UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

UNIVERSITY COMMITTEE ON PLANNING AND BUDGET

Minutes of Meeting

April 3, 2018

I. Consent Calendar

- Approval of UCPB April 3, 2018 agenda
- Approval of UCPB March 6, 2018 minutes

ACTION: UCPB approved the consent calendar.

II. Announcements

- *Joshua Schimel, UCPB Chair*

Chair Schimel is a member of the Academic Planning Council (APC), a joint Senate and administration committee chaired by Provost Brown. The APC is considering two distinct but related issues concerning faculty salaries: closing the gap between the salaries of UC faculty and faculty at UC's Comparison 8 group of institutions, and fixing the published UC faculty salary scales. Senate leaders are urging the administration to implement a plan endorsed by the Academic Council focused on increasing the competitiveness of actual salaries.

Two APC workgroups – on Graduate Education and Articulating the Academic Mission – are considering how the University can more effectively communicate to constituencies the importance of its graduate education mission and its overall academic mission. One key topic is the relation of the student-faculty ratio to quality.

- UCPB members observed that the quality of the student experience and the long-term value of the UC degree are enhanced by smaller class sizes and more frequent opportunities for personalized interactions with professors. They also endorsed the idea of identifying metrics to show the effectiveness of a UC education in teaching critical thinking skills and enabling positive career outcomes.

III. UCI Master of Innovation and Entrepreneurship

Lead reviewer Steven Constable summarized his review of a proposed Master of Innovation and Entrepreneurship (MIE) self-supporting graduate and professional degree program (SSGPDP) submitted by the Paul Merage School of Business at UC Irvine.

He noted that the MIE is modeled on existing SSGPDPs in Merage and designed for students with a bachelor's degree who want to learn how to start a new company or innovate within an existing company. Merage says the program will be the only one of its kind in the UC system. It anticipates enrollments of 35, 45, and 60 in the first three years, and expects to set tuition at $50k with 25% return to aid in the first year and 17% in subsequent years. Merage's research shows a favorable market for the MIE at the $50k price point. It projects a $70k surplus in year one and then more than $1 million in annual surplus revenues by year three.

All financial elements of the proposal appear to be viable; however, the proposal includes no discussion or analysis concerning the use of the $1 million steady-state surplus, which represents a profit margin of more than 30% against $2.6 million in expenses. One could imagine this level of revenue providing for lower tuition. In addition, the proposal includes numerous supporting letters, but none from other UC business schools such as UCLA Anderson and UCSD Rady. Nor does it address how the MIE differs from existing UC MBA programs, some of which include similar programmatic elements. Such letters could help support UCI's claims about the uniqueness of the MIE.

- UCPB members expressed some discomfort about campuses using SSGPDPs to generate large profits, but also uncertainty about how to define a reasonable amount of profit above program costs. They noted that while SSDPDP revenue helps subsidize the larger educational enterprise in an era of declining state support, the intent of a "self-supporting" program is to be self-supporting. The systemwide UC SSGPDP policy states that resources have the potential to "enhance the quality, accessibility, and affordability of core academic programs and departments." Members agreed that SSGPDPs should provide documentation related to the expected use of revenues for the purpose of meeting these policy goals.

ACTION: UCPB will send Professor Constable's report and a summary of comments to CCGA.

IV. Consultation with Academic Senate Leadership

- *Shane White, Academic Senate Chair*
- *Robert May, Academic Senate Vice Chair*

Faculty Salaries: Chair White will ask the Academic Assembly to support the Academic Council plan to close the faculty salary gap. The plan would fund the faculty salary scales at a greater proportion than off-scales, adding for each of the next three years 6% of payroll to the scales across the board and 3% to off-scales, for a total spend increase of 5.3%. The plan takes a long-term view of maintaining quality and competitiveness. Some administrators support the proposal, but others prefer a plan that gives them more flexibility to allocate discretionary salary increases.

