

University of California Academic Senate
University Committee on Planning and Budget (UCPB)
Minutes of Meeting
July 27, 2010

I. Announcements and Updates

- *Peter Krapp, UCPB chair*

June 30 Academic Council Meeting:

Vice Chair Heit represented UCPB at the June Council meeting. Council endorsed UCPB's *Choices Report* as a document that provides history, context, and analysis supporting Senate and Administration discussion of next steps in the budget process. Council also endorsed a motion charging an ad hoc committee of Council to prepare a summary of comments received in the systemwide review of the report. For example, a minority of commenters wanted more data on administrative staffing levels, differential fees, and indirect cost recovery.

Council learned that the Executive Vice Chancellors now oppose a proposal to convert all UC campuses to a semester calendar, and that the campuses overenrolled by a few thousand undergraduates collectively relative to their targets. Provost Pitts told Council that a joint Senate-administrative committee will discuss and propose a way to "re-bench" the current formulas that determine the proportion of general funds distributed to each campus. The system may be phased in gradually over several years to avoid sudden changes in campus budgets.

Council reviewed systemwide comments received about the review of the updated Compendium, which will be revised further based on those comments. Nobody agreed with UCPB's view that the Compendium should prescribe a resource review during campus-level undergraduate program reviews or when a campus wants to add an item to the five-year perspectives.

Other Announcements:

The Academic Council Special Committee on Laboratory Issues visited the Lawrence Berkeley National Lab to meet with the LBNL lab director. UCPB members Michael Colvin and James Chalfant participated by phone. LBNL is dealing with a need for more space. In addition, all UC-managed labs are interested in placing more scientists on or near UC campuses during leaves.

Robert Anderson noted that the Regents are expected to act in September on proposals to set UCRP contribution levels for 2011-12 and amortize UCRP's current unfunded liability over a longer time than required by current policy. The Post-Employment Benefits Task Force will release a report with options and recommendations for the future of retiree health and pension benefits in August. Senate review will occur between September and November, and the Regents are likely to act on the recommendations at a special meeting in early December.

Next year, UCPB expects to send representatives also to the Academic Planning Council, the Advisory Group on Budget Strategies, and the successor body to the Industry-University Cooperative Research Program (IUCRP) steering committee.

Senate Chair Powell noted that a [recommendation from the Academic Council](#) to the Commission on the Future and an [alternative statement drafted by the UCLA Senate division](#) have been referred to divisions for systemwide Senate review and comment. President Yudof has asked the Senate to consider their implications for enrollment and class size, faculty workload and quality, student-faculty ratios, graduate education, and faculty diversity.

Chair Powell and Vice Chair Simmons have proposed the formation of a Special Senate Committee on the Future of the University to make specific recommendations about the issues shaping UC. The Special Committee will be chaired by outgoing Council Chair Powell and will include Senate faculty who were members of Commission Working Groups. It will report its recommendations at the November 2010 Council meeting.

II. Consent Calendar

1. Approval of the June 1, 2010 UCPB Minutes

Action: UCPB approved the June minutes.

III. Consultation with the UCOP Office of Budget

- o *Patrick Lenz, Vice President, Budget*

UC is currently in a good position with regard to the 2010-11 state budget. The governor and both legislative houses support restoring the \$305 million cut UC took in 2009-10, as well as \$352m in funding for six capital outlay projects. There also is some support for protecting student academic preparation funding. At the same time, there is no budget agreement in sight and the governor has threatened to leave office in January without signing a budget unless the legislature passes his reforms.

The California joint budget conference committee has been attempting to resolve differences in the 2010-11 budget. UC expected the committee to adopt one agreement that has not yet passed—the elimination of statutory language prohibiting the state from contributing general funds to UCRP, and the adoption of budget language asking UC to work with the Department of Finance and the legislature to define the state’s future obligation for UCRP. The delay may have occurred after one of UC’s labor unions went to the legislative analyst to propose its own language. VP Lenz asked legislative staff to consult UC on any proposed change to statutory language affecting the University. UC feels strongly that the state has a fiduciary obligation to fund UCRP.

The budget office is projecting an additional 2011-12 budget shortfall of between \$250m and \$300m based on assumptions about the state budget and UC’s mandatory cost pressures—including merit increases, employee and annuitant health benefits, retirement contributions, and utilities, most of which have to be absorbed by the individual campuses. On July 14, VP Lenz presented these projections to the Regents to help guide discussions about options for revenue generation and cost cutting. The budget office is developing a final proposed outline for a 2011-12 budget that it will share with constituencies for feedback. Some campuses are including a 2% across the board salary increase into their developing 2010-11 budgets, but UCOP will make no decision about such an increase before January 1.

