

**University of California Academic Senate  
University Committee on Planning and Budget (UCPB)  
Minutes of Meeting  
April 7, 2009**

**I. Consent Calendar**

1. Approval of the April 7, 2009 UCPB Agenda
2. Approval of the March 3, 2009 UCPB Minutes

**Action:** UCPB approved the consent calendar.

**II. Announcements and Updates**

- *UCPB Chair Patricia Conrad*

**Report:** Chair Conrad summarized highlights of the Academic Council and Academic Council Special Committee on Lab Issues (ACSCOLI) March meetings, and other UC news of interest.

- The President announced that he has no specific plan to implement employee furloughs or salary reductions, but those potential solutions are two of many being considered for 2009-10. He has asked for the development of policies for systemwide and campus-based furloughs and salary reductions, which may be required if financial conditions worsen. The policies will be reviewed by the Academic Senate before being proposed for approval as a new Regents' Standing Order that would serve as the legal and operational framework for such decision-making.
- The Board of Regents approved the UC Davis School of Nursing, but also conveyed UCPB's concerns about financial sustainability and student-faculty ratios to Davis in a memorandum of understanding. The Regents also endorsed Proposition 1A, one of the May 19 Special Election ballot propositions introduced as part of the February state budget resolution. In May, the Regents will consider a proposal to increase undergraduate student fees by 9.3%.
- The President decided not to pursue a proposed outsourcing of the UC Retirement Plan Benefits Administration group – a move that had been strongly opposed by the University Committee on Faculty Welfare, the Academic Council, and others.
- ACSCOLI discussed issues relating to a proposed transfer of the National Nuclear Security Administration from the Department of Energy to the Department of Defense. This transfer does not appear to be imminent.

**III. Budget Consultation with the Office of the President**

- *Vice President for Budget Operations Patrick Lenz*

**Report:** Vice President Lenz reported that California will receive up to \$33B in federal economic stimulus money, but there will not be enough unrestricted money in the package to restore the additional \$50M cut UC took in the February budget compromise. UC is left with permanent \$115 million reduction in base program funding.

The initiatives on the May 19 Special Election ballot, particularly 1A, have serious implications for UC's ability to mitigate its budget deficit. The governor and several legislative leaders have been campaigning actively for the initiatives, and the Legislative Analyst has predicted an additional \$14B budget shortfall by 2010-11 if they fail to pass and economic conditions continue to deteriorate. The governor's May 28 Budget Revision will include updated revenue projections based in part on the May 19 election outcome.

On the positive side, the state was able to sell more commercial bonds than expected, which allowed it to release funding for several suspended capital facilities projects, including approximately 30% of UC's affected projects. It is unclear if the federal stimulus money will fund capital projects, but it will help UC in other ways by increasing funding to research and health sciences, student financial aid (Pell grants), and family tax credits. UCOP estimates that 56,000 current UC students and 25,000 newly eligible students will be eligible for the American Opportunity Tax Credit, which replaces the Hope Credit.

**Points of discussion:**

- It was noted that the state is overly dependent on a highly progressive income tax system and due to Proposition 13 now brings in fewer revenues from low property taxes than other states on a comparable property basis.
- The current budget plan expands one narrow sector, the sales tax, rather than expanding the base of possible things that could be taxed, which would create more stability for the state in down economic years.
- UC should develop short term contingency plans for responding to an economic situation that is likely to worsen, and in the long term, realize that the current crisis may signal the beginning of a permanent economic shift. UC will have to accept the new reality, confront difficult choices, identify the trade-offs, and restructure itself accordingly.
- UC should seek to maximize the available benefits from federal resources as well as personnel at the national laboratories.
- UC is curtailing undergraduate student enrollment and access at a time when California has its highest number of underrepresented eligible students.

**IV. Consultation with the Office of the President**

- *Randy Scott, Executive Director HR Strategic Planning & Work Force Development*

**2009 Total Remuneration Study:** UCFW will discuss preliminary findings of the 2009 Total Remuneration Study for Ladder Rank Faculty on April 10. The final Study results will be completed by May. An executive summary of the Total Remuneration Study will be presented to UCFW at their meeting on May 8. Some verbal comments about the Study results will be made to the Regents at their May meeting along with comparative market data on SMG compensation. The 2009 study is part of an effort that began in September 2005 when, at the request of the Regents, Mercer Consulting released a study of UC compensation, which suggested that UC provides faculty with better total remuneration than its "Comparison Eight" public and private universities when benefits are taken into consideration, despite lower faculty salaries. UCFW challenged Mercer's assessment and asked them to reconsider some of its methodology, which resulted in a 2006 update that included medical center faculty and staff and utilized improved methodology.

