University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
December 7, 2010

I. Chair's Announcements and Updates

- *James Chalfant, UCPB chair*

UCPB has invited senior UC leaders to discuss the state budget situation, UC's plans for allocating new state money for enrollment growth, the status of the "funding streams" and "re-benching" projects, and two emerging issues regarding the Division of Agriculture and Natural Resources (ANR). Some faculty are alarmed by ANR's plans to expand hiring from their share of UCOP's "flat tax," and a proposal to redirect campus endowment money to fund Cooperative Extension and other ANR priorities and initiatives around the state. There is no Senate oversight of ANR, but its budget is $60m in general funds, about the same as UC Merced.

In November, the Academic Council approved a slightly modified version of a UCPB-authored resolution in support of a plan to finance post-employment benefits with borrowing from the Short-Term Investment Pool (STIP). Some Council members felt UC should not use STIP borrowing to pay debt service on non state-funded compensation, so language was added to say that there has to be a credible plan to recover the money from the granting agencies if STIP is used for contributions from non-state salary sources.

At the last Regents meeting, Regent Blum criticized campuses and faculty for resisting initiatives around strategic sourcing and joint purchasing. UCPB has invited UC's Executive Director of Procurement Services to discuss UCOP's strategic sourcing initiatives, the savings they have produced, and any impediments that may be preventing even greater savings.

John Ellwood reported briefly on the UC Berkeley Operational Excellence Initiative, which is studying opportunities for new administrative efficiencies. There is resistance to the process because Berkeley has always been a highly decentralized campus, and because re-engineering will inevitably lead to additional staff layoffs.

Brent Haddad represented UCPB at the December 1 Academic Assembly meeting. The Assembly discussed a Council-endorsed resolution calling for an immediate 2% range adjustment to faculty salaries and a subsequent 5% increase in the form of a 3% range adjustment plus 2% market adjustments. Some members were concerned that the resolution might be perceived poorly in a poor economy just after a student fee increase, and that the money would be better spent applied entirely to the salary scales rather than to across the board increases. The Assembly voted to refer it back to the Council for further discussion.

David Lopez and Peter Chung represented UCPB at an in-person meeting of the UC Education Abroad Governing Committee. The new Associate Vice Provost for Education Abroad, Jean-Xavier Guinard, is working well with the campuses, and things look positive financially. UCOP intends to reduce the number of UCPB representatives on the Committee from two to one.

II. Consultation with UCOP

- *Lawrence Pitts, Provost*

- *Patrick Lenz, Vice President for Budget and Capital Resources*
- *Nathan Brostrom, Executive Vice President, Business Operations*
- *Debora Obley, Associate Vice President, Budget Office*
- *Susan Carlson, Vice Provost, Academic Personnel*

Patrick Lenz: Governor Schwarzenegger has declared a fiscal emergency and called the Legislature into special session to address an immediate $6B budget deficit, although the Legislature is unlikely to act on his plan before Governor-elect Brown takes office on January 3. The Governor-elect has scheduled three fora to discuss the budget gap, which will exceed $25B in fiscal year 2011-12. The first will be a general budget briefing in Sacramento with state leaders; the second, in Los Angeles, will focus on education; and the third will be held in the Bay Area and involve a discussion of health and human services programs.

The Governor-elect will retain Ana Matosantos as his Director of Finance, and Mark Leno will be the new chair of the budget committee. UC should know more about its 2011-12 budget and any potential mid-year cuts by early to mid January 2011, and a more substantive budget will emerge as the May revision deadline approaches. UC believes it is in a better position to manage cuts on its own and appreciates flexibility rather than mandates. UC has shown a willingness to help the state with its cash flow problems by taking deferred payments.

Nathan Brostrom: Historically, UCOP has collected general fund components, including state funds and educational fees, and allocated them to the campuses on a percentage basis. UCOP is funded through a combination of endowments, $225m in direct state funding, and $80m generated from taxes it imposes on campus revenues from IDR, patents, medical centers and auxiliaries. Next year, UCOP plans to implement a new budget model in which campuses will retain all revenues they generate and UCOP will assess a 1.67% flat tax assessment calculated on all fund sources to fund itself and systemwide programs including ANR and the MRUs. UCOP will continue to distribute state funds to campuses on the same basis, and will use the current educational finance model to determine work-loan expectations for undergraduate financial aid, which will involve some redistribution. Most campuses will benefit under the new model; however, because UCSF has a large general fund base but few students contributing revenue, it benefits more from the historic approach. The Budget Office’s solution for the transition year was to give campuses 90% of their best case, which comes close to being cost neutral. UCSF asked that UCOP not provide General Funds to them. The initial tax rate will be lower, but the assessment on future increases in revenues will be the same as other campuses.

