UNIVERSITY OF CALIFORNIA **ACADEMIC SENATE**

UNIVERSITY COMMITTEE ON PLANNING AND BUDGET

Minutes of Videoconference Meeting
November 2, 2021

Present: Kathleen McGarry (Chair, Los Angeles); Don Senear (Vice Chair, Irvine); Robert Powell (Berkeley); Heather Rose (Davis); Alyssa Brewer (Irvine); Evelyn Blumenberg (Los Angeles); Kevin Mitchell (Merced); Dana Simmons (Riverside); Gedeon Deak (San Diego); Marc Steurer (San Francisco); Douglas Steigerwald (Santa Barbara); Dard Neuman (Santa Cruz); Bailey Henderson (Student Representative); David Brownstone (TFIR); Eleanor Kaufman (TF-ANR); Robert Horwitz (Chair, Academic Senate); Susan Cochran (Vice Chair, Academic Senate); Nathan Brostrom (CFO); David Alcocer (AVP – Budget Analysis and Planning); Seija Virtanen (Associate Director, SGR); Kevin Confetti (Interim AVP and Chief Risk Officer); Jill Hollenbach (Chair, UCFW); James Chalfant (Professor Emeritus); Stefani Leto, Analyst.

I. Consent Calendar and Announcements

Action: UCPB approved approve the minutes of the October 5, 2021 meeting.

II. TFIR Pension Plan Overview

The UCFW Task Force on Investment and Retirement (TFIR) Chair David Brownstone and Professor Emeritus Chalfant provided an overview of the pension system to UCPB. Specifically, they noted that the University has an overall $13 billion payroll, pension costs are 33 percent of that. In addition, the University pays twelve percent of payroll for employee health benefits, and three percent for retiree health benefits. UCRP is the only guaranteed benefit of the three, but costs to employees can be changed by Regents' mandate. The current unfunded pension liability is largely a result of the "pension holiday" from 1990-2010, during which the University did not contribute to the retirement plan.

The Regents have decided that UCRP will be brought to full funding over twenty years. The Total Funding Policy Contribution (ADC) is the normal cost of the pension plus the amortized unfunded liability (the difference between full funding and the current funding amount). The unfunded liability grows by 6.75 percent a year; contributing less than the ADC to the plan is equivalent to borrowing at that percentage rate.

Currently the University covers the difference between the sum of the employer contributions (at 15 percent) and employee contributions (8 percent) and the noted required 33 percent, by borrowing funds from the Short Term Investment Pool (STIP). Campuses repay this borrowing at a rate of one percent. Exceptionally high investment returns, particularly from July 1, 2020 - June 30, 2021, have reduced the unfunded liability, which otherwise would have shown a $750M shortfall. The UCRP pension is now funded at 83 percent of actuarial liabilities (up from 78 percent on July 1, 2020). Historically, the funded ratio of the pension has shown extreme variation.

CFO Brostrom has indicated that the University intends to ask the Regents to reduce the employer UCRP contribution from the current 15 percent to 14 percent, rather than continuing with a 2019 agreement to raise employer contributions to 15.5 percent in 2022 and to 16 percent in 2023. (Note that employer contributions are scheduled to rise to 17 percent by 2025.) The resulting shortfall in contributions will be offset by $1 billion in additional STIP borrowing spread over two years. While the pension is in relatively strong shape, and there is disagreement on TFIR about how to approach the unfunded liability. As the pension approaches full funding, political pressure to reduce employer contributions increases. If the funding ratio falls below 80 percent, historically there has been pressure to increase both employer and employee contributions.

➢ It was noted that borrowing from STIP presents opportunity costs as well as providing a way to shore up the pension.

➢ Committee members asked how many of the STIP funds were unencumbered. There was some confusion about the long-term notes held in STIP, and the committee agreed to ask CFO Brostrom for clarity.

III. Consultation with Senate Leadership

- *Robert Horwitz, Academic Senate Chair*
- *Susan Cochran, Academic Senate Vice Chair*

Chair Horwitz noted that the Mitigating the Effects of COVID-19 on Faculty Working Group has released its preliminary report and recommendations. One of the key recommendations is for campuses to adjust expectations for promotions and merit advances to conform to “Achievement Relative to Opportunity” (ARO). The working group emphasizes that the quantity of expected work output may be reduced due to pandemic constraints, but expectations for academic quality should not be lower. The recommendations of are not to be taken as mandates to campuses, but as systemwide suggestions for supporting faculty and the University in restarting research efforts.

