



UNIVERSITY COMMITTEE ON PLANNING AND BUDGET

Minutes of Meeting

3 December 2024

In attendance: Tim Groeling (Chair), Robert Brosnan (Vice Chair), Peng Cheah (Berkeley), Mitchell Sutter (Davis), Alyssa Brewer (Irvine), Monica Smith (Los Angeles), Kara McCloskey (Merced), Juliann Emmons Allison (Riverside), Terry Gaasterland (San Diego), Oliver Schmidt (alternate, San Diego), Torsten Wittmann (San Francisco), Francesco Bullo (Santa Barbara), Raphael Kudela (Santa Cruz), Luis Garcia Chavez (Graduate student representative), Steven Cheung (Academic Council Chair), Seija Virtanen (Associate Director, State Budget Relations), Arthur Guimarães (Chief Data and Operating Officer, Co-Head of Real Estate, UC Investments), Stefani Leto (Analyst).

1. Consent Calendar

Action: UCPB approved the December 5, 2024 agenda and the minutes of the November 5, 2024 meeting

2. Chair's Announcements

Chair Groeling noted items of interest to the committee:

- At the previous Council meeting: two Regents announced retirements: Regents Pérez and Sherman. The governor has named Bob Myers as a new Regent. He is a UCLA alumnus with a background in sports and media.
- The Regents will form a corporation administering a new Medical Advantage plan which will include Medicare A, B, and D together. Health Care Task Force is monitoring this development.
- The UC death rate during Covid was lower than the state overall.
- A report on anti-Semitism and Islamophobia on campus was critical of the lack of disciplinary actions for infractions and suggested that the Academic Senate needed to move more expediently to impose such discipline.
- The Academic Calendar task force has met. The group expressed concerns about costs required for calendar conversion and a lack of faculty involvement in estimating the costs of any proposed conversion. A subcommittee on costs was formed, and former UCPB Chair Donald Senear will provide faculty input on that subcommittee. Staff for the group have created an informal, unscientific questionnaire to better understand preferences regarding different calendar "features." UCPB members will be part of a small number of faculty who will respond to the survey before the January meeting of the Academic Calendar task force.
- There has been a good response rate for the impact survey and it will be distributed soon.

- A discussion about the review of APM 15 and 16 concluded with general agreement that the policies sufficiently addressed the raised concerns.
- The advisory committee for the total remuneration study is investigating whether the Comp 8 institutions still appropriate comparators, as the UC pays more than public universities but less than comparable privates.
- Council received a labor issues presentation. Upcoming federal mandates for open access and zero embargo may be blocked by the incoming administration along with changes to overtime pay. A proposed Senate bill requiring a seven-year lookback on disciplinary misconduct for employees sparked discussion about how that would impact the University, including its possible application to undergraduate employees. Additional bills including those allowing employees to refuse to attend events with political or religious content would have potential impacts to the UC. The UAW and AFT have not reached agreement about who represents Math fellows.
- Council received a presentation from the Retirement Administration Service Center (RASC) about improvements made for wait times and access to services following prior complaints.
- The Federal election will have implications for the UC. President Drake announced a focus on the centrality of benefit the UC provides to the community as well as statements of values and standing up for principles held by the UC. This may put the UC in opposition to the administration for subjects like deportations. Finding a balance between effective advocacy and putting our students at risk is key.
- The MOP program will receive supplemental funding and Chancellors will have the option to add more from campus funds.
- Potential cuts to the Federal research budget as well as restricting UC access to grant monies are emerging concerns. Medicare cuts would also negatively impact UC Health centers.
- Various responses to requirements of the funding compact were discussed, including the possibility of campuses delaying a scheduled reduction in NRS in response to a delay in state funding to offset that reduction.
- UC Investments will move its payout assumption to 7 percent from 6.5 which improves the budget outlook.
- The APC report on the future of graduate education presented six actual recommendations and eight bold ideas.
- The Compliance Office presented about the burden training places on faculty and the limits of their control of the processes.

