University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
November 5, 2010

I. Consent Calendar

1. Approval of the October 5, 2010 UCPB Minutes

Action: UCPB approved the October 5 minutes.

II. Chair's Announcements and Updates

- *James Chalfant, UCPB chair*

Chair Chalfant may schedule impromptu conference calls in between regularly scheduled UCPB meeting as needed to discuss urgent business, including topics emanating from the President's Budget Advisory Group and the Academic Planning Council, which both meet in November.

October Academic Council meeting: Council approved two resolutions from the UCAP-UCFW-UCPB Subcommittee on Faculty Salaries that call for (in addition to a previously approved recommendation for an immediate 2% range adjustment to faculty salaries) a subsequent 5% increase in the form of a 3% range adjustment plus market adjustments equivalent to 2% of the faculty salary budget. The Academic Assembly will review the recommendations in December. Council is also recommending that the President appoint a joint Senate-Administration task force to implement these recommendations.

Council approved a resolution responding to the report of the President's Post-Employment Benefits Task Force. Although President Yudof had already released his recommendation to the Regents, Council wanted to memorialize the Senate's recommendations on the various options as a reflection of the work that went into examining those positions. The resolution incorporates feedback from the Senate review and recognizes the need to focus on competitive total remuneration for faculty and staff.

Another Council resolution endorses an Administration proposal to rename the UC educational "fee" as "tuition." Council recommended that professional school and professional program fees be called "Professional Degree Program Supplemental Tuition," and noted that this should not be a backdoor for creating new professional fees.

Part of the Council meeting included a consultation with senior management and the campus Executive Vice Chancellors. Council learned that the 2011-12 budget proposal will include tuition increases and $72m in salary increases for faculty and non-represented staff. The EVCs were doubtful about the Council recommendation to freeze faculty hiring and construction; however, they were not opposed to the faculty salaries resolution, although they emphasized the need for discretionary spending power for competitive recruitment and retention actions.

Provost Pitts told Council that UCOP will reconvene the task force examining alternative compensation plans for general campus faculty, after finalizing language for a proposed policy. The task force had been considering the possibility of implementing a compensation plan for general campus faculty that includes a negotiated grant-funded component.

III. Post-Employment Benefits Financial Highlights

- *Peter Taylor, Chief Financial Officer*
- *Maria Anguiano, Associate Director, Finance*

Issue: CFO Taylor and Associate Director Anguiano joined UCPB to discuss the recommendation to finance a portion of UC's UCRP obligations with income from the Short Term Investment Pool (STIP). UCFW-TFIR Chair Helen Henry and UCSB Divisional Chair Henning Bohn also joined the meeting by phone.

Peter Taylor: UC sweeps idle cash from all UC funds (76,000 accounts throughout the system) into the STIP seven times daily, where it is invested in short-term securities. STIP holds funds from a variety of sources, including gifts and endowments, student loans, bond proceeds, medical center funds, foundation and agency funds, and UCRS. Dividends are returned to STIP and distributed to the various account holders as needed. Campuses with medical centers tend to have more STIP accounts and larger balances.

STIP maintains a total daily balance of about $9 billion. UC can borrow money from STIP at a significantly lower interest rate (2.5%) than it could on the open market. Borrowing from STIP to increase contributions to UCRP, where the assumed gain is 7.5%, could help address UCRP's unfunded liability and reduce future employer contributions required to meet the Annual Required Contribution (ARC).

The CFO division is analyzing systemwide liquidity needs to determine how much could be diverted for STIP borrowing purposes without affecting day-to-day working capital liquidity needs for the campuses. In order to assess available liquidity, funds that do not represent short-term funds, such as the Mortgage Origination Program investment, were subtracted from the STIP total. In addition, third party funds held in STIP and funds expected to be used in the near future were also subtracted from STIP. These include campus foundations, UCRS, agency funds, and bond proceeds. After these reductions, the remaining STIP balance as of 6/30/2010 equals approximately $6.5B. The CFO division also estimates that about $3.6B in STIP would need to remain liquid in order to serve the University's working capital needs, including $1B to address the state's practice of deferring payments to UC, $600M for Medical Center working capital, $500M for commercial paper payments, and $1.5B in daily cash flow needs, An additional $750M currently in STIP will likely move to the Total Return Investment Pool (TRIP), a slightly less conservative investment pool.

UC estimates that total STIP liquidity is about $2.2B. Borrowing $2B for UCRP over two years ($1.05B in 2011-12 and $935M in 2012-13) would fund a significant portion of the employer contribution to ARC and enable UC to increase employer contributions more rapidly. Doing so could reduce the employer contribution to ARC from 20% to 18.5% between 2015 and 2031, based on a maximum fixed 2.4% interest rate and an 8% employee contribution level. The Regents would guarantee repayment with interest to STIP account holders. The University's STIP borrowing rate would be capped at current STIP rates, which today is approximately 2.4%, much lower than the cost to issue Pension Obligation Bonds, which is currently estimated to be over 6.5%. The University's unfunded actuarial accrued liability grows at 7.5 % per year. While UC has not ruled out issuing Pension Obligation Bonds or additional alternative borrowing strategies, STIP is the cheapest borrowing source.

