UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

UNIVERSITY COMMITTEE ON PLANNING AND BUDGET

**Minutes of Meeting**
**May 5, 2015**

## I. Chair's Announcements

*Gary Leal, UCPB Chair*

**Update**: Chair Leal updated the committee on several items of interest:

- At the monthly administration-Senate budget call, Executive Vice President Stobo from UC Health reported on UC Care's performance during its first year. There is room for improvement in satisfaction measures, but de-enrollment was not significant. UC Care is considering adding more Tier 1 providers, but they must agree to the same discounted reimbursement rate that the UC Medical Centers have; negotiations are likely to continue into July. There will be no UC Care HMO product for 2016 as HealthNet is able to provide competitive costs due to a low medical loss ratio. Discussion of a UC Care HMO product for the future will continue.
- The state budget was also discussed during the budget call. Most of the revenue surplus will be spent according to Prop 98, which does not include UC. Competing bills in the legislature would offer additional funds to UC, but with considerable conditions and strings, such as elimination of the middle class scholarship program or unrealistic enrollment growth expectations. The Office of the President hopes that a multi-year deal can be reached.
- Despite the recommendations of a joint Senate-administration task force, President Napolitano decided that faculty raises this year would be allocated 1.5% to increase the base salary of all faculty and 1.5% to be spent at local discretion targeting equity and exceptional merit. The task force has abandoned plans to develop recommendations to close the faculty total remuneration gap, even though nationally, 5% increases are projected.

## II. Consent Calendar

1. DRAFT Minutes of April 7, 2015
   **Action**: The minutes were approved as amended.

## III. Systemwide Review Items

1. Draft Guidelines for Pilot Program to Accept Equity for Access to University Facilities or Services
   **Discussion**: Members noted concerns with the proposed oversight structure and the locus of assessment for investment potential; the localized focus of the pilot could lead to inconsistent practices and opacity. The designated campus manager's duties need further elucidation. The cost of daily operations is not addressed. Faculty are barred from sitting on boards of their own start-ups in the guidelines. The six-month horizon for liquidation of equity may be too short.
   **Action**: Vice Chair White will draft the committee's response for electronic approval.

2. Proposed Amendments to Senate ByLaw 182 (UCIE)
   **Discussion**: Members noted that the proposed amendment would duplicate UCORP's authority in some areas, and questioned whether UCIE had the resources to evaluate and improve participant student well-being and success. There was also concern about ambiguities as to what international activities would be included. For example, many faculty have international collaborations in research. It would seem inappropriate for this type of activity to be included, but the way the proposed amendments are written it is not obvious.
   **Action**: The draft response was approved as noticed.

3. Self-supporting Program Proposals
    a. Proposed Master of Science in Business Analytics (UCSD)
       **Action**: The draft response was approved as amended.

    b. Proposal for Master of Public Affairs (UCB)
       **Action**: The draft response was approved as amended.

    c. Proposed Master of Legal and Forensic Psychology (UCI)
       *Jim Luck, UCLA Representative and Lead Reviewer*
       **Overview**: The proposal illustrated well that there is a market need for a quality academic program in this area. The review scheme is appropriate, but there are concerns with relying on overload teaching by faculty, especially with capstone projects. The cost of course conversion to online seems low at only $20K/course. Access could be strengthened, but the expectation of scholarships after year 5 is helpful.
       **Action**: Analyst Feer and Representative Luck will revise the draft response for electronic approval.

    d. Proposed Master of Science in Applied Statistics (UCLA)
       *Abel Klein, UCI Representative and Lead Reviewer*
       **Note:** The proposal received was incomplete; the item will be revisited at the June meeting.

    e. Proposed Masters Entry Program in Nursing (UCD)
       **Action**: UCSB Representative Schimel will serve as lead reviewer.

## IV. Consultation with Senate Leadership

*Mary Gilly, Academic Council Chair*
*Dan Hare, Academic Council Vice Chair*
***Note**: Item occurred in executive session; no notes were taken.

