University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
October 1, 2013

I. Welcome and Announcements

- *Don Senear, UCPB Chair*

Chair Senear welcomed UCPB members and reviewed the committee's charge, which is to advise the Academic Council, UC President, and other administrative agencies on a range of policy issues affecting planning and budget. UCPB may also initiate its own studies and policy reviews, as it did, notably, in the "Choices Report" (2010), "Cuts Report" (2008), and "Futures Report" (2006).

UCPB's regular meetings with UCOP administrators provide the committee with opportunities to influence the development of budget and finance policy. UCPB members are encouraged to communicate with their campus planning and budget committees about discussions in UCPB, and in turn to share local concerns and discussions with UCPB. Members are not expected to necessarily represent the perspectives of their campus or divisional committee, and should assume committee agendas and documents as confidential unless otherwise noted. UCPB will schedule regular executive sessions to give members the opportunity to discuss issues off the record, and each agenda will allow time for members to report on campus issues. UCPB may also schedule additional teleconferences between regular meetings to address specific issues.

UCPB's activities this year will include monitoring state budget negotiations, the development of a systemwide enrollment management plan, financial issues related to UC Care, Composite Benefit Rates, UCPath, and other systemwide initiatives, and the implementation of various budgetary reform projects like rebenching.

The Academic Council held its first meeting of the year on September 25, following a joint half-day meeting with the UC Provost and other senior leaders. The systemwide Senate office has prepared a briefing booklet for President Napolitano, who took office on September 30. It includes a primer on UC shared governance and a summary of the Senate's views on topics such as admissions, UCRP, total remuneration, graduate education, research, and budget rebenching.

II. Consultation with UCOP – Systemwide Budget Office

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

<u>The Budget Process</u>: After years of gridlock, the State budget process is now following a more predictable timeline. The annual cycle begins in early January when the Governor submits a budget plan to the Legislature. In February, the Legislative Analyst's Office releases its analysis of the budget for the State Senate and Assembly and their budget committees and subcommittees, which deliberate for several months and release their versions of the state budget. In mid-May, the Governor releases his Budget Revision, the Legislative subcommittees finish their deliberations, and a Conference Committee convenes to work through the differences between the Senate and Assembly budget bills. The Legislature is required to pass a final budget to the Governor by June 15.

Budget Negotiations: UC budget officials and President Napolitano will discuss preliminary 2014-15 revenue and expenditure plans for the University this month, in time for the Regents to review and approve a final plan in November. Between now and January, UC officials will also be meeting with the Department of Finance to negotiate the best possible 2014-15 budget for the University. The multi-year funding plan approved by the state last year provides UC with general fund increases of 5%, 5%, 4%, and 4% over the next four years; however, the increases do not fully cover UC's mandatory cost obligations or do anything to address UC's high-priority costs related to compensation, deferred maintenance, and capital construction/renewal. The Governor's request to hold tuition at current levels poses an additional dilemma, and UC will be emphasizing that its fiscal stability depends on a prudent tuition policy. UC officials will also emphasize the need for pension funding parity with CSU, funding to support 1% California resident enrollment growth, and reinvestment in areas that support academic quality—the student-faculty ratio, faculty salary gaps, start-up costs for faculty, and graduate student support.

Capital Outlay Issues: As part of the 2013-14 budget, the state agreed to shift to UC's base budget all state-funded debt service for UC capital improvement projects funded from general obligation (GO) bonds. (Debt service for lease revenue bonds is already in UC's base budget.) It was recently announced that a lease revenue bond restructuring deal that had been expected to generate $80 million in annual savings for ten years will result in $100 million annual savings. Trailer bill language requires that savings from the debt restructuring be used to fund the unfunded liability in the University's retirement plan. However, using these funds for UCRP will free up other funds in the budget that can be used for operating and capital purposes. Still under discussion is the potential use of some of these savings for capital projects in 2013-14.

