University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
October 4, 2011

I. Welcome and Announcements

- *James Chalfant, UCPB chair*

Chair Chalfant welcomed UCPB members, reviewed the charge of the committee, and summarized some of the major topics before it in 2011-12.

One of the major issues for UCPB this year is the budget "rebenching" process. Rebenching is the second phase of systemwide UC budget reform. It follows the "Funding Streams" model adopted by the Regents, which allows campuses to keep all revenues they generate, and funds UCOP and any systemwide priorities with a flat assessment paid by the campuses. Funding Streams deals with all revenue sources except for State funds; rebenching will address the formulas used to allocate State funds to the campuses. Those formulas have developed over time through a complex and convoluted methodology that now favors the campuses that grew earlier. In July, the Senate endorsed a model proposed by Council's Implementation Task Force that would provide every UC student of a given type (e.g., resident undergraduate, academic Ph.D.) with the identical allocation of state funds for their education, regardless of campus or discipline. This funding would apply to enrolled students up to campus-specific targets; beyond the targeted levels, there would be no additional state funding. As part of rebenching, UCPB will also discuss centrally funded earmarks such as the Division of Agriculture and Natural Resources (ANR), the Agricultural Experiment Stations, and the UC telescopes, as well as how to fund the health sciences.

In addition, UCPB will consider whether UC's debt capacity should be used to fund construction of Lawrence Berkeley National Laboratory's proposed second campus; monitor the progress of the UC Online Education pilot project; opine on options for UC Retirement Plan funding and contribution levels; and discuss strategies for maintaining competitive remuneration for faculty.

UCPB members are encouraged to participate actively in meetings and take on extra duties. The committee may choose to opine or not opine on various systemwide Senate review items. Typically, one or more executive sessions are scheduled at each meeting to give members the opportunity to discuss issues off the record.

II. Consultation with UCOP – Budget Outlook

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

UC continues to face overwhelming fiscal challenges as the state and national economies remain stagnant. The University currently has a $2.5 billion problem, due to the state's ongoing disinvestment and the state's own multi-billion dollar problem. The latest state revenue projections are weak, making an additional $100 million mid-year trigger cut more likely. (The state director of finance is expected to implement the trigger cut if the state does not achieve $4 billion in revenue.)

California's political framework and the timing of the state budget process in both good and bad budget years make it difficult for UC to undertake long-term fiscal and enrollment planning.

92% of the California budget is under some sort of restriction or mandate, so the University is competing with many other state-funded agencies for a shrinking pool of unrestricted general fund revenue.

Vice President Lenz and others at UCOP have been developing a comprehensive plan they believe will put UC on a more predictable and sustainable fiscal basis and allow the Regents to define a clear four-year funding path. The plan takes the Regents' previously defined priorities – maintaining quality, preserving access, and offering competitive compensation and retirement plans for employees – and recommends ways that state funding, tuition, nonresident enrollment, philanthropy, and increased efficiencies can help pay for those priorities and address the larger budget problem. UCOP wants to enter into a funding partnership with the state (a different approach from past "compacts"), which defines funding options that include different combinations of state general funds and student fees. At the September Regents meeting, UCOP recommended increases of 8% in state funding and 8% in student fees over four years, noting that tuition would rise to more than $22,000 in four years with no state participation. Some Regents were concerned about the potential for significant fee increases, and the media also focused almost exclusively on these potential increases, rather than on the larger funding plan.

Vice President Lenz still believes this multi-year plan will help define a sustainable fiscal path for the University. He anticipates that the Regents will approve an expenditure plan in November and a revenue plan in March, after UC learns definitively about the mid-year trigger cut and the Governor's 2012-13 budget proposal. The University plans to use various bridging strategies to absorb the additional cuts in 2011-12, but would need to implement a 5.9% tuition increase to offset the cut if it becomes permanent.

