University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
May 7, 2013

I. Announcements

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

The Academic Council held its April 24 meeting in Sacramento to allow Chair Powell and other Council members to testify against State Senate Bill 520 at a CA Senate Education Committee hearing. The bill has since passed out of the Education Committee, but its ultimate fate is uncertain. UC continues to oppose the bill on several grounds. UC has also issued a Support if Amended position on SB 547 (Block), which asks the higher education segments to develop or identify lower division online courses that are transferable across the segments under IGETC.

UCOP hosted two working meetings in mid-April to discuss the use of $10 million in the Governor's UC budget for the development of online learning technologies at UC. A third meeting on May 4 discussed next steps, including an RFP that will be issued to faculty in June for the development of online courses for UC matriculated students.

The director of the UC Observatories sent UCPB a comparative cost analysis of UC's Astronomy programs to counter claims made in a June 2011 Office of Research presentation to UCORP, which showed UC Astronomy as having a high cost compared to other sciences. The UCO report indicates that UC's Astronomy investments are similar to other sciences.

II. Consultation with UCOP

- *Patrick Lenz, Vice President for Budget and Capital Resources*
- *Debora Obley, Associate Vice President, Operating Budget & Facilities Management*
- *Clifton Bowen, Associate Director, Operating Budget*

State Budget Negotiations: UC is engaged in final negotiations with the Department of Finance, Governor, and Legislature in the days leading up to the release of the May budget revision. UC is encouraging the state to use a portion of an expected budget surplus to address existing liabilities and deferred maintenance on UC campuses, and arguing for pension funding parity with CSU, which will receive additional funding for its retirement system. UC is also asking the state to fund the UCR School of Medicine, a capital facilities plan to support critical needs at Merced and elsewhere, and a debt restructuring plan in the Governor's budget. UC emphasizes that without the debt restructuring revenue, it will be unable to meet its mandatory cost obligations, let alone make progress toward the state's goals for access and degree completion. UC is also asking the Legislature to use a portion of Proposition 39 revenue to fund energy efficient capital projects at UC, as a possible alternative to the Governor's proposal to count all revenues toward the Proposition 98 calculation for K-12 and community colleges. UC has asked the Legislature to ensure that any proposed enrollment targets are consistent with state funding and account for the budget cuts UC has taken over the past six years.

Performance Outcome Measures: The University strongly opposes the Governor's proposed long-term funding and performance plan for higher education, which ties a four-year plan of general fund increases for UC and CSU to seven outcomes, including 10% increases in transfer, degree production, and four-year completion rates and revokes the general fund increase for a particular year if tuition is raised. The University supports performance measures in concept but was not consulted in the development of the metrics and believes it is inappropriate to adopt metrics that are identical for UC and CSU—which have distinct missions and serve different populations— and that do not account for budget cuts or the long-term improvements UC has made in completion and time to degree outcomes. For example, UC has increased both its six-year and four-year graduation rate since 1992. UC's six-year rate (83%) exceeds the AAU public university average (76%) and its four-year rate (60%) exceeds the AAU public university average (53%). Moreover, any measures should compare UC to public universities that enroll similar populations of in-state, low-income, first-generation, and part-time students. UC notes that even with the proposed general fund augmentations, it will still have $300 million less in state funding than it did in 2007-08. It will be an achievement simply to maintain current performance outcomes in that environment. Several legislators are also unhappy about the measures and have noted that the budget process is not the place to make accountability policy. UC has offered to work with the Department of Finance and Legislature to develop appropriate measures. UC is looking at SB 195 (Liu), which would convene a working group to develop metrics for meeting several higher education goals, as one possible path to this goal.

III. Enrollment Planning

- *Todd Greenspan, Interim Chief of Staff, Office of the Provost*
- *Debora Obley, Associate Vice President, Operating Budget & Facilities Management*

UCOP has extended to June 30 the requested deadline for campuses to return their long-range enrollment plans; however, preliminary admissions data for fall 2013 have been released and campuses have submitted their initial fall 2013 enrollment targets for freshmen, transfers, and nonresidents. The total resident freshman target for fall 2013 is projected to increase slightly compared to 2012, the nonresident target is also projected to increase, and the number of California Community College transfers is projected to fall slightly below the 2012 target.

