University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
March 5, 2013

I. Announcements

- *Jean Bernard Minster, UCPB Chair*

Academic Council Meeting: Council discussed a UCPB statement recommending four high priority areas for financial investments needed to support continued UC quality. Council agreed that the four items have been accepted measures of quality in the past, although it was noted that they are less attainable in the context of the present political reality, and UCPB was asked to engage in an ongoing discussion about the university's investment priorities. Council also endorsed a UCFW recommendation that the Senate chair and vice chair and the UCPB chair represent the Senate on the newly reconstituted Executive Budget Committee.

Academic Planning Council Meeting: The meeting focused on the need to establish a clear policy in the Compendium for the review and approval of self-supporting programs (SSPs) with a distinction between creating a new SSP and converting a State-supported program to an SSP. The APC also discussed revisions to the MRU section of the Compendium.

Professional Degree Supplemental Tuition Task Force: The Task Force is discussing the need to clarify Regental policy for professional degree supplemental tuition, along with other professional program issues such as maintaining affordability and diversity, identifying the appropriate comparison institutions, the role of faculty and student consultation in program reviews, and the need to have consistent PDST and SSP policies.

Cross-Campus Enrollment System Work Group: UCPB has been invited to appoint a representative to a new cross-campus enrollment work group that will be discussing issues related to how to facilitate large-scale cross-campus enrollment.

Discussion: Members noted that it will be critical to continue linking quality with the undergraduate experience—particularly the need to provide small lab and discussion section experiences and achieve as close to an 18.7:1 student-faculty ratio as possible. It was noted that students are asking the State for a PDST fee buy out, and remain concerned about self-supporting program conversions and "privatization."

II. Consultation with Senate Leadership

- *Robert Powell, Academic Senate Chair*
- *Bill Jacob, Academic Senate Vice Chair*

March Regents Meeting: A presentation about faculty workload and academic efficiencies scheduled for the March Regents meeting has been postponed. Some State and UC officials believe that faculty should teach an additional course per year, while enrollment growth models project a 7-10% increase in student credit hours over the next three years, without an increase in total faculty. The Senate and the administration will be working on a plan to address the additional teaching workload, improve 4 and 6 year graduation rates, and maintain UC quality.

April Online Education Working Meetings: The Provost has scheduled two invitation-only systemwide meetings in mid-April to discuss the allocation of funding earmarked for online education in the Governor's UC budget. A third meeting in late April will bring together members of both groups to discuss final recommendations. UCOP will then issue RFPs inviting faculty to develop new high-enrollment lower division undergraduate online gateway courses. A portion of the funding in the Governor's budget may be used to create systemwide mechanisms to facilitate cross-campus enrollment into online courses and the cross campus transfer of registration data and other information.

Presidential Search Academic Advisory Committee: Academic Council Chair Powell has appointed a Senate committee to advise the Regents on the selection of a new UC president. The 13-member Academic Advisory Committee includes the Senate chair and vice chair, one member from each division (nominated by the division), and one member-at-large. The search process will adhere closely to the Regents' policy for presidential searches. The Senate committee will vet candidates and present nominees to the Regents for their consideration in April.

III. Consultation with UCOP – Funding Streams

- *Michael Reese, Associate Vice President, Business Operations*
- *Clifton Bowen, Associate Director, Operating Budget*

UCOP is considering an alternative model for calculating the Funding Streams assessment. The assessment—currently 1.6% of total campus expenditures—funds three core UCOP areas: general administration, systemwide academic programs and initiatives, and central services such as the Office of Student Affairs and HR/Benefits.

A new hybrid approach would assign weights to some UCOP functions based on services received, ability to pay, and other metrics. It responds to concerns from campuses with medical centers that they do not receive UCOP services proportionate to their assessment, and the need to fund UC Path and other systemwide initiatives. The hybrid model builds on the original principle that Funding Streams should be transparent, simple, and revenue neutral, and finds a middle ground between two extreme views (1) that all UCOP functions are a "common good," or (2) UCOP should operate entirely as a fee-for-service.

