

Minutes of August 4, 2015

I. Announcements

Gary Leal, UCPB Chair

Update: Chair Leal updated the committee on several recent meetings:

- The Senate-administration budget call focused on the budget framework, and whether to accept the \$25M offered for enrolling 5000 new California undergraduates by next fall. \$5K per student is half of the traditional contribution from the state. Some argued that UC should not try to meet the goal, since it is “all or nothing”: If UC only gets to 4900 students, the money would not arrive, and the students will be disserved. It was also noted that Cal State got %7.4K/student. See also Item IV below.
- The Academic Council met on July 29, and several topics were discussed. Faculty are supposed to be consulted by local leaders regarding dispensation of the approved 3% salary increase, but three campuses report not having been consulted. EVP Brostrom spoke about optimizing liquidity by changing STIP and TRIP allocations, possibly expanding UC’s insurance finance program, Fiat Lux, to cover dental and vision, and taking UCOP live on UC Path this fall/winter. Merced 2020 and investment performance were also discussed; see Items VI and VII below. A significant portion of the meeting was spent on possible changes to the Berkeley admissions process and on possible UCRP changes, such as the PEPR limit and supplemental DC plans. A new work group will be led by COO Nava, and the Senate has 4 members on the group.

II. Consent Calendar

1. Minutes of June 2, 2015

Action: The minutes were approved as amended.

2. Minutes of July 7, 2015

Action: The minutes were approved as noticed.

3. Responses to SSP proposals:

a. UCLA Master in Applied Statistics

Action: The response was approved as noticed.

b. UCB Masters in Earthquake Engineering

Action: The response was approved as amended.

c. UCD Masters in Entry Program in Nursing

Action: The response was approved as amended.

III. Review Item

1. Proposed UCLA Herb Alpert School of Music and changes to School of Art and Architecture

Shane White, UCPB Vice Chair and Lead Reviewer

Issue: This formal proposal comes several years after the school has been *de facto* operational. There are changes to the reporting and financial responsibilities, and a new dean’s office is being created. The chancellor has offered debt forgiveness for the new building.

Discussion: Members noted that the lack of timely action is the largest problem in the proposal.

Action: Analyst Feer and Vice Chair White will draft the response for electronic approval.

IV. Consultation with State Government Relations

Nelson Peacock, Senior Vice President

Kieran Flaherty, Interim Executive Director for Budget

Issue: SVP Peacock reminded members that this year's budget was interrelated with politics and media issues this year. The long budget negotiation process, and significant differences of opinion with the legislature and the governor, means that UC must work to repair relations in Sacramento. Short-term goals are to educate the legislature on the value of UC to the state, especially vis-à-vis other states' university systems. Director Flaherty then provided a summary of the budget framework and budget bill language. He added that there may be some flexibility regarding the enrollment funds- a pro-rated amount could be offered if relations are mended quickly. The legislature argues that the \$25M is for 2500 students, and that UC can generate another \$25M for another 2500 students from non-resident tuition hikes.

Discussion: Chair Leal asked if the funds for UCRP would definitely be available in the out-years of the deal. Director Flaherty referred members to legislative language, but added that the legislature is upset that some funds have been encumbered. Chair Leal then asked if the enrollment funding deal is being viewed as a precedent, and what might happen to UC if only 4800 new California undergraduates are enrolled or if UC left the money on the table altogether. SVP Peacock said that from a political perspective, saying no to this part of the deal would be a mistake as blame would fall to UC. Nonetheless, members noted that there are capacity concerns that have not been addressed and that it seems to contradict the agreement on transfer enrollment increases. SVP Peacock indicated that next year's budget negotiations begin August 24, and UC needs to have its plan in place by then. Director Flaherty suggested that the enrollment funding deal should not necessarily be viewed as a precedent, since this deal is a multi-year arrangement. Regarding capacity concerns, SVP Peacock indicated that this is a scaled-back total, and Director Flaherty added that quality is of less importance to the legislature than access.

