

**UNIVERSITY COMMITTEE ON PLANNING AND BUDGET
MEETING MINUTES – NOVEMBER 13, 2007**

I. Chair's Announcements

ISSUE/REPORT: Chair Newfield noted that the January, March, and May meetings will need to be changed due to conflicts with The Regents meeting dates. Senior Managers who regularly consult with UCPB, will be attending these Regents meetings. The new meeting dates are January 22nd, March 18th, and May 6th. He also reported that state agencies were directed by the Governor to begin planning for a 10% across-the-board budget cut. The Department of Finance (DOF) is now projecting that the California state deficit will be closer to \$10 billion than \$6 billion. There is also a proposal to raise Chancellor's salaries, which was initially presented at the November Regents meeting. Regent Moores has resigned from The Board of Regents, effective immediately, without giving any explanations. Regent Moores was an advocate for campus stratification, and a proponent of a working group that looked at alternate funding options for the University. Chair Newfield is on the search committee for the new Vice President of Budget.

At the last Academic Council meeting, UCPB received approval to continue its work on the expenditures report. Council's also held a short discussion on the Los Alamos and Livermore labs contracts. Vice Chair Conrad recounted that limited liability companies (LLC) were originally established to compete for the Livermore and Los Alamos contracts, and were successful in the rebidding competition. In 2005, UCPB inquired into the UC's management fee. However, UCPB never received an adequate response to its inquiries. UCPB also requested that ACSCONL begin formal supervisory relations between the governing boards of the LLCs and the University. Currently, the President is not in the reporting loop with the LLC governing boards; only Executive Vice President Bruce Darling has a reporting relationship. The entities in the LLCs cannot formally object to the actions of their representatives on the governing boards except by removing them. The Senate does not have any formal authority over the LLCs either. UCPB had suggested that 1) these relationships be articulated by ACSCONL; and 2), that Senate views be included as part of the negotiations with LLCs. ACSCONL has since disbanded; a new Academic Council Special Committee on Lab Issues (ACSCOLI) has been formed. In April 2007, it emerged that the LLC contracts do not include an exit clause; UC is bound for up to 20 years. However, UC can sell its share in the LLC, but there would certainly be obstacles to such a sale. In addition, the Los Alamos National Laboratory (LANL) will be the future site of 'pits' production, which are the detonation devices in a new class of nuclear weapons. ASCOLI is currently looking into the legal consequences if the University cannot fulfill its contractual obligation to increase the manufacture of pits at LANL. Chair Newfield expressed the view that ASCOLI is powerless unless it invokes faculty opinion; however, a new faculty poll would be necessary to invoke such opinion.

DISCUSSION: Members briefly discussed available political options/responses to potential cuts to the UC budget. While there was generally agreement that additional budget cuts are simply unacceptable, a minority opinion noted that while UCPB can state this, it is an unrealistic strategy. If the state cuts services across-the-board, it is probable that UC's budget will also be

cut. Members agreed to draft a short statement/position on a UC response if budget cuts are proposed

ACTION: Bjorn Birnir will draft a UCPB statement/response to possible budget cuts, which will be considered at the January meeting.

II. Consent Calendar

A. Approval of the Agenda

ACTION: Approved.

B. Approval of the Draft Minutes from the October 2, 2007 Meeting

ACTION: Approved.

C. Five-Year Campus Perspectives

ACTION: Approved.

III. Review of the Proposal for a School of Public Health at UC Davis— *John Ellwood, Susan Gillman, and Melissa Gibson*

ISSUE/REPORT: Professor Ellwood distributed an informal draft of the subcommittee's review of the UCD School of Public Health (see distribution one). One of the principal shortcomings of the proposal is its failure to address incremental costs. Although Davis already has a number of these programs, and will consolidate them under the School, new FTEs will be added on a regular basis. Some of the programs will be new. The proposal does not answer which parts of the School are new and which parts already exist on the Davis campus. Across the UC system, 20% of FTE slots are not being filled because these funds are being used to match external salary offers in order to keep the best faculty at UC. In such conditions, will the School deprive other existing programs of high quality faculty?