Vice Chair Brosnan noted some concerns with UC healthcare: transparency and disclosure levels, UC Care costs relative to HMO and Health Savings options and the rationale provided for these costs, and potential HR-UC Health conflicts of interest. He proposed some ideas to address these concerns.

UC Health impacts all other plan offerings at the UC: PPO plan costs are projected to rise, and the rate of that increase is also projected to rise. Federal policies may impact Medicare reimbursement rates, DHHS/NIH funding to UC medical schools, and changes in the California economy may change funding options. The current health plan funding model is unsustainable should the rate of increases continue. The current healthcare subsidy represents potential conflicts of interest

between UC Health and systemwide HR. He proposed various solutions that UCPB may elevate to the Academic Council Chair.

Lively discussion ensued:

- Committee members were troubled by a lack of transparency.
- The presentation by systemwide HR to Council indicated that the subsidies had an agnostic view and were trying to smooth huge increases in some plans by spreading the cost more evenly to other plans.
- Discussion of Kaiser's impact on the system noted that it is the most cost-efficient plan, at half the cost of the UC Health plan. Blue and Gold is 2/3 the cost of UC health. Members agreed that users would react negatively if Kaiser were not an option. Some noted that the HR subsidies may serve to make the UC Health care system more sustainable and this may be an additional institutional purpose of the subsidies.
- Members noted that without data, it is unknown if PPOs have better outcomes than HMOs, and if they do not, they represent a disservice to the most ill.
- One key element noted was location and that not all plans are equally available for UC users. This must be taken into account for any assessment.
- Members noted that increases in employer costs are another challenge to PIs.
- While the impulse to promote UC Health is understandable, subsidies come from salaries, and subsidies that artificially prop up inefficient systems are problematic and unsustainable.

3. Leadership Update

Chair Cheung reported on various outcomes of the Regents meeting: the proposed UC budget was approved, including \$1.4B in capital improvements and a 3.7 percent adjustment to scale. There was substantial discussion of NRS tuition increase and possible effects on student economic diversity. Time to full funding of UCRP has shortened to 17 years; employer cost goes up to 15 percent, employee cost stays the same. UC Health presented their positive impact to the state. Former EVP Byington gave an after action Covid report. Some present at the meeting expressed dissatisfaction about why no one at UCLA has been disciplined for infractions related to the Spring and suggesting the Senate could do more to enforce rules. At the next Regents meeting, discipline processes will be discussed with the Regents. Investment returns are up across the board. Discussion of online education did not elucidate the differences between student preparation and prospects for success in undergraduate and master's-level fully online degrees. Incoming replacement Regents and the new President will impact the shape of this discussion in the future.

High-level searches, for chancellors and the University President as well as others are ongoing. The Presidential search should conclude by the end of spring. Concern was expressed that there is no arts or humanities faculty representation on the Santa Barbara Chancellor search committee.

The semester conversion work group charge was revised and the timeline extended. When the proposal is deemed ready it will go out for a 90-day systemwide review.

The workgroup report on expressive activities and APM 15 and 16 concluded the policies are sufficient to handle expressive activities. The campuses need implementation guidelines modeled after those in place for sexual violence and sexual harassment (SVSH). The report was sent to the Provost's office for the President to send to the legislature.

4. Political Risks for Budget Issues

UCPB noted key areas of concern to monitor in the coming year including Medicare and Medicare reimbursement, taxing endowments, UC Health expansion and costs, taxing municipal bonds, and threats to federal research funding.

- Discussion of potential UC responses and preventative efforts, such as improving the opinion of the UC among members of the public as well as the legislature, ensued. The committee discussed elevating their concerns to Chair Cheung.

5. Campus Updates

Berkeley: The campus faces a structural deficit. CAPRA suggested eliminating sports programs. While ostensibly self-funded, many sports programs are in deficit and are a large part of the campus deficit; the administration responded negatively to CAPRA's requests to limit funding for athletics citing legal and equity concerns, as well as supposed positive externalities for athletics. CAPRA asked for more FTE, but the administration argued that all increases would result in decreases elsewhere in the budget (primarily lecturer and TA funds). The student-faculty ratio has increased from 20:1 to 30:1. A gift tax on donations has been proposed to steer funds to deferred maintenance.

