

**UNIVERSITY OF CALIFORNIA                      ACADEMIC SENATE**  
**UNIVERSITY COMMITTEE ON PLANNING AND BUDGET**

**Minutes of Meeting**

**March 6, 2018**

**I.        Consent Calendar**

- Approval of UCPB March 6, 2018 agenda
- Approval of UCPB February 6, 2018 minutes

**ACTION: UCPB approved the consent calendar.**

**II.        Announcements**

- *Joshua Schimel, UCPB Chair*

In February the Academic Council met with Ellen Tauscher, a former member of the U.S. House of Representatives who was recently appointed to the Board of Regents by Governor Brown. Council also discussed the Huron Consulting Group's report on the UCOP organizational structure and approved a set of principles to guide consideration of Huron's options for refocusing, realigning, and reducing UCOP operations. President Napolitano announced that she is initiating a consultative process to assess several options and appointing a "tiger team" to consider Huron's proposal to move the Division of Agriculture and Natural Resources to UC Davis.

The UCFW Task Force on Investment and Retirement (TFIR) has amended its charge to add an ex-officio UCPB faculty representative. Chair Schimel invited UCPB members to volunteer for the position.

**ACTION: UCI member Professor Gross will serve as UCPB's representative to TFIR.**

**III.        Self-Supporting Program Proposals**

- **UCI Master of Innovation and Entrepreneurship**

**ACTION: UCPB Member Professor Constable volunteered to lead the review and report to UCPB in April.**

**IV.        Consultation with Academic Senate Leadership**

- *Shane White, Academic Senate Chair*
- *Robert May, Academic Senate Vice Chair*

**Shared Governance:** The state of shared governance has been improving. President Napolitano appointed former Academic Senate Chair Dan Hare as her Senior Faculty Advisor; added the Provost to her cabinet; and included Chair White and Vice Chair May in her Advisory Group (the President's "outer cabinet"). Chair White and former Senate Chair Chalfant also sit on the President's Executive Budget Committee (EBC), which advises the President on systemwide

budget matters. Despite some uncertainty at its outset, the EBC has been an effective, independent voice on the budget and a healthy forum for shared governance.

Budget: UC administrators and students have formed an alliance to advocate in Sacramento for a \$105 million funding increase over the 3% provided in the Governor's budget. The \$105 million figure includes \$70 million to support a tuition increase buy-out, \$25 million to address the impact of unfunded enrollment growth on students, and \$5 million each to support new undergraduate and graduate enrollments. UC also requested \$35 million in one-time funding to address deferred maintenance needs.

Huron Report: The Academic Council approved a set of [principles](#) to guide the interpretation of the Huron Report, based on protecting the functionality of UCOP and strengthening the Division of Academic Affairs and its alignment with the University's mission. Council also endorsed a [proposal](#) to reorient, realign, and rename UCOP, to clarify its broad system operations and governance mission beyond the President's immediate office, and to emphasize the primacy of its academic mission.

Faculty Salaries: The Academic Council [endorsed a UCFW plan](#) to close the gap between UC faculty salaries and those at UC's Comparison 8 group of institutions over three years.

March Regents Meeting: Regents Chair Kieffer asked Provost Brown and Senate Chair White to prepare a presentation on academic quality indicators focused on college rankings. Several prominent national and global organizations rank institutions and specific subject areas on the basis of external measures, such as research productivity, as well as measures provided by the institutions. Chair White noted that subject area rankings are more volatile; the departure of one or two renowned educators can affect year to year rankings dramatically. Ranking systems are flawed but and provide a useful snapshot of quality and reputation. They show that some UC campuses and departments are struggling to maintain an upward trajectory, particularly as several Asian universities are rising in the rankings following significant investments in research and infrastructure.

- UCPB members noted that the University should focus on maintaining its individual pinnacles of excellence within the college rankings, while also supporting the aspirations of all campuses to reach the highest rankings. Increasing the number and proportion of graduate students is an important component of this goal.
- UCPB members observed that transferring specific UCOP functions to a campus or campuses could reduce UCOP's visible budget footprint, but is unlikely to reduce the overall UC budget, and could increase costs in the short term.

