

November 1, 2010

To: Scott L. Waugh, Executive Vice Chancellor & Provost

Re: Anderson Graduate School of Management proposal for Financial Self-Sufficiency

Dear Scott:

The Academic Senate received your request for comments on the Anderson Graduate School of Management (AGSM) proposal for Financial Self Sufficiency (FSS) on September 16, 2010, and since then we have spent a fair amount of time evaluating and discussing this very important proposal. The Senate is certainly cognizant of the unprecedented financial challenges that the State and the University of California face at this critical moment in our history. These challenges call for thoughtful, creative problem solving in order to develop workable, sustainable financial and programmatic solutions that can have a lasting positive impact on UC's future. The Anderson FSS proposal is likely the first of many proposals for an alternative to UC's current state-assisted funding configuration. The proposal clearly constitutes a bold, new funding and operational model that could well change the school's trajectory, and that of UCLA, for many years to come. Based on AGSM's already significant dependence on self-generated funds, the AGSM FSS proposal could rightly be considered, as Dean Olian notes, to be the "last step in a 20-year long" alteration in its basic funding model. The UCLA Academic Senate evaluated the proposal in this context.

By way of background, the Senate sent a memo on September 24 to Dean Olian requesting clarification on many of the features of the proposal. We received detailed responses to these questions, in addition to verification that a formal vote by the AGSM ladder faculty on this FSS proposal was to take place in mid-October. These two clarification documents, in addition to the results of the AGSM faculty vote on the final FSS proposal (45 in favor, 20 opposed, 1 abstention, 27 not voting), are appended to this memo (**Attachments A-C**). All of this information was sent with instructions for evaluation (**Attachment D**) to schoolwide Faculty Executive Committees (FECs) and relevant Senate committees (Council on Planning and Budget, Faculty Welfare Committee, Council on Academic Personnel, Council on Research, Graduate Council, and Undergraduate Council). The comments from all of these Senate bodies are included in **Attachment E**. In some cases the groups actually voted on the proposal, and in other cases they simply commented on various features of the proposal.

Virtually every Senate body listed above, either unanimously, by majority, or by expression of concerns, opposes this proposal. On this basis, and after extensive discussion, on Thursday, October 28, 2010, the Senate Executive Board voted unanimously to oppose the AGSM FSS proposal (to be precise, the vote to "support the AGSM FSS proposal as written" was 0 in favor, 11 opposed, with zero abstentions and the student member also opposed). Many of the specific objections from Senate committees may be categorized as being financial, programmatic, or

philosophical in nature. But in addition, a number of groups expressed concern that a highly expedited review was being requested for a proposal that could well set a long-term precedent for many other schools within UCLA and in the University of California as a whole. Many Senate bodies feel that a paradigm shift of such profound significance warrants a much more complete and substantive proposal as the basis for a thorough review.

While specific Senate Committee responses may be found in Attachment E, common themes emerged from the Senate evaluation and were consistent with many of the comments by Executive Board members. These themes are as follows:

- **Faculty size and compensation.** Among the main justifications for the FSS proposal is the need for greater control and autonomy over key Anderson decisions, especially those involving faculty size and compensation. Yet in response to queries from the Senate, Dean Olian's Table on Comparative Salaries shows that over the past five years, AGSM base (9 month) salaries have been brought to levels at or even above those of their comparison 10 schools, 7 of which are private institutions and only one of which (Berkeley) is fully public; the other two are University of Michigan and University of Virginia, both financially self-sufficient public institutions. Additional compensation beyond the base salary is regularly earned by UCLA's AGSM faculty, including substantially augmented income from teaching in Executive MBA (EMBA) and Fully Employed MBA (FEMBA) programs, summer ninths given by the school for research, and administrative and other stipends. These augmentations are not included in the table. In fact, in her October 8 response to the Senate, Dean Olian documents only 3 instances over the past 5 years where salary requests at the "upper end" were ultimately turned down by UCOP. Hence there appears to be little evidence that AGSM has suffered from instances of inability to compensate their faculty at "market" rates.
- **Benefits to AGSM without requiring FSS.** A number of Senate bodies noted that most of the benefits to AGSM promised in the FSS proposal could be achieved without the rejection of state funds and increase in local autonomy. These benefits include improved fundraising, small increases in Professional Degree Fees for the state-supported MBA program (as are currently proposed to the Regents), and institution of a faculty compensation plan with X', Y, and Z components such as that as shown on page 15 of the FSS proposal. The latter type of compensation plan is already in place in the David Geffin School of Medicine, in other health science programs at UCLA and throughout the UC system, and is clearly not dependent on a unit's being financially self-sufficient. In fact, Dean Olian notes in her response to the Senate that "We expect that the [new AGSM] scale will be patterned after current compensation levels...[in that] almost all of our faculty are already paid off-scale."
- **Financial risk for AGSM and for UCLA.** AGSM has provided some details on how FSS would work, but many features are based on imputed support and expenses whose calculation methods are unclear. At least one Committee opined that an independent financial analysis of the FSS proposal should have been performed prior to its submission. There remain concerns by the Senate that the *net revenue* for AGSM under

FSS could be substantially lower than that of the status quo, by over 40% as projected for 2014-15. Given the fact that AGSM would have autonomy in faculty hiring under FSS, yet the campus would be the ultimate guarantor of faculty salaries, this could pose a significant financial risk for UCLA. One argument in favor of the proposal is that FSS would free up State financial support for the rest of campus. Yet this notion is highly speculative; some Senate committees questioned whether the imputed state support to be returned to UCLA by AGSM (\$5.6M) would even arrive at UCLA in the first place, given that this amount is linked to the number of state-supported students. Other Senate committees have questioned why AGSM should receive such a large amount (\$4.3M) from the campus to continue to provide courses in the undergraduate accounting minor, especially when such courses are often staffed by non-ladder faculty.

- **Remuneration to UCLA and to California.** There are also questions about why the FSS proposal does not account for the asset value of the school and the investment value to California taxpayers that have resulted from 75+ years of state support. Several committees indicate that financial self-sufficiency should include compensation to the University and to the state for this historical investment. Several Senate bodies also questioned whether the proposal provides for adequate payments to the campus to account for usage of facilities and services such as the library, consultation with the academic personnel office, etc.
- **Potential erosion of research and public service components.** Some Senate committees indicate concern that under FSS there would be an even greater emphasis in AGSM on teaching than there is now, to the detriment of research and public service. If faculty compensation and school fiscal health were to be principally maintained or enhanced by having more ladder faculty teach courses, one could imagine that these other critical aspects of a faculty member's intellectual life, and ultimately their scholarly reputation and that of the school, could be compromised.
- **Commitment to public education and access.** Finally, there are a number of Senate Committees and FECs that have concerns with respect to the philosophical issue, that of creating a "private" entity within a public institution. Many faculty are concerned that the FSS model or similar programs could lead to further erosion of the UC and an abandonment of the spirit of the public university. Equally important, there are concerns about access to the University by state residents if fees for the MBA and PhD programs become prohibitively high. While there are limited assurances in the FSS proposal of financial aid to ensure access, AGSM already has professional degree fees for their MBA program that are very high, comparable to those in private universities. Without a substantial increase in other revenue for financial aid, it is unclear how affordability will be maintained for low- and middle-income students.

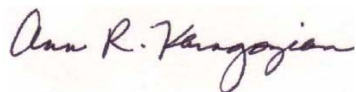
As mentioned at the beginning of this memo, the unprecedented financial challenges that UC faces call for thoughtful, creative problem solving to develop workable, sustainable financial and programmatic solutions. While the AGSM FSS concept does not, in the Senate's view, fall into the category of a workable, sustainable solution, there may well be other configurations,

procedures, and mechanisms by which a UC school or department could become financially self-sufficient.

This issue is too important for UCLA (and the UC as a whole) to have one school at a time develop separate FSS proposals in response to the state's financial crisis without understanding and adhering to overarching goals and operating procedures. **The Academic Senate thus recommends that a Joint Task Force of the Senate and the Administration be created, focusing solely on the issue of Financially Self-Supporting Entities for UCLA** (schools or perhaps even departments). This Task Force would examine the kind of financial and operational models that could potentially work for such an entity; the kind of remuneration to the university and state that would be appropriate; how protections for the school and the university, as well as students and faculty, could be put in place; and how other public universities' models could potentially be applicable to the UC. Concerns of the sort outlined above would clearly need to be addressed in such models. "Lessons learned" from unsuccessful university privatization efforts should also be examined. The Task Force could consist of a relatively small number of people (on the order of 10-12), with a goal of formulating recommendations to the campus on which, if any, FSS models could potentially be applied at UCLA. A timeframe of 6 to 9 months for Task Force activities should be workable. The outcome of Task Force recommendations could have implications for UCLA and perhaps for the entire UC system, although Task Force efforts would be focused on UCLA.

I hope that you and Chancellor Block will consider our Senate input on the AGSM FSS proposal in the spirit in which it is intended: as a constructive evaluation of a concept that potentially could have benefits and applicability at UCLA. But first, a thorough analysis of many of the broader issues outlined above is needed. The Senate stands ready to work with the UCLA Administration in exploring financial self-sufficiency alternatives that could have a profound impact on our future.

Sincerely,



Ann Karagozian
Academic Senate Chair

UCLA *Academic Senate*

September 24, 2010

Judy D. Olian
Dean, Anderson Graduate School of Management

Re: Anderson Graduate School of Management Proposal for Financial Self Sufficiency

Dear Dean Olian:

The Senate is in receipt of the Anderson Graduate School of Management's proposal for Financial Self Sufficiency, which was forwarded to us by EVC/Provost Waugh. We understand that you wish to expedite the review of this proposal, and will do all that we can to bring the Senate deliberations to an expeditious conclusion. We are now submitting this proposal for review by relevant Senate committees, and are asking that the committees place the matter high on their fall agendas.