Discussion:

- There was a request for data on the amount of money campuses would have received under the funding streams model over the past five years, compared to what they did receive.

- There was a question about why other medical centers would not be supported under the same low tax model as UCSF, as they do not benefit from UCOP services as much as the general campus. EVP Brostrom said the medical centers are built on the research of the greater campus. They are the largest beneficiaries of net capacity and borrowing for capital construction, and their employees benefit from UCOP-managed retirement and benefits programs. UCSF is in a more vulnerable position without a general campus.

- Associate Vice President Obley said ANR used to be a state line item in the UC budget, but it is now funded directly by UCOP. It would be politically disastrous to cut ANR’s budget significantly, although nothing would prevent UC from doing so.

- UCOP will adjust the tax rate to pay the bills, but will not use it as a revenue source or a justification to expand UCOP. The tax will not increase if campus revenues grow under funding streams. UCOP will seek a consensus from the campuses about the relative merit of any new central initiatives that could involve a higher tax. Campuses will not be assessed for special mandates from the state.

- Faculty should be involved in ANR decisions that impact academic planning and graduate student funding. UCPB should ask for a bigger Senate role in the oversight of ANR, perhaps using the ACSCOLI special committee model. This is a broader issue that should encompass all MRUs and centrally funded units that will not necessarily remain centrally funded.

Action: Chair Chalfant has prepared a memo regarding ANR that he will circulate for review over email.

Lawrence Pitts: The second phase of UCOP's budget reform effort after "funding streams," is the re-benching of state general fund allocation formulas. Provost Pitts and EVP Brostrom will co-chair the effort. The intent is to assemble a group of faculty and administrators to examine the models in use at Texas and other institutions and to discuss philosophical questions about which fund pools and funding baselines should be considered, how to incentivize certain behaviors, and the relationship between operating and capital budgets. It could be a decade or more to complete re-benching in a completely cost neutral way through incremental changes, so UCOP intends to start as soon as possible and to look at all general funds.

Faculty salaries:
The 2011-12 budget contains a salary increase placeholder for faculty and non-represented staff. The Regents and others are sensitive about approving an across-the-board salary increase just after a student fee increase and in the context of widespread economic suffering. The President has asked for a salary plan that rewards merit. One idea is to apply 3% of the total faculty salaries budget to enhance regular merit raises over three merit cycles, providing a 9% raise for 1/3 of the faculty each year for three years. The EVCs did not like the previous faculty salary plan because it benefited the scales and limited their discretion to use money for targeted recruitment and retention actions.

Discussion:
- Members expressed significant objections to the Provost's plan, noting that it would further weaken the published salary scales and the power of the faculty to recognize the merit of their peers, which has been fundamental to UC excellence. The faculty, not the administration, should define merit. UC's system of peer-review enables fairness, and UC should do everything in its power to restore the integrity of the merit system by bringing the salary scales back to competitive relevance. The salary scale is a merit scale. Raising the scales is the best way to reward merit.

- Addressing the scales helps all faculty, not only those receiving merits, including those facing personal circumstances that may stall their productivity. Take-home pay is declining for all employees, and the salaries of meritorious people will decline with increased UCRP contributions.

- Provost Pitts said for 20 years, salary has been decoupled from the merit review and faculty salaries have exceeded the scales to the point where 80% of faculty are now off-scale. In the absence of more funding, his merit plan is the only opportunity to put money into faculty salaries. The Provost said he hopes to find a way to have higher salary scales at the end of the process, but there will always be faculty off-scale. The faculty conceded a direct connection between the salary scale ladder and the merit system long ago.

- Chair Simmons said the Senate has spoken frequently about the need to maintain the integrity of the scales and the merit system. Most recently, Council attempted to honor both the need to fund the scales and the desire for an across-the-board increase. The Assembly asked Council to reconsider that position, so an across-the-board increase is not the Senate's position at this stage.

