I. Announcements

*Don Senear, UCPB Chair*

**Update:** Chair Senear updated the committee on several items of interest:

1. Members are encouraged to think carefully about the data metrics that would be most useful in the evaluation of UC Care, such as cost structure, insurance value, and impact to operating budget. Colleagues on Faculty Welfare and their Health Care Task Force will assess the quality of the benefit and the delivery of care. A full report out is expected in July.
2. The March Regents meeting included discussion on capital projects plans to clear the queue, as well as discussion on the University’s shrinking balance sheet.
3. Discussion on the state budget has focused on how best to lobby for and use block grants from anticipated one-time state funds: deferred maintenance, UCRP, and quality investments are usually listed.
4. Members should think critically about whom and with what talking points the Senate should lobby for full UCRP funding. The intersections with debt capacity and operating capital complicate the issue.

II. Consent Calendar

1. **DRAFT Minutes of Meeting, March 4, 2014:**
   
   **Action:** The minutes were passed as amended.

III. Consultation with the Office of the President – Budget

*Patrick Lenz, Vice President*

*Debbie Obley, Associate Vice President, Budget and Capital Resources*

*Cliff Bowen, Director, Operating Budget*

**Update:** VP Lenz reported that most recent discussion about the state budget has focused on maximizing flexibility from one-time funds UC is hoping to receive. He also reported a successful meeting with the Director of Finance, in which UC’s budget model was discussed: VP Lenz explained that the 5-5-4-4 budget model, in the absence of any increase in tuition, was not sustainable from an operations stand-point. The University needs funding beyond mandatory cost increases to address issues related to academic quality. However, the governor’s proposal would not cover even these mandatory costs in the absence of any tuition increase. President Napolitano has announced that tuition increases are off the table for 14/15. Unfortunately, election year politics make discussion of tuition increases beyond 14/15 more difficult. However, the discussions with D of F suggest recognition that either the state will have to contribute more than 5% or there will have to be modest tuition increases in the future, though the timing of any discussion of tuition increase remains uncertain. AVP Obley noted that when tuition increases, it does not necessarily come from students and their families. She noted that federal aid calculations suggest most students’ families are expected to contribute $9200 based on the FAFSA, which only tracks parental resources and excludes some assets such as home
equity and retirement savings from consideration. This plus the level of aid offered, given the UC’s 33% return-to-aid, leaves an amount expected to be covered by loans and student employment. Yet, many students who are eligible do not work and do not take loans, which means they receive support from other, unknown sources. She also noted that the return-to-aid percentage may need to increase as more low-income students enroll at UC. At present, restricted funds can be used to augment the aid pool, but that cannot continue indefinitely; new sources of funds are needed.

UC also continues to lobby to be treated equally with CSU and CCC regarding pension contributions from the state. UC has been the most fiscally responsible, yet, at times this seems to work against us in terms of state recognition that they have an obligation to fund UCRP.

Many in Sacramento continue to push for performance outcome measures for higher education. UC has been largely successful in convincing advocates that UC needs distinct measures and goals from the other higher education segments due to the significantly different starting places in terms of graduation rates, time to degree, etc. Of course, UC still needs adequate enrollment funding for the students already enrolled; accommodating and educating increasing numbers of transfers and freshman will necessitate additional funding. Workforce preparation is also on legislators’ radar, but linking that with graduate student support in the minds of legislators remains a challenge. UC also tries to keep these budget discussions in context—noting long-term disinvestment trends, UC’s financial responsibility in the face of those trends, and UC’s proactive measures taken with the pension. As a result, it is anticipated that UC may be treated favorably in the May revise.

**Discussion:** Chair Senear asked what the most challenging issues to persuade Sacramento to UC’s position are. VP Lenz noted that UCRP is not their priority; they are more focused on undergraduate enrollment and academic quality. AVP Obley observed that time lags muddle several issues; for example, UC’s fall enrollment is determined in the spring, but the legislature does not award enrollment funding until the summer or fall, making it impossible for UC to adjust its class size to available funds. For this reason, among others, UC has been pressing for a multi-year funding agreement; such an agreement would also allow students and their families to better prepare their tuition contribution plans. AVP Obley echoed the comment that legislators focus on undergraduate students more than graduate students, which is where the campus growth plans focus. Instead, Sacramento talks about increasing the STEM field pipelines, while recognizing neither that these fields are generally more expensive in which to educate students nor that these fields benefit most from graduate student instructors and researchers. Members noted that STEM fields also suffer from lab capacity issues that can only be addressed with new capital projects that take years to implement and complete. Indeed, even modest student enrollment growth plans assume new capital projects.