In reading over the FSS proposal, however, a number of issues and questions have arisen for which we seek clarification from you and your colleagues in AGSM. These issues/questions are listed below. As soon as we receive your school's responses we will forward them to the Senate committees currently considering the proposal. **We hope that your responses can be sent to us prior to 8 October 2010.** Here are the issues/questions:

1. As required for any UC proposal that involves significant organizational or operational change, the Senate faculty within AGSM should formally vote on the complete proposal that is under consideration. We understand that the AGSM faculty saw and opined on a preliminary version of Appendices A and B in June of 2010, but that they have not been given the opportunity to review the main proposal document, which includes relevant data such as those in Tables 1 and 2. **The ballot itself and the outcome of the vote by AGSM faculty on the complete, final FSS proposal should be conveyed to the Senate as soon as possible.**
2. We have questions about the financial data in Table 1 (for the "status quo") as compared with the data in Table 2 (for "FSS budget projections"). The faculty/staff salaries each year (2009-2015) are assumed to be the same in each of these two scenarios. This appears to contradict the proposal's statements (and likely the faculty's understanding when they voted in June) that faculty compensation would increase upon implementation of the FSS, at the discretion of the Dean, Chair, and AGSM staffing and research committees. Furthermore, it

appears that even with this very conservative estimate of equivalent faculty salaries in these two Tables, and with optimistically projected increases in fees from MBA programs and increased endowments and gifts under FSS, the Tables still show lower net revenues with the FSS proposal as compared with the status quo during 2012-14, and substantially lower net revenues for FSS in the 2014-15 academic year (in this case, \$1.27M net revenues with the FSS compared with \$2.14M net revenues with the status quo). These numbers are not discussed to any significant extent in the proposal. At what point in time is the FSS actually projected to bring in more funds to AGSM than the status quo, on a sustained basis? And at what point in time would faculty salaries be expected to be higher than in the current system? As you can see, there appear to be inconsistencies between the statements in the proposal/Appendices and the data presented in the Tables. **We believe that AGSM faculty and certainly Senate committees will want additional details and clarification of these projections, and corrections to possible inconsistencies, before they vote on the final version of the proposal.**

3. A basic premise for this proposal is that the FSS approach would enable the school to have greater flexibility in increasing faculty compensation without UCLA or UC oversight, and that this flexibility would permit AGSM to be more competitive with peer institutions. **Please provide data comparing Anderson faculty compensation (mean and median, if possible) with that of their peers at the top 8-10 business schools, including UC Berkeley's Haas School.** Please ensure that the assumptions are the same (i.e., 9, 11 or 12-month basis), and provide information on base salaries, stipends, summer ninths, etc. Information on course loads and course releases for UCLA faculty as compared with faculty at peer institutions would also be helpful, to provide a sense of the magnitude of the problem and why FSS is a logical solution for Anderson and for UCLA.
4. With respect to the benefits to UCLA outlined on page 5 of the main proposal, it is stated that the imputed state support (\$5.6M) currently received by Anderson plus the fee that the school will pay to UCLA for facilities use and services rendered (\$4.1M), will yield a "net gain" of \$9.7M to UCLA after steady state is reached. This calculation does not appear to take into account the actual costs that UCLA incurs in providing facilities and services for Anderson. What are the costs of such services not currently covered by AGSM? Our specific concern is that the net gain to UCLA could be substantially lower than \$9.7M. Moreover, the loss of revenues to UCLA due to reduction or elimination of overhead from contracts, gifts, etc., should be projected and subtracted from the net gain in this estimate. **Please provide updated or clarified data with respect to the estimated benefits for UCLA.** It would also be helpful to indicate whether there are any contingencies in the plan for UCLA vis à vis the assumption that the state will continue to provide the \$5.6M to UCLA. At present there appears to be an unmitigated risk that this amount could be recaptured by UCOP or the Legislature.

5. On pp. 10-11 (Appendix A), the FSS proposal makes it clear that UCLA campus approval would not be required for either the number of new AGSM faculty hires or for faculty salaries. Yet the proposal states that because tenure is with UCLA, “upon exhaustion of other measures, UCLA is the ultimate guarantor of UCLA Anderson faculty 9-month salaries”. How is “exhaustion of other measures” specifically defined, and what would trigger the situation in which UCLA would have to be responsible for the salaries that have been put in place by Anderson? **Clarification and elaboration are needed here.** It should also be clarified whether the “9-month salary” noted here is the X component alone or X + X’ (additional merit base).
6. On a related matter to #5, **how will the “scale” for the X base compensation be determined (third bullet from the bottom on page 13), and will the scale be tied to faculty step and rank?** How will open information on this new scale be made available to AGSM faculty? Will shared governance play any role in the relationship between pay and step, e.g., by elected committees?

I trust that all of the above issues can be easily addressed by you and your colleagues very quickly. The Senate stands ready to receive and review these clarifications as soon as you can provide them, and to work with you and your faculty to move your proposal forward as expeditiously as possible.

Yours very truly,



Ann R. Karagozian
Chair, UCLA Academic Senate

cc: Scott L. Waugh, Executive Vice Chancellor & Provost
Charles Corbett, Chair, AGSM
Christopher Tang, Chair, AGSM FEC
Andrew Leuchter, Vice Chair/Chair-Elect, UCLA Academic Senate
Robin L. Garrell, Immediate Past Chair, UCLA Academic Senate
Jaime Balboa, CAO, Academic Senate Office
Dottie Ayer, Executive Assistant, Academic Senate Office



October 7, 2010

Ann R. Karagozian
Chair, UCLA Academic Senate

**Re: UCLA Anderson Graduate School of Management Proposal for Financial Self Sufficiency
Response to Questions and Comments from the Academic Senate**

Dear Ann:

Thank you for your thorough review and your thoughtful questions. We very much appreciate your sensitivity to our tight timeline. Below please find our responses to the questions and comments raised in your September 24, 2010 memo about our proposal for Financial Self Sufficiency (FSS).

1. As directed, we are asking our faculty to vote once again on FSS, on the specific proposal sent to the Chancellor. We will forward the results to you as soon as they are available. The ballot will be conducted online between Friday, October 8 through Friday, October 15, 2010.
2. As with any financial model that seeks to project revenues and expenses several years into the future, our projections require that we make certain assumptions about future developments, and inevitably the uncertainty around these projections is wider the more distant the projections. We do not consider a projected financial difference of less than 1 percent in our projected net revenue for 2014-15 as material or worrisome, especially since our tradition has been to make conservative projections and to come in under budget. One other clarification – the apparent significant increase in MBA tuition revenue accruing directly to Anderson is attributable primarily to the FSS model *per se*, and only marginally to tuition increases. Tuition revenue that was previously captured by UC – and embedded within the UC General Fund or “State” allocation -- will now accrue directly to the School’s budget, and that accounts for the lion share of the increase in that line item and the corresponding reduction in UC General Fund allocation.

The projections for faculty and staff salaries – including the fact that they follow the same growth pattern in each scenario – were made quite deliberately. As we explained during our faculty meetings in response to much the same question the Senate raised, we do not expect financial self sufficiency to result in broad, across-the-board increases for our faculty. That is not the intent of this proposal. Instead, FSS is meant to give us the flexibility to make individual

salary decisions within the context of our specific competitive and budgetary environment, and to react more nimbly in recruitment and retention cases. Since our focus is on flexibility and responsiveness rather than on broad-based increases, we do not foresee a material difference in the salary growth of faculty as a whole as a result of implementing financial self-sufficiency. In fact, we were careful not to create an inappropriate expectation on the part of faculty that might lead them to prefer the FSS model for that reason. Remember, too, that the compensation category includes many line items that will remain subject to the same decision processes as they are now, such as staff salaries and benefits, TAs, fee remissions, and contract employees. UCRP contributions are also projected to increase equally under both scenarios.

In terms of specifics, we have had four instances so far in which salary requests at the upper end of our salary distribution have been turned down by UCOP despite strong market arguments in each of these cases. In one instance UCOP did approve the same salary request a year later, and in another instance UCOP approved a higher salary request than the one they had previously turned down after the faculty member involved received a formal outside offer. Over time, as the general salary distribution moves up in the School, more faculty salaries are bumping up against the local campus salary approval threshold, and therefore run the risk of being turned down by UCOP. Under the status quo scenario we anticipate that the frequency of being turned down by UCOP will increase in the future. That will cause serious and unnecessary retention risks for us, and will significantly hamper our ability to recruit in the competitive marketplace. Accordingly, removing the salary cap will allow us to pay selected salaries more quickly and with less uncertainty, and in targeted instances when the market requires it, will enable us to pay above threshold salaries.

As to overall projections, you noted correctly that FSS is initially not expected to bring in more funds than the status quo. That would be unrealistic, given that we would lose state support and become responsible for a share of campus overhead allocation. FSS is not presented as a panacea that would suddenly result in greater revenues. It is meant to position us for the future -- creating greater stability in, and control over, revenue streams for our degree programs and continued competitiveness in the marketplace for the medium to long term. We expect the proposed funding model to generate support equal to or greater than the current model, within a reasonable time after the current multi-year planning horizon. Given the difficulty of forecasting all relevant variables many years into the future, we cannot precisely predict when FSS will surpass the current funding model.

Part of the projection difficulty is due to the uncertainties surrounding the status quo, which we have projected as continued 'flat' state funding, stabilizing in 2011-12, without further declines. Most observers would regard that as overly optimistic, whether for reasons of declining State funding or because of internal UCLA re-allocation to other unfunded priorities in the College. Given the likely diminution of that support -- whether in the form of outright State cuts, redistribution of previously centralized costs to schools, internal re-allocation of funds within UCLA, or sharp increases in system wide mandatory student fees that essentially shrink the portion of professional fees flowing to the schools -- the assumption of constant state support in

the status quo model might be considered just as optimistic as the “optimistically projected” increases in fees and endowments noted by the Academic Senate under the FSS scenario. Keep in mind also that the State of California just approved its budget for the 2010/11 fiscal year that began three months ago. That said, our budget projections represent a dynamic process and we expect to continue refining both models as new information becomes available.

I thought it would be instructive to note also the comments made in the extensive sensitivity analysis performed by a task force consisting of Professors Longstaff, Leamer and Sarin, that drew the following conclusions (page 7, full document attached):

First, the FSQ (financial status quo) and FSS scenarios result in financial outcomes that are not materially different from each other. The projected budgets for the two scenarios imply net income numbers for the school that are within one percent of the total operating budget of the school. Neither scenario dominates the other in terms of its financial impact based on the assumptions reflected in the projections in the proposal.

Second, the largest financial risk of the FSQ scenario relates to the level of future State support under the FSQ scenario. A further unanticipated cut of 10% or 20% would have a serious impact on our budget. This risk, however, is difficult to quantify.

Third, the largest financial risk of the FSS scenario appears to be its dependence on an increased level of fundraising. The impact of not being able to achieve the assumed level of endowment growth would reduce the school’s net income by \$1 or \$2 million out of a budget of about \$120 million.

In summary, the projections in the two scenarios are based on assumptions that appear reasonable and we have confidence in the budgeting process at Anderson. From a financial perspective, the expected outcomes of the two scenarios are similar. Where the two scenarios differ, of course, is in their implications for upside and downside events. It is important to recognize, however, that there are some degrees of freedom that could be brought to bear on the budget if things don’t go well under either scenario. For example, the assumption of 5% faculty salary increases might need to be scaled back. There may be some flexibility in how student support is funded, etc. The point here is that budgets can adapt as needed, which can blunt the downside risk to the school of any financial proposal.

3. As stated above, our intent is to gain managerial flexibility with respect to hiring and salary administration, and to align decision-making authority with those in the best position to make those judgments, following the model established in the School of Medicine. Currently, certain salary decisions require multiple levels of approval from entities that lack an intimate knowledge

of our competitive marketplace and academic disciplines. Even when the ultimate outcome results in approval, the process is risky and time-consuming, and introduces great uncertainty in our quest for talent. So far, with the exceptions noted above, most of our salary requests have ultimately been approved, but sometimes after many months, a second attempt a year later, or after the faculty member in question generates an outside offer higher than the salary we had initially proposed. We believe that a compensation system that so explicitly encourages the pursuit of outside offers severely damages the institution. In addition, the State's well-known financial woes have made our faculty a ripe target for overtures by competitive schools that seek to capitalize on the perceived weaknesses of a state-funded institution.