Davis: The budget committee has conducted an examination of the health care model. Non academic unit reviews have proven difficult to pursue. The budget committee noted during reviews that energy costs were a large budget item. The green energy plan used deferred maintenance issues to replace outdated steam units with more efficient ones which in turn lowered energy costs. The campus is dealing with "Aggie enterprise," a new accounting system. The changeover is not going well. The budget model is based primarily on undergraduate student credit hours and secondarily on major headcount, which creates competition and possible problems with grade inflation and reduced rigor to attract students.

Irvine: The budget committee expressed concern about how much state supported students have access to attractive self-supported program novel courses. The campus is mulling how to structure fee transfers to make them available. Newly acquired hospitals are going well financially. The campus is moving the budget framework from incremental to hybrid RCM. Examining funds flow from central campus and trying to establish useful metrics to gauge teaching and research loads. Using UCPB best practices have increased Senate representation in budget conversations. There has been a good response to more transparency about the budget, and using outside information – what other institutions share – has been persuasive to budget office.

UCLA: The campus is awaiting the arrival of new Chancellor in January. Faculty noted a lack of clarity about responsibility for ongoing items in the interim, and there are fears that some issues may not be addressed before the Chancellor comes. The incoming Chancellor does not have

experience with shared governance. The Regents criticized UCLA for cost overruns for the cogeneration plant, and the overall campus deficit continues to rise.

Merced: Even though the system was introduced prior to 2020, the Oracle financial management platform still does not work well. The campus added staff specific to the issues but that is a high-cost solution. Faculty still do not have accurate grant numbers. The campus added automatic admissions to the top 10 percent of California high schools to increase enrollment. The admissions office does not include faculty in planning events, so faculty have been pushing for involvement. Campus grant management rules are more onerous than the granting agencies, and faculty have been pushing for change in that arena as well.

Riverside: A budget overview event noted a roughly \$45M shortfall between core funds and expenditures even with a budget that appears balanced. CPB is working to identify the cause of the shortfall. The administration will cover two quarters of graduate costs through 2026-27. The rest of the funding has been moved to colleges and schools, which are using different approaches and have varying abilities to manage the added costs. Grants with waivers of fees have become controversial in that departments with funding do not want the benefits extended to those without. The campus has increased development training and is hiring consultants to help the campus increase development funds and smaller amount gifts in order to diversify funding streams.

San Diego current budget was in the black but the deficit projection for 25-26 was \$56M now is \$65M. Trying to find ways to distribute cuts internally. Chula Vista campus is interesting to administration but faculty is worried about practical implications, including long commutes to teach.

UCSF is doing great financially. \$760 net benefit, surprise, with 14% increase in patient revenue. There is discussion regarding the optional use of surplus funds, in part because of the intent to use them to secure loans for capital projects. Nathan noted that unexpectedly high returns have been made available to campuses for maintenance. Trying to build a facility for advanced computing and its needs for data storage and AI capacity and it will require a bunch of power and worries about sustainability. Rule for faculty support and in residence faculty: they can pay 95% of their salary from grants, but 5% has to come from some other source, like teaching or service, but there hasn't been a policy about that remainder. So there's some unhappiness about that and attempts to smooth out the policy and find some solution. Resistance to letting people pay 100% in an attempt to have continued connection to the campus.

Santa Barbara: The campus is pleased to have three housing projects in pipeline with sufficient capacity to meet promises to local authorities following a lawsuit. UCOP will serve as the lender for the projects. The campus has multiple searches ongoing, not only for a Chancellor. The local CPB has been discussing the two percent growth in state funding received over the past five years versus campus costs rising more than twice as quickly. The CPB is talking about best practices and how to strategically plan for expected cuts. The development office has positive experience cultivating wealthy large donors but fewer ideas for growing the donor pool, perhaps by focusing on smaller donors and using digital tools to widen the funnel. There are hopes that departments can find ways to help grow the donor base.