Members also asked how recent public scandals involving prominent Democratic state senators were expected to impact the budget process. VP Lenz suggested that immediate fall out to the budget would probably be minimal, but long-term impact to the balance of the legislature could be significant. This is the third indictment of a Democrat in just three months.

**IV. Consultation with Academic Senate Leadership**

*Bill Jacob, Academic Council Chair*

*Mary Gilly, Academic Council Vice Chair*

**Update:** Chair Jacob updated the committee on several items of interest:

1. **Self-supporting programs:**
The Academic Council has conveyed its concerns in writing to the Academic Planning Council. How best to distinguish self-supporting programs from professional degree supplemental tuition (PDST) continues to be discussed. One thought is to require applicants to demonstrate how they are harmed by being limited to state support.

Discussion: Members wondered what would be found to be compelling reasons to leave state support - to reach new constituencies, to augment faculty salaries, to offer summer certificate programs? It was also suggested that the practice of requiring proposals for new academic programs to include statements of expected impacts to status quo programs could be added to the criteria. The proposal currently before APC is not expected to pass as it is viewed as much too burdensome, especially regarding PDST requirements.

2. Regents Meeting of March 19-20:
   A. The Climate Survey results were released, but no detailed discussion occurred.
   B. Budgetary limitations were again discussed, but all spending proposals were approved.
   C. A PDST proposal from Irvine was withdrawn due to inadequate Senate consultation.
   D. The thirty-meter telescope (TMT) project was approved. All international partners have approved their funding, except one.
      Discussion: Members asked about the future of Lick Observatory and the UC Observatories. Chair Jacob noted that those are separate discussions from the TMT project, but that all are expected to be discussed with the Provost at the May Council meeting. Afterward, UCPB and UCORP should consider the issues carefully as this is a highly contentious topic.
   E. Senior Vice President Stobo from Health Sciences and Services presented his new project: “Scale up for Value” is intended to build upon the centers of excellence idea. The UC medical centers are expected to start running an operating deficit in 2017, which by extension will harm the academic medical schools. A plan to save $200M in administrative costs would only save 1/3 of the necessary total.
      Discussion: Chair Senear observed that claims of operational shortfalls do not align well with current capital project spending at the medical centers. Chair Jacob noted that the medical centers must be big enough to turn profits. These changes are only partially due to new federal laws.

3. Upcoming at Academic Council of April 2:
   A. UCORP has written a letter decrying the central cuts to research programs. Council will encourage them to think more broadly about research funding guarantees, not just the targeted restoration of funds for a single named program. There is little agreement about the role of UCOP in research, as most campus leaders think the campuses are adequately supporting research.
      Discussion: Members asked if research funds had been repurposed to support UC Path. Chair Jacob indicated that many programs’ funds had been partially diverted to support UC Path, but that over the last several years, the fungibility of research funds made them particularly susceptible to cuts. Chair Senear encouraged members to think carefully about how to articulate the need to protect important programs that have low dollar totals. It was suggested that using current memes of long-term planning and funding stability for academic programs could be usefully employed in this context.
B. Proposed revisions to Senate Bylaw 155, which governs the University Committee on Computing and Communications (UCCC), would refocus the committee’s charge to online education and instructional technology.

Discussion: Members asked if the reconstituted committee would also be responsible for data collection and program evaluation, and Chair Jacob indicated that those would be within the scope of the current language. Some suggested that the proposed charge is too limited for a standing committee, and Chair Jacob noted that another impetus is the recognition that UCEP’s workload is becoming unmanageable because of the work around online education.

4. Composite Benefit Rates:
Chair Jacob and Vice Chair Gilly met with the President and discussed this issue yesterday. CFO division still asserts that if the bulk of the cost shifts balance in the end, there is no problem for the University. CFO estimates that only 57% of summer salary is directly for research support, not the 80% the Senate has estimated, but the impacts of the fund shifts are still clear. The President will decide, and the decision is expected by the end of the month.

Discussion: Chair Senear asked how much of the impetus behind CBR is UC Path’s programming limitations. Chair Jacob indicated that that specific reason has not been cited lately in public. Members noted that many employees have multiple payroll entries, regardless of their grant status, so any UC Path programming arguments are either bogus or will prevent the facility from ever operating successfully. Chair Jacob suggested that employing pay bands could solve most of the CBR issues, as could multiple rates. Members asked if the topic was on the upcoming Council of Chancellors agenda, but that information is not known.

