

**UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB)
ANNUAL REPORT 2017-18**

TO THE ASSEMBLY OF THE ACADEMIC SENATE:

The University Committee on Planning and Budget (UCPB) met ten times in Academic Year 2017-18 to conduct business pursuant to its duties to advise the President and other University agencies on policy regarding planning, budget, and resource allocation as outlined in [Senate Bylaw 190](#) and in the *University-wide Review Processes for Academic Programs, Academic Units, and Research Units* (the “[Compendium](#)”). The major activities of UCPB and the issues it addressed this year are outlined briefly, as follows:

BUDGET, ENROLLMENT, STATE RELATIONS, AND ADVOCACY

Senior UC leaders from the Offices of the Chief Financial Officer, Budget Analysis and Planning, and State Government Relations joined UCPB at most meetings to discuss the development of the 2018-19 State and University budgets; the progress of budget negotiations and advocacy efforts in Sacramento; provisions in the 2017 Budget Act related to enrollment; the University’s response to last year’s State audit of UCOP’s budget, including accounting practices; progress meeting State requirements for the release of \$50 million withheld from the 2017-18 UC budget; contingency planning; and other UC-specific budget matters. The Office of Federal Government Relations also briefed UCPB on federal budget and legislative issues impacting the University. On the whole, UCPB enjoyed fruitful interactions with UCOP administrators, who provided thoughtful and candid presentations and responded to UCPB requests with timely, informative data. UCPB argued forcefully and effectively for budget action based on principles, and challenged administrators to communicate UC’s chronic under-funding and demonstrate the consequences of state de-funding on tuition, enrollment, and quality.

UCPB supported the University’s proposal to address its State funding shortfall with a 2.5% in-state tuition increase, and its subsequent efforts to seek a State tuition buy-out. UCPB followed UCOP’s efforts to implement the 2017 Budget Act requirement that UC enroll 1,500 more resident undergraduates in 2018-19, with costs supported by funding redirected from systemwide programs and UCOP operations. UCPB lamented the effect of this mandate on campuses already suffering from over-enrollment, and encouraged UCOP to develop a feasible systemwide framework to support growth.

UCPB was impressed by a UCOP presentation on the University’s cost structure and cost drivers, which indicated that UC’s available core funds have increased only 6% since 2000-01, while student enrollment has increased 54%, representing a 31% decrease in funding per student. UCPB observed that campuses face increasing space and academic planning pressures stemming from the large influx of undergraduates and a decreasing number of graduate students available to help as Teaching Assistants. UCPB called for meaningful enrollment planning that broadens the State’s exclusive focus on undergraduate access and throughput, to planning that benefits the overall educational environment and academic quality. UCPB observed that the student experience and the long-term value of the UC degree are enhanced by smaller class sizes, more frequent opportunities for personal interactions with faculty, and the opportunity to engage in deeper learning. UCPB encouraged UCOP to highlight the campuses’ resource needs in the context of the State’s decision to reduce funding, and to document how UC’s cost savings choices in reaction to cuts have affected the quality of instruction and the student educational experience through higher student-faculty ratios; reduced opportunities for personal interaction; fewer opportunities for undergraduate student engagement in research; and reduced staff support.

UCPB observed that one of the University's biggest challenges is making an effective case to the Legislature about funding UC's full mission as a Research I University. It noted that the public generally views the University's mission in the more limited context of undergraduate teaching; it is difficult, but vital, to educate the public and legislators about the importance of UC's research, graduate education, and PhD training missions; they are central to the University, to California's economy, and to people's lives and well-being. UCPB encouraged UCOP to develop metrics to showcase UC's unique mission and how it is distinct from CSU's; to emphasize how the research mission helps drive the state economy; and to engage faculty in developing stronger messages on this theme.

UCPB appreciated the difficult task facing UC advocates in Sacramento, but was frustrated by UC's inability to move the needle on the budget despite its best efforts; by the Governor's unwillingness to fund the University; and by the Legislature's failure to fund new enrollments with the traditional marginal cost of instruction formula. While UCPB appreciated the additional one-time funds provided to the University in the final state budget, it emphasized that UC needs permanent revenue streams to continue providing a world-class educational experience. UC believes it is critical for UC to forge an agreement with the incoming Governor for sufficient budgetary support of the University's full undergraduate, graduate education and research missions. UCPB will continue to monitor the University and State budget next year and help define budget and planning priorities. It is UCPB's view that the clashing priorities of the Governor and the Legislature created a "perfect storm" for UC: the Governor was focused on constraining costs and avoiding long-term commitments, while in contrast, the Legislature focused on growing UC and increasing access to California residents, both of which require long-term investment. UCPB feels we must address the problems that emerged from these conflicting priorities, and we must do everything possible to avoid continuing them as we move into a new year and a new State Administration.

