

## **UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB) ANNUAL REPORT 2014-15**

### **TO THE ASSEMBLY OF THE ACADEMIC SENATE:**

The University Committee on Planning and Budget (UCPB) held nine regular meetings in Academic Year 2014-15 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”). UCPB also scheduled additional teleconferences between regular meetings to address specific issues. The major activities of UCPB and the issues it addressed this year are outlined briefly, as follows:

#### **MONITORING STATE BUDGET NEGOTIATIONS**

Senior leaders from the UCOP Offices of the Chief Financial Officer and Government Relations joined UCPB to inform the committee about the progress of budget negotiations in Sacramento, budget contingency planning, capital projects, tuition policy, proposed performance outcome measures, and other UC-specific budget matters. Administrators briefed UCPB on their efforts to inform and apprise legislators and Regents about UC’s cost-saving projects, options for adjusting cost drivers and revenues, and the critical need for new revenue to maintain quality. UCPB members emphasized the ongoing need for UC to inform policymakers about higher education issues and to encourage policymakers to take a long-term view of UC’s needs.

Budget negotiations between President Napolitano and Governor Brown led to a budget framework being adopted over the summer of 2015; it includes several programmatic details as well as funding dicta. The direct involvement of Governor Brown, whose staff requested several reports and analyses of UC functions, altered the negotiation dynamic this year. UCPB met with a representative from the Governor’s staff and tried to convey the unique role of UC in the State economy, the role and importance of graduate work to the undergraduate experience, and the utility of having regular and predictable budgets both for tuition planning for families and for the University’s academic planning, which are both multi-year obligations. UCPB observes that the direct, person-to-person nature of the negotiations this year had mixed results for UC. Some one-time funding guarantees are promising, but others come with considerable constraints of yet unknown impact. Currently, budgetary constraints do not make it easy for the University to balance its educational, research and service missions along with the need for reinvestment in quality that was lost during the past State economic crisis.

One concern was a lack of opportunity for UCPB to provide input in a timely manner on the budget. UCPB was often briefed, but after decisions had already been made, partly a consequence of this year’s negotiation and legislative processes. UCPB is working with the Administration and Academic Council to improve consultation, and timely information flow, through adjustments and additions to the meeting calendar. It was recognized that this situation was also partly a consequence of the incompatibility of the timing of the budget planning process at UCOP, which occurs largely at the end of the summer and in the early fall, while the active term of UCPB ends on September 1. Hence, UCPB has proposed to Academic Council that a change be made in the calendar term of UCPB so that the sitting committee would remain active until October 1. UCPB has also communicated to Academic Council its concern over the lack of timely consultation on budgetary issues; that concern was forwarded as part of a memorandum from Council to UCOP on more general issues regarding shared governance.

## **CAPITAL PROJECTS FUNDING**

UCPB met with the Chief Financial Officer division regarding capital project planning and funding. Of particular focus was the Merced 2020 plan: the road envisioned to bring UC Merced into full flight as a mature campus. External economic pressures and local considerations have forced the reconceptualization of the Merced campus growth plan. UCPB will continue to closely monitor development of the plans under the design, build, finance, operate, and maintain (DBFOM) model that is being considered. DBFOM has a strong pedigree in Europe, but it is new to the United States and to higher education projects, but the Merced demands are similarly unique.

UCPB also received updates on UC's bond rating and liquidity management strategies.

## **ENROLLMENT MANAGEMENT**

Enrollment management is a pressing issue that has been an agenda item of every meeting of UCPB this year and last. UCPB has continuously pressed UCOP to develop the necessary comprehensive, systemwide enrollment management plan, administered by UCOP, as necessary to implement the Rebenching Project successfully. UCPB has reiterated that the System-wide Funding Streams Initiative may have inadvertently provided some financial incentives for campuses to enroll non-residents, to under-enroll resident undergraduates, and potentially to convert state-funded professional programs to self-supporting status.

Although UCPB recognizes the difficulty of developing enrollment plans when state funding fluctuates, is made conditional, and is announced after admissions decisions are made, UCPB nonetheless believes it is critical for UC to develop and follow an enrollment plan for all types of students. This plan can inform allocation of state funds as available and guide tuition growth projections.

The Senate has repeatedly advocated for maintaining access affordability and quality; all requiring adequate funding, and quality particularly being a goal that cannot easily be rebuilt once damaged. A long term plan is needed.

## **GRADUATE EDUCATION AND RESEARCH SUPPORT**

University support for graduate programs also received much discussion by UCPB this year. The administration continues to develop guidelines to govern self-supporting graduate and professional degree programs (SSGPDPs) and to determine when increases in professional degree supplemental tuition (PDST) are appropriate. UCPB supported the Academic Council position that new SSGPDPs should clearly demonstrate how self-supporting status will bring unique advantages to the program and should show how they will mitigate deleterious impacts on state-supported programs. The committee remains concerned that resources might be shifted to "revenue generating" programs at the expense of academic quality; the committee still calls for greater financial oversight to preclude and address potential conflicts of interest.

This spring, UCPB initiated routine review of SSGPDP proposals. UCPB developed an evaluation template based on the Academic Planning Council's SSGPDP proposal guidelines, and assigned each proposal a lead reviewer. UCPB noted on many proposals that faculty are expected to teach or supervise capstone type projects on an overload basis, and that long-term physical plant costs are often not considered in a realistic way. As SSGPDP proposals increase, the need for increased budget exactitude becomes clear.

UCPB also met with Provost Dorr to discuss doctoral student support and the institution's role in protecting and promoting graduate education and research. The protracted recruitment of a new vice president in this area is being monitored closely.