5. Cross-campus enrollment hub:
UCEP has submitted a critique of the proposal. If the project goes forward but online enrollment remains low, a careful cost-benefit analysis will be required.

Discussion: Chair Senear asked if UCEAP has participated, noting that they have similar needs. Chair Jacob indicated that the Provost has expressed similar ideas. Another question is whether to pay the host campus of the course for the cost of instruction. Members asked if online education is intended to speed throughput in impacted majors, and Chair Jacob answered that it could, if appropriate and academically rigorous courses are developed. If the program grows as expected, the hub would need reconstructed in 3-5 years; spending a large amount now seems unwise to some. Chair Senear asked about the repayment status of the previous $7M loan. Chair Jacob said the loan has been forgiven; the loss of $3M for UC effort is acceptable as a learning investment, but the lost $4M to the external consultant continues to rankle.

6. Blue Ribbon Panel on Evaluation of Online Instruction Pilot Project Report:
UCEP will consider this report next Monday. Their full commentary will be posted.

V. UCRP Funding
Issue: Chair Senear referred members to the circulated draft and highlighted the four points of consensus reached previously. UCPB should endorse the concept of borrowing before considering any specific proposals. Members should think carefully about the audience of the letter and suggest edits that will be persuasive to the targets. There is not unanimity in the administration regarding the best path forward on this issue.
**Discussion:** Some members questioned the assumed rate of return of 7.5%, wondering if it were too ambitious. Others noted that the long-term performance data support the assumption and that it is used by the Regents’ actuaries. Still, it was argued that other pension plans use different rates of returns in their calculations, and all are endorsed by governing bodies. Chair Senear reframed the issue as how best to use incremental funds, and asserted that actuarial analyses suggest it is better to pay interest on a loan since rates are favorable. Even if money is put directly into UCRP, taking that action is preferable to taking no action to increase the funding level of UCRP.

Members noted that a new loan could be viewed as an asset to UCRP, but a liability to UCOP and the campuses. It was observed that UCRP is presently at risk, and that any borrowing plan helps long-term operating budgets. Members speculated on how to counter convincingly administrators’ positions that 16% is too high of an employer contribution rate and that an 80% funding ratio is adequate.

**VI. Enrollment Management**

*Debbie Obley, Associate Vice President, Budget and Capital Resources, Budget Office*

*Todd Greenspan, Director, Academic Planning, Institutional Research and Academic Planning*

**Issue:** UC is seeking to align its programmatic goals with available state resources. Several issues resulting from the transition to rebenching remain unresolved, and so the campus enrollment plans are incomplete. At the same time, the environment in Sacramento is changing, making it more difficult to secure long-term deals. UC may be asked to make strategic short-term sacrifices in order to receive a long-term investment for the redress of unfunded students. One option may be to take enrollment funds as a set-aside. The main obstacle seems to be a lack of understanding due to term limits.

To help address the lack of understanding, the Academic Planning Council has drafted a statement of principles, which is high-level and broad at this stage. Most of the verbiage was taken from previous statements, so the current external dialogue on affirmative action in higher education is ancillary to the UC discussion.

**Discussion:** Members observed that the acceptance rate is greater than 8% of high school graduates, and Mr. Greenspan clarified that private high school graduates are not in this calculation. AVP Obley added that the “take rate” was more important in legislative discussions. Such discussions are hampered, though, by the lack of a credible eligibility study; Department of Finance projections have been wrong for the past several years. DOF projections are modeled on expected retention rates from junior high, migration, exit examination changes, etc. Members noted that successful completion of a-g preparatory courses is still the most accurate indicator of success at CSU or UC. Mr. Greenspan agreed, but noted that the model does not include those variables. Another macro-factor is a change in population group behavior: Hispanic and Latino graduation rates have increased significantly recently.

47,000 new California students are projected to enroll this fall. Members asked if transfers could be incentivized by weighting them differently in the rebenching formula. Mr. Greenspan noted that the idea had been rejected by the rebenching steering committee during their preliminary deliberations. Nonetheless, the President’s new Transfer Action Team may revisit that option, or suggest new strategies altogether. AVP Obley added that some think that increasing eligibility should be the goal: lack of an adequate number of “feeder” schools, lack of uniformity in transfer curricula, and lack of student understanding of transfer requirements must be addressed before UC admission practices are reconsidered. Members agreed, concurring that
poor advising from part-time counselors and a lack of academic preparation are obstacles beyond UC control.