UCOP Budget and Audit Implementation

UCPB received several briefings on the University's response to last year's State audit of UCOP, and its progress implementing the audit's 33 recommendations for improving or examining UCOP budget and accounting practices. UCPB found that implementation was proceeding appropriately, and asked UCOP to keep the committee informed about audit progress and decision-making. UCPB also viewed the State's decision to line item the UCOP budget as a threat to the constitutional independence of the University and a step backward in the transparency introduced by rebenching.

ALTERNATIVE FUNDING MODELS AND INEQUITIES TASK FORCE

UCPB moved on a request from the Senate chair to assess potential funding models that could serve as alternatives to Funding Streams and allow all UC campuses to attain an equitable level of funding. UCPB was concerned that the Regents' decision to implement a nonresident enrollment cap that differs across campuses works against the goals of rebenching by establishing a two-tier funding system that allows well-established campuses to retain nonresident tuition at current levels and precludes other campuses from increasing their income to a similar level. In addition, the State's decision to implement a separate line item appropriation of the UCOP budget exacerbates inequities between campuses that use more or fewer UCOP services. UCPB also found that the benefits of nonresident tuition revenue have been concentrated at a few campuses, but the political backlash and associated financial pain have been distributed across the system.

Chair Schimel drafted a charge for an Inequities Task Force that would assess potential mechanisms for ensuring all campuses can provide a comparable educational experience. The charge asked the

Task Force to quantify inequities in relation to the resources available to support undergraduate education across campuses; identify potential mechanisms to address inequities; and analyze potential benefits and costs associated with those mechanisms. 2016-17 UCPB Chair Sadoulet joined UCPB to discuss the differential campus resource analyses he prepared last year. UCPB identified several principles that should apply to any plan for addressing inequities – simplicity and transparency; based in rational planning with a clear timeline; and employing an assessment of historical allocations, traditional set-asides, and corridor agreements. UCPB felt there would be value in funding aspirational graduate enrollment growth in rebenching; defining systemwide initiatives to ensure they benefit the core UC mission and boost the quality and reputation of younger campuses; and identifying a fairer system of taxation that eliminates set asides and funds all systemwide priorities. Ultimately, however, UCPB was unable to identify a chair for the task force and deferred the issues to a future committee.

FINANCE POLICY

UCPB met regularly with the Chief Financial Officer to discuss asset optimization initiatives and capital budget strategies that help UC manage liabilities, reduce administrative expenses, and generate additional unrestricted revenues for the campuses. These include the reallocation of STIP funds to TRIP, and the use of STIP borrowing to fund the Annual Required Contribution (ARC) to UCRP. The CFO also discussed UC's use of systemwide debt to finance capital projects, its efforts to restructure debt to achieve cash flow savings, and its use of Limited Project Revenue Bonds and public-private partnerships to fund new housing projects. UCPB supported these strategies as means to help supplement unpredictable State funding. UCPB also supported UC's plan to pursue with the next Governor a return to General Obligation and Lease-Revenue bonds as mechanisms to fund capital growth and renewal. Finally, UCPB discussed a decision by UCOP to rescind a previously approved increase to the UCRP employer contribution rate from 14% to 15% and instead transfer additional funds from STIP to UCRP to meet ARC. UCPB urged the University to maintain the 15% UCRP employer contribution rate target, to ensure a stable and healthy financial trajectory for UCRP, consistent with Regents policy.

FACULTY SALARIES

UCPB Chair Schimel participated on a UCFW-led subcommittee that developed a plan for closing the 8.4% gap between UC faculty salaries and faculty salaries at comparison institutions over three years. The plan [endorsed](#) by the Academic Council in March incorporated the subcommittee's discussions about the systemwide salary scales, the role of discretionary spending, and salary equity by gender and ethnicity. Later in the year, UCPB wrote to Council Chair White to support UCFW's model for closing the remaining gap over two years. UCPB emphasized the need to maintain pressure to close the UC faculty salary gap, and to fix the published UC salary scales.