The new capital outlay process adopted in the 2013-14 budget allows UC to use state funds for capital projects up to a specified cap (15% of the state general funds allocation adjusted for state general obligation and lease-revenue bond debt service). Internal discussions are ongoing as to how much of the base budget adjustment should be directed to capital outlay projects for 2014-15. Using a simple methodology, a 5% base budget adjustment to the GO bond portion of the base would yield $10 million. This could create a state-funded capital program of about $150 million. A 5% base budget adjustment on both the GO Bond and lease revenue bond portions of the base would yield about $20 million for debt service, which would result in a $300 million capital program from state funds in 2014-15.

UC was required to submit a list of capital projects proposed for funding in 2013-14 and 2014-15 to the state by September 1. UCOP submitted a list that was based on longstanding campus-identified priorities. UCOP is now discussing whether to allocate the money directly to campuses through Funding Streams and allow campuses to fund capital projects as they see fit, or to maintain a central program in which UCOP would distribute funding for specific projects to campuses on a rotating basis. Both UCOP and the Regents view seismic projects and the development of UC Merced as high priority areas for the system. At any rate, the capital funding available through these mechanisms represents only a fraction of UC's total capital needs, and UC hopes the state will eventually return to the voter approved general obligation bond mechanism to help support UC's larger needs.

Discussion: More than one UCPB member noted that some of their campus's most critical capital projects as they see it, are not on the list provided to the state. Some members believe a case exists for using all funds from the debt restructuring to support capital projects and/or operating expenses on the campuses. Members were unsure whether increasing the number of set-asides separate from Funding Streams is a good idea, although they recognized that some campuses do not have the resources to support capital development and renewal, and that allocating the money to the campuses is no guarantee that they will use it for capital projects. A central program may help support the greater good of the university, although UCOP would need to provide a more formal and transparent plan for distributing the capital funding evenly and fairly to the campuses.

One member noted that there is a strong case to be made for redirecting the full $100 million gained from the debt restructuring into UCRP. Such a move would help UC attain its policy for funding the full Annual Required Contribution by 2018.

III. Consultation with UCOP

- *Debora Obley, Associate Vice President for Budget and Capital Resources*
- *Todd Greenspan, Director, Academic Planning*

Enrollment Management: UCOP is reviewing individual campus long-range enrollment plans (LREPs) and will be updating the systemwide LREP for the first time since 2008. Campuses are projecting modest California resident undergraduate growth, more substantial nonresident undergraduate growth, and large increases in graduate enrollment between now and 2020-21. UCOP will be discussing the plans in the context of academic, financial, access, diversity, space, political, and other pressures. There is concern that the sum of campus resident enrollments will soon fall short of the necessary systemwide number needed to meet UC's Master Plan obligation to eligible California undergraduate residents. UC's total nonresident undergraduate population of about 9% will soon exceed the 10% overall level recommended by the Commission on the Future and adopted by the Regents.

To define how UC should approach enrollment as a system, it will be necessary to accurately project the number of CA high school graduates and UC-eligible applicants expected between now and 2021, and then to model the results against campus plans and UC's systemwide obligation. UC will also need to determine how campuses that enroll large number of unfunded students will treat new funding for enrollment growth and reach an agreement with the state about how many enrolled undergraduates should be considered funded or unfunded, to determine the appropriate enrollment base will be for rebenching. Until then, rebenching will be based on 2010-2011 budgeted enrollments. The new president will also be asked to define her priorities. UCOP expects to push back on campus plans that do not include enough CA residents.

Funding Streams: UCOP is close to a consensus about a new Funding Streams model that will be implemented for 2014-15. Some campuses are concerned that the current model, which bases the systemwide assessment purely on expenditures from the previous year, has created anomalies, particularly for campuses with medical centers and small undergraduate student populations, who feel they do not receive benefits from UCOP in proportion to their assessment. The new model would calculate one-third of the assessment for each campus on total campus expenditures; one-third on the total number of enrolled students; and one-third on the number of employees. UCSF would return $25 million from its base budget funding permanently, to offset the lower assessment they will have under the new model. This will be used to partially offset the higher assessment some campuses (SB, Berkeley, SC, Irvine, Riverside & Merced) will have under the new model. How the partial offset will be applied—e.g., whether to disburse as permanent base budget adjustments that would then be subject to rebenching, or disburse annually as one time funds is being discussed. The UCOP budget will now be completed on an accelerated schedule, by February, in response to campus concerns.