One more byproduct of the current financial model is that certain program investments and overload faculty compensation are tied to the underlying revenue stream. Accordingly, while there is greater flexibility to invest in, and compensate for overload teaching in the self-sufficient FEMBA and EMBA programs, that flexibility does not apply to the MBA program which is construed as State-supported. That has hampered our ability to invest in the MBA, thus disadvantaging our flagship professional degree program.

Given the very low level of State support for the School, we are now in a position to contemplate voluntarily going to zero State support in order to preserve and enhance our competitiveness, become more agile with respect to individual decisions, and create more predictable revenue streams that are not subject to the vagaries of the State's budget situation. Over the last four years, we have worked diligently to correct the market inequities that previously existed, with the result that our faculty compensation is now commensurate with that of our peer institutions, as indicated by AACSB market surveys.¹ Now that we have brought our faculty up to market, we expect future increases to be more moderate than in recent years, in line with market patterns.

4. The FSS model includes line items for certain costs that will be delegated to the School as our financial responsibility, such as utilities in a metered building. Note that these decentralized costs are in addition to the \$4.1 million in estimated service fees that will be paid to the University. Other costs, such as the value of the Chancellor's Office or of the Police Department, are harder to ascertain since they do not involve specific transactions or units of consumption.

To arrive at a reasonable projection of these campus indirect costs, we worked closely with the office of Academic Planning and Budget. That office performed a thorough analysis of all central services, their current actual costs and their applicability to UCLA Anderson, and developed reasonable allocation algorithms that are meant to serve as proxies for consumption. For example, the costs for the Office of the AVC of Faculty Diversity were allocated based on UCLA Anderson's relative share of the campus' total faculty, while the OMP allocation was based on the school's assignable square footage (ASF) as a percentage of total campus ASF. Similarly,

¹ See Table 1 for a comparison of faculty salaries to market.

indirect library costs used Anderson's percentage of faculty and students, while research administration costs were allocated based on Anderson's share of total research awards. Costs for services directly paid for by UCLA Anderson were excluded, as were costs for services that are not directed at the Anderson community, such as some undergraduate services. This analysis resulted in the \$4.1 million estimate. As stated in the FSS Blueprint (page 12 of the proposal to the Chancellor), the current gift tax, and other forms of financial participation with External Affairs, will continue as is.

As to contingencies regarding the transfer of imputed state support to the rest of UCLA, that is a matter that the campus leadership will determine and manage.

5. We view the prospect of UCLA serving as guarantor of faculty nine month total salaries (X and X') as a last resort, applicable only in the most extreme of circumstances. Total faculty salaries, including nine-month (X and X'), summer ninths, non-ladder faculty, and overload payments, typically constitute less than 30 percent of our expenses. So before we arrived at the 'dooms day' scenario of the University having to realize its guarantee, there would be a large set of options available to Anderson to contract the budget. We would first look to appropriate cost cutting targets within the remaining 70+ percent of the budget -- more, if one considers non-ladder faculty and overloads. We expect to make decisions involving significant financial impacts, such as faculty hiring decisions, in careful consideration of our overall and projected financial health, frankly as we do now. Our permanent annual projections and budgets would be constructed such that they would include a "place holder" or contingency item equivalent to fifteen percent of our committed faculty salaries, with a commensurate annual reserve to support that budget item. It is important to note that under the status quo, UCLA is also the guarantor of faculty salaries, including the salaries of faculty at the high end of the reward spectrum.

And of course, budgets would continue to be subject to review by campus leadership. Since this involves campus commitments, this matter is also appropriately left to resolution by the campus leadership.

6. We expect that the scale will be patterned after current compensation levels. Despite the fact that we are now subject to the Business-Engineering scale, almost all of our faculty are already paid off-scale. We expect to follow the same Business-Engineering scale which will serve as the X factor in our compensation plan, moving up in tandem with University adjustments. Actual nine month salaries (X and X') will be tied to faculty step and rank, and to assessment of internal and external value, as is currently the case. Under FSS, the current involvement of the elected staffing committee in approving advancements and promotions will continue, as will the role of the appointed research committee in recommending levels of summer support for each faculty

Again, Ann, thank you for your careful interest in our proposal for FSS. I hope that these clarifications address your questions and concerns.

With best wishes,

A handwritten signature in black ink, appearing to read 'Judy Olian', written in a cursive style.

Judy Olian, Dean and John E. Anderson Chair
UCLA Anderson School of Management

**THE FINANCIAL SELF SUFFICIENCY PROPOSAL:
A REVIEW OF SOME OF THE FINANCIAL ISSUES**

March 4, 2010

1. Introduction.

On February 25, 2010, Dean Judy Olian asked Ed Leamer, Francis Longstaff, and Rakesh Sarin to form a committee to review some of the financial aspects of the current self-sufficiency proposal being considered by the Anderson faculty. Specifically, the committee was asked to provide input regarding four questions:

1. What is the financial impact of alternative scenarios for endowment growth under the two scenarios: financial self sufficiency (FSS) and financial status quo (FSQ)?
2. What is the financial impact of alternative growth projections in total staff costs (3% under both scenarios) and total faculty costs (5% under both scenarios)?
3. What is the financial impact of alternative rates of decline in general support funds for Anderson under FSQ?
4. What is the impact under FSQ of UC fee increases that may further squeeze the financial differential fees flowing to Anderson?

As part of this assignment, the committee was charged with providing a report on our findings within a one week period. Thus, it is important to recognize that, given the time limitations placed upon the committee, our review should be viewed as cursory and far from comprehensive. This brief report summarizes our thoughts and findings with respect to the questions we were asked to study.

2. Some Perspective.

In approaching this task, we found it helpful to put the implications of the different scenarios into perspective relative to the total budget for the Anderson School. Table 1 shows the projected budget for the school under the FSQ scenario; Table 2 shows the projected budget under the FSS scenario.

2.1 How Much Money is at Stake?

The current budget (expenditures) for the school under either scenario is \$90.5 million. Of this total, \$17.9 million comes from UC General Funds. The FSS proposal would only impact the portion of this that relates to the MBA program, which is roughly \$12.3 million. But of this \$12.3 million, \$7.1 million represents student fees, which we would receive directly under the FSS proposal. The bottom line is that the actual amount of State support we would lose under the FSS proposal is \$5.2 million. Thus, the total amount of State funding at issue here is only 5.7% of the current annual Anderson budget.

2.2 Impact on Total Sales

The total tuition to be paid by students is the same under both scenarios (in actuality, it increases a little faster under FSS for the first several years, but is then the same as under FSQ after five years). Thus, the size of the “pie” is the same under both scenarios; the only difference is in how the pie is to be divided.

To cut through the confusing process of how funds flow from students to the UC system and back to Anderson, we took the step of simply adding together the MBA program revenues and the UC general fund for the two scenarios. The sum of these two items can be viewed as the school’s gross sales (at least from the MBA perspective, the other programs are the same under both scenarios).

Here are the projections under the two scenarios (dollars in millions) for the sum of MBA fees and UC general funds.

Sum of MBA Fees and UC General Funds

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
FSQ	35.4	36.6	38.4	40.9	42.0	43.2
FSS	35.4	41.7	44.1	45.3	46.0	47.0

The total revenues under FSS are larger in the short term. There are two reasons for this. First, to jump start our self sufficiency plan, the UCLA campus is willing to let us continue to keep the \$5.2 million State funding the first year, then decrease it to zero over the next four years. Second, under the FSS proposal, we are able to raise our tuition slightly faster than under the FSQ. By the fifth year of the plan, however, tuition is the same in both plans and the subsidy is gone. Even in the fifth year, however, total revenues to the school are \$3.8 million higher. The reason for this is that the forecasts anticipate that the UC system will need to take a larger “slice” of the pie in the future (in the form of fees), leaving us with less of the total tuition and fees paid by the students.

Perhaps a more accurate perspective is given by focusing on net sales, given by gross sales minus the student support and scholarships the school is expected to give back to the students. The following table shows the sum of MBA fees and UC general funds, minus student support for both scenarios.

Sum of MBA Fees and UC General Funds Minus Student Support

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
FSQ	27.8	28.5	29.6	31.2	31.8	32.4
FSS	27.8	31.4	32.4	33.0	32.8	32.7

This table shows that by the fifth year, both proposals provide the same amount of net revenue to the school. Thus, the two scenarios are equivalent from the perspective of net sales.

2.3 Impact on Costs

Excluding student support, there are some minor cost differences between the two

scenarios. The projected budgets anticipate that the FSS plan will generate roughly an additional \$2 million in costs (program fees, faculty, support, campus fees, etc) by the fifth year. On the other hand, the FSS proposal forecasts that the school will be able to generate an additional \$2.4 million per year in donations and income from our endowment by the fifth year.

2.4 The Bottom Line

Since the total revenues are the same under the two scenarios, and since the additional costs of the FSS plan are forecast to be largely offset by the additional donations and endowment income, it is not surprising that the two scenarios have the same net financial impact on the schools.

By the fifth year, the school is anticipated to have a budget of roughly \$120 million. The differences between the two scenarios are very small relative to the total budget. Given the inherent uncertainties in any budgeting/forecasting exercise, the two scenarios are “statistically indistinguishable” from each other.

Issue 1. Endowment Growth

The FSQ scenario assumes that by the end of the fifth year, our current expenditure gifts grow from \$1.9 million per year to \$2.6 million per year. This is a growth rate of about 6.5%. In contrast, the FSS scenario assumes that current expenditure gifts grow to \$3.5 million by the fifth year, implying an annual growth rate of 13%.

To provide some perspective on this, we observe that during the previous five year period from 2004 to 2009, current expenditure gifts increased from \$1.1 million to \$1.9 million, implying an annual growth rate of 11.5%. Thus, the growth rate assumption underlying the FSS proposal does not seem to be unrealistic or unattainable given recent experience.

Turning to the endowment assumptions, the FSQ scenario assumes that the endowment increases from its current value of \$90.9 million to \$123.2 million by the fifth year. This is a growth rate of 6.3% per year. Note that returns in investments are included in the endowment balance; positive returns increase our endowment, and vice versa. Under the FSS scenario, the endowment is assumed to increase to \$153.2 million by the fifth year, implying an growth rate of 11.0% per year. Thus, the FSS scenario assumes that the school is able to add an incremental \$30.0 million

to our endowment relative to the FSQ scenario.

Roughly speaking, the assumption in the FSS scenario translates into an incremental increase in endowment giving of \$6 million per year over the next five years. How realistic is this? To address this, we note that total cash-in-the-door gifts to the school (excluding the current expenditure gifts and unpaid pledges) during the past six years were \$6.4, \$8.1, \$14.4, \$15.4, \$10.8, and \$15.7 million, respectively. This averages to \$11.8 million per year. Thus, the FSS scenario assumes that annual giving could be increased by roughly 50% on average relative to recent trends.

