consent Calendar

<u>Action</u>: UCPB approved the November 2011 minutes and the December 2011 agenda.

II. Chair's Announcements

- *Jim Chalfant*

Provost Pitts and Executive Vice President Brostrom have proposed a new rebenching plan that would transfer UC's centrally funded earmarks to the Funding Streams assessment model. The $160 million of State funding freed up by the plan, as well as any future state budget augmentations, would be distributed to campuses on the basis of a new weighted per student allocation formula. A separate choice would concern the adjustment period; they suggested a transition over eight years at approximately $20 million per year.

EVP Brostrom and UC's Director of Pension and Retirement Programs Gary Schlimgen recently testified about the Governor's pension reform plan at a hearing of the joint Senate/Assembly Conference Committee on Public Employee Pensions. They indicated that UC would not challenge the doctrine protecting vested pension benefits for current public employees, but that they did not consider increasing UC employee contributions to be subject to the same legal problems.

Vice Chair Minster represented UCPB at the November Academic Council meeting. Council approved a letter from the Senate's Special Committee on Agriculture and Natural Resources regarding the addition of Senate representatives to the ANR board. Council also discussed reports from Senate divisions about the Occupy movement and the recent protests and police actions at Davis and Berkeley.

III. Consultation with UCOP

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

The Legislative Analyst Office's new report on California's Fiscal Outlook and the 2012-13 Budget projects a $13 billion State budget shortfall in 2012-13 as well as the implementation of most of the mid-year trigger cuts to state programs, including an additional $100 million reduction to the UC budget. UC will use various bridging strategies to manage the cut this year, but has asked the State to restore the reductions in the 2012-13 budget.

The Governor announced that he will be proposing a $7 billion revenue initiative for the November 2012 ballot, which will propose a temporary tax increase on upper income brackets and a temporary sales tax increase. The majority of income from the initiative will benefit K-14 (Proposition 98) and public safety, but the Governor has indicated that he also wants to help higher education, possibly through another ballot measure.

At the California Assembly hearing on public pensions, Nathan Brostrom and Gary Schlimgen noted that the Governor's pension reform proposal includes measures that UC has already implemented, including bans on buy-backs and pension spiking. Their presentation was well received.

In November, the Regents approved a four-year expenditure plan that will provide a framework UC can use in discussions internally and with the State about 2012-13 funding priorities. After UCOP has a clear picture about the available State general fund revenues, they will return to the Regents to discuss budget priorities and trade-offs. The Regents are expected to approve a final budget in May. UC is in a difficult position, because it will not know its final 2012-13 budget until it has already enrolled students. The four-year plan will help retain educational quality by placing the institution on a more predictable long-term path.

Legislators who want UC to tie tuition to a cost of living index overlook the fact that UC sets aside 1/3 of any tuition increase for financial aid, which reduces the net revenue available to campuses; moreover, a larger fee increase also increases the pool of money available to help the neediest students. Of course, comparing tuition to an index also ignores the role of cuts in state support.

UC needs to clarify the connection between state budget cuts and tuition increases/enrollment cuts. It is risky for UC to send an implicit message that it is able to manage cuts without raising tuition or cutting enrollment. CSU's decision to reduce its enrollment by 30,000 sent a clear message that it is unable to educate the same number of students with reduced funding.

Associate Director Obley noted that she would support increasing the health benefit contributions of current employee to the level of retirees.

Discussion: One member expressed disapproval that the Regents would continue to approve salary increases for senior managers while asking students, faculty, and staff to shoulder more of the budget cut burden. VP Lenz responded that UC has 186,000 employees and that the Regents evaluate personnel actions for senior administrators on a case-by-case basis. UC does not offer competitive salaries and has retention challenges. Recruiting for an empty position involves additional costs. The salary of the Berkeley chancellor is #82 among public university leaders.

One member remarked that UC's quality is not defined as the quality of its administrators. Another noted that the majority of UC faculty are in the "middle class" income category and receive no tuition relief when they send their children to UC.