## **V. UCOP Budget and Audit Implementation**

- *Zoanne Nelson, Chief Strategy Officer & AVP, Strategy and Program Management, President's Executive Office*

Audit Implementation: The April 2017 CA State Auditor (CSA) report on UCOP budget practices included 33 recommendations for improving or examining UCOP budget and accounting practices. The CSA established a three-year iterative schedule for implementing the 33 recommendations, with April 25, 2018 as the [target completion date](#) for ten, and April 2020

as the deadline for all recommendations. Chief Operating Officer Rachael Nava chairs UC's audit implementation task force, and UCOP's [six month report](#) to the CSA describes UCOP's progress on each of the recommendations.

First, the CSA recommended that UCOP increase campus input into UCOP's annual budget by reconvening the Executive Budget Committee and expanding its scope. The EBC includes leaders from each campus, the current and immediate past chairs of the Academic Senate, and UCOP leadership. The EBC began work in August 2017 by conducting a comprehensive evaluation of UCOP's programs, initiatives, and administrative functions. It is participating in the development of the 2018-19 UCOP budget the Regents will be asked to approve in May. This analysis also informed UCOP's efforts to meet the 2017 State budget requirement to redirect \$15 million from systemwide programs and UCOP administrative costs to support enrollment growth. The work to evaluate the academic value of systemwide programs will continue over the next couple of years, with input from the Academic Senate.

In response to a CSA recommendation that UCOP improve and clarify its budget preparation process and presentation, the Regents will be asked to approve a [new budget process and presentation protocol](#) at their March meeting. The new format will ensure that budget presentations accurately reflect proposed revenues and expenditures as well as actual expenditures for the previous year, and separate systemwide budget transactions from UCOP budget transactions.

UCOP has completed or made progress on several other CSA requirements, including a new UCOP Central Operating Reserve [Policy, and Presidential Guidelines](#) covering the operation of the reserve, approved by the Regents in January 2018, which outline a means of supporting UCOP operations in the event of an unanticipated disruption in funding. UCOP has also responded to CSA concerns by reducing or eliminating several UCOP employee benefits; and in March will ask the Regents to amend or rescind several [travel and relocation benefits](#) for members of the senior management group (SMG). In addition, UCOP has completed the initial phases of a CSA recommendation to [document restrictions](#) on the 500 funds under the UCOP budget, develop definitions and criteria for the "restricted" and "unrestricted" fund categories, and determine a status for each fund to determine whether any restricted funds can be redefined and reallocated to campuses. The Regents will also review UCOP's [progress](#) on a CSA recommendation to review, categorize, and define the purpose and costs of all systemwide programs and initiatives. To meet the recommendation, UCOP inventoried and assigned each of its 69 systemwide programs to one of five categories: state or federal program, systemwide program, campus program, systemwide initiative, or presidential initiative.

In response to other specific CSA recommendations, the Regents will approve [new market reference zones for SMG positions](#) and receive updates on UCOP's efforts to [analyze UCOP staff salary levels and ranges](#) and UCOP's progress meeting CSA's recommendation that UC adopt the CalHR [best practice workforce planning](#) model.

Finally, the Sjoberg Evashenk Consulting (SEC) firm hired by the Regents to independently monitor UCOP's implementation of the CSA recommendations will present their most recent report to the Regents in March. SEC is expected to release a separate report in April assessing UCOP's services to the campuses.

- UCPB members asked UCOP to keep the committee informed about the progress of audit implementation and decision-making. Senate Chair White emphasized that programs housed in Academic Affairs should be evaluated for their contributions to UC's core teaching, research, and service missions in the context of their benefit to multiple campuses.

## **VI. Consultation with UCOP**

- *David Alcocer, Associate Vice President and Director, Operating Budget*
- *Seija Virtanen, Associate Director for State Budget Relations*

March Regents Meeting: The Regents will consider [24 multi-year campus plans](#) for Professional Degree Supplemental Tuition (PDST) charges, consistent with the new Regents policy on PDSTs which allows the Regents to approve proposals on a multi-year basis instead of annually. Two small Regents subgroups will review the proposals in advance of the meeting. UCOP also will ask the Regents to approve a 3.5% (\$978) increase in nonresidential supplemental tuition and to rescind a previously approved UCRP employer contribution rate increase to 15% from 14%. In lieu of the increase, the University will transfer additional funds to UCRP from the Short Term Investment Pool (STIP) to meet the Annual Required Contribution (ARC). The Regents have already authorized these transfers to meet ARC if necessary.