It is difficult to assess how likely it is that this higher giving rate would be achieved under the FSS scenario. Ultimately, this issue revolves around the question of whether alumni and donors would be willing step up their contributions if the school was self sufficient and no longer receiving State funds for the MBA program. Our Anderson development team view the self sufficiency story as one that would resonate well with donors. Anecdotal evidence suggests that giving increased at Virginia and Michigan when they moved to a self sufficiency model. We have no objective way to quantify this assumption about endowment growth.

To put this into perspective, however, we note that if the assumption about increased endowment growth was not realized, then the impact on the total budget would be relatively modest. Specifically, the total amount of incremental funding provided by the endowment under the FSS scenario is only \$1.5 million (a 5% spending rate on the incremental \$30.0 million endowment amount). This would represent only about 1.2% of the total operating budget of the school in the fifth year.

Issue 2. Staff and Faculty Salary Growth Rates

The current proposal assumes that under both the FSS and FSQ scenarios, faculty salaries increase at 5% per year and staff salaries increase at 3% per year. Thus, there is no difference between the two scenarios in terms of total salary costs.

It is important to consider, however, whether there is a possibility that salary costs might need to rise more rapidly under the FSS than under FSQ scenario. In other words, would having local control of salaries in the Anderson school result in higher overall salary costs? Has all of the discussion about increased salary flexibility under the FSS proposal raised expectations about future salary growth that would put pressure on the budget?

While we cannot provide a definitive answer to this question, we feel it is important to emphasize that the school could implement the policy of simply not spending more on salaries than it could afford. Under the FSS scenario, salaries and the budget are under the school’s control and there is nothing externally that would require the school to adopt a salary growth rate in excess of what we could afford. We view as very unlikely the scenario that salaries would be able to grow faster under the FSQ scenario than under the FSS scenario.

Currently, faculty and staff salaries total to \$59.3 million, representing 65.5% of the total school budget. A one-percent incremental growth rate for the FSS scenario relative to the FSQ scenario would translate into an incremental cost of \$0.655 million cost for one year, and would compound to an incremental difference in costs of about \$4 million after five years. Note that the effects of increases of salaries on the budget are essentially linear; an increase in salary costs by \$1 million under one scenario makes that scenario less profitable relative to the other scenario by \$1 million.

Issues 3 and 4. Decline in State Support.

To evaluate the impact of a decline in State support under the FSQ and FSS scenarios, we compute the bottom line net income for the school under the assumptions that State support (from any source) is cut by 0%, 5%, 10%, and 20% from that reflected in the current proposal (net income is shown in millions of dollars).

Net Income Under Various State Budget Cut Scenarios

	Cut	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
FSQ	0%	+1.1	-0.9	-0.7	-0.7	-1.7	-2.3
	5%	+0.2	-1.8	-1.6	-1.6	-2.6	-3.2
	10%	-0.7	-2.6	-2.4	-2.5	-3.5	-4.1
	20%	-2.4	-4.4	-4.2	-4.3	-5.3	-5.9
FSS	0%	+1.1	-0.3	+0.3	-0.4	-1.6	-2.5
	5%	+0.2	-0.7	-0.1	-0.8	-1.9	-2.7
	10%	-0.7	-1.2	-0.5	-1.1	-2.2	-3.0
	20%	-2.4	-2.2	-1.3	-1.8	-2.8	-3.5

These numbers show that the FSQ scenario is much more sensitive to a cut in State funds. This is not at all surprising given that the FSQ scenario assumes State support of roughly \$17.5 million per year while the FSS scenario has State support declining to about \$4.8 million by the fifth year.

Conclusion.

Based on our limited review of the self sufficiency proposal and our conversations with Anderson faculty and staff members, we have three general conclusions.

First, the FSQ and FSS scenarios result in financial outcomes that are not materially different from each other. The projected budgets for the two scenarios imply net income numbers for the school that are within one percent of the total operating budget of the school. Neither scenario dominates the other in terms of its financial impact based on the assumptions reflected in the projections in the proposal.

Second, the largest financial risk of the FSQ scenario relates to the level of future State support under the FSQ scenario. A further unanticipated cut of 10% or 20% would have a serious impact on our budget. This risk, however, is difficult to quantify.

Third, the largest financial risk of the FSS scenario appears to be its dependence on an increased level of fundraising. The impact of not being able to achieve the assumed level of endowment growth would reduce the school's net income by \$1 or \$2 million out of a budget of about \$120 million.

In summary, the projections in the two scenarios are based on assumptions that appear reasonable and we have confidence in the budgeting process at Anderson. From a financial perspective, the expected outcomes of the two scenarios are similar. Where the two scenarios differ, of course, is in their implications for upside and downside events. It is important to recognize, however, that there are some degrees of freedom that could be brought to bear on the budget if things don't go well under either scenario. For example, the assumption of 5% faculty salary increases might need to be scaled back. There may be some flexibility in how student support is funded, etc. The point here is that budgets can adapt as needed, which can blunt the downside risk to the school of any financial proposal.

Finally, we note that this analysis is based solely on the financial dimensions of the proposal. In particular, our report does not address any of the nonfinancial implications of the proposal.

Francis A. Longstaff, Chairman

Ed Leamer

Rakesh Sarin

Multi-Year Model – “Status Quo”

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
MBA Program related Fees	\$17,465,885	\$19,129,802	\$20,974,935	\$23,004,581	\$24,120,887	\$25,293,088
Professional Programs Fees & Tuition	\$35,630,995	\$38,465,245	\$41,637,127	\$44,130,580	\$46,247,987	\$48,277,228
Executive Education	\$4,951,685	\$5,199,269	\$5,459,233	\$5,732,194	\$6,018,804	\$6,319,744
Centers Activity (non-gift)	\$3,386,300	\$3,445,726	\$3,549,098	\$3,655,571	\$3,765,238	\$3,878,195
UC General Funds Allocation	\$17,892,872	\$17,422,007	\$17,422,007	\$17,892,872	\$17,892,872	\$17,892,872
Other	\$2,421,087	\$2,421,087	\$2,469,509	\$2,517,457	\$2,566,364	\$2,616,250
Endowments & Annual Gifts	\$9,908,573	\$9,813,609	\$10,346,504	\$11,018,265	\$11,742,028	\$12,076,316
TOTAL CURRENT YEAR REVENUE PROJECTIONS	\$94,657,397	\$95,896,745	\$101,858,412	\$107,951,521	\$112,354,180	\$116,353,612
Faculty & Staff Salaries, including Fringes	\$59,282,189	\$63,469,692	\$66,948,042	\$70,611,132	\$74,476,838	\$77,544,979
Program & Faculty Support and Services	\$17,331,962	\$18,779,256	\$20,141,769	\$21,623,540	\$22,478,400	\$23,276,691
Technology, Equipment & Communications	\$4,873,062	\$4,994,889	\$5,119,761	\$5,247,755	\$5,378,949	\$5,513,422
Facilities, Indirect Costs & Building Debt	\$1,442,253	\$1,467,574	\$1,493,948	\$1,521,115	\$1,549,417	\$1,578,798
Student Support & Fellowships	\$7,605,543	\$8,087,695	\$8,836,768	\$9,656,532	\$10,185,079	\$10,742,808
TOTAL CURRENT YEAR EXPENSES PROJECTED	\$90,535,009	\$96,799,105	\$102,540,188	\$108,650,074	\$114,058,684	\$118,656,698
REVENUES minus EXPENSES	\$1,122,388	-\$902,360	-\$681,776	-\$708,553	-\$1,714,504	-\$2,303,086

Multi-Year Model –Self Sufficiency

MBRA Program related Fees	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Professional Programs Fees & Tuition	\$17,465,885	\$32,199,330	\$35,729,556	\$38,113,979	\$40,019,678	\$42,193,728
Executive Education	\$35,630,995	\$38,465,245	\$41,637,127	\$44,130,580	\$46,247,987	\$48,277,228
Centers Activity (non-gift)	\$4,951,685	\$5,199,269	\$5,459,233	\$5,732,194	\$6,018,804	\$6,319,744
UC General Fund Allocation	\$3,386,300	\$3,445,726	\$3,549,098	\$3,655,571	\$3,765,238	\$3,878,195
Other	\$17,892,872	\$9,530,187	\$8,352,158	\$7,178,000	\$6,007,831	\$4,841,769
Endowments & Annual Gifts	\$2,421,087	\$1,733,975	\$1,768,655	\$1,802,586	\$1,837,196	\$1,872,498
TOTAL CURRENT YEAR REVENUE PROJECTED	\$91,657,397	\$100,644,639	\$107,616,103	\$112,926,127	\$117,567,576	\$121,859,477
Faculty & Staff Salaries, Including Fringes	\$59,282,189	\$63,469,692	\$66,948,042	\$70,611,132	\$74,476,838	\$77,544,979
Program & Faculty Support and Services	\$17,331,962	\$20,177,256	\$21,574,719	\$23,092,314	\$23,983,893	\$24,819,821
Technology, Equipment & Communications	\$4,873,062	\$4,994,889	\$5,119,761	\$5,247,755	\$5,378,949	\$5,513,422
Facilities, Indirect Costs & Building Debt	\$1,442,253	\$1,981,881	\$2,015,933	\$2,050,919	\$2,086,866	\$2,121,892
Student Support & Fellowships	\$7,605,543	\$10,293,214	\$11,623,636	\$12,323,228	\$13,275,913	\$14,346,233
TOTAL CURRENT YEAR EXPENSES PROJECTED	\$90,535,008	\$100,916,932	\$107,282,091	\$113,325,349	\$119,202,459	\$124,346,347
REVENUES minus EXPENSES	\$1,122,389	-\$272,293	\$334,012	-\$399,221	-\$1,634,883	-\$2,486,870

UCLAAnderson

School of Management

OFFICE OF THE CHAIRMAN
 MANAGEMENT COMMONS, ROOM F402
 CAMPUS MAILCODE: 148106
 PHONE: X54461; FAX: X64119

October 18, 2010

TO: Assistant, Associate, and Full Professors of UCLA Anderson School of Management

FROM: Charles Corbett, Chairman

RE: Ballot Results from the October 8, 2010 Vote on Financial Self-Sufficiency

Do you approve the Financial Self-Sufficiency Framework and Compensation Plan included in the file "FSS Framework submitted to Chancellor Block Sep 12 2010", and agree that UCLA Anderson should move forward with obtaining the necessary approvals for both plans and with implementing both plans, on the understanding that:

- the faculty will be asked to vote again if material changes emerge during the approval process;
- an internal compensation governance mechanism, with specific structure to be explored, will be implemented as part of the Financial Self-Sufficiency plan.