Transfer Guarantee: President Napolitano recently asked the Academic Senate to determine "what it would take" to extend a guarantee of admission to all "qualifying" California Community College (CCC) transfers. A joint Senate-Administration Task Force co-chaired by former Senate Chair Chalfant and Provost Brown has been considering several ways to improve the transfer path to UC, including a possible admission guarantee to the UC system for CCC students completing a UC Transfer Pathway and meeting minimum GPA requirements. The guarantee would work as an extension of UC's Transfer Admission Guarantee (TAG) program currently in use on six campuses. It could provide an enrollment boost to the three campuses not currently meeting the 2:1 freshmen to transfer ratio. In addition, President Napolitano and CCC Chancellor Ortiz Oakley, who is also a UC Regent, are discussing the possibility of an MOU related to a transfer guarantee.

V. Consultation with UCOP

- *Nathan Brostrom, Executive Vice President and Chief Financial Officer*
- *David Alcocer, Associate Vice President and Director, Operating Budget*

Budget Update: The University expects the Department of Finance (DOF) to decide by May 1 whether UC has made adequate progress on the AB 97 requirements pertaining to the $50 million sequester of state funds from the 2017-18 UC budget. The requirements include implementing the CA State Auditor recommendations regarding UCOP; completing Activity-Based Costing (ABC) pilot projects on three campuses; and making a good faith effort using all possible actions to meet a 2:1 freshman-to-transfer ratio on all campuses. Former Provost Dorr is completing a report on ABC, and UCR and UCSC leaders have met with the DOF to communicate their plans for meeting 2:1. The DOF has also expressed interest in the notion of a transfer guarantee.

The Governor is expected to release his May Budget Revision on May 10. The University is seeking $105 million in permanent new state funding above the Governor's funding proposal, including $70 million for a tuition buy-out, $25 million to address unfunded enrollment growth of 2,600 over the past two years, $5 million for 500 new undergraduate enrollments, and $5 million for 500 new graduate enrollments. UC is also seeking $35 million in one-time funding for deferred maintenance. UC is optimistic given the broad support for a tuition buy-out and a projected $6 billion surplus in State budget reserves. UCOP will ask the Regents to authorize a tuition increase in the event the state does not fund a buy-out. The Regents approved a 3.5% increase in nonresident supplemental tuition in March.

Cost Drivers: EVP Brostrom and AVP Alcocer presented slides on the University's cost structure and cost drivers originally shown at the March 15 Regents meeting. The presentation is intended to help make the case for a long-term funding partnership with the State that enables UC to continue providing a world-class educational experience.

The presentation notes that UC core funds comprise $8.2 billion, or 24%, of the University's $34.5 billion budget. These core funds consist primarily of tuition and fees (10.6% of the total UC budget) and state general funds (9.3% of total UC budget). The presentation notes that State support for the University has failed to keep pace with enrollment; available core funds have increased by only 6% since 2000-01, while student enrollment has increased by 54% (or 90,000 students), representing a 31% decrease in funding per student. The State supports UC with $3.3 billion today, compared to $3.2 in 2000, unadjusted for inflation.

The presentation notes that the University has significant mandatory and high-priority costs, related primarily to compensation for its highly skilled workforce, non-salary price increases, and deferred maintenance and capital needs. Alone, these priorities carry annual 3% cost increases, but resources are also needed to address long-term structural issues such as the rising student-faculty ratio, the faculty salary gap, and debt service for capital expenditures.

The presentation notes that the student-faculty ratio has grown at UC while declining at peer institutions, reducing the quality of the student experience. Three key metrics illustrate the impact of declines in the percentages of students 1) who say they know a faculty member well enough to ask for a letter of recommendation, 2) who are able to get into their first-choice major, and 3) who say they would still choose to enroll at their UC campus. Reducing the student faculty ratio by 1 would have a financial impact of between $200 and $250 million.

The presentation notes that UC requires significant capital investment to handle enrollment growth and to address seismic and deferred maintenance. Between 2001 and 2010, the State approved $3.7 billion in General Obligation and Lease Revenue bond support for UC; but only $342 million since 2011. The lack of capital funding has forced UC to make trade-offs in the operating budget. UC's 2017-2023 capital plan includes $8.4 billion in unidentified funding needs.