The new methodology would continue to fund some of UCOP's "common good" services and activities with an assessment on total expenditures, but it would fund other central services through a "split revenue expenditures model" based on variables such as medical enterprise expenditures, general campus student headcount, and total headcount.

UCOP is working with campus budget officials to model the impact of emphasizing or deemphasizing these and other variables in the context of rebenching and other factors, and of adding UC Path and other central programs to Funding Streams. A new model could be implemented as soon as next fiscal year, if an agreement can be reached between the various stakeholders. UCOP will continue to scrutinize its administrative budget and need to be involved in various activities.

Discussion: Chair Powell encouraged UCOP to increase local and systemwide Senate involvement in discussions about the models. UCPB requested an historical account of what has been added to or eliminated from UCOP's budget, and what is being proposed for streamlining or elimination. It was noted that students are concerned about how student tuition revenue is incorporated into Funding Streams.

IV. Consultation with UCOP – Budget Office

- *Patrick Lenz, Vice President, Budget and Capital Resources*

The University has been working to educate new legislative members about UC's ability to meet its needs with small base budget adjustments and no tuition increases, and the limited potential of new efficiencies and online education to generate savings.

There is a new trailer bill accompanying the Governor's 2013-14 budget that would ask UC to do an onerous report on the cost of education. Separately there is a discussion of specific outcome measures that might be appropriate to accompany UC's budget augmentation, but UC—and some legislators—are questioning the need for new measures, as the University continues to improve its graduation rates and time to degree. UC notes that additional progress will require an investment in faculty hiring, but the amount proposed for UC in the 2013-14 budget is not enough to even meet its mandatory costs. UC is advocating for capital investments to fund new academic buildings at Merced and for several campus-based energy efficiency projects that could receive Proposition 39 funding. It was noted that the current economic situation is very favorable to capital investments.

UC has been addressing criticisms that the University's costs are too high and increasing disproportionately compared to other state institutions, by pointing out that the State has asked for high-cost programs (STEM, nursing, and others) that benefit the public; that it is inappropriate to compare UC's costs to those of lower quality institutions; that the State is not funding UCRP on an equal basis with pension plans of other state agencies; and that the impact of UC research is not fully understood or appreciated In addition, the University's financial aid system makes a UC education affordable to a broad range of incomes; demand for a UC education is increasing; and the average debt for UC graduates is below the national average.

Discussion: It was noted that Regents who have attended Council meetings agree with the view that California industry leaders should be asked to lead the argument that UC's contribution to the State through graduate education is critical.

V. Consultation with UCOP – CFO Division

- *Peter Taylor, Chief Financial Officer*

Implementation of UCPath: UCPath will consolidate many transactional HR functions currently performed locally into a single UC payroll and HR system based at a new Shared Service Center in Riverside. Wave 1 is now expected to be implemented in July 2014, with full implementation by April 2015. Testing will begin this June. The Riverside Center will handle customer service and operational support for systemwide processes related to payroll, benefits, HR, and academic personnel; UCOP will handle strategy, policy, and design; and the campuses will administer nonstandard local programs, including (likely) the employment of grant-funded graduate students. Oracle will manage the data and provide security.

LBNL 2nd Campus: UCOP met with Lawrence Berkeley National Laboratory (LBNL) representatives to discuss financing for its proposed second campus, located on land in Richmond currently owned by the University. Three buildings are proposed: one financed by the

Department of Energy; the second by UC; and the third by other parties. UC is proposing to finance the UC-owned facility using a pooled financial structure that draws on LBNL's revenues and an LBNL-funded debt service reserve. The University's debt capacity will not be used to support the project.

Liquidity Update: The CFO Division examined each of the Short Term Investment Pool (STIP) accounts on the campuses, and determined that the inward or outward flow of STIP assets fluctuated by only 1% (or $200 million) either way on any day. The Division concluded that transferring $2 billion from STIP to the Total Return Investment Pool (TRIP) to achieve a 45/55 STIP/TRIP ratio could generate $30-70 million in unrestricted net revenues for the campuses at very low risk. The more holistic liquidity policy will increase returns while ensuring that the University continues to have enough cash to cover its daily operating needs.

