UNIVERSITY OF CALIFORNIA ACADEMIC SENATE
UNIVERSITY COMMITTEE ON PLANNING AND BUDGET

Minutes of Meeting
October 1, 2019

I. Consent Calendar

- Approval of UCPB October 1, 2019 agenda

ACTION: UCPB approved the consent calendar.

II. Announcements

- *Sean Malloy, UCPB Chair*
- *Bruce Schumm, UCPB Vice Chair*

Committee Overview: Chair Malloy welcomed UCPB members and reviewed the charge of the committee – to advise the systemwide Senate and Administration on policy regarding budget and planning matters and resource allocations. The committee initiates studies on relevant issues, and may take up projects that require more in-depth reporting at the request of the Senate chair. The deep expertise within UCPB empowers it not only to react to issues but also to model financial scenarios and strategies, and advocate for priorities.

UCPB has representation on several other systemwide committees and advisory bodies, including the Academic Council and Academic Planning Council (Chair Malloy); the Academic Council Special Committee on Lab Issues (Vice Chair Schumm); and the UC Education Abroad Advisory Committee (Christopher Newfield). A UCPB member will also sit on two University Committee on Faculty Welfare Task Forces: Investment and Retirement (TFIR) and Future of Health Care Plans (HCTF). In addition, Eleanor Kaufman will chair UCPB's Task Force on Agriculture & Natural Resources (TF-ANR).

III. Consultation with Academic Senate Leadership

- *Kum-Kum Bhavnani, Academic Senate Chair*
- *Mary Gauvain, Academic Senate Vice Chair*

Regents Meeting: Last week, the chair of the Regents appointed a Special Committee to consider candidates to replace President Napolitano, who will step down in August 2020. The Regents also asked Chair Bhavnani to appoint an Academic Advisory Committee with at least one representative from each campus to help the Special Committee screen candidates. Chair Bhavnani has asked each Division to nominate three Senate members for the Committee.

Comprehensive Access: President Napolitano appointed a Working Group on Comprehensive Access, chaired by UCI Chancellor Gillman, to consider principles for affiliations between UC academic health systems and external health systems, to ensure that UC values are upheld in any collaborations.

Admissions: In response to the national SAT cheating scandal, the UC Office of Ethics, Compliance, and Audit Services completed an internal systemwide audit of undergraduate admissions to ensure that UC has appropriate controls in place. The California State Auditor will also conduct an independent audit of UC admissions. The Senate's Standardized Testing Task Force continues to examine the role of tests in UC admissions.

Research Issues: The Academic Senate is reviewing a revised UC Policy on Native American Cultural Affiliation and Repatriation, which brings UC policy into compliance with new State legislation. The University and Elsevier Publishing have not returned to the negotiating table after Elsevier began limiting UC's access to new journal articles in July.

Financial Issues: The March 2020 ballot will include a public education facilities general obligation bond; if approved, the bond would provide UC with $2 billion to help address campus seismic, deferred maintenance, and space needs. In addition, the University announced that it will divest its pension and endowment funds from fossil fuel investments, because they are financially risky. The Regents will discuss a possible cohort-based tuition pricing plan in November.

Campus Issues: Chair Bhavnani is a member of the search committee for the new UC Merced chancellor. She also sits on a Systemwide Air Quality Working Group considering common systemwide guidelines for campus closures in the event of a wildfire or comparable emergency. Chair Bhavnani and Vice Chair Gauvain hope to visit each campus during the 2019-20 year.

Curricular Issues: Chair Bhavnani will ask a Senate Task Force will consider themes, principles, and questions regarding UC's engagement with fully online degrees; and CCGA, UCPB, and UCAP will continue their evaluation of the self-supporting graduate and professional degree program.

Faculty Issues: Chair Bhavnani will ask a Senate Diversity Task Force to consider the effectiveness of the University's diversity, equity, and inclusion initiatives, including the role of faculty equity advisors, faculty participation in enrollment management, and new forward-looking initiatives.

IV. Consultation with UCOP

- *David Alcocer, Associate Vice President, Budget Analysis and Planning*
- *Kieran Flaherty, Director, State Governmental Relations*

Role of the Budget Office: The Office of Budget Analysis and Planning is responsible for developing the University's annual systemwide operating budget and its policies and methodologies for allocating budgets across campuses, particularly core funds. The Office is the University's primary interface with state agencies on budget issues; it crafts the University's annual budget request to the State and the annual UC budget plan approved by the Regents. It also manages polices around tuition, fees, and financial aid; and conducts longer term financial planning, forecasting, and analysis.