The Department of Finance will determine by May 1 whether UC has made a good faith effort to meet the AB 97 requirements pertaining to the \$50 million sequester of state funds. The DOF informed UC that it will receive all or none of the sequestered funds. The DOF is especially passionate about activity-based costing and establishing a 2:1 freshman to transfer ratio on all UC campuses. UC's ability to meet the 2:1 target on all campuses may depend in part on its ability to find common ground with the California Community Colleges on additional transfer streamlining initiatives, including an admission guarantee for academically eligible CCC students, based on the UC Transfer Pathways.

The Legislative Analyst's Office (LAO) has released its recommendations to the Legislature on Governor Brown's 2018-19 budget, including his UC budget. The LAO argues that UC faculty salaries should not be benchmarked against the "traditional" Comparison Eight group of public and private research institutions, but to all 73 public institutions that conduct a similar level of research as UC. The LAO claims that UC faculty salaries are competitive using this benchmark. In addition, the LAO recommends that UC's plan to allocate \$50 million to campuses for academic quality investments should be a low priority. More helpfully, it recommends that the Legislature continue the practice of establishing UC enrollment expectations a year in advance of a given budget year to better align the timing of budget decisions with UC's admissions calendar.

The University and the Office of State Governmental Relations (SGR) are collaborating with students, faculty, chancellors, alumni, and others to build support for UC's budget priorities in Sacramento. Students have been particularly effective and passionate advocates for a tuition buy out. UC is also bringing chancellors into more face-to-face meetings with legislators to describe how campuses use new state funding to enhance educational quality and benefit students – for example, hiring new faculty and adding new class sections.

- UCPB members emphasized the need for information about the financial performance of campus self-supporting programs after they are approved, to ensure programs are meeting their projected targets and to help UCPB assess the reliability of initial projections.
- UCPB members urged the University to maintain the 15% UCRP employer contribution rate target, to ensure a stable and healthy financial trajectory for UCRP, consistent with Regents policy.
- UCPB members observed that including faculty in budget advocacy meetings would help convey effective messages about the importance of UC's graduate education and research mission. SGR agreed to provide a list of meeting dates planned for legislators and campus chancellors in which faculty might participate.

## **VII. Institutes of Transportation Studies**

Professor Kaufman is the lead writer for the budget section of the UCORP-UCPB-CCGA five-year review of the Institutes of Transportation Studies (ITS), a multi-campus research unit with a presence on the UCB, UCD, UCI, and UCLA campuses. In January, UCPB reviewed ITS's five-year report and identified several budget-related questions that were included in a larger set of questions to the ITS. The ITS responded to the questions in advance of UCORP's February meeting with the four ITS directors. It clarified that several discrepancies noted by UCPB related to the budget and expenditures followed from the use of four different accountings systems.

The UCORP-UCPB-CCGA subcommittee is developing recommendations for a final report. The main recommendations will include that ITS consider ways to advance coordination and collaboration across the campuses; clarify priorities to guide the expenditure of state funds and leveraging the new income source, including the strategy and formula for distributing 5% of total state funding in excess of \$2 million each year for research on non ITS campuses. Professor Kaufman invited UCPB members to contact her directly if they have input into the recommendations or additional questions for ITS.

## **VIII. Investment Issues**

- *Jagdeep Bachher, Chief Investment Officer*
- *Steven Sterman, Senior Managing Director, Fixed-Income Investments*

UCPB members invited CIO Bachher to discuss investment strategies, performance, and the risk outlook for the UC investment portfolio, particularly the pension fund; the relationship between the Office of the CIO and individual campuses; the impact of the new UCRP tier; and the role of working capital.

Asset Allocation and Performance: The Office of the CIO manages a suite of assets that as of December 31, 2017 had a total market value of \$118.4 billion. These include the UC pension fund (\$66.6 billion) and the UC retirement savings account (\$23.8 billion), as well as funds in the UC endowment pool (\$11.5 billion), the total return investment pool (TRIP, \$9.2 billion), and the short term investment pool (STIP, \$6.4 billion).