The faculty Climate Crisis group held its first meeting, during which members reported on climate activities on their home campuses. The next meeting will discuss a proposed Memorial to the Regents on the topic of the climate crisis. The Global Climate Leadership Council also met and considered what campuses should do to address interest in combining campus efforts, Agriculture and Natural Resources’ activities, and transformational research efforts. Research and Innovation Vice President Maldonado addressed the Regents regarding climate activities.

The Senate is concerned with methods of rewarding faculty for patents under the Regents Policy on Innovation Transfer and Entrepreneurship, which devolves authority over patents to campuses.

Leadership has discussed with the President the Senate's opposition to devolving authority to campuses for the approval of master's degree programs. to Provost Brown is developing a charge for a joint work group that will consider program review issues in depth.

Provost Brown has proposed applying three percent merit increases and a one percent equity adjustment to the faculty salary scales, while the Senate argues that they should be applied to off-scale salaries also.

UC Legal is pessimistic about legal remedies regarding a possible institutional response to intellectual property infringements and academic integrity violations from third-party tutoring websites like CourseHero and Chegg. Senate leadership has raised the possibility of automatic takedowns under the Digital Millennium Copyright Act. Such an approach will be strengthened should the University engage other universities in the effort.

The Regents continue to be concerned about the transfer admissions process despite the success of transfer students at UC. Senate leadership would like help in shaping a conversation addressing both transfer students' success and concerns about Assembly Bill 928, which mandates a single transfer pathway from the Community Colleges to both UC and CSU. UC is concerned that a single pathway would hamper transfer students' major preparation for UC. Leadership asked committee members to share their campus outreach programs towards transfers.

IV. Budget Consultation with UCOP

- *Nathan Brostrom, Executive Vice President and Chief Financial Officer*
- *David Alcocer, Associate Vice President – Budget Analysis and Planning*
- *Seija Virtanen, Director, State Budget Relations*

CFO Brostrom noted that based on the strong recent performance of the pension fund, he plans to request the Regents' approval of a plan to add funds from STIP and lower the University's employer's contribution rate from 15 to 14 percent. One benefit of borrowing from STIP is that it reduces the amount of funds help as liquid capital which earns lower returns than other investment options. The last few years' UCRP has added between eight and nine percent to funding status. Large amounts of liquidity in STIP exist to respond to catastrophic operating scenarios, such as a hospital bed tower becoming suddenly unavailable, but there is more in STIP than is desirable.

As David Brownstone previously noted, UCRP is currently in good shape financially having experienced a substantial reduction in the unfunded liability due to recent extraordinary returns. Given this funding level, the Office of the CFO is proposing a reduction in employer contributions to the plan in lieu of a gradual increase to 17 percent by 2025. CFO Brostrom discussed the proposal, which calls for a reduction in employer contributions to 14 percent from the current 15, accompanied by an increase in borrowing from STIP to add $1 billion to the plan. Much of the discussion and questions from UCPB surrounded the accounting format for STIP and the difficulties faced by some campuses in funding their pension contributions. While members appreciated the fact that the plan appears to be in good financial shape and such a proposal could help campuses, there concern that should investment returns turn negative at some point, it would be difficult to restore the employer contribution to the previously planned levels. In addition, there might be renewed pressure to increase employee contributions—a position advocated by some Regents. Nathan is aware of this possibility but believes that the reduction in the unfunded liability will diminish any such pressure.

UCPB members discussed the accounting format for STIP, which is made up of cash and securities as well as notes receivable. The University is slowly approaching full funding of UCRP. There had previously been a desire by some Regents to increase employee contributions to UCRP. The reduction in the unfunded liability because of the recent extraordinary investment returns will hopefully diminish any such pressure. However, there is concern that should investment returns turn negative, there may be renewed pressure to increase employee contributions/ The Office of the CFO is aware that after reducing the employer contribution at this time, any discussion of increasing the employer contribution at a later date could increase the pressure to raise employee contributions as well.

AVP Alcocer reported that the University is asking for a five percent budget increase for the coming year from the state. The University argues that higher-than-funded student enrollment from 2018-19 should count toward enrollment increases mandated by the legislature by 2026.