- The proposal would create two separate scales with each step having two different salary levels. A faculty member who was just reviewed would not receive a salary increase, but another who was reviewed for the same step later would be given the increase. This would hurt fairness and morale.

- UC should eliminate the little-used Assistant I and consider a market adjustment targeted to associate and assistant professors, or alternatively, increase the salaries of faculty who are on or near scale. Raising the scales would increase the take home pay of only the few faculty on scale in the beginning, but over time it would have a broader effect.

- There are two goals: Attracting and retaining new faculty with total take home pay and creating incentives for continual productivity once faculty are at UC. It is hard to meet both goals simultaneously under the current circumstances.

III. Consultation with UCOP -- Strategic Sourcing

- *Haggai Hisgilov, Executive Director, Procurement Services*

Executive Director Hisgilov briefed the committee on UC's strategic sourcing programs, which seeks to leverage UC's immense buying power to save money on widely-used commodities such as computers, office supplies, and lab equipment, and to maintain or enhance product and service quality. He works collectively with the materials management group on each campus to make decisions about new procurement initiatives. UC will never develop a systemwide contract that increases costs at a specific campus.

Strategic sourcing generated $52.8M in savings in FY 2009-10 and $182M over the last four years. At any given time, there are 8 to 10 initiatives in development. In the PC initiative, for example, savings are defined by the discounts UC receives in contracts with HP, Dell, Apple, and others that commit UC to a minimum buying volume. UC does not need to provide all employees with a choice about all products. In the corporate environment, new employees are simply assigned a PC.

The overall contract utilization rate in the travel, IT, and non-IT categories is 64%. The goal is 80%. Travel utilization is relatively low (25%), in part because some people prefer to arrange travel themselves and 30% of travel is grant-funded. He said that while it is true that it is sometimes possible to find a flight or other product at a cheaper price, contracts are volume driven, and today's purchasing volume can be used in the future to garner additional discounts. Overall, the Connexxus travel portal is the best value for the University.

In general, administrative units are more disciplined than faculty units about spending within contracts. The goal is to work with faculty to address their needs and add value. Faculty participation in the development of contracts and buying arrangements is always welcome.

Discussion:

- The faculty can help identify what is working and not working on the campuses, but in the current budget environment, UC may be forced to make product quality a lesser goal if it comes down to a trade-off between product quality and cutting a course, for example.

- The initiative is well-intentioned, but UC's negotiated rates are not always better than what can be found outside. It is pointless to pay more for a product that can be found more cheaply online.

- Some of the anecdotal evidence of resistance may be emanating from Berkeley. In addition, some scientists are less concerned with price as they are with delivering products to their clients quickly. They do not have time to wait for the purchasing process.

IV. Special Committee on a Plan for UC

Council has asked the Senate participants in the Provost's "budget calls" work group to draft a charge for Council to review in December appointing them as a Council subcommittee to examine the report of Special Committee on a Plan for UC and develop implementation plans for the recommendations based on data supplied by UCOP.

Vice Chair Anderson said the draft report is inspiring but does not provide a plan for fixing the present crisis—specifically, how UC will continue delivering excellent research, teaching, and public service with less money. These efforts are proceeding on an ad hoc basis with little Senate participation. The subcommittee will work closely with the Council and standing committees to develop a working plan and address such issues as shrinking, where growth should occur, the ratio of graduates to undergraduates, and the role of lecturers. He asked Chair Chalfant to draft a charge with the help of the other Senate participants in time for Council review on December 15.

Discussion:

- Some Council members do not like the word "downsizing," but it is hard to see a way forward with the current student to ladder-rank faculty. Some campuses responded to budget cuts by cutting lecturers; however, lecturers are the most efficient way to deliver education.

- Shifting teaching to lecturers has only limited savings potential. We can delay measures that impact undergraduate education and research by increasing strategic sourcing and cutting administrative and student services. Such cuts may violate some of our current values, but the values of protecting the research enterprise and the ladder-rank faculty are more important.

V. Consent Calendar

1. Approval of the November 2, 2010 UCPB Minutes

Action: UCPB will review a revised draft based on comments over email.