There are several enrollment issues to resolve related to rebenching, including how to establish the enrollment baseline for the calculation and whether to implement a penalty for campuses that fail to meet their resident enrollment target. The penalty was recommended by the Rebenching Task Force, but some campuses continue to oppose it.

It was noted that as UC Merced becomes more selective, it does not expect to be able to accept all referral pool students. This eventuality will impact the UC system as a whole, and UC may need to re-imagine the referral pool as a systemwide obligation.

IV. Funding Streams Assessment

UCOP is reviewing alternative models for calculating the Funding Streams assessment. Some campuses are concerned that the current model, which bases the assessment purely on expenditures, is an overly blunt instrument that has created anomalies, particularly for UCSF, which feels it does not receive benefits from UCOP in proportion to its assessment.

One alternative would calculate 33% of the assessment for each campus on total campus expenditures; 33% on the total number of enrolled students; and 33% on the number of employees. This would result into a smaller assessment for UCSF, but UCSF would return a proportionate amount of state funding to campuses with a higher assessment to mitigate the effect of their increased assessment. Some campuses are concerned about the effect of the new proposal on their budgets, and discussions are ongoing. UCOP would implement any new model no earlier than 2014-15 to give campuses a chance to prepare, and would revisit it every two to three years thereafter.

UCPB members noted that the 33-33-33 plan has the benefit of simplicity but the decision to assign identical weights to each of the three categories may need a clearer rationale. It was suggested that UCOP might first establish a goal of creating an equitable outcome for the assessment, and then engineer a weighting system to produce that outcome.

V. Overview of New UCOP Energy Services Unit

- *George Getgen, Director, Facilities Management*

The goal of UCOP's new Energy Services Unit is to help UC campuses collectively achieve carbon neutrality, avoid costs associated with market-based emissions regulations such as cap-and-trade, and meet other specific UC sustainability policy goals, many of which are outlined in the 2011 Report of the University of California Climate Solutions Steering Group. It brings together a variety of efforts currently underway at UC, including those around energy efficiency, renewable energy, carbon management, wholesale power, and biomethane (biogas) production.

The unit has been engaging in political advocacy in Sacramento around topics such as Proposition 39 and cap-and-trade, noting that UC has a proven track record with energy efficiency projects, and its size carries with it the potential for real change. The unit recently purchased $17 million in carbon offset allowances, enough to cover all of the campuses' 2013 and 2015 emissions, and is working with the state to ensure that UC receives an annual allocation of free allowances under a "transition assistance" program. The unit will manage the Statewide Energy Partnership program, which finances energy efficiency retrofit projects on the campuses, and is exploring ways to procure biogas, which does not count toward carbon, from in-state and out of state sources, as a substitute for natural gas at campuses. Finally, it is exploring a wholesale power model for UC, in which the University would become an energy services provider in partnership with a private entity.

VI. Pension Funding Overview

- *Gary Schlimgen, Executive Director of Retirement Programs & Services*
- *Kenneth Reicher, Specialist, Pension & Retirement Programs*
- *Paul Angelo (Segal Consulting)*
- *John Monroe (Segal Consulting - phone)*

Representatives from the Regents' actuary, The Segal Company, reviewed some of the assumptions involved in calculating UCRP's actuarial valuation, which reflects the current or "measured" cost of future benefits. Segal's annual assessment of UCRP's assets, liabilities, and ongoing costs factors in demographic assumptions such as mortality and retirement age, and economic assumptions about salary growth and the market performance of assets. UCOP reviews the assumptions every 3-5 years and recommends them for adoption to the Regents. The last such "experience study" was presented to the Regents in 2011.

Good assumptions help produce level costs, but it is difficult to set assumptions about expected returns because the market is unpredictable. UCRP saw four straight years of returns over 20% in the 1990s, but much weaker returns or losses in other years. The expected rate of return on investments for actuarial calculations has been 7.5% since 1994, which was a conservative assumption at the time, and is still conservative compared to some other plans; however, Segal believes that 7.5% remains a prudent assumption based on their surveys of market expectations.