IV. Consultation with UCOP

- *Nathan Brostrom, Executive Vice President for Business Operations*

EVP Brostrom noted that UC has historically set aside a portion of state money (about $160 million) to fund systemwide public service programs (including the Agricultural Experiment Stations, the Keck Telescope, Scripps Institute, the Neuropsychiatric Institutes, SAPEP, and Clinical Teaching Support). UC distributes the rest of its State general fund allocation to campuses based on historical formulas, which over time have favored some campus over others. There is now agreement that UC needs a new allocation formula that eliminates the current funding inequities, and that is based on an equal per student weighting across campuses.

The new rebenching proposal is intended as a compromise position that addresses conflicting views. It would move all centrally funded set asides to Funding Streams and increase the campus assessment rate, from about 1.6% to about 2.5%, to cover the $160 million cost. That money would then be used to equalize allocations gradually over eight years with different weightings for three types of student (undergraduate=1, doctoral=3, health sciences=5) until a more equitable base is achieved.

The proposal would exclude UC Merced from cuts until the campus achieves a "self-sustaining" path and would use a portion of the Funding Streams assessment to fund Merced as a systemwide priority. UCSF would be buffered from both cuts and augmentations.

The plan has several benefits. All state appropriations would support student-based purposes, and the set aside money would increase the budget of all campuses rather than redistribute money from campus to campus. In addition, placing all systemwide programs under the Funding Streams umbrella will allow campuses to more easily consider and weigh the value of those programs. He added that the Rebenching Task Force is part of UC's response to the state audit that cited a negative correlation between campus funding and diversity.

Debora Obley said she will recommend excluding the $40 million allocation to Clinical Teaching Support from the group of set asides. She said UCOP would be calculating a series of campus-by-campus models projecting cost and impact. It was recommended that UCPB consult with the Provost's office to determine the most appropriate base year for enrollment targets.

EVP Brostrom added that the State is considering ways to build the University's base budget and put it on a more stable funding trajectory. One idea is to give UC more flexibility and responsibility for capital funding. As part of this, the State would increase by 4% annually the $225 million in lease revenue bond debt service UC has in its general fund base budget, and remove the restrictions attached to it.

Discussion: Members agreed that there is no clear philosophical or practical difference between funding a systemwide program with an assessment on campus expenditures and funding it with off-the-top earmarks of State funds, and why one would be protected from cuts and the other not. However, it is a great idea to put all central programs on a single list. It will make it easier for campuses to evaluate central programs if they are funded via assessments because they will see a transparent connection between the assessment and what it is supporting.

Some members were skeptical that the proposed mechanism would equalize campus' per student funding base—the main problem rebenching seeks to fix—or that $160 million would be sufficient to address the problem. Moreover, while this plan is being implemented slowly, campuses with the ability to enroll more nonresidents will not have to give anything up. There was also concern that the plan could build in a new inequity related to graduate enrollment.

It was noted that eight years seems too long and that four years should be the maximum for such a plan. EVP Brostrom conceded that the plan does not have to be eight years, but indicated that some are concerned about changing the status quo too fast in a time of budget cuts; he said it would shock the assessment too much to do the conversion in one year, but four years might be reasonable.

It was noted that a claim made by some administrators that rebenching base budgets would violate a principle of "do no harm" to any campus, ignores the harm done to students under the current funding regime. Students on all UC campuses should be funded at the same level, and state dollars should not be used to perpetuate differences between campuses. Rebenching has a role in advocacy to show the state the real cost of a UC education.

There was concern that the new formulas would not add up to the current level of state funds. UC needs to define the real cost of what it takes to provide a UC-level education rather than let the cost be defined by whatever the state provides the University.

