University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
February 7, 2012

I. Consent Calendar

- Agenda/schedule changes
- January meeting minutes

Action: UCPB approved the consent calendar.

II. Announcements

- *Jim Chalfant*

UCOP provided UCPB a *pro forma* outlining a business plan for the UC Online Education project (UCOE). The first course developed as part of the pilot project is now being offered at Merced, and several others will come online this spring and summer. Former UCEP chair Keith Williams is advising UCOP about all academic aspects of the project and has prepared a document outlining the major administrative and Senate policies and procedures needed to test its next phase, most of which relate to enrollment, registration, and transfer credit for the non-UC students who will take UCOE courses. UCPB will continue to monitor the viability of the business model in the context of these and other issues.

LBNL recently announced a preferred site for its proposed second campus, located on land in Richmond currently owned by the University. A new, scaled-down financing proposal for the second campus is under development; UCPB should be able to discuss it with UCOP within the next month or two.

Council's Task Force on Competitiveness in Academic Graduate Student Support is exploring new ideas for lessening the impact of nonresident graduate tuition on students and faculty. It is reviewing data showing the extent to which the probability of a graduate student accepting an offer from UC rises as the gap increases between UC's offer and the next best offer.

The UCSF chancellor told the Regents in January that UCSF's expenditures are growing more rapidly than its revenues, while the campus' share of the State funding pie is only 5%. UCSF feels it is paying more into the UC system through the Funding Streams assessment than it is receiving back in benefits. The chancellor suggested creating a new financial relationship with the larger University and a separate governing board as possible solutions. The Regents agreed to form an exploratory committee to consider the proposal, and the UCSF Senate is assembling a task force to provide input. The Regents will hold their May meeting in Sacramento and want to meet with student groups there.

There are currently four ballots before the UC Davis faculty expressing various levels of confidence in the Davis chancellor and administration.

UCOP asked UC campus administrations and two external reviewers to review UCAAD's Salary Equity Study, and they raised concerns about the report's methodology. UCAAD is reviewing the findings and will be preparing a response. The President has indicated that he would support additional systemwide study concerning the UCAAD report.

The Provost recently indicated an interest in implementing a version of APM 668 (negotiated salary plan) as a 5-year pilot program, beginning this July at several campuses, despite Senate concerns. Senate Chair Anderson said he relayed concerns about shared governance expressed by Council to the President and Provost, and the pilot idea is now off the table, at least for the near term; however there is no final agreement about next steps. One proposal is to appoint a joint task force to discuss the issues raised by the Senate that would attempt to quantify the risks, benefits, and other empirical questions raised by Senate reviewers. One argument in favor of the NSP is that it will help recruitment and retention problems in specific disciplines such as the biological sciences, and so one option might be to tailor a narrower program specifically to faculty in those disciplines.

The Budget Rebenching Task Force met February 1. Although it has not reached an agreement about an enrollment management plan, it does agree that different student types should be weighted differently (although views differ about the precise weighting), and that UC should rebench over a fixed period, with eight years being one possibility. There is less agreement about whether to rebench with "new money" only, although "new money" is assumed to be any state funding augmentation above UC's current base. Overall, the Task Force's preferred rebenching actions in general order of preference, are to rebench with new money, to rebench with cuts to systemwide programs, and to rebench through reallocating existing base budgets. A principle of "do no harm" has been suggested, but some campuses make the point that the current system is harming them now. The Task Force will meet at least twice more before sending the president a recommendation.

The UCSD administration has asked the Senate to review a proposed affiliation agreement between UCSD and California Western School of Law (CWSL), a private law school in San Diego. UCSD representative Groves noted that the UCSD Senate Council had just voted to advise the administration to reject the proposal, primarily due to the lack of UCSD faculty interest in or support for working with CWSL, and a sense that the affiliation agreement would not be the right approach to building a high reputation law school at UCSD. CCGA and UCAP have also sent comments to Council raising concerns.

Discussion: UCPB decided to wait for news about the administration's response to the UCSD Senate about the CWSL affiliation before taking further action.

It was noted that faculty remain concerned about the online education project, and that the Senate should be concerned about the shared governance process around both UCOE and the negotiated salary plan initiatives. The graduate student representative added that the UC Student Association passed a resolution opposing UCOE Wave II over concerns about its possible effect on smaller campuses and on TAs and graduate students. It was also noted that the Senate should carefully monitor who is recruited to teach UCOE courses.