He said campuses admitted 1,800 additional nonresidents this year, and the UCOP plan recommends increasing nonresident enrollment 10% per year through 2015-16. The Regents have established new working groups focused on strategies for enhancing UC advocacy and on a new corporate fundraising campaign to enhance student financial support. (UC does a great job supporting its neediest students with financial aid, but the burden on middle income students is increasing.) State advocacy is difficult, however, because there are many competing interests, and the UCOP plan already incorporates assumptions about new revenues generated through private philanthropy. UC is also working to convince the state that any meaningful economic stimulus plan would involve UC capital construction projects. Finally, he noted that the State's contribution to the Corrections budget used to be $50 million less than UC's budget; the Corrections budget now exceeds state funding for UC, CSU, and CCC combined.

Discussion: It was noted that faculty share the Regents' concerns about tuition increases, but are also concerned about how to pay for the Regents' priorities (maintaining quality, in particular) as well as UC's ability to raise a significant amount of new revenue through corporate fundraising, which some Regents have suggested is a viable revenue option.

UC should be careful not to "double count" bridging strategies that may already be underway at the campuses.

III. Consultation with UCOP

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

EVP Brostrom: UCOP's overarching financial objective is to build a stable, sustainable funding model. The multi-year plan on the table involves a funding partnership with the state, balanced with steady and predictable tuition increases, increased administrative efficiencies, and enhanced revenue streams.

UCOP is rolling out the "Funding Streams" reform this year. It makes UCOP funding simpler and more transparent and gives campuses greater budgeting flexibility. All revenues generated on a campus will now remain on the campus, and UCOP will replace its practice of taxing multiple revenue streams with a flat assessment on all eligible revenues.

Funding Streams was described as revenue neutral in the first year, but the additional state cuts and an unforeseen UCOP deficit made that impossible this year, to the tune of $50 million. In the process of clarifying its budget, UCOP uncovered a number of items that were not previously being considered part of the systemwide budget, which created a temporary structural deficit. UCOP has now resolved those. The current assessment rate of 1.6% is larger than predicted too, also due to the cuts and because campuses asked that plant funds and systemwide financial aid be eliminated from the Funding Streams calculation. That said, UCOP has not been growing. The central office took a net cut of $40 million this year, and while it wanted to cut $81 million from systemwide programs, it met strong resistance from the legislature to the proposed elimination of specific earmarks. The UCOP budget is now in a clearer and more defensible position. If campus revenues grow over time, UCOP will not use that as an opportunity to grow; and the assessment rate will be adjusted every 3 years approximately.

The President's Rebenching Task Force has so far included a productive exchange of views. A faction of the Task Force (including EVP Brostrom) opposes any plan that would harm any campus in the short or medium term or one that would "redistribute" funding, though it has been difficult to arrive at an algorithm that is completely neutral to all campuses. The Senate's proposal emphasizes allocating state funding to the University's priorities, rather than trying to come up with a series of funding formulas that rationalize the status quo; the Senate uses student enrollment as the primary driver of state fund distribution, but according to the EVP there are concerns about tying graduate enrollment to the same concept.

Provost Pitts said he has established rebenching committee subgroups on the Health Sciences and on agriculture (ANR/AES) to see if members can agree on principles and goals, and 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. Separate solutions may be needed for UC Merced and UCSF.

Discussion: There was some concern that campuses would now be facing an additional cut despite previous assurances that Funding Streams would be revenue neutral.

In the rebenching exercise, it will be hard to find a solution that does not include relative "winners" and "losers;" however, it should be noted that there are also winners and losers in the current system. Many campuses also want to expand their graduate programs, and we need to address the lack of incentives for campuses to do that, and avoid outcomes that would lock-in current graduate student populations.

Responding to a question about differential tuition by campus or discipline, EVP Brostrom said the Regents will not take up the issue again until there is a clearer sense about its value.