Per Regents UCRP [investment policy](#), the CIO targets an asset allocation of roughly 50% stocks, 20% fixed income (bonds), and the rest in other investments. Policy allows for fluctuations between a minimum and maximum range, and the CIO adjusts allocations if any class becomes

overweighed. As of December 31, UC assets were invested 57.1% in public equities, 20.4% in fixed income, 14.9% in other investments, and 7.6% (\$5 billion) in cash. In 2017, the pension plan earned an unusually high 16.7% return, well in excess of the assumed rate of return of 7.25%, driven by strong performance in the private equity markets. UCRP has doubled in size over the past five years, and has a funded ratio of about 85%. The net outflow of UCRP's obligations to retirees is roughly even to the inflow of employee contributions to UCRP.

The CIO also manages \$23.8 billion in the retirement savings program, a defined contribution program with 14 investment options including the UC target date fund series.

Many factors, including the geopolitical landscape, affect financial markets. Despite the increasing volatility in the first quarter of 2018, the markets are still in a growth environment, albeit one that has shifted to a late cycle phase. Nevertheless, the Office of the CIO does not anticipate a recession in the near term. Maintaining a sizable cash liquidity allows UC to take advantage of opportunities in this more volatile environment.

2016 Pension Tier: Employees hired under the 2016 Pension Tier may choose between the Defined Benefit Plan and a stand alone Defined Contribution Plan. New employees have been entering plans at a roughly even rate, though many automatically default to the DB plan after the 90-day window. The CIO anticipates that the retirement savings program pool could grow to \$35 billion over the next decade due to voluntary contributions alone.

Campus Endowments: Each campus maintains a separate pool of endowed gift fund assets, but campuses also give the systemwide CIO a portion of their endowment assets to manage on their behalf. The CIO manages these funds in the UC General Endowment Pool (GEP). The GEP payout has been 4.75% every year since 1998, and it tends to offer lower fees and produce higher returns than campus-managed assets. Campus chancellors have been electing to send more foundation assets to the CIO, recognizing the value added from systemwide economies of scale. In fact, the Office of the CIO estimates that replicating its investment management services on a campus would incur fees of 0.3%, while Office of the CIO fees amount to 0.027%. The fees include the \$30 million budget for the Office of the CIO and \$3-5 million incentive performance based fees shared among its staff. The Office of the CIO has been increasing efforts to partner and collaborate with campuses.

Working Capital: The CIO also helps UC campuses manage their working capital with the Short Term Investment Pool (STIP), a low-risk investment pool available to all UC campus groups based on overnight liquidity, and the Total Return Investment Pool (TRIP), which produces additional unrestricted revenues for the campuses at low risk. Earnings for the most recent five-year period were about 1.4% for STIP and 6.4% for TRIP. The CIO worked with campuses to analyze assets and reallocate unnecessary liquidity from STIP to TRIP to maximize long term return.

## **IX. UCPB ANR Task Force**

The UCPB Task Force on Agriculture and Natural Resources was established in 2017 to enhance connections between the Division of Agriculture and Natural Resources (DANR) and the Academic Senate. Following the Task Force's February 13 meeting, it drafted a paper that

identified some key issues around DANR's mission and its relationship to the campuses. The paper notes that research associated with agriculture and natural resources is no longer isolated on the three agricultural experiment station (AES) campuses, but is becoming increasingly important to the academic missions of all campuses. At the same time, DANR's mission is encompassing a broader set of environmental issues that emphasize both healthy food and healthy ecosystems. However, despite these growing intersections, the connection between DANR and the non-AES campuses is minimal. The Task Force paper poses several questions for DANR about the evolving nature of California agriculture, DANR's vision for a more inclusive relationship with the campuses, and how DANR's structure allows it to react to the emerging research trends on UC campuses and interact with the entire University.

## **X. Campus Issues and Reports**

A UCPB member noted that UCOP is proposing to increase UC's indirect cost recovery rate on State contracts gradually from 25% to 40% beginning in July 2019. The University is concerned that the current State rate is below the rate negotiated with the NIH for federal contracts and too low to fully account for overhead costs. The increase would align the State rate more closely with the NIH rate.

Some faculty are concerned that as overhead rates rise, campuses will lose money if the State decides to take contracts to places other than UC. Scripps Oceanography, for example, receives \$6-9 million in state contracts, so there is much to lose and potentially significant impacts to the research mission. UCPB should ask UCOP to provide an explanation for the decision, any analysis performed about the impact of the rate change, and information from State agencies about how they may react.

---

Meeting adjourned at 3:30 pm

Minutes Prepared by Michael LaBriola, Principal Committee Analyst

Attest: Joshua Schimel