Members asked what role UC played as the governor was working with the Department of Finance to draft his budget, and what other pension deals were discussed. SVP Peacock said that neither he nor Director Flaherty were regularly involved in the Committee of Two discussions, but that the governor did not seem to present further UC pension changes as negotiable.

Members noted that non-resident tuition stays on the campus, but the budget deal implies that such funds can move between campuses. Director Flaherty noted that some internal funds shifts may be possible and the VCPBs have already begun discussions on this topic. The budget deal does not include a specific cap on non-residents, but hearings on enrollment will occur later this month.

How tuition hikes will be tied to inflation also remains to be specified.

V. Consultation with Academic Affairs

Aimée Dorr, Provost

1. Self-supporting Program Proposals

Issue: Provost Dorr reported that the policy revision is still in progress, with most of the changes focus on implementation. PDST revisions have been postponed for the time being. Provost Dorr also noted that SSPs have three years to become fully self-supporting, and that the Senate is not typically involved in reviews at that time.

Discussion: Chair Leal observed the rapid proliferation of SSP proposals and the difficulty of reviewing them thoroughly in terms of resource base and academic impact. Another obstacle is that data are not presented consistently from proposal to proposal. Provost Dorr said that from an academic planning perspective, state-supported programs should also be considered. Members noted that such planning analysis requires information that is not always presented. Provost Dorr said the revised policy should be sent for review in the fall.

2. Faculty Total Remuneration

Issue: Provost Dorr noted that no clear actions have been identified from the Total Remuneration study. The workgroup that was formed to issue recommendations disbanded when all alternatives were deemed too expensive, and the Regents heard the report as an information item last month. The presentation stressed that cash compensation competitiveness has continued to erode and that benefits no longer make up the difference. Some in Sacramento wonder if UC is using the right comparators.

Discussion: Council Vice Chair Hare added that budget uncertainty was also an obstacle this year, and that the results of the study will be presented in detail to the Retirement Options Workgroup at their meeting in a few days. Chair Leal asked if the “Reinvestment in Quality” funds included in the November budget were available for use in this area. Provost Dorr suggested that internal cost shifts from other programmatic efforts may prevent much action on faculty salaries. Further, President Napolitano has given the campuses flexibility in salary administration for half of this year’s salary increase. Chair Leal noted that a systemwide action is appropriate in some situations, especially as salaries are based on the scales. The scales are increasingly in peril, and by extension, so is the merit system.

3. UC Education Abroad Program Funding

Issue: Provost Dorr is recruiting a new director for EAP, and she will add this concern to the agenda for the new person. The draft memo should be routed through Council and copy Vice Provost Carlson.

4. Future of Office of Research and Graduate Studies

Issue: Final decisions on the future of the Office of Research and Graduate Studies have not been made. President Napolitano may decide to restructure the office further. Interim appointments last through December of this year. Provost Dorr would like to have a new Vice President in place by next July, but the job description is still being edited.

Discussion: Chair Leal asked how research is faring in internal policy discussions, and Provost Dorr suggested that the catalyst award program and an augmentation to the MRPI budget are encouraging signs.

VI. Consultation with Office of Chief Investment Officer

Jagdeep Bachher, Chief Investment Officer

Susie Ardisher, Senior Investment Analyst

Issue: CIO Bachher summarized the June 30 valuations. UCRP funds total \$55B and saw 4.5% returns last year. The value added was 2.3%, or over \$2B, relative to the policy benchmark returns. The policy benchmark for returns is currently 53% equity, 22% bonds/fixed income, and 25% alternatives, but some active decisions were made. This year, contributions, including the \$700M borrowed last July, totaled about \$1.8B, which offset ~\$1.3B in payouts

Discussion: Members asked about fees associated with private equity investments, and whether those fees can be lowered. CIO Bachher noted that a new report by CEM Benchmarking on that topic had just been received by his office, and so now more meaningful discussions can occur based on new information. OCIO will continue to value knowledge, transparency, willingness to act, and legal expertise. OGC has been cooperating. Members also speculated how any changes to the assumed rate of return would impact asset allocations.