Total Faculty Eligible to Vote	95
On Leave (Not Voting)	2
Number of Voters (Excluding Sub-Categories Above)	93
Number Who Actually Voted	66
Voted Yes	45
Voted No	20
Abstain	1
Number Who Did Not Vote	27

CJC:ljc

Senate Item for Review: Anderson School of Mgt Proposal for Financial Self Sufficiency

Distribution Date: September 24, 2010

Response Due Date: **October, 20, 2010**

Return to: Jaime Balboa, CAO, jbalboa@senate.ucla.edu

Relevant Links: [Please see attached](#)

On behalf of the UCLA Academic Senate Chair Ann Karagozian, please review and comment on the attached proposal for Financial Self-Sufficiency from the Anderson Graduate School of Management. This is *specifically requested* of the following committees and councils:

Council on Planning and Budget
Faculty Welfare Committee
Council on Academic Personnel
Council on Research
Graduate Council
All FECs

All other committees and councils are not required to opine, but they are welcome to do so.

Responses to the above would be most useful if they were to include one of the following responses: (1) the committee endorses the proposal as written, (2) the committee endorses the proposal contingent upon revision (please state the revisions), (3) the committee does not support the proposal (please give explicit reasons why).

Background Information:

Attached is the latest version (dated September 12, 2010) of a proposal from the Anderson School of Management for Financial Self Sufficiency, distributed for comment by Executive Vice Chancellor and Provost Scott Waugh. EVC Waugh has indicated that the proposal “is the result of 18 months of thoughtful analysis, discussion, and preparation to develop a model of financial self-sufficiency. The Chancellor and I support the concept and process, and the faculty in Anderson recently voted strongly in favor of the framework.” Because the EVC&P has set a due date of November 1, 2010, the **Academic Senate requests responses from committees and councils by October 20, 2010**, so that the Executive Board will have time to synthesize the views of the various committees.

The Academic Senate Leadership has conducted a preliminary review of the proposal and has posed a number of questions to Dean Judy Olian, requesting clarification and elaboration on a number of features of the proposal (please see attached memo). Once we have received a response from Dean Olian, we will forward that response to the reviewing committees, for your information and analysis.

UCLA *Academic Senate*

October 19, 2010

To: Ann Karagozian, Chair
Academic Senate

From: Council on Academic Personnel

RE: Review of the Anderson School of Management's proposal for Financial Self-Sufficiency

We have reviewed the Anderson School's proposal and offer the following comments:

The Council strongly affirms the importance of the Anderson School's continuation of the UCLA academic personnel processes in all respects prescribed by the APM and the CALL, including but not limited to appointments, promotions, and merit decisions. Recognizing the substantial uncertainties that attach to such a major change in the School's relationship with the university at large, the Council expects and entrusts that primary emphasis will be placed upon maintaining the highest standards of academic quality of the School's faculty in research, teaching, and service.


Some council members expressed concern at the ambiguity of the wording in the second bullet point under the caption "**Increased autonomy**: Under FSS, UCLA Anderson will no longer seek UCLA approval to hire . . ." Notwithstanding the statement in the preceding bullet point, it should be made clear that absence of UCLA approval pertains only to the creation of slots and that the School's authority to hire remains subject to UCLA's academic process for faculty appointments.

UCLA MEMORANDUM

College Faculty Executive Committee
A265 Murphy Hall

October 20, 2010

To: Ann Karagozian, Chair
UCLA Academic Senate

From: Raymond Knapp, Chair 
UCLA College Faculty Executive Committee

Re: **College FEC response to “Anderson Graduate School of Management Proposal for Financial Self Sufficiency”**

Thank you on behalf of the College Faculty Executive Committee for the opportunity to review and opine on the Anderson Graduate School of Management’s proposal for financial self sufficiency (FSS). We discussed the proposal at our meeting of October 8, 2010 after Dean/Vice Provost Smith introduced the proposal and offered background. This letter summarizes the FEC’s comments and attempts to capture the tone of our discussion. We did not take a formal vote, but agreed instead to convey the range of opinions expressed by our members.

1. Some members (but perhaps not a majority) did not oppose, in principle, the notion of financial self-sufficiency for the Anderson School, or granting AGSM greater autonomy to set faculty remuneration. In fact, one member described it as a “noble experiment,” leading to an enhanced capacity for the school to raise money (although others downplayed this capacity, believing that such capacities tend to depend on a large undergraduate population, which the school does not have).
2. Some of those in favor of the proposal expressed concern for how “cooperation across this boundary” will work itself out (presumably in terms of internal pricing), citing already existing problems across this boundary.
3. However, the committee requests clarification of how AGSM’s autonomy in hiring and setting salaries will articulate with the policies and rules that govern faculty conduct, governance, and review. Along these lines, the committee would like to be sure that AGSM compensates UCLA adequately for its infrastructure. For example, although the school has its own library, its students and faculty depend also on other university libraries. Similarly, the campus offers myriad other benefits that ought to be compensated if the school is to be financially independent.
4. Members generally agreed with many of the concerns raised in the Senate Chair’s September 22, 2010 letter. In particular, the committee requests clarification of how AGSM calculated the costs associated with servicing the Accounting minor. The \$4.3 million quoted in the proposal seems particularly high given the modest number of students enrolled in the program.

5. Members requested clarification of how academic leadership for the Accounting minor will be retained and promoted under FSS.
6. Finally, should AGSM be unable to reach financial self-sufficiency within the allocated timeframe, what contingency plans are in place?

After our meeting, we circulated the school's response to the Senate Chair's questions, posed on September 24 (the memo was not received in time for our meeting). One of our members responded as follows—while this may not represent the consensus view of the committee, it does capture the skeptical tone that informed much of our discussion, even among those basically in favor of supporting the proposal:

Having seen this memo I remain unconvinced that we should approve this proposal. Nothing in the response 1) addresses concerns over the claims of controlling their own faculty vs. claiming that the academic senate will still have authority, 2) contradicts the notion that somehow the business school is beyond the comprehension of the rest of us mortals, 3) explains why they cannot develop flexibility through chairs rather than through financial self-sufficiency, or 4) provides an explanation about the costs other than to assure us that the algorithms are good etc. As far as I can see the whole point is to allow them to spike salaries for selected individuals without having any oversight. This is not something that the FEC should sign off on.

Our membership appreciates the consultative process and understands this proposal is a work-in-progress. We welcome an opportunity to opine on future drafts or responses to the issues raised in this letter. In the meantime, you are welcome to contact me at knapp@humnet.ucla.edu with questions. Kyle Stewart McJunkin, Academic Administrator, is also available to assist you and he can be reached at (310) 825-3223 or kmcjunkin@college.ucla.edu.

cc: Jaime Balboa, Chief Administrative Officer, Academic Senate
Lucy Blackmar, Assistant Vice Provost, Undergraduate Education Initiatives
Linda Mohr, Assistant Chief Administrative Officer, Academic Senate
Joseph Watson, Chair, Undergraduate Council

DATE: October 19, 2010

TO: Ann Karagozian, Chair, Academic Senate

FROM: Paul Davis, Chair, UCLA COR

RE: COR Opposes the Anderson School (AS) Proposal for Financial Self Sufficiency

The Council on Research (COR) at UCLA reviewed the Anderson Graduate School of Management's Proposal for Financial Self Sufficiency at its October 8, 2010 meeting. The motion was defeated 4 to 3. Two student *ex officio* members also voted against the proposal.

Those that voted **for the proposal** agreed with the AS that effective competitiveness with the private universities requires comparable funding, and that the decline in State revenues has reduced its ability to attract top faculty and students. The proposed autonomy would allow the School to appoint and remunerate faculty, dependent on School income, manage resources for maximum efficiency, including building up its endowment. Thanks to differential fees, the AS is already nearly-private (\$40k tuition compared with \$8k in other parts of campus). Raising tuition to private levels, and increasing the endowment, could provide increased remuneration to AS faculty (providing salary opportunities such as exist in the Medical School) and increase the stature of the School. Given the State's economy the proposal represents a first step in what may be required to restore UC as a whole.

The main arguments **against the proposal** were concern with abandonment of the principle of public education. With State support the University of California has had an extraordinary history of providing less-expensive, but comparable, education with that of the private universities (Even Anderson at \$40k/student is less expensive than privates at \$50k). Matching the tuition charged by the privates is a departure from this principle, a departure with which a number of committee members, who had themselves taken advantage of State education, were distinctly uncomfortable. The increased tuition will be funded mainly by increased student debt. If passed, other schools such as Law, Dentistry, Engineering might rapidly follow.

On a second issue, the UC joint governance between the administration and the Academic Senate has been effective in discussing and arriving at decisions that affect the campus as a whole. The proposal removes the Chancellor's/Senate control on Anderson fiscal policy. Financial decisions should be made with a full UCLA perspective rather than by fiscally autonomous units as suggested here.

Thirdly, the UC case for continued funding by the State is compromised if all units do not pull together with one voice. Privatizing the AS, and others that might follow, jeopardizes the UC position.

Anderson has, as has the rest of UCLA, built up a world-class reputation, 'doing more with less.' Certainly UC tuition will have to increase. But retaining the differential between the privates and publics is a principle worth preserving for the citizens of the state who have already invested substantially. It can be argued that a united University will achieve more readily the State/tuition combination to preserve the UC stature than a devolved private-public enterprise as is being suggested here.

Yours sincerely,

A handwritten signature in cursive script that reads "Paul Davis". The signature is written in black ink and is centered on the page.

Paul Davis
Chair, UCLA Council on Research

October 19, 2010

Professor Ann Karagozian
Chair, UCLA Academic Senate

Re: Anderson School of Management – Proposal for Financial Self Sufficiency

Dear Professor Karagozian,

The Council on Planning and Budget discussed the Anderson School of Management proposal for Self Sufficiency at its October 11, 2010 meeting, and adopted the following position with regard to these recommendations:

Summary: CPB understands that the goal of the proposal is to improve the quality of the Anderson School, and we appreciate that the hope is to lessen the School's dependence on campus resources in the process. However, a substantial majority is unable to endorse the Anderson Self Sufficiency proposal. In our discussion questions were raised about the financial and academic implications for the Anderson School. But our greatest concerns were the possible consequences for the campus and professional education at the University of California generally.

CPB had less than an hour to discuss this very important issue. Most committee members had been able to read the Dean's proposal prior to the meeting, and a few had read the Dean's helpful reply to Chair Karagozian's queries, and the brief internal "review of some of the financial issues" dated March 4, 2010, both of which we received just before our meeting. No additional materials were provided. In particular we would have liked to see some independent analysis of the proposal's impact on the School and on the campus. Our understanding of the proposal is that it would provide the Dean and the School with greater autonomy in setting salaries and in other academic personnel matters and that it might lead to more extramural resources than would accrue from continuing the status quo. However the financial and other consequences for the School and its faculty, difficult as they are to assess, were secondary for us. Our primary concern is for the campus and the University as a whole. A number of questions were raised during our discussion: Is this the start of a wave of self-sufficiency plans that could expand to units less fit for such paths? Might this and other self-sufficiency initiatives further weaken UC's case for public support? Might the pecuniary emphasis of the proposed changes degrade the value of UCLA and UC's academic distinction and reputation? In addition, many members felt that even in purely financial terms the deal seems questionable for the campus. They expressed considerable skepticism about the modest give back to the campus, both in its actual size in the bigger picture of resource flows and in its permanence.