Funding Sources: The University has a total budget of approximately $36.5 billion. The UC Medical Centers are the largest funding source, comprising 32% of the overall budget. UC "Core Funds" comprise $9.3 billion, or 26% of the budget. (Sales and services make up a 22% share; government contracts and grants comprise 14%; and private support 7%.) Core Funds include tuition and fees ($3.9 billion), State general funds ($3.8 billion), and nonresident tuition ($1.3 billion).

Expenditures: UC, like other universities, is a people-driven institution that relies on a highly skilled and educated workforce who command competitive salaries. Its largest core funds expenditures are academic salaries (27%), staff salaries (21%), and employee and retiree benefits (19%), in addition to equipment and utilities (17%).

Trends in State Support: Over time, UC's share of the State budget has fallen, and tuition and fees have surpassed State support in the core funds budget; State general funds were about 75% of core funds in 2000; today they are less than 40%. Available core funds per student also declined between 2000 and 2017, from nearly $37,000 to less than $25,000, even as tuition rose, reflecting a decline in State funding during a period of dramatic enrollment growth.

Campus Allocations: UCOP's method for allocating funds to campuses has changed substantially over time. Until 2011, UCOP pooled all core funds revenues centrally and allocated them to campuses using a complex formula derived from enrollment growth, maintenance of new space, and a base budget increase. In 2011, UCOP moved to the simpler and more transparent "Funding Streams," which allows campuses to retain all revenue they generate, and funds UCOP through a fixed assessment on campus expenditures. UCOP also introduced "rebenching," a six-year plan to use new State funds to equalize the per-student funding allocation formula across campuses, and that also established separate funding "corridors" for UCM and UCSF to recognize their special needs. President Napolitano accelerated rebenching by a year, and its limited goals were completed in 2016-17.

Emerging and Recurring Issues: This year, the University faces the challenge of balancing the Legislature's interest in increasing California resident enrollment growth, with capacity constraints on the campuses, and UC's own interest in increasing graduate enrollment. UC will continue to advocate for a multi-year budget framework focused on full funding of the University, increased degree attainment, and closing the achievement gap. It will model the effect on campus budgets of the UCRP employer contribution rate increase, plans for distributing the GO bond proceeds to campuses, and different tuition models.

Cohort-Based Tuition: At the request of the Regents, a working group with student and Senate representation is exploring cohort-based tuition models that would provide entering undergraduates a guaranteed tuition level for the duration of their enrollment, and incorporate moderate inflationary-based increases for each cohort. The Regents would need to approve a plan in November for fall 2020 implementation. The benefits of a cohort tuition approach include increased cost predictability for students and families and increased revenue predictability for campuses. However, the model is only sustainable with stable State funding, and there is concern that it could tie the Regents' hands, particularly if State funding falls dramatically during a recession.

Legislation: Assembly Bill 48 is the proposed $15 billion public education facilities bond benefiting preschool, K-12, and higher education. If approved in March 2020, the bill would provide UC and CSU with $2 billion each for construction and modernization. The bill outlines specific requirements and parameters for the University's use of the proceeds, focused on safety projects and affordable student housing. It provides less than the $8 billion version of the measure supported by UC and CSU, reflecting the governor's interest in minimizing debt. UCOP and the campus vice chancellors for planning and budget will discuss principles to guide the allocation of bond proceeds. In addition, UC has been following ACA 14, a proposed State constitutional amendment that would limit UC's ability to use temporary labor. The bill failed passage in the last session, but is expected to return next year. UC opposes the bill because it could increase UC's annual operating costs by $172 million.

- UCPB members urged UCOP to challenge any suggestion that UC has successfully responded to State funding cuts with new efficiencies, and is doing fine with less funding. Any new efficiencies pale in comparison to the loss of funding, and several indicators point to a decline in the quality of the student experience.
- UCPB members also encouraged UCOP to push back against the State's increasing practice of line-iteming the University budget. Administrators responded that they are encouraging legislators to limit individual member budget requests, and regarding the specific UCOP budget line item, emphasizing that the Regents are taking a more active role in UCOP budget oversight since the line item was introduced two years ago.
- Chair Malloy offered UCPB's help in budget development, messaging, and advocacy, and noted that the Senate would like to be involved earlier in budget planning discussions at both the campus and systemwide level.

