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December 5, 2003

**ROBERT C. DYNES  
PRESIDENT**

**Re: "Increasing Access and Sustaining Excellence": A Budget Proposal from the Academic Council**

Dear Bob,

The enclosed document originated in the fall of 2001 as a Universitywide Committee on Planning and Budget (UCPB) initiative in response to what were then clear indications of an imminent state budget crisis. Its main intention was to put forward a set of recommended means and priorities for addressing potential significant cuts in the University's state funding. That remains the intention, although in the intervening two years potential cuts have become actual and other more critical measures are currently being considered in light of the specific impacts on UC's budget this year and next. The Council believes that such an articulation of priorities and principles for resources allocation and revenue enhancement should guide the University in any period of budgetary curtailment, however dire.

This document is the product of broad-based discussion among Senate bodies at both the sytemwide and divisional levels. It takes a somewhat wide perspective that includes the history of UC's funding in the 1990s and the projected growth of the current decade, and has as its core goal the maintenance of the University's research and instructional mission.

While there is much more to be done regarding the University's immediate and ongoing fiscal difficulties--work that the Senate is actively engaged in--we submit these recommendations to serve as a foundation for Regental and administrative budgetary decisions, and for use in the framing of future "partnerships" or "compacts" with the elected leadership of the State. We very much appreciate your consideration, and respectfully request that the document also be forwarded to the Regents.

Sincerely,

Lawrence Pitts, Chair  
Academic Council

Encl: 1  
Copy: Academic Council

# **Increasing Access and Sustaining Excellence**

**A Budget Proposal from The Academic Council**

**November 2003**

**Originally drafted and transmitted to Council  
by the University Committee on Planning and Budget**

**Situation:** The State budgetary shortfall for the two-year period 2002-2004 was estimated at \$38 billion. The University final budget for 2003-04 erodes the competitiveness of faculty and staff salaries and eliminates supplementary funding for core needs. Structural issues in the State budget suggest that expenditures will outstrip revenues in 2003-04 by an estimated \$8 billion – even if the economy rebounds. In addition the 2003-04 budget contains language suggesting that increased enrollment funding would not be provided in 2004-05. Nevertheless, Tidal Wave II continues and will have to be accommodated – more or less – in later years of the decade.

The \$400 million budget cut of the early nineties became a new floor for inflationary adjustments with little catch-up funding over the last several years. There remains little room for sustaining another serious budget cut without the direct reduction of programs and service. During budget cuts of the early nineties' the core of the University was effectively stripped. During the second half of the nineties more and more un-funded mandates were added to the University's operation by Federal and State legislation as well as changing sponsor and agency requirements. These actions drove up costs even further. Implementation of the NIH training requirements for the protection of human subjects, balancing homeland security with scientific communication under new Office of Foreign Assets Control, Patriot Act and ITAR regulations, more complicated visa issues for foreign students and faculty are but a few examples.

The resolution of the State budgetary crisis requires thoughtful and creative leadership by the State's executives and legislators. Such a resolution though will not necessarily provide the financial foundation for the University to increase access and sustain excellence. Under the best of the scenarios the University cannot assume a return to funding growth – from State sources – commensurate with its actual mission, and thus we need to take steps to prevent the University from being seriously impacted throughout this decade and by default taking on more and more of the trappings of a private university.

Some of these steps, such as an increased emphasis on private fundraising and recovery of full indirect costs on extramurally funded activities will allow the University to meet these financial challenges without compromising its central mission as a major public university. Other pressures, particularly the pressure to increase student fees, could seriously erode UC's historic role of providing the highest quality higher education to all residents of California, regardless of income.

**The Opportunity:** The State's population growth requires a 63,000-student expansion in the UC system this decade. The University's ability to provide high quality instruction and continually improving academic programs will contribute to the ensuing quality of life in California. In parallel, the research and scholarship opportunities available to the University continue to expand. Both opportunity sets will provide enhanced value to California.

**Objectives:** Thus, our short-term proposals should not be solely tactical but should be informed by a long-range strategic vision.

