University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
January 12, 2010

I. Announcements

- *Peter Krapp, UCPB chair*

In December, the Academic Council met with several of the UC Commission on the Future working group co-chairs to discuss the progress of the Commission and the role of the Senate. UCSC Chancellor Blumenthal, who co-chairs the Size and Shape working group, will join UCPB in February. Representatives from UC Institutional Research also will attend the February UCPB meeting to present data on administrative FTE and salary growth.

UCPB, UCFW, and UCAP received Council's permission to convene a joint subgroup that will request and examine current on- and off-scale faculty salary data and make recommendations to Council later in the year. There was some discussion about whether the Senate's budget priority should be the faculty salary scales or UCRS solvency; they share equal billing as top priorities.

Council sent the President a memo unanimously opposing differential fees for engineering and business majors; however, the Commission's Funding Strategies work group has agreed to continue exploring differential fees by major and campus, along with the viability of increasing the enrollment of non-residents, and the viability of a salary funding scheme similar to the Health Sciences Compensation Plan for all main campus grant-funded faculty.

Senate Vice Chair Simmons noted that the Academic Council Special Committee on Laboratory Issues met at Lawrence Livermore National Laboratory in December. He said the laboratory leadership wants to maintain LLNL's relationship with UC and foster more Senate involvement. Scientists there appreciate that UC is driven by a public interest mission.

A recent report from the California Legislative Analyst's Office, **"**Improving State Oversight of Academic Expansions," recommends that the state increase oversight over the development and approval of new programs and schools at UC and CSU.

II. Budget Consultation with the Office of the President

- *Vice President for Budget Patrick Lenz*

Report: It will be another challenging budget year for UC and the state, although there are some encouraging signs. The governor's proposed budget restores $370 million to UC, including last year's $305 million one-time cut, and $51.3 million for enrollment growth, although the latter is tied to an assumption that the state will receive $6.9 billion in federal aid. UC leaders also have expressed support for the Governor's proposed amendment to the California Constitution that would shift funding from corrections to higher education and increase the UC/CSU share of the state budget from 7% to 10%.

The budget includes $14.1m for annuitant health benefits, but no funding for UCRP, although the Department of Finance has agreed to attach a "trailer" bill reversing a statue prohibiting the use of general funds to support UCRP. Based on the historical relationship between UC and the state, California does have a responsibility with regard to UCRP.

One point of concern is the state's assumption that the recent student fee increases will pay for 6,400 of UC's 14,000 unfunded students. UC is concerned that this calculation could be established as a precedent. In any case, if UC receives the $51.4m increment, it will need to establish a balanced means of distributing funding to the campuses. The Governor also is requesting that UC and CSU not to raise fees any higher than already announced for 2010-11.

Discussion: The state does not understand that student fees do not cover the cost of educating the students who pay the fees. The public perceives UC mainly as a place to get an undergraduate education, but students receive that education within a world-class research University, and people need to understand that part of the cost of educating undergraduates is maintaining the entire University, including the research enterprise. Tying student fees to unfunded enrollment also could lead to a more direct state role in setting student fees as it withdraws support.

There was concern that the proposed constitutional amendment will pit UC against the poor, whose health and welfare programs could be cut while UC's budget increases. VP Lenz noted that UC's allocation in the budget is a restoration of past cuts that does not come close to meeting UC's needs. Moreover, UC is in a position to help turn around the economy, which will benefit poor people. An investment in UC is a long-term investment in California's future. It was noted that UC should not encourage links between itself and the corrections budget. It would be inappropriate for UC to go beyond advocacy for itself to advocacy for prison privatization. Finally, it was noted that the LAO report is a potential intrusion into UC's academic mission. Nobody in the Legislature is qualified to make academically-based decisions about buildings, programs, and schools. These decisions should be left to UC campuses.

III. Consent Calendar

1. Approval of the December 8, 2009 UCPB Minutes

Action: UCPB approved the consent calendar.

