

University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
January 11, 2011

I. Chair's Announcements and Updates

- *James Chalfant, UCPB chair*

The Academic Council has sent its [recommendation](#) to the President for the use of any funds for faculty salary increases that may become available now or when budget conditions improve. Responding to the President's stated preference for a plan based on merit, Council supports a merit-based increment for faculty who have received a favorable merit review sometime in the past five years, including those at the Step V and IX barrier steps, applied to the salary scales but not to the off-scale increment. The administration remains concerned about the competitiveness of UC faculty salaries, but the President indicated he would not accept the Senate's preference for a plan that raises base salaries by simply moving the salary scales closer to market reality. He wants the adjustments to be based on merit.

Council approved a charge for a Senate Task Force constituted by the Senate members of the Provost's Budget Leadership Teleconference Group that will examine the fiscal impact of the recommendations of the Special Committee on a Plan for UC and develop implementation plans based on data to be supplied by UCOP. Council also approved a resolution asking the Council chair and vice chair to propose a charge establishing a Special Senate Committee on the Division of Agriculture and Natural Resources (ANR).

The UCLA division chair briefed Council on the UCLA College of Letters and Sciences' "Challenge 45" initiative. The College is asking departments to study the extent to which they can reduce upper division major requirements to 45 units to help address budget constraints and streamline costs, without harming quality. However, because students still need 180 units to graduate, it is unclear whether Challenge 45 will generate significant savings.

At the request of BOARS, Council endorsed President Yudof's proposed resolution regarding "Individualized Review and Holistic Evaluation in Undergraduate Admissions." BOARS has also asked Council to help ensure that the EVCs provide sufficient funding to support a high-quality individualized review process.

UCPB has consistently criticized proposals for new schools and programs for not including a viable long-term funding plan. The UC Commission on the Future recommended that chancellors include budget information in program reviews, including the opportunity cost of starting new programs or enhancing existing programs. CCGA and UCEP will work with divisional committees on this issue, and will consult their CPBs to develop specific budget questions that would be useful to include in program reviews.

Discussion:

- There is some concern that the push to systemwide holistic review will require campuses to devote more resources to the admissions process, but that holistic review will add little real value. Campuses' current admissions processes produce good outcomes. Holistic review is not a silver bullet for campus climate and diversity problems. This is not a good use of resources in the current budget environment. Applicants whose quantitative scores make it certain that they will be admitted (or not) should receive only cursory human examination, freeing resources for more intense examination of the marginal applications.

- It was noted that UCLA has always asked for budgetary information to be included in program review committee materials. One member suggested that there should be a systemwide rule preventing the construction of a new building without a source of funding that can be counted on, effectively an annuity, that covers its cost and upkeep.

II. Budget Briefing

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

2011 will be a challenging year for the University. To help address the \$25B state budget gap, the Governor has released a 2011-12 higher education [budget](#) that calls for a \$500M cut to UC, a \$500M cut to CSU, and a \$400M cut to the Community Colleges. For the first time in UC history, revenue from student fees will exceed revenue provided by the state.

Despite the budget gap, the state did apply \$106M in one-time federal stimulus funding to UC's base budget before implementing the reductions. It also provides a small increment for annuitant health benefits and debt service on lease payment. The \$500M cut compares UC's budget from two years ago to today. The budget reduction is offset by the recent 8% tuition increase that will generate \$115M, net of financial aid. The budget includes no prescriptive cuts. The state honored UC's request to allow it the flexibility to manage cuts on its own.

However, UC's \$500M problem is compounded by an additional \$350M in mandatory cost increases where UC has limited flexibility – including employer contributions to UCRP, academic merits, health benefits, and rising costs of utilities – as well the public's expectations for access. Complicating matters further, the Governor's overall budget assumes passage of a June ballot measure to extend temporary tax increases for five years. Failure of that initiative would force the state to develop another plan that could include additional cuts to higher education. Vice President Lenz said he hopes the legislature will tie the current proposal to higher education to mitigate any future budget cuts that may arise as a result of the initiative's failure.

