University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
May 1, 2012

I. Consultation with UCOP

- *Peter Taylor, Chief Financial Officer*
- *Grace Crickette, Chief Risk Officer*
- *Sandra Kim, Executive Director, External Finance*

Alternative Risk Options (Grace Crickette): The University has reduced its worker's compensation and medical malpractice insurance costs significantly in recent years, but costs are rising in other risk areas, including general and auto liability. The Office of Risk Services (ORS) is proposing a new alternative risk vehicle – a captive insurance organization – to help UC reduce costs even further. A captive is an insurance company owned by the insured, in this case UC, which would be licensed though a Washington D.C. domicile. It would give UC access to additional insurance coverage from the government, at a lower cost, for acts of terrorism, and would allow UC to access reinsurance markets, buy excess insurance from the captive for each of its insurance trusts, and increase the University's capacity to transfer risk between different areas. The captive would incorporate UC's existing insurance program for vendors who work on campus, and allow UC to partner with a private insurance company to underwrite third party business and potentially generate revenue.

ORS is also developing an employer "self-insurance" program, known by its working title *UC Care*. UC currently offers a small self-insurance program with Anthem Insurance that covers about 3,000 employees, and a recent study indicated that extending a self-insurance option to a broader population of employees could produce significant savings. *UC Care* would not replace existing provider options. It would take advantage of existing UC and non-UC healthcare centers and reward employees financially for activities such as physical exams and screenings. ORS anticipates that UC employees would pay about the same for the *UC Care* option as for the Blue and Gold plan. ORS will send the final plan draft to the Health Care Task Force by May 16. UCPB is also welcome to view the draft document at that time.

Proposed Modifications to Debt Payment Process in Budget Negotiations (Peter Taylor)
The Governor's 2012-13 budget proposes combining UC's general fund appropriation and general obligation bond debt service payments owed for UC capital projects into a single appropriation. The proposal would allow UC to use its more favorable credit rating to refinance the debt and keep the difference—increasing UC's flow of unrestricted money, and providing more flexibility and control over how UC can use the money. The Legislature is pushing back on the plan because it wants to maintain its authority over future UC capital projects.

UC sold $860 million of 100-years bonds in February to take advantage of historically low interest rates. UC believes that it can finance $2 billion worth of capital projects through the sale over that period.

LBNL Proposed 2nd Campus Financing (Sandra Kim) UCOP has been working with LBNL to develop a workable financial structure for the proposed second campus, which is estimated to cost $300 million. The CFO Division's original plan for an LBNL-based debt credit vehicle, toward which only LBNL-generated revenues would be pledged, would be extremely costly or perhaps unsellable. Under a new plan now being considered, UCOP would fund the 2nd campus with UC-based Limited Project Revenue Bonds (LPRB). To protect the greater University from any risk of default, UCOP would ask LBNL to fund a debt service reserve fund up front with one year's worth of debt service, and a credit enhancement insurance premium, which would act as an additional reserve fund. LBNL is still developing a repayment mechanism. The LPRB does not include student tuition as a source of funds for repayment.

II. Announcements

- *Jim Chalfant, UCPB chair*

The Academic Council approved the charge for a Senate Membership Work Group that will discuss UCSF's announcement that it intends to unilaterally expand Senate membership to its Health Sciences Clinical and Adjunct series faculty at the level of Associate Professor or higher. The Work Group will consider the extent to which the Senate can alleviate concerns about specific privileges not shared by faculty in those series. Council also has asked UCRJ to rule on the legality of UCSF's action. Council will hold a separate teleconference to discuss the report of the Joint Taskforce on Faculty Salaries and a proposal from senior administrators at UC Berkeley for a new University governance structure that would delegate more decision-making autonomy to campuses and campus-based governing boards.

Council has issued a letter about the external review of the UC Observatories, which recommends clarifying the management and administrative structure of UCO, improving transparency and communication, and addressing the needs of graduate students.

ACSCOLI has urged that the fees generated from UC's management of the national laboratories this year be used to support systemwide research projects identified through the Laboratory Fee Research Program, and not redirected for general funding purposes. The Academic Council endorsed this recommendation.

