University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
February 2, 2010

I. Announcements

- *Peter Krapp, UCPB chair*

January Academic Council Meeting: The President reiterated his intention to end furloughs, and said that if the legislature does not provide sufficient funding, he will allocate the deficit to the campuses. He stated that UC is contractually obligated to provide incentive bonus pay for some 22,000 hospital workers, that the money is drawn from medical center funds, not general funds, and that all other University incentive plans have been canceled.

Council received an update from the UC Commission on the Future Education and Curriculum working group, which is discussing educational quality and the potential of online education. The Research Strategies working group told Council it is drafting white papers on indirect cost recovery and the overall cost of research.

Council endorsed a BOARS memo responding to external groups who are concerned about the potential impact of the admissions reform policy on the ability of their communities and constituencies to access a UC education. A Senate task force is almost finished with its updates to the Compendium, the manual of procedures for administrative and Senate review of proposals to establish and disestablish academic programs, units, and MRUs.

Council plans to release UCPB's position paper on Differential Fees and Non-Resident Tuition for Senate review. UCPB has been asked to nominate a member to participate in the Academic Planning Council Advisory Committee for the Online Instruction Pilot Project.

Other Updates: UCPB member Carol Lovatt was just added as the Riverside representative to the Funding Strategies working group. It has split into five subgroups: student fee strategies, state funding strategies, federal funding strategies, administrative efficiencies, and alternative funding sources, and is analyzing potential models for differential campus fees, including a 25% tiered differential based on some yet-to-be-determined criteria (possibly AAU ranking) although members believe it unlikely that any campus will have a demand shortage in the near future or would be willing to compete on price.

Two recent California Legislative Analyst Office (LAO) reports—"Improving State Oversight of Academic Expansions" and "Greater Than the Sum of Its Parts—Coordinating Higher Education in California"—call for improving coordination within California higher education and increasing the state's role in developing and approving new programs and schools at UC and CSU.

Vice Chair Evan Heit is UCPB's representative on the joint Senate-Administration Accountability Advisory Group, which is providing guidance about future renditions of the 2009 UC Accountability Report. He said the Advisory Group wants to develop better measures of UC research output, and he hopes it will remain sensitive to the fact that many indicators of educational quality cannot be measured in dollars.

UCPB members are expected and encouraged to share draft committee documents with their local committees unless instructed otherwise; by the same token, they ought to remind colleagues on the campuses that only the Academic Council chair will communicate Senate positions to the administration.

Discussion: It was noted that the Office of Research, in defunding MRUs, bypasses the Compendium's disestablishment procedures and effectively eliminates MRUs without Senate review. The Institute for Global Health is a new kind of multi-campus entity that does not conform to the procedural expectations in the existing Compendium, and was established without Senate review. The Compendium Task Force should address this gap.

UC should to do a better job of selling its research as a value-added to the state and should view the Accountability Framework as a marketing tool. The state funds UC on the basis of undergraduate education and teaching and is more concerned about how to improve efficiencies in undergraduate education than about graduate education and research.

The LAO report appears to be calling for the removal UC's s constitutional autonomy. Top-down management from the state would send UC down a road to mediocrity and privatization. The report's proposal to base new programs on ambiguous and undefined notions of "state need" also demonstrates why UC needs constitutional protection. The Legislature could eventually impose accountability targets on UC as a basis for future funding.

II. Budget Consultation with the Office of the President

- *Vice President for Budget Patrick Lenz*

Report: Although the State Assembly has scheduled a series of budget hearings (which do not include UC or CSU), there seems to be very little sense of urgency in Sacramento about the budget crisis. There have been calls for UC to sell some of its properties and research stations to raise capital, and one state senator has proposed a "Student Protection Act," which would require UC and CSU to cap student fee increases at a maximum of 10% per year, and provide a 180-day waiting period for any increases. However, given budget uncertainty and no firm calendar for the state's allocation, it is unclear whether such a six month waiting period could ever be implemented, or when it would commence. Selling real estate at the bottom of the market would merely provide a one-time infusion of revenue that would do nothing to solve UC's long-term funding problems. Capping fees is unthinkable without a state maintenance of effort factor built into the formula.

The governor has proposed a constitutional amendment that would shift funding from corrections to higher education and increase the UC/CSU share of the state budget from 7% to 10%. The proposal allows a 2/3 vote to suspend this formula in bad budget years, but it includes no re-payment provision or maintenance factor. More than 90% of the California budget is already committed, leaving very little discretionary spending.

UC is engaging external constituencies in a broad advocacy effort to communicate the importance of UC undergraduate education, graduate education, and research. In the absence of funding solutions from the LAO or the state, many are looking at the UC Commission on the Future to take the lead in recommending solutions.