The Governor wants UC to maintain current enrollment and fee levels (although he does propose a 36% fee increase at the CCCs to fund enrollment). His budget proposes no changes to the Cal Grants program and no cuts to the Corrections budget. UC plans to pursue funding for critical capital projects, including a new building at UC Merced. The governor will honor collective bargaining agreements made with the unions under Governor Schwarzenegger, but he is asking other state employees to take an 8-10% reduction.

Later in January, UCOP will present the Regents with an overview of the budget and a menu of available options for implementing the \$500M reduction. UCOP is also asking chancellors to develop a plan for their share of cuts by the end of February. The Regents are expected to act on a plan in March. In the meantime, UC will define to the public the threats posed by these cuts and additional cuts.

Discussion

- Chair Simmons said campuses should start planning for how to absorb the cuts as well as possibilities for new academic efficiencies (Council was very impressed with UCLA's work on Challenge 45). Campuses will need to find a way to simultaneously address the \$500m state budget cut and the new UCRP employer contribution. It will be more difficult for UC to pass salary increases for faculty and non-represented staff in light of the governor's call for a 10% pay cut for state employees.
- Messaging is critical. The ARRA funds were a one-time infusion to make up for previous cuts and should not be characterized as offsetting the current \$500M cut.

- VP Lenz said UC's main message will be the erosion of state funding relative to student fee revenue. UC is \$750M, or 22.5%, below peak state funding in 2007-08, which is comparable to 1998-99 levels when UC served many fewer students. The public cares most about access and affordability and the Regents are concerned about limiting access at a time when there are growing numbers of UC-eligible students.
- VP Lenz said UC is the state's best investment in terms of its economic return. It makes little economic sense to ask the faculty to teach more and do less research, given the likely impact on the research funding UC would forego. UCPB can help get the message out about the importance of UC research to the economic health of the state.
- UC's message has to focus on maintaining quality rather than seeking savings through new efficiencies. Every campus is likely to respond by cutting the number of lecturers, but this will harm, not protect educational quality. UC should not pit itself against corrections or any other state-funded constituency.
- This is an opportunity to forge a multi-year state-funding plan with the legislature. UC should also develop a five-year budget plan that works in tandem with the governor's plan.
- UC should look closely at special projects it manages that require ongoing state funding – e.g. Cal ISIs – in light of the need to fund UC's core mission. It was noted that ANR receives \$60m in state funding, which is equivalent to Merced's state general fund share.
- One of the student representatives noted that UC should also seek student perspectives on how best to mitigate harm to quality.
- The governor's budget is a good one for solving the crisis over time without gimmicks, but history and voter sentiment suggest it will be difficult to pass existing tax cut extensions.
- 500 non-residents generate about \$10M in revenue. Non-resident enrollment is one of UC's only flexible options, although not all campuses have an equal ability to recruit more non-residents. UC could attract more non-residents if it admitted them on the same standard as residents, rather than a higher standard.

III. Appendix E

UCPB met in Executive Session to discuss 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.

IV. Consent Calendar

1. Approval of the November 2, 2010 UCPB Minutes
2. Approval of the December 7, 2010 UCPB Minutes

Action: UCPB approved the consent calendar.

V. Faculty Salaries

2011-12 campus budgets include a placeholder for faculty and non-represented staff salary increases of 3%, which represents \$87M. Fiscal conditions are making implementation of these increases less likely. Chair Chalfant asked UCPB members if they thought the Senate should continue to support faculty salary increases in the current fiscal climate or advocate that the

money be used instead to help offset the \$500M cut. Some members felt that salary increases would be a non-starter with the Regents, state leaders, and the general public. Others were more supportive.

