I. Chair’s Announcements

Gary Leal, UCPB Chair

Update: Chair Leal updated the committee on several items of interest from the Academic Council meeting of January 28:

- **Health care**: a) Open Enrollment results were largely as expected; there was little migration between plans this year.  b) Preliminary discussion of a UC Care HMO option has occurred behind closed doors.  c) The Sutter/Blue Shield contract dispute has been resolved; brinksmanship is common in insurance industry negotiations, but communications need to be improved.  d) Retiree health changes have many on edge, especially as media increasingly reports findings that retiree health guarantees are not vested like pension benefits.

- **Committee of Two**: Governor Brown and President Napolitano will have a series of meetings to discuss UC’s cost structure and educational mission. Each will be supported by five staff, and meetings will include expert interviews.

- **Budget**: The Governor’s budget includes only the scheduled 4% increase, but it is now made conditional on UC not raising any tuition and capping non-resident enrollment at current levels.

- **Lab Fees**: A security breach at Los Alamos National Laboratory means that UC will not receive its full share of the management fee this year. As a result, the lab fee research program is canceled for this year.

- **UC Path**: The “go live” date for UC Path has been delayed yet again. Software test goals were not met, and leadership changes have occurred. A new start date is still to be determined.

- **Advocacy**: Faculty will be contacted regarding budget advocacy and will be provided talking points with which to engage community members.

- **New Vice Presidents**: The Council was introduced to Nelson Peacock, Senior Vice President for Governmental Relations, and Julie Henderson, new Vice President for External Relations. Mr. Peacock will be added as a UCPB consultant, partially filling the role vacated by Patrick Lenz’ retirement.

II. Consent Calendar

1. **DRAFT Minutes of Teleconference of January 6, 2015**

   **Action**: The minutes were approved as amended.

III. Consultation with Academic Senate Leadership

Mary Gilly, Academic Council Chair

Dan Hare, Academic Council Vice Chair
**Update:** Chair Gilly reported that the newly appointed Regents and the long standing Regents are still learning how to work together best. UC admissions deadlines do not match state budget decision time lines, so discussions regarding funding conditions based on enrollment are difficult. UC’s Lab Fee Research Program will not receive funding this year due to fines levied for a security breach.

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

- The Sutter/Blue Shield contract dispute has been settled. Brinksmanship is common in these types of negotiations, and consumers such as UC are powerless to compel insurers and providers to resolve contracts on a time frame that matches enrollment calendars.
- Early discussions of a UC Care HMO option will continue. UCFW’s Health Care Task Force is actively monitoring developments. The concept originated because the current trend of steep premium increases is thought to be unsustainable, but not limited to HealthNet or any single insurer. Given that UC medical center costs are also high, a lower cost model is worth exploring in a careful and considered manner. Equity of access and quality of care across geographic regions will be primary concerns of the Senate.
- The Committee of Two met for the first time last Monday. There will not be much reporting out. Topics to be discussed include: how quality is funded; how productive faculty are incentivized; podium time versus mentoring, lab work, service, etc.; the role of research in undergraduate education; the role of graduate students in undergraduate education and research.
- The Cost of Instruction report is nearly finished; UCPB should expect to review it.

**Discussion:** Chair Leal noted that the Senate-administration total remuneration working group was being established. Members asked if fund sources for faculty salaries had been identified, and Chair Leal noted that the administration was hopeful that additional funds could be secured from the state through means other than the general fund, such as through proposition funds.

Members asked if there was new information about retiree health. Vice Chair Hare noted that out-of-state retirees have been moved to Medicare exchanges and given $3K to spend on premiums; there is no plan to move in-state retirees to exchanges. Although retiree health is not a vested right, removal of the benefit would be detrimental to recruitment and total remuneration. Problems with the exchanges are being monitored. Difficulties relocating after retirement also remain.

**IV. Consultation with Chief Financial Officer**

*Nathan Brostrom, Chief Financial Officer*

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

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

*Tom Peterson, Executive Vice Chancellor, UC Merced*

**Issue:** Merced Capital Planning: CFO Brostrom reminded the committee that the debt capacity working group identified $8B in capital needs, but only $3B in available capital funds. The University has already refinanced much of its debt, so now new delivery models are under investigation, especially for Merced. Merced needs to grow quickly and effectively to reach its goal of accommodating 10K students in 2020. There are four planning processes underway
simultaneously: a space plan, the academic plan, the long-range enrollment plan, and the workforce growth plan. Merced needs all types of space simultaneously, so a building-by-building plan will not work. The model under consideration would see UC contract with a private partner who would design, build, finance, operate, and maintain (DBFOM) the buildings while UC retains ownership of the property. A mixed learning-living environment is expected to result.