SELF-SUPPORTING GRADUATE AND PROFESSIONAL DEGREE (SSGPDP) PROPOSALS

Per the Compendium, CCGA leads the main systemwide review of proposed SSGPDPs and UCPB provides financial analysis after assigning a lead reviewer to assess the business plan and market analysis. UCPB reviewed and approved four proposed SSGPDPs this academic year:

- UCLA Doctor of Nursing Practice
- UCI Master of Software Engineering
- UCI Master of Innovation and Entrepreneurship
- UCB Master of Bioprocess Engineering

UCPB emphasized that programs proposing SSGPDPs need to provide a strong justification for SSGPDP costs and expenses and show how a financial plan will scale as the program expands.

UCPB was also concerned that it has no way of assessing the financial performance of SSGPDPs after they have been established. Having access to fiscal outcomes relative to original plans and projections will help inform UCPB about what comprises a realistic SSGPDP budget model. UCPB was concerned both with the possibility of SSGPDPs failing to achieve “self-supporting” status, and with projected revenues in some programs far exceeding what is required to support the new program—essentially using SSGPDPs as “cash cows” to support other programs. UCPB observed that the University approved a policy in 2016 requiring three-year follow-up reviews of new SSGPDPs, and the Committee expressed interest in working with CCGA on a plan to regularize three-year reviews. UCPB also observed that while campuses are turning to SSGPDPs as a strategy to prevent emerging deficits, the University has few guidelines on what is appropriate and is not collecting data about the effectiveness of that strategy.

THE HURON REPORT AND UCOP RESTRUCTURING

UCPB discussed the Huron Consulting Group’s report on UCOP’s organizational structure, and Huron’s options concerning UCOP’s size, scope, and portfolio of services. UCPB learned in the spring that the President had endorsed a plan to move the UC Education Abroad Program (UCEAP) and its budget to UC Santa Barbara, and also charged two advisory committees with considering the Huron Consulting Group’s recommendations concerning UC Health and UC DANR.

UC EDUCATION ABROAD PROGRAM

A faculty subcommittee that included the UCPB, UCEP, and UCIE chairs met to discuss a draft Charter and MOU for UCSB’s operation of UCEAP and the structure of a proposed Advisory Committee that would advise the Provost and UCSB Chancellor on UCEAP. UCPB met with Provost Brown to discuss the proposal, and later wrote to Council Chair White opposing the move, based on an observation that moving specific functions out of UCOP could reduce UCOP’s visible budget footprint, but would be unlikely to reduce UC’s overall budget and could increase short-term costs. For its part, the UCIE-UCPB-UCEP subcommittee found that the UCEAP move was going to proceed regardless of Senate views. It focused instead on the composition of the UCEAP Advisory Committee, and on maintaining an effective level of faculty and Senate engagement with UCEAP management. The Academic Council later [endorsed](#) the subcommittee’s recommendation for an Advisory Committee structure with seven Senate representatives, including one UCPB member.

SHARED GOVERNANCE CONCERNS

In June, UCPB wrote a letter to the Academic Council requesting more Senate involvement in the process of evaluating potential changes to systemwide academic programs housed at UCOP and a systemwide review of the final work products of the UC ANR and UC Health Advisory Committees. UCPB noted that the collection of proposed changes to UCOP go beyond a simple reorganization of UCOP and reflect a fundamental reorganization of the University. The changes require appropriate Senate consultation to ensure they adequately addresses questions about UCOP’s overall role, mission, and structure; the long-term value of moving a program; and whether the upfront investment produces savings over the long-term. Council [endorsed](#) the letter and forwarded it to President Napolitano.

AGRICULTURE AND NATURAL RESOURCES

The UCPB Task Force on Agriculture and Natural Resources was established in 2017 to enhance connections between the Division of Agriculture and Natural Resources (DANR) and the Academic Senate. Chair Schimel led the Task Force in 2017-18. It met twice, in February and April. The Task Force wrote a white paper identifying some key issues around DANR’s mission and its relationship to the campuses. The paper noted that research associated with agriculture and natural resources is

no longer isolated on the three agricultural experiment station campuses, but is becoming increasingly important to the academic missions of all campuses. At the same time, DANR's mission is encompassing a broader set of environmental issues. Despite these growing intersections, there is minimal connection between DANR and the non-AES campuses. The paper posed several questions to DANR about the evolving nature of California agriculture, DANR's vision for a more inclusive relationship with the campuses, and how DANR's structure allows it to react to the emerging research trends on UC campuses and interact with the entire University. In April, the Task Force met with DANR leadership to discuss the issues raised in the paper. The Task Force put itself on hold, however, when President Napolitano established an Advisory Committee to evaluate ANR's position within UCOP and UC. UCPB did meet with Professor Mary Gauvain, the faculty representative on the President's ANR Advisory Committee. UCPB expressed support for realigning DANR administrative and oversight structures to ensure ANR is more grounded in the UC academic mission, and also for giving the Senate, possibly through UCPB and the ANR Task Force, a continuing role in providing input about ANR's direction.

