

## UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB) ANNUAL REPORT 2010-2011

### TO THE ASSEMBLY OF THE ACADEMIC SENATE:

The University Committee on Planning and Budget (UCPB) met ten times in Academic Year 2010-11, including two conferences calls, to conduct business with respect to its duties to advise the President and other University agencies on policy regarding planning, budget, and resource allocation as outlined in [Senate Bylaw 190](#) and in the *Universitywide Review Processes for Academic Programs, Academic Units, and Research Units* (the “[Compendium](#)”). The major activities of UCPB and the issues it addressed this year are outlined briefly, as follows:

#### SUMMARY OF ACTIVITIES

UCPB helped lead the Senate’s response to the deteriorating state and University budget situation, UC’s options for post-employment benefits design, and two major administrative budget reform efforts. UCPB interacted with a variety of senior UC administrators and argued forcefully and effectively for budget action based on principles, notably the importance of competitive faculty total remuneration (relative to comparison institutions) and a strong research enterprise to the future quality of the University of California. The Committee monitored the progress of budget negotiations in Sacramento, analyzed opportunities for achieving local and system-wide budget efficiencies; assessed the degree to which local budget committees have access to information and input into budget decision-making; and worked with other Senate committees on issues of common interest and concern. Conversations were shaped in large measure by recommendations the Committee issued last year in *The [Choices Report](#)*.

#### POST-EMPLOYMENT BENEFITS

UCPB began the year by scheduling a special September meeting to discuss the [report of the President’s Task Force on Post-Employment Benefits](#) with senior UC administrators and Senate leadership. UCPB Chair Jim Chalfant was a member of the Task Force’s Finance Work Group and the group of faculty and staff who wrote the [Dissenting Statement](#) sent to the President with the main Task Force report. The Committee was brought up to speed quickly about the problems facing the UC Retirement System, their impact on the UC budget, and proposals for benefits redesign recommended by the President’s Task Force. UCPB discussed several new UCRP tier options for future employees outlined in the report and Dissenting Statement, and at its October meeting, reviewed four resolutions from the University Committee on Faculty Welfare regarding the proposed options for PEB re-design. UCPB passed four of its own resolutions addressing UCFW’s points—opposing new tier “Option A”; supporting Option C over Option B; and opposing requiring an employee contribution in excess of 7% for employees covered by the current terms in the plan. UCPB also resolved that its support for any new tier plan would be conditional on the implementation of a plan for competitive faculty and staff salaries. The Academic Council sent the [Senate’s views](#) to the President in November, and the Regents held a special December meeting to act on the President’s recommendations.

#### STIP BORROWING AND THE POST-EMPLOYMENT BENEFITS FINANCE PLAN

The UC Chief Financial Officer joined UCPB at two meetings to discuss a plan to finance a portion of UC’s UCRP obligations with income from the Short Term Investment Pool (STIP). UCPB explored options for reducing UCRP’s unfunded liabilities, the implications of various options for financing contributions to amortize the unfunded liability and achieve fully funded status, the mechanics of borrowing from STIP, and the pros and cons of pre-funding the retiree

health benefit. In a memo to Council, UCPB noted its support for borrowing STIP funds and contributing them to UCRP, to allow the University to move more quickly to increase employer contributions to UCRP, to the point where the full Annual Required Contribution (ARC) could be made. Council endorsed UCPB's recommendations.

### **FUNDING STREAMS**

UCPB had several discussions with senior UC leaders about two major UCOP budget reform efforts. The first, "Funding Streams" allows campuses to retain all revenue they generate from most sources, and funds UCOP and systemwide programs through a flat assessment on all campus expenditures. The Associate Vice President for Budget, Operating Budget Director, Provost, and Executive Vice President discussed UCOP's plans with the Committee at several meetings. In a February memo to the Academic Council, UCPB recommended support for Funding Streams as an opportunity to simplify and clarify UC's budgeting process, and to provide campuses with more authority and autonomy in the way they generate and distribute revenue. UCPB also expressed concern about the extent to which Funding Streams would provide a greater incentive to campuses to raise revenue through increased non-resident enrollment; what it could mean for the relationship between medical center and general campus; and its implications for program growth. Instead of a predetermined assessment rate, UCPB preferred that the assessment rate be set and updated based on an initial determination of UCOP's needs; in any particular year, the rate would be calculated to yield the revenue needed to provide funding for an approved level of spending. UCPB felt that the alternative, where funding rose and fell at the center, based on campus revenues and a fixed assessment rate, was not a good model for budgeting.

