

**University of California Academic Senate  
University Committee on Planning and Budget (UCPB)**

**Minutes of Meeting  
June 21, 2011**

**I. Consent Calendar**

- Approval of the May 3, 2011 UCPB Minutes

**Action:** UCPB approved the April minutes.

**II. Announcements and Updates**

- *James Chalfant, UCPB chair*

Following Council's discussion in May, Chair Simmons sent a [memo](#) to UC leaders summarizing the Senate's views about the UC Online Education Pilot Project and the project's implementation going forward—in particular, concerns about its shifting focus, a new borrowing plan, and a business model based on attracting significant number of non-UC students.

Council approved forwarding the draft report of the Implementation Task Force to the administration with the request that the UCOP Budget Office work with the Task Force to model the impacts of adopting the report's funding recommendations. The President's Rebenching Task Force will meet again in September.

Council also met with Regent Bonnie Reiss, who said the Regents are studying the possibility of implementing differential tuition across campuses. Many Council members spoke against differential tuition.

The Academic Council's Special Committee on Lab Issues (ACSCOLI) was briefed on a second campus proposed for the Lawrence Berkeley National Laboratory (LBNL). LBNL is exploring the possibility of funding construction of the campus with debt. Chair Simmons has asked LBNL to consult with UCPB on the finance plan so UCPB can advise Council about potential benefits and risks. LBNL representatives have agreed to work with a UCPB subcommittee over the summer and/or meet with the committee in person in October. LBNL's goal is to ask the Regents for approval of the final plan in November.

Senate Chair Simmons said the July Regents meeting agenda will include approval of the UCOP budget as well as a report on the administrative efficiencies project and the common payroll system. UCOP will ask the Regents to approve a contingent tuition increase based on the final state budget. The President will ask for the authority to act on faculty salaries and to decide how to use the laboratory management fee.

Chair Chalfant and Vice Chair Minster will return as UCPB chair and vice chair in 2011-12. UCPB may schedule one or two iLinc meetings between July and the next scheduled in-person meeting, which is scheduled to occur on October 4.

**II. Consultation with UCOP – Online Education Pilot Project**

- *Dan Greenstein, Vice Provost for Academic Affairs*

○ *Lawrence Pitts, Provost and Executive Vice President*

**Issue:** The Academic Council has asked UCOP to share its financial model for the online education pilot project with UCPB and to consult with the committee about the upcoming market survey, the progress of the program, and milestones for evaluating its continuing financial viability.

Vice Provost Greenstein distributed a draft *pro forma* detailing 10-year cost and revenue assumptions associated with non-UC students who will take online courses for transferable credit. He said the aim of the project is to offer a range of high-enrollment, lower division, general education courses to UC students to assess the effectiveness of online education at UC. An additional goal is to generate revenues from non-UC students taking the courses. UC has secured a \$750,000 grant from Next Generation Learning Challenges and will borrow up to \$6.9 M to build the program.

The main drivers behind the assumptions are number of students, cost per credit hour, and cost of instruction per student. The model envisions the infrastructure support necessary to support the development of 40 lower division courses and two additional courses per year. It estimates the average cost of each course at \$75K, based on work already underway at UC campuses and at comparison institutions. It bases revenue estimates on current tuition pro-rated per credit hour. It estimates that revenues will meet costs in year 3, when 5,400 non-UC students each take one course in a given year. Repayment of the \$6.9M loan will be achieved in year 5 (2016-17), when 7,100 students each take one course. The model is demand driven; UC would only build courses to meet demand. The assumptions and projections in the model are conservative.

The project is also an opportunity to build a common online learning infrastructure that will allow campuses to share educational technologies and leverage existing infrastructures more efficiently. UCOP has initiated an RFP to source the learning environment and will interview potential vendors in July. The revenue estimates do not incorporate the significant efficiencies and economies of scale that will be achieved through a common environment. UC will also employ a market research firm to study the potential demand for the courses.

A group of administrators and faculty is meeting over the summer to discuss issues associated with revenue sharing, incentives for departments to participate in the project, the normalization of courses between UC and non-UC students, eligibility, and other details. UCEP is discussing the course approval process. Faculty participating in the program will receive an additional honorarium.