III. Consultation with UCOP – Office of Research and Graduate Studies

- *Steven Beckwith, Vice President for Research and Graduate Studies*
- *Wendy Streitz, Exec. Director for Research Policy Analysis and Coordination in the Office of Research & Graduate Studies*

Vice President Beckwith said that UC's low indirect cost (IDC) rates and internal waivers of IDC are combining to deprive the University from recovering about $500 million in research costs annually. About half of the problem is due to low ICR rates—UC charges an average of 53%, while total IDC costs average about 70%. The other half is the result of internal decisions to waive indirect costs—both on government and on private grants. Some of UC's peer institutions have policies and practices that allow them to negotiate higher IDC rates more successfully (private institutions like Harvard and MIT charge the highest IDC rates of the comparison group), but there is a 15% gap between UC's actual research costs and UC's federally negotiated IDC rate. Another factor is that UC must negotiate its rate with HHS, since most of UC's funding comes from the NIH, while some other universities receive a large proportion of funding from defense-based agencies, and thus are able to negotiate with Office of Naval Research, resulting in higher rates.

UC is working closely with higher education associations, including the AAU, the National Academy of Sciences, and others to get support for raising the rates. UC also has invited the GAO to send a representative to an upcoming campus-based ICR rate negotiation with HHS. On the other hand, the waiver problem has to be solved by individual campuses at the department level. Each campus has a different culture, and many faculty do not understand how IDC benefits them and supports the real cost of research. Administrators and faculty will have to work closely together to address the problem.

Executive Director Streitz is co-chairing a systemwide working group that is examining policies and practices that may hinder UC's ability to recover the indirect cost of research. The group is screening its draft recommendations with an advisory group and expects to have a near-final set of recommendations by March or April. There is consensus support in the workgroup for moving waiver authority to the campuses. The workgroup is also considering at least attempting to charge industry the "real" IDC rate. In some cases it will be a matter of convincing the agencies to follow their own policies for funding the full cost of research. The group is also looking at existing policies that may limit UC's ability to recover costs—as well as peer best practices to recover more IDC as a direct cost—for example, when Stanford is unable to recover its indirect costs, its applies an "infrastructure fee" as a direct cost to a contract or grant.

Discussion: One member noted the importance of getting faculty input and buy-in into the process. UC also needs to evaluate the impact of changing the policy on the funding itself. How many grants would UC lose if it stopped agreeing to waive overhead? VP Beckwith said UC does not compete for research on the basis of cost; it competes on the basis of quality. There is little evidence that the research would go somewhere else. Many of the institutions that charge higher IDC rates are among those with the highest amounts of research dollars per faculty member.

A UCPB member commented that the value of privately-funded research often exceeds any financial benefit, and that agencies often provide other kinds of support beyond and apart from the grant—e.g., fellowship money for graduate students. There was another concern that certain fields and disciplines, e.g., humanities, are more likely to receive funding from foundations seeking waivers, and thus would be disproportionately affected by a stricter anti-waiver policy.

IV. Consultation with UCOP

- *Peter Taylor, Chief Financial Officer*
- *Dwaine Duckett, Vice President, Human Resources*
- *Grace Crickette, Chief Risk Officer*

Peter Taylor reported that the Office of the CFO is drafting a bond financing plan for LBNL's second campus based on LBNL revenues only, which he expects to finalize in the next month or two.

Dwaine Duckett said the Health Benefits Work Group is considering a variety of scenarios for changing the design of UC health insurance benefits that will keep costs from rising so rapidly, including reducing the amount of benefits covered by UC, eliminating or adjusting specific coverage areas, and self-insuring a portion of the benefits plan through a UC medical center network option.

Grace Crickette said her office plans to release a draft prototype for a stand-alone self-insurance program in early March. The model is being informed by data about the facilities and programs UC employees and dependents use most, and innovative models in use at UCLA and elsewhere. The self-insurance option will not replace existing provider options, but UC will need to weigh its impact on other plans. They believe a self-insurance plan will save the University money, but the main goals are to balance patient need with cost and to create the healthiest population possible. The plan will include a strong wellness component.

