

UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB) ANNUAL REPORT 2013-2014

TO THE ASSEMBLY OF THE ACADEMIC SENATE:

The University Committee on Planning and Budget (UCPB) held ten regular meetings in Academic Year 2013-14 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 *University-wide Review Processes for Academic Programs, Academic Units, and Research Units* (the “[Compendium](#)”). UCPB also scheduled additional teleconferences between regular meetings to address specific issues. The major activities of UCPB and the issues it addressed this year are outlined briefly, as follows:

MONITORING STATE BUDGET NEGOTIATIONS

Senior leaders from the UCOP Budget Office and Office of Business Operations joined each UCPB meeting to update the committee about the progress of budget negotiations in Sacramento, budget contingency planning, capital projects, tuition policy, proposed performance outcome measures, and other UC-specific budget matters. Administrators briefed UCPB on their efforts to inform and educate legislators and Regents about UC’s cost-saving projects, options for adjusting cost drivers and revenues, and the critical need for new revenue to maintain quality. UCPB members emphasized the ongoing need for UC to educate policymakers about higher education issues and to encourage policymakers to take a long-term view of UC’s needs. In time, changes to state term limit laws might have a positive impact for UC. UCPB joined the Academic Council in calling for greater protections and support for UC’s research mission, especially after years of budget cuts. This demonstration is critically important given other policy changes that allow UC to invest in faculty start-ups, for example.

CAPITAL PROJECTS FUNDING

At its first meeting of the year (Oct 3) UCPB learned of a proposal for a new project that would apply a portion of UC’s allocation of state funds to address some of the universities capital needs. This project, motivated by a capital projects backlog on the campuses and the medical centers of about \$1.2b, employs a provision of AB 94 passed in June 2013. This bill authorizes such use of funds, overturning what had been a longstanding ban, and specifies a process for the review and approval of particular projects by the state Public Works Board and Legislature. UCPB developed a set of four principles that it recommended should guide the program. These addressed the overall scope of the program and limits to the financial risk to the institution; priorities for selection of particular projects (e.g., focusing on capital renewal and safety, and academic and research quality in existing programs (both in accordance with existing Academic Senate positions outlined in the 2010 Choices Report) and investing in UC Merced); administration at the systemwide level to ensure equitable use of the funds, to maximize leverage of campus funds and to ensure campus adherence to systemwide priorities; and timely annual Senate review of both the scope and specific list of new projects. UCPB’s principles were formally endorsed by the Academic Council and communicated to the administration. In subsequent consultation with UCOP Budget Office and Office of Business Operations, the committee was assured of the administration’s agreement with these principles. However, a list of new projects for the 2015-2016 fiscal year has led to renewed concern whether, or to what extent, these principles will be applied in actual practice.

ENROLLMENT MANAGEMENT

The budget reforms adopted by the University in 2011-2012, and in particular the rebenching formula that is designed to equalize the allocation of state funds to the campuses on a per student basis, were predicated on the expectation that UCOP would develop and manage a systemwide plan for the enrollment of California undergraduate students, and for graduate and professional students. In August 2011, the Academic Council adopted unanimously a set of principles (Implementation Task Force Report, July 2011), which were forwarded to UCOP as the Senate's recommendations to guide enrollment management. Among these were that the plan ensure that the University would enroll the number of California residents that the state considers funded and would assign enrollment targets to the campuses to ensure its obligations under the Master Plan, that incentives for campuses to overenroll California residents as unfunded students be reduced, and that allocation of state funding would adjust, particularly as individual campuses evolve and differ to the extent in which CA residents are supplemented or replaced by non-residents. In the three years since these recommendations were forwarded and rebenching implemented, no systemwide enrollment plan has been developed. As a result, rebenching allocations for the 2012-2013, 2013-2014 and 2014-2015 budget years, have been based on 2011-2012 budgeted enrollments.

Enrollment management is a pressing issue that has been an agenda item of every meeting of UCPB this year. UCPB has continuously pressed UCOP to develop the necessary comprehensive, systemwide enrollment management plan, administered by UCOP, as necessary to successfully implement rebenching. UCPB has reiterated that Funding Streams has increased the financial incentives for campuses to enroll nonresidents, to under-enroll resident undergraduates, and potentially to convert state-funded professional programs to self-supporting status. UCPB considers it critical for UCOP to establish a process for working with campuses to set – and enforce – campus by campus undergraduate enrollment targets including some necessary growth to ensure that UC continues to meet its Master Plan obligations. As of August, UCOP had not yet formulated a long-range enrollment plan, even though one is overdue. UCOP again assured UCPB that it would be reviewing long-range enrollment plans from the campuses over the summer to determine a systemwide enrollment level that is consistent with the Master Plan and current state funding, and would share a final enrollment plan with UCPB in the fall, 2014.