V. Consultation with UCOP – Office of the CFO

- *Peter Taylor, Chief Financial Officer*
- *Sandra Kim, Executive Director, Capital Markets Finance*

Bridging Strategies:

In July, the Regents authorized the CFO to undertake several possible one-time actions to address the possible $100 million mid-year reduction in state support, including transferring money from the Short Term Investment Pool (STIP) to the Total Return Investment Pool to increase investment earnings; distributing extraordinary payout on some UC endowment funds with payout flexibility, and drawing down a portion of UC's healthcare reserve, which was established to address potential spikes in employee/retiree healthcare costs.

UCRP Financing Update:
In April and July, UC transferred approximately $2.1 billion in assets from STIP and revenue generated from the sale of external debt, to the UC Retirement Plan. These actions will reduce UC's maximum employer contribution needed to keep the plan whole from 20% to 18.8%, saving the University approximately $100 million annually.

Government Accounting Standards Board – Proposed Pension Standards:
In June, the GASB issued proposed standards related to pension accounting for employers and their pension plans. UC is participating in the GASB field test to "implement" the proposed standards as if they were in place. The University attended GASB public hearings on the proposed standards in October. GASB expects to issue a final standard in June 2012, which would take effect for UC in 2012-2013. GASB is still deliberating the final pension standards, which may be different from what is currently proposed.

LBNL Second Campus:
The President has asked the CFO division to investigate options for funding the proposed second campus in a way that does not put the borrowing capacity of the campuses at risk, which eliminates the possibility of using any of UC's highly rated pooled credit vehicles such as general revenue bonds. The CFO Division is now focusing on an LBNL-based debt credit vehicle, where the only revenues pledged are those generated at the LBNL. The CFO Division will return to UCPB with an update at a future meeting.

General Revenue Bond Pledge Overview:
UC pledges the University's general revenue, including tuition, to help ensure that UC can keep debt financing costs low. However, UC does not use tuition to repay debt, and the pledge does not have any relationship to student fee increases. UC only borrows money for capital projects when it has a clear repayment source.

VI. Consultation with UCOP – UC Online Education Project

- *Daniel Greenstein, Vice Provost, Academic Affairs*
- *Lisa Baird, Associate Director, CFO Division*

Consultants updated UCPB on the status of the Online Instruction Pilot Project, which is evaluating the effectiveness of 23 online undergraduate courses geared to UC students, and the UC Online Education (UCOE) project, which is intended to reach a broader audience. UCOP recently asked for Letters of Intent from faculty interested in developing 20 additional lower-division online courses for "Wave II" of UCOE, which will be delivered to UC and non-UC students from a common learning environment. UCEP Chair Jose Wudka and Keith Williams also joined the meeting.

Vice Provost Greenstein said he envisions UCOE as an entity that will aggregate all approved, UC faculty-taught, lower-division online courses, and offer them as a group to both UC and non-UC students during regular and summer terms. UCOE has the potential to improve time to degree, broaden access, and bring new tuition revenue into departments. UCOE is proposing to pay departments $55,000 to develop each course, a $2000 royalty to the course author each time it is offered, and a fee (~$300) for each non-UC student enrolled in the course. Departments will own the courses going forward, and UCOP will retain nothing at the center. UCOE is focusing on lower division courses so as not to compete with Extension.

Senate Regulation 544, which allows a student at one UC campus to enroll in a course offered by a faculty member at another UC campus (though not necessarily for major credit), would apply to UCOE courses, and the cost of instruction would follow the student to the campus where s/he is enrolled. There are complications involved in cross-campus instruction and credit transfer that need to be resolved, but those are UC problems, not a UCOE problem.

As with regular courses, campuses will apply varying teaching models for UCOE courses, employing either TAs or GSI. The new revenue generated from non-UC course takers could help support graduate students and even cover the cost of the instructor of record.

There are different views about UCOE's potential to generate profit. New market research indicates that there are many non-UC students who would potentially be willing to pay $1400 for a lower division UC course for transfer credit; these students also have academic backgrounds similar to current UC students. UCOE believes quality will give UC an advantage in the market. UC's competitors develop their online courses through set formulas, but UC is asking departments to define what it takes to offer an effective course. UCOE thinks the effect will be a higher level of instructor contact, student engagement, and better courses.