Discussion: It was noted that a network using UC medical centers could not be completely UC-based, because some UC locations are far from a UC medical center. It was also noted that the employer's incentives around benefits (e.g., saving money) might not always align with the needs or desires of employees.

V. Consultation with UCOP

- *Lawrence Pitts, Provost and Executive Vice President*
- *Vice Provost Susan Carlson, Vice Provost for Academic Personnel*

Provost Pitts said he is no longer referring to a Negotiated Salary Plan "pilot," but he is still looking for a path forward to find alternate sources of revenue to help improve faculty salaries. He recognizes the Senate's strongly held opinions about the proposed APM 668; however, UC lacks data on some of the issues raised by the Senate, and others have been answered through the implementation of the Health Sciences Compensation Plan. The Provost wants to create a joint group of Senate faculty (including a UCPB representative) and administrators from both health sciences campuses and non-health sciences campuses to answer those questions and define whether it is possible to design something that can test the Senate's concerns. The intention is to vet the product through the Senate before the June Council meeting to give Council at least two meetings to discuss. Vice Provost Carlson noted that the tight timeframe is needed to take advantage of the existing expertise of this year's participants.

<u>Discussion</u>: One member noted concern about what appears to be pattern of UCOP decision-making that neglects proper consultation processes and that invokes the terminology "pilot" for a project or policy (Most notably UCOE and the NSP) that is intended to be permanent.

VI. Consultation with UCOP

- *Nathan Brostrom, Executive Vice President for Business Operations*
- *Patrick Lenz, Vice President for Budget and Capital Resources*
- *Debora Obley, Associate Vice President for Budget*
- *Clifton Bowen, Assistant Director, Budget & Capital Resources*
- *Elisabeth Willoughby, Principal Analyst, Budget & Capital Resources*

<u>*Rebenching*</u>: Nathan Brostrom said there is broad support on the Budget Rebenching Task Force for several overarching principles, but that differences remain about the proper weighting for each student type, the enrollment methodology, especially for aspirational graduate growth, fixed cost set asides, and the implementation timeframe. The latest model estimates that rebenching will require $190 million to implement, and proposes distributing $24 million per year over eight years disproportionately to campuses that fall below the highest per student weighting. Some amount, perhaps 80%, of any budget augmentation would be distributed to campuses under this new allocation model, while 20% would be distributed in a way that raises the per-student allocation on every campus.

The model also proposes a penalty for campuses that fail to meet their resident enrollment target equal to 150% of State funding for each student they fail to enroll. The plan's new concept is that all UC students are underfunded, rather than a certain number of students are unfunded. There is interest in setting an aspirational graduate student enrollment level and providing funding up to that level. In the end, the rebenching Task Force hopes to give the President its best recommendation rather than a set of alternatives.

<u>*State Budget Update*</u>: Patrick Lenz said UC has been struggling to reach a long-term budget agreement with the State that meets the University's needs. A number of sticking points continue to hamper progress, including agreements about tuition and UCRP. The University is now less certain about the State's long-term commitment to UCRP. UC was expecting at least a three-year commitment, but the State has been willing to commit only to the $90 million allocation currently proposed for the 2012-13 budget, even while the State has contributed $350 million to the CSU retirement fund annually for ten years. UC has indicated to the State that it is unable to operate without more long-term certainty about funding, and the lack of an agreement on UCRP could result in double-digit tuition increases. He said it is unclear that the Regents will support the Governor's tax initiative without more clarity and commitment from the State concerning long term funding and UCRP. UCOP will brief the Regents in March about the relative benefits of each of the revenue initiatives on the November ballot.

UC has been able to successful negotiate the removal of line items and earmarks from the budget to maximize the University's flexibility to use state appropriations. In addition, the State is proposing to combine UC's capital and operation budgets, and to give UC primary responsibility for both. This new ability to control the capital budget will help UC and the campuses.

The University is tracking Senate Bill 721, which would establish a higher education accountability program run by the LAO and the Department of Finance that would tie budget and policy decisions to UC's ability to meet yet to be determined metrics. UC wants to promote meaningful accountability measures, but is skeptical of measures that attempt to hold the University to a higher standard for less funding.

