I. Consent Calendar
1. Minutes of February 4, 2014
   **Action:** The minutes were approved as noticed.

II. Chair’s Announcements

_Don Senear, UCPB Chair_

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

1. **Academic Council of February 26, 2014:**
   - Proposed Revisions to Senate By-Law 55 (Departmental Voting Rights) have been resubmitted by the San Diego division.
     - **Action:** The committee elected not to opine on this item.
   - President Napolitano reported that the Climate Survey would be discussed at the March Regents meeting and that campus leaders have the executive summaries. She also announced another new initiative, this one focusing on food and agricultural security and nutrition.

2. **Academic Planning Council of February 18, 2014:**
   - Self-supporting programs and professional degree supplemental tuition were under discussion. There seems to be a clear divide between the Senate’s call for clear academic distinctions to be defined and the administration which views these as only two different funding mechanisms. There is also a wide range of views on requirements for diversity and access in these programs. The policy drafting committees have been charged with defining the distinctions in response to Senate concerns but in a manner that does not rely on the “mechanical” distinctions cited in the previous SSP policy.

3. **Joint Budget Call of February 28, 2014:**
   - An increase in non-resident tuition is being considered.
   - Non-represented staff will receive a 3% increase on July 1. There is some discussion whether it should be across-the-board or more closely tied to merit and performance reviews.
   - There is no word yet on faculty COLAs; faculty merits are guaranteed.
   - A response to the state request for performance indicators was submitted last week (see also Item VII below). Most of the data came from the accountability reports. One interesting item noted that there are several factors that could influence graduate student graduation rates, but none was individually statistically significant. No multivariate analysis has been conducted yet.

III. Consultation with the Office of the President – Budget

_Patrick Lenz, Vice President_

_Debbie Obley, Associate Vice President, Budget and Capital Resources_

**Issue:** The LAO suggests total funding of $186M, which is more than the governor’s budget, but with different caveats. The LAO recommends against the Governor’s promised 5% increase to UC’s base budget, instead suggesting returning to the “work-load” budget. The LAO also recommends $64M for UCRP and $4M for retiree health that was not included in the January budget proposal. The LAO opposed the President’s promised tuition freeze, instead suggesting a 3.8% increase for UC (2.5% increase and 1.3% return-to-aid) and a 5% increase for CSU. This is projected to net $78M. The remainder of the state funds ($102M) is from the general fund. The University still needs a long-term tuition policy for student planning purposes.

**Discussion:** Members asked how influential the LAO was, and VP Lenz indicated that the office’s influence has grown with term limits and frequent turnover in legislative staff. VP Lenz noted an oddity in the budget process: Fall enrollment is determined in April, long before the budget deadline in July. As a result, UC is not able to tailor its fall class to its final budget. Another issue is the call to increase transfer enrollments. Members noted that it is difficult to develop and teach classes when faculty recruitments have slowed. Members also noted that it is not possible to increase transfers, meet Master Plan freshman enrollment targets, and keep enrollment flat; meeting any of the three goals individually would require significantly more funding.

VP Lenz noted that CSU has cut its enrollment to match its state funding, whereas UC kept the unfunded students. To some, this shows that CSU is not able to meet its Master Plan obligations and so needs additional funding, while UC is a victim of its success in weathering the recent budget storm since this might be interpreted to suggest that we do not need additional funding. In reality, UC needs additional enrollment funding to meet Merced targets, for example, and to reduce the unfunded overenrollment. Members asked if the Master Plan’s 12% enrollment target was under discussion, and VP Lenz said yes. There has not been an eligibility study since 2006, so the composition of the 12% could change again.

Members observed that this discussion could be moot if the Governor’s 5-4-4 plan is approved. VP Lenz noted that his strategy is to lobby for long-term support. The 64M and 4M from above, $22M for enrollment growth (1%), $35M for reinvestment in academic quality, and the Governor’s 5% base increase would hold UC in good stead. The addition of one-time funds, projected from $200-500M, would help address long-standing concerns with UCRP or seismic retrofitting and deferred maintenance. Members asked if the $64M for UCRP would be in addition to UC’s continuing employer contribution, and VP Lenz confirmed yes. Members also asked if the proposed increase in non-resident tuition seemed likely, but VP Lenz indicated no, as the Governor remains opposed to it.

