UNIVERSITY OF CALIFORNIA ACADEMIC SENATE

UNIVERSITY COMMITTEE ON PLANNING AND BUDGET

Minutes of Meeting
December 2, 2014

I. Consultation with UCFW's Task Force on Investment and Retirement

Jim Chalfant, TFIR Chair

Issue: Chair Chalfant noted that the pressing public questions about UC's pension plan are those that involve large numbers in the abstract sense that can be used as political bargaining chips; retirees will continue to be paid in a timely manner. Internally to UC, the questions about UC's retirement plan focus on its place in the spending priority hierarchy. Unrealized returns will cost the University more in the long term, as can be seen when considering the difference between two curves. Although UCRP carries a higher rate of return than other funds like TRIP, it seems unlikely that the administration will support another round of borrowing from the latter to the former, but no decisions will be made until spring. One reason why borrowing is less attractive this year is because the borrowing approved last year was credited to UCRP in the current fiscal year; as a result, on paper, UC is making its annual required contribution (ARC), but last year's contribution was below ARC. UCRP's normal cost is 18% of covered compensation, and this year, UC is contributing 22% to make up for past shortfalls. It is unlikely that a higher rate will be contributed, even though the Regents policy suggests a higher rate can be used until UCRP reaches full funding. Nonetheless, campus-based officials are expected to put up significant resistance to additional assessments on their campuses, even though some have recently voiced appreciation for the predictability of loan repayment costing practices in local budget-making. TFIR will ask UC's actuaries, with administration blessing, to generate new funding ratio projections to show the impact of prolonged deflation or stagflation, a zero or negative growth rate, and different rates of employee population growth.

Discussion: Council Vice Chair Hare noted that previous requests for stochastic modeling and confidence intervals surrounding the expected rates of returns were refused as not being standard practice in the actuarial community. Members noted that such models are increasingly common in other financial areas and suggested creating a database of 30-year return rates to generate artificial intervals. Members were encouraged to think of other modeling that would be helpful in persuading decision-makers that funding UCRP should continue to be a top priority. It was emphasized that small changes can have large impacts in this area.

II. Chair's Announcements

Gary Leal, UCPB Chair

Update: Chair Leal updated the committee on several items of interest:

- Joint Admin/Senate Budget Call: This month's call featured Mark Cianca, Deputy Chief Information Officer and UCPath Project lead. Deputy Cianca acknowledged that the UCPath project has made slow progress but it took a long time to assess the myriad systems in use now and find their commonalities. Software is being adjusted, and UCOP will be the first location to go live, followed by Santa Cruz, Merced, and Los Angeles, in sequence. So far, $220.5M has been spent on the project, and an augmentation request will go to the Regents in the spring. The fiscal savings will likely take 15-20 years to realize, but the efficiency improvements will be immediate. Testing suggests that UC software is performing at 80-90% of benchmark, but it was not explained how the benchmark was derived nor why less than 100% is acceptable.

Discussion: Council Vice Chair Hare added that 10% of the anticipated staff of 370 has been hired so far, and members wondered what impact a fully staffed UCPath center would have on campus staffing levels. Members also asked if any talk of scrapping the project has arisen, but there has been none. The new "go live" time frame is yet to be announced.

- Academic Council of November 24: The doctoral student support proposal received much attention. NRST will remain a campus-level decision. The website clearinghouse for non-academic paths was widely pooh-poohed by divisional respondents who felt that advisors could provide adequate information on careers without creating a new bureaucracy.

  The Council also discussed the Governor's response to the tuition plan announced at Regents the week prior. Many think that his goal is to change the higher education paradigm, not to shore up the Master Plan.

III. Consent Calendar

1. DRAFT Minutes of November 4, 2014

   Action: The minutes were approved as noticed.

IV. Consultation with the Office of the Chief Financial Officer

Nathan Brostrom, CFO and Interim COO
Sandra Kim, AVP, Capital Markets Finance

1. 15-16 Budget

   Issue: CFO Brostrom noted that the Governor and the Assembly Speaker both had limited counterproposals at the Regents, and the Senate leadership is issuing its responses today. Newly proposed Senate Bill 15 would include both UC and CSU in a tuition buyout contingent on higher non-resident fees. Other than the Governor, most respondents seem to agree that getting more state money to UC should be the priority.