UCPB believes it is critical for UC to establish an appropriate enrollment funding bench-line with the state that accounts for the reduction in state funding and communicates the real cost of educating a student at a UC-quality level. UCPB sought more information about the formula UCOP and the state use to determine the per-student marginal cost of education and to calculate the number of “funded” or “unfunded” students. UCPB encouraged UCOP to help prepare a clear description of these concepts and labels, and to determine the actual number of unfunded students and the real cost of a funded student. Finally, UCPB has disagreed with UCOP that an enrollment plan is a necessary pre-requisite to the development of a long-range tuition policy. The committee has advocated for a tuition policy with moderate annual increases (recommended at 5%) whether or not an enrollment plan is implemented. It also strongly opposed including cohort pricing in the tuition plan.

GRADUATE EDUCATION

University support for graduate programs also received much discussion by UCPB this year. The administration continues to develop guidelines to govern self-supporting graduate and professional degree programs (SSGPDPs) and to determine when increases in professional degree supplemental tuition (PDST) are appropriate. UCPB supported the Academic Council position that new SSGPDPs should clearly demonstrate how self-supporting status will bring unique advantages to the program

should show how they will mitigate deleterious impacts on state-supported programs. The committee remains concerned that resources will be shifted to “revenue generating” programs at the expense of academic quality, and the committee still calls for greater financial oversight to preclude and address potential conflicts of interest. UCPB also opined that, while generally supportive of new guidelines governing PDST, they would benefit from clearer process mapping and tighter language specifying which licensure-related programs are covered under the policy.

This spring, UC Irvine hosted a conference on graduate student support, UCPB looks forward to evaluating specific proposals being drafted by Provost Dorr’s office. The committee encouraged development of specific proposals to address non-resident supplemental tuition (NRST), funding for academic PhDs, and graduate student fellowships. Amid calls for increasing certificate programs and expanding Masters programs to increase tuition revenue, these issues must be addressed head-on going forward.

COMPOSITE BENEFIT RATE PROPOSAL

UCPB received several briefings from UCOP and Senate leaders about a UCOP plan to move to a simplified Composite Benefit Rate billing system. Significant concerns from UCPB and other Senate committees about the proposed treatment of summer salary, sabbaticals, and “y” salary in the proposed composite rate formulas led to important changes in the plan. Led by Academic Council Chair Bill Jacob, the Senate successfully lobbied President Napolitano to adopt the Senate’s recommendations regarding the number of rates to be offered and how the predetermined groups would be assigned. Final recommendations to minimize fund shifts and administrative difficulty for Health Sciences Compensation Plan (HSCP) members are still being drafted.

This event illustrated well the importance of Shared Governance. Council Chair Jacob worked closely not just with Senate constituents from across the system, but with several chancellors to develop and explain the complicated issue and why the Senate alternative was preferable. Without the wider conversation and thorough analysis enabled through Senate consultation, the plan would be significantly less revenue neutral and nuanced. By analyzing data directly and constructing alternative options, the Senate was able to illustrate how and why the initial administration proposal would be unfair to some employees and fund sources – and how that unfairness could be alleviated, if not removed.

Employer Contribution to UCRP

UCPB expended considerable effort considering how best to balance competing needs for university funds to support the retirement plan on the one hand while addressing the needs of its regular programs on the other. As background, UCRP has accrued an unfunded actuarial liability of approximately \$12b, a legacy of an 18-year contribution holiday and market downturn starting in late 2007. The Regents approved a policy to amortize the unfunded liability over 30 years while fully funding new retirement obligations. To meet this policy, UC has ramped up employee contributions to 8.5% in fiscal 2014 and beyond, and planned 2% annual increases to the employer contribution from 10% in 2012 until it would reach a maximum of 18% for 2016 and beyond. Many University administrators, prominently among the campus EVC’s and medical center directors, have raised significant objections to such a high contribution rate due to the effect on their operating budgets with many calling for a cap on the employer contribution rate at 14%.