IV. Consultation with the Systemwide Senate Office

- *Bill Jacob, Academic Senate Chair*
- *Mary Gilly, Academic Senate Vice Chair*
- *Martha Winnacker, Academic Senate Executive Director*

Chair Jacob thanked UCPB members for their service to the Academic Senate and the university. He encouraged faculty to study the changes to employee medical insurance options coming to Open Enrollment this fall. He noted that the Composite Benefit Rates project discussed extensively last year has not been fully resolved. One of the faculty's main concerns about the project is its impact on some faculty with summer salary, whose grants would be charged a benefit rate that exceeds actual cost. Over the summer, UC Berkeley successfully negotiated a separate benefit rate for faculty on summer salary with the federal Department of Cost Analysis (DCA), raising hopes that a separate rate could be negotiated for all campuses. UCOP now says it will be up to each campus to negotiate with the DCA.

UCOP has agreed to conduct an updated study of faculty total remuneration to clarify where UC faculty stand against UC competitors. Chair Jacob and Provost Dorr are planning a joint presentation about graduate education for the November Regents meeting. A work group composed of Senate members and administrators from UCOP and the campuses has been meeting to discuss enrollment issues in the context of the current systemwide enrollment planning process.

An RFP for online course proposals funded through the Innovative Learning Technology Initiative (ILTI) has been released to UC Senate faculty. ILTI is UC's plan to use the $10 million the Governor has asked UC to set aside for online learning technologies. It will fund online and hybrid course development and a systemwide communications hub to facilitate cross-campus enrollment into those courses by UC students. The Senate continues to oppose Senate Bill 520, which has been weakened but is still active as a two-year bill. Many students and faculty remain skeptical that online education and particularly the MOOC model can reduce costs and increase access, or be a quality alternative to face to face instruction.

Executive Director Winnacker noted that the systemwide Senate office exists to support the work of the faculty and the goals of the systemwide committees. Senate travelers should now submit reimbursement requests to brctravelandent@ucop.edu. Hard copies of receipts are no longer required, nor are receipts for parking, transportation, or taxi expenses less than $75.

V. Consultation with UCOP

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

Rebenching: Rebenching seeks to equalize the per-student ratio of state funds across campuses by gradually re-balancing the state general fund allocation formulas that determine the proportion of state funds UCOP distributes to each campus. Originally, UCOP based rebenching on 2011-12 budgeted enrollments and the expectation for a long-range enrollment plan that accommodates all eligible California resident undergraduates. The rebenching plan calls for increasing the per-student funding of all underfunded UC campuses to the level of the highest funded campus with 20% of new state revenue at $37 million per year for six years. In 2012-13, UC was able to implement only $17 million of the $37 million target due to a small pool of new state money, but in 2013-14, it will distribute $37 million under the rebenching formula, along with an additional $20 million to address the 2012-13 rebenching shortfall. It is unclear whether enough new money will be available to meet the $37 million target in each of the final four years. UC will need to decide whether to extend the timeframe beyond six years or to accelerate the amount carved out of the base budget for rebenching during each of the remaining years.

Capital Outlay Funding Methodology. Historically, the state has supported UC's capital needs by issuing lease revenue bonds and proposing GO bond ballot measures; however, there has been no GO bond measure since 2006, and the Governor opposes additional lease revenue bonds. Meanwhile, UC has enormous capital needs related to seismic safety, capital renewal, and the development of the Merced campus. Some of these needs can be funded out of the growth in the debt service the state recently shifted to UC's budget, and UCOP is discussing the best approach for doing so. One possibility involves UCOP distributing the money directly to campuses, letting them decide which projects to fund, and financing the projects using the system's debt capacity. Another approach is to give UCOP the authority to define the system's highest priority projects and fund them on a rotating basis from the campus's share of the allocation. Some UC officials want to place at least some amount into a systemwide capital program to address the needs of Merced, which would not be able to do so on its own, and other high priority seismic projects. UC will be maintaining an active systemwide list of state eligible capital projects in preparation for a future general obligation bond. UCOP welcomes the Senate's involvement in these processes.