Some were also concerned that the campus might have to back up the School in case the plan should flounder. Certainly schools and departments have been known to get themselves into financial difficulty in the past. A minority felt that the likely benefits for AGSM outweighed all these concerns, but a substantial majority of CPB members felt that these questions make it impossible for CPB to support the present proposal.

Respectfully,

A handwritten signature in black ink, appearing to read 'David Lopez', written in a cursive style.

David Lopez
Chair, UCLA Council on Planning and Budget

cc: Andy Leuchter, Vice Chair, Academic Senate
Robin Garrell, Immediate Past Chair, Academic Senate
Jaime Balboa, Chief Administrative Officer, Academic Senate
Linda Mohr, Assistant Chief Administrative Officer, Academic Senate
Members of the Council on Planning and Budget

October 15, 2010

To: Ann Karagozian
Academic Senate, Chair

From: Shane White
Faculty Welfare Committee, Chair

Re: Senate Item for Review: Anderson School of Management Proposal for
Financial Self Sufficiency

The Faculty Welfare Committee reviewed the Senate Item for Review: Anderson School of Management Proposal for Financial Self Sufficiency (FSS) at its meeting on October 12, 2010. After through review, the Committee identified a number of fundamental questions not addressed at all or only partially addressed in the proposal, including the following:

1. A major motivation for the FSS plan is to gain greater flexibility in faculty compensation, identified as essential for recruiting and retaining faculty. Such flexibility may be possible to achieve by creating a faculty compensation plan similar to the Medical School's plan, an approach being explored by other units. Why isn't this approach a viable option for Anderson, avoiding all of the uncertainties of the overall FSS strategy?
2. The FSS proposal does not explicitly or fully consider two important types of financial valuations:
 - a. Research Centers and individual research projects located off-campus pay indirect costs to the University of 26%, despite using a limited number of on-campus resources. If Anderson is to be fully self sustaining, should it not pay the same 26% indirect costs of off-campus research units rather than lower amount specified in the FSS proposal?
 - b. The FSS model assumes that Anderson can generate sufficient revenue to cover its operating expenses, and thus meet one requirement for self-sufficiency, but the proposal does not discuss the asset value of the School and the investment value to the California taxpayers of contributions they have made to the University and the School over the 75 year history of the School. If the School was truly self-sufficient, reasonable compensation should be made to the University and the taxpayers recognizing the overall asset value of School. Or the proposal

should provide a compelling case that Anderson has contributed more than the amount of this asset value to the campus as a result of its research, teaching, and reputational contributions. Even if there is measurable evidence of a fair balance in this equation, there remains the question of whether the University give away its educational assets in this manner.

3. UCLA is one of the premier R1 public research universities in the country. The FSS proposal does not provide much analysis of the effects on the research mission of the School. How would it be maintained and enhanced? There are potentially competing cases to be made about the effects of the FSS proposal on the research mission, and they need to be spelled out. Again, a faculty compensation plan could provide greater incentives to increase research productivity without moving fully to a FSS model.
4. Access of California students to the UCLA Anderson School of Management may be adversely affected.
5. At least two other public universities have had Schools of Management adopt a FSS model – Michigan and Virginia. What evidence is there that the FSS model has significantly improved the quality of these Schools? Assessing the FSS proposal requires obtaining as much information as possible about what has actually happened when business schools at major public universities have taken the FSS approach, with due consideration of differences in contexts

The UCLA FWC recognizes that the June 11, 2010 Memorandum to the UC Commission on the Future from the UC Academic Council (First Round Response) addresses many similar serious shared concerns in the paragraph titled “Self Supporting Programs” (Enclosed - page 7).

Cc: Jaime Balboa, Chief Administrative Officer, Academic Senate
Dottie Ayer, Assistant to Chief Administrative Officer, Academic Senate
Brandie Henderson, Policy Analyst, Academic Senate

Council conditionally supports this recommendation with the following comments. First, UCSF endorses the recommendation that a nationwide study be conducted on the benefits of practice doctorates. A study would allow education and health professionals, rather than state regulatory authorities, to clarify the appropriate educational requirements needed to provide high quality care. It also is critical to assess whether and how such programs improve clinical outcomes. CCGA recommends that UC continues to encourage the development of joint doctoral programs (JDPs) in these professions, rather than being developed unilaterally by the CSUs. Above all, respondents emphasized that the research doctorate should remain the exclusive domain of UC (CCGA, UCEP, UCPB). Practice doctorates either could be offered as JDPs (CCGA) or UC could opt out of offering a few specified practice doctorates (UCEP). UC should retain control over those practice degrees in the allied health sciences that include a significant degree of research training (UCEP, UCPB).

Access and Affordability Recommendation 3: Reaffirm the University's commitment to fulfilling graduate education's role in serving UC's research enterprise, UC's teaching mission, and the diverse knowledge and workforce demands of the State and beyond.

Council strongly endorses this recommendation and laments the lack of specific recommendations that address the recruitment and funding of graduate students. Many UCs are located in areas with high cost of living, which makes it difficult to compete for graduate students with institutions which offer more support. The UC system should explore foundations and industry as sources of increased funding for graduate and professional education (UCSF). Also, while we recognize the needs of the state in certain professional fields, we recommend that graduate programs be developed based on faculty specialties and campus interest, and not be mandated by the State Legislature as was recently proposed by the Legislative Analyst's Office (CCGA). We note that identified state needs change frequently, while the development of strong graduate programs grounded in research occurs over the long term.

Self-Supporting Programs

Education & Curriculum Recommendation 3: Expand use of self-supporting and part-time programs to expand opportunities for a UC education to existing and potential students, working professionals, and underserved communities.

Although the enticement of additional revenue may be attractive, Council has significant concerns about this recommendation and does not endorse it. First, these programs are market-driven and are subject to sudden changes in student demand, which could result in hiring faculty for programs that may not endure (UCI, UCEP). There also is significant skepticism as to whether these programs are truly self-supporting, as they inevitably draw upon state-supported resources such as shared facilities, faculty instructional time, etc. (UCSB, UCSF, UCPB). At a minimum, Council recommends that the University engage in a system of full cost accounting before developing more self-supporting programs. There also are issues of quality, access, and competition between state-funded and self-supporting programs. To maintain quality, all self-supporting programs need Senate oversight, but even then, the overall quality of UC's undergraduate instruction may decline, given the limited number of faculty available to teach (UCLA, UCR, UCSD, CCGA). The Senate also has

concerns about the University Extension's role in the running of these programs (UCD, UCR). Competition between state-supported programs and self-supported programs remains an unresolved issue. CCGA notes that a number of "poor" academic departments or programs are trying to establish self-supporting programs. Self-supporting programs also may cannibalize existing state-supported academic programs by diverting students. Finally, both CCGA and UCAAD have serious doubts that self-supporting programs will be accessible to some groups of working professionals and underserved communities, given the high costs and fees associated with many of them.

Advocacy

Funding Strategies Recommendation 1: Develop a multiyear advocacy campaign aimed at grass roots opinion leaders throughout the State of California to foster public and political support for the University as a major priority for state funding.

Research Strategies Recommendation 5: Proactively demonstrate the significant and long-lasting benefits that UC research provides to California and the nation, including the development of new knowledge, new industries, and new opportunities for economic expansion and employment. In addition, UC should speak in a strong and clear voice in advocating at the national level for increased and sustained investment in research and knowledge development.

Council strongly endorses both of these recommendations. With respect to Funding Strategies Recommendation 1, UCEP remarks that such advocacy specifically should include faculty, students and alumni to help provide a grassroots perspective on the value of higher education to citizens and to the State of California. The University should also partner with business interests in California, and engage in local political advocacy at the campus level. Regarding Research Strategies Recommendation 5, CCGA comments that actively demonstrating the significant and long-lasting benefits that UC research provides to California's economy and the nation is essential, as is advocacy at the national level for increased and sustained investment in research.

Indirect Cost Recovery

Funding Strategies Recommendation 3: Revise practice and policy on charging indirect cost recovery for non-federally funded research

While in principle, Council supports recovering greater indirect costs from all sources of funding, it does not support revising the current policy on charging indirect cost recovery for non-federally funded research. Its main concerns stem from the threat to UC's competitiveness for grants if it unilaterally rejects grants that do not pay indirect costs (UCI recommends that UC work with other AAU institutions to modify the policies of non-federal funding agencies). Among Council's chief concerns are the potential harm to the ability of junior faculty to get grants and advance in their careers, and disproportionate effects on faculty in the Humanities and Social Sciences (UCB, UCSB). Secondary effects of lost grants could include decreasing the diversity of the faculty and declining opportunities for graduate students. Finally, any decision to accept or reject research monies should be made at the campus level. Note that some funding agencies are prohibited from providing money for indirect costs.

October 20, 2010

Ann Karagozian, Chair
Academic Senate

RE: Anderson School Proposal for Financial Self-Sufficiency

Dear Ann,

At its meeting on October 8th, the Graduate Council reviewed the proposal from the UCLA Anderson Graduate School of Management for Financial Self-Sufficiency. Please note that no formal vote was taken at the October 8th meeting due to the lack of an Anderson faculty vote and the last-minute receipt of Dean Olian's response to the questions you posed in your letter dated September 24th. Dean Olian's response was received and distributed at 11:30am on October 8th, leaving very little time for members to review it before our 2pm meeting.

Given these circumstances, a draft response to the proposal was transmitted to council members on Wednesday, October 13th, stipulating a deadline of October 19th to respond with comments. The Graduate Council's first session of the 2010-11 Academic Year was held on October 8th and, given the deadline of October 20th to respond to your request, it is impossible to revisit the proposal in our second meeting of the year (scheduled for October 22nd). Due to the implications of a UC unit "privatizing" (for want of a better term), several members commented that the request for expedited review of the proposal was unfortunate, if not suspect, since it provides very little time for thoughtful discussion of the proposal's possible benefits or drawbacks. Although members were afforded an opportunity to comment on this response via email, I feel strongly that a second session with council members to discuss the proposal would have resulted in a more thorough and collective response representative of the diverse opinions on the Council, including those that may be sympathetic to Anderson's motives for developing such a proposal.

Additionally, the Graduate Council would not normally review a proposal without knowing the outcome of the vote of the affiliated faculty in the given program. The expectation to review the proposal without having a complete picture of faculty support for it could be perceived as undermining the tenets of shared governance, on which the University of California was founded. As such, the pressure from the Anderson School, UCLA Senior Administration and Senate Leadership to review and comment on important proposals such as this one without the benefit of a full discussion creates a cloud of suspicion and skepticism over the school's plans. The inappropriate manner in which Anderson publicized its plans for privatization only underscores such misgivings on the part of the Graduate Council.