## V. Consultation with Governor's Office

*Amy Costa, Higher Education Advisor to the Director of the Department of Finance*
**Discussion**: The committee discussed several topics with Ms. Costa:

- Role of UCPB: UCPB serves an advisory role on UC budget matters and meets monthly with Office of the President consultants. Campus budgets are discussed at campus CPBs, while UCPB focuses on the system as a whole. Local CPBs also meet with relevant local administration officials. UCPB members have considerable expertise in budget matters, both as academic pursuits and through extensive Senate service. Ms. Costa asked how UCPB participated in program approvals, and Council Chair Gilly indicated that UCEP and CCGA are the lead committees for new academic program approval.
- Administrative costs at UC: Members noted that both administrative and academic costs are in UCPB's purview to evaluate. Both types of costs are multi-layered: running a lab is like running a business, for example. Members contended that administrative bloat was a fiction; meeting increased reporting requirements, providing improved student services, and continuing growth in the health sciences are the drivers of employee growth. Offering effective student mental health services, academic counseling, financial aid counseling, and new support services for first generation students all require additional employees. Further, state budget cuts have removed clerical staff from academic departments, which has diminished the amount of time faculty can

devote to teaching and research. Increased automation does not always save time, money, and energy; training and troubleshooting are burdensome, and many compliance-related programs are not user-friendly even when they work as intended.

- Monetizing research: Members noted that UC is supportive of developing “spin off” companies from faculty research, and the University has mechanisms to protect researcher rights while maximizing the profit opportunity. Federal policy encourages research funded by federal sources to developing applications and transfer technology. Doing this creates the potential for conflict of interest and of commitment, however. Faculty time must be carefully divided and separated between their academic work from commercial work. Graduate students and post-doctoral scholars who are associated with commercialization must also be protected—while the opportunity to work in the real world is valuable for their training, they must still be free to publish their work and so develop their own careers. Every campus has a conflict of interest committee whose responsibility it is to figure out how to manage these conflicts. Members stressed that research that is not commercialized has inherent intellectual and academic value that should not be underestimated.
- Total remuneration: The “loyalty penalty” impacts long-standing faculty whose scheduled merit and promotion salary increases do not keep pace with the market; new faculty with lower rank are hired at a salary in excess of established faculty. (Further, long-standing faculty, because of the design of the defined-benefit pension plan, are often inhibited from making mid-career moves, which exacerbates the loyalty penalty.) Writ large, this hiring practice causes salary compression and makes some faculty ripe for poaching from competitors. Beyond salary, provision of adequate staff support and lab space are contributing factors to faculty restlessness. Some faculty are able to circumnavigate the loyalty penalty by securing offers from outside institutions and getting matching offers from UC; this practice is more difficult for women and minorities because the mobility of those populations is constrained by external factors.

  The governor of Texas has publicly stated his intent to poach faculty, and UC is a favorite target. Recruitments are less successful and top candidates are less likely to accept offers from UC. When faculty leave UC, it often has a domino effect, leading to the recruiting away of entire research teams complete with senior staff and often faculty colleagues. A department that has been poached often sees other faculty leave, too.
- Rebenching: The rebenching process is half-way through. It applies to new state funds only. The goal of rebenching is not total funding parity among the campuses but transparency in the funding model for allocation of state funding. Ms. Costa noted that UC campuses have more budget autonomy than CSU campuses, but members noted that UC takes a much more systemwide approach toward academics and business practices than other university systems. UC tries to leverage its 10 campuses as often as possible, not just for procurement but also for student access.
- Enrollment planning: Members noted that UC strives to meet the Master Plan, which asks UC to educate the top 9% of California high school graduates. However, as California’s overall population increases, that percentage yields an increasing total number of students that UC must educate. The cost of educating an increasing student population are not incremental or inconsequential. New facilities must be planned and constructed; new faculty must ultimately be recruited. Ideally, funding should come before student population growth, not after it. The physical capacity of the campuses to educate current students is already exceeded in some instances, especially in lab courses that are in high demand. Further, STEM courses are more expensive to teach than other courses, which again illustrates the desirability of funding enrollment growth up front. Members suggested that Merced should be fully funded before

other campuses are asked to absorb 1000s more students. Members also stressed that undergraduate student growth must be accompanied by graduate student growth, due to the necessity of additional TAs and graduate mentors for undergraduate research that is a very important feature of a UC undergraduate education.

- AB 94 and Expenditures for instruction: Members noted that UCPB has been working with UCOP to make the figures as realistic as possible. But problematical divisions, such as between education and research, make accurate projections difficult. Further, seeking average versus marginal costs yields significant differences in the findings. Ms. Costa reminded members that Governor Brown has decided to award UC funds in block grants, not on an enrollment-based formula; performance-based allocations could also be considered. UC's decision to take unfunded students during the downturn is not necessarily viewed as laudable.