IV. Consultation with the Academic Senate Office

- *Martha Winnacker, Executive Director, Academic Senate*
- *Todd Giedt, Associate Director, Academic Senate*

Executive Director Winnacker said the role of the Academic Senate office is to ensure that Senate bodies can conduct their business. The committee analyst is available to draft agendas, minutes, committee memos and reports, to share institutional knowledge, and to help ensure proper protocol. The Senate asks non-Santa Barbara travelers to use the Senate's dedicated site on SWABIZ to book or change airline travel and to follow UC policy with regard to reimbursements.

Associate Director Giedt reported that the Senate has established SharePoint sites for each systemwide committee. SharePoint is an online tool intended to facilitate and enhance collaboration, information sharing, and document management. Agendas, minutes, and other documents will be distributed to UCPB members via SharePoint, and the committee is encouraged to use SharePoint to the extent it finds it useful.

V. Consultation with Lawrence Berkeley National Laboratory (LBNL)

- *Peter Denes, Director - Photon Sciences Initiative*
- *Jeff Blair, LBNL Laboratory Counsel*
- *Robert Hatheway, Assistant Vice Chancellor - Real Estate, UC Berkeley*
- *Bruce Darling, Vice President – Laboratory Management*

Issue: Last year, Council's Special Committee on Laboratory Issues was briefed on a second campus proposed for the Lawrence Berkeley National Laboratory (LBNL). Chair Simmons asked LBNL to consult UCPB on the finance plan so UCPB could advise Council about potential benefits and risks. LBNL leaders joined UCPB to discuss the lab's plans for a second campus in the Bay Area, financing options for the campus, and the Next Generation Light Source project.

Report: Director Denes noted that LBNL conducts basic and applied scientific research and develops tools and techniques for research and development. Much of the lab's energy research is focused on very small things using electron microscopes called beamlines. One of LBNL's main facilities is the Advanced Light Source, the premier soft x-ray facility in the U.S., which generates light one billion times brighter than the sun to aid in microscopy research. This research has had a revolutionary impact on pharmaceutical design and other areas.

In discussing the components of the Next Generation Light Source project (NGLS), the Department of Energy has determined that a laser with the ability to visualize the dynamics of bimolecular reactions as they are happening could uniquely enable a broad range of science—e.g., artificial photosynthesis and the development of synthetic fuels.

The proposed NGLS facility will be funded by the DOE and cost between $.9 and $1.5 billion to construct; however, there is no federal budget for the project yet. It will take ten years from project start to the first science, but scientists already known what they can do with the technology. If constructed at LBNL, the NGLS would be a unique world-leading facility that would benefit not only UC Berkeley, but also other UC campuses and other universities around the country. It would also be a faculty recruitment magnet for the entire University. A recent economic impact study illustrates the many direct and indirect benefits LBNL has for the Bay Area, California, and the United States.

Laboratory Counsel Blair noted that LBNL is not only a research facility but also a training center for UC faculty and students. 25% of the lab's facilities are located off the main site, so a second campus will help consolidate programs and facilities and provide space for future growth. A small percentage of the graduate students and faculty working at the lab are non-Berkeley UC faculty, but there are a growing number of opportunities for joint appointments. On the day the committee met, the Nobel Prize in Physics had just been awarded to an LBNL faculty member.

The DOE Office of Science is the main funder of LBNL, which has enjoyed a sustained annual growth rate of 5% over the past 30 years. Assuming continued annual growth of 5%, $350 million to build the 2nd campus, an annual amortized debt service of $26 million (9% of the indirect budget), and offset savings from leases and other factors, the net annual impact will be $17 million (6% of the indirect budget). So the 2nd campus is affordable, but it will not move forward if it is not determined to be in UC's best interest.