Proposed Lease Revenue Bond Restructuring: The Governor is proposing that UC take over $2.4 billion in existing lease revenue securities, and refinance the securities with its more favorable credit rating. UC estimates that in today's market environment, the refinance deal would generate $80 million in annual savings for ten years that campuses could use to fund general operations. However, the legislature now wants to place restrictions on the deal that could make it less attractive to UC.

Student Health Insurance Plan: Eleven UC students with catastrophic illnesses have exceeded the UC Student Health Insurance Plan's (SHIP) $400,000 lifetime benefit cap. The new federal Affordable Care Act prohibits such caps, but makes an exception for "self-funded" plans such as SHIP. In addition, the actuary hired to run SHIP made errors leading to what is now projected to be a deficit of $57 million for 2013-14. UC feels it has an obligation to maintain low premiums, but it also has to keep the program self sustaining. Premiums would need to increase by 20-25% in 2013-14 to address the deficit and make the program self-sustaining. Lifting the lifetime benefit cap would require an additional premium increase. UC is modeling alternatives that include transferring SHIP's risk to a private insurer, asking each campus to provide its own insurance, maintaining SHIP as it is, and implementing a hybrid plan in which only some campuses participate in SHIP.

Discussion: It was noted that students are asking UC to consider lower cost alternatives to SHIP, but they are also willing to pay a higher premium, up to $100 if necessary, to ensure that their fellow students have sufficient insurance protection.

VI. Targeted Systemwide Review: Alternative Financial Aid Models

- *Kate Jeffery, Special Assistant to the Executive Vice President*
- *David Alcocer, Interim Director, Student Financial Support*

Issue: UCOP has asked the Senate to opine on the UC Undergraduate Financial Aid Funding Options for modifying UC's student financial aid funding and allocation methodology. The modeling of the options was prompted by questions about whether UC's financial aid programs are funded at the appropriate level to maintain the policy goals of financial accessibility and manageable part-time work and borrowing (student self-help), as well as the sustainability of the program. Projections indicate that as costs increase and more students qualify for aid, the 33% return-to-aid level will become inadequate to achieve UC's current policy goals.

Option "A" would set return-to-aid at a level necessary to maintain a self-help expectation at the midpoint of the current benchmark. It would reduce the net cost for lower- and middle income families and increase it for higher income families. Option B would increase the net cost for lower income students by adjusting the self-help standard and asking students to borrow more, basing loan repayment on a 15-year schedule instead of a 10-year schedule. Option C would adjust the self-help expectation annually based on the revenue available to maintain a 33% cap.

Option A requires a larger tuition increase than B to be viable. In a given year without tuition increases, UCOP would suspend the options. Options A and B are policy driven; they fund return-to-aid at a level that will meet the desired outcomes. Conversely, Option C is revenue driven.

There are three additional recommendations common to and independent of each option: developing an alternative needs analysis formula that provides a more accurate view of parental resources than the federal formula; instituting a systemwide fundraising effort to relive pressure on tuition revenue as a funding source; and expanding financial aid to more middle-income students (family income between $80,000 and $120,000) with a "Blue and Gold Light" plan that would reduce tuition costs for families in that bracket, and is modeled on the Blue and Gold Opportunity Plan, which covers tuition for families making less than $80,000 annually.

UC's financial aid system works on a "progressive" model. It asks the highest income earners to pay the full sticker price and uses a portion of that revenue to provide grants to lower income students. As a result, UC has been able to provide access to many low income students. There is evidence that UC remains affordable for the majority of families and that increasing tuition has so far not had an effect on the choice to study at UC. Few students drop out for financial reasons once they arrive, and yield rates have remained steady.

UCOP does not consider mandatory systemwide return to aid on nonresident supplemental tuition to be an option.

Discussion: Several UCPB members spoke against Option B, noting that it increases the amount of debt students would be asked to incur, and that self-help levels are already too high; increasing them further would further stress students and could impair the university's goals to improve time to degree. Other members noted, however, that it is reasonable for UC to ask students to take on a little more debt due to the high value of a UC education in terms of lifetime earnings.