## VI. Executive Session

***Note**: No notes were taken during executive session.

## VII. Consultation with UCFW's Health Care Task Force

*Robert May, HCTF Chair*

**Update**: Chair May reported that UC Care will not include an HMO program next year, but annual inflation will be evident. The amount of the inflationary increase is still to be determined. UC Care will retain Blue Shield as its third party administrator (TPA) for 2016. Blue Shield also recently closed contracts with the UC Medical Centers. Future changes to UC's health care portfolio will be considered as they are presented.

UC currently spends $1.5B a year systemwide on health care, with roughly 1/3 going each to HealthNet, Kaiser, and UC Care. Part of the motivation for creating UC Care was to keep more of UC's health care dollars in the UC system.

The California health care market is unique in having so many HMOs, and demand for the HMO market is unlikely to abate soon. Programmatic changes may help limit HMO premium increases going forward, and UC's HMO continuing administrator, HealthNet, has a low medical-loss ratio already.

## VIII. Consultation with UC Health

*Lori Taylor, Executive Director, Self-funded Health Plans, Office of Risk Services, CFO Division*
*John Stobo, Executive Vice President, UC Health*

1. UC Care Financials

   **Update**: Director Taylor reported that UC Care had a good first year, financially speaking. Although some expenses have not been fully debited, UC Care is expected to have a deficit of only ~$5M for year one. For new programs, this amount of deficit is considered good as the covered population and its expenses were only estimated. Subsequent projections and rates will be based on empirical plan performance.

   **Discussion**: Members asked if the systemwide Sansum subsidy was reflected on the chart, and Director Taylor indicated that the report was an income statement only, and did not reflect expenses. Members asked what the current year's premium projections were based upon, and Director Taylor said that the data indicated a 16% increase in premiums would be needed, but President Napolitano found other funds to lower the employee premium increase for 2015. EVP Stobo added that "risk sharing" also lowered the premium assessed to employees; risk sharing is a process whereby the participating insurers off-set adverse selection within plans to avoid catastrophic increases; risk sharing is only available one time as the population parameters will be known going forward. Other mechanisms to minimize premium increases include design changes, such as encouraging greater use of primary care physicians.

Adding more providers to Tier 1 will likely increase costs because the remaining regions without Tier 1 coverage are remote and without much provider competition. Nonetheless, talks are on-going with Riverside Community Hospital and Cottage Hospital in Santa Barbara. John Muir Hospital is now part of UCSF and is expected to provide the same "family" discount as UCSF.

Members asked how long until UC Care would not run a deficit. EVP Stobo indicated that the plan must have an operating reserve, which is about 3% of costs, or ~$10M. The goal is to remove all debt within 3 years; the 2015 financial goal is to break even. The profitability of any insurance plan is partially determined by market forces. Members asked how much control over the California health care market UC had, and EVP Stobo suggested that UC could help control the benefit design of programs it sponsors, as well as exert control over the network, both of which can help to contain cost increases. Members asked if UC could offer a self-funded insurance plan without the participation of the UC Medical Centers, and EVP Stobo indicated that many such plans exist because state-wide networks are required for all HMOs.

Members asked if UC's self-insured programs were expected to grow in number or size, and EVP Stobo said the paradigm was under investigation. The more business UC has, the more it can influence other providers and insurers. Members asked if UC Care would be marketed to non-UC consumers, and EVP Stobo noted that such a move would be risky as it would place UC in direct competition with other insurers; the goal of UC Care is to provide affordable, quality care to UC employees, and to keep UC dollars at UC.

Members asked if it would be necessary to separate UC Care from UC Health at some point. EVP Stobo said that conflict of interest concerns are well known to EVPs Nava and Brostrom, and that an oversight group is under consideration. Precedent exists in SHIP, which has an executive oversight board to evaluate premiums, designs, and the like.

2. <u>UC Health and Academic Medical Centers</u>

**Update**: EVP Stobo reported that the medical centers get zero state general funds and are entirely self-sufficient. The academic health professional schools and the schools of medicine receive limited state funding. Patient revenue has increased 9% over the last 5 years, and the medical centers provide about $500M annually to the academic enterprise. About half is spent on split appointment salaries and the like, and about half is spent "behind the scenes" for recruitment and programmatic support. Half of the each medical center's margin is shared with the academic enterprise, which is significantly more support than the latter receive from the state (14% vs 4%).

**Discussion**: Members asked if the medical centers would always have a surplus to share with the academic enterprise, and EVP Stobo indicated that it is standard procedure. The framework is old, and in the 1990s, the subsidy went in reverse, from the general campuses to the medical centers. UC's medical centers are required to keep 60 days cash on hand, while other medical centers are required to keep 6 months of cash on hand; cash on hand is a proxy for financial viability. UC is an enterprise system, and the Regents' assets are considered in external UC medical center financial evaluations.