   Discussion: Members wondered if funding UCRP might be more realistic than an increase in UC's base budget. CFO Brostrom indicated that Prop 2 includes a rider that funds UCRP, but the state's Department of Finance might have different destinations in mind for the funds. Additionally, the state often includes caveats with its money. Chair Leal asked if the budget is for 15-16 only, and CFO Brostrom replied that the budget is a 3-year plan, but that the state operates on a one-year cycle only.

2. Debt Strategy Task Force Update

   Issue: AVP Kim reported that the Task Force was convened at the beginning of this fiscal year and has met three times so far. They have been asked to develop a 5-year plan to meet the University's needs after UC's credit rating was downgraded by Moody's and Fitch earlier this year to AA flat. The state has not issued a General Obligation (GO) bond since 2006, and there have been minimal lease-revenue bonds. An early first step for the Task Force is to assess the University's capital needs – on the general campus, at the medical centers, and including housing and parking. The medical centers need to continue to grow volume to flourish. Identified capital needs total ~$8B, but only ~$2.5B in plans have been approved.

Discussion: Members asked how capital needs were determined, and CFO Brostrom indicated that they asked the campuses. Members also asked who was on the Task Force, and AVP Kim said she will forward the roster. She added that the Task Force's findings will be reported to the Regents' Long Range Planning Committee. Another goal is to align campus metrics, excepting Merced; one outcome may be a debt policy similar to other financial policies like that for interest swaps. Members asked what debt constraints UC faced, and AVP Kim listed pension and other post-employment benefits such as retiree health as the fastest increasing costs. This type of expenditure is viewed unfavorably by ratings agencies, even though UC's cash basis is strong. The total liabilities less assets yields debt capacity, and UC has ~$20B in post-employment liabilities. Members asked how internal borrowing to reduce the liability was viewed by the ratings agencies, and CFO Brostrom said that they do not view it favorably, either, but that they do not routinely include those figures in their estimates. Liquidity and cash management practices are viewed positively, but again, this is not what ratings agencies measure.

CFO Brostrom noted that hopefully going forward, campuses will be asked to demonstrate that they can afford projects according to a standard metric: debt service margin, which asks if a campus has the cash on-hand to back-up projects. Payments, including UCRP, should be projected on a fixed basis. Members asked if UCRP payments counted against campus debt projections, and CFO Brostrom said yes, for a few years now. Members asked if this new process could undercut some projects already under consideration. CFO Brostrom indicated that internal priorities may need to be reevaluated under a new schema. He added that additional state support for UCRP would help ease this burden significantly, and AVP Kim noted that philanthropic efforts can also help, especially with aspirational projects. Most recent proposals have been focused on maintenance, in part because of heightened scrutiny on debt capacity.

Another strategy will be to examine existing liens and whether converting general revenue bonds (GRBs) to limited project revenue bonds (LPRBs) would help the University; LPRBs have a lower rating and more flexibility and could be used for parking, for example, while freeing higher rated debt for other projects. Fixed rates available now make this an attractive option to many. When to use variable rate bonds is under investigation still. Members wondered if UC might move to a central bank style, with the campuses receiving fixed rates and UCOP buffering costs. CFO Brostrom reported that Ohio State uses that model, and that option is also being considered. Alternate financing structures, especially for Merced, may include public-private partnerships. Such projects usually work best when associated with projects with a revenue stream like parking, but they are being considered because they do not count against the debt capacity.

3. Capital Projects Processes

Issue: CFO Brostrom reminded the committee that all debt financing goes through OP now, and that the Regents have asked for 10-year plans. Some AB 94 savings were earmarked for UCRP, but those funds have all been spent. Even though UC is mostly financing itself now, we still have to meet the requirements of lease-revenue bonds.
Discussion: Members speculated how independent UC should be from state funds, and CFO Brostrom noted that it is a double-edged sword. UC practices may change if there is another GO bond, but UC's capital projects cannot wait indefinitely.