VII. Consultation with Chief Finance Officer Division

Sandra Kim, Associate Vice President, Capital Asset Strategies

1. Merced 2020

With Dan Feitelberg, Vice Chancellor for Planning and Budget, UC Merced

Issue: Materials presented to the committee were also presented to the Regents at their July meeting. The September Regents meeting should see a presentation on the terms and conditions of the RFP. Right now, three delivery models are under consideration, and each is designed to protect the ownership rights of the Regents. The three delivery models are: 1) design-bid-build – this model is “tried and true”, especially for single-building projects; 2) design-build, which is used on more complex projects and carries a fixed price for UC and various maintenance options; 3) “DBFOM” design-build-finance-operate-maintain – which is a new model for UC and would involve a long-term, 35-year contract for building operations and maintenance. DBFOM payouts are structured over time, which should ensure the operate-maintain portions of the contract are observed. Given the complexity of the project, many favor DBFOM.

Discussion: Members asked what contractors in DBFOM projects gained and what exit strategies would be available to UC. AVP Kim noted that bonds are already 30+ years, so DBFOM really only adds operate-maintain to the mix. Exit strategies for UC are under discussion, and early options include a mid-point termination clause. VC Feitelberg added that payment can be withheld and that arbitration against an active partner should yield better results than submitting claims against a warranty. He also clarified the difference between milestone payments and availability payments, with the former being from bonds for construction and the latter being for scheduled operations and maintenance. Fund sources are also still being identified to complement AB 94 fund sources; a more detailed financial model is under development and is expected to include money from external pension funds that need long-term investments. Those who win bids for BDFOM projects receive a reputation making deal and a long-term commitment. Further information should be available in November.

2. Debt Capacity

Note: Item not addressed.

VIII. Consultation with Senate Leadership

Dan Hare, Academic Council Vice Chair

Issue: Vice Chair Hare updated the committee on several items of interest:

- UCPB needs a September meeting in order to provide timely feedback to the administration as they draft the budget for the fall Regents meeting. UCPB can adjust its meeting schedule and membership turnover. UCPB might also consider drafting a position paper that outlines Senate spending priorities; precedents can be found in the Cuts and Choices reports authored by previous iterations of this committee.
- The Regents learned about faculty review processes, and that faculty reviews do not end when tenure is granted. The Regents were also told that several class-action lawsuits are likely following the data breach at the UCLA medical center. Also as a result of the breach, a new task force on cyber security was established; more training will likely result.
- The Retirement Options Task Force will be led by COO Nava and will meet for the first time this Friday. The Senate has four participants of the 12.
- The Academic Council began discussion of the programmatic objectives contained within the budget framework. Many areas are within the Senate’s area of responsibility, so the Senate must be vigilant in ensuring that data are sound and the implications of possible actions are clearly understood. The state Department of Finance will be monitoring UC progress in these areas. Weekly calls with campus and subject area leads are being scheduled.

IX. Executive Session

Note: During executive session, other than action items, no notes are taken.

1. Total Remuneration
Action: Chair Leal will revise the draft memo and circulate it electronically for approval.
 2. Shared Governance
Action: Chair Leal will revise the draft memo and circulate it electronically for approval.
 3. Enrollment Funding
Action: Chair Leal will revise the draft memo and circulate it electronically for approval.
 4. Education Abroad Program Funding
Action: Analyst Feer will revise the draft memo for transmittal.
 5. Merced 2020
Action: Project leaders will be invited to provide an update in the fall.
 6. UCPB Meeting Schedule
Action: Chair Leal will draft a memo and circulate it electronically for approval.
- X. New Business**
1. August Teleconference:
Action: UCPB will meet by teleconference on August 31. Specific time is TBA, and incoming members for 15-16 should be invited to join.
 2. UCPB Representation:
Action: Incumbent representatives to TTAC (Vice Chair White), ACSCANR (Riverside Representative Barish), and ACSCOLI (Berkeley Representative Sadoulet) will continue for 15-16.

Meeting adjourned at 3:40 pm.

Minutes prepared by Kenneth Feer, Principal Analyst

Attest: Gary Leal, UCPB Chair