

**UNIVERSITY COMMITTEE ON PLANNING AND BUDGET
MEETING MINUTES – JANUARY 22, 2008**

I. Chair's Announcements

ISSUE/REPORT: Vice-Chair Pat Conrad co-chaired the meeting; Chair Newfield participated telephonically. At the December Academic Council meeting, members approved a resolution on plutonium 'pits' production, which will go to the January 30th Academic Assembly meeting. The LANS LLC of which UC is part-owner is committed to a 20-year term for the management of the Los Alamos Nuclear Lab (LANL); last year the Senate discovered that the contract carries a no-exit clause. This year, it learned that the Department of Energy (DOE) is also planning escalating the production of pits, which may shift UC's role from a nuclear weapons' designer to a manufacturer. The resolution calls for a reassessment of UC's relationship to the LLC if such a shift occurs. Council Chair Brown has also sent a letter to Provost Hume asking for a delay in the formation of an international strategic leadership team for the Education Abroad Program (EAP) until after the receipt of the Senate's comments.

DISCUSSION: It was noted that the Rocky Flats facility is being closed due to contamination; this is a concern for any LANL pits facility going forward. The possibility of conducting another Senate survey was also discussed.

II. Consent Calendar**A. Approval of the Agenda****B. Approval of the Draft Minutes from the November 13, 2007 Meeting****C. UCPB Review Letter of the Proposal for a School of Public Health at UC Davis**

ACTION: Members approved the consent calendar.

III. Response to Governor Schwarzenegger's Budget Cuts— *Chair Newfield/Vice Chair Conrad*

ISSUE/REPORT: Provost Hume attended this portion of the meeting. He commented that UCOP is focused on 1) a response to Governor Schwarzenegger's budget proposal; and 2) restructuring. While administrative savings are certainly to be had, their magnitude is not in the hundreds of millions of dollars, as has been expressed from time-to-time in the press. He emphasized that EVP Lapp's 'cuts' presentation at the January 2008 Regents' is not her or his proposal for cuts at UC; it simply showed the real damage that this magnitude of the cuts would impose on UC's academic enterprise. He noted that UC is working with both the CSU and the community colleges on common strategies. That said, UCOP is considering its options with regard to enrollment growth. Per the Master Plan and the Compact, the University is required to increase its enrollment growth proportional to the state's population growth. This would normally equate to a 2.5% enrollment growth, or accepting an additional 5,000 undergraduate students for the 2008-09 academic year. Options include freezing enrollment growth; raising student fees; postponing faculty compensation increases and correcting the salary scales. UCOP is also looking at a number of ear-marked research funds, which are typically backed by advocacy groups; it is estimated that these funds total approximately \$150 million. An

additional \$20 or \$30 million may be saved by removing certain burdens imposed upon UC by the State.

Admission letters will be sent out in February, so a decision needs to be made soon on the enrollment growth issue. If UC were to strictly limit its enrollment growth per the Master Plan and the Compact, UC would only grow by 1,000 students. This could be considered a compromise between normal enrollment and an enrollment freeze. Provost Hume emphasized that UC Merced needs to be protected. In sum, enrollment options include: 1) normal enrollment growth (5,000 students); 2) limited enrollment growth (1,000 students); 3) no enrollment growth; or 4) reducing enrollment. In 1991, UC did not grow its enrollment but later reversed itself, thereby admitting additional students, under political pressure.

DISCUSSION: Members acknowledged that the Governor’s budget proposal first funds the Compact, and then takes that, and more back, from UC’s budget in cuts. This may be a way for the State to claim that enrollment growth is being funded, while making a significant budget cut at the same time. Extra money for financial aid has been put aside in case UC does raise fees. Even if fees are raised, it is important that graduate fees do not rise, as these fees come directly from the campuses. Raising graduate fees also only increases the value of post-docs vis-à-vis graduate students. Concern was also expressed over only cutting the ‘new’ budget expenditures; the base budget should also want to be considered. The new expenditure items are also priorities for the University. The CSU will most likely freeze their enrollment growth. Provost Hume asked members for their input on the real costs of increasing the faculty-student ratios by leaving full-time faculty positions unfilled, increasing graduate funding, etc. It was noted that the funded ‘ratio’ actually does go back down in better times; the real ‘ratio’ usually does not. Anecdotal evidence of these costs has already been provided in UCPB’s ‘Cuts Report’; it may be useful to expand this data. Provost Hume is also in discussions with lobbying groups in the bio-technology, agriculture, and information technology industries. Chair Newfield urged expanding advocacy to the general public as well.