The University funds retiree healthcare on a pay-as-you-go basis, but accounting requirements show a $24B liability from a total $3B cost. The University is one of the few places still offering retiree health benefits and considers it a prime retention measure for faculty and staff. There is currently no interest in eliminating the benefit.

The University is considering requesting $500M to build a systemwide research program around climate resiliency. The Budget Office hopes that an umbrella request will preclude direct requests to the legislature by individual campuses or departments. UC's unique expertise can make the state more resilient to climate change.

V. Liability Insurance Overview

Interim AVP and Chief Risk Officer Kevin Confetti discussed the University's liability coverage with UCPB. Areas for which the University cannot obtain traditional liability insurance include earthquake (cost prohibitive), cyber risk, sexual violence/sexual harassment (SVSH), and traumatic brain injuries from university-sponsored athletics. A variety of insurance providers are "stacked" to provide coverage for other liabilities.

The University addresses gaps in insurance coverage through the use of its captive insurance company, Fiat Lux, that was established in 2002. Fiat Lux is owned by the Regents, with a board of directors, and domiciled in Washington, D.C. The University uses Fiat Lux to obtain wholesale pricing.

The last three years have represented unprecedented losses for the casualty insurance market in general. Prices have increased while coverage has contracted. The University's deductibles have gone from $10M to $25M; coverage capacity has decreased by $75M, from $270M to $195M. Higher education, especially institutions with academic medical centers, is viewed as an undesirable insurance market by insurance companies, especially with regard to cyber and SVSH issues.

Campus subject matter experts can advise the University on mitigation and prevention efforts. This includes increased training and requirements for SVSH to counter a culture of delayed reporting and increased training for cyber risk. The insurance landscape gives no indication that liability coverage will be easier to obtain or any less expensive. Fiat Lux has grown to cover these increasing gaps.

VI. Chair's Announcements and Discussion

Chair McGarry noted the formation of three working groups. Professor Don Senear will lead a group examining the issue of rebenching. The group includes Professors Dard Neuman, Dana Simmons, and Heather Rose. Prof Marc Steurer will lead a UCPB working group examining the relationship between UC Health and other portions of the university. The joint UCPB-CCGA working group regarding SSGPDPs will continue this year with Chair Kathleen McGarry as co-Chair with CCGA chair Andrea Kasko. This joint group met recently with the chairs of local planning and budget committees and graduate councils. Prof Heather Rose will represent UCPB on the UC Education Abroad Advisory Board, and Prof Kevin Mitchell will represent UCPB on the Academic Council Special Committee on Lab Issues (ACSCOLI).

In returning to the earlier discussion of UCRP:

- Vice Chair Senear noted that if STIP contains sufficient excess funds that $1b or so can be borrowed to put into UCRP, then presumably the campuses have sufficient excess reserves in STIP so that this could be used as a funding source to pay the increase in employer contribution to UCRP, thereby preserving current income to go towards other operating expenses. Professor Emeritus Chalfant reminded UCPB that general campus funds should not be used to pay auxiliary's UCRP contributions, implying that this mechanism could be used to pay for auxiliary's UCRP contributions only to the extent that the auxiliaries have funds in STIP.
- Committee members again noted concerns regarding a reduction in employer contribution to UCRP, since achieving an initial agreement to increase contributions was difficult and would again be so should the need arise. UCPB would be more comfortable with the plan if the reduction were temporary with a set time at which employer contributions would return to the previously agreed up levels, with the understanding that the "pension holiday" could be extended if financial measures so indicated.

Regarding the earlier discussion of liability insurance:

- Because Fiat Lux is an increasing part of the liability coverage for the University, UCPB would like to see Fiat Lux's financial reporting. The committee understands that Fiat Lux is overseen by insurance regulators.
- UCPB would like data on response times for SVSH incident reporting, and incidents of traumatic brain injuries, systemwide. A committee member asked if athletic departments collect brain injury statistics. Additionally, data on cyber risk incidents would be useful for UCPB. The committee would like another session with Interim AVP Confetti.

VII. Rebenching

UCPB received a history of rebenching from Vice Chair Senear and Professor Emeritus Chalfant. Initially revenue was collected by the Office of the President and distributed to campuses. Systemic disinvestment from the 1970s to 1990s meant that newer campuses received less generous funding than the more established campuses. There was thus a need to revisit how UC distributed funding to various campuses, resulting in a "rebenching" in 2012-13.