State IDC Increases: A UCPB member asked UCOP to comment on UC's plan to increase indirect cost recovery rates on state contracts from 25% to 40%, noting that the increase could drive away state grant support from UC research programs. EVC Brostrom noted that the University originally proposed moving to a common IDC rate for all state agencies, and then changed to propose a gradual increase from 25% to 40% in 5% increments. UC decided to maintain the 25% rate through 2019, after individual agencies expressed opposition.

VI. Financial Issues Related to UC Health

- **John D. Stobo, M.D., Executive Vice President, UC Health**

Executive Vice President Stobo noted that the five UC medical centers are well-managed and financially strong. Several years ago, the University analyzed year-over-year increases in revenues and expenses for the medical centers and projected that the increasing pressure on commercial and public insurance payers would result in a decline in reimbursements for clinical services and lead to cost overruns by 2018. In fact, the reimbursement rate has declined by 50% -- from annual 9-10% increases to 4-5% increases.

Anticipating the decline in 2014, UC Health began a systemwide cost reduction initiative called Leveraging Scale for Value, focused on systemwide procurement and purchasing, revenue cycle management, and shared services around such things as IT across the five medical centers. The initiative created over $750 million of new efficiencies between 2015 and 2018. Since 2008 a series of other initiatives has transformed the medical centers from a loose confederation into a virtual system, albeit one with separate governance structures. These include the Center for Health Quality and Innovation (2010), which funds collaborative projects that reduce costs and/or improve health care quality and access.

EVP Stobo presented a financial summary chart for the medical centers, with comparison figures for fiscal year 2017 and February YTD figures for fiscal year 2018. Overall, the medical centers showed strong performance in modified operating income before health systems support, modified earnings before interest and depreciation, days cash on hand, and debt service coverage. (The modified income figure includes operating revenue minus expenses, including the cash and non-cash portions of pension, and the cash-only portion of Other Post-Employment Benefits (OPEB) expenses.)

Dr. Stobo noted that the medical centers face significant cost challenges associated with building and opening new facilities and with rising pension expenses and OPEB expenses. The UC medical schools depend on the medical centers for roughly 14% of their budgets, and UC Health is concerned that the continued ability of the clinical enterprise to support the academic enterprise is at risk. He believes the medical centers must continue to drive down costs, perhaps by shifting their focus to more specialty and tertiary services.

In 2014, the Regents commissioned a Rand Corporation study that recommended improvements to the governance structure of the medical centers, including a new Regents Health Services Committee with delegated authority over certain transactions. The Health Services Committee held its first meeting in 2016. It includes 7 Regents, 2 chancellors, an Academic Senate representative, EVP Stobo, and four outside advisors. The Committee has delegated authority over strategic plans and budgets, compensation, and other major transactions and initiatives.

Rand also proposed spinning off the medical centers into a separate statewide organizational entity. Huron Consulting made a similar proposal earlier this year. President Napolitano is assembling a group to consider next steps. The systemwide UC Health office has a $13 million budget, $9 million of which comes from the medical centers, and $4 million from state general funds. Dr. Stobo envisions a fuller integration of the medical systems' financial and strategic planning processes by 2020. He believes the spin-off of UC Health with chancellor- like authority delated to the EVP would create more transparency and accountability about the use of money to support initiatives; agility to respond to programmatic needs; and flexibility to grow programs in a way that improves quality.

A UCPB member expressed concern that costs in UC Care are rising more rapidly than other insurance plans. Dr. Stobo remarked that the University and its employees have benefited from UC Care. The University has been able to increase the proportion of employee health care dollars spent in its own medical centers. Moreover, for the past three years the medical centers have provided a 15% discount off the commercial rate for UC employees and ensured that year over year increases for employee premiums are predictable and manageable.

VII. Institutes of Transportation Studies

- Eleanor Kaufman

UCPB reviewed a draft five-year review for the UC Institutes of Transportation Studies authored by a faculty Review Committee that included UCORP and members of UCPB and CCGA. Professor Kaufman led the Review Committee's budget subcommittee.