UCPB considered a proposal from the University Committee on Faculty Welfare (UCFW) and its Task Force on Investment & Retirement (TFIR) to increment the employer contribution by an

additional approximately 2% to fund the debt service on a loan from STIP to UCRP to immediately lower the unfunded liability to approximately \$10b. The University conducted similar transactions in 2011 and in 2012. UCRP analyzed projections from Segal & Associates commissioned by UCFW, which modeled the effect on future contribution rates. UCPB considered the rapid increase in STIP & TRIP funds over the past five years, reviewed a report via CFO Peter Taylor from his Reserves Task Force on University liquidity and reserve needs, and consulted with AVP Sandra Kim on potential effect of borrowing on University bond ratings. Based on its analysis, UCPB found a compelling case for borrowing in protecting the University's operating budget from future increases in the required UCRP contribution rate. UCPB delivered a statement in support of borrowing that was endorsed by the Council and submitted to the administration with the UCFW's proposal. The administration subsequently presented to the Regents a proposal to borrow \$700M from STIP to reach Modified ARC to UCRP for 14-15. This is approximately half the amount outlined in the TFIR plan, with a second increment being considered for next year. UCPB will continue to advocate for the second year installment.

CONSULTATIONS WITH THE CHIEF FINANCIAL OFFICER (CFO) DIVISION

The Chief Financial Officer and his staff provided UCPB with regular briefings about a variety of finance programs and projects managed by the CFO Division. These included the refinancing of university debt obligations, in particular lease-revenue bonds that were transferred to the University by AB 94, the use of interest rate swaps to hedge debt payments and investment returns on endowments.

The CFO division also handles risk and risk abatement programs. This year, UCPB learned about two new programs in this area: UC Care and Fiat Lux. UC Care is UC's latest venture into the self-insurance market for health care. Rather than pay a private insurance company, UC Care allows the UC to pay claims from premium dollars it receives; if the plan works as envisioned, UC would save several millions of dollars and perhaps monetize the program by offering it to other statewide employers, like the CSU system. UCPB, however, has many concerns about the program which are yet to be allayed. The plan attracted an older and sicker population than envisioned, which could cause costs to spike if the enrollment pattern does not change. The financial goals of the program remain ill-defined, and UCPB continues trying to disentangle the conflicting roles and responsibilities of the CFO division, Human Resources, and University's health system: CFO division wants to lower the University expenditures on health care; Human Resources is charged to ensure employees are satisfied and receive quality care; and the health system seeks to create revenue. How to accomplish all three goals under a single plan simultaneously remains unclear.

2013-14 marked the second year of operation of Fiat Lux, UC's captive insurance company. Because UC has such a large physical plant, workforce, and health system, UC faces extreme insurance costs in the open market. Prior to Fiat Lux, the market in which UC did business was limited to primary insurers. But because Fiat Lux is a reinsurance model, UC now has access to the re-insurance market, as well. This change is beneficial because it lowers the costs of securing insurance and limits UC's financial risk exposure by limiting excessive cash payouts. Fiat Lux currently has reserves of \$26M in STIP, but other investment opportunities are being explored.

CONSULTATION WITH THE CHIEF INVESTMENT OFFICER

In the spring, UC hired a new Chief Investment Officer, and removed Treasurer from the office and title. UCPB met with CIO Bachher to discuss his financial and personnel management philosophies, and to introduce him to Shared Governance. The committee discussed current efforts to have UC

divest from fossil fuels, noting concerns about financial impact, whether the University should use its Bully Pulpit, and how subsequent calls for divestment in other areas should be handled. The committee was supportive of his proposal to develop and apply ESG principles to guide University investment decisions. The committee also discussed potential changes to UC's investments in venture capital areas as a result of the President Napolitano's interest in direct investment in University startups, and rescission of guidelines preventing this practice. UCPB has significant concerns about potential unintended effects on the University's research mission and graduate education. It will continue to monitor the development and implementation of both ESG principles and policies to guide direct investment, and the performance of such efforts.

CAMPUS REPORTS

UCPB set aside a portion of most meetings to give members a chance to discuss local issues and concerns, including those related to rebenching and funding streams, online education, self-supporting programs, enrollment planning, nonresident enrollment, UCPATH, and faculty and student retention issues. Committee members also spent time comparing the charges, characteristics, and activities of their campus Planning and Budget committees, their access to different kinds of budget data, and their involvement in budget and planning decisions. There was interest in updating and revising a survey about local committee practices.