V. UCRP and the 2019 Contribution Proposal

- *David Brownstone, Chair, UCFW Task Force on Investment and Retirement*

The Regents' actuary Segal conducts an "experience study" of the UC Retirement Plan every five years to evaluate actuarial assumptions and update projections. The study of UCRP assets, liabilities, and ongoing costs examines demographic assumptions such as mortality and retirement age, and economic assumptions about the market performance of assets, inflation, and salary growth. UCOP reviews these assumptions and recommends them for adoption to the Regents.

Segal reports a comparison of the assets held by the Plan and an estimate of the present value of all future liabilities. A future liability is the pension earned from years of service already accumulated by employees and retirees. Currently, UCRP's assets total approximately $61 billion, while the liability (based on assumptions adopted by the Regents in September) is roughly $78 billion. The funded ratio—currently 78% is just current liabilities divided by current assets. "Normal Cost" refers to the amount that must be invested each year to provide funding in future years to make the pension payments that are due to service performed in the same year. The funds are invested in UCRP now and assumed to earn the actuarial rate of return, to cover the future benefits liability and keep the funded ratio constant. Currently, Normal Cost is not quite 20% of compensation, and UC is contributing 22% (14% employer contribution plus 8% employee contribution). Regents' policy is to amortize the unfunded liability over 20-30 years.

Segal's most recent study incorporated new assumptions that reduced the funded ratio from 87% to 81%. First, Segal switched to a dynamic mortality table, which projects improving mortality rates into the future. The revised lifespan assumptions reduced the funded ratio from 87% to 84%. In addition, the study recommended incorporating a smaller assumed annual rate of return on Plan assets (from 7.25% to 7.00%), and a lower assumed annual rate of inflation (from 3.00% to 2.75%), leaving the real rate of return constant at 4.25%), further reducing the funded ratio to 81%. However, the Regents rejected these recommendations after the CIO expressed concern that these assumed rates were still too high. In September, the Regents approved a plan that further reduced return assumptions to 6.75% and inflation to 2.5%, which lowered the funded ratio to 77%. The Regents also approved a plan to increase the employer contribution rate from

14% to 17% in 0.5% annual increments over six years beginning July 1, 2020, and also asked UCOP to model a 1.5% increase in the employee contribution rate for discussion in November.

Given that 3% of payroll is about $400 million, some TFIR members support limiting employer contribution increases to 17%, to minimize the effect on campus budgets. This would fund the Plan just above Normal Cost and allow a continued (but longer) trajectory to eliminating the unfunded liability. Other members support increasing the employer contribution rate by more, or combining employer contributions with external borrowing—a good option while rates are low. However, some TFIR members believe that borrowing also carries risks. The optimal policy is unclear, due to the uncertainty around investment returns, inflation, and the liability itself.

Some believe it would be unfair to implement a 1.5% employee contribution increase to underrepresented employees separately from represented employees, whose contracts do not expire until 2023 or 2024. In addition, the employee increase will not contribute significantly to the unfunded liability, and could harm morale. The University would also lose ground trying to close the UC salary gap. Another unintended consequences is that for those on the 2016 tier, higher employee contributions will make the Defined Contribution plan more attractive than the Defined Benefit plan. New employees who recently chose the DB plan might feel misled.

Some TFIR members believe that fears about the funded ratio may be overblown, and 77% is not a crisis level for the funded status. There is also concern that the Regents do not always take a long view of investment returns and that bonuses in the Office of the CIO are based on at most three-year annualized returns.

- UCPB members noted that the financial justification for increasing employee contributions is not strong, and they questioned the push toward a 100% funded ratio when the upward slope under the new contribution scheme is positive and achieves 90% over a similar timeframe. They suggested that the actuary model additional outcome scenarios and risk analyses based on borrowing scenarios. UC may also want to consider increasing the retirement age for new employees.

VI. UCPB Task Force on Agriculture and Natural Resources (TF-ANR)

- *Eleanor Kaufman, Chair TF-ANR*

Chair Kaufman noted that ANR is UC's largest centrally-funded academic program. It oversees a $207 million budget that includes funding for county-based Cooperative Extension activities, statewide programs and initiatives, and State funding for the Agricultural Extension Station at UCB, UCD, and UCR. (The latter funding is not managed by ANR but passes through ANR directly to the AES deans.) TF-ANR was formed in 2016 after Council disbanded its Special Committee on ANR and asked UCPB to lead the Senate's engagement with the Division of ANR.