Professor Kaufman reported that during the course of the review, it became apparent to the Committee that the four ITS centers at UCB, UCD, UCI, and UCLA were operating primarily on campus-based priorities with minimal collaboration. The ITS had been receiving about $1 million in state funding annually, until the passage of SB 1 in 2017, which provides an additional $5 million of annual state funding for ten years. The new funding has motivated the ITS to assemble a more formal organizational and governance structure with a rotating director. A new assistant director based in Sacramento serves as a liaison with the Legislature and UCOP and reports to the four directors. The Committee's report affirms the unique service the ITS provides to UC's research, graduate education, and public service mission, and recommends continuing the MRU for another five years. The report also observes that although individual units are functioning well and producing important work, the ITS should strengthen collaboration and coordination, both across the campus branches and at non-ITS UC campuses.

- UCPB members recommended that the report should express a stronger concern about the apparent lack of collaboration across ITS campuses and encourage ITS to build and strengthen collaboration. Members also noted the distinction between collaboration and coordination, and suggested that better coordination would help foster and lead to greater collaboration.

- Members questioned the structure of an annual rotating directorship for the ITS and recommended a single designated director who serves a longer term, such as five years, consistent with other MRU governance structures.

- The report should recommend that the new Assistant Director position coordinate lobbying work with UCOP and report directly to the UC Vice President for Research and/or the State Governmental Relations office.

Professor Kaufman will convey UCPB's comments at the April 9 UCORP meeting.

VIII. Campus Issues and Reports

At Berkeley, the chancellor has charged working groups with developing a strategic academic plan for the campus that addresses four areas – how Berkeley can build a sustainable financial model, create a transformative student experience, identify optimal enrollment levels, and best contribute to society's grand challenges. (Examples of grand challenges include the environment; ethical implementation of new technologies; and inequality.) Each working group is co-chaired by a senior administrator and a Senate member. The effort will also inform a new capital campaign set to begin in 2019. UCPB members noted that other campuses, including UCSC and UCLA, are also engaging faculty in the identification of priorities to guide long-term academic plans for their campuses.

At UCSD, the Senate chair is working with the chancellor to include Senate leadership in academic planning meetings to enhance shared governance in major decisions affecting the academic enterprise.

At UCI, faculty and administrators are discussing the optimal size of the graduate program. Some administrators are pushing to increase the academic graduate enrollment ratio to 12%; while others are concerned that the 12% target is unfeasible either financially or in the context of the poor academic job market for PhDs in some fields.

- UCPB members noted that the University should not encourage students to pursue PhDs in fields with few meaningful job opportunities, and that UC should do more to inform students enrolled in PhD programs about non-academic career pathways. UCPB members mentioned several campus-based professional development programs, and also noted the benefit of coordinated systemwide programs. It was agreed that UCPB should invite CCGA to discuss concerns about the structure of graduate education delivery.

IX. Follow-Up Discussion

Faculty Salaries: UCPB returned to the issue of Council's plan to close the UC faculty salary gap. UCPB members noted that the published salary scales have little connection to the market or to what faculty are actually paid. However, market adjustments applied solely to the scales may not benefit faculty with large off-scale salary components. A previous effort to raise the scales reduced off-scale differentials and moved some faculty who were on a half-step back on scale. Some of those faculty perceived the adjustment as a salary cut, even as their pay rose, because they saw their off-scale differentials disappear or shrink. Council's current proposed salary plan recognizes the need to fund both an across the board increase to the scales and funding for off-scales.

UCEAP: The recent Huron Consulting review of UCOP included a proposal to transition the administration, budget, and employees of the UC Education Abroad Program to UC Santa Barbara, while maintaining a reporting relationship with UCOP. UCOP has released a draft charter reflecting this arrangement, along with an MOU agreement between the Provost and UCSB regarding the guiding principles, services, and financial commitments required to operate UCEAP. The Provost has signaled his intent to engage with UCPB, UCIE, and UCEP on the proposal. UCPB will invite Provost Brown to its May meeting.

Meeting adjourned at 3:30 pm
Minutes Prepared by Michael LaBriola, Principal Committee Analyst
Attest: Joshua Schimel