Discussion: A new Public Policy Institute of California poll shows a majority of Californians are now willing to pay higher taxes for education. California could benefit from a higher education trust fund.

III. Consultation with UCOP

- *Kathleen Dettman, Director of Institutional Research*
- *Rosemary Chengson, IR Content Manager*
- *Gregory Sykes, IR Coordinator*

Issue: Institutional Research staff joined UCPB to present follow-up data and analyses on academic and non-academic FTE and salary growth between 1997-98 and 2008-09, which UCPB requested to help it investigate the expansion of management and executive positions, and identify the factors driving non-academic personnel growth.

Report: Manager Chengson noted that IR's initial presentation in October focused on Base Pay only for non-represented Professional & Support Staff (PSS), Managers & Senior Professionals (MSP), the Senior Management Group (SMG), and Academic employees. The new presentation includes full fiscal year earnings, in addition to Base Pay, and includes represented employees. It identifies Medical Center employees and their funding sources separately; and provides detail on UC employee earnings by each of ten University functional areas and by three funding source categories (General Funds, Medical Center funds, and other). There is also a report on changes in title code usage in the UC payroll system since 1997-98.

Between 1997-98 and 2008-09, UC's overall expenditures grew by 75% and its workforce by 40%. The primary growth drivers for the UC system were in three functional areas—Teaching Hospitals, Research, and Instruction. Growth in patient care days (61%), teaching hospital expenditures (119%), and research expenditures (75%) outpaced the growth of space, students, and faculty FTE, which all grew by about 33%. She emphasized that Academic and non-Academic personnel categories increased by similar percentages as a proportion of the total.

Since 1997-98, total FTE and salaries for employees in the MSP and PSS groups have grown in all functional areas, but the relative proportions of the two personnel categories combined as a percentage of all employees remain the same. Overall, the total number of MSPs has grown by 138%, and total MSP earnings by 305% in dollars not adjusted for inflation; the number of PSS employees grew by 36% (from 76,400 to 103,800), with total earnings growth of 105% in unadjusted dollars. MSP growth was less dramatic when viewed a proportion of total expansion, however—they were 3% (3,400) of the UC workforce in 1997-98 and 5% (8,100) in 2008-09, and their salaries comprised 10% of total earnings in 2008-09 compared to 6% in 1997-98; PSS growth was nearly proportionate to overall growth.

The most important drivers of non-academic FTE growth have been research support, where MSP personnel increased nearly 300%, and teaching hospitals/Medical Centers, where MSP personnel increased by 160%. A larger proportion of PSS growth has also been at the teaching hospitals. Similarly, there is a systemwide proportional decrease in the use of General Funds to pay salaries compared to Medical Center Funds. While the number and total salaries of PSS employees paid by Medical Center Funds grew as a proportion of the total, PSS employees paid by general funds and other areas fell as a proportion of the total. The number of MSP and PSS employees engaged in "Institutional Support" shrunk as a proportion of total FTE and salaries. Finally, MSPs classed as "Managers" have increased 122%, although their proportion of total MSPs has dropped from 1,973 (58%) to 4,382 (54%), while MSPs classed as IT professionals have increased from 440 (11%) to 1,407 (15%).

Director Dettman said there are complications (an employee can exist in multiple fund categories), but the data are reliable and provide insight into overall trends. The report does not distinguish between the x, y, and z components of Health Sciences Compensation Plan pay. IR validates the data it receives through the Corporate Personnel System, but relies on the campuses to provide accurate information. UCOP has, in the past, asked campuses to clean up their data. She added that the professionalization of University staff, advances in technology, and promotion through the ranks is reflected in the trends towards higher classification levels such as increases in MSP numbers relative to those of the PSS category. This is consistent with national trends in higher education staffing, in which lower skilled and educated staff have been replaced by more highly skilled and educated employees expecting higher pay and classifications. Additional drivers include new things UC has been asked or mandated to do over the past ten years, for example, a new campus being added, and auxiliary enterprises directly hiring staff as UC employees rather than contracting with third party vendors.

Discussion: UCPB suggested that it would be useful to see data on the growth of non-academics and academics over time proportional to a per patient or per student ratio. IR responded that these may not be useful metrics unless the salaries and FTEs are restricted to instructional sources. In addition, staff growth in some auxiliaries is not a function of faculty or student growth, and faculty who engage in research could drive the need for more staff than faculty who are not doing as much research.

UCPB members noted that UCSF is in a different market from other medical center campuses. It would be useful to see data by individual campus and to compare the growth of academic faculty in the medical schools and medical centers relative to other medical center increases. To what extent is UC remaining engaged in a research and teaching mission at the medical centers as other public service functions there grow? The number of health care staff at Medical Centers has increased at a slower pace than the number of medical administrators.