IV. Consultation with the Office of the President

- *Interim Executive Vice President Nathan Brostrom*

EVP Brostrom joined UCPB to discuss UC debt and budget contingency planning. He said for too long, UC used current-use funds and philanthropy to fund buildings, rather than take advantage of its ability to issue tax-exempt debt, which also increased the indirect cost recovery gap between UC and its private peers. Recently, UC has been more aggressive about enhancing its debt capacity and efficiency by expanding its debt pledge to general revenue, and separating auxiliary building project liens from general education building project liens. The results have been positive: UC has an Aa1 rating, which allows it to carry a 30-year bond debt for less than 4%. UC determined that it is well below the median debt-to-revenue ratio and has the capacity to issue between $10 and $12 billion in additional debt.

The University is now back-loading more of its debt profile to take advantage of the 4% borrowing rate and experimenting with funding building projects through endowments, which earn interest and can be drawn down over time. There is also more awareness about UC's ability to apply the interest on research buildings to its lower-than-average indirect cost rate.

UC's fundraising has grown dramatically over the last 20 years (campuses raised $1.3 billion last year); however, the University is too focused on raising current-use funds. To create a more sustainable financial model, it needs more philanthropic dollars to go toward unrestricted endowments. (93% of UC's endowment is restricted, compared to 55% at other universities.) One model are the Hewlett endowed chairs at UCB, which fund faculty salaries in addition to research.

The state budget outlook for UC is promising, but there are many reasons to be wary with a $20 billion deficit, the prospect of a political fight over $7 billion in proposed cuts to health and human services, and a less than certain $7 billion request to the federal government. If UC's budget hopes fall flat, it may have to consider additional debt restructuring to provide a base budget. There are not many other alternative core funds sources. Berkeley is working with an outside consultant to identify potential new administrative efficiencies. It expects to find savings in the range of $75-100 million. Some may be transferable to other campuses and systemwide.

<u>Discussion</u>: Members encouraged EVP Brostrom to spend time at each campus, particularly the newer campuses, to get a sense of their financial situation. Each campus has a different impression of its ability to service debt. It was noted that UC needs to consider how to build facilities at UCM that will attract faculty and students. Merced has no new projects in the pipeline. EVP Brostrom said UC is looking at creative ways to fund Merced. UC can provide some front-end debt service support for critical infrastructure, under the assumption that UCM will eventually generate indirect costs and additional students that will help fund the debt service.

One member remarked that with the exception of Merced, UC should stop building altogether and instead consider issuing bonds to fund UCRS. Another member said it might be better for UC's decisions about debt management to be systemwide rather than decentralized. Finally, there was concern that the governor's strong language about reducing state employee pay could be applied to UC faculty and staff.

V. Consultation with UCOP

- *Lawrence Pitts, Interim Provost*

Provost Pitts said managing enrollment is difficult in the context of the potential but uncertain $51.4 million in state funding, because UC has to make admissions decisions before the budget is final. The University has decided to modify its four-year plan to reduce unfunded freshman enrollment; UC will reduce freshman enrollment by 1,400 rather than the previous target of 2,300, and continue to increase transfer enrollment. UCOP will encourage campuses to meet individual targets and is allowing campuses to set modest non-resident enrollment goals. He said he hopes the Commission on the Future will develop substantive ideas that have positive, short-term budget implications by the March deadline.

Discussion: UCOP provides a financial incentive to campuses to increase non-resident enrollment, which imposes a political cost on the entire system, as well as a financial cost on campuses that are not able to attract as many non-residents as UCLA and UCB, because it shifts resident enrollment and the potential cost of over-enrollment to other campuses that could see an unexpected spike in yield. "Socializing" NRT would remove some of that incentive.
UCOP must arrive at a reasonable mechanism for calculating and allocating to campuses the new enrollment funding that the Governor's budget proposal offers.

VI. UC Commission on the Future

- *Mary Croughan,* Research Strategies Working Group *co-chair*

Professor Croughan reported that the working group is still narrowing down its top priorities from a long list of potential issues and topics, but has identified four general focus areas: strategies for internal research funding and management; research mission and values; barriers, challenges and incentives; and indirect cost recovery. Specific topics will include incentives for cross-campus collaboration and multi-disciplinary research, post-doc and graduate student support, advocacy, the effectiveness and efficiency of administrative structures that support research, and indirect cost recovery. The working group is likely to meet Regents Gould's request to have two or three recommendations by March with new strategies for internal research funding and management. These may include making "Garamendi" funding mechanisms available to a broader range of research facilities, and increasing advocacy to highlight the importance of state bond funded research to the economy.