Discussion: UC can save even more money through this plan if it can find a way to increase borrowing and be less conservative about which STIP funds it considers unrestricted. Reducing STIP liquidity could make UC a less likely target for state deferrals.

The plan to cap the interest payout at 2.4% for 30 years could cause concern unless it is presented as UCOP's contribution to ARC that will help offset campus obligations. Some campuses are still in denial about the need to implement a contribution ramp-up to 20%, and there is concern that a 20% employer cost on grant funding will lead to a significant workforce reduction and harm the research enterprise. There was concern that borrowing from STIP not reduce the operational flexibility of units holding STIP accounts. Moreover, campuses themselves may want to dip into STIP to fund their employer costs. It was noted that many medical center staff are effectively self-employed; the employer contribution will be peeled off their grants or the clinical revenues they generate, on top of a 7% or 8% salary reduction.

Senate policy calls for nothing over 7% for employee contributions, and it is premature for the Regents to discuss an employee contribution level over 7% without a viable linked plan to raise faculty salaries. UCPB should recommend borrowing more, keeping the employee and employer contribution as low as possible, and linking the increased contributions to salary increases.

IV. Health Benefits

- *Mark Esteban, Director HRB-Policy & Program Design*
- *Robert Semple, Principal Analyst, HRB-Pension & Retirement Programs*

Issue: Director Esteban and Analyst Semple joined UCPB to discuss the impact of health benefits changes affecting faculty and staff at UC Santa Cruz, UC Davis, and UC Berkeley, as well as plans for the grandfathering of retiree health benefits under the new UCRP tier. Michael Deleon of Deloitte LLP was also present on the phone.

Chair Chalfant noted that as benefits become more costly they become a more relevant issue for UCPB. Some staff feel singled out for differential treatment under the proposed grandfathering provisions, which qualify employees for continued retiree health benefits under the current Plan provisions if the sum of their age plus years of service totaled 50 in 2013.

Director Esteban: The total cost of UC's health benefits programs for current employees and retirees is about $1.6B, $1.3B of which relate to medical benefits. HealthNet serves the largest proportion of UC enrollees (about 44%), followed by Kaiser with 29%. 44% of total UC enrollees are on an individual plan.

UC negotiates annually with each of its 13 healthcare vendors. For 2011, UC was handed rate increases as high as 17%, which are being driven by higher service costs at doctors' offices and hospitals, rather than increased use of services by members. UC recognized that without change, a significant number of HealthNet members would lose access to an affordable plan. Working with HealthNet, UC developed a narrower network structure it is calling the Blue and Gold Plan. The rate increase under the Blue and Gold is 6% compared to 17% for access to the full HealthNet network. UC was unable to work successfully with Sutter Health to include some of Sutter's providers and facilities in the Blue and Gold plan. Sutter's hospital costs are 37% above average. The Blue and Gold Plan is not perfect, but it preserves choice for members who want to stay with their Sutter physician and are willing to pay more. It also provides cost transparency by showing the cost of each provider. Kaiser is more affordable, but unfortunately it is not available at every UC location, namely Santa Cruz, and other more remote locations. Santa Cruz employees have a choice between the Physicians Medical Group (PMG) or continuing with the higher cost Sutter facilities not included the Blue and Gold Plan.

Discussion: The lack of access to affordable healthcare for UCSC employees contradicts what should be a principle of equity and parity in benefits throughout the system. Yes, UCSC employees have the option of switching to PMG, but that would mean less access to a smaller provider network that is much further away than Sutter. Director Esteban said UC tries to uphold this principle, but there is no easy answer in a monopolistic healthcare environment. Maintaining the status quo would have given large cost increases to 100% of the HealthNet population rather than a smaller proportion.

One member suggested that UC provide a long-term care insurance option. Another said UC should consider a UC HMO to serve UC's own population. Director Esteban responded that UC has issued bids in the past for a long-term care model and never found a competitive model. A UC HMO has been considered, but it is not clear that the UC medical centers have the primary care resources to serve this large of a community.

Analyst Semple noted that the recommendations going forward for grandfathering retiree health benefits are the same as in the Task Force report. 46% of UC employees would fall under grandfathering. The purpose is to prevent a wave of retirements just before the new rules go into effect. UC wants to recognize long service through a formula that is both service- and age-based.