VP Lenz added that legislative hearings on performance outcome measures were not well attended. UC maintains its position that it needs different metrics than the other segments as well as different comparator schools. All measures are time-lagged, and so contextualization and interpretation will also be important.

**IV. Consultation with the Office of the President – Business Operations**

*Nathan Brostrom, Executive Vice President*

1. **Faculty Raises**
Discussion: Chair Senear asked if faculty COLAs had been decided, and EVP Brostrom confirmed that a 3% pool for faculty and non-represented staff, in addition to faculty merits, had been established. The implementation guidance memo is still with the President, though. The faculty COLA may not be implemented until October 1, as concerns about payroll programming and summer salaries have again been raised. Members asked if UC Path would fix the programming and timing issues, and EVP Brostrom said yes. Members asked how the non-represented raise pool was to be administered, and EVP Brostrom said the campuses have been given broad guidelines. Unlike previous raises, those who have received recent salary actions will not be debarred from this increase. It was noted that the Senate has previously opined on the administration of raises question, and that that document might serve as useful background for President Napolitano.

2. Capital Projects

Discussion: Members asked how capital projects priorities are set, and EVP Brostrom first thanked the committee for its recent letter on the topic. He agrees that several issues would be better handled from the center; systemwide priorities such as Merced campus growth, systemwide debt capacity maintenance, enrollment management, and cyber-safety were cited as examples. The Governor’s new GO debt service agreement gives about $10M annually for capital projects. He noted that the University has been put in the position of having to balance, even alternate, between funding capital projects and operating costs. As a result, despite the new state money, campuses will be asked to provide greater matching funds for new capital projects, perhaps as much as 50%.

Members asked how systemwide debt capacity maintenance benefited the campuses. EVP Brostrom said that a healthy system capacity allows for greater campus capacities as they can rely on the system as a backstop.

AVP Obley noted that other options for increasing available funds include the creation of new revenue streams through philanthropy and the expanded use of self-supporting programs. Additionally, one-time funds could be received, and the top priorities for any such funds would be UCRP or deferred maintenance. EVP Brostrom added that a future GO bond could be issued, but that no time frame had been identified yet. Without a new GO bond, there will not be much new money available on a yearly basis, maybe $150M. Members wondered why it should be dedicated exclusively to capital projects’ debt service, given other pressing University budget priorities.

UC has a 10-year financial plan, and CFO Taylor can provide better information on it after Moody’s issues its updated report in a few weeks.

Members asked if the 10-year horizon represented a shift in University planning practices, and EVP Brostrom indicated that it matched more closely state projections and supports a longer-term view than past practices. It was also noted that several projects have been in the pipeline for a long time but were just receiving their first analysis due to several years of late budgets and shifting deadlines.

EVP Brostrom encouraged members to consider how central/divisional pulls should be decided and how central funds should be allocated. Feedback received in time for the next budget cycle would be useful. Chair Senear observed that fiscal plans should take the long-view and that UC should not let the state out of its share of financial support for the University.
V. Consultation with the Office of the President – Chief Financial Officer Division

Peter Taylor, CFO
Meredyth Lacy, Associate Director, Business and Finance
Saphonia Foster, Senior Analyst, Business and Finance

Issue: Ms. Lacy reported that UC’s working capital has grown by $6.5b over the past five years to $13.8 as of Jun 30, 2013. STIP has returned 2% and TRIP 8% over the past 6 months. The interest goes to the campuses for unrestricted use. A question before the committee is how to determine the best use of that capital. A liquidity analysis conducted by a task force reporting to the CFO has concluded that STIP is overfunded by at least $2b.