Academic Senate Vice Chair Simmons noted that total space at UC campuses has grown 33% over since 1997-98, while FTE related to maintenance and operation of plant has not kept proportionate pace nor have their expenditures. 2000 additional MSP managers represents 200 more for each campus, whose total earnings have also tripled in non-inflation adjusted dollars. It is important to verify that MSP Mangers who are coded "Director" are not being counted twice since some employees have multiple appointments.

UCPB members thanked IR for their work.

Action: Jane Mulfinger, John Ellwood, Warren Gold, and Evan Heit will develop additional questions to help UCPB develop its own interpretation of the data.

IV. Consent Calendar

1. Approval of the January 12, 2010 UCPB Minutes

Action: UCPB deferred approval of the minutes to after the meeting over email after several changes were requested.

V. Consultation with the Office of the President

- *Peter Taylor, Chief Financial Officer*
- *Sandra Kim, Executive Director of External Finance*

Issue: CFO Taylor and Executive Director Kim returned to UCPB for a follow-up discussion about UC's borrowing programs and its goals and objectives for using debt to finance long-term capital assets.

Report: At the end of 2009, UC had approximately $10.9 billion of outstanding debt in a variety of vehicles, including General Revenue Bonds, Limited Project Revenue Bonds, and Medical Center Pooled Revenue Bonds, as well as $1.5 billion in Commercial Paper, at an approximately average cost of 4.42% and an average life of 16.5 years.

UC has issued $2.12 billion of debt since the beginning of FY 2008-09 (through November 30, 2009) to fund a variety of projects. In December 2009, the Regents issued $524 million in Medical Center Pooled Revenue Bonds to finance seismic upgrade projects at the UCI, UCLA, UCSD, and UCSF Medical Centers. Most were issued as Build America Bonds (BABs), which are subsidized by the federal government at 35% of the interest paid on the bonds to the issuer. The BAB program is set to expire at the end of 2010, although there is a proposal to make it permanent with several rule changes, including a 28% subsidy rate. UC is looking to potentially fast track some projects under the more favorable rate.

It was unusual for UC to issue $2 billion in during this period, but it allowed UC to capture low borrowing rates. The University's debt profile is heavily front loaded, and UC is now back-loading more of its debt to take advantage of low rates, level its long-term debt profile, and give campuses more flexibility by creating more short-term borrowing capacity. The Office of Finance views its role as helping campuses meet their own identified capital needs and goals, and is looking to them for guidance about priorities.

Each campus based debt-funded project must be backed up by a defined revenue source on that campus, for which UCOP establishes certain benchmarks. University debt is backed up to bondholders by systemwide sources. In 2003, UC moved toward enhancing its debt capacity and efficiency by expanding its debt pledge to general revenue. UC pledges student fees to back up debt, but does not use fees to pay debt service.

UCOP introduced the Debt Affordability Model in summer 2009 to help campuses better assess their ability to assume debt to fund individual projects. The model recognizes different revenue sources and growth rates among campuses, allowing them to model debt capacity to their specific situation with a greater sense of realism and prudency. Right now the model is more suited to stable, mature campuses, than, for example, Merced.

UC currently has the capacity to issue between $6 and $8 billion in additional debt over the next five years without affecting its credit rating, but it has approximately $7 billion in capital financing needs related to deferred maintenance, seismic upgrades, hospitals, auxiliary, and general campus projects. There will be an active discussion in the coming months about adding pensions and retiree health benefits to the list of priorities.

The state has announced that it will defer a $280 million payment to UC in March, which is in addition to $1 billion in previously planned deferments. This may force UC to issue $280 million more in Commercial Paper at a net cost of $24 million. UC's only other source of working capital is 40% of the Short Term Investment Pool. UC's recent sale of Mortgage Origination Program loans generated $116 million, which helped short-term liquidity.

Discussion: In issuing more debt and back-loading more of it, it is important to consider whether UC will be in better times financially in the future and whether it might need the extra debt capacity than that it is taking now. It was noted that faculty can insert themselves in the external finance process by reminding campuses that they cannot afford everything they are used to, and that UC should consider using the Debt Affordability Model to issue pension obligation bonds.

VII. TFIR Recommendation to Assure Adequate Funding for UCRP

- *With Robert Anderson, chair, UCFW Task Force on Investment and Retirement*

Report: UCRP is a Defined Benefit Plan designed to help UC both retain employees and encourage them to retire at an appropriate age. Over the past 20 years, employees have become used to not having to contribute to UCRP, but the continuing accrual of accrued service credit, combined with the downturn in financial markets, has now made contributions necessary to address UCRP's accrued liability. Each year of accrued service credit for UC employees adds an additional 17% of covered compensation to the Plan's liability. UCRP's total liability also grows by 7.5% every year because 7.5% is the expected rate of return on investments for actuarial calculations. UCRP lost about 19% in 2008-09, creating a 26.5% shortfall when compared to 7.5% growth expectations. UCRP had an unfunded liability of about $13 billion by market value as of 6/30/09; it recovered a portion of this at the end of 2009. It is unrealistic to assume the market will return enough to solve the problem without large contributions.