**Discussion:** Members asked about the provisions common in this type of contract. Strict and detailed performance standards will be included, such as for elevator performance and the like. UC will be asked to finance about half the costs with its own revenue bonds. UC will for the project make milestone payments and “availability” payments. Members asked how much UC could expect in total payout. CFO Brostrom said the method of delivery should be less than current methods, but overall, the project could cost as much as $1B. Mr. Feitelberg added that consolidation in construction and operations also lowers cost. Early planning unity saves time and expense. The construction schedule would be phased to meet delivery milestones and campus arrivals. Early thoughts suggest a five-story skyline, rather than the three-story one envisioned earlier. Costs of customization, such as for labs, will be borne by UC, as will maintenance resulting from such customization. UC would also be responsible for keeping buildings up to codes, even if the codes change over time.

Members asked how the project would impact UC’s credit ratings. AVP Kim indicated that talks with ratings agencies are on-going, and CFO Brostrom suggested it could be viewed like a capital lease. Procurement guidelines allow flexibility to ensure the highest quality, not just the lowest cost. Members inquired about debt liability, and CFO Brostrom said UC would carry debt for the milestone payments. If the private partner defaults, their debt in the form of availability payments would not accrete to UC, but would be managed between them and their lender; UC would take ownership of the building. The private partner must maintain quality service for the length of the contract, or payments will not be made. This is a new model in the United States, but some precedents exist: the Long Beach courthouse, and other municipal projects.

Members then asked about Merced’s plans for after 10K students. Mr. Feitelberg said the goal is to achieve a steady-state at 10K; subsequent plans are not yet developed. The current LRDP expires in 2020. Members asked if the referral pool would be impacted, EVC Peterson noted that Merced is committed to meeting the needs of the referral pool but that his campus cannot address its needs alone.

The final RFP should be ready in the fall, and UCPB will be kept up-to-date on developments.

**Action:** A late summer update will be scheduled.

**V. Consultation with Chief Investment Officer**

*Jagdeep Bachher, CIO*

*Arthur Guimaraes, Associate CIO*

*Susie Ardisher, Senior Investment Analyst*

*Michele Cucullu, Director, Private Equity*

1. **UC Ventures Update**
**Update:** CIO Bachher reported that his office’s investigation into best practices is nearly complete. His office is meeting with a subset of the Innovation Council this afternoon, and with the full Innovation Council on Friday. The model is still to be determined, but several existing pipelines at the campus level have been identified. Most models include co-investors as a second measure of quality and potential.

**Discussion:** Members asked if the campus due diligence practices were of a uniformly high standard, and noted that some local contracts seem to be based primarily on relationships not earning potential. CIO Bachher responded that venture capitalists are known for their ruthlessness in the business and finance markets. Members asked what added value UC Ventures would bring to investors. CIO Bachher noted that UC’s name recognition is a value added in many cases. Members asked if multiple models would be presented for evaluation. CIO Bachher said he is reviewing many options, including a UCSD white paper.

**Action:** Members should solicit constraints from colleagues.

2. **December 2014 Valuations**

**Update:** As of December 2014, UCRP was funded at 87% on a Market Valuation of Assets (MVA) level. In part, this is due to the borrowing of $700M from TRIP in July 2014. Recent returns have been low, and UC hopes to make 2% each of the next two quarters. UCRP is outperforming its benchmarks and shows less sensitivity to market fluctuations than comparator indexes, such as S&P 500.

**Discussion:** Members asked how UCRP’s investment allocation compared to other funds. CIO Bachher noted that Total Return Investment Pool (TRIP) is split 50% equity, 30% fixed income, and 20% other; the General Endowment Pool (GEP) is split 10% fixed income, 50% alternatives, and 40% in equities; UCRP is split 30% fixed income, 20% alternatives, and 50% equity. The different funds have different time horizons which impact their allocations. Tactical changes are made on a rolling basis; OCIO conducts weekly performance analyses. Larger changes to the investment strategy must be approved by the Regents.

VI. **Consultation with Budget Office**

*Debbie Obley, Associate Vice President*

1. **Cost of Instruction**

**Update:** The current draft report will be issued Friday; the new nomenclature is Expenditures for Instruction. UCPB members can send comments by end of business Wednesday. The current draft contains no major departures from previous versions. Political concerns remain around the cost of graduate instruction, especially in the health sciences. This exercise is unlikely to lead to funding decisions. On a value-added basis, the state’s return on investment in UC should be persuasive enough to secure adequate funding.

2. **Budget**

**Update:** The governor’s budget includes only the 4% increase, now made conditional on several factors. One factor is responsiveness to the findings of the Committee of Two.