Discussion: Members asked how optimized returns had been defined and operationalized. CFO Taylor indicated that the analytic tools were not yet that sophisticated. His office is in the process of sharing resources and tools with the Chief Investment Officer’s office, and afterward, will add campus projections and precedents to yield more accurate numbers for optimized returns. Members asked how Moody’s would interpret changes to the STIP and TRIP balance vis-à-vis changes in other University assets and obligations. CFO Taylor said he did not know Moody’s equations. Members asked how lines of credit would impact the analysis, and CFO Taylor said it would be negligible as the risk would be shared with the other participants.

Ms. Lacy noted that recently $2B has been moved from STIP to TRIP to maximize the earned interest. There is still $5B remaining in STIP, which is more than thought to be necessary. CFO Taylor added that partly the slow shift in funds is due to the need to educate stakeholders; these funds should not be viewed as “ATMs”. He added that despite findings that STIP is overfunded, the medical centers do not meet Moody’s standards for liquid reserves, and that only 1 met the less-stringent S&P standards. Members asked how what level of reserves is thought to be needed by the ratings agencies, and how funding those reserves should break down between campus and system. CFO Taylor promised to provide that data.

Ms. Lacy continued by noting that the Task Force on Reserves reported that not all campuses are spending their payouts. It does not benefit the University, either in practice or in the press, to sit on funds in silos. Specific goals should be enumerated, rather than a nebulous “rainy day fund.” Members asked what faculty Senate representatives were on the Task Force, and CFO Taylor said that none were; the Task Force was an ad hoc group to take the temperature on this topic. If the group continues, its charge and membership will be revisited, and Senate participation will be stipulated.

Members observed the irony of campuses complaining about the UCRP ramp up while sitting on unspent funds. Others noted that money invested in UCRP is not as readily accessible as money in the other funds. CFO Taylor stated his goal of having no more than $3B in STIP, with the rest being sent to TRIP or the GEP as FFEs. Members asked why investing in UCRP was not a goal, and CFO Taylor indicated that the chancellors unanimously rejected that option in 2013.

Issue: CFO Taylor also discussed the recent press coverage of UC’s interest rate swaps. He indicated that some of the information was not presented in accurate historical frames and reflected an ignorance of both the topic as a whole and UC’s internal approval processes in particular. Members who desire additional information should contact CFO personnel directly.

Discussion: Members asked why hedge funds figured so prominently in the portfolio. CFO Taylor answered that it was largely a legacy from his predecessors and that the new CIO would
reexamine the class allocations. It is expected that UC will do more analysis in-house moving forward.

VI. Consultation with Academic Senate Leadership

Bill Jacob, Chair, Academic Council
Mary Gilly, Vice Chair, Academic Council

1. Composite Benefit Rates

Issue: In order to allow time to solicit federal approval, and to make programming changes in UC Path, a final decision is due in early April. Currently all options take more than actual costs from contracts and grants. The current estimate is that between $17-22M systemwide, or 10-12% of graduate student support, will be lost. The discussion has conflated CBR with ICR.

Action: Members, especially from Berkeley and Davis, should report detailed information from their campus experiences.

2. Online Hub

Issue: This project is intended to be the primary interface for online education. It is estimated to cost over $5M in the next six months, but there are many unanswered questions. The target population is unclear (international students, our students abroad); there is no clear market model; there is no clear needs assessment yet; the relationship with the Learning Management System remains unclear. So far there are only 15 non-matriculated students who have enrolled in the program; the cost justifications are opaque.

VII. Performance Outcome Report

Debbie Obley, Associate Vice President, Budget and Capital Resources
Pamela Brown, Vice President, Institutional Research and Academic Planning

Issue: The state continues its push to establish “objective” metrics to measure the performance of California’s higher education institutions and their students. Most metrics being considered so far are similar to those UC already reports in its Accountability Report. Much discussion is focused on time to degree and on-time graduation. These areas receive attention because they are most closely tied to the impacts of tuition increases. Nonetheless, data regarding graduation rate influencers do not show clear causation. Overall, though, it seems that students who are better prepared academically before they reach UC have greater success rates at UC. Students from educationally disadvantaged backgrounds tend to take lighter loads, which increases time to degree, whereas many other students may have taken International Baccalaureate classes or Advanced Placement courses. Students from educationally disadvantaged backgrounds are also more likely to be on work study or have outside employment, which, while not individually significant, is thought to act cumulatively with other factors to extend time to degree. Greater emphasis will be placed on intervention type programs and front-line counseling.