Tuition Policy: UCOP hopes to reach an agreement with the state about a tuition policy that includes predictable, steady, moderate tuition increases, based on the increasing cost of education, with a return-to-aid component that benefits low-income students. In arguing this case, officials note that UC has a progressive financial aid program and low student debt relative to other universities; that half of UC students do not pay tuition; and that under UC's Blue and Gold Plan and the state's new Middle Class Scholarship Act, a tuition increase will affect only families with household income above $150,000.

Discussion: It was noted that some newer and smaller campuses may oppose the use of the system's capacity to address seismic retrofit projects on older and larger campuses. The decision several years ago not to "socialize" nonresident tuition revenue suggests a precedent against a systemwide capital projects program.

VI. Consultation with UCOP

- *Peter Taylor, Chief Financial Officer*
- *Cheryl Lloyd, Interim Chief Risk Officer*

UC Care: In January, UC will roll-out UC Care, a three-tiered “self-funded” PPO medical insurance plan for UC employees intended to leverage the size of the UC system and the resources of the UC medical centers to reduce insurance costs for both UC and UC employees. UC has decided to discontinue the Anthem Blue Cross PPO options, and for many employees, UC Care or a new Blue Shield plan will replace Anthem. UC Care will cost the University about 3% less than Anthem, and UC Care’s monthly employee premiums will also be lower than the rates charged for Anthem. UC’s actuary is assuming that 19,000 employees will enroll in UC Care, which Blue Shield will administer. Tier One of the plan allows members to visit any UC hospital for medical care. Employees at campuses without UC medical centers can use providers from the Blue Shield network.

Discussion: Concern was expressed that Santa Barbara’s main regional hospital has not agreed to join the UC Care network, leaving UCSB employees without access to a Tier 1 provider. Concern was directed towards two issues: first, that UCSB employees will be forced to travel a distance to access Tier 1 providers, or pay Tier 2 rates for those services locally; and second, that UCOP would adopt a systemwide program without insuring that all components of the system actually have access. A separate area of concern was the extent to which UC Care will expose the University to financial risk, particularly if the UC medical centers increase rates and in light of UC’s recent experience with the Student Health Insurance Program (SHIP), which amassed a huge deficit as a result of actuarial errors.

CFO Taylor noted that UC continues to negotiate with Santa Barbara’s Cottage Hospital, which charges rates that are 64% higher than other health providers in the state. He expressed reluctance to consider higher reimbursement rates for Cottage than for UC medical centers but also some willingness to negotiate rates, within reason. Taylor also said UC Care’s financial monitoring and reporting system is more rigorous than SHIP’s; there are three separate actuaries checking each other’s work. UC also has a new $25 million captive insurance reserve that will help reduce risk and costs even further by increasing the capacity to transfer risk between different areas and giving UC access to additional insurance coverage from the government, at a lower cost. UC is also confident that it will have more control over costs at UC facilities. Nevertheless, there is also some uncertainty about the affect the Affordable Care Act will have on the larger medical insurance market.

Five-Year Vision for the CFO Division: The CFO Division has identified three strategic focus areas for its priority projects. They include transforming finance operations to further build on the “power of 10” and to ensure UC’s financial sustainability (e.g., UC Path, P200, liquidity management, and UC Care); identifying and eliminating inefficiencies (e.g., Working Smarter and other “lean principles” initiatives; and developing future leaders with finance expertise at UCOP and campus locations.

Meeting adjourned at 4:00 p.m.
Minutes prepared by Michael LaBriola
Attest: Don Senear