Some members spoke in favor of Option A, noting that a policy-driven approach is attractive; it provides stability, clarity, and predictable for families and students; and raises tuition most for the families most able to pay. Others, however, expressed concern that UC's price point is not infinitely high nor is the redistribution model infinitely sustainable. By asking a small number of high income families to provide large amounts of grant support for lower and middle income students, UC could drive families away to other institutions they perceive to be a better value.

Option C would adjust the self-help standard to match the aid funds generated by a fixed 33% return-to-aid. Currently this results in a self-help level below the midpoint of the current benchmark. Over time it is expected to raise net cost for low and middle income students but not increase net cost for higher income students. Some members argued for Option C as a possible alternative that would require a smaller tuition increase than either A or B, and a lower self help expectation than B, although the year-to year unpredictability of C as a revenue-driven model, and a self-help expectation that could, as a result, rise much higher, were seen as negatives.

Committee members expressed support for the proposal to develop a more accurate assessment of parental wealth than the federal FAFSA methodology, noting that a more accurate assessment would provide more financial aid funding to students who actually need it. Members noted that one viable option is the College Board's CSS/Financial Aid Profile; however, the committee was somewhat reluctant to endorse a formula developed by UCOP.

It was noted that all options depend to some extent on tuition increases in an era of extreme political pressure against them. The more UC puts into its aid programs, the higher tuition needs to be, and the question is who will pay that tuition; yet the status quo is unsustainable over time if UC wants to achieve its current policy goals. The more money UC puts into its aid programs, the higher tuition must rise, and the question is who will pay the high sticker price. It was noted that whatever option is adopted has to be marketed and publicized more broadly and in a way that enhances the public perception of UC.

Action: A small subcommittee will work on a draft memo to Academic Council.

VII. Campus Reports

The UCSD CPB is hosting a second faculty education budget workshop in April that will focus on campus issues. UCSD is implementing the negotiated salary trial program with the support of the Senate, and the UCSD chancellor has decided to return the full amount of nonresident graduate tuition to departments.

The UCLA Senate voted not to participate in the negotiated salary trial program. UCLA remains concerned about the impact of rebenching and Funding Streams on the campus.

The Provost has given UCI the authority to implement the negotiated salary pilot program, despite Senate opposition. The CPB is working with the administration to develop nonresident enrollment targets, and is concerned about the continued moratorium on salary increases for non-represented staff. UCI supports the "Option K" composite benefit rate scenario.

The UCB CAPRA is discussing research overhead, faculty involvement in the review of ORUs, athletics department budget overruns, the need for a new strategic development plan for the campus, and the future of campus libraries. The chancellor has made funding available for non-represented staff salary increases despite no systemwide plan.

The UCD CPB is discussing the need to increase funding for advising and ESL services in light of the campus's plan to increase international enrollment, the implementation of Funding Streams, and solutions to address a midterm budget shortfall. WASC has selected UCD as a pilot campus for a new reaccreditation review process.

The UCR CPB is discussing the chancellor search, efforts to increase budget transparency, and the proposed split of the vice chancellor for finance and business operations position into two positions. CPB will be reviewing departments' three year FTE plans, and it has a representative on a new joint online education task force.

UCM's new integrated budget process is intended to increase transparency and ensure that budget requests are aligned with strategic priorities. The chancellor is considering alternative funding models that will allow the campus to meet its enrollment goal of 10,000 students and a 10% graduate student ratio by 2020.

UCSB is discussing departmental three-year FTE plans and the challenges associated with large numbers of unfilled faculty FTE. A UCSB faculty group will be asking the Senate to support a campuswide meeting in the spring to discuss a campaign urging UC's financial divestment from fossil fuel companies. Groups on several UC campuses have already passed resolutions in support of the campaign.

The Graduate Student Representative reported that the UC Student Association held its annual Lobby Day in Sacramento on March 4 with student groups from the other CA higher education segments. The Graduate Student Association is developing a "higher education report card" that is intended to hold politicians accountable for their positions on UC and higher education. The GSA is also excited about a new grant-funded campaign that will look at the connection between State funding for education and funding for prisons. Students are looking forward to participating in the presidential search.

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