DISCUSSION: It was clarified that Davis is not simply reallocating current resources to fund this School, but requesting new state funds that will come from growth in student enrollment (primarily from undergraduate enrollment growth). Members remarked that new state funding will be limited; campuses may be forced to choose between new programming and retaining high-quality faculty. The proposal also operates under the assumption that the Masters in Public Health (MPH) program will triple in size. The State Department of Public Health has stated that there is a specific need for new public health professionals. An extraordinary rate of growth (by a factor of eight over ten years) is being proposed for the School. While new state money may come in from new student enrollment, the campus will also need to reallocate some of its internal resources. The Health Sciences budget is separate from the campus budget at Davis, which means that if there is a surplus in the health sciences budget, this surplus would not automatically be distributed to the campus. That said, one member stressed that money is not necessarily fungible; it may be impossible to separate these budgets in actuality. One of the main issues is whether the 19-900 funds will be earmarked for the School, or whether they will come to the general campus. This should be clarified before the proposal is allowed to go forward.

The committee also examined the funding model for the School. In order for the School to reach 78 FTE by 2020, it will need substantially more than the expected \$4 million in anticipated enrollment growth funding. The general campus budget will need to subsidize the School to make it viable. For every state-supported FTE, there is one non state-supported FTE with only

10% coming from the state. The proposers also make the assumption that average faculty salaries will be slightly above \$100,000 per year, which is relatively low for health sciences faculty. There is also a discrepancy between the School's anticipated student-faculty ration of 6:1, and the student-faculty ratio campus formula, which is 18:1. Other issues include start-up packages and space for so many new faculty members, even as the proposal claims that there are no additional space needs. There is also not any specificity on fund raising for new facilities. Another problem is the School's dependence on current faculty in the Department of Health Sciences. The proposal leaves unanswered the question of whether these faculty members will want to be in the new School. Therefore, the School may need more FTE than the proposal plans for.

Chair Newfield summarized that UCPB does not have any objections to the School from a planning perspective (there is high demand/market and it is complimentary to existing programs), but it does have significant budgetary concerns. The proposal states that the School would be funded through marginal cost of instruction (MCOI) monies. There are two problems with this model: 1) MCOI funding may be cut by the State legislature; and 2) even at existing levels, MCOI funds are nowhere near the level necessary to sustain and grow such a school.

ACTION: Susan and John will write a second draft of the UCPB review of this School.

IV. Jerry Kissler's Findings and Recommendations on UCEAP to the Joint Ad Hoc Committee on International Education – *Jerry Kissler*

REPORT: Jerry Kissler opened his remarks with the observation that the EAP funding model is dysfunctional. Under the current model, the Universitywide Office of the Education Abroad Program (UCEAP) receives state funding, which essentially subsidizes its programming. Campus EAP offices receive revenues from student fees. However, this model becomes problematic when UC's budget is cut. While The Regents may raise student fees in such an environment, the campus offices do not necessarily see their budgets increase. At the same time, UCEAP's budget declines when state General Funds decline. Dr. Kissler is also convinced that the campus offices have been historically under funded.

UCEAP began 2006-07 academic year with a carry-forward deficit of \$2.2 million; they closed the year with a \$2.4 million deficit. Jerry Kissler believes that the University should loan UCEAP \$2.4 million with a multi-year payment plan. Much of this deficit was built up in a period of growth, when UC was receiving new monies designated to finance this growth. However, this money simply covered up the deficit as it built up from year to year. About three or four years ago though, the Legislature did not fund enrollment growth, which was a major factor in creating the deficit. To their credit, UCEAP only added \$200,000 to the deficit in 2006-07 by making a number of budget cuts. The UCEAP budget deficit is fueled by high personnel costs, an expensive lease, high study center costs, and high instructional costs. Economies of scale have also not emerged. EAP currently uses a faculty study center directors at 20% of its approximate 100 sites, which is very expensive; this approach is no longer used by most colleges and universities. Some programs are not true reciprocity programs either, and EAP is forced to pay for the instruction of UC students abroad. Other instructional costs come in the form of foreign language instruction. Many of the more expensive programs are located in continental

Europe because EAP increased its programming in this area, and often at high cost, as student participation patterns shifted to Asia.