The 2009 study is comprised of two parts – benefits valuations (completed by Hewitt Consulting) and cash compensation (completed by Mercer Consulting). Hewitt is the lead consultant on this project. At the request of UCOP Human Resources, a UCFW advisory group was formed (which includes former UCFW chair and current UCPB member Jim Chalfant) to work through the methodology of the Study and its results. The intent of the Study is to help inform decision-making by all groups, including the Regents, Senate, as well as The President’s Task Force on Post Employment Benefits. The Study results require a vigorous review and analysis, particularly about how the data should be interpreted within UC’s larger strategic policy context and framework. An executive summary of the Study will be presented to UCPB at its June meeting.

**President’s Task Force on Post Employment Benefits:** In February, the Regents asked President Yudof to establish a Task Force to discuss long-term strategies for pension funding and benefits design, with an emphasis on issues such as competitiveness, sustainability, affordability, and the recruitment and retention of faculty and staff. All UC constituencies and stakeholders will be represented on the Task Force. Work teams on health benefits, the pension plan, and finance will consider the present state of the issues and what UC should consider going forward. The project will involve a series of local listening forums involving the division Senate, staff assemblies and other stakeholders. The intent is to provide robust open communications to all employees throughout the process. The decisions of the Task Force will have long term impacts and implications and will help define the quality and character of UC faculty and staff well into the future.

**Accountability Framework:** The plan now is to have a main Accountability Framework that will provide a broad statistical overview of the University, and a series of sub-reports with details on key areas. UCOP will release a diversity sub-report in September that will discuss students, faculty and staff. A workforce profile sub-report will follow in early 2010, touching on benefits, compensation, and other workforce development issues. Executive Director Scott’s office has also taken the lead in developing a staff section, which was not included in the first draft of the Framework.

**UCRP:** UC has not yet been able to convince the Legislature to live up to its obligation to fund the UC Retirement Plan, but the President is committed to fighting for appropriate funding.

**Pay cuts and furloughs:** The President is working with the Regents to amend a Standing Order clarifying the President’s authority in an economic emergency. President Yudof has been clear that he does not have specific plans to implement pay cuts or furloughs at this time; rather, he wants to ensure there is an explicit legal, policy and process framework in place such for action, if necessary. He has asked OGC, Human Resources and Academic Personnel to examine how pay cuts, furloughs, and other options would impact different employee groups, and is committed to working closely with the Senate to develop a specific set of procedures in the event of such a proposal. The chancellors have been authorized to use voluntary separation programs but not to implement either salary reductions or furloughs on individual campuses.

**Discussion:**

- UC should be candid and clear about the urgency of the current retirement benefits situation, in that the current system is unsustainable, and change is necessary.

- President Yudof's directive mentions the need for campus autonomy and flexibility, but allowing too much local autonomy could lead to the demise of the UC system. Operational details have to be framed at the campus level; at the same time, clear systemwide leadership and policy guidance would be useful.
- It is important to allow for variation across campuses because the nature of faculty contracts differs between campuses.

## V. Comparison of Campus Budget Communications

**Issue:** Members compared thoughts about how the average faculty member on each campus may perceive the quantity and quality of information their administration is providing to the campus community about budget cuts and strategies for reducing budget deficits.

### **Discussion points:**

- Berkeley is sponsoring regular "town hall" style meetings for faculty and staff, and the vice chancellor and provost meet weekly with a special Senate ad hoc committee to discuss the budget. Riverside also reported very good communication efforts.
- On the other hand, one of the most worrisome aspects of the budget situation for some campuses is the lack of communication. A general feeling of uncertainty and a sense that the administration is not as pro-active as it could be about disseminating information pervades. Some administrative websites do contain helpful, up to date information if you know where to look, but emails are sent only occasionally, if at all, and do not always mirror the information on websites. One campus reported that it had not received a single piece of communication from its chancellor, and some members reported having to lobby the administration for information. In other cases, good information is provided to Senate committees but not to rank and file faculty. Some administrators are also hesitant about communicating details in a fast moving and quickly changing situation.
- Merced does not receive the amount of information it should about the budget and other topics, but it does not have a faculty welfare committee and its budget office is short staffed.
- Vice Chair Powell noted that UC needs to send a clear message that the ten UC campuses are united in a single system by addressing the budget crisis through a common, consistent framework. Campuses autonomy and flexibility must exist within a robust systemwide structure where there is a united effort to secure sufficient state funding.

**Action:** Each campus will send information about budget communications for compilation.

## VI. UC Merced Budget Update

- *Evan Heit*

**Report:** Last year, UCPB expressed concern about the UC Merced budget situation and made a number of recommendations for improving it, which prompted a dialogue amongst the Academic Council, the President, and Merced. Professor Heit briefed UCPB on the current situation.