Only about 30% of UCRP-covered contributions are from state funds, so we need to collect contributions from other fund sources, including federal grants and contracts, the UC hospitals, and auxiliary enterprises. However, these other fund sources will not contribute at a higher rate than UC's contribution on state-funded employees. Thus, deferring $1 in contributions on state-funded employees results in the deferral of an additional $2 from the other fund sources. UC has no sure future way to recover deferred contributions from these other fund sources. UC researchers could become uncompetitive for federal grants because of the high pension costs, and the hospitals could become uncompetitive as health care providers.

A gradual ramp-up of employee contributions (a 2%/4% employee/employer contribution as a percentage of covered compensation starting in April 2010 with 1%/2% annual increases capping at 5% for employees) is insufficient to keep the plan healthy, and is insufficient to meet the Regents' own 2008 Funding Policy. Funding being deferred currently will not be made up for approximately twenty years, and each dollar of contributions deferred now will increase required contributions in twenty years by four dollars. The gradual ramp-up would lead to required contributions well over 50% of covered compensation in the future. Following the Regents' 2008 Funding Policy would limit the rise, but would still place a major strain on the University's budget.

UC cannot legally walk away from its pension obligation to retirees, and to current employees for past service. It is unclear whether UC can reduce the future accrual of benefits of current employees, and any attempt to do this would certainly result in litigation. TFIR recommends ramping up total contributions as required under the Regents' Funding Policy, and covering the contribution gap by issuing Pension Obligation Bonds (POBs). This would allow UC to obtain matching funds from the other fund sources. There are trade-offs between POBs and bonds for capital projects, but this plan will save UC money over the long term. Failing to do something will result in draconian cuts in UC operations in order to pay the accrued liabilities. The 2010-11 UC budget includes a $2 billion structural deficit, which is not widely recognized. The additional liability of 17% of covered compensation is off-set by a 6% employee/employer contribution, and the 11% difference represents $1 billion. The 7.5% earnings foregone on the unfunded liability of $13 billion is also about $1 billion.

TFIR has shared its recommendation and analyses with the Academic Council, the Academic Assembly, and the Post Employment Benefits Task Force. An earlier version without the POB proposal is on the Senate website.

Discussion: TFIR has made a compelling case for Pension Obligation Bonds. The unfunded pension liability is a less transparent liability than bonds. Pension Obligation Bonds would force the University to make payments, but could affect UC's debt ratings.

VIII. UC Commission on the Future

- *George Blumenthal, UCSC Chancellor and Size and Shape of UC Working Group co-chair*

Report: Chancellor Blumenthal said the Size and Shape Working Group is taking a broad view of UC's organization and future direction. One subgroup is focusing on external issues, including the appropriate size of UC and the optimal mix of graduate, undergraduate, non-residents, and transfer students going forward. These are difficult questions given that UC is no longer in a growth mode. We must consider demographic changes in California as well as the state's needs. A recent Public Policy Institute of California study predicts that by 2020 California will be short 1 million college graduates relative to its workforce needs. Other studies suggest that graduate education, particularly medical education, will be a growing need. UC must also ask itself what it can realistically afford. UC is educating 15,000 unfunded students, and there is general agreement that this practice is unsustainable.

The working group will likely take up one or two recommendations related to improving the transfer function; for example, upgrading ASSIST, the online repository of transfer articulation information, improving the IGETC general education transfer pattern, and streamlining the transfer path by increasing the uniformity of lower division major requirements across campuses. UC has already made improvements in these areas, but it can do more. The working group is discussing whether UC should maintain its traditional goal of seeking a 40%:60% ratio of lower division to upper division students as well as the fiscal impact of increasing the transfer population. In addition, the working group is likely to recommend that UC offer more joint PhD programs with CSU and convene a summit to discuss the appropriate roles of UC and CSU in offering PhDs and professional doctorates.

A second subgroup is focusing on internal issues—the relationship of the campuses to each other and to UCOP in terms of decision making and campus funding models, the transferability of courses and credits across UC campuses, academic redundancies, and new opportunities for strategic sourcing and purchasing.

Discussion: It was noted that Lawrence Berkeley National Laboratory has an effective program for small item purchases that has saved LBNL $30 million over five years. It was noted that UC's recent changes to short and long term capital financing strategy are more profound than they appear and have been made without enough outside input. Finally, there was hope expressed that the Gould Commission can help move the system away from the divisive habit of referring to "flagship" campuses.

The meeting adjourned at 4:00 pm
Minutes prepared by Michael LaBriola
Attest: Peter Krapp