Despite its funding problems, EAP is solidly supported by the campuses for a number of reasons: 1) education abroad is valuable; 2) EAP frequently offers an ‘immersion’ experience, which is even more valuable than simply going abroad; 3) it is also desirable to have foreign students in UC’s classrooms; and 4) Creating opportunities for UC faculty to collaborate on with colleagues abroad is also important. Dr. Kissler proposes to double the number of students who study abroad. Currently, only 18-21% of UC students study abroad, which is approximately 9,000 students across the UC system (about 4,000 of these students studied abroad through EAP). However, this percentage is relatively low when compared to other institutions. He also recommends increasing the numbers of foreign undergraduate students in UC classrooms by about 1,000 to 2,000 by admitting them as freshmen or juniors. While he does not advocate eliminating the EAP reciprocity program, in which foreign students study at UC campuses for one year (or less) through EAP, he feels that it is important to augment this program. In order to mitigate the high costs associated with study center directors, he proposes to create \$15,000 research awards for UC faculty who wish to conduct research abroad while on sabbatical. These research awards would carry some EAP-related responsibilities, but not the entire slate of responsibilities that are currently assigned to a study center director.

Mr. Kissler outlined a number of alternatives. The first alternative is simply closing down EAP, which he rejected. Another alternative is the use of approved third-party providers. However, a screening mechanism would be necessary with this approach. Another recommendation is charging students the full cost of the programs, which does not happen now due to the University’s subsidization of UCEAP. His main recommendation is to fund UCEAP with student fees, and to fund the campus offices with the marginal cost of instruction (MCOI) revenues, which reverses the current funding relationship. This proposal would triple the amount of money that EAP distributes to the campuses. The University would establish a list of preferred third-party providers, who would be asked to pay the campus offices \$600 for every student that is referred to one of their programs. While such a funding model would provide UCEAP a stable base of funding, it would also force it to continue cutting costs with the goal of making the average program cost no more than the annual cost to attend a UC campus (\$23,000). It would also allow EAP to grow as student fee revenues grow. The plan also creates incentives for UCEAP to design programs based primarily on student interest, which would increase participation rates. Campuses will also want to increase participation rates, as this will create more space on the campuses, which can be filled with full fee-paying foreign students. After talking with experts, Dr. Kissler is confident that UC can attract foreign students to fill these spots. If enacted, UCEAP would need to cut \$3-4 million in the short term and \$6-7 million in the long-term.

He also commented on Professor Binion’s proposal, which advocates growth only in EAP and campus programs, is not possible under the current model because EAP would have to triple in size. Such growth is not sustainable under the current model. However, EAP could double in size without an increase in discretionary funding under Dr. Kissler’s model.

DISCUSSION: Members briefly discussed international credit transfer, which remains problematic for students studying on both EAP and non-EAP programs. The possibility of transforming EAP into a third-party provider was also raised, in part to provide EAP with another source of income. Dr. Kissler responded that he did look into this, but decided against it because it seemed to be too much too soon, but he does advocate increasing the number of associations with other domestic universities. Members also acknowledged that the numbers indicate that more and more students are choosing short-term semester options; EAP was originally set-up to facilitate year-long participation. Jerry Kissler reported that UCEAP usually makes the argument that they should be funded on a head count basis because their workload increases on the basis of head-count. He does not think it is within EAP's best interest to make this argument for two reasons: 1) the rest of the University is funded on a FTE basis; and 2) since these are administrative costs, it makes EAP look more like a student service center than an academic instructional unit. Members noted that in terms of their linguistic abilities, European students differ significantly from American students, which may partially explain much of EAP's out-of-country instructional costs.

Members applauded Dr. Kissler's goal of reducing the average cost of an EAP program to no more than the cost to attend a UC campus for one year, but observed that students would not be able to take some of their financial aid (such as Pell grants) with them. Jerry Kissler responded that this problem could be addressed in two ways—first, keep EAP program costs low, and second, increase the amount of financial aid. However, if this financial aid came in the form of loans, then this would be problematic. The committee also asked for examples of other institutions that provide similar levels of quality as EAP, but at lower costs. Jerry Kissler responded that the University of Texas and the University of Minnesota are both highly respected in the field, but offer their programs at substantially lower costs than EAP. Members also suggested that nearly all academic programs require funding from two sources - student fees and General Fund monies combined, the Kissler model would ask EAP to operate with student fees alone. One member expressed concern that the University has been repeatedly asked to do more with less, and that the Kissler report may be doing the same thing to one of the University's major and well-regarded academic programs.