VI. Funding Streams Proposal

- *With Debora Obley, Associate Vice President for Budget and Michael Clune, Director, Operating Budget*

Report: UCOP has proposed a new funding distribution model for itself, systemwide programs, and the campuses (dubbed “Funding Streams”) to be implemented beginning in 2011-12. Campuses will retain all revenues they generate, and UCOP will assess a flat assessment (currently estimated to be approximately 1.67%) calculated on all fund sources to provide support for OP administration and systemwide programs. The tax rate was calculated to maintain UCOP’s current funding level (\$305M), so UCOP initially will receive approximately the same level of support under Funding Streams that it does in the current year. (A modest increase in the total assessment amount may be necessary to address cost increases at UCOP, particularly for retirement contributions, but such an increase would be consistent with projected revenue increases on the campuses.) The new model will be implemented so as to be close to revenue neutral to campuses in the first year, meaning that each campus will receive approximately the same level of funding they would have received under the current model. UC believes campuses will benefit under Funding Streams compared to the current methodology, because it is simpler and more transparent, and holds the potential for future revenue growth. Campuses will also be able to pay their UCOP assessment with any available funds, thereby freeing up less restricted general funds potentially for other purposes.

UCOP will base the distribution of its first assessment on 2009-10 expenditures. Funding Streams will not fix the UCOP budget at a specific level, which will be negotiated with the Regents each year, and as such, the assessment rate may rise or fall accordingly over time. UCOP has become very lean, but is exploring ways to reduce its own budget and shift some central functions to the campuses.

Operating Budget Director Clune described some of the mechanics of the transition. UCOP will begin by calculating \$305m as a percentage of total systemwide expenditures and apply a portion of that total to each campus. UCOP will return to campuses all funding streams it now retains (Educational fee, 6% of Opportunity Funds and off-the-top funds, private ICR, etc.) UCOP will also re-label campus sources of General Funds in a way that ensures that campuses have the same current total budget. UCOP will then distribute additional 19900 monies currently funding UCOP to campuses proportionally on the basis of the 2011-12 assessment level.

Some campuses will benefit more than others from the ability to retain future growth in educational fee revenues. UCSF has a large general fund base but few students contributing revenue, so it benefits more from the current approach. UCSF asked that UCOP not provide General Funds to them. UCSF’s initial tax rate will be lower, but the assessment on future increases in expenditures will be the same as other campuses.

Discussion: The document should spell out the process by which campuses will reach agreement about the assessment rate, or who has authority to set the assessment rate. AVP Obley said the President and Regents would have this authority.

One member requested data showing expenditures by revenue source across the campuses, as a means of understanding how each campus and each campus division and function would contribute to central functions under Funding Streams; for example, the medical centers compared to the general campus, research grants compared to tuition. A breakdown of the costs

included in the \$305M UCOP budget was also requested. He asked whether there are possible alternative plans that would involve differential tax rates based on the benefits received from UCOP? AVP Obley said UCOP would not project or assume how campuses will pay their assessment. By UCPB's February meeting, UCOP can provide 2009-10 expenditures by fund source and walk the committee through the various funding adjustments necessary to implement the proposal, and a list of UCOP-funded programs. She noted that the medical centers benefit from their participation in the larger system in many ways, including UCOP-managed retirement and benefits programs and budgeting strategies. Similarly, not all campuses want to support ANR because they feel they do not benefit directly from ANR, but the system has to find a source of revenue for ANR. She said it is difficult if not impossible to evaluate the proportional value UCOP adds on a unit by unit or campus by campus basis, but she invited UCPB to include these comments in its formal response.

One member said the more understandable and transparent Funding Streams model will help UC's budgeting efforts with the state. It was noted that UCPB has participated in discussions about Funding Streams for at least ten months, but the Senate may need a little extra time to deliberate.

VII. Faculty Salaries

○ *With Susan Carlson, Vice Provost for Academic Personnel*

Vice Provost Carlson joined UCPB to discuss faculty salaries and a presentation on faculty competitiveness she and Senate Chair Simmons are preparing for the January Regents meeting.