The decision was made that funding should follow students, and all students should be funded alike regardless of the campus which they attended. Funds would be distributed on a (weighted) pre-student basis and campus funding streams (all sources of revenue generated on a campus) would remain with the campus. No cross-subsidization of campuses was to occur. This mechanism gave campuses the incentive to maximize revenue. order to not harm the larger, better funded campuses, with the change in funding strategy, a hold harmless provision was established in which funding at all campuses would be increased gradually to match that at the most well-funded campus.

Furthermore, because the costs of educating students varies across type of students, a weighted student count was used in the formula to distribute UC funds. Ph.D. students receive greater weight than undergraduate students, and health science students receive an even larger weight.

While rebenching meant that all students across the system were funded equally, some campuses were better able to raise funds by soliciting more non-resident students, attracting more donations, and increasing enrollments at professional schools.

Currently, a guardrail approach is used to ensure that campuses less able to raise their own funds do not fall behind. Under this approach, no campus's unweighted per-student funding can fall below 95 percent of other campuses' unweighted pre-student funding.

Finally, some funds which are taken "off the top" –paid for directly before the student-based funding formulae are applied. UC intends to re-examine the rebenching formula and process.

VIII. Campus Updates

UCB is discussing what to do when the aging cogeneration plant needs to be taken off-line. Discussions regarding the opportunity cost of transforming to an all-electric campus are ongoing, as electrification could double campus energy costs. Central campus funds are near depletion as all funding for hiring and recruitment stays in departments.

UCD is hiring a new VC of Finance, Operations, and Administration. Senate faculty have been asked to be on the hiring committee. The campus is planning to use Oracle to replace the financial management system. The Committee on Planning and Budget is trying to better understand what is appropriate in gift agreements for endowed chairs.

UCI is working to enable processes for shutting down problematic Self-Supporting Graduate Programs. Endowed chairs are increasingly accompanied by donor letters with specific conditions. The Chancellor hopes to expand doctoral programs

UCLA has a new budget model and questions persist about its impacts on campus. Faculty are concerned about the financial effects of entrepreneurial activities, interdisciplinary degrees, and how to evaluate the new model. Funds flows and responsibility for decision-making are key elements of concern.

Governor Newsom visited UCM and announced funding for a new medical education building, financed by state bonds. The School of Social Sciences is splitting and creating a new School of Management. A new budget issue is how to fund a new School without damaging the financing of the “parent” School.

UCR is using F&A to fund startups and retentions. The budget committee is concerned about the funds’ adequacy and the possibility of skewing hiring toward disciplines which would generate startup-type activities. The campus proposes a MBA program in partnership with a for-profit company, which would take its costs off of the top of tuition, then split the remainder 20/80 with the campus.

UCSD is experiencing continued problems with the new financial systems software, and now is facing a new Student Information System project. There has been a lack of oversight of process, vendor choice, or task analysis. Normal sourcing practices were not followed, and pushback from the Enterprise Systems Renewal (ESR) office on inquiries into the process is complicating efforts to address the situation. Graduate student housing is at crisis levels, as GSR pay is not more than twice rent. Administration wants to raise GSR salaries along with housing costs, which will still change the ratio between income and housing costs. It was noted that increasing graduate salaries cannot be a local decision, further complicating attempts to make changes.

UCSF is wrapping up a workforce climate survey. There is a committee working on equity projects, collaborating with the space allocation committee. Obtaining data on space allocations has proven challenging. Working with the development/donor office (UDAR), the campus is investigating how equitably endowed chairs and distinguished professorships are handled. The Senate hopes for increased transparency in those areas.

UCSB is discussing a controversial proposed dormitory project, after a campus architect quit in protest and publicized objections to the project. Consultation with a wider array of stakeholders earlier in the process might have prevented some issues. For example, the campus design review committee was not provided information until later in the process, and the budget committee was not part of the timeline at all.

UCSC is attempting to implement the Joint Working Group for Graduate Education’s recommendations. One approach involves changing money flows to reflect doctoral enrollment rather than only undergraduate enrollment. Tuition supplement for graduate students is being addressed through the court system.

The student representative expressed hope that the University will find a funding method outside of tuition increases, following the approval of the cohort tuition model. Students appreciate the Budget Office advocating for increased State funding. The ASUC would like to work with the University on the transfer issue.

The meeting adjourned at 4:13 pm
Prepared by Stefani Leto, Analyst
Attest, Kathleen McGarry, Chair