The working group plans to write a series of white papers over the next six to eight months, and will look to UCPB and other committees for additional information and insights. The working group co-chairs also are meeting together periodically to discuss overlapping issues.

Discussion: In compiling the research impact of UC campuses on regional economies, the working group should put more emphasis on social sciences research and should remember that there is intellectually valid research that may not benefit the state and economy, or that benefits only a small portion of the state. It was noted that many faculty are worried about an increasing teaching load and student-faculty ratio and a decreasing emphasis on research. It appears to be possible for students in some under-staffed departments to complete their major without taking a single class from a Senate faculty member. This is in part a result of decisions to use faculty FTEs to fund other costs. UC's vision of itself as a research institution is at odds with this reality.

VII. UCPB Position Paper on Differential Fees and Non-Resident Tuition

UCPB reviewed a draft memo to Council outlining how proposed policies for differential fees and current policies regarding non-resident tuition relate in their promotion of stratification. The memo re-states UCPB's opposition to differential fees by major and campus, but expands its focus to distinguish between costs inherent to a discipline that originate outside the system, and those based on internal discretionary decisions made by individual units. The memo says it might be acceptable to use differential student fees to reimburse exogenous costs only, but such differentials should always be systemwide, not campus specific. It would obviously encourage stratification to allow one UC department to charge differential fees to fund higher salaries and recruit a better faculty, but similarly, UCOP's policy allowing campuses to keep NRT revenues acts as a differential fee, because it encourages an uneven playing field across campuses. The memo argues that no campus would want to charge a lower fee than another campus to attract more students, because all are over-enrolled and none would want a reputation as the "discount" campus. Finally, the memo asks UCOP to reduce unfunded enrollment to zero and allow campuses to maintain capacity by enrolling more non-residents, but recommends that NRT, and by extension all differential revenues, should be centralized and allocated to systemwide priorities like faculty salaries and UCRS.

Discussion: It encourages stratification if the most established campuses with the greatest ability to attract international students are allowed to retain all NRT revenues. Not all campuses will agree with the proposal to use NRT revenues to fund systemwide priorities, however, because NRT is one of their only secure discretionary income streams. Campuses say they need NRT revenue to hire new faculty and fund other priorities, and feel that as long as UC satisfies its Master Plan obligation and still has capacity, they should be able to take non-residents without being punished by the Legislature or UCOP. It was noted that differential levels of non-resident enrollment across campuses should be based on academic, not money making goals. Moreover, UC should not create incentives that encourage departments to place a priority on revenue maximization over students. Non-business majors are now locked out of the business school at UCB. If the student-faculty ratio is already too high, how can UC have "capacity" for additional non-resident students?

Action: The committee cast a unanimous vote to adopt the memo and send it to Academic Council chair Henry Powell.

VIII. UC Faculty Salary Scales

Representatives of UCFW and UCAP joined by phone to discuss plans for a joint data request on the UC salary scales.

UCPB member James Chalfant noted that in 2007, a faculty-administration Faculty Scales Work Group that included the UCAP, UCFW, and UCPB chairs, recommended a plan to increase the fairness, relevance, and transparency of the published salary scales and bring the majority of UC faculty back on-scale. This became the four-year faculty salary plan, which UC abandoned after one year due to the budget crisis. It included a market adjustment, which raised all the salary scales, and a range adjustment, or "COLA," for both on- and off-scale faculty. In 2007, the main issue was the appropriate level of the range adjustment relative to the market adjustment. Other issues included the fact that some campuses apply COLAs to base salaries only, while others apply them to both on- and off-scale increments. (UC encouraged campuses to apply the COLA to total salary.) There were also concerns that raising all scales would reward some undeserving faculty and upset off-scale faculty unhappy to see their comparative advantage relative to other faculty reduced (if, for instance, it swept faculty on ½ steps onto regular step). UCAP determined that the non-progressing faculty issue was not a problem.

UCOP estimated in a 2008 report about the impact of first year of the plan that a moderate version of year 2 would cost $90 million. The estimate was based on applying an 8% market adjustment and 2% COLA to February 2008 salaries. Considering that merit adjustments raise total faculty salaries 1.78% each year, one can estimate that it would cost roughly $100 million to implement year two now.