Before launching the project, UC surveyed other models of online education and designed the project to avoid the problems faced by other programs—by, for example, involving faculty every stage.

Provost Pitts said UC has established several milestones and “exit points” at which the project’s success will be measured, based on projected versus actual enrollment and revenue. By fall 2011, UC expects to have data on demand and price sensitivity broken down by region, discipline, and specific communities such as potential transfer students, the underserved, and others. The UC Educational Evaluation Center at UCSB will begin analyzing data on course effectiveness in spring 2013. UC will consider halting the project if outcomes do not meet projections. Provost Pitts and Vice Provost Greenstein invited UCPB members to help UCOP over the summer on

details including the development of market research survey questions, selection of a common learning environment, a revenue sharing analysis, course articulation, and a request for information from industry leaders about how they support students enrolled in online courses.

**Discussion:** A concern was expressed that putting UC and non-UC students together in the same online course could impair educational quality and the UC brand. It was noted that the faculty have authority over curriculum, but administrators control technological equipment and services. These two worlds overlap in online education; there is a risk that learning environment design could encroach into faculty control of curriculum.

#### **IV. Consultation with UCOP**

- *Lawrence Pitts, Provost and Executive Vice President*
- *Nathan Brostrom, Exec. Vice President, Business Operations*

**Financial Aid:** EVP Brostrom reported that UCOP is developing a new financial aid proposal to clarify the goals of UC's current aid programs and extend financial support into the middle class (household income between \$90K and \$120K approximately) by providing 50% tuition relief to students in these ranges. The current program is one of the most generous in the country but is largely designed for lower income families. Tuition increases have actually reduced the work/loan expectation for the lowest income students by \$1000 since 2006-07, but students on the border of financial aid eligibility have borne the full brunt of tuition increases.

To extend financial aid eligibility, UC would have to increase return-to-aid from tuition increases from 33% to at least 36%. The University is looking at possibilities for expanding the sources from which it generates financial aid revenue beyond the return-to-aid pool. EVP Brostrom suggested several potential additional sources that can fund a portion of the pool temporarily, including the Total Return Investment Pool (TRIP) and corporate fundraising. In addition, the Funds Functioning as Endowments (FFE) payout plan would create an additional 5% payout from endowments each year for five years. A recently created task force will examine these options; UCPB Chair Chalfant will serve on the task force.

**Rebenching:** Provost Pitts postponed the June meeting of the Rebenching Task Force pending the collection of data and the Budget Office's need to focus on the state budget and July Regents meeting. The first two meetings included a frank exchange of views and have been valuable in defusing myths about how state funds are distributed. The Task Force is aware of the Senate's view that every funded resident undergraduate should receive the identical state subsidy, regardless of his or her campus, but there are concerns about tying graduate enrollment to the same concept. Some Task Force members are concerned about "redistribution." The Provost has asked campuses to opine on what part of their state funding budget should be subject to rebenching and what should come "off the top" before the funding formulas are calculated. He said he hopes a preliminary report can be sent to the President by the end of 2011.

**Statements of Intent to Register:** UCOP is reviewing preliminary SIR data. UC exceeded enrollment targets by 2000 overall, and Berkeley alone has 1000 more resident SIRs than anticipated, but it is too early to explain why. (The data are preliminary in part because there is a "summer melt" phenomenon still to come, in which not all SIRs actually enroll in the fall.) Diversity indicators improved at almost all campuses and the number of Chicano/Latino students rose substantially systemwide. Systemwide, 12% of freshman SIRs are non-residents, up from

8% last year. The non-resident proportion of the undergraduate SIR pool is 30% at Berkeley, 8% at Davis and Irvine, 9% at UCLA, 3% at UCR, 18% at UCSD, 10% at UCSB, and 2% at UCSC.

**Discussion:** The plan to use endowment income for five years is a good idea, but caution is needed. Doubling the endowment payout puts UC on a path to reduced buying power in the future. It might be better to implement the FFE (funds functioning as endowments) plan gradually so UC is not as dependent on the income after five years—perhaps 5% the first year, 4% the second year, 3% the third year, 2% the fourth year, and 1% the fifth year, as a “glide path” getting us back to normal payouts.

Tuition increases get a lot of attention, but increases to housing costs and campus-based fees are perhaps more significant and less justifiable.