V. UCPB Subcommittee on UCOP Budget Reform

Issue: UCPB members Lopez and Haddad's discussion draft **s**ummarizes the status of the UCOP budget reform proposal and proposes several principles to guide discussion about the major issues, including how new state money should be distributed, whether there should be parity in the distribution of general funds per student across campuses, and which activities should be UCOP-funded.

The project includes three overlapping phases. "Funding streams" is a new funding model for UCOP being tested this year alongside the current system. Campuses will retain all revenue they generate from most sources, and UCOP will fund itself and systemwide programs through a flat assessment of 1.6% on all campus revenues. The second phase is to "re-bench" or re-balance the current formulas that determine the proportion of state general funds UCOP distributes to each campus, to align per student funding more equally. Historic funding formulas providing a larger amount of money for graduate students than for undergraduates have led to inequities in campus base budgets. Yearly incremental changes to base budgets – for example, new state funding for incremental enrollment growth – are based on the existing formulas, which exacerbates the existing inequities by allocating new money disproportionately. The new base budgets become permanent, inflating the base budgets of older campuses compared to newer campuses. Growth campuses also see a portion of their student fees reallocated to older campuses to maintain the historic base budgets.

Discussion: Principle #1 states that there should be funding parity not only across campuses but also for different types of students. Those are separate issues. The latter is a departure from UCPB's position, articulated in a July 2010 memo, supporting weighted formulas that account for the higher cost of educating graduate students and upper division students. It was noted that this principle also has political implications, as UC has been working to convince legislators that UC is a research university and needs more funding for graduate education. On the other hand, campuses make a pedagogic choice to have large undergraduate classrooms and small graduate classrooms. It is better to let the campuses decide how to fund education instead of doing so through a UCOP formula.

UCPB should define what "equity" looks like in actual dollars and how long will it take to achieve. There is a notion that the transition to equity should proceed incrementally only as new money comes in. The principle that the transition should do no harm to the instruction and research mission of any campus may not be realistic unless the transition occurs over a very long (20 year?) period, which is itself unrealistic. Moving to parity incrementally with new money only is fine, as long as it does not take forever. Some think UC should move immediately on this.

VI. Consultation with UCOP

- *Associate Vice President Debora Obley, Director of Operating Budget Michael Clune, and Assistant Director Clifford Bowen*

2011-12 Budget: UC's share of the 2010-11 State budget is excellent considering the budget cuts being imposed on most State-funded programs. It restores the $305M cut UC took last year with a combination of state funds and $106M in one-time federal stimulus money; however, this represents only half of the $637M cut to the UC base budget over two years, and 2011-12 is likely to be an even worse budget year for the state, as temporary sales tax revenue expires and the state is forced to address other stopgap "solutions" it used to solve the 2010-11 budget.

UCOP is bringing a 2011-12 budget to the Regents in November that articulates UC's total needs, including restoration of the one-time stimulus funds gap, complete funding of over-enrollment, and $175M for two years of contributions to UCRP. The budget leaves room for a 2.5% salary increase for faculty and non-represented staff. The President is expected to propose a fee increase and new financial aid initiatives.

Discussion: Campuses are deeply troubled by the budget situation. The slow ramp-up schedule for UCRP contributions helps, but it is daunting for campuses to imagine contributing up to 20% of payroll, not including money for salary increases. The Budget office should encourage the Finance office to borrow more from the STIP.

Funding Streams: AVP Obley said that in general, campuses have reacted positively to the basic principles guiding UCOP's funding streams project—that all revenue should remain on the generating campus; that UCOP should be supported through a flat tax assessment calculated on all fund sources; and that campuses can choose how to pay the assessment, which is intended to be cost neutral and calculated on what UCOP needs to stay whole (1.67%). The 2011-12 UCOP budget has a $25M shortfall due to a number of accounting errors. Provost Pitts is compiling a list of UCOP-run academic programs and functions that he plans to share with the campuses to hear their views about which should continue under the UCOP umbrella and which UCOP might discontinue.

UCOP is responding to campuses unhappy that UCOP uses some of their educational fee revenue to support base budgets at other campuses. UCSF wanted recognition that it has a large general fund base but few students contributing revenue. An exception to this principle is the EFM model. UCOP will continue to use the EFM model to determine work-loan expectations for undergraduate financial aid, which will require some redistribution.

UCOP will distribute future state funding increases on the basis of existing formulas for state general funds and educational fees. This year's $51M increment for enrollment will be used to fund Merced, repay campuses for their contributions to Merced's budget last year, and to meet 2007-08 enrollment target agreements. UCOP will be sending the full funding streams proposal to the Academic Senate for 60-day review.

Discussion: It was noted that not all EVCs have approved the plan. Members requested information about how campus revenues would have been affected in each of the five previous years had the proposed Funding Stream plan been in effect. AVP Obley stated that this would be difficult to determine.