Discussion: Chair Butler recommended that the Senate request an updated cost analysis rather than advocate for a return to year two of the plan. Chairs White and Krapp agreed that the subcommittee should look at fresh data and consider different scenarios for returning salaries to competiveness based on UC's Comparison 8. It was noted that the Total Remuneration Study shows that salaries are on par with public comparison institutions, but far behind private competitors. It was also noted that UCRP is at a structural $2 billion deficit, and the Senate should weigh its interest in raising the salary scales with the need to fund UCRP and protect total remuneration. The integrity of the systemwide scales is important to maintaining UC as a system and preventing tiering. It is unlikely that there will be any data about the impact of pay cuts and furloughs on faculty recruitment and retention until summer 2010.

Action: UCPB Analyst LaBriola will arrange a teleconference for the joint subcommittee.

IX. Consultation with UCOP

- *Steven Beckwith, Vice President, Research and Graduate Studies*

Chair Krapp asked VP Beckwith to comment on graduate student and research funding issues—specifically, UC's indirect cost recovery practices and a draft report from the UC Task Force on Planning for Professional and Doctoral Education (PDPE) suggesting that UC is falling short of its graduate education goals.

Graduate Education and Research Funding: VP Beckwith said it costs UC about three times more to educate a graduate student than an undergraduate, but the state contribution is the same for both, so campuses have a financial disincentive to enroll more. Tuition remission for TAs and RAs means that campus block grants, departmental funds, and contracts and grants fully participate in covering the cost of graduate academic student fees. All graduate tuition stays on campuses, to be used primarily for operating funds. Given that the state is decreasing support for graduate education, UC has to think of tuition as a potential revenue source, but remember that raising tuition also impacts the faculty who pay for graduate students from grants. UC will not be able to increase the number and proportion of graduate student without more money. Increasing UC's overhead rates, which are much lower than its competitors, has been mentioned as a possible source to tap for graduate student support, although current indirect cost recovery is already inadequate for covering UC's facilities and administrative costs associated with sponsored research.

Chair Krapp added that the PDPE report estimates it will cost UC substantial additional amounts over the next five years simply to maintain its current graduate enterprise, and campus aspirations to increase the proportion of graduate students and to fund them competitively would cost even more. This estimate extrapolates cost of living increases on TAships and fellowships, as well as increases in the graduate student population as a proportion of campus enrollments. Faculty need to insert themselves more actively into the campus planning process to ensure that the campus has realistic goals and expectations.

<u>Indirect Cost Recovery</u>: UCPB viewed VP Beckwith's slide presentation on *Funding the Research Enterprise: Indirect Cost Recovery*. University research involves indirect overhead costs related to administration and facilities use. UC pays these costs for its faculty by billing the granting agency for them based on a percentage of the grant amount. The federal government caps ICR for administrative costs at 26%.UC also negotiates an ICR facilities cost, usually about 26%, for a total of 52%, so UC recovers an additional $52k on a $100k grant. UCOP returns ICR funds to the campuses for different purposes after taking about 6% for systemwide programs, including 3 ½ % for itself.

Research comprises about 25% of the UC budget. Each year, UC spends $5.2 billion on research and recovers about $700 million in ICR; however, UC fails to recover $600 million of ICR, due to low rates and waivers. First, UC has a lower ICR rate than many of its competitors and the recovered funds do not always cover utilities, maintenance and other indirect costs; second, UC now waives overhead on 18% of federal grants and 72% of foundation grants.

The difference between UC and its peers and competitors is not a factor of UC's particular research mix. UC's peers have policies and practices that allow them to negotiate higher ICR rates more successfully. They have more permanent staff positions devoted to proposal development and negotiation; a high level of engagement and commitment from senior administrators; an educated and committed faculty; and they conduct careful surveys of space functions used to set a facilities rate. He agreed that UC would lose some foundation grants if stopped agreeing to waive overhead, but in many cases, taking those grants may represent a net loss to UC. MIT does not grant waivers; departments there decide whether to waive overhead, and have to reimburse the university if they do.

ICR may look like a tax to some, because the system does not always make the incentive for increasing indirect cost recovery clear to its faculty - but faculty members need to understand that UC is effectively leaving substantial amounts of money on the table. As state funding decreases, UC will have to be more cognizant of its model.

The meeting adjourned at 4:10 pm
Minutes prepared by Michael LaBriola
Attest: Peter Krapp