Rebenching should proceed according to what is best for the system. The Task Force should move away from the view that rebenching will involve “redistribution” to a notion that it will help enable all campuses to generate revenues they need to maintain and increase excellence. Off-the-top exemptions should be kept to a minimum.

Funding Streams will tax campus expenditures to pay for certain “off the top” items, and under rebenching, it is assumed that funds will be taken “off the top” before distributing. UC needs principles for determining how such decisions will be made.

## **V. Systemwide Review of Library Planning Task Force Report**

**Issue:** Senate divisions and committees have been asked to comment on the [Library Planning Task Force Report](#).

**Discussion:** Members briefly relayed divisional conversations about the report, but opted not to submit a formal UCPB response. Faculty have raised concerns about some of the prescriptive recommendations to faculty to publish in open source and less expensive journals, and to libraries to carry journals only out of “academic necessity.” It was noted that in general, faculty are not well-informed about journal costs and implications of retaining copyright and that some of the more expensive and high profile journals like *Nature* do take advantage of the trend of universities to give more credit to faculty who publish there.

## **VI. Report of the Senate-Administration Faculty Salaries Task Force**

Council has invited committees and divisions to submit informal comments about the report, which recommends two options for distributing a potential pool of money for faculty salary increases: applying the raise to the on-scale portion of salary only, and applying the raise to total salary. Both options would be contingent on a positive merit review. The Senate members of the Task Force support the first recommendation.

## **VII. Consultation with UCOP – Division of the CFO**

- *Peter Taylor, Chief Financial Officer*
- *Maria Anguiano, Associate Director, Strategic Initiatives, CFO Division*
- *Lisa Baird, Associate Director, Strategic Initiatives, CFO Division*

CFO Taylor and UCPB discussed LBNL’s proposed second campus, the online education project loan, and a pending MOU with the State to finance capital construction.

**LBNL Second Campus:** LBNL is considering six sites for a possible second campus, and is expected to identify a final site by mid-July. UC is engaged in regular discussions with LBNL about debt-financing alternatives to help fund a project that could cost as much as \$500-750 million. UCOP will begin to explore specific financing options with LBNL at the end of July. UC will not use its highest-rated bond credit for this project, the General Revenue Bond (GRB) credit, because general revenues include student tuition. However, UC is considering other types of bonds as well as public/private partnerships. The debt service would be covered by revenue generated by the lab's work for the Department of Energy.

**MOU with State for Bond Repayment:** In July, UCOP will seek Regental approval to issue \$450 million in low-interest commercial paper to finance construction of several state-approved capital projects for which state bonds have been authorized but not yet issued or sold. UC would enter into an MOU with the State whereby the State would issue bonds four years from now to repay UC with interest. The State Treasurer, Controller, and State Board of Public Works would have to approve the MOU. The loan will cost UC about \$10 million, but the opportunity cost of not pursuing this alternative is greater, as UC has the opportunity to take advantage of historically low interest rates. CFO Taylor also mentioned that the Office of the CFO developed a Debt Affordability Model, customizable for each campus and medical center, to help campuses better assess their ability to assume debt to fund individual projects.

**Online Education Project Loan:** The Strategic Initiatives Group within the CFO Division worked with organizers of the online pilot project to develop the *pro forma* establishing annual milestones for meeting the cost and revenue assumptions behind the project. The CFO will monitor progress closely and discontinue loan funding if it appears milestones are not being met. Lisa Baird noted that campuses have been authorized for similar loans through the CFO Division's cross-campus collaboration program (C3). One recent example was a project to consolidate procurement services at UCSF and UCB.

**Discussion:** Chair Simmons said LBNL's research is important to UC and the nation. The second campus would consolidate several existing LBNL facilities and a facility for the new Next Generation Light Source (NGLS) project into a single location. Vice Chair Anderson said the fundamental question for UCPB is whether the Senate should support using the credit of the Regents to build the second campus based on the budget implications and associated risks. For example, could a federal administration unfriendly to research cut funding, leaving UC exposed? One member said it is important for UCPB to see LBNL's full presentation on NGLS; the specific research envisioned for the campus makes a difference.