UC Merced continues to grow, with a 42% increase in student numbers last year, but faces significant challenges stemming from the original flawed estimates about the cost of establishing the campus, an unsustainable funding model, and the current state fiscal crisis. A lack of

sufficient laboratory and classroom space has made it very difficult for Merced to recruit much needed tenured faculty, especially in the sciences. The campus only has two academic buildings, and its state-funded capital budget is still insufficient to meet the needs for student enrollment growth and faculty recruitment. A third building is under construction, but the state has suspended funding because of the budget crisis, and has yet to approve funding for the SE2 and Castle capital projects.

Merced's operating budget is based on the per student marginal cost of instruction rate, but with the state funding only 2,000 of its 3,000 students and higher than average costs associated with building a new campus, Merced is at a disadvantage compared to other UC campuses. Last year, UCPB recommended a temporary increase in the marginal cost of instruction (MCOI ) for Merced, but that has not been possible in the current budget environment. In 2008, UCOP provided last minute funding to cover over-enrollment and may do so again this year, but the uncertainty of the UC Merced budget each year and these last minute negotiations make long term planning difficult. The campus is requesting a three year commitment from UCOP to fund enrollment to help it plan more strategically.

UC Merced is implementing short term cost saving measures, which include freezing staff hiring, cancelling faculty searches, and delaying plans for new programs and facilities. UC Merced is now a candidate for WASC accreditation, which will be enormously taxing on the time and energy of faculty and staff.

**Action:** Professor Heit will draft and circulate a memo addressing the Merced budget situation for review the June meeting

## **VII. Proposed Budget Principles**

A UCPB subcommittee drafted a set of principles proposed to guide fiscal decision-making in the current budget environment. UCPB also reviewed a set of principles developed by the Advisory Group for Budget Strategies, which expresses support for local flexibility in budget cutting decisions and furloughs and pay cuts, if necessary.

Senate Chair Croughan noted that the Advisory Group is discussing the pros and cons of different options for cutting costs and generating revenue in addition to furloughs and pay cuts, including increasing non-resident tuition, changes to retirement benefits, and differential fees by major. She said furloughs and/or pay cuts, if enacted, would not necessarily be systemwide, because some campuses are managing resources better than others and would not need to take those steps.

### **Discussion:**

- The UCPB document should emphasize the necessity of state funding. As discussed in the Futures Report, UC will not be able to continue its vital role as the state's economic engine or maintain its character as a public institution without adequate state resources, and lacking those resources, will have to take more dramatic steps such as modifying return-to-aid policy and implementing much higher student fee increases that will make the 9.3% increase planned for 2009-10 seem very small. In turn, the state must take steps to generate sufficient revenue through tax increases or other means.

- In addition, strategies for long-term reductions should be considered in the planning process. Focusing only on short-term budget solutions is a mistake.
- The document does not address the difficult trade-offs facing UC. It should rank order these three priorities – affordability, accessibility and quality – with quality at the top.
- Members strongly supported the principle that furloughs and pay cuts should be implemented only as a true last resort after all other options are exhausted. It was noted that Health Sciences faculty may have a different view of pay cuts and furloughs than general faculty.
- One member suggested that UC should withhold approval for all new programs or capital projects until adequate resources are in place to ensure high quality. Similarly, the suggestion was made that UC should cut programs, departments, and majors that are not self-sustaining or in line with UC's future success. A principle that took into consideration the necessity for economic sustainability for both new and existing programs was discussed.
- UC should explore what else can be done at the systemwide level to address inefficiencies and redundancies – for instance, by planning programs in a way that minimizes duplications across campuses. Does UC need 10 separate identical programs in every discipline?

### **VIII. Budget Consultation with the Office of the President**

- *Associate Vice President for Budget Debora Obley*
- *Assistant Budget Director Michael Clune*

**Issue:** UCPB invited Associate Vice President Obley and Assistant Director Clune to discuss the process by which state money is allocated to the campuses and the formula UC uses to determine funding for each campus.

**Report:** The two largest types of revenue UCOP allocates to campuses are state funds and educational fee income. Most new revenue UC receives from the state arrives in the form of an annual adjustment to the base budget or new funding for enrollment growth. The state bases enrollment funding on the “marginal cost of instruction formula” (MCOI), which is about \$11K per student across campuses, including undergraduates and graduates. New educational fee revenues are generated from student fees increases or enrollment growth.

UCOP pools revenues from base budget and educational fee increases and sends them to campuses in the form of block allocations to cover salaries, benefits, and non-salary expenses. It allocates this money as an identical percentage increase for each campus based on their existing base budgets.

UCOP's second major allocation to campuses funds enrollment growth. New state money for enrollment growth and new fee revenues generated by enrollment growth are used to fund educational costs and financial aid. In addition, several years ago, the state permanently adjusted the MCOI to cover maintenance of new instructional space, so a portion of the money UC receives from the state each year for enrollment growth also covers maintenance of new space.