The time-frame for the Senate's response to the ad-hoc review report was also discussed. Vice Chair Conrad, who was also a member of the ad-hoc review committee, remarked that there was a substantial amount of pressure to produce the final report in a relatively short period of time. The Senate should expect similar pressures in responding to the report. Vice Chair Conrad commented that within the ad-hoc review committee, there was an emphasis on working out the budget before settling the academic issues. UCPB may want to address some of the academic issues with some sort of statement of concern for the academic quality of EAP programming. The creation of an International Educational Leadership Committee is another issue; UCPB should insist that the Senate be represented on this committee.

ACTION: UCPB will consider a draft response to the Ad-Hoc review report at its January meeting.

V. Indirect Cost Recovery – Chair Newfield

ISSUE: Facilities and Administrative (F&A) cost recovery rates, or indirect cost recovery (ICR) rates, for federal grants are generally higher than the money that universities receive through these grants to cover indirect costs. Direct costs do include research staff, but indirect costs include administrative personnel costs, facilities costs, etc. Chair Newfield noted that the Federal government never had any intention to pay 100% of indirect costs associated with federal research grants. Unfortunately, state General Fund contributions have been cut over the last 25 years, universities have lost one of the funding sources that allowed them to fill the ICR gap. UC numbers show larger gaps than most private universities. ICR rates for grants awarded by non-governmental agencies and other private entities are even lower; some are close to zero. The last Senate report on ICR was completed in 2003; this report found that the actual ICR rates were closer to 30-33% (when non-federal grants were considered), which means that the losses that the University incurs on each research dollar may be significantly higher. Other reports show similar evidence of serious shortfalls in ICR. It is also difficult to understand the actual amount of ICR, and how they are allocated to the respective campuses. Three recommendations emerged from last year's UCORP report: 1) The formation of a joint workgroup between UCORP and UCPB; 2) Exploration of the options to track the use of ICR funds; and 3) Improving UC's research profile throughout the state and the nation, making clear UC's unique research mission. Chair Newfield noted that #3 is beyond UCPB's scope.

DISCUSSION: Members discussed the inherent disadvantages for institutions that cannot cover the same proportion of indirect costs that other institutions can. It was noted that 45% of ICR goes into the state opportunity fund, which can be allocated for various things not related to research. 94% of the 45% in the opportunity fund goes directly to the campus of origination. It was also observed that many faculty are outraged that the ICR does not go to them directly. The biggest bone of contention is that secretaries/administrative staff can no longer be specifically assigned to a grant. The current UCORP project proposal contains the following elements: 1) Determine the manner in which UCOP distributes the ICR funds to the campuses; 2) Obtain from campuses the manner in which ICR monies are distributed internally; 3) Obtain from UCOP the overhead rates for the largest funding agencies; and 4) Document and evaluate the extent to which ICR funds are used to support research, and quantify the extent of the research support deficit. Regarding point #3, Chair Newfield recommended that the wording be changed to "all funding agencies." Chair Newfield also stated that UCPB and UCORP should ask UCOP for a 'snapshot' on how these funds are being used.

ACTION: Members approved the motion to move forward with the UCORP proposal. John Ellwood and Tony Norman were selected for this workgroup.

VI. 2008-09 Budget and the Four-Year Plan for Faculty Salaries

ISSUE: This year, data collection has become increasingly difficult for the special Workgroup on Faculty Salaries. Another issue is the implementation of the first year of the four-year faculty salary plan on some campuses. At issue was whether the range adjustment should be applied only to the on-scale portion of a faculty member's salary, or if it should be applied to both the on-scale and the off-scale portions. There is now agreement throughout the University that the range adjustment should be applied to the entire salary.

For year two of the faculty salary plan, a number of issues are still outstanding. Chair Newfield noted that the range adjustment (sometimes known as COLA) in year one is less than what the Senate originally asked for (the Senate asked for 4%, but received only 2.5%). UCOP has also not provided the Work Group with the source data that shows how UC faculty salaries will reach market rates by year four. UC is left with only three years to get back to even with the market, which is a moving target, as UC's comparators are expected to increase faculty salaries next year on average of 4%. By contrast, the aggregate increase for UC's professorial range - net of merits - was only 3.9% (even though the original budget augmentation was 4%). The increase in this year's overall payroll is approximately 5.8%

The enclosed UCFW memo was not endorsed by Academic Council. However, a statement of concern was sent to Provost Hume and EVP Lapp. Although Provost Hume did respond to this statement, he maintained that the current plan is still being presented to The Regents this week.