### **REBENCHING AND THE IMPLEMENTATION TASK FORCE**

The second budget reform effort is a developing proposal to "re-bench" or re-balance the historical state general fund allocation formulas that determine the proportion of state funds UCOP distributes to each campus. UCPB and other Senate agencies see rebenching as an opportunity to align the per-student ratio of state funds more equally across campuses. UCPB asked UCOP to begin the rebenching effort at the same time as Funding Streams, or soon after. A small UCPB subcommittee (Brent Haddad, David Lopez, and Gary Leal) drafted a set of principles to guide the effort. This work was later subsumed into the "Implementation Task Force," led by UCPB Chair Chalfant, which was charged by Council to develop an actionable plan grounded in the report of the Academic Council Special Committee on a Plan for the University of California ("The Powell Commission"). Chair Chalfant briefed UCPB on the Implementation Task Force's emerging recommendations for managing the budget gap, enrollment, and costs and a proposed rebenching formula that introduces a common state subsidy per student across campuses. Council voted to forward the Task Force draft report to President Yudof's Budget Rebanching Task Force. UCPB will follow the progress of this effort when it resumes work in the fall.

In addition, Shawn Kantor and Gary Leal drafted a memo discussing options for enrollment and tuition that asked UCPB and UCOP to support increasing tuition and undergraduate enrollment, especially of non-resident students, on a temporary basis, and to oppose any mandate to campuses to reduce overall undergraduate enrollment. Chair Chalfant took these comments to the Implementation Task Force.

### **FACULTY SALARIES AND RESTORING UC COMPETITIVENESS**

In September, the Academic Council endorsed recommendations from a UCPB/UCAP/UCFW Subcommittee on Faculty Salaries for a 2% across-the-board range adjustment in total salaries (base plus off-scale) to compensate for the 2% restart of UCRP contributions. Council tabled a

third recommendation for an additional 5% range adjustment and the three committees developed a substitute resolution in support of a subsequent 5% increase in the form of a 3% range adjustment plus 2% market adjustment. The committees also recommended that President Yudof appoint a joint Senate-Administration task force to study options for resuming the abandoned Faculty Salaries Plan and restoring the competitiveness of UC faculty salaries and total remuneration as soon as possible. Council sent the President its final [recommendation](#) in December.

UCPB discussed salary and competitiveness issues regularly with Provost Pitts, EVP Brostrom, and Vice Provost for Academic Personnel Susan Carlson. The Committee opposed an administrative proposal that would have applied 3% of the total faculty salaries budget to enhance regular merit raises over three merit cycles. UCPB said the plan would further weaken the published salary scales and the power of the faculty to recognize the merit of their peers, which has been fundamental to UC excellence. UCPB emphasized that competitive total remuneration should be UC's top budget priority; quality will decline if UC is unable to meet the challenge of competitive recruiting and retention; and UC should do everything it can to restore the integrity of the merit system by bringing the salary scales back to competitive relevance.

Vice Provost Carlson also joined UCPB in January to discuss a presentation on faculty competitiveness she and Senate Chair Simmons had prepared for the January Regents meeting. In March, she presented data showing average faculty UC salaries and pay increases for faculty present at UC in both October 2008 and October 2010.

Donald Senear represented UCPB on a Joint Senate-Administration Compensation Plan Steering Committee that was considering a compensation plan for general campus faculty based on the Health Sciences Compensation Plan, which would allow faculty to increase their salaries with outside funding.

Discussions by the committee recognized that this concept is not exactly parallel to the Health Sciences Compensation Plan, insofar that different disciplines have widely different opportunities to raise salary increases from external sources. UCPB expressed concerns that inequities might result from a poorly thought out plan along these lines, and urged that a careful analysis of possible unintended consequences be conducted before such a plan is adopted.

### **COUNCIL RECOMMENDATION AND UCLA STATEMENT ABOUT THE FUTURE OF UC**

Early in the year, UCPB considered a Council [recommendation about the future of the University and an alternative statement from the UCLA division](#). Senate Chair Simmons asked UCPB to quantify the financial impact of Council's recommendation for reducing undergraduate enrollment and the number of ladder-rank faculty, and explore ways to focus the program approval process more closely on the budget and ensuring the availability of resources for new programs. UCPB, CCGA and UCEP decided they would work with divisional committees to ensure that proposals for new schools and programs include a viable long-term funding plan. Divisional CPBs will be consulted to help develop specific budget questions that will be useful to include in program reviews, including the opportunity cost of starting new programs or enhancing existing programs. The effort to quantify the financial impact of Council recommendations was subsumed within the Implementation Task Force effort.