Re-benching: Campuses want to fix inequities resulting from the current funding model. The issues are extremely complicated, and UCOP is unable to handle both the funding streams initiative and re-benching simultaneously, so re-benching will have to be put off until next year or the following year. In the meantime, UCOP welcomes input about the relevant factors to include in the discussion, including the role of the health sciences, how to account for differences among campuses in building age, the need for seismic upgrades, ICR generation, professional degree fees, and non-resident tuition; how to weigh different types of students; whether the transition model will use incremental funding or redistribution of base budgets; measurement metrics; and the transition timeline.

Facilities Infrastructure Renewal Model (FIRM): The model allows UCOP to predict capital renewal needs for state eligible space. It projects the amount of money needed each year to renew each building or system. Non-state space is excluded because those facilities have other renewal funding sources. 40% of UC buildings were constructed in the 1960s and 70s, which has created a large growth curve in required maintenance. UC will double spending on capital renewal over the next decade. UC requires a business case analysis on all new state and non-state capital projects, which must include a plan for funding maintenance and staffing. The University is moving away from enrollment growth-related projects to capital renewal.

VII. Academic Council Recommendation and UCLA Statement on Future of UC

Issue: The Council recommendation is to downsize UC by reducing the number of employees through attrition; institute a moratorium on construction; and restrict new programs to those for which funding is definitively allocated. UCPB has been asked to quantify the financial impacts. After the October meeting, UCPB requested data, not yet supplied, projecting enrollment growth, campus expansion plans, state educational demand, and revenue per student available to the core educational programs from student fees.

Discussion: It was noted that one of the original motivations behind the UCFW resolutions, which evolved into the Council recommendation, was to sound the alarm about the severity of the budget situation to encourage campuses to think about how to address the inevitable cuts to come. The statements are useful as statements of concern, but they are too general to have any value as implementable plan for how UC can continue to be an excellent University on the available resources. Both statements are less relevant now than when they were first written and adopted. The situation has changed, particularly with post-employment benefits. The employer contribution to UCRP represents a 20% tax on labor that will almost inevitably lead to shrinking. It would be more constructive to consider how to manage shrinking, specifically this 20% cut, rather than whether or not to do it. (One of UCPB's responses to the UCFW resolution was that a freeze on hiring or construction alone would not help fund UCRP.) Everybody hates program cuts, but shrinking will have to become reality due to the 20% hit on labor costs and the ongoing state budget crisis. In addition, faculty salary increases will come to the campuses as an unfunded mandate that they will need to react to and manage on their own. These decisions need to proceed according to principles and process.

It is assumed that downsizing will focus on faculty and staff and not extend to students because enrollment is a revenue source, and cutting enrollment would be politically untenable. Members mentioned the impact of downsizing on faculty diversity and its uncertain effect on faculty FTE. Departments would use money saved on ladder-rank faculty to hire more lecturers to teach undergraduates. In any case, it will mean a decrease in quality.

It is inappropriate to call for an across the board shrinking of the University without accounting for the unique needs and aspirations of individual campuses. The final plan must account for the needs of growing campuses and maintain maximum local autonomy and flexibility. At the same time, there is value in limiting local autonomy if we care about the systemwide sense of UC and the common faculty salary scales. On some campuses, uncoordinated decisions are proceeding without Senate input. The Senate at all campuses must be involved in conversations and decisions about programs cuts and closures.

It was noted that some campuses lack sufficient housing for all guaranteed freshmen and sophomores, and that downsizing some departments already short of faculty would kill those departments. Downsizing is inconsistent with the mission and purpose of the University to serve students with a broad variety of academic programming.

There was concern that giving more budget control to EVCs and chancellors could reduce the influence of the systemwide Senate and the salary scales. The Senate is one of the only forces that attempts to maintain UC as a single university and defend systemwide priorities. It was noted that Harry Powell's Special Committee on a Plan for UC, or a subgroup of different Senate Committees, may be able to come up with a plan.

UCPB should read the 1960 Master Plan to help guide its efforts. It would take the doubling of UC's budget to truly meet the master plan today. UC should highlight its success and recommit to it to keep the support of the public.

VIII. Other Discussion Items

UCPB briefly discussed endowment policy issues, including instances in which endowment money has been redirected away from its intended uses to other purposes, and Senate involvement and oversight in fundraising policy. Campus fundraising priorities do not always align with faculty academic priorities. It was noted that the UCLA Senate has a development committee and the UCSB Planning and Budget chair is an automatic member of the UCSB Foundation Board of Trustees. There is little or no Senate involvement at other campuses. One member suggested that the vice provost for development should be an academic position to create a connection with the academic mission. Others felt it would be important to have professional fundraisers making decisions.

The meeting adjourned at 4:00 pm
Minutes prepared by Michael LaBriola
Attest: James Chalfant