

**UNIVERSITY COMMITTEE ON PLANNING AND BUDGET
TELECONFERENCE MINUTES – APRIL 22, 2008**

I. Chair's Announcements

ISSUE/REPORT: Chair Newfield reporting on his meetings in Sacramento as part of a faculty association group with Assembly members and staff persons. He remarked on the relatively pessimistic mood regarding the budget, especially among Democrats, and suggested that this pessimism is interfering with plans to push for appropriate levels of state funding of higher education and other public services.

II. Consent Calendar**A. Approval of the Agenda****B. Approval of the Draft Minutes from the March 11, 2008 Meeting****C. Approval of the Draft UCPB Response to the Proposal for a School of Public Policy at UC Riverside**

ACTION: Members approved the consent calendar with the exception of item C., which is included under new business.

III. Review of the Proposal for a School of Nursing at UC Davis— *Chair Newfield*

ACTION: A. Dickson and T. Norman were selected as the lead reviewers.

IV. 2008-09 Budget Scenarios/Cuts

ISSUE: Associate Vice President Obley noted that it is becoming apparent that the deficit is a multi-year problem. As such, the University is in need of a multi-year strategy. The deficit is likely to grow even larger by May, and the proposed cuts will most likely stay.

DISCUSSION: Members observed that there is an increasing probability that California may have to raise taxes. AVP Obley remarked that UC will need both Democrats and Republicans; however, K-12 may be the reason that taxes are eventually raised. She added that next year UC will freeze enrollments if the state does not fund the enrollment growth for both this year (which is not being funded) and next year. Chair Newfield asked about the differences between the strategies that the University is employing this year as opposed to what has been typically done in the past. AVP Obley responded that the biggest difference is the strong intersegmental effort, which will help the University in future years. Chair Newfield commented that the only argument that has ever worked in the past to increase UC funding has been emphasizing the costs to students and their families—the threat of freezing enrollments, increasing fees, as well as the eventual privatization of the University. The Regents will vote on a fee increase in May. While a 7% increase is probable, AVP Obley stated that there is little political will among The Regents to increase fees by 10%. Chair Newfield added that there will be a steady erosion of faculty members leaving the University. However, another member observed that the majority of faculty have been able to make the case for more money via off-scale salaries. As a result, there is little pressure for UC faculty to put themselves on the market.

AVP Obley remarked that UCOP will be in a consultative mode that will continue for a while. Although a fee decision will be made in May, UCOP will not be making any decisions on the salary plan until more information is available later in the summer. There are certain costs that UC must fund no matter what, such as health benefits, which are increasing. With the exception of Merced, campuses will not receive any monies for new enrollment either. The University will not grow until it receives the resources from the state to fund future growth as well as this year's growth. UCOP did not provide specific instructions to the campuses on the number of students to accept. Although UCI did cut back, but everyone else grew by more than last year. Next year, when UC does restrict enrollments, it will be a horrendous political act but the University will be able to support that decision with a strong argument. Members were interested in the timing of such an announcement. AVP Obley responded that she does not know; this will be an academic decision, not a budget decision.

AVP Obley added that there is considerable pressure to fund an accelerated salary plan. The other looming issue is student fees; although she has proposed much higher increases (e.g., 15%); these proposals have been flatly rejected. She remarked that the 45% increase called for in UCPB's Cuts Report is not correct because that report assumes that the University would fund all options, and would fund them entirely with student fee increases. Chair Newfield responded that UCPB is simply laying out how the arithmetic works out if the University wishes to maintain its original budget proposal. Chair Newfield emphasized that UCPB is not in favor of either 45% or 10% increase in student fees; the committee is in favor of increased state support. The Cuts Report agrees with AVP Obley in positing the continuation of cuts for the next three years.