CAMPUS STRUCTURAL DEFICITS

UCPB heard reports on current and emerging campus structural budget shortfalls, including the Berkeley CAPRA's investigation into UCB's budget deficit and its recommendations for restructuring operations. Several other campuses project deficits within five years if costs and revenues continue their imbalanced trajectories. UCPB found that campuses are turning to alternative revenue sources, including self-supporting programs and philanthropy, to help close the State funding gap and correct long-term imbalances. UCPB discussed best practices for recognizing the signs of an upcoming deficit and steps to correct imbalances and protect the educational mission. UCPB noted that a crisis will often catalyze faculty into action to demand change and lead to more effective shared governance, and that engaging faculty in shared governance on the budget can lead to better decisions.

OTHER BRIEFINGS

Education Financing Model: In February, UC's Director of Student Financial Support met with UCPB to discuss the University's Education Financing Model (EFM) and recommendations issued by the Total Cost of Attendance Working Group for improving the design of the EFM to better meet the goals of the Regents Policy on Undergraduate Financial Aid.

UC Health: UCPB met with Executive Vice President John Stobo to discuss the financial performance of the UC medical centers and UC's self-insurance program, UC Care. Dr. Stobo noted that the medical centers showed strong overall performance but also face significant cost challenges associated with building and opening new facilities and rising pension expenses. He also made the case for spinning off the medical centers into a separate statewide organizational entity, as proposed by Huron Consulting.

Investment Policy: UCPB met with the University's Chief Investment Officer Jagdeep Bachher to discuss investment strategies, performance, and the risk outlook for UC's portfolio; the relationship between the Office of the CIO and individual campuses; the impact of the new UCRP tier; and the role of working capital. The CIO discussed his management of STIP and TRIP funds and funds in the UC General Endowment Pool (GEP), the Regents' vehicle for investing endowed gift funds. UCPB observed that the GEP tends to offer lower fees and higher returns than campus-based funds, and that campuses could have paid lower fees and sometimes realized higher returns by allowing the CIO to manage their foundation assets.

Indirect Cost Recovery: UCPB met with Executive Director of Research Policy Analysis and Coordination Wendy Streitz to discuss UC's plan for increasing its indirect cost recovery rates on State contracts from 25% to 40%. Director Streitz noted that UC decided to maintain the 25% rate through June 2018, after individual agencies expressed opposition to the plan. UC now plans to maintain the rate at 25% through June 2019 and increase it gradually in 5% increments to 40% until July 2021. UCPB remains concerned that the increase could price UC out of the market and drive away state grant support from research programs.

Open Access: The chair of UCOLASC invited UCPB to endorse UCOLASC's *Declaration of Rights and Principles to Transform Scholarly Communication*, a set of principles to guide the University's upcoming and future journal license negotiations with commercial publishers. After a split committee vote, UCPB wrote to Council Chair White expressing general philosophical support for the principles but noting that it was unable to formally endorse them.

DOE National Labs: Vice Chair Steintrager represented UCPB on the Academic Council Special Committee on Lab Issues (ACSCOLI), and provided UCPB with regular updates on issues of interest from ACSCOLI and the labs.

Other Compendium Reviews: In addition to four SSGPDPs, UCPB submitted comments on (1) a pre-proposal for a School of Public Health at UCSD; (2) a pre-proposal for a Seventh Undergraduate College at UCSD; and (3) a UCR School of Business Administration Simple Name Change.

Campus Reports: UCPB set aside a portion of each meeting for updates from faculty representatives about issues being discussed on their local budget and planning committees. These briefings touched on a wide range of topics, including faculty participation in long-term strategic academic planning groups and exercises; campus plans to accommodate enrollment growth; the use of research overhead; the benefits and drawbacks of different internal budget models; views on proposed SSGPDPs; and the use of externally purchased software such as Academic Analytics.