There are three main ways to fund construction of the 2nd campus. The first, a federal appropriation of capital funding, is unlikely. The second, commercial third party financing, is the most expensive. The third and best way is for UC to use its own debt capacity to finance construction. This option minimizes total costs and allows the University to foster collaborations and partnerships with UC campuses and industry. Federal regulations limit the amount the government can reimburse contractors for the use of facilities related to a federal program, but the DOE is reviewing a contract modification that would allow it to reimburse full cost recovery during occupancy. UC has a total debt capacity of $12 billion and a total annual service of $700 million. An additional $350 million/ $26 million is insignificant in the big picture. The debt service would be paid from the lab's $800 million operating funds (overhead) during the period of DOE occupancy. If for some reason UC stopped being the contractor, debt service would continue to be paid from revenue generated from DOE lease of the facilities. If LBNL were defunded to the degree that the facilities became superfluous for the DOE, UC would be free to lease them to others. Each major phase of the project includes "off-ramp" decision points that help minimize financial risk by providing an opportunity to cancel or re-scope the project.

Assistant Vice Chancellor Hatheway reviewed potential sites for the 2nd campus LBNL is evaluating, which are located in Oakland, Alameda, Emeryville, Berkeley, Albany, and Richmond. LBNL plans to announce its preferred selection in November.

Vice President Darling noted that many researchers would want to come to California to access the 2nd campus and the NGLS. The facility would enhance faculty recruitment efforts for the entire university. He noted that the DOE is fully committed to the LBNL, and that UC will not allow the lab to over-commit resources in a way that jeopardizes either its own programs or the larger university.

Discussion: Some UC faculty will view this project as having great benefits for UC Berkeley but only limited benefits for other UC campuses. They may question using the debt capacity of the entire system for the project.

The consumer credit crisis has shown that one can have available debt capacity without an ability to pay. The guarantees have to be ironclad. We should also consider what UC may not be able to do as a result of using debt capacity for this project. UC is already operating under extreme financial constraints; some faculty are working without telephones and even being asked to assume janitorial duties.

VI. Consultation with UCOP – Update on Online Education Pilot Project

- *Daniel Greenstein, Vice Provost, Academic Affairs*
- *Lisa Baird, Associate Director, Strategic Initiatives, CFO Division*

Report: Initially, the aim of the pilot project is to evaluate the effectiveness of high-enrollment, lower division, general education online courses in a selective research university. Later, UCOP will seek to leverage that experience to make some courses available to a larger audience if it appears that UC can generate new revenues from non-UC students taking the courses.

UCOP is deeply engaged with the Senate on every aspect of the project. Organizers have been working over the summer with the faculty PIs to develop course designs and confirm budgets, establish grant funding and accounting mechanisms, select a common learning environment, and develop a copyright license as well as a profit sharing model focused on non-UC students. In addition, they are studying the initial results of a market research study, which indicates that the strongest market may be California academic preparation, and have requested information from industry leaders about some of the business and administrative aspects of online education. They have also completed a draft plan for assessing the effectiveness of online learning, and are visiting campuses to discuss the project with different constituencies. A group of administrators and Senate faculty has also been discussing ways to support cross-campus instruction, course articulation and credit transfer, the normalization of courses between UC and non-UC students, eligibility, the course approval process, and other details.

VII. Modeling the Senate's Rebenching Recommendations

- *With Michael Clune, Director, Operating Budget*

Issue: Last year, the Senate asked UCOP to model the impact of adopting the Implementation Task Force's rebenching recommendations, particularly what it would look like to allocate state funding to the campuses on a per student basis, in which each student of a given type receives an identical subsidy, regardless of campus. In addition, what is the best definition of the "Average Cost" of educating an undergraduate, Ph.D. student, and Health Sciences student that reflects what UC actually needs to maintain excellence? Director Clune joined UCPB to preview his analysis of the Senate's recommendations, which he will present to the President's Rebenching Task Force on October 5.