Massive enrollment reductions at CSU and a growing number of transfer-ready students at the CCCs are increasing enrollment pressures on UC. Demand for access continues to rise, despite the 32% fee increase. The moral priority of access conflicts with the funding reality. UC will be aggressive in opposing any proposal from the state to reduce funding per student, and any notion that UC can solve the over-enrollment problem through additional fee increases.

Discussion: UCPB is concerned that campuses are taking on more debt to fund construction of dormitories and other buildings at a time when enrollment is shrinking. Moreover, once a

campus lists a construction project in its long-term plan, it become progressively more difficult to remove it, even if financial circumstances change to make the project less feasible.

VP Lenz said UCOP asks campuses to prepare a business case analysis early in the project approval process that addresses expected costs, revenues, and, in the case of student housing, market demand. Demand for UC remains high in large part because of financial aid. Student fees only cover about 40% of marginal costs.

The plan to save \$500m in administrative efficiencies over five years is a nice, if overly optimistic plan, but it will not solve the budget problem. Moreover UC hurts its main message when it focuses on how much money it can save by eliminating “bloat”. VP Lenz noted that much of the efficiencies plan deals with “cost avoidance” rather than savings that can be redirected into other priorities.

IV. Consultation with the UCOP Office of Budget

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

Associate Vice President Obley: UCOP is finalizing a proposal to change the way the campuses and UCOP are funded. There are two phases to the project. First, campuses will retain all revenue they generate from most sources, including educational fees, indirect cost recovery, and patent revenue. UCOP will implement a flat tax on all revenue sources, including the medical centers, to support UCOP administration, multi-campus research units, systemwide academic programs and initiatives, and DANR. UCOP intends the new model to be revenue neutral immediately upon implementation, although there may be different impacts on campuses going forward, based on their ability to generate revenue from ICR, student fees, and other sources.

Financial aid will be treated differently. In the area of undergraduate aid, UC will retain its Education Financing Model and UCOP will continue to collect and redistribute the 33% return-to-aid to support needy students. Campuses will retain graduate fee revenues, continuing the policy of returning 50% to financial aid. Campuses with a smaller number of graduate enrollments that have been receiving some redistributed money from the central pool will receive less of this revenue.

This first phase will be ready for broader review by October 2010 and is expected to take effect in 2011-12. However, there are still a few unresolved issues, particularly how to calculate the tax base for UCSF in years when UC receives budget cuts. UCSF does not have the capacity to offset cuts with fee revenue because it has a large operating budget but a small fee-paying student population. (It was noted that UCSF has been contributing more than its share of ICR revenue into the central pot and will no longer be doing so.) She added that medical centers aim for an operating margin of between 5-11% (measured as a reserve for a minimum number of days and beds), although these change each year and are expected to come under pressure after the onset of national health care reform.

Right now, UC would distribute any new state general fund money to campuses on the basis of existing budget formulas. Phase Two of the project will be an attempt to “re-bench” these historical formulas, which over time have created per-student funding imbalances across the system. For example, UCLA and UCB receive between \$4,000 and \$5,000 more per student in their base allocation than UCSB or UCI (for a number of reasons that accumulated over time). UCOP is interested in re-benching the formulas in the medium term. Some argue it may be unwise to cut funding to campuses at a time when all campuses are already struggling with cuts. Instead, the re-benching will be phased in gradually over time, so that as new money comes in,

the underprivileged campuses will receive a larger proportional share so as to catch up after decades of being short-changed.

Operating Budget Director Clune asked the committee to consider three issues: the fund sources UC should consider for re-benching – e.g., professional fees, ICR revenue, undergraduate tuition, OMP, etc; what controls, if any, UCOP should place on campuses to discourage cuts to more expensive programs or programs that divert money away from the system; and the transition time for the changes.

Discussion: There was concern that UCOP is fixing only half of the problem and that re-benching is more important for increasing equity in the system. The budget office says it does not want to cut UCLA and UCB, but other campuses have been living with annual shortfalls forced on them by the current formulas for years, and will continue to suffer until the formulas are fixed. Since neither State funds nor campus tuition differ, all UC students should be worth the same amount of funding regardless of location or discipline. Re-benching should happen as fast as possible. This is a serious morale issue on some campuses.

UC has built up its medical center operations over the past 30 years, but has done much less to grow medical education. Rebalancing campus budgets is more than just counting student bodies. The new formulas should take into account cost differences between undergraduates, professional school graduate students, academic graduate students, master's students, and perhaps other categories and the value of UC's research component to the state. It was noted that upper division students are more expensive. UC should set financial incentives according to clear educational goals and principles.