Santa Cruz: The campus faces a large structural deficit (\$140M, even after reducing with short-term cuts). Cash flow presents a greater challenge, and immediate cuts are needed. Changes have

been proposed to the MOP and SHLP programs, even after the current freeze is lifted. The campus is apparently also not buying back faculty houses or renovating them. The student-faculty ratio will increase from roughly 28:1 to 40:1 because of caps on faculty hiring. If hiring were only reduced for two years and held at replacement, the ratio would be 35:1. One suggestion for addressing the financial crisis was to offer excess NRS capacity to other UCs, although it is not clear how such a plan could be implemented. The Chancellor announced a proposed medical campus, but funding for the proposal has not been identified.

TFIR: The task force met with CIO Bachher and asked about MOP loan funding but still had additional questions. The lack of ability to resell loans on the wider market has hampered replenishing available funds. Faculty argue that because the program is not an investment instrument, but a faculty support and recruitment plan, investment returns cannot be the prime metric to evaluate it. The task force has gotten inconsistent information about securitizing mortgages.

6. Consultation with OP

State Budget Relations Associate Director Seija Virtanen briefed UCPB on the newly-elected legislature, the progress of the state budget, and concerns about federal funding for research.

The legislature continues with a Democratic supermajority. As noted before, most of the members have less than two years of experience. There has been no change in leadership in either the Budget Committee or the Education Committee, which is good news for the UC. The Governor will release his budget in January. This budget will implement the legislative intent language of 2024-25, 7.9 percent cut to the UC State General Fund, plus a \$125M restoration, for a total cut of \$271M and delaying the 2025-26 compact funding to 2026-27. This budget represents a significant funding cut.

The Regents approved a budget that seeks to have the compact funding distributed in its assigned year, with no deferral, and without the 7.9 percent cut. Their budget includes required costs for core operations. Compact funds were requested by the Regents to fund mandated enrollment and three new health education programs: DDS Aspire, Prime Pharmacy program, and a vet medicine program focusing on zoonotic diseases. The Regents asked campuses to list their most urgent capital projects and included a request for one-time funds to meet them.

The legislature could approve this version, but it is unlikely without a large increase in state revenues. The Legislative Analyst Office predicts a significant budget shortfall, but current year state revenues are \$5.2B above the projected amount. Last year's budget agreement, however, mandates that the first \$5B of any unanticipated revenue go to K-12 education. Other state agencies which received cuts would ask for restoration above that. December and April tax collections would have to be quite robust to continue the increased revenue trend. Should they be so, the university will have an easier time arguing for reversal of the proposed percentage cut.

The legislature is on track for high numbers of proposed bills – 120 have already been introduced. Two of particular interest to the UC are Alvarez' bond bill for the CSU and UC, which would appear on the 2026 ballot, and a bill introduced by Bryant mandating preferential

admission to the UC for descendants of enslaved people. Several bills introduced contain funding for lawsuits the state plans to file against the incoming Presidential administration.

The incoming administration has promised to remove federal research funding eligibility for universities with DEI programs. Republican lawmakers have called for removing federal student financial aid from campuses experiencing protests against the war in Gaza. The UC has asked the Biden administration to renew the Lawrence Berkeley National Laboratory and the Lawrence Livermore National Laboratory for five years because the contracts expire in April 2025. The Governmental Relations Office is monitoring proposed policies for budget impacts.

Discussion included:

- Sources of negative perceptions of the UC: the university is seen as elitist, possibly because of parents' complaints to legislators that their children were unable to obtain admission despite extremely high grade-point averages and many activities. Often, these students received admission into a UC campus, but not their preferred top three.
- Committee members suggested that UC applications be changed so that one application fee would automatically distribute a UC application to all ten campuses. The committee agreed to meet with admissions staff to discuss the implications.
- Chair Groeling asked to see interest group polling data that apparently showed higher education as being one of the lowest priorities for spending and most attractive targets for cuts, and shared his hopes to survey Californians about their perceptions of the UC.
- All agreed that the university needs to emphasize its value for the state at every opportunity, as well as educating Legislators about it and facts such as 57 percent of UC undergraduates do not take out loans for college. The UC is more affordable than believed.