### **MANAGING THE STATE BUDGET CUTS**

Vice President for Budget Patrick Lenz joined each meeting to update the committee about budget negotiations in Sacramento, UC's advocacy strategies and efforts, contingency planning, and other UC-specific budget matters. UCPB members discussed emerging campus and systemwide strategies for addressing the \$500M budget cut. Most campuses were being forced to implement cost saving measures, including staff hiring freezes, cancelled faculty searches, delayed plans for new programs and facilities, and program consolidations. Some campuses were

actively modeling severe cuts, including the closure of libraries and schools, and all were increasing efforts to enroll more tuition-bearing domestic and international non-residents. In the spring, Provost Pitts joined UCPB to discuss a list of centrally-funded academic programs being considered for budget cuts. UCPB's view was that the conversation about cuts to UCOP should account for the importance of maintaining systemwide activities, but that no systemwide programs should be immune to cuts. The committee also felt that principles were needed, to determine what activities should be funded on a systemwide basis, as opposed to allocating additional funding to the campuses.

#### **ONLINE EDUCATION PILOT PROJECT**

UCPB met with Vice Provost for Academic Affairs Daniel Greenstein and Provost Pitts twice to discuss concerns about UCOP's Online Education Project—particularly, a new financial model that relies on borrowing and attracting significant numbers of non-UC students. UCPB recommended to Council that the Senate limit its future support for the project until UCOP clarified its goals, developed a business model consistent with those goals, and allowed UCPB to review the business model to determine the desirability and potential value of on-line education at UC. UCPB also recommended that UCOP should not expand the project beyond the currently contemplated courses until there is a full Senate review of the results of the initial project. In June, UCPB reviewed UCOP's financial model for the pilot project. UCOP agreed to consult with the committee about the upcoming market survey, the progress of the program, and milestones for evaluating its continuing financial viability.

#### **DIVISION OF AGRICULTURE AND NATURAL RESOURCES (ANR)**

UCPB scrutinized the viability of all centrally-funded research programs in the context of declining state support, but was particularly concerned about a lack of transparency and faculty involvement in decision-making concerning the ANR budget, which accounts for a large proportion of UCOP's discretionary spending. In April, UCPB met with ANR Associate Vice President Barbara Allen-Diaz to discuss the ANR budget. The Committee noted the importance of maintaining shared governance principles regarding the budget and other ANR matters through the Senate's established committee structure. In January, UCPB, CCGA, UCORP sent a letter of concern to Council regarding ANR's plan to redirect money from two campus endowments to fund other ANR priorities and initiatives around the state. Council endorsed the letter and asked ANR to suspend the redirection pending full consultation with Senate committees concerning the effects of the reallocation on research and graduate education and the importance of the proposed new research initiatives. Starting next year, Chris van Kessel will represent UCPB on the new Academic Council Special Committee on Agriculture and Natural Resources.

#### **ACADEMIC COUNCIL SPECIAL COMMITTEE ON LABORATORY ISSUES**

Chair Chalfant and Vice Chair Minster represented UCPB on the Academic Council Special Committee on Laboratory Issues. Discussions of direct interest to the Senate involved the use of the UC portion of the management fee (about \$16M) by Vice President for Research and Graduate Studies Beckwith, either in the form of targeted joint research between campuses and National Labs, or as merely an additional source of income. In addition, UCPB requested a briefing by the Lawrence Berkeley National Laboratory on the current status of plans for the development of a second campus for LBNL in the Bay Area. This briefing will be provided either by televideo over the summer, or at a UCPB meeting in the early fall.

#### **OTHER BRIEFINGS**

- In November, Mark Esteban, Director of HRB-Policy & Program Design, Robert Semple, Principal Analyst, HRB-Pension & Retirement Programs, and Michael Deleon of Deloitte LLP joined UCPB to discuss the impact of health benefits changes affecting faculty and staff at UC Santa Cruz, UC Davis, and UC Berkeley, as well as plans for the grandfathering of retiree health benefits under the new UCRP tier.
- Executive Director of Procurement Services Haggai Hisgilov briefed UCPB on UC's strategic sourcing programs, which seek to leverage UC's buying power to save money on widely-used commodities.
- Assistant Budget Director Clifford Brown briefed UCPB about the Facilities Infrastructure Renewal Model, which allows UCOP to predict capital renewal needs for state eligible space by projecting the amount of money needed each year to renew each building or system.
- EVP Brostrom briefed UCPB on a plan to extend financial support further into the middle class by providing tuition relief to students in certain income ranges. He also discussed options for generating more unrestricted revenue from restricted assets by increasing endowment cost recovery.
- Vice President for Human Resources Dwaine Duckett and Director of Pension and Retirement Programs Gary Schlimgen, updated UCPB on the process and timeline for new employee and employer contributions to UCRP, the implementation of the new UCRP tier, and the University-wide payroll system project.