Chair Newfield reviewed the draft Cuts Report. Figures 1 (nominal dollars) and 2 (real dollars) show no real recovery in General Fund dollars under the Compact. Figure 3 shows that real dollars per student FTE has also not recovered under the Compact. Therefore, freezing ‘quality’ at 2007-08 levels would freeze such quality at relatively low levels. It was noted that there have been slight increases in the marginal cost of instruction (MCOI), but at levels that have only mitigated inflation somewhat. The first three figures show that the proposed ten percent cut comes on top of recent major cuts, and are not forced by years of out-of-control cost increases. Governor Schwarzenegger, in his public statements, has emphasized that California is ‘out-of-control’ in terms of its spending. Chair Newfield added that this is not necessarily a one-time ten percent cut; the Governor has also proposed a ‘Budget Stabilization Act’ (BSA), which would require a five percent budget cut to state agencies if a state deficit of over one percent is projected. The whole package could force UC to double its fees in two-to-three years’ time. UCPB needs to address three issues/questions in particular: 1) actual costs of the cuts; 2) actual costs of the proposed BSA; and 3) what it costs to provide a University that the state needs and wants. Assuming the passage of the BSA and continued state deficits in 2009-10 and 2010-11, UC’s General Fund would decrease from \$2.987 billion in 2008-09 to \$2.696 billion in 2010-2011. These cuts would also essentially threaten UC’s core functions as a University.

The recommendations in the Cuts Report include 1) that UC should explicitly oppose the cuts, and engage in a coordinated state-wide educational campaign, making clear to the public what these cuts mean (immediate enrollment freezes and significant fee hikes); 2) use internal cash reserves to mitigate cuts; and 3) replace incremental budgeting and inventory existing de facto downsizing; 4) identify real impact of permanent cuts on research activity; and 5) freeze enrollment at 2007-08 levels. Next steps are to seek endorsement of the report by Academic Council; and eventual distribution to UCOP and The Regents.

Members also discussed a statement to send to Council; many members felt that specific examples would show the actual costs of the cuts. However, at least one member thought that these data would be difficult to quantify. Diversity would also be damaged by the cuts. While more aid might be available to lower income students, much of this would come in the form of loans. After continued discussion, members agreed on the following statement:

1. UC should explicitly oppose the cuts - and their premise of waste and excess - as destructive to the health of California higher education and to the public. It should coordinate this campaign with CSU and the Community College system. It should work not only with the Governor's office, but also with the legislature and the public. UC should no longer hide the effects of many past years of cuts in state funding, but explain how they have damaged the quality of the core teaching mission, as well as research and service in the public interest.

2. UC should make a commitment to the people of California that it will no longer lower the quantity of resources devoted to each student. It will establish a minimum cost of instruction at the 2007-08 level, and sustain the revenues required to maintain this (increased to match the Higher Education Cost Index).

On the assumption that the state will enact a major cut in General Fund monies for 2008-09, UC should announce that it must freeze enrollment at 2007-08 levels, and raise fees. The University should explain what this means for a ten percent cut: on top of an enrollment freeze, the University will need to impose a one-year fee increase of between 40 and 60 percent.

ACTION: Members unanimously approved the draft statement, as noted above, to go to Council.

IV. Review of the Proposal for a School of Public Policy at UC Riverside – Vice Chair Conrad

ACTION: Evan Heit and Robert Frank were tasked with write a draft review of this proposal.

V. Indirect Cost Recovery – Chair Newfield/Tony Norman

REPORT: Chair Newfield noted that he will be suggesting a simplification of the charge of this working group to UCORP Chair Wudka. In its current form, the charge requires the working group to determine the manner in which UCOP distributes ICR funds to campuses; there is

considerable ambiguity around this distribution process. It is quite likely that the working group could spend months just gathering the data. Instead, he suggested simply obtaining an analysis of profit and loss for both the system and by campus. Tony Norman, John Elwood, and Vice-Chair Pat Conrad are members of this working group.

DISCUSSION: Members remarked that the data (on the distribution process) is available in some form on the campuses; most campuses have been asked this question and already have prepared documentation.

ACTION: Chair Newfield will suggest a simplification of the charge, as outlined above.

VI. New Business

ISSUE: UCOP has formed a group to advise The Regents on budget matters. Senate Chair Brown is on this group after objection by UCFW about Senate representation. The question was raised if UCPB representation should be included on this committee.