4. UCRP Funded Status and Modeling
   Issue: CFO Brostrom agreed that the borrowing advocated by the Senate last year has proven successful. Future borrowing decisions will be made after the next liquidity assessment in the spring. If returns are strong, there is even the possibility of a direct contribution. Senate support in this area is valuable.

V. Consultation with Academic Personnel

Susan Carlson, Vice Provost

1. Negotiated Salary Trial Program Update
   Issue: VP Carlson provided background of the program, noting that it is a 5-year pilot program at UCSD, UCI, and UCLA and it is designed to offer additional salary opportunities, similar to those in the health sciences compensation plan, to those on the general campus. A preliminary report is available now. A comprehensive first-year report is being finalized. It will include additional information on fund sources, summer salary ninth frequency, teaching loads for participants and non-participants, and survey-derived indicators of morale and efficacy from the perspective of participants, non-participants, and administrators.
   Discussion: Members wondered how much the trial was costing in administration costs. Data is reported by discipline to protect anonymity.
2. Salary Data
   Issue: To facilitate total remuneration discussions, additional salary data will be made available. The data will be broken down by campus and will include the distribution of off-scale salaries. The costing estimates are systemwide averages. The data should be available by the end of the week.

VI. Consultation with Budget Office

Patrick Lenz, Vice President
Debbie Obley, Associate Vice President

Issue: VP Lenz reported on the concerns that have been voiced about the recent budget process and the late roll-out of the plan. Most responses so far are works in progress. State budget deals often come with strings, and a popular topic in the public discourse is pension caps. Other ideas have included 20% hikes in non-resident tuition, and cannibalizing the middle class scholarship program. That the state has a one-year budget cycle is another obstacle to sound fiscal planning. Nonetheless, dialogue is useful, and UC can benefit from closer ties to the legislature.
Discussion: Members asked if any proposed tuition buy-out would be a one-time function, or if those funds would be added to UC's base budget. AVP Obley answered that buy-outs are

augmentations, but they can be removed in subsequent years. VP Lenz noted that deferred tuition hikes have historically boomeranged and caused even larger hikes later. The undergraduate representative noted that whipsaw patterns are frustrating to students, and VP Lenz encouraged students to target Sacramento. He noted that after the last major round of hikes, only students from CSU and CCC testified before the legislature. A more united front between students and the administration would benefit all.

Members asked for more details on the budget plan- how much was expected from efficiency savings? How much is expected from philanthropy? Are the expectations the same across locations? Are these funds additive in out-year planning? AVP Obley noted that the anticipated savings from efficiencies is scheduled to decrease over time, while philanthropic goals increase over time. There are not yet campus-by-campus breakdowns for non-resident tuition, philanthropy, etc. Berkeley and Los Angeles have reached the unofficial limit on non-resident tuition, so the anticipated increase of 2000 more non-residents will be split among the other general campuses. It is likely that richer campuses will benefit more from philanthropic efforts. Rebenching is intended to smooth some of the differentials. An upcoming shift to balance sheet budgeting should help identify campus-specific issues.

AVP Obley observed that if the state meets its 4% increase and the tuition hike goes into effect, UC will have funds for academic quality reinvestment. The graduate student representative asked if the professional degree supplemental tuition (PDST) is in addition to the general tuition increase, and AVP Obley indicated yes, and that non-resident supplemental tuition (NRST) would be on top of that. She added that only 57 programs are PDST eligible, and that the money goes directly to the school.

Members asked if rebenching was likely to continue, and AVP Obley indicated yes, but it may not be extended past its initial six-year horizon; this is year 4. Members asked if funding streams, rebenching, and enrollment management were being addressed as a group, and AVP Obley said conversations are still early. Members noted that the reinvestment in academic quality received an augmentation of $10M. AVP Obley observed that while $60M would not solve all problems, it is just the year one total; next year an additional $50M is expected to be added on a permanent basis to this fund area. Members wondered what priorities were downgraded to make this change.

Members again lamented the lack of detail in the budget presentation, and noted that local "black box" allocation practices are still troublesome.