Discussion: One member noted concern about the proposed length of the rebenching period. Moreover, the Bureau of State Audits recently observed that the most underfunded UC campuses have the highest proportion of underrepresented minorities, and the State may view as insufficient a response from UC that they will fix the problem over 8 years.

Another commented that the penalty for undershooting enrollment targets has to be high enough to create an economic disincentive for campuses, and that 150% of State funding may not be high enough. It was suggested that the penalty should be closer to the marginal revenue a campus receives for admitting a nonresident. It was also noted that the president should set the total number of unfunded students; UC should not absorb unfunded students into the model and call them funded. At the same time, defining the number of unfunded student is tricky. All UC students are underfunded.

One member noted that redistribution should not be ruled out as a rebenching mechanism even if it is the least desirable alternative, although another commented that bringing all campuses up to the top level of per student funding, which happens to be the UCLA level, is a better option than redistributing to achieve a mean.

The graduate student representative noted that UCSA has endorsed the "Millionaire's Tax" initiative.

VII. Consultation with Senate Leadership

- *Robert Anderson, Academic Senate Chair*
- *Robert Powell, Academic Senate Vice Chair*

Chair Anderson reported that the Academic Council has approved the wording of a possible Memorial to the Regents supporting direct public advocacy of measures that will increase state revenues and prioritize funding for public higher education. The Memorial is scheduled to go before the Academic Assembly on February 15, and if approved, all UC faculty would be asked to vote on a ballot. However, the day after Council's vote, the Office of General Counsel informed the Senate about guidelines stating that University resources may not be used to campaign for ballot measures, although the Regents may adopt resolutions in support and the University may distribute informational material. The guidelines appear to work at cross purposes with some elements of Council's approved wording, so the Senate is working on alternatives that still articulate the consequences of defunding and include a clear call to the Regents to take action to increase university funding.

Chair Anderson said the Senate-Administration Task Force on Faculty Salaries has released a set of recommendations for making long-term improvements to faculty salaries. It recommends that when faculty advance to a new rank and/or step, they should move, at a minimum, to the average salary of their campus colleagues at the new rank and step. It also proposes moving the official systemwide scales to the median of the nine general campus averages for each rank and step. The view of the EVCs is that the proposal will require additional state funding.

Finally, Chair Anderson said it is unclear that a self-insurance plan will be competitive and save the University money. The risk exposure is three to four times the potential savings, and the focus appears to be on reducing employer contributions rather than total costs. The savings have less meaning if they are a result of a pass-through to employees. UCPB members agreed that UC should move cautiously on this proposal.

VIII. Proposal to Convert UCLA Anderson's Full-time MBA Program from State-Supported to Self-Supporting Status

UCLA CPB Chair David Lopez reported that the divisional CPB supports the proposed conversion despite some reservations. CPB notes that business education has become globalized and that the conversion will help AGSM compete more effectively with the world's top programs, most of which are self-supporting. AGSM views the expected loss of $2.5 million in state money as a reasonable trade-off, both for the added autonomy it will provide, and because it expects to be able to significantly increase donations when it becomes a private entity. UCLA is confident that the conversion will not result in a net loss of money for the campus.

Discussion: Chair Chalfant summarized some concerns about the proposal. First, State money currently provided to Anderson's MBA students would not be retained by the UCLA campus after the conversion because the conversion would reduce the number of students considered state funded, and under rebenching, that funding would revert to the system, not the campus. In addition, there is little to back up Anderson's claim that it will be able to raise more through private fundraising once it becomes self-supporting. Finally there could be unintended consequences for tuition and competitiveness; when tuition increases systemwide, Anderson will have to adjust its professional degree supplemental tuition downward or their tuition will become uncompetitive.

Members also expressed concern about large business school salaries and what one member termed the stealth privatization of the UC professional schools. It was noted that the Senate has the right to opine on the way what would be essentially a private entity would be using the UCLA name to generate revenues and whether they would be contributing appropriately to the general campus for that right. It was noted that many professional schools at other UC campuses are likely to consider the self supporting path in the near future, so it may be worthwhile for UCPB and CCGA to develop general principles and expectations for these programs. It was noted that many disciplines are globalizing, not only business.

Meeting adjourned at 4:00 p.m.
Minutes prepared by Michael LaBriola
Attest: Jim Chalfant