OTHER BRIEFINGS

- **Cost of Instruction Modeling:** UCPB received several briefings from AVP Obley, Vice President of Institutional Research Pamela Brown and Dir Greenspan on UCOP's progress on developing a defensible model for the University's cost of instruction as mandated by the 2013 state budget bill passed by the legislature. This bill requires biannual reporting of the cost of instruction at the University as distinct from funds expended on non-instructional activities. An initial report, due Oct 1, 2014, requires these costs to be disaggregated by undergraduate vs. graduate and professional instruction. Subsequent reports are to be disaggregated by undergraduate discipline, in particular STEM vs non-STEM. A number of models have been considered and further developed and considerable effort has been expended on how to allocate shared costs. UCPB expects to offer its guidance on these issues in the upcoming academic year.
- **Performance Metrics:** UCPB has received several briefings on efforts by UCOP to report on performance metrics as mandated by state budget law, and to develop alternatives to the metrics mandated. These metrics consist largely of retention and graduation rates, and mean time to degree – metrics in which the University excels in comparison to our peers among AAU universities, but which are considered more appropriate metrics for a class one research university.
- **Online Education:** UCPB heard that UCOE and the new Innovative Learning Technology Initiative (ILTI) may merge going forward. UCOE has spent its \$10M allotment and developed 39 courses from it. Significant remaining obstacles are how to accurately bill participant campuses, how to accurately advertise the courses and their prerequisites, and how to ensure that accurate reports reach registrars. UCPB noted that best practices could be learned from UC's education abroad program. The committee will continue to monitor this topic.
- **Systemwide Research Expenditures:** UCPB received two briefings each from Steven Beckwith, Vice President of Research & Graduate Studies and from Provost Dorr on the recent history of central funding for systemwide and multi-campus research, the activities of the Portfolio Review Group that Beckwith commissioned to assess the effectiveness of all such research activities, and the future plans and organization for VP's Beckwith's position

and systemwide research activities. Based on the recent history of systemwide research funding and the lack of clear commitment for a vice president level position whose duties would be to administer and promote research (as opposed to technology transfer) activities, UCPB joined UCORP and subsequently the Academic Council in advocating to President Napolitano a renewed commitment and to systemwide research with substantial restoration of historical funding for these activities.

- Total Remuneration: UCPB was briefed at its August meeting by Vice Provost Susan Carlson on the just released results of the total faculty remuneration study. In the discussion that followed, members of the committee expressed strong support for adjusting the faculty salary scales such that academic merit as recognized by the scales would once again be recognized by competitive salaries.

UCPB REPRESENTATION

Chair Don Senear represented UCPB at the Academic Council, the Academic Assembly, the Academic Planning Council, and the Provost’s Budget Advisory Group. He also served on the UC Education Abroad Program Governing Committee and was Chair of Finance Committee for UCEAP. UCPB Vice Chair Gary Leal served on the Academic Council Special Committee on Agriculture & Natural Resources, continued to represent UCPB on the Technology Transfer Advisory Committee (TTAC), and was also a member of the UC Education Abroad Program Governing Committee. UCPB was represented on the Academic Council Special Committee on Laboratory Issues by Bernard Sadoulet.

ACKNOWLEDGMENTS

UCPB is grateful to the following committee consultants and guests for their valuable contributions: Vice President Patrick Lenz, Associate Vice President Debora Obley, Operating Budget Director Clif Bowen, and Principal Analyst Elisabeth Willoughby from the Office of Budget and Capital Resources; Provost Aimée Dorr; Todd Greenspan, Director of Academic Planning, Pamela Brown in the Office Institutional Research and Academic Planning, Vice Provost Susan Carlson and Vice President of Research & Graduate Studies Steven Beckwith; Executive Vice President Nathan Brostrom from the Office of Business Operations; Chief Financial Officer Peter Taylor; Director of Pension and Retirement Programs Gary Schlimgen; Paul Angelo from Segal Consulting; Associate Vice President and Systemwide Controller Peggy Arrivas; Special Assistant to the Executive Vice President Kate Jeffery and Director of Student Financial Support David Alcocer.

Respectfully submitted:

Donald Senear, <i>Chair</i> (UCI)	Sam Buss, San Diego
Gary Leal, <i>Vice Chair</i> (UCSB)	Sharmila Majumdar, San Francisco
Bernard Sadoulet, Berkeley	Matt Begley and Michael Stohl, Santa Barbara
Christopher Reynolds, Davis	Daniel Friedman, Santa Cruz
Abel Klein, Irvine	William Jacob, <i>ex officio</i>
Shane White and David Sears, Los Angeles	Mary Gilly, <i>ex officio</i>
Anne Myers Kelly, Merced	Michael LaBriola and Kenneth Feer, Analysts
Ken Barish, Riverside	