ACTION: Chair Newfield will send an email suggesting additional Senate representation.

VII. Announcements from Katherine Lapp, Executive Vice President of Business Operations

REPORT: EVP Lapp remarked that her presentation to The Regents was designed to show that these cuts will have real effects--not only in quality, but in what UC can continue to do. There are some Regents who feel that they do not have enough information to push back on the misperception that there are enormous savings that can be gained through efficiencies at UC; she estimates that there are only about \$25-50 million in savings to be had through increased inefficiencies at UC. The 10% cut represents a \$332 million cut to UC's base budget. It is hoped that much of the cut will come out of administration, not instructional budgets. However, as administration gets cut, work trickles down to the faculty, which increases their workload. If UC cannot employ enough staff to support its faculty, UC will eventually lose these faculty as more and more administrative duties are loaded upon them.

DISCUSSION: The point was raised that among the 'proposed options' for cuts, all are new initiatives; none are already-existing functions or part of the base budget. EVP Lapp responded that UCOP is indeed looking though the entire budget (\$3.3 billion); it is also examining line-items or 'ear-marks' that may have been put in its budget by previous governors, etc. UC will argue that it should be able to cut these line-items with the Governor's Office and the Legislature. At the very least, these earmarks should be subject to their own ten percent cut. Members asked which other things could be subject to cuts if some of the new priorities were saved. EVP Lapp responded that if the faculty salary plan is saved, it just makes the cuts to the base budget even larger. Besides instructional programs, it is difficult find areas that have not already been cut. The Educational Initiative and the Research Initiative would most likely be cut though. Members emphasized that raising graduate student fees would be disastrous because these revenues predominantly come from the campuses anyway. Chair Newfield remarked that UCPB is inclined to recommend that there should be no enrollment growth if it means reducing the quantity of resources devoted to each student going forward. Although Provost Hume has suggested a compromise by only taking an additional one thousand students, Chair Newfield

does not think the University should further compromise its quality by taking this thousand. One member commented that this compromise should be viewed as the ‘outlying option’, but not one of the many options available. EVP Lapp added this year’s graduating class is the largest in history. While the enrollment issue may work in the short-term, it may also turn a lot of parents off to UC in the long-run.

At this point, it is not entirely clear that UC will have to take the ten percent cut. EVP Lapp added that there is the possibility that the economy could get worse, and the state deficit could grow beyond \$14.5 billion. One possibility is an agreement to grow UC’s enrollment this year, but not the next year. She also remarked that UCOP doesn’t have a three- to four-year financial plan. She commented that while the BSA may look good from a general fiscal management perspective, it would not be good for UC simply because it is much harder for UC to make budget cuts than many other state agencies. Members argued that this is the year to send a message. Not accepting students and raising tuition are certainly attention-getters. Linking enrollment growth to educational quality is something that the faculty/Senate can do with the ‘stick’ being enrollment growth. EVP Lapp commented that UC has not historically done a good job in articulating the benefits it provides to the California economy. Towards that end, a set of ‘talking points’ are being developed; she passed the Cuts Report on to her staff so that useful items might be incorporated. EVP noted that the timeline for these talking points is within the next couple of weeks, and they will be disseminated to the Senate. EVP Lapp emphasized that it is important for UC to keep making the case for its budget with the legislature and the public; it may not effect change this year, but it will eventually make a difference.

VIII. International Education and Research–*Gretchen Kalonji, Director of International Strategy Development*

REPORT: Director Kalonji made a presentation on UC’s international initiatives in research, which integrates both faculty and graduate students in national teams. She related that UC has a number of key strategic assets; the foremost of these is UC’s unique scope and scale, including its incredible portfolio of existing research collaborations. The diversity of California’s population is also important. UC’s primary weakness in this area is the huge disconnect between ‘international education’ and its ‘international research’ enterprises; there is also a lack of strategic focus in its research collaborations. There are also some structural barriers and systemic inefficiencies, such as the NRT issue and the lack of organizational alignments across campuses. Director Kalonji said that it is important to leverage the ‘Power of Ten’ to its advantage. This strategy involves 1) identifying interdisciplinary research challenges that are of vital importance to the health, welfare and economic vitality of California and partner regions; 2) Pulling together new partnerships, which include academia, governmental agencies, industry and the non-profit sector, both in California and in partner regions; and 3) Re-structuring the educational experience of our students in multinational teams working on common and practical challenges. There are five pilot initiatives that are currently underway, which include the ‘10+10’ (UC-China alliance between the 10 UC campuses and 10 Chinese partner universities), the Canada-California Strategic Innovation Partnership, the UC-India Initiative, the UC-Mexico emerging initiative, and the UC-Africa Initiative. The Chinese Ministry of Education has devoted research funds to each of the Chinese universities to start-up the ‘10 + 10’ program. Scholarship funding of \$1,200 per Chinese student are also being allocated by the China Scholarship Council. Chinese doctoral students are supported up to five years and visiting