UCPB has asked UCOP Human Resources to brief the committee on a feasibility study for a proposed Defined Compensation Plan for new health sciences hires. UCPB should consider how the plan could affect the overall health of UCRP and the resources needed to address its unfunded liability, focusing mainly on the budgetary impacts of this significant burden on the University.

Senate Chair Anderson said the UCLA Graduate Council and Executive Committee have rejected a proposal from UCLA's Anderson School of Management to convert its MBA program to self-supporting status. Chair Anderson's view is that CCGA's guidelines for self-supporting programs are intended to apply to both new programs and conversions.

III. Consultation with UCOP – Budget Office

- *Debora Obley, Associate Vice President, Budget and Capital Resources*
- *Clifton Bowen, Assistant Director, Budget and Capital Resources*

Budget Negotiations: The State budget situation is uncertain. The Department of Finance will not release specific details about a proposed multi-year funding agreement for UC until after the Governor's May Revise budget, scheduled for release on May 14. The Regents do not want to raise tuition, but UC campuses are emphatic that they have addressed all cuts and efficiencies, and that additional cuts will force them to begin dismantling critical programs.

Rebenching: A draft of the Rebenching Task Force report has been circulated to the members of a drafting subcommittee of the task force, and the final report is expected to be circulated for systemwide review. In the past, campuses' permanent base budgets were "cost-adjusted" upward as UC's budget was increased. Now, AES and other centrally funded programs will be removed from the calculation of the base for purposes of rebenching and cost adjusted separately if new revenue becomes available. UCOP will implement the rebenching model incrementally over six years, and no central program will be on funding "auto pilot." In particular, no process for cost-adjusting off-the-top items has been developed.

The Budget Office will provide data on AES and ANR funding in time for UCPB's June meeting.

Discussion: A UCPB member noted that President Yudof stated in a recent radio interview that a double digit mid-year fee increase is possible if the Governor's November ballot measure fails. UCLA has also indicated that failure of the ballot measure will force that campus to enroll more non-residents. AVP Obley agreed that tuition and the resident/non-resident enrollment mix are among the only levers UC has in budget negotiations. A member noted that there is a ceiling on the maximum non-resident tuition UC can charge, because UC is not providing the same services or education as some elite private institutions.

A UCPB member noted that UC should communicate the implications of rebenching in a way that is understandable to the average faculty member. The Task Force report should avoid jargon such as "base budget" or the phrase, "not subject to rebenching." Moreover, the concept of "base" budget no longer exists; under rebenching, it has been replaced by a formula for calculating State funding allocations on a per student basis.

A member noted that there should be a process to ensure that off-the-top funds provided to campuses for a specific priority will be spent by the campus for that purpose; for example, money designated for AES should be used for AES only, and not redirected to other areas.

IV. Consultation with UCOP

- *Nathan Brostrom, Executive Vice President, Business Operations*

The Department of Finance supports a multi-year funding agreement for UC, but is waiting for the Governor's May Revise budget, which will include updated revenue estimates, to see if the State will have the resources to follow through with plans for a general fund augmentation and a tuition increase buy-out. UCOP wants the Regents to understand that without new revenue, UC will not be able to maintain quality, and that even if the Regents decide not to support a multi-year plan involving tuition increases, they should signal to campuses their willingness to match budget shortfalls with tuition increases. UCOP wants the Regents to vote to support a tuition increase that would be contingent on failure of the November ballot measure and/or an unfavorable final 2012-13 budget.

The campuses and medical centers are concerned about the impact of the Regents' UCRP funding policy on their operating budgets. The policy will gradually increase the annual employer contribution to 18.8% to achieve 100% funding nearly three decades from now. UCOP is modeling a lower employer contribution share (between 14 and 17%) to achieve at least 91% funding in a similar time frame. The Office of the CFO is exploring whether part of the problem could be addressed through a transfer of additional excess liquidity from STIP or TRIP to UCRP. EVP Brostrom noted that long-term funding of UCRP is an important priority, but that UC also has to protect its operating budget in the short-term.