#### **OTHER ISSUES AND ADDITIONAL BUSINESS**

UCPB also submitted comments to the Academic Council about UCOP's proposed revisions to Policy on Self-Supporting Part-Time Graduate Professional Degree Programs, which would make it easier for campuses to offer self-supporting programs that charge their own (higher) fees, and about a proposal to rename the "educational fee" as "tuition" and "fees for professional school students" as "professional supplemental tuition. The Committee recommended that professional school and professional program fees be called "Professional Degree Program Supplemental Tuition," and noted that this should not be a backdoor for creating new professional fees. UCPB discussed a letter signed by 36 UC executives demanding that the Regents implement an IRS rule waiver that allows the University to increase the salary base used to calculate pensions beyond the federal cap of \$245,000. Finally, UCPB issued brief formal views about the Report of the Task Force on Senate Membership and the University Committee on Academic Freedom's Proposed Revisions to APM 010 and 015.

#### **INTERACTIONS WITH UCOP ADMINISTRATION**

On the whole, UCPB enjoyed fruitful, informative, candid dialogue with UCOP administrators who responded to UCPB requests with timely, informative data. The Budget Office provided thoughtful, informative presentations about the state budget situation, UC's budget allocation process, and various budgetary reform projects. Other UC leaders shared high level updates and observations about UC's pension obligations and debt programs, contingency scenarios for UC's budget expectations, and a plan to move UC campuses toward common administrative systems, increased strategic sourcing contracts, and shared service centers. For their part, UCPB members asked thoughtful, probing questions and challenged administrators to do more to communicate UC's chronic under-funding and demonstrate the real consequences of state de-funding on student fees, enrollment, and programs.

#### **UCPB REPRESENTATION**

Chair James Chalfant represented UCPB at the Academic Council, Academic Assembly, Academic Planning Council, and the Provost's Budget Advisory Group, and a task force reviewing proposals for the online pilot project. Vice Chair Minster represent UCPB on the Academic Council Special Committee on Laboratory Issues. David Lopez and Peter Chung served as UCPB's representatives to the UC Education Abroad Program Governing Committee; David Lopez also chaired a new finance subcommittee of the Education Abroad Program Governing Committee. Donald Senear represented UCPB on the Joint Senate-Administration Compensation Plan Steering Committee.

**LOOKING AHEAD TO 2011-12**

James Chalfant and Jean-Bernard Minster will continue as UCPB chair and vice chair in 2011-12. UCPB will monitor the state fiscal situation and its impact on the UC budget, the rebenching effort, the financing of LBNL's proposed second campus, and the online education project. The Committee will play an active role in helping UCOP and the Senate confront difficult choices in terms of both short-term and long-range budget planning resulting from the reduced state funding to UC. UCPB will continue to advocate for budget planning that maintains the quality of education, research, and service throughout the 10 UC campuses. UCPB will endorse no plan for UCRP that further erodes compensation and benefits for UC faculty, whose total remuneration is already uncompetitive.

**ACKNOWLEDGMENTS**

UCPB is grateful to the following committee consultants and guests for their valuable contributions: Provost and Executive Vice President Lawrence Pitts; Executive Vice President Nathan Brostrom; Vice Provost Daniel Greenstein; Vice Provost Susan Carlson; Chief Financial Officer Peter Taylor; Vice President Patrick Lenz; Vice President Dwaine Duckett, Associate Vice President Barbara Allen-Diaz; Associate Vice President Debora Obley; Operating Budget Director Michael Clune; Executive Director, HR Strategic Planning & Work Force Development Randy Scott; Associate Director, Strategic Initiatives, CFO Division Maria Anguiano, Associate Director, Strategic Initiatives, CFO Division Lisa Baird, Director of Pension and Retirement Programs Gary Schlimgen, Executive Director Haggai Hisgilov, Mark Esteban, Director of HRB-Policy & Program Design, Robert Semple, Principal Analyst, HRB-Pension & Retirement Programs and Assistant Budget Director Clifford Brown.

Thanks also to the faculty who served as alternates for regular committee members: Douglas Mitchell (UCR) and Christopher Kello (UCM).

Respectfully submitted:

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Chris van Kessel (UCD)	Shawn Kantor (UCM)
John Ellwood (UCB)	Steven Cheung (UCSF)
Brent Haddad (UCSC)	David Lopez (UCLA)
Y. Peter Chung (UCR)	Eric Halgren (UCSD)
Gary Leal (UCSB)	Donald Senear (UCI)
Daniel Simmons, <i>ex officio</i>	Robert Anderson, <i>ex officio</i>
Neil Sircar, Undergraduate (UCSD)	Eric Barba, Graduate (UCLA)
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