**Discussion:** Members asked what types of findings the Committee of Two might issue. AVP Obley indicated that both parties would have to make compromises.
asked if the governor and his team understood that non-residents do not replace resident enrollees. AVP Obley noted that the current budget from the state does not distinguish between funded and unfunded enrollment. The governor wants UC to shrink, while the legislature is primarily concerned with access.

Members asked what plans were being developed to close the funding gap. AVP Obley said several other avenues were being considered. Proposition 2 funds could be tapped, but again, politics may intervene. Deferred maintenance could be funded in a series of one-offs, but UC would prefer a more strategic approach. The estimates for campus fundraising are OP generated. Members speculated that those estimates may not be realistic, especially for philanthropic goals. AVP Obley noted that the budget plan is flexible and that the administration is working to develop enrollment plans that are realistic and eliminate unfunded students. Some wondered if eliminating unfunded students would benefit well-established campuses more. ABP Obley said that the legislature does not want enrollment funds to go toward the alleviation of unfunded students, but only to new enrollees.

Members speculated if tuition might increase more than 5% a year if the governor withholds state funds.

**Action:** Members should ask local budget offices for their philanthropic fundraising expectations and report back.

### 3. Medical Center Financial Report

**Issue:** The Regents received the Medical Center Financial Report at a recent meeting. UCPB inquires how the medical center budgets interact with those of the general campus. AVP Obley reported that the medical centers are self-supporting. The general campus taxes its medical center for some revenue, and UCOP gets some funds through the assessment. The medical centers provide significant support to the medical schools, both through assessments and through access to intellectual capital. New federal regulations will increase “cash on hand” requirements, so the medical centers will need to net 5-7% to meet those needs. New business models are being considered to lower costs, such as a new focus on leveraged purchasing.

**Discussion:** Members asked what contingency plans are in place should medical center revenue fall. AVP Obley referred the committee to CFO Brostrom and Dr. Stobo. Members also asked how new federal regulations regarding access to primary care physicians would impact medical center goals, and AVP Obley again referred the committee to Dr. Stobo.

### 4. Enrollment Planning

**Issue:** The revised plans are still being received by OP.

### 5. Total Remuneration

**Issue:** The joint Senate-administration work group will meet tomorrow.

**Discussion:** Members asked how much money the work group will have discretion over. AVP Obley indicated that the approved 3% increase and merit pools will be available. The campus investment in academic quality should close the remuneration gap over time. Members noted that competitors will also offer 3% increases and merit pools, so those UC actions should not be counted against the gap. AVP Obley again said that the campus reinvestment in quality funds would close the gap over time.
6. **Proposed Senate Constitutional Amendment 1 (SCA-1)**

   **Update:** AVP Obley reported that such a drastic action as this is out of character for the legislature. Unless UC acts rashly, it is not expected to secure legislative approval.

VII. **Consultation with Institutional Research and Academic Planning**

   **Todd Greenspan, Director, Academic Planning**

   **Issue:** The campuses have developed 5-year academic plans. The goal was for the campuses to think more deeply about how they want to grow moving forward; the plans are aspirational and not for immediate action, so Senate feedback is still welcome. The exercise also helps identify educational trends, but has been delinked from enrollment planning.

   **Discussion:** Members noted that new programs would seem to assume enrollment growth. Others suggested that new programs might reflect anticipated conversion of state-supported programs to self-supporting programs, enrollment notwithstanding. Members asked about the programs that had zero enrollment, and Director Greenspan said the list may indicate the need for conforming amendments to reflect name changes, disestablishments, or other bureaucratic issues. Members also asked for a description of the development process for the plans and participants in the process.

   **Action:** Director Greenspan will report back on the process and participants.

VIII. **Consultation with UCFW Task Force on Investment and Retirement**

   **Jim Chalfant, TFIR Chair**

   **Update:** Chair Chalfant reported that TFIR was developing a list of UCRP funding projections to be modeled by the university’s actuary to illustrate the impacts of different funding actions on UCRP’s funded status. A steady-state of 14% employer contributions and 8% employee contributions will only see the unfunded liability continue to grow in absolute dollar terms, even as the funded ratio improves (both the numerator and denominator will grow). The actuaries still assume a 7.5% rate of return, but the upcoming experience study and other external variables may cause the figure to be revisited. Possible projections may include: differential work force growth rates; extended periods of low inflation or low returns; additional borrowing. TFIR does not propose models with confidence intervals; such calculations are not industry practice in actuarial sciences, and available data can be analyzed in a stochastic fashion by UC faculty.

   **Discussion:** Members asked for clarification of the contribution requirements for faculty on “soft money”. Chair Chalfant noted that those on “soft money” must pay the full 22% (14% employer + 8% employee) contribution rate from their fund sources. The same is true for research grants.

IX. **New Business**

   **None.**

Meeting adjourned at 3:45 p.m.

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