## **INVESTMENT POLICY**

In ongoing efforts to reduce UCRP's unfunded liability, the campuses borrowed \$700M from STIP to supplement employer and employee contributions. As a result, the plan's funding status improved. Additional borrowing is expected in future years, too. The Office of the Chief Investment Officer (OCIO) reported to UCPB that the investment allocations are under review, not just for UCRP but for the endowment, as well. When considered in conjunction with the experience study conducted by Human Resources, Mercer Consulting, and Segal, new allocations could follow from new rate of return assumptions. UCPB joined her sister committee, the University Committee on Faculty Welfare, and their Task Force on Investment and Retirement, in studying additional funding projections to reflect the impact of various contribution levels and return assumptions.

UCPB continued to discuss current efforts to have UC divest from fossil fuels, noting concerns about financial impact, whether the University should use its "Bully Pulpit," and how subsequent calls for divestment in other areas should be handled. CIO Bachher and his staff have been conducting an investigation into environmental, social, and governance (ESG) responsible investing. This framework should allow matters of conscience to be considered along with real returns.

UCPB also heard, with interest, updates on the development of UC Ventures, a program intended to help campus-based inventors secure internal and external venture capital funding. UCPB gave feedback on the draft business plan, and looks forward to future updates.

UCPB similarly reviewed and responded to draft guidelines for a plan to accept "equity for access" from either internal or external inventors to University facilities, incubators, and campus spirit. Significant concerns regarding conflict of interest and administrative approval and evaluation processes were identified.

#### **CASH COMPENSATION AND HEALTH AND WELFARE BENEFITS**

Following promulgation of the 2014 Total Remuneration Study for ladder-rank faculty, UCPB was alarmed at the deterioration in UC's remunerative competitiveness, especially in terms of cash compensation and the disproportionate impact on mid-career faculty bound by UC's "golden handcuffs". In response, a joint Senate-administration work group was formed to advise the President on (1) how best to allocate the current year's 3% salary increase, and (2) how best to close the 12% cash compensation gap over the next few years. UCPB was disappointed that the workgroup's advice on (1) did not receive traction, and that it was disbanded before it opined on (2). UCPB holds that 1.5% range adjustments will be out-paced by competitor increases of greater than 1.5% percent, and even the full 3% overall increase will not begin to close the extant faculty salary gap. Unless some action is taken to address the total remuneration gap, UCPB is extremely concerned that faculty recruitment and retention will be negatively impacted, and UC quality will fall soon after. UCPB is also very concerned about the impact of non-competitive ladder salaries on the viability of the merit and promotion system, which is viewed by UCPB as a major factor in having established UCs current quality. Unfortunately, faculty total remuneration gap between the University and its comparators continues to widen, even though the state has largely recovered from the past recession.

The 2014 Total Remuneration study also illustrated conclusively that UC's health and welfare benefits no longer offset UC's lagging cash compensation. Employee contributions of 8% of payroll to UCRP, taken in conjunction with annual increases in health insurance premiums, co-pays, and out-of-pocket maximums, means that the monetary value of UC's benefits are only at the competitor baseline; they are not more generous and do not bring a competitive edge. Further decreases in employer support for employee benefits could compound the recruitment and retention difficulties.

UCPB also received reports on the performance of UC Care, UC's self-funded employee insurance plan. UCPB was pleased to hear that financial performance is within normal parameters, but the committee continued to press for improvements in care delivery and billing clarity. UCPB has concerns about UC Care suffering from adverse selection given the cost of the plan and the enrolled employee profile. Plan expansion should be deferred until the current version is financially secure,

and operational issues have been resolved.

## OTHER BRIEFINGS

- Agriculture and Natural Resources: UCPB kept abreast of developments in ANR through its representative to the Academic Council Special Committee on ANR, Riverside Representative Barish. UCPB also met with senior officials from ANR to understand and appreciate the unique financial situation of ANR and to begin to brainstorm paths forward.
- Education Abroad Program: UCPB participates in the EAP governing committee, and heard directly from EAP Associate Vice Provost Guinard. UCPB remains concerned that structural budget issues remain unresolved, and communicated these concerns to Provost Dorr.

## CORRESPONDENCE

In addition to memoranda addressing the above, UCPB submitted opinions and analyses on the following:

- Senate by-law revisions: 128.D2 (Vice Chairs) and 182 (UCIE)
- APM 210.1.d (Appraisal and Review Committees)
- Proposed “Copyright and Fair Use” Policy
- Proposed State Constitutional Amendment 1
- 10 Proposed SSGPDPs, and one non-resident tuition increase proposal

## UCPB REPRESENTATION

Chair Gary Leal represented UCPB at the Academic Council, the Academic Assembly, the Academic Planning Council, and the Provost’s Budget Advisory Group. He also served on the UC Education Abroad Program Governing Committee and was Chair of Finance Committee for UCEAP. UCPB Vice Chair Shane White represented UCPB on the Technology Transfer Advisory Committee (TTAC), and was also a member of the UC Education Abroad Program Governing Committee. UCPB was represented on the Academic Council Special Committee on Laboratory Issues by Berkeley Representative Bernard Sadoulet, and on the Academic Council Special Committee on Agriculture and Natural Resources by Riverside Representative Ken Barish.

## ACKNOWLEDGMENTS

UCPB is most grateful to the following committee consultants and guests for their valuable contributions: Vice President Patrick Lenz, Associate Vice President Debora Obley; Provost Aimée Dorr; Todd Greenspan, Director of Academic Planning, Pamela Brown in the Office Institutional Research and Academic Planning, Vice Provost Susan Carlson and Interim Vice President of Research & Graduate Studies Bill Tucker; Executive Vice President and CFO Nathan Brostrom; and Chief Investment Officer Jagdeep Bachher.

Respectfully submitted:

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