Senate Leadership Briefings: The Academic Council chair and vice chair attended a portion of each UCPB meeting to brief the committee on business from Council and Regents meetings, and other systemwide issues of particular interest to UCPB or of general interest to the faculty. These briefings included the status of budget and enrollment negotiations with the state; proposed legislation affecting the University; the work of the Retiree Health working group; the recommendations of the Transfer Task Force; the University's efforts to preserve DACA; the implementation of the Huron Report; and the state of shared governance.

OTHER ISSUES

The "\$48 Fix": In November, UCPB wrote to Council Chair White about *The \$48 Fix: Reclaiming California's Master Plan for Higher Education*, a plan from a working group to restore tuition-free public higher education in California through an annual income tax surcharge to replace tuition the working group estimates would be \$48 for median-income households. UCPB noted that while the plan highlights the importance of public higher education to California and the effect of state budget cuts on access, affordability, and quality, it is neither fiscally nor politically feasible and has little chance of gaining traction in the public or Legislature.

Negotiated Salary Trial Program: In November, UCPB sent views to Council about the Fourth Year Negotiated Salary Trial Program (NSTP) Taskforce [report](#) on the NSTP, a program intended to add flexible options for generating faculty salary funding by allowing eligible general campus faculty to supplement their income with certain non-state resources. On the whole, UCPB supported

an extension of the pilot, although member opinion was mixed. UCPB recommended that the University proceed cautiously; develop “success metrics” to monitor the NSTP’s effects on recruitment, retention, and salary equity; and track how faculty and graduate students are affected by the program to further evaluate its effectiveness.

Review of the Institutes for Transportation Studies (ITS) MRU: Professor Eleanor Kaufman represented UCPB on the UCORP-led Senate subcommittee tasked with the five-year review of the Institute of Transportation Studies (ITS) multi-campus research unit. The review evaluated the systemwide value of the ITS and the quality of its work. Professor Kaufman conferred with UCPB members on a list of budget-related questions to the ITS, and on her final budget report to UCORP. UCPB also reviewed and commented on the final draft five-year review report. The final review was favorable and recommended continued support.

Proposed Revised APM Sections 285, 210-3, 133, 740, 135, 235: UCPB sent comments to Council concerning proposed APM revisions related to the Lecturer with Security of Employment (LSOE) faculty series. UCPB noted that the rapid growth of LSOEs is symptomatic of the University’s budgetary strains. Programs are increasingly hiring teaching faculty to cover curricular requirements for growing student populations once covered by regular faculty and a moderate number of Unit 18 lecturers and teaching associates. UCPB recommended that the University hire LSOEs to cover programmatic teaching needs that cannot be effectively managed by regular ladder faculty or Unit 18 lecturers.

UCPB REPRESENTATION

Chair Josh Schimel represented UCPB at meetings of the Academic Council, the Assembly of the Academic Senate, the Academic Planning Council, the Provost’s Budget Advisory Group, and the Technology Transfer Advisory Committee. He and Vice Chair Steintrager also served on the UC Education Abroad Program Governing Committee. Vice Chair Steintrager was a member of the Academic Council Special Committee on Laboratory Issues. Steven Gross represented UCPB on the UCFW Task Force on Investments and Retirement.

ACKNOWLEDGMENTS

UCPB benefited from regular consultations with Executive Vice President & CFO Nathan Brostrom, Associate Vice President for Budget Analysis and Planning David Alcocer, Associate Vice President and Director for State Government Relations Kieran Flaherty, and Associate Director Seija Virtanen. UCPB is also grateful to the following committee consultants and guests for their valuable contributions: Provost Michael Brown; Director of Academic Planning Todd Greenspan; IRAP Analyst Chris Procello; Student Financial Support Director Chris Carter; Federal Government Relations Director Chris Harrington; Chief Investment Officer Jagdeep Bachher; Executive Vice President Jack Stobo; Executive Director Wendy Streitz; and Chief Strategy Officer Zoanne Nelson. UCPB also appreciates the contributions of the faculty who attended UCPB meetings as alternates for regular committee members: Mitch Sutter (UCD), Martin Garcia-Castro (UCR), Linda Cohen (UCI), Jennifer Johnson-Hanks (UCB) and Aditi Bhargava (UCSF).

Respectfully submitted:

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Jim Steintrager, Vice Chair (UCI)	Ann Jensen Adams (UCSB)
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Steven Gross (UCI)	Aaron Dolor (Graduate Student)

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