TF-ANR held six video meetings last year. It used one meeting to discuss the report of the President's ANR Advisory Committee, and at other meetings, it met with the AES deans and the ANR vice president to discuss opportunities for increasing integration between ANR and non-AES UC campuses. In the spring, after the president approved the new ANR Governing Council with three Senate representatives, ANR-TF discussed whether to continue alongside the new Council, and whether to adopt another structure, including one that would place TF-ANR under the aegis of UCORP. TF-ANR agreed that it should continue as a separate entity, and remain under UCPB. It considered that it might serve as a think tank for the three Governing Council representatives when issues arise affecting all campuses. This year, TF-ANR will build on past efforts to improve connections with ANR and seek more information about budget and research issues concerning ANR. Professor Kaufman will be an ex-officio member of UCPB and UCORP. She welcomed input into the agenda for TF-ANR.

VII. Self-Supporting Graduate Programs

Campuses have turned increasingly to self-supporting graduate and professional degree (SSGPDP) programs as a revenue strategy in an era of state disinvestment. The Compendium and CCGA Handbook Appendix K outline the role of the Senate and UCPB in the review of SSGPDP proposals in the context of the University's 2016 SSGPDP policy. UCPB's role is to assess the proposed SSGPDP's financial plan and report to CCGA. UCPB identifies a committee member to lead the assessment who is provided a review template as a guide and encouraged to focus on the cost analysis template completed by the program and campus Budget Office.

- It was noted that in addition to assessing the financial viability of the SSGPDP, UCPB should consider factors that may prevent the program from achieving UC quality; the extent to which SSGPDPs may divert resources – including space, services, and faculty effort – away from state-supported programs; their financial aid plan, and other factors that may affect their accessibility to diverse and underserved student populations.

ACTION: Chair Malloy asked for a volunteer to lead the review of the proposed UCLA Master of Applied Geospatial Information Systems and Technologies SSGPDP. Vice Chair Schumm (UCSC) will lead the review and report back in November.

VIII. Next Steps for CCGA/UCPB/ UCAP Review of SSGPDP Program

Last year, CCGA, UCPB, and UCAP were tasked to review the SSGPDP program (with CCGA as lead) focused on the overarching program's success, effectiveness, and impact on budgets and educational goals. A survey about SSGPDPs was developed in conjunction with UC Irvine and piloted there. The committees sent an interim report to Academic Council in July that describes progress made and work left to be done to pursue the review to completion. The report outlined what is knowable and unknowable through current data collection processes and recommended data points campuses should track to answer financial and academic questions.

ACTION: Chair Malloy will discuss next steps with the chairs of CCGA and UCAP.

IX. Compendium Reviews

UCI Pre-Proposal for a School of Pharmacy and Pharmaceutical Sciences

Per the Compendium, UCPB, CCGA, and UCEP review proposals and pre-proposals for new colleges and schools, and report to Academic Council. The Compendium outlines four categories that reviews of new schools should address: academic rigor, financial viability, need, and fit within the UC system and the segment of higher education.

ACTION: Professor Grandis (UCSF) will lead the review and report back to UCPB in November.

X. Campus Experiences with UC Path and Composite Benefit Rates

Chair Malloy invited UCPB members to discuss their campus experiences with UC Path and Composite Benefit Rates (CBR) as a prelude to gathering more data on problematic issues for a future discussion with UCOP.

UCPB members noted that faculty, student employees, and staff have raised multiple concerns about problems associated with the implementation of UC Path. These include paycheck discrepancies, particularly for graduate students paid from multiple sources, and a lack of effective communication in solving problems. In addition, Composite Benefit Rates, have been implemented incorrectly on some campus departments, occasionally charging existing faculty grants higher (or lower) rates than had been approved under the original grant budget. (CBRs are an accounting mechanism being implemented with UC Path that pool multiple benefit costs to create an average overall percentage rate for a given employee group.)

Members noted that the University has no guidelines to help prevent or resolve the over-collection or under-collection of CBRs, and it has not always been effective in informing affected faculty about errors. It was also noted that UC Path is intended to save campuses money, but some campuses are diverting additional funds to campus-specific workarounds.

ACTION: Members will gather feedback about flashpoints to help UCPB identify trends, particularly concerning structural issues not being addressed by one time fixes.

XI. Additional 2019-20 UCPB Priorities

In addition to the issues discussed today, Chair Malloy suggested that UCPB examine budget and planning issues related to UC Health. The committee may want to focus on defining the "right size" for UC Health and the UC medical centers based on an appropriate balance between the medical centers' growth plans; the need to keep them financially viable and aligned with the UC research, teaching, and service missions; and how rapid growth and change may be affecting the morale and attrition of UC health sciences faculty.

Meeting adjourned at 4:00 pm
Minutes Prepared by Michael LaBriola, Principal Committee Analyst
Attest: Sean Malloy, UCPB Chair