UCOP is reviewing its budget structure for central administration and centrally funded programs and has asked each UCOP unit to project outcomes from a 25% budget cut and a 25% budget augmentation. In addition, UCOP is recommending that $211 million worth of centrally funded programs, including ANR and AES, be moved out of Funding Streams into a separate, off the top allocation. Finally, there is interest in exploring alternative methodologies for determining the Funding Streams assessment.

The State no longer funds all of UC's enrolled resident undergraduates, and no longer considers enrollment growth as a funding priority. Nevertheless, demand for a UC education will continue to exceed UC's funding, and long-term enrollment planning will grow in importance under rebenching. UCOP will address the need for enrollment planning by asking campuses to provide a new long-term enrollment plan covering the next ten years. UCOP will evaluate the plans and negotiate targets with campuses, taking into consideration the funding environment, the Master Plan, and demographic data about the graduating class.

Discussion: One UCPB member expressed concern about the possibility of reducing the employer contribution share for UCRP, noting that failure to fund the full employer cost will dig UC into a bigger hole. One member remarked that UC does not have funded and unfunded students; all UC students are underfunded, and UC receives "state assistance," not state funding, for those students. UC should use the current moment as an opportunity to recast the real number of funded students in a way that reflects the actual cost of a UC education compared to the State's per student contribution. It was noted that there is a disproportionate distribution across campuses in the proportion of resident and non-resident enrollment. The rebenching model should address the economic incentive campuses have to substitute a non-resident for a resident. There would be distribution effects, changing the portion of funding provided by each campus, from funding ANR/AES as off-the-top items instead of through funding streams assessments; campuses with higher shares of total revenues would gain, relative to campuses with higher shares of enrollment.

V. Consultation with UCOP – UCOE

- *Daniel Greenstein, Vice Provost for Academic Planning, Programs and Coordination*
- *Keith Williams, UC Davis Faculty & Academic Associate to Vice Provost Greenstein*

Vice Provost Greenstein and Professor Williams have been visiting campuses to discuss the UCOE project. Some questions have focused on UCOE basics, while others have inspired a more in-depth discussion about long-term issues and trends for online instruction and higher education.

The UCOE business plan has not changed significantly, except to adjust the enrollment compensation model in the case of a couple of courses where the student-faculty ratio needs to remain very low. One of UCOE's primary goals is to study the effect of online education on learning outcomes of UC students, but UCOE also needs to attract 3,700 non-matriculated quarter-student enrollments the first year at $1,400 per course to pay back the loan. (A student would pay $2100 for a semester-length UCOE course and therefore would count as 1.5 students toward the 3,700 target.) The long term revenue potential is also attractive to departments, which see UOCE as an opportunity to fund more graduate students and lecturers.

UCOE is concerned that some of the new regulations being discussed by Senate committees (e.g., a prohibition on UCOE courses with no enrollment limits on non-matriculated students) could negatively impact the UCOE business model by preventing UCOE from meeting its non-matriculated enrollment targets and generating revenue to pay back the loan.

One UCPB member questioned the appropriateness of State-supported instructors teaching primarily non-matriculated students and said that UCOE risks harming UC if it does not segregate matriculated and non-matriculated students into separate course sections. In addition, the Senate has unearthed a concern related to a section of the CA Education Code, which suggests that CCC/CSU students can take UC courses for a nominal fee unless the program is self-supporting. One member asked for more specific market demand data.

Professor Williams said UCOE is working with UC General Counsel for its interpretation of the Education Code. He said some of the configurations being discussed by the Senate will substantially curtail progress to self-supporting status. In particular, slowing down efforts to enroll non-matriculated students will require additional working capital and would require revising the business model Vice Provost Greenstein said he would forward UCPB additional market data and analyses that go deeper than the summary report in several key areas.

VI. Consent Calendar

- Approval of UCPB April 3, 2012 Minutes

Action: UCPB approved the April minutes.

Meeting adjourned at 3:00 p.m.
Minutes prepared by Michael LaBriola
Attest: Jim Chalfant