Segal calculates the present value of future benefits for each active member to arrive at the "Normal Cost," which refers to the portion of the projected benefit value that must be invested in the Plan now to cover the future benefits liability accrued as a result of an active employee's additional service credit in the current year. Normal Cost is currently 18% of covered compensation. The Actuarial Accrued Liability (AAL) measures the accumulated value of the Normal Cost from past years. The Unfunded Actuarial Accrued Liability (UAAL) is the difference between the AAL and the Plan's assets. The unfunded liability grows at 7.5% per year.

UCRP currently has a funded ratio of 78% of actuarial liability, and an unfunded liability of $11 billion, the result of a 20-year contribution holiday and the downturn in financial markets. In 2008, the Regents approved a policy to return UCRP to 100% funded status through a ramp-up of employee and employer contributions. The policy calls for gradually increasing contributions to the level needed to fund the Annual Required Contribution (ARC), which includes the Normal Cost and an amount to amortize the unfunded liability over 30 years. Failure to contribute at least Normal Cost plus the interest on the unfunded liability (Modified ARC) will cause the unfunded liability to grow. Segal projects that UC can achieve a funded ratio of 100% by 2041 with an employer contribution rate of 18.0% and an employee rate of 8% of covered compensation. Employee and employer contributions will rise to 6.5% and 12% in July 2013, and UCOP is asking the Regents to approve a further ramp-up to 8% and 14% effective July 2014. UCOP has also modeled hypothetical alternatives to the maximum 18.0% employer contribution, in response to concerns from the locations.

Segal notes that although maintaining a 100% funding ratio is an important objective, the funding ratio is not useful as a simple test of the Plan's health, and it is a myth to suggest that public pension plans with funding ratios under a bright line of 80% are in trouble. Public sector plans do not have the same solvency or operating concerns as corporate plans. For Fiscal Year 2012-13, total employer career benefits costs totaled about 30% of pay.

In 2011, UCOP transferred $1.1 billion from the UC Short Term Investment Pool (STIP) to fund the Modified ARC and issued an additional $1 billion in commercial paper for that purpose.

These actions helped reduce the total policy contribution rate by 2%. The Normal Cost of the new tier (2013 Tier) taking effect for employees hired on or after July 1 is lower. Those employees will contribute 7% (about half the Normal Cost of the 2013 Tier), and the employer rate will apply to all members, which will help stabilize the Plan over time.

VII. Consultation with the Office of the CFO

- *Peter Taylor, Chief Financial Officer*

The CFO Division conducted a study of campus STIP accounts and determined that the inward or outward flow of assets fluctuated only 1% (or $200 million) either way on any day. The CFO concluded that transferring $2 billion of this excess liquidity from STIP to the Total Return Investment Pool (TRIP) or the Long Total Investment Pool (L-TRIP) could generate $30-70 million in unrestricted revenues each year for the campuses at low risk. This study and proposal is scheduled for discussion at the Regents Committee on Investments later this month. UCOP has suggested that the campuses could use the revenue to partially address the future employer costs of UCRP. It has also been suggested that the liquidity could earn even larger and steadier returns in the General Endowment Pool. UC has a rigorous system in place to project near term cash flow needs and could be more aggressive about investing unneeded liquidity in better investments.

It was noted that several campuses have decided to withdraw either fully or partially from the UC Student Health Insurance Plan (SHIP). UCOP is reviewing options for the future of the program and for addressing a projected deficit of $57 million.

VIII. Consultation with the Provost

- *Aimee Dorr, Provost and Executive Vice President*

Online Education: In March, UCOP received over 100 Letters of Intent from faculty interested in developing online courses with funding in the Governor's UC budget. In mid-April, UCOP hosted two systemwide working meetings to discuss goals for and concerns about online teaching and learning, infrastructure needs, and next steps for a formal RFP for courses developed as part of the UC Innovative Learning Technology Initiative (ILTI). A follow-up meeting on May 4 synthesized information gathered in April and made further progress toward the RFP. These efforts demonstrate UC's strong interest in using the funding to move forward.