Regents' “Return to Aid” policy sets aside a portion of each undergraduate fee increase to help students with financial need attend UC. Specifically, it covers the total cost of fee increases for low income students and half the cost for middle income students. When UC fees were very low,

the return to aid percentage was as low as 16%. It is now 33%, and the new Blue and Gold Opportunity Plan increases the amount to 36%.

Campus budgets have developed over many years. The funding base for each campus has much to do with the funding formula in existence at the time they opened. For example, graduate enrollment was historically funded at a richer rate than undergraduate enrollment. When UCB and UCLA opened, the state was funding student-to-faculty ratios at 10:1. Other campuses developed when the formula was 14:1 or 18.7:1, and when the practice was to provide more funding for graduate students. This helps explain why UCB and UCLA receive \$3,000 more per student than other campuses. The base budgets of UCB and UCLA are richer on a per-student basis than other campuses. However, the newer campuses benefit from the use of a systemwide average for growth revenues, because UCB and UCLA are not growing. Unfortunately, when planning for UC Merced began in the late 1990s, UC projected the budget by comparing the UCSB and UCSC experience, which underestimated the real cost of building a modern campus.

UCOP is taking a broader look at how funds are allocated across the system, including how funds are taxed by UCOP and redistributed for systemwide initiatives, programs, and administration, and at UC's real average cost per student. Individual campuses and UC as a whole are better off receiving money this way because UC has the flexibility to apply marginal cost funding to different priorities, which makes it possible for campuses to have a lower average student-to-faculty ratio funding for graduate education than for undergraduate education. Additionally this funding model ensures that individual campuses do not have to lobby Sacramento individually.

The state funds health science and general campus priorities differently, and occasionally identifies new priority areas for funding, often in the health sciences – for example, the PRIME program, which was provided an additional supplement of \$15,000 per student based on the estimated marginal cost for MD programs.

### **Discussion:**

- The state decided not to fund the UC San Diego School of Pharmacy when it was proposed, but UCSD decided to start the School anyway and to fund it out of its normal base budget allocation. Now the School is cited as an example of a “launch and starve” program with inadequate funding.
- Marginal cost is essentially an average amount for all general campus enrollments. This has worked well during a time when graduate growth has been proportional to undergraduate growth. If graduate enrollments begin to grow more rapidly, funding is likely to be insufficient.
- 18.7:1 permanently locks in an inadequate student to faculty ratio based on a substandard rate of funding.

## **VIII. Budget Consultation with the Office of the President**

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

**Issue:** UCPB invited VP Beckwith to discuss research and graduate studies funding issues, including concerns about the new Multicampus Research Programs and Initiatives (MRPI) [RFP process](#), the potential need for disestablishing existing MRPIs not selected for funding, and how

new programs will be incorporated into the existing review processes detailed in the [Compendium](#). It has been noted that the re-competition will inevitably result in de-funding some existing MRPIs, which would amount to their effectual disestablishment, and there is concern that the Senate peer review processes outlined in the Compendium would therefore be bypassed.

Vice President Beckwith noted that UCOP developed the RFP on the advice of the MRU Advisory Board in consultation with the Senate. He said the intent of the competition is to follow the wishes of the Senate to create more flexibility in the MRPI funding process and identify promising new funding opportunities by opening up the process to competition. There is a legitimate concern about the quasi permanent funding status of programs that were intended to be temporary. He said MRPI costs are about \$29M per year, and of that, about \$16M is used to fund three vibrant legacy MRPIs – [UC Observatories](#) (the largest), [UC Mexus](#), and the [White Mountain Research Station](#), which have been exempted from the re-competition, leaving a pool of \$12.8M. All existing MRUs are required to compete, and 128 letters of intent were submitted to the Office of Research. There are no preconceived expectations about turnover in funded programs. Funding decisions will be based on the highest standards of scholarly review and expected systemwide impact. The funding time frame is flexible and may span one to five years.

The Senate has the authority to establish and disestablish programs, but the administration has ultimate control over funding. There may be MRUs that lose viability if funding is taken away, but UCOP will not disestablish existing MRPIs or establish new MRPIs until they go through proper Senate review procedures. UCOP may also extend the funding timeline and extend transitional funding on a case to case basis.

The UC Task Force on Planning for Professional and Doctoral Education (PDPE) is discussing the current funding model for graduate and professional education and the consequences of changing it.

#### **Discussion:**

- The PDPE and the Office of Research and Graduate Studies should consider new strategies for how to better educate and inform the legislature about the benefits of graduate education.

The meeting adjourned at 4:05 pm  
Minutes prepared by Michael LaBriola  
Attest: Patricia Conrad

#### **Distributions:**

1. Simplified Diagram of Major Core Fund Allocations
2. Update on Merced Budget: Report to UCPB, April 7, 2009