AVP Obley said that every thing is on hold until the May Revise. That said, there is the expectation that the problem will worsen. That said, there is not much political will to cut UC even more. A tax increase is one alternative. Chair Newfield reminded members that the University is facing a 10% cut for a 1% drop in state revenues. UC's leadership is determined to have wide consultation with the Senate, The Regents, other educational segments, etc. Regarding salaries, there are two camps—one that is committed to the faculty salary plan at any cost, and those that feel that the plan should be delayed. VP Beckwith is also looking at base budget cuts to research programs that have outlived their effectiveness. She mentioned that faculty merits will be funded no matter what, but the real questions pertain to COLAs; faculty salaries at the expense of staff salaries, and health benefits.

Chair Brown added that the four pillars of the Master Plan are at stake. He emphasized that the University needs to be very clear about its priorities. Unless we effect how this is framed, student fee increases will be pitted against faculty salary increases. The Senate will need to indicate that it is not in the position to tell the state to raise student fees. However, the Senate is in a position to comment on what is required to run a high-quality university. In terms of revenue enhancements such as tax increases, Chair Brown commented that there is recognition that there needs to be some sort of revenue enhancements. The issue is what they will be called. The Republicans are opposed to any kind of 'tax.' While legislators have asked the higher education segments for ideas on revenue enhancements, there is not a will to provide such ideas to legislators at this time. He is concerned that priorities may be set by budget people, when they should be set by academics.

V. Review of the Proposal for a School of Medicine at UC Riverside

DISCUSSION: Members discussed the faculty-student ratio in the proposal, noting that the correct number is 18.7, which has been the standard since 1999. While UCSF did work out 8.0 faculty-student ratio deal at one time, it no longer exists. If the original student-faculty ratio standard was 18.1 and now it has been bumped up to 18.7, then what should the appropriate number be? Also, what did UCSF, UCD, and UCSD start with? A related issue is whether Ph.D. students in medical school labs are any more labor intensive than Ph.D. students in the various departments of biochemistry for example. There is also a total inconsistency in student-faculty ratios, as it seems that UCOP is in the habit of funding graduate programs according to the undergraduate ratio. There is nothing in the way of standards in terms of faculty-student ratios for new programs.

Another concern with the actual letter is the suggestion that UCSD's Pharmacy School is part of a tiered system, and part of the bottom tier. The suggestion was made to specifically mention "a UC tiered funding system" in the letter. Members agreed to take the UCSD example out of the letter. It is also clear that Riverside does not want a medical school if it is not properly funded. While a partial program has been accredited for ten years, it is another thing entirely to create a medical school. Riverside has also had some success in fundraising already, but there is the danger that fundraising for the Medical School could hurt the general campus. One member suggested that the fund-raising mechanisms are not realistic. If the state only provides partial funding, this will lead to a mediocre medical school. Chair Newfield suggested that we end that paragraph with the phrase (preceded by the clause that posits if a viable funding plan cannot be guaranteed), "...it should not be built." Finally, the suggestion was made to include a table of the funded student-faculty ratios, as well as mention of hospital partnerships in the actual letter.

ACTION: A final draft of the letter will be ready for the May UCPB meeting.

VI. Systemwide Senate Review of the BOARS' Revised "Proposal to Reform UC's Freshman Eligibility Policy" – Susan Gillman

ISSUE: Chair Newfield commented that this proposal is actually quite difficult to understand. The first two recommendations are sensible, but the third is convoluted. Relatedly, the simulations for the third recommendation are difficult to assess. The original rationale seems to have been lost in this proposal. The actual problems that the proposal is intended to address also seem to be missing from this version.

ACTION: Members will consider a final draft of this letter at the May UCPB meeting.