There was some concern about the growing number of instances of UC using debt to fund projects. It is wise to make better use of UC's untapped borrowing capacity, but is capacity being stretched too far? CFO Taylor responded that UC has abundant debt capacity; the bigger issue is to ensure that UC has the revenues to repay it. That said, over 80% of bonds issued by UC are used to fund revenue-producing facilities like dorms, student union buildings, auxiliaries, and medical center projects.

## **VIII. Consultation with UCOP – Budget Outlook**

- *Patrick Lenz, Vice President for Budget and Capital Resources*
- *Debbie Obley, Associate Vice President for Budget*
- *Michael Clune, Director, Operating Budget*

**State Budget:** On June 17, Governor Brown vetoed a budget plan approved by the Democratic Legislature that included an additional \$150 million cut to the University. The Governor opposes an all-cuts budget, but still needs two Republican votes from each house to get a 2/3 supermajority approval for a November ballot initiative to extend the taxes expiring in July. It is unclear whether there will be bridge funding to make up for the loss of revenue from the expiring taxes. The Republicans are adamant that there is no need to bridge the expiring revenue, but there may be room for compromise. The state Controller ruled today that despite meeting a June 15 legal deadline for passing a budget, legislators will forfeit their pay until they produce a “balanced” budget required under the law.

Vice President Lenz is communicating to as many constituencies as possible UC’s opposition to additional cuts, as well as to another proposal that appeared in the Legislature’s budget, which would shift the state’s \$540 million payment to UC into the next fiscal year. The latter is a significant threat to the University’s credit rating.

President Yudof will ask the Regents to authorize additional tuition increases up to 32% contingent on additional state cuts. For example, UC will need an additional 9.6% fee increase to address an additional \$150 million cut. As it communicates the need to implement additional tuition increases with any additional budget cuts, the University must also continue to communicate the larger \$862 million challenge it faces as result of the \$500 million cut and other mandatory cost increases. UC believes any tuition increase over 10% will have to be postponed until mid-year to give students time to plan and adjust. In that case, UCOP is exploring possible one-time bridging options to get the University through the first half of the year.

VP Lenz also mentioned that CSU plans to implement an additional 12% fee increase for the fall semester if the state imposes an additional \$150 million cut. The nascent Riverside Medical School is part of the budget negotiations between legislators and the Governor. Chair Chalfant thanked VP Lenz and the Budget Office for their willingness to consult and engage UCPB regularly throughout the year. VP Lenz thanked UCPB members for their advice and support.

**Rebenching:** The Senate has asked UCOP to model the impacts of adopting the funding recommendations in the draft Implementation Task Force (ITF) report, including a new definition of Average Cost that reflects what UC actually needs to maintain excellence.

Associate Vice President Obley said the Budget Office will have time later in the summer to begin outlining some rebenching options. She said she met with Bob Samuels, president of the University Council - American Federation of Teachers (the union representing UC Lecturers) who had expressed concerns about UC’s budget allocation methodology and transparency. The UC Budget Office response to Professor Samuels includes information about how UC has traditionally calculated average cost.

Chair Chalfant noted that the first meetings of the Rebenching Task Force focused on models to weigh different kinds of students. The weighting scheme is not trivial, but it is a basic exercise and not the most important question right now. The Task Force has not yet agreed to the Senate principle that every student of a given type should receive the same state subsidy regardless of campus. He hopes the Budget Office can model rebenching options that do not represent a “zero-sum game” or place the emphasis on “redistribution” but that show ways for all campuses to benefit from rebenching, generate revenues they need to maintain and increase excellence, and expand their graduate student population. For example, campuses that displace residents in favor

of non-residents will benefit from non-resident tuition, but campuses that do choose to take them additional resident students should also benefit in some way.

AVP Obley said taking into account the \$500 million budget cut, UC now enrolls approximately 23,000 unfunded students. As long as campuses bear a large unfunded population, they use NRT to make up for that specific shortfall. Vice Chair Anderson said the ITF model is only one possibility, but that all alternatives will have to address the same issues. As UC becomes more dependent on undergraduate tuition, the University may have to think differently about how it supports or subsidizes professional schools and other parts of the University enterprise with that revenue. He noted that the Senate has asked that “off the top” funds not subject to the rebenching funding formulas, should be kept to a minimum, unless they can be justified.

## **IX. Executive Session**

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