Discussion: One member expressed concern that the UCOE business model is another step away from the Master Plan. There was also concern that smaller campuses will have less capacity to mount online courses, leaving them struggling to compete, and potentially transferring tuition dollars from their budgets to the larger campuses. Finally, there is little in the marketing study to indicate that there is a large market of non-UC students willing to pay $1400 per course. It would require the enrollment of 100 non-UC students in a course to generate about $30,000, enough to cover the cost of about three TAs.

One member expressed appreciation that the President and Regents want to explore new revenue streams before raising tuition, but questioned the decision to move to Wave II without results from Wave I. It was noted that the Senate is now in a position of helping UCOP do a better job at something it opposed. UC is doing a better job, but there are still questions about why they are doing it and concern about what seems to be a constantly evolving focus and goals and overly optimistic revenue projections. In the context of UC's massive fiscal problems, a $7 million loan is not a lot, but online education hits very close to what faculty do.

Keith Williams said the Senate eventually may need to consider new Senate and administrative polices and regulations related to UCOE around eligibility, admissions, course approval, and how matriculated and non-matriculated students will be mixed in the courses. UCEP Chair Wudka noted that UCEP wants to protect the rights and privileges of UC students and the quality of their education.

VII. Report on Academic and Non-Academic Salary and FTE Growth

Issue: UCPB reviewed an updated version of a report the Office of Institutional Research first produced for the Committee in 2009-10, tracking the expansion of academic and nonacademic salary and FTE growth over time, particularly in proportion to enrollments. The report cites as reasons for expansion the growth of the medical centers and research activities, increased compliance requirements, professionalization of University staff, and advances in technology.

Discussion: It was noted that campuses have responded to budget cuts by reducing ladder rank faculty FTE and hiring less expensive lecturers, even as student enrollment grows. UC has been able to keep its academic FTE ratio aligned with enrollment only by growing non-Senate instructional FTEs.

The Senate has a responsibility to identify the factors driving non-academic personnel growth, and determine whether the growth is justified. It is useful to distinguish administrators who work in academic departments and support the core academic mission, from other administrators; however, UCPB members recalled IR staff telling the committee that they were unable to determine if an administrator in a particular campus department supports teaching and research, because every campus keeps records differently. Nor could they drill down into the "academic support staff" category to distinguish between staff in the dean's office and staff in departments at the campus level.

Action: UCPB agreed to invite Institutional Research staff to a future meeting to discuss the report. Members will formulate specific questions in advance of that meeting.

VIII. External Review of UC Observatories

Issue: UCPB, CCGA, and UCORP have been asked to opine on the external review of the UCO. UC's annual investment in the Keck and Lick Observatories and the UCO MRU is $20 million, including $12 million to support Keck. When UC's contract with the Keck Observatory ends in 2018, the $12 million annual cost will shrink by 50%, at which point UCO wants to invest in the new Thirty-Meter Telescope (TMT) project at Keck.

Discussion: The UC Observatories are one of the crown jewels that make UC great. UCO has a true multi-campus nature and enhances UC's international visibility and prestige. UC's special relationship with Keck in particular is a big draw for young astronomers.

Theoretically, systemwide resources currently used for UCO could be used for other priorities; however, UCPB does not have information that would allow it to advise about such trade-offs. Nevertheless, the UCO budget should be considered alongside other centrally funded programs, and UCPB should be involved in questions regarding how much of the UCO budget should be funded from the center.

Action: Draft memo for final action on January 3 iLinc

IX. New Business

One member noted a growing number of complaints on campus regarding purchasing requirements for office furniture, computers, lab equipment, travel and other commodities from specific vendors, which limit faculty choice, particularly when the items can be found more cheaply elsewhere. It was suggested that UCPB discuss the issue with UC Procurement Services.

Another member alerted UCPB to the upcoming review of the UCLA Anderson School MBA program proposed conversion to self-supporting status.

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