7. Consultation with UC Investments

UCPB received a briefing on investments from Arthur Guimaraes, Chief Data and Operating Officer. UC Investments manages all retirement assets, both defined benefit pensions and the 403B and 457 plans. In addition, Investments has management of the endowment pool, the general endowment pool and the Blue and Gold Pool, as well as working capital in both short- and long-term accounts in STIP and TRIP. The total amount under investment is \$187B: in retirement, \$144B (both savings and pension); Endowment \$330B; and \$12.5B in working capital. UCLA, Berkeley, and San Francisco each have an endowment management company, so there is less interaction with the CIO's office for them.

The Investment Office has been thinking about Inflation rates following a large increase after Covid and some flattening subsequently. However, future uncertainty and unknown political actions and consequences mean that inflation will continue to be an area of concern for the office.

Asset allocation drives UC returns. The Investment Office has UC funds divided into 62 percent public equity, 18.4 percent fixed income, and the rest in private assets/equity and some real estate. The UC invests globally but three quarters of assets are invested in the US. The UC continues to have relatively high returns on investments: general endowment pool has a 9.2 percent annualized return after 18.2 percent last year. Strong performances in the equity markets have helped grow capital for campuses as they invest their money in STIP and TRIP and Blue and Gold funds.

The Investment Office changed direction in real estate investment. Instead of having many separate asset accounts, they sold \$4B worth of them and invested in Blackstone based on their track record of private real estate management. However, the office is aware of Blackstone's perceived role in increasing the cost of rents in campus-adjacent housing. The office has to balance its fiduciary responsibility with helping students afford living in California; it is an area of great tension.

Discussion included:

- Faculty have been investigating where the funding for the Mortgage Origination Program comes from and how to improve the funding. The Investment Office will find information and update UCPB.
- Proposed changes to endowments' taxation status have been under discussion. Lower returns in some portfolios without exposure to taxes are part of that discussion in the Investment Office.
- The Regents mandate that the Investment Office consider environmental, social, and governance (ESG) standards means the Office votes as proxies for policies that fit the mandate, although those standards are always subsumed under the broader fiduciary responsibilities of the Office. The Investments Office has tried to pursue ESG-friendly investments that are in line with those fiduciary responsibilities, leading to greater clean energy investments/reduced fossil fuel positions, and also hiring a consultant to lobby companies to adopt future-looking environmentally-friendly policies. This is an ongoing area of balance for the Office. In the discussion, Chair Groeling raised the discussion of the ESG consultation that had been presented to the Regents, in which the combined pressure of the UC and other like-minded investors convinced BMW to increase their production of pure electric vehicles and reduce their gas and hybrid electric vehicles, which seemed to be a troublesome example from both a sales and environmental standpoint.

8. Items for Systemwide Review

1. Proposed Revisions to Senate Regulation 479 (CalGETC). Committee members received a review of this proposal and agreed that it provided additional flexibility to students transferring, although no evidence was provided about how many students would use this policy. The committee agreed to write a letter in support of the policy.
2. Proposed Senate Regulation 627 (Posthumous Awarding of Degrees. UCPB supported this proposal of straightforward regulations for conferring a degree if a student died.

Action: UCPB will send letters regarding both proposals.

9. Self-Supporting Graduate Professional Degree Proposal

1. UC Irvine Master of Educational Sciences, reviewed by Professor Brewer. This updated proposal responded to earlier concerns by UCPB and other reviewers. The committee noted that the increased tuition would pay for more staff to deal with concerns about state supported program impacts by providing help for faculty to create online classes. Increased contact with faculty was noted with approval by the committee, and the high

rate of student support was positively received. A focus on Artificial Intelligence and specific attention to learning analytics improved UCPB's attitude toward the utility of the degree. The committee agreed that a review of the program to evaluate its success as a fully-online asynchronous program would be useful and that any conflicts arising from faculty holding positions in SoLAR be investigated at that time.

Action: UCPB will send a letter of approval to CCGA

The committee adjourned at 3.52.

Minutes prepared by Stefani Leto, Analyst

Attest: Tim Groeling, UCPB Chair