V. Draft Memo on Re-Benching

In June, the Provost encouraged UCPB to consider principles that should guide UCOP's efforts to "re-bench" the per-student ratio of state funds allocated to campuses. Chair Krapp drafted a memo touching on the use of revenues from educational fees, non-resident tuition, indirect cost recovery, and the operation and maintenance of the campus physical plant in the General Fund campus allocations, as well as the role of funding for graduate students and line item funding for organized research units.

Discussion: UCPB continued its discussion of re-benching principles. UCPB's memo to Council should include advice about the timing of the transition (decisions should be made soon, preferably in 2010-11, and implemented quickly, over not more than two years); the distribution of "new" incremental state money (should not be based on historical formulas); the need to establish different weights for different student categories; the danger of establishing new inequities if non-resident enrollment grows disproportionately in the absence of a cap; and the need for transparency. In addition, UCPB should express concern about the consequences of ad hoc enrollment planning, disavow any "flagship" rhetoric (all campuses are striving for, and contributing substantially to, UC's excellence and prestige), and note that campus' ability to attract non-residents should be built into the new funding formula. UCOP should tax non-resident tuition at the same rate as other revenue. It was also noted that striving for full indirect cost recovery may disproportionately hurt Social Science researchers, who are alleged to receive waivers more often.

Action: UCPB approved an amended memo for transmittal to the Academic Council.

VI. Post-Employment Benefits Task Force Update

- *Senate Chair Harry Powell, Vice Chair Daniel Simmons, and Vice Chair Elect Robert Anderson*

The Post-Employment Benefits Task Force is engaged in intense and sometimes contentious discussions about a subset of issues related to the current retirement programs, which have a huge bearing on faculty welfare. A new total remuneration study was released in mid-June showing that the main plan under consideration by the Task Force is seriously uncompetitive across all employee groups. Although the study is based on methodologies that UC has accepted for years, some administrators now claim that the study is flawed because it does not account for an alleged “uncompensated investment risk” assumed by the employer. The Task Force expects to submit a report to President Yudof by the beginning of August. The Senate office wants to ensure that the Senate is as deeply engaged and informed as possible as the review proceeds over the summer and into the fall. UC’s defined benefit plan is an important part of total remuneration. It helps UC retain employees in the middle of their career and encourages them to retire on time.

VII. Report of the Joint Senate-Administration Compensation Plan Steering Committee

Donald Senear briefed UCPB on the deliberations and final report of the Joint Senate-Administration Compensation Plan Steering Committee, which has been examining a framework that would allow individual general campus faculty to supplement their salaries with non-state sources, similar to what Health Sciences faculty receive as their “y” salary component in the Health Sciences Compensation Plan (HSCP).

The Steering Committee began its work with three principles in mind: that faculty members’ compensation should be based on academic merit, not the ability to generate grant funding; that an alternative plan should have no detrimental effect on teaching, research, and service responsibilities; and that a plan should not increase the burden on UCRP. The Steering Committee found that such a plan could be used only on an individual basis for salary enhancement, and would not be practical or feasible on a large scale. External sources could not replace a general campus faculty member’s current off-scale salary component, and a HSCP-like plan could apply to only a minority of those faculty in some disciplines who have the ability to pay themselves from grant funds. It is unlikely that many faculty would have the capacity to generate such income, so there are concerns about potential inequities. There also are concerns that such a plan would hurt the research enterprise by diverting money to salaries, create a false impression that UC has addressed the competitive remuneration problem, and possibly violate federal regulation.

Provost Pitts added that he intended the plan to apply to a small subset of faculty on a case-by-case basis within the existing salary scales.

VIII. Consultation with UCOP

- *Provost Lawrence Pitts*

Chair Krapp asked Provost Pitts to comment on UCOP’s plan to address Council’s recommendations to downsize prudently so as to maximize budget efficiency and ensure competitive remuneration for faculty and a healthy UCRP.

Discussion: Provost Pitts said the issue is in the Senate's court, particularly the implications and costs of the Council recommendation on faculty workload, research, the proportion of ladder rank faculty to lecturers, enrollment and diversity, and other areas. Downsizing through attrition is already a fact of life on campuses.

Vice Chair Simmons said the proposed Academic Council Special Committee on the Future of UC will be constituted by the faculty members who served on the Commission Working Groups. The goal is to make their experience and input available to the incoming members of the Academic Council, who will also receive feedback on all Commission proposals from each divisional Senate and systemwide standing committee.

One member mentioned a recent study showing the effects of increasing the percentage of non-ladder-rank faculty on student retention.

Action: Members gave Chair Krapp a round of applause in recognition and thanks of his service as UCPB chair.

The meeting adjourned at 3:30 pm
Minutes prepared by Michael LaBriola
Attest: Peter Krapp