With respect to the proposal itself, members questioned the motivation of Anderson's proposition and the impact it would have on the School's instructional programs. Although the proposal states that the School's governance and academic programs will remain under the rules and regulations of the Academic Senate, members were concerned about subsequent proposals for further privatization (i.e., ending Senate and Graduate Division purview over graduate admissions and professional degrees) on

the grounds it would give the School greater flexibility and control over key decisions. With the proposal's suggestion that privatization would increase Anderson's flexibility in compensating faculty for teaching overloads in the MBA program, council members were concerned with the effects such enticements for additionally compensated instruction would have on faculty research.

Council members also questioned Anderson's assertion that the rest of the UCLA campus would benefit from the redirection of the School's current State support, since UCLA does not allocate state funds. Although appealing on paper, and certainly in this grave economic climate, the Graduate Council would like to see an official statement that the State support would indeed be returned to the general campus. Members were also informed about the national trend of decreasing enrollments in MBA programs and expressed concerns about the feasibility of the self-sufficiency model if this trend continues, especially if the projections provided in the proposal are based on current enrollments. Members were interested in student input, which was lacking from the proposal, and the impact a self-sufficiency model would have on the School's cognate programs with other units at UCLA (note, Anderson currently offers ten concurrent degree programs with nine schools/divisions).

Additionally, questions about Anderson making payments to the campus for use of resources were raised, including whether the proposal takes into consideration perhaps the most valuable resource of all: the UCLA name and reputation. Certainly a school of management is the very academic domain to understand the value of branding and to attribute a value to obtaining a UCLA graduate degree.

Members noted Dean Olian's response to your request for data comparing Anderson faculty compensation with that of their peers and remarked that it would have been helpful to see a breakdown by institution and by medians rather than presented as UCLA's comparison to average salaries. Despite this observation, members noted that the data provided showed that Anderson faculty salaries have achieved parity with those received at comparable institutions.

Of course, members also expressed concerns about the self-sufficiency model setting a precedent at UCLA and the UC at large, spurring questions centered on issues surrounding both continued access and affordability for poor and middle class students as well as the impact privatization would have on the merits and perception of the University of California as a public institution. The Council acknowledges the efforts of the Anderson School in developing the proposal and the support of executive leadership, but it also cautions following through with the proposed model for the unknown impacts it will have on the reputation of the University of California and its distinguished service to the State of California as a premier public institution.

Sincerely,



Steven Nelson
Chair, Graduate Council

cc: 2010-11 Graduate Council Members
Jaime Balboa, CAO, Academic Senate
Kyle Cunningham, Graduate Council Analyst, Academic Senate
Dorothy Ayer, Executive Assistant, Academic Senate

Ayer, Dorothy

From: Stafsudd, Oscar M., Jr.
Sent: Wednesday, October 20, 2010 9:47 AM
To: Balboa, Jaime
Subject: SEAS FEC Response: Anderson School of Mgt Proposal for Financial Self Sufficiency
Importance: High

Jaime -

The SEAS FEC met last week and discussed this item. A quorum was present, but no direct vote was taken. After a discussion, all the committee members were requested to respond officially by email as to their opinion.

The SEAS FEC response is: The committee strongly opposes this proposal.

COMMENTS:

The Anderson School proposal is against for the spirit of a public university. It would lead to inappropriate differences in compensation for faculty that would lead to other schools wishing also to be independent and to the eventual privatization of the UC system.

Yours,

Oscar Stafsudd
SEAS FEC Chair

MEMO

Date **October 16, 2010**

From **Andrea Fraser**
Chair, Faculty Executive Committee
School of the Arts and Architecture

To UCLA Academic Senate
Jaime Balboa, CAO

**RE SOAA FEC Review of the Anderson Graduate School of Management
Proposal for Financial Self-Sufficiency**

The Faculty Executive Committee of the School of the Arts and Architecture reviewed the Anderson Graduate School of Management (AGSM) proposal for Financial Self-Sufficiency (FSS), as requested by the chair of the UCLA Academic Senate. After careful consideration of the proposal and supporting documentation, the committee voted at its October 15 meeting that it cannot endorse the proposal as written and recommends further review of the proposal's financial implications for AGSM and for UCLA.

As stated in the proposal, the primary rationale for FSS is that it will enable AGSM to better compete for top students and faculty, generating "more resources to retain and recruit the best faculty" and for financial aid, as well providing greater flexibility and autonomy in hiring and in salary decisions. In addition to these benefits for AGSM, the proposal also states that UCLA will benefit through the redirection of the \$5.6M in state support that now goes to AGSM, as well as by the receipt of fees for facilities use and services rendered that AGSM will pay to UCLA under the plan, estimated at \$4.1M.

The SOAA FEC found that the budget projections included in the proposal do not support these statements. The budget projections do not indicate "more resources" as a result of the plan, but a loss of \$1M compared to status quo projections. While the FSS budget projections do show an increase in student support and an increase in program and faculty support and services, they do not show an increase in faculty and staff salaries.

The FSS budget projections show two sources of revenue increasing to make up for the loss of state funds: MBA program related student fees and endowment and gifts. However, the proposal indicates that AGSM student fees have already increased by 36%-52% in the past four years and cannot go up much further without exceeding the median tuition level of leading MBA programs in private schools. There is no explanation of why students fees would not be raised to this level under the status quo, or how the FSS would specifically enable the further increase of student fees. The second source of increased revenues in the projected FSS budget is endowment and annual gifts. The proposal states that ASGM will launch a vigorous fundraising campaign to grow its endowment. Again, there is no explanation of why such a campaign could not be launched under the status quo. The March 4, 2010 "Review of Some of the Financial Issues"

SOAA FEC Review of the Anderson Graduate School of Management Proposal for Financial Self-Sufficiency

Page 2

states that the “Anderson development team view the self sufficiency story as one that would resonate well with donors” but also acknowledges that there is no “objective way to quantify this assumption about endowment growth.” These questions throw doubt on the proposal’s claim that FSS would allow AGSM to “generate more resources.”

Our questions about the FSS plan’s rationale were intensified by Dean Judy Olian’s October 7, 2010 response to questions raised by UCLA Academic Senate Chair Ann Karagozian. In her response, Dean Olian notes that ASGM does not expect FSS to “result in broad, across-the-board [salary] increases for our faculty.” Instead, “FSS is meant to give us the flexibility to make individual salary decisions within the context of our specific competitive and budgetary environment.” Dean Olian goes on to note four instances in which salary requests at the “upper end” were turned down by UCOP, although one of these was eventually approved. Dean Olian does not specify when these requests were turned down. However, the Table on Comparative Faculty Salaries included with Dean Olian’s response shows that over the past five years average salaries at AGSM have been brought up to levels close to or even above those in comparison schools. This left us wondering how much of the issue of competitive faculty compensation has already been addressed. We do not feel that three instances of UCOP turning down salary requests is a compelling rationale for the radical step of FSS.

The SOAA FEC also has doubts about the proposal’s claim that under the FSS plan, “UCLA benefits through redirection of the imputed State support (\$5.6M) currently received by UCLA Anderson.” This appears to us to be entirely speculative. Since the amount of state support is linked to the number students served by state support, we wonder what would prevent a determination that students at a self sufficient AGSM were no longer served by state support, and thus need not be counted in the calculation of that support. We are also left wondering about other costs and potential costs to UCLA. The plan includes a substantial reduction in the recovery of overhead costs for external grants, but does not calculate the cost to UCLA of this change. The plan also indicates that “UCLA will continue to pay the same course releases, summer support, or stipends for UCLA Anderson faculty.” We also wonder what the plan would mean for the employer contributions to post-employment benefits that are now being phased in. Finally, our committee is concerned by the implications of the fact that under the plan, faculty tenure would remain with UCLA and that “upon exhaustion of other measure, UCLA is the ultimate guarantor of UCLA Anderson faculty 9-month salaries.”

These concerns about the plan’s potential immediate and future costs to UCLA were also intensified by the implication, in Dean Olian’s October 7 response, that AGSM is particularly concerned with flexibility and autonomy in salary decisions at the “upper end” of levels, above “the local campus salary approval threshold.” If UCLA is to remain the ultimate guarantor of AGSM faculty 9-month salaries, we believe that UCLA should continue to play a role in determining those salaries.

From: Sarna, Linda

Sent: Wednesday, October 20, 2010 3:54 PM

To: Balboa, Jaime

Subject: Anderson School Proposal

The School of Nursing FEC expressed serious concern about the proposed changes in the UCLA Anderson School of Management and the ripple effect that it might have in other schools in UC seeking to privatize. The FEC notes that only 45 of the 95 faculty at the Anderson School supported the Financial Self-Sufficiency Framework and Compensation document. The FEC treasures publicly-funded higher education put forth in California's master plan for the citizens of California. As faculty at UCLA, we embrace public education as a fundamental and guiding principle. The proposed plan to decline *some* funding in order to raise student tuition appears to be a "disconnect" with the mission of the University of California. Despite California's challenging economic times, the FEC has concerns about the business model, especially the use of property and human capital paid for by the tax-payers of California as though they were a private entity. At the most extreme, faculty might consider resigning their tenure status, and purchasing property and buildings privately to open a for-profit school.

The FEC also expressed concerns about the potential for changes in evaluation for academic recruitment and progression which might be valued entrepreneurial income above than academic achievements

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The Faculty Executive Committee of the UCLA School of Public Health both solicited opinions of Academic Senate faculty school wide and independently considered the merits of the proposal, and voted unanimously (6-0-0) to oppose the proposal.

Our opposition reflects a broad feeling among School of Public Health faculty that the proposal fails to make an adequate case for separating administratively from the University of California, and that there are a number of administrative and philosophical issues that further reduce the advisability of the proposal. Our views are summarized below.

1. Need for separation is unconvincing
 - a. The primary rationale for the separation is to provide increased flexibility in faculty salaries to better respond to the market, yet the total academic salary projections for 2014-15 are identical in the status quo and FFS projection. The documents pointedly state that the total revenues available for salary are not expected to increase in the next five years. If this is true, does the School anticipate shrinking the size of its faculty to be able to pay substantially higher salaries to some new hires and for teaching overloads?
 - i. The School of Medicine has a compensation plan that appears capable of providing adequate salaries to top professionals in that highly paid field. We would prefer that the School of Management institute a similar plan and test it out for several years before attempting a more radical solution.
 - b. Similarly, Table 1 of the response to the UCLA Senate questions shows that in 2009-10 the UCLA Management salaries at every rank were equivalent to their comparison group. If this is possible under the existing arrangements, it negates the need for a change since it appears that, on average, there is enough flexibility in the system to attract a competitive mix of faculty.
 - c. There is no discussion of the impact of the Management School's doctoral program in any of the documents. As a graduate research institution, their future of their doctoral program should receive serious consideration.
 - d. Michigan and Virginia were cited as examples of business schools that had separated their business operations from public universities. But there is no information to be able to determine if their experiences were generalizable to UCLA. Are the sizes and compositions of their programs (BA, MBA, PhD) comparable? Did the separation apply just to the business school, or were other units also engaged in similar restructurings? How did their changes impact students, faculty, and the mission of the schools?
2. Administrative concerns complicate any separation
 - a. At the same time that we are debating about how to fix our underfunded retirement system, there is no discussion in the documents provided about the implications for UCRP, if any, of potentially increasing the number of highly compensated faculty.