VII. Endowment Cost Recovery and Endowment Payout—Melvin Stanton, Associate Chief Investment Officer and Geoff O'Neill, Assistant Vice President, Institutional Advancement

ISSUE: Associate Chief Investment Officer (CIO) Stanton and AVP O'Neill reported that endowment payout and endowment cost recovery are two Regents' items for the May meeting. Regarding the pay-out rate, the range is from 4.375 to 4.75; UC is currently at the top of that range, which is still an appropriate rate of pay-out. They also noted that UC's endowment has a different asset allocation than those of the privates. Regarding cost-recovery, it is appropriate to pay some administrative expenses, as long as it is done through the endowment's revenue. The

difficulty is that UC has thousands of individual endowment funds. Therefore, it is almost impossible to develop a system that accurately records the amount of time spent on each endowment. However, about ten years ago the University began to collect data on the actual costs to administer the endowment. The most recent survey shows that it currently costs approximately 57 basis points (0.57% of the endowment's market value) to administer the endowment. The Regents' item proposes to increase the cost recovery from 25 to 40 basis points. It is not prudent to go above 50 basis points due to concerns of hurting endowment recipients.

DISCUSSION: Members asked why the pay-out rate cannot be increased further, noting that the University has an extremely conservative strategy as compared to the privates. Associate CIO Stanton and AVP O'Neill related that the University has 95% of its endowment monies restricted. In recent years, none of the new endowment funds are unrestricted. In terms of pay-out rates, there are a few privates that are much higher than UC's pay-out rate, but most are in the general ballpark. They added that a bump from 4.75% to 5% would not help UC out of its budget problems.

Regarding the recovery rate, Chair Newfield remarked that the University has a number of legacy recovery rates in which the costs and the recovery rates do not line up. It was asked where UC's recovery rate falls in relationship to comparator institutions? Associate CIO Stanton and AVP O'Neill responded that the administrative costs for most clients are between 75 and 100 basis points. The move from 25 to 40 basis points will free-up an additional \$6.9 million, which will be used by the campuses to enhance operations. Members also asked where do fees or taxes on new gifts fit into this scheme? They responded that while each campus is a little bit different, it is still the case that UC does not use any state money to support development activities, so a gift tax remains. In some cases, if the University can increase its cost recovery, then some campuses may be able to lower their gift fees. It was also asked if UCOP engages in fund raising separate from the campuses. They responded that while UCOP does not engage in the same type of fund raising as the campuses do, it does tend to provide funding to the campuses to support their fund raising efforts.

Members acknowledged that this increase does not guarantee that the funds will be used appropriately. It is assumed that these funds will be redirected into operations, but there is no way to track these monies. In fact, there is no way to know how the split between what is recovered by UCOP and what is recovered by the campuses. As it is not known how this flow will be allocated, one member sees this as another mechanism to restructure with smoke and mirrors. The documents do not specify a split, but they do state that these monies go to both systemwide and campuses.

ACTION: UCPB agreed that the proposals are both appropriate and endorsed them. Chair Newfield will draft UCPB's comments for tomorrow's Council meeting. UCPB's comments will also note the committee's concern regarding the lack of information on how these costs are actually calculated, and how these funds are tracked.

VIII. ITGC Report—Chair Newfield

DISCUSSION: One member opined that at least at UCI, the top-down approach would not work; this group should have examined what has worked at the campuses and implemented that. At UCLA, there has been consistent criticism that this is a report that has been composed without much consultation with the potential end-users; its governance structure has also been drawn up without the consultation of the end-users. There is also a lack of feed-back mechanisms. It goes against the grain of what most people in information technology believe today--that you should allow things to bubble-up from the bottom-up. Members agreed that mention of this should be added at the end of paragraph three (e.g., bottom-up versus top down).

ACTION: The draft letter will be updated and added to the May agenda.

IX. New Business -- Draft UCPB Response to the Proposal for a School of Public Policy at UC Riverside

DISCUSSION: Members remarked that at the top of the second page in the letter, it notes that the “campus is committing 12 new FTE, of which 6 are to be full-time.” This should say “of which six are proposed to be full-time in the policy school.”

ACTION: The letter will be updated and forward to Council Chair Brown.

X. Executive Session

REPORT: Members did not hold an executive session.

The meeting was adjourned at 1:15 p.m

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