DISCUSSION: Members agreed that this continues to be an area of great concern.

ACTION: Chair Newfield will draft a memo stating UCPB's position that in order to properly evaluate this plan, the Workgroup on Faculty Salaries needs source data behind the faculty salary plan.

VII. Expenditures Report—Chair Newfield

ISSUE: Chair Newfield pointed out a change in the 'L1' document, or The Regents' Priorities. The new L1 reduces the costs of many of the priorities that have been historically important to the Senate (e.g., student-faculty ratios, increasing graduate student funding, and the upgrading of essential infrastructure). The Regents' Long Range Planning Committee added very high annual costs for state capital projects, so 85% of their monies would go towards infrastructure and 15% towards human resources. Chair Newfield proposed that UCPB revise this report with the goal of sending a final draft to Academic Council in time for its November meeting.

ACTION: Members agreed to this proposal; Academic Council will be sent a final draft of the Expenditures Report for its November meeting.

VIII. Setting Conditions for Professional Degree Fee Increases Proposal—Chair Newfield

ISSUE: Chair Newfield remarked that the language in this proposal is relatively weak with regard to ensuring access through return-to-aid. It also fails to provide an appropriate academic justification for the fee increases. That said, The Regents have approved a number of these fee increases; professional fees are going to go to market and will stay there. The philosophical framework for these fee increases was argued in the Senate last year; the Senate's comments came out in John Oakley's letter. Chair Newfield added that these fee increases may represent a Trojan horse for the entire system, though there is in theory a firewall between professional schools and the rest of the University.

DISCUSSION: One member remarked that The Regents were originally proposing a model that treated all professional programs alike. However, there needs to be some distinction as to the incomes that graduates of certain professional programs will actually make. The idea of the great public university is that the State would fund it at such a level that it would be able to

compete with the privates, albeit with purpose and retain a certain amount of diversity within its student body.

ACTION: UCPB will continue to monitor this issue. Chair Newfield will draft a statement on the firewall between professional programs and the rest of the University.

IX. New Business

ISSUE: UCPB did not consider any new business.

The meeting was adjourned at 4:00 p.m

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

Distributions

1. UCPB draft review of the proposal for a School of Public Health at UC Davis

UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB)
Attendance 2007-08

Key: X = In attendance; Abs = Absent; Alt = Alternate attended

		10/2/07	11/13/07	12/18/07	1/15/08	2/12/08	3/18/08	4/15/08	5/13/08	6/10/08	
MEMBERS:											
Chris Newfield, Chair	San Francisco	X	X								
Patricia Conrad, Vice Chair	Davis	X	X								
John Ellwood	Berkeley	X	X								
Bruno Nachtergaele	Davis	X	X								
Abel Klein	Irvine	X	X								
Robert Frank	Los Angeles	X	X								
Evan Heit	Merced	X									
Anthony Norman	Riverside	X	X								
Andrew Dickson	San Diego										
Norm Oppenheimer	San Francisco	X	X								
Bjorn Birnir	Santa Barbara		X								
Susan Gillman	Santa Cruz	X	X								
EX-OFFICIO MEMBERS:											
Michael Brown	Chair, Academic Council	X	--								
Mary Croughan	Vice Chair, Chair Academic Council	X	--								
STUDENT REPRESENTATIVES:											
Melissa Gibson	Undergrad Representative	X	--								
?	Grad Representative		--								
ALTERNATES:											
?											
?											
CONSULTANTS:											
Daniel Greenstein		X									
Larry Coleman (UCOP)	Vice Provost, Research										
Cathie Magowan (UCOP)	Dir., Science & Tech Research										
Dante Noto (UCOP)	Dir., Humanities, Arts, Soc.Sci.										
STAFF:											
Todd Giedt	Policy Analyst	X	X								
Maria Bertero-Barceló	Exec. Dir., Academic Council	X									
GUESTS:											
Rory Hume	Provost										
Katherine Lapp	Executive Vice President	X									
Debora Obley	Assistant Vice President	X									
Stan Mendoza			X								
Jerry Kissler	UCEAP Consultant		X								