graduate students are supported up to two years under the ‘visiting scholars’ Program. The advantage of the ‘visiting scholar’ program is that its participants are not subject to NRT. It was also acknowledged that \$1,200 is really not sufficient to cover living expenses in California. The UC-India Initiative is leading with the Cal ISIs, the global health sciences, and the agricultural biotechnology industry; the principal campuses involved are Berkeley, Santa Cruz and San Diego.

DISCUSSION: Members held a short discussion on the Ad-Hoc Review of International Education. It was mentioned that the involvement of EAP would increase the chances of success for these initiatives. Right now, graduate students represent only a small portion of EAP enrollment. UCPB is concerned about the duplication of resources and planning in this area. Director Kalonji remarked that the time is ripe to take a step back and critically examine which functions need to be taken in a more centralized way, and what should be undertaken at the campus level. It is also important to integrate the EAP study center directors with an appropriate funding model that follows function. The planning process needs to address building on what UC already has in place. One issue that keeps emerging is how the strategic plan will interact with EAP? Will it be complimentary or competing? It will be important that these two things (the strategic plan and EAP) be mutually beneficial. Director Kalonji noted that the key will be in developing new faculty roles: 1) leadership roles at UCEAP; 2) leadership roles on the campuses; and 3) a model for a distributed body of leadership; and 4) a transformed study center director model. Vice Chair Conrad said that one of the first steps is the establishment of an International Leadership Team. She added that establishing these international research programs, and sustaining them, must be a bottom-up effort.

ACTION: Bjorn Birnir and Susan Gillman will draft the response to the Ad-Hoc Review Committee’s report.

IX. UC’s Investment Strategy and Endowment Policy–*Melvin Stanton, UCOP Associate Chief Investment Officer; and Geoff O’Neill, Assistant Vice President, Institutional Advancement*

REPORT: Money in the general endowment pool is governed by The Regents, who determine the asset allocation and pay-outs. Endowments include gifts that have been received by the University over the past 150 years; 20% of the endowment is for financial aid. For those financial aid funds, very little is dedicated towards general scholarships. Usually they are very restrictive as well. Pay-out formulas are designed to provide a stable distribution at times of variable and uncertain markets (4.3% of current market value).

DISCUSSION: Only about 2% of the scholarship endowment (20% of the total) is unrestricted. 20% of the scholarship portion of the endowment is dedicated to endowed chairs. The general endowment pool (GEP) and the short-term investment pool (STIP) are totally unrelated; STIP is the checking account for the University. Every dollar of STIP belongs to someone; whoever deposits the money receives the return. STIP is a fairly large pool and fairly permanent; its target bench market rate is the two-year Treasury note. GEP is money given to UC that should be distributed according to the donor’s wishes; GEP money could be invested in STIP on a short-term basis though. Chair Newfield remarked that there seem to be various ways that campuses allocate the interest from STIP to discretionary funds. It was acknowledged that this is true; the Treasurer’s Office only distributes STIP to whoever invested the money per numbered accounts.

In order to find out how STIP is allocated, UCPB would need to ask individual campuses. It was emphasized that the Treasurer's Office is currently the only entity that can invest UC money, and that this may be best for reasons of economies of scale and control of risk. All interest is distributed; some is paid-out monthly and some is paid-out quarterly. The Treasurer's Office does charge a small management fee (there is one portfolio manager for STIP); 1.5% of the interest goes to UCOP. It was noted that the strategy behind the creation of campus foundations is the generation of local philanthropy and support, as The Regents are not responsible for philanthropy as many boards for private universities and colleges often are.

ACTION: UCPB will continue to monitor this issue.

X. Expenditures Report—*Chair Newfield*

ACTION: This item was removed from the agenda; the Expenditures Report is being folded into the Cuts Report.

XI. Executive Session

REPORT: Members did not hold an executive session.

The meeting was adjourned at 4:00 p.m

Attest: Christopher Newfield, UCPB Chair
Prepared by: Todd Giedt, Committee Analyst

Distributions:

1. Draft Cuts Report