*The central principle underlying this proposal is the maintenance and improvement of the University's teaching and research programs. This fundamental principle focuses upon support available for the teaching process and the concomitant capital investment needed in a period of unprecedented growth. At the same time the University will need to strengthen and expand the research and education infrastructure in terms of faculty, central research administration and of the space, facilities, classrooms, laboratories and other capital that are central for fulfillment of the teaching and research missions.*

The basic process of shared governance between the faculty and the University administration requires that information about relevant budget developments and decisions related to those developments are communicated clearly, concisely and in a timely fashion to the campus community at large. The process also requires that major-decision-making be under taken with wide senate and appropriate staff consultation.

This needs to be accomplished in a suitably accountable fashion.

1. Sustaining and, where needed, improving the quality of academic programs is a top priority: Among the elements needed to meet this aim are:
  - Maintaining faculty-student ratios commensurate with UC standards of excellence,
  - Maintaining staff support to effectively meet student and faculty needs in academic units,
  - Adjusting undergraduate and graduate enrollments in order to maintain access while increasing the graduate to undergraduate ratio.
2. Maintaining the research infrastructure in support of the highest quality of research and education is also a top priority:
  - Move toward higher recovery of overhead costs,
  - Flow through more of the benefits of improved overhead recovery to departments and faculty.
  - Invest in further capital development (needed even in times of zero growth).

**The Response:** A set of priorities must be articulated to help the University achieve its objectives of sustaining excellence. In sum the University must examine a broad set of revenue sources and a broad set of operational improvements to achieve its objectives.

It is fundamental that the State return as quickly as possible to the agreed upon level of full financial support for the University. While the University expects a shortfall from the "partnership" agreement this year and perhaps for the next two years, it is clear that this shortfall must be made up and not become a new, and inadequate, standard.

Unlike the early nineties when relative stability ensued, the University is in the midst of the most dramatic growth period in its history. The major enrollment increase underway at this time is a very different situation than in the early nineties. We need to add faculty and staff at a dizzying rate. Thus, we must restore our competitive capabilities as soon as possible. Such restoration must include competitive salaries for faculty and staff as well as adequate enrollment funding. We will be unable to compete if the State budgetary actions only provide quasi-inflationary increases from a new lower base.

To provide access and excellence the University must look to additional sources of revenue enhancement. We outline six of these here. No one source will be sufficient to cover the growth

demands of this decade, thus the list includes sources from outside the State as well as outside the University.

1. **State.** The continuation of the “partnership” agreement to restore the strength and competitiveness of the University and to increase this agreement through the full provision of enrollment funding is the highest priority.

The current level of enrollment funding will be inadequate for maintaining access and excellence in the increasingly competitive academic marketplace. The overall “supply” of faculty will not increase over this decade and yet the University will need to hire some 7000 faculty members during this period. With supply stable and an eventual rebound in the economy, the top tier private universities will be able to significantly bid up faculty salaries. The University will be raided for senior faculty and unable to attract the highest quality of junior faculty. This will weaken the teaching program and handicap our research performance. Faculty retention and recruitment are paramount in maintaining UC among these top tier institutions.

2. **State.** In parallel, substantial increases in our capital budget outlays will be needed to construct classrooms, dormitories, support facilities, laboratories, and office space. The State must find ways to make a much higher commitment to providing capital funds. This request will serve both access and excellence objectives.

In any realistic scenario, the State portion of the University capital costs will fall short of the real needs. Some of the needs will be provided through mortgages against self-supporting programs while others will require serious development efforts. Success in raising capital is mandatory and stronger State support is required as one of the elements.

3. **Undergraduate and Professional Graduate Students.** With a great deal of reluctance we support the orderly increase of revenues from student fees -- so long as these fees remain with the University to support its educational mission.

This action will place a downward pressure on access. Thus, movement along this dimension must be thoughtfully coupled with increased financial aid, increased student support mechanisms, and increased outreach. We feel that increased financial support alone will not be sufficient to compensate for fee increases. Central to the orderly increase of fees should be creative efforts to mitigate access issues.

4. **External Funding Sources.** With a similar reluctance we support a University-wide effort to increase the average recovery rates of Indirect Costs.