VI. Post-Employment Benefits Finance Plan

- *Peter Taylor, Chief Financial Officer*

Issue: CFO Taylor joined UCPB to discuss a developing plan to finance a portion of UC's UCRP obligations with income from the Short Term Investment Pool (STIP). UCFW-TFIR Chair Helen Henry also joined the meeting by phone.

UC can borrow from STIP at a lower interest rate than it could on the open market. Using these funds to increase employer contributions to UCRP, where the assumed gain is 7.5% (4% real and 3.5% inflation), can reduce the employer cost required to meet the Annual Required Contribution to UCRP. The CFO division is analyzing systemwide capital liquidity needs to determine how much could be borrowed from STIP, which maintains a daily balance of about $9.1 billion. After subtracting funds that do not represent short-term securities, such as the $750 million Mortgage Origination Program (MOP) investment, third party funds held in STIP, and funds expected to be used in the near future, the remaining balance is approximately $6.5B. The CFO's conservative estimate is that $4.5B should remain liquid to serve UC's day-to-day operational needs, leaving about $2B for the UCRP borrowing program.

The CFO division continues to develop a specific borrowing plan with input from UCFW-TFIR, the UC Treasurer, and the General Counsel's office. The current plan is to execute $2 billion in STIP borrowing in monthly stages between April and November 2011. In December 2011, UC will assess the program and consider increasing investments.

UCPB reviewed projections showing the effect of $2B in STIP borrowing at a 2.4% interest rate on the employer contribution between 2013 and 2037. These assumptions, combined with an 8% employee contribution level, could reduce the employer contribution to ARC from 20% to 18.5% with 1% employee population growth (18.6% with no growth). With a 7% employee rate, the effect is more modest, from 20% to 19.4%. With $4.5B in STIP borrowing and an 8% employee contribution and 1% population growth, the rate falls to 17.6%; with no population growth, the rate is 18.4%.

The CFO is working to reduce UC's MOP holdings, which could create new liquidity. He has not made a final decision about how to calculate the interest dividends that will be paid back to account holders. He also said most campuses can do a better job with strategic sourcing. UC is unveiling a new Connexxus dashboard for each campus in 2011. Implementation of Connexxus will be part of the chancellors' performance metrics. One of his other goals is to implement a single payroll system by 2013.

Discussion: There was a question about whether UC intends to use STIP borrowing to enhance the employer contribution for employees paid from all sources or state-funded employees only. The CFO said he is inclined to treat all groups equally, particularly because many STIP accounts belong to medical centers, but no decision has been made. Some think it would better to cover the state-funded ARC first, and then negotiate with other fund sources. The auxiliaries and medical centers are doing very well financially. Chair Chalfant noted that UCPB recommended that STIP borrowing benefit all fund sources.

VII. Policy on Self-Supporting Part-Time Graduate Professional Degree Programs

Provost Pitts has asked the Senate to review revisions to the 1996 Policy on Self-Supporting Part-Time Graduate Professional Degree Programs, which would make it easier for campuses to offer self-supporting programs that could charge their own (higher) fees, by eliminating the requirement that they be "part-time" and defining "professional" more flexibly. UCPB also reviewed concerns from a dean warning that the changes could harm central campus budgets, because it would incentivize the conversion of programs to SSDPs, which cause them to forego state funding. Under the new policy, PhD programs would continue to be disqualified from self-supporting status.

<u>Discussion</u>:

- There were concerns that the policy could disadvantage campuses located outside of major metropolitan areas where there is a smaller market for Professional Degree Programs (PDPs; that PDPs are ancillary to UC's main mission; and that revenue potential is driving academic decisions. Scarce faculty time and talent will be required to run these programs, which could erode UC's research mission.

- On the other hand, campuses need more resources to compete with top-ranked peer institutions for the best faculty. PDPs will still require campus and systemwide approval; the policy changes do not give carte blanche to programs to convert to this model.

- A larger market analysis would account for salaries available to PDP graduates compared to the effort cost to earn the degree. PDPs are only viable in an environment where students can be expected to recoup their tuition investment. One of UC's advantages used to be its low cost, which also supported its public service mission, but the growing debt load is forcing graduates to look past public service to more lucrative options.

- CCGA plans to invoke its delegated authority to require review of graduate programs not previously designated as professional programs as a revision to existing programs before they may charge professional tuition.

<u>Action</u>: Members will send comments from their divisions.

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