Performance Measures: An agenda item on academic performance measures and faculty workload scheduled for the May Regents meeting describes the progress UC has made over time to improve student outcomes such as graduation rates and time to degree, particularly compared to UC's AAU public comparison institutions. It also discusses faculty workload, noting that faculty are teaching more students and more student credit hours than ever before, and that the number of bachelor's degree per faculty member has increased over time and at a higher rate than the AAU average. In the item, UC proposes its own outcome measures, including maintaining or increasing degree completion and time to degree and increasing graduate student enrollment.

Self-Supporting Programs: A joint Task Force is developing a revised policy, implementation, and review protocol for new self-supporting program proposals and the conversion of state funded programs to self-supporting status. The Task Force views SSP policy not as a financial matter only (ie, a policy governing programs that might be State supported, but are not), but as a document defining the appropriate status for programs that would not normally be supported by the State and whose narrowly-defined focus is on specific professions and/or outcomes.

IX. Review Items

Cal ISIs Reviews – CalIT2 and CNSI
UCPB was invited to comment on the academic reviews of the California Institute for Information Technology and Telecommunications (CalIT2) and California NanoSystems Institute (CNSI), two of the four California Institutes for Science and Innovations (Cal ISIs). Cal IT2 is jointly run by UCSD and UCI. CNSI is run jointly by UCLA and UCSB.

Proposed Revised APM Section 241, Faculty Administrators (Positions Less than 100%)
The revision is intended to bring the APM into conformance with Regents Policy and with the Compendium of Universitywide Review Processes for Academic Programs, Academic Units, and Research Units, regarding the appointment of MRU directors. UCPB found no reason to object to the revisions, and will send a brief memo to Academic Council.

X. Executive Session

Notes were not taken during this portion of the meeting.

XI. Divisional Planning and Budget Committee Reports

The UCSD Planning and Budget committee hosted a budget education workshop for faculty in late April. The committee is interested in comparing its practices with other campus committees, particularly their access to different kinds of budget data, and their involvement in budget and planning decisions.

The budget proposals presented by UCM campus units at a two-day public hearing last month highlighted the gap between need and available revenue. UCM received a greater than expected number of SIRs and is discussing its future ability to accept all students in the referral pool as it becomes increasingly selective.

The UC Student Association continues to lobby state and university leaders around online education, SB 520, and budget issues.

UCSF is discussing the budget implication of the Affordable Care Act, long-term strategic goals, space needs, and community relations issues. The UCSF Senate is also reviewing a proposal for a new standing Sustainability Committee that will facilitate faculty participation in sustainability activities on campus.

UCLA is breaking ground on a new conference center and launching a $10 billion development campaign to coincide with its 2019 centennial. The Regents will be reviewing a proposal from UCLA to set up a new nonprofit entity to advise on opportunities for increasing patent revenue from UCLA intellectual property and industry-sponsored research.

UCD is reviewing dean’s budget proposals for faculty allocation, the effect of Funding Streams on graduate student education, and the nature of carry-forward funds in the context of a proposal to tax all carry forward accounts to fund the campus’s budget deficit.

UCSC is reviewing budgets and recommended cuts for each academic and nonacademic unit, a new effort by UCSC to coordinate undergraduate success goals and metrics, a new system for tracking and assessing interventions, and efforts to increase nonresident recruitment.

The UCI CPB chair serves on the Academic Planning Group, which advises campus leadership on the allocation of new faculty FTE and other planning issues. There is no funding for new FTEs in the short term. The graduate division has contracted with Academic Analytics Inc to produce comparison rankings of its faculty’s scholarly accomplishments.

UCR faces budget constraints that are affecting new requests for faculty FTE. The campus is also concerned about the impact changes to the Funding Streams assessment model will have on its ability to hire new FTE. Budget hearings are completed, and the P & B Chair is working with the Administration (as a member of the Chancellor’s Budget Advisory Committee) to make recommendations for funding.

UCB is hoping a new fundraising campaign will strengthen its endowment and help the campus rebuild its tenure track faculty numbers and fund a middle class access financial aid plan. CAPRA is discussing a proposal that faculty receive a share of recent indirect cost recovery increases, and is pushing for more funding to support the maintenance of laboratories and other aging facilities.

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