- b. The response to UCLA Academic Senate Chair Karagozian's question about when UC would have to fulfill its guarantee role of Anderson 9-month salaries is inadequate. It does not address administrative salaries, it puts UC at risk for salary levels that it has no say in establishing, and it fails to provide an adequate explanation of the conditions under which this guarantee would occur.
 - c. How will licensing of the name UCLA be handled and fundraising in general? If the UCLA-Anderson School of Management forms a joint venture in a business (or with a principal) that others on campus might object to, how will the conflict be arbitrated? This is not a hypothetical, since a number of large donations have been made to a variety of universities by business people just prior to their storied downfalls (e.g. Ken Lay of Enron fame) or as part of their post-scandal image rebuilding. In addition, will UCLA continue to be able to assert priority in soliciting donations from private donors?
 - d. How will the University be compensated for the 75 years of public investment in the UCLA-Anderson School of Management that helped it achieve the status that it has today? A parallel is when many non-profit health insurance companies and hospitals terminated their non-profit status (in effect, becoming "fully self-sustaining"). Those institutions were required to repay the public investment (in their case, foregone taxes) that was present in their company valuations.
 - e. In a "privately managed" school, it is unclear how faculty and student rights will be protected in relationship to compensation and tuition.
3. Philosophical issues
- a. There is a general unease with the concept of beginning the administrative break-up of the University of California.
 - b. As a public institution, all units have an obligation to contribute to the state. For professional schools, this includes conducting research that has broad public benefits as well as training some practitioners who have an interest and ability to work in the public and nonprofit sectors. This is not addressed in the proposal.

UCLA *Memorandum*

Faculty Executive Committee, UCLA School of Theater, Film and Television

October 20, 2010

Ann Karagozian, Chair

Academic Senate

Dear Ann,

Below are the responses from the FEC of the School of Theater, Film and Television to the four proposals from the Academic Senate.

Anderson School of Management Proposal for Financial Self Sufficiency:

The committee opposes the proposal at this time. The vote of the Anderson faculty was mixed. While a majority (45) was in favor, a large minority (20) was opposed and even more (27) did not express their opinion. The decision for Self Sufficiency may have serious ramifications for the other professional schools and the university as a whole. The time frame to opine on this important issue is very narrow and the committee feels more time and information is needed to make a responsible decision.

The vote was 5 in favor, 1 opposed. The opposing member believes that the proposal should be accepted.

Sincerely,

Joe Olivieri
FEC Chair
School of Theater, Film and Television

October 20, 2010

To: Ann Karagozian
Chair, Academic Senate

From: Joseph Watson
Chair, Undergraduate Council

Re: Senate Item for Review: Anderson Graduate School of Management Proposal for
Financial Self-Sufficiency

Dear Ann,

As you know, the Undergraduate Council had a preliminary discussion of the *Anderson Graduate School of Management's Proposal for Financial Self-Sufficiency* at their meeting on October 15, 2010. Due to time restraints and the need for further discussion, the Council decided to table a formal vote of this proposal until after their meeting on October 29th. With respect to your deadline for comments, and so that the Executive Board could have insight into the comments of the Council thus far, I have provided the meeting minutes regarding this proposal, below. Please keep in mind that the official position of the Council will not be available until October 29, 2010; I will transmit a formal vote to you at that time.

Should you have any questions, please feel free to contact me, or Linda Mohr at mohr@senate.ucla.edu; x62470.

Senate Item for Review: Anderson Graduate School of Management Proposal for Financial Self-Sufficiency

The Council reviewed and discussed the proposal from the Anderson Graduate School of Management (AGSM) for Financial Self-Sufficiency, focusing mainly on the Undergraduate minor in Accounting. Dean Judy Olian and CAO & Senior Associate Dean of Finance & Operations Hilu Bloch from the AGSM joined the members to outline the proposal and address any questions the members may have.

Dean Olian began by providing an overview of the proposal to the members. She indicated that with state support currently at 18% for their school, after money is lost to the university and the undergraduate minor, state support is closer to 6%. Dean Olian indicated that the faculty have conducted two votes thus far (resulting in approximately 80% of faculty in favor or the proposal), and at the request of the Academic Senate, will be conducting a third vote (results are expected on October 19th).

Dean Olian explained that programs within the school are ranked very highly; however with additional investment, programs could be ranked higher. AGSM is looking for the flexibility to redirect funding to their programs that are in need. Dean Olian assured the members that the School's relationship with the university would not change: students from the rest of campus would still have the freedom to float in and out of the school; partnerships would

centers would remain the same; faculty appointments and tenure would still go through the Academic Senate process, as would curriculum; Dean Olian would still report to the EVC; and the School would continue to pay the university a gift tax. The intent behind this proposal is to provide greater flexibility with its funding and decisions about where to direct funding sources. With respect to the money the School would be giving up, this will be compensated with additional revenue streams, cost containment, increased donor initiatives, and a modest increase in tuition.

With respect to the Undergraduate Minor in Accounting, and the \$4.6 million budget associated with it, Dean Olian explained that this budget is a result of the weighted student FTE model; provided by APB. Currently there are approximately 250-300 students each year, and 160 sections. One member suggested that the minor be offered through the college; however, Dean Olian explained that due to accreditation constraints, the Accounting minor must be offered through an accredited business school. It was suggested that rather than using the weighted student FTE model to determine the budget for this minor, the school provide data on how much it costs to deliver this program, and have the budget derived from that number.

Aside from the undergraduate minor, many members expressed general concerns about the proposal and the greater effect it could have across campus.

Due to time restraints and the need for further discussion, the Council decided to table a vote of this proposal. While the deadline for comments is October 20th (with Executive Board deliberations on October 28th), the Council will provide general comments to the Board by their due date of October 20th, and then transmit their formal vote after the Council meeting on October 29th. The comments of the Council will be separated with a section addressing the Undergraduate minor, and a separate section to comment on any other issues.

October 29, 2010

To: Ann Karagozian
Chair, Academic Senate

From: Joseph Watson
Chair, Undergraduate Council

Re: Senate Item for Review: Anderson Graduate School of Management Proposal for
Financial Self-Sufficiency

Dear Ann,

As you know, when the Undergraduate Council first reviewed the *Anderson Graduate School of Management's Proposal for Financial Self-Sufficiency* at their meeting on October 15, 2010, a formal vote of the proposal was tabled to allow time for further discussion at their meeting on October 29th.

I am writing to report that the Council did discuss this proposal at today's meeting. The motion was made to approve the *Anderson Graduate School of Management's Proposal for Financial Self-Sufficiency* as written (3 in favor, 8 opposed, 2 abstentions; student vote: 0 in favor, 4 opposed, 0 abstentions); therefore, the Undergraduate Council opposes the proposal as written.

Should you have any questions, please feel free to contact me, or Linda Mohr at mohr@senate.ucla.edu; x62470.

October 20, 2010

TO: Ann Karagozian, Academic Senate Chair
FR: AE (Ted) Benjamin, FEC Chair, School of Public Affairs
SUBJ: Anderson Self-Sufficiency Proposal

As FEC chair in SPA, I regret to report that this FEC has been unable to meet this quarter in full committee. However, as SPA's FEC chair, I have polled FEC members and Senate Faculty school-wide, and while opinion is diverse, the majority view seems to be that in its current form we cannot support the Anderson proposal. While we understand that the proposal addresses some very important issues and that business schools must compete for talent in a demanding market, we clearly have too many reservations about this proposal.

Briefly, I will describe the major concerns aired thus far:

1. We have strong concerns about lack of clarity regarding the University oversight role and the absence of a solid new model for governance.
2. We have strong concerns about how Anderson will compensate the University for the immense value of UCLA's brand name, not to mention decades of taxpayer support in building that School. The proposal does not address clearly how the value of the UCLA brand will be determined and how will Anderson compensate the University for this?
3. It is not clear to us exactly how those many units at UCLA that cannot be self-sufficient will benefit from this proposed shift?
4. There is considerable concern that this proposed self-sufficiency model will become the model for all professional schools. It is clear that this is not the appropriate model for most schools.
3. Issues of Anderson faculty compensation are complex; establishing two separate systems has the potential for both positive and negative consequences, which have not been elaborated.
4. The Anderson faculty is clearly divided on this proposal, and their debate should be aired and considered campus-wide.
5. Finally, there should be no rush in considering this proposal? Much more time is needed to consider, analyze and debate it.

November 9, 2010

To: Ann Karagozian
Academic Senate, Chair

From: MarySue Heilemann
Committee Continuing and Community Education, Chair

Re: Senate Item for Review: Anderson School of Management Proposal for
Financial Self Sufficiency

The Committee on Continuing and Community Education (CCCE) Committee reviewed the Senate Item for Review: Anderson School of Management Proposal for Financial Self Sufficiency (FSS). The committee does not support the proposal FSS with a vote of 1 in favor, 5 opposed, and 0 abstentions. CCCE is vitally concerned about the relationship that UCLA has with the community. In particular, we are concerned about our reputation in the community if the Anderson School of Management becomes privatized. Such a move will set a precedent of privatization that the other professional schools are poised to emulate, not only at UCLA, but throughout the entire UC system. This has the potential of changing a longstanding agreement between the people of California and the UC system. Right in the heart of that struggle, is the community.

Because community members are tax payers, and because the UC system has always been accessible to the people of California, such a move is likely to be perceived by the community as creating a greater “separation” between UCLA and the community. Despite the fact that UCLA has been working diligently to enhance our relationship with the community in Los Angeles, to increase our civic engagement, and to strengthen our image in the community, the privatization of the Anderson School is highly likely to cause UCLA to be seen as “apart” from the community and detached from the community’s interests and needs.

The shift to privatization will bring higher tuition for students, geared to the level of the most expensive private schools, which surely will not be well-received by the community. This will be the case for the other professional schools if they also seek privatization. While a percentage of students may have access to financial aid or scholarships in this scenario, it is the middle class in the community who will suffer in particular in terms of access to the professional schools at UCLA, or in the greater UC system.

Thus, instead of the community perceiving that UCLA is within reach for the young people in California, UCLA will be seen as part of the inaccessible elite. This has the potential to do serious damage to our reputation which would threaten our valuable community relationships and threaten our goals.

Cc: Jaime Balboa, Chief Administrative Officer, Academic Senate
Dottie Ayer, Assistant to Chief Administrative Officer, Academic Senate
Brandie Henderson, Policy Analyst, Academic Senate