Faculty Salaries: A 3% merit-based faculty salary increase is still on the table, even in the current budgetary circumstances. The President does not support an across-the-board plan. He wants to reward merit, while being inclusive as possible.

Discussion:

Chair Chalfant noted that the Senate can continue to help make the case for fixing UC's competitiveness problems. Council has already expressed reluctant support for a merit-based plan, while opining that the published salary scales are, in fact, based on UC's merit system and noting concern that the provost's earlier proposal to create two salary scales would violate APM 360. The Senate is also worried about setting the wrong precedent for future adjustments.

Chair Simmons wants the Senate to be united and clear about its position on salaries. The main issue still on the table is whether to apply the percentage to the off-scale increment. A UCAP study showed that less than 1% of faculty had failed to earn a merit increase over the last two cycles. Of course, state employees are being asked to take a 10% salary reduction, and in the current budget environment, someone's raise will mean a layoff elsewhere. The Senate might consider deferring a pay increase on moral or political grounds.

The debate is over a small amount of money; a 3% raise will not solve UC's recruitment and retention issues. On the other hand, the amount is not as important as the morale boost that would come from a raise. This would be symbolic evidence of UC's support for its faculty.

Faculty Competitiveness PowerPoint: The Biennial Accountability Sub-Report on Faculty Competitiveness attempts to capture the quality of UC faculty and UC's competitiveness in attracting them. It also notes trends in the composition of UC faculty.

The number of general campus professorial faculty, clinical health sciences faculty, and lecturers have all increased steadily over the past two decades, although in 2010 the overall number of general campus professorial faculty and lecturers decreased.

Faculty FTE growth has not kept pace with student enrollment growth. The increasing student-faculty ratio means that faculty are less able to assign papers to students directly or to teach them writing and critical thinking skills on an individual basis. However, it makes little economic sense to suggest that faculty teach more, considering that UC derives 1/3 of its revenue from faculty contracts and grants.

UC could see large numbers of retirements in the near future, given the large number of faculty in the age range of 56 and 65. This could hurt UC, but it is also an opportunity for renewal.

Average faculty salaries lag the Comparison 8 by 11.2%, a problem compounded by the fact that private institutions, against whom the lag is even greater, are UC's main competitors. In terms of total remuneration, UC is 4-7% below the market average, figures that do not reflect furloughs or the restart of contributions.

New faculty appointments dropped significantly last year. There is no evidence of an unusual increase in retirements or resignations. UC's hiring of women and underrepresented minorities lags the availability pool in many areas, but exceeds it in others.

UC faculty continue to receive an extraordinary number of prestigious national awards. There is evidence that may indicate that graduate students are viewing an academic career as less desirable than they once did.

VII. Draft Memo from UCPB, CCGA, and UCORP Regarding ANR's Redirection of Endowment Funds

Some faculty are alarmed by plans by the Department of Agriculture and Natural Resources to redirect money from at least two campus endowments to fund other ANR priorities and initiatives around the state. Chair Chalfant drafted a memo to Council resolving that ANR should not re-direct endowments until shared governance is honored and Senate committees are consulted about the effects of the reallocation on research and graduate education and the proposed new research initiatives. UCORP and the chair of CCGA have also signed on to the memo.

Action: UCPB approved the memo.

VIII. Systemwide Senate Reviews

1. Funding Streams

Action: David Lopez, Eric Halgren, and John Ellwood will assemble comments for UCPB's review in February.

2. UCPB Draft Response to UCAF's Proposed Revisions to APM 010 and 015

Action: UCPB approved the draft memo.

3. Policy on Self-Supporting Part-Time Graduate Professional Degree Programs

Action: Chair Chalfant and Analyst LaBriola will draft a response memo.

The meeting adjourned at 4:00 pm
Minutes prepared by Michael LaBriola
Attest: James Chalfant