AVP Obley noted that many campuses are currently below their budgeted targets for graduate student enrollment, which makes their aggressive enrollment goals for graduate students seem unrealistic to some. Members noted that growth should be carefully incentivized and accountability must be included. Others suggested that growth plans should specify what type of graduate student is to be targeted. Still others suggested that the total pool of UC-caliber graduate students is limited in size, and UC’s financial competitiveness here is poor.

A systemwide conference on graduate education and support will occur at Irvine on April 15. Work will focus on financial models and unresolved policy issues from rebenching. Members suggested that ending unfunded students should be made a priority. It was also asked what a final enrollment plan will entail. AVP Obley indicated that a final plan would include enrollment numbers for different types of students and their attendant levels of state support, for the campuses and the system. An aggressive time line (fall 2014) has been set for resolution of these issues.

**Action:** Members will discuss the principles with their campus CPBs and report back next month.

### VII. UC Care Evaluation Metrics

*Note: Item not addressed.*

### VIII. Systemwide Review Items

*Note: Item not addressed.*

### IX. Debt Capacity

**Sandra Kim, Associate Vice President, Capital Markets Finance**

**Issue:** CFO Division sold another bond this week. The last was in 2012, and this is the same as the previously reported $750M bond a few weeks ago; both have 30 and 35 year rates. UC’s commercial paper balance has been capped at $2B, so a long-term replenishment strategy was needed. Nine campuses have projects that will benefit from the funds, including Berkeley (Lower Sproul) and San Diego (biology). The $150M for Lawrence Berkeley National Lab is taxable as the project was incepted several years ago but is just now receiving financing.

In 2011, UCRP was pre-funded through a $2.1B loan from STIP. That plan was packaged as a one-time project, so any new borrowing would need to be remarketed. One important factor for any new borrowing is to keep campus repayment rates low.

**Discussion:** Chair Senear asked if all the borrowed funds could be from the same source, such as the Short-Term Investment Pool (STIP) or the Total Returns Investment Pool (TRIP). AVP Kim indicated that for debt capacity calculations, UC should not put all its fiscal eggs in one basket. Chair Senear asked if the same amount or more could be borrowed again. AVP Kim noted that the finance queue would need to be reprioritized to do so, and that process includes senior leaders from both the campuses and the center. $1.5B in capital projects have already been approved and await funding. Members asked if UCRP’s UAAL debt was considered worse than other types of debt. AVP Kim replied that it is viewed favorably to fund pension plans, but that they should not subsume all debt load and operating costs. Rating agency calculations are complex: not having tuition increases has as much an impact as incurring new debt –how the debt is to be paid off and how cash inflow and outflow are balanced are scrutinized, not just the
security of the investment mode. Chair Senear asked if the UCRP UAAL was discounted to some degree, but AVP Kim does not know that level of detail of the calculation formulae rating agencies use.

Members asked about UC’s current total debt of $15B. AVP Kim indicated that includes $500M/yr in payments, including for the century bond, debt restructuring, and the 2011 UCRP loan. Public reports about the doubling of UC debt were not fully contextualized and omitted strategic considerations. Chair Senear suggested that a loan from STIP to UCRP would not seem to increase UC’s total load, but AVP Kim stated that liquidity was a separate consideration. Factors considered in debt and credit rating evaluations include loan magnitude, projected fiscal impact, and recent structural and political issues: revenue, research support, auxiliary income, state appropriations, tuition, etc. Members observed that liquidity grew during the economic downturn, so the ratings calculations could be suspect. Members also wondered if UC’s liquidity could balloon into a controversy like that involving the state parks. AVP Kim noted that the ratings agencies also employ longitudinal data, so incremental improvement is also valued. She stressed again that ratings agencies consider the full portfolio, not single issues.

In the full portfolio, the net assets to debt ratio has deteriorated, but UC has traditionally done poorly on this metric. Chair Senear asked if UC would benefit from an endowment. AVP Kim noted that there is no good comparator of UC’s magnitude, so it is unclear. Nonetheless, UC has done well with its debt operations under the leadership of CFO Taylor, but there is now not much room left. So new bonds are needed to open more options. Members asked if UC should be worried about its debt ratio, specifically that its liabilities were greater than its assets. But AVP Kim clarified that the assets total does not include the physical plant, only cash reserves. Members then asked if restricted funds were included in the ratio, and AVP Kim said no, not in UC audit practices. She added that the debt total does not include the UCRP liability.

X. Further Discussion

None.

Meeting adjourned at 3:55 p.m.

Minutes prepared by Kenneth Feer, Principal Policy Analyst
Attest: Donald Senear, UCPB Chair