He summarized the key parameters of the study, which requires assumptions about the Average Cost for educating students of a given type. For instance, the presentation used figures (after deducting tuition payments net of return to aid) for an undergraduate, Ph.D., and Health Sciences student, respectively, of $13,000, $32,000, and $79,000. Consistent with the Senate's recommendations, the per-student cost for undergraduate enrollment is also a *blended cost* that incorporates Ph.D. enrollments up to a 1:10 ratio of PhDs to undergraduates, on a given campus. An open question is whether the 10% figure should apply to all undergraduates or only resident undergraduates. This blended figure is based on 1990-91 per student state funding levels (the last time UC was fully funded), adjusted for inflation. The model also assumes that campuses with a Ph.D. population in excess of 10% of total enrollment would contribute 50% of the necessary funding above tuition revenues needed to cover Average Cost. The analysis to date is more a "proof of concept" than a precise simulation, since earmarks and non-resident tuition were not included. The model calculates the required state subsidy as $3.1 billion, compared to actual state support of $2.06 billion, making the University's overall funded ratio .66. Thus, under the model UCOP would be sending state funds to each campus at a ratio of 66% of net cost for each type of student. Many options exist, however, including varying the funding levels by student type.

Chair Chalfant noted that UCOP lacks data to measure the cost of educating a Ph.D. precisely. The Implementation Task Force felt strongly that one could not separate graduate and undergraduate education at UC, and that the blended average cost concept was a good way to capture that interdependence, as well as the centrality of Ph.D. education to the UC mission and the notion that State funding should support a minimum level of Ph.D.s. The Task Force asserted that no UC campus should fall under a 10% Ph.D. enrollment floor, but it also did not want to establish a different cost figure for every campus that would lock in current ratios—i.e., we should not punish the campuses with "excess" Ph.D.s, but we need a mechanism to allow other campuses to expand their Ph.D. populations over time. In addition, the campus must meet its undergraduate resident enrollment target to get its state funding allocation, and if it falls below the target, it gives up state funding for that number of students, not just their tuition net of return to aid. The model may look too expensive, but it is an accurate representation of what it costs to run the university; it makes transparent the shortfalls in funding that already are present.

Comments: The state claims that UC enrolls 15,000 unfunded students, but the real number is much larger; this model gives UC evidence it can use in negotiations with the state to show that it is not funding 1/3 of UC students.

This model is only one approach based on an historical benchmark adjusted for inflation. The Average Cost numbers are not precise, and in fact seem low, especially compared to other universities. We need to continue refining them. Also, in the 1990s campuses were not graduating students in four years; these cost figures may understate the kind of "quality" we should be aiming for.

The Senate should propose guidelines to guide the negotiations to set enrollment targets, between the chancellors and the President.

"First do no harm" misses the point that there is harm being done now if one campus is getting more than another for the same activity. The outcome from rebenching should not be thought of as preserving the status quo. Moreover, the Senate's recommendations were meant to expand the total revenues the University brings in, and were not focused primarily on redistribution.

VIII. Other Topics and Announcements

Systemwide Review of APM 668: This new APM policy would extend some features of the Health Sciences Compensation Plan to general campus faculty by providing the option for supplementing salary with non-state resources. Changes to APM 670 - Health Sciences Compensation Plan, are also out for systemwide Senate review.

The Systemwide Review of Salary Equity Study is less obviously a UCPB topic, but interested members should email Chair Chalfant if they want the committee to opine.

UCOP has proposed raising employee contribution rates for UCRP in 2013-14. The Senate has long supported keeping UCRP whole in addition to keeping total remuneration from declining any further. During the PEB debate last year, Council opposed an employee contribution greater than 7% for current employees who stay under the current plan terms. UCOP also has based long term projections using 8% employee contributions, which could be the next step on the trend line. UCPB should monitor this carefully.

Senate Chair Anderson thanked UCPB members for their volunteer service to the Academic Senate and the University. The committee will play a key role this year in responding to the budget crisis. Chair Chalfant noted that he may schedule short iLinc (Video-enhanced teleconferencing) meetings between in-person meetings to touch base on specific topics.

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