VII. Consultation with Senate Leadership

Mary Gilly, Chair, Academic Council
Dan Hare, Vice Chair, Academic Council

Update: Chair Gilly updated the committee on several items of interest:

- The Governor appointed two Regents only hours before the November meeting: John Perez, former Speaker of the Assembly, and Long Beach Community College District Superintendent-President Eloy Ortiz Oakley. Mr. Oakley is known for creative cost cutting in Long Beach. The Governor also wants to convene a special committee to look at standardized curricula and admissions requirements and to explore more online education options. Many Regents and UC advocates think that UC should have received more funds from Prop 30, but the Governor contends that UC's budget not being cut after the passage of Prop 30 is the boon to UC.

- Reg Kelly has been appointed special advisor to the President for innovation and entrepreneurship. The new OP organizational structure is still to be determined.
- President Napolitano wants to engage the faculty on the budget plan and is working to develop talking points for faculty to help promulgate the message.
  Discussion: Members noted that there are many budget myths that still need debunked, including the relationship between state funding and tuition. It is also not well known that 55% of undergraduates pay no tuition. A return to aid map was suggested, as was a better reporting of clinical income and general campus support.
- Campus data is being generated for additional total remuneration analysis. Academic Personnel will maintain the database for legal reasons. Members and campus committees will be asked to help develop plans to administer 3% range adjustments as well as how to close the overall gap.
- Doctoral student support discussions are mired in discussions about local flexibility versus top-down standardization. More information is needed to evaluate the non-academic jobs web-clearinghouse suggestion. It is not known what the Regents priority is here, or what impact the Regents imprimatur may bring. Some divisions may be receptive to higher assessments if diversity goals can be met.
- Vice President Sakaki from Student Affairs reported that UC has received more undergraduate applications than at this time last year. There is an increase in the number of applications for under-represented minorities, but transfer applications are flat. Many think that UC needs a clearer, standardized transfer process.
  Discussion: Members noted that under-represented minorities often take longer to graduate, which means the Governor's emphasis on time to degree could have adverse impacts on vulnerable populations. Others added that study abroad and part-time work opportunities could also suffer. UCSA sent a letter to the Governor expressing their opposition to overemphasizing online education and three-year degrees.

VIII. Consultation with Budget Office (continued)

Discussion (continued): Members again asked for greater budget plan detail in order to provide meaningful evaluations. AVP Obley indicated that the VCPBs have not seen the details, either, as the President's office fears leaks. A PowerPoint summary can be prepared and questions can be submitted in advance.

Members asked if there was new information on the cost of instruction. AVP Obley reminded members that there is a blended rate for both undergraduates and graduates, and this number is reminiscent of the previously used CPEC methodology. There is no longitudinal data yet. Many expect blowback when it becomes clear that undergraduates subsidize graduate students, especially those in the health sciences and STEM fields. It has proven difficult to separate training from instruction in the health sciences. AVP Obley also reminded members that there is a narrow definition and a broad definition; in the narrow version, fully 70% of costs are associated with faculty salaries. Also, not knowing how legislators intend to use the data has caused UCOP to approach the topic carefully.

Members noted that the competing sustainability plans suggested that there would be a one-to-one resident for non-resident trade-off should the tuition plan not go forward, but the costs associated with those groups are vastly different. In the future, more carefully crafted language could make clear that enough non-resident students would be enrolled to make up the cash difference of not enrolling X California residents.

IX. Total Remuneration

Issue: UCPB is asked how the 3% range adjustment should be spent, and how the overall remuneration gap should be closed. UCFW circulated possible principles to guide the latter activity.

Discussion: Members quickly agreed that the 3% should be given across the board because it too small to parse.

The committee then discussed the UCFW principles and how they should tweaked.

Action: Analyst Feer will circulate a revised version of the UCFW principles.

Action: Analyst Feer will poll members for an off-cycle teleconference for further discussion on this topic.

X. New Business

1. The January meeting is expected to be a teleconference; full details to follow.

Adjournment: 4 p.m.

Minutes prepared by Kenneth Feer, Principal Analyst
Attest: Gary Lead, UCPB Chair