If health care inflation does not slow to ≤4% increases year over year, the medical centers will run a deficit by 2019-2020. To cover the amount of projected deficit in that scenario, an enterprise solution will be required. In anticipation of such an event, UC Health has convened a series of summits. The first was with other market leaders, such as Vanderbilt, and the impacted chancellors, who were resistant at first. A second summit was held last fall with all chancellors, various CEOs, deans, and marketing experts. It became clear that hospital revenues are expected to decline across the board, and that other systems are already planning for that eventuality. The Regents received an update in March, and UC Health has set a five-year savings goal that includes procurement practices, revenue maximization strategies, and more. An oversight group has been appointed by President Napolitano to report quarterly on campus shared services. Other targets for cost containment may include lab work contracts and prescription drug practices.

Members noted that the most recent medical center financial quarterly report was not as favorable as the December 2014 report. EVP Stobo indicated that overall, the medical centers are doing well because they have secured good reimbursement rates from most insurers, including MediCare. Members asked why some of UC's medical centers were buying up primary care physician practices, and EVP Stobo said that some locations have an aggressive strategy to invest in local groups, but that those plans may change with new leadership. Overall, the medical centers are striving to leverage their partnerships through electronic medical records and other innovations.

Members asked if the medical centers were assessed separately from their campuses for UCRS expenses, and EVP Stobo said yes.

Members also asked if 340B pharmacy program would be appropriate for UC, and EVP Stobo indicated that it might be useful for some populations because of the discounted prices.

## IX. Consultation with Office of Research and Graduate Studies (ORGS)

*Mary Croughan, Executive Director, Research Grants and Programs Office*
*Kathleen Erwin, Director, UC Research Initiatives*
*Christopher Spitzer, Program Officer, RGPO*

**Issue**: Director Erwin noted that MRU reviews have been assigned to her office, and they are revisiting the review protocols. MRUs typically have 5 and 10 year reviews, followed by a sunset review at 15 years, unless the MRU shows it should continue as an MRU. UC Mexus is the next MRU to be reviewed, but it was held out of the recent Portfolio Review Group deliberations. UCORP will serve as the Senate's lead review group, and will coordinate responses from CCGA and UCPB. A new template for sunset reviews will be developed, and UCPB is encouraged to send nominees to a working group. The working group will refine the draft protocol that was prepared by ORGS.

**Action**: UCPB will solicit volunteers to work on this project.

## X. Consultation with the Division of Agriculture and Natural Resources (ANR)

*Jan Corlett, Chief of Staff to ANR Vice President*

**Issue**: Chief of Staff Corlett provided an overview of the ANR's history and its current programmatic operations. From a planning and budget perspective, ANR has 29 FTE at UCOP, but has FTE on three other campuses, too- Berkeley, Davis, and Riverside. The official role of Merced is still under discussion. ANR recently consolidated many administrative services in Sacramento, and the launch of UC Path will further help streamline ANR operations. ANR faces challenges protecting its budget, as its allocation is commingled with that of its "host" campuses under rebenching. Specific concerns involve allocation of indirect cost recovery (ICR) and patent revenue funds, and the inclusion of ANR under rebenching (ANR is not a campus and its inclusion skews the numbers for participating campuses and the Office of the President).

**Discussion**: Members asked if the Cooperative Extension advisors and specialists are campus-based, and Chief Corlett said yes, however they come from a central FTE pool and vacancies are not automatically replaced. Instead, ANR leadership meets to decide how the FTE can best be used going forward. Further, the retirement bubble is expected to impact ANR significantly. A new task force has been formed by President Napolitano for advice; it consists of EVP Brostrom, AVP Obley, and Irvine Provost Michaels; the formal charge and deadline for the task force has not yet been released.

Members asked if ANR had a preference regarding indirect cost recovery allocations. Chief Corlett suggested that researcher salary source and location of performance of the research should be factors in determining the proper allocation. Members noted that other faculty on "soft money" give their ICR to the campus, not their funding source. Chief Corlett reminded members that UC now gets block grants, and so ANR's line item has disappeared. Determining and recovering the exact amount of the old line item is complicated by many factors, such as advancement, for example, since ANR faculty merits are unfunded as UCOP has no payroll code for academics. Members are encouraged to send more questions for future discussion.

## XI. New Business

*None.*

Meeting adjourned at 3:30 p.m.

Minutes prepared by Kenneth Feer, Principal Analyst
Attest: Gary Leal, UCPB Chair