Discussion: Members noted that a multivariate analysis could help refine the data.

VIII. UCRP Issues

Dan Hare, Chair, University Committee on Faculty Welfare (UCFW)
Jim Chalfant, Chair, UCFW Task Force on Investment and Retirement (TFIR)

Issue: Chair Hare noted that UCRP has an unfunded liability, calculated by the University’s actuaries, of $12B. The question is how can UC pay down the unfunded accrued actuarial
liability (UAAL) while continuing to make new contributions, all while running the campuses? UCRP has a Normal Cost of 18% of covered compensation, and the cost of amortizing the UAAL over 30 years per the Regents 2010 UCRP funding policy is about 10%. UC was expected to reach the Annual Required Contribution (ARC) of Normal Cost + UAAL payments in 2018, but the University is behind schedule. On July 1, 2014, the employer contributions will rise to 14% of covered compensation, and the employee contribution rate will rise to 8%, for a total of 22% of covered compensation, which is short of the target contribution of 28%. Many campus administrators claim that increasing the employer contribution above 14% will impede their ability to lead functional campuses in the short-term and even on a day-to-day basis. The President has received some conflicting information on this topic, so clear messaging is imperative.

UCFW and TFIR believe that a viable means of decreasing the unfunded liability is again to borrow to help meet ARC. This practice has been used twice before recently, each occasion seeing $1B loaned to UCRP to jump-start the earning of returns. The loans are being paid back by a 0.65% addition to the employer rate campuses pay. Currently, there is plenty of liquidity that could be used for this purpose.

It was noted that the unfunded liability can grow in absolute dollar terms, even while the funding ratio improves, due to possible, but differential, growth in both the numerator and denominator. It was also noted that there are only two ways to pay down the unfunded liability-interest earnings or participant contributions. Relying on interest earnings over time is less costly over the long run. The total cost over time to reduce the unfunded liability to zero is $10b higher if the employer contribution is capped at 14% then if its is allowed to increase by 2% increments to 18%.

**Discussion:** Members asked if Monte Carlo simulations had been run to determine the optimal investment portfolio and show the error envelope. Chair Hare replied that UCFW had made this request to the actuarial consultant, Segal, but was told that the actuary does not perform those calculations; nor do they or the other consultants work for the Senate. Members also noted that a large unfunded liability could easily become an even larger political liability. To ease pressure on the campuses in the short-term, borrowing from reserves or external sources seems reasonable to many. It was noted that TRIP currently has 10-year bonds, so internal borrowing would not represent a significant shift in investment philosophy or local access to invested funds. Some observed that relying on real-time contributions to address the liability could raise generational equity issues.

Members wondered if 16% and 18% employer contribution rates were realistically feasible. The question of balancing the funding of UCRP with short-term campus needs is complicated and will benefit from wide consultation; not all of the decision-makers will still be at UC when the impact of these decisions are felt, though. In some ways, this is a discussion about arbitrage.

Members observed that TRIP investment allocations should not require local approval, but still wondered if there is a way to “hold harmless” campus operating funds in this process. It was wondered if this topic should be delayed until the external political environment is more favorable. Internal conversations should focus on debunking the talking points that “an 80% funding ratio is good enough” and that “12% earnings last year means we met ARC”. Better ways need to be found to illustrate that “14% employer contributions plus interest on another 2% loan costs less than 16% employer contributions”.
Action: Analyst Feer and Chair Senear will draft correspondence and circulate by email for comment.

IX. Campus Updates
Note: Item not addressed.

Adjournment: 4 o’clock

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