This is not in the best interest of our research program as the lower the indirect cost the more the direct research expenditure. On the other hand, the current actual overhead expenditures are 15 percent higher than the maximum rates recovered (the federal on-campus research rates) and the absolute recovery rate is 35 percent lower than actual overhead costs. (Note: the University federal on-campus rate is similar to other public universities and about 10 percent lower than comparable private universities. It is not clear that Harvard and Stanford are at a competitive disadvantage due to their higher rates.)

5. **Donors.** We feel that now is the time to invest in increased development funding.

Increases in taxes on funds received and increases in the use of STIP funds should be considered to directly increase the funds available for our development efforts. Note: current administrative fees from the endowment are limited to 15 basis points versus a national average of 70 basis points. Additionally this seems to be an appropriate time to permit the measured use of State funds to invest in development. Movement toward the national average would be a good source of investment funds for development, etc. Here we expect to derive capital funds for sustaining excellence. The investment in development should fund increased efforts centrally as well as in the school and departments. Uses include:

- Enhanced support for library holdings,
- Increased support for academic graduate students in order to enhance research programs, raise the level of classroom and departmental discourse, train future academics and non-academic professionals, and enhance our attractiveness to new faculty members
- Increased funding for chaired professorships to extend the reach of our instructional and research programs.
- Develop a serious industry-funded relatively unrestricted endowment program. Thus, recognizing the University is a major engine of economic benefit.

**6. External Funding Sources.** Clearly sustaining excellence will require large increases in externally funded research central to the educational mission of the University.

It is entirely natural for the University faculty to pursue external research support. Important by-products of increasing research are greater breadth in expertise, and hence teaching and training programs and also the direct support of academic graduate students. But, we must be mindful that more research funding will require increased research infrastructure in the form of capital and administration. Therefore, it is important that increased extramural funding be tied closely to the University's primary educational mission and not simply build a large professional research organization that does not relate to students

Taken together these sources of funding – if provided/earned in a timely fashion and in an appropriate balance – will create a platform for achieving our fundamental objectives.

Increasing access can be accomplished through other modalities as well. These other methods also serve to reduce the operating and the capital requirements.

**1. Reducing the time to degree** will mean that more students will graduate from the University.

To accomplish this the University must more clearly structure its academic programs, provide a more effective academic schedule, support this with stronger academic counseling, and provide more financial support to reduce the need for students to seek outside employment.

**2. More effective articulation with the Community College system** coupled with strong student aid would also increase access and thus more students from a broader population base will graduate from the University. This connection to the Community Colleges can reduce the overall cost of education but also bring in a group of qualified students who otherwise would not have access to the University. The record shows that these students perform well and they have great potential to contribute to the University community.

The aid question is an important reflection of the demographics of the State. Southern campuses cannot easily absorb the population concentration in the southern half of the State. Thus, Community College graduates must be encouraged to seek education further away from their home location. Aid is one form of helping students choose to relocate in order to obtain a University education.

**3. Fuller implementation to permit more effective use of the summer quarter** will reduce capital impacts and encourage shortening of time to degree.

If this use of the summer quarter is done within the context of a summer quarter “economy” then departmental funding will increase and another source of funding will be available for graduate students, seed money for grant applications and other support.

**4. Increased funding for graduate students** will strengthen the University’s recruitment of graduate students and will also strengthen the University’s recruitment of stellar faculty. These same graduate students will enlarge the University’s instructional abilities and increase the abilities of the University to attract outside research funding.

In summary The Academic Council endorses the following priorities:

*Increase access to the University through*

- *financial support for students,*
- *student out-reach,*
- *inter-segmental cooperation, and*
- *streamlining academic programs.*

*Provide the capital facilities for an expanded student body and the faculty and staff spaces necessary for increased access.*

*Sustain excellence through*

- *making faculty and staff salaries competitive,*
- *vigorously financing academic graduate students, and*
- *expanding research and teaching infrastructure.*

*Strengthen the summer “quarter” economy to mitigate the costs associated with the access/excellence objectives.*

**We urge the University Administration to make these priorities clearly known to the executive and legislative leadership of California and to use this framework to negotiate future “partnerships/compacts” with the elected leadership of the State.**