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Finance Committee Meeting - Minutes 02/09/ 2017

UC Hastings Board of Directors

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**UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW**

**FINANCE COMMITTEE
MEETING MINUTES
FEBRUARY 9, 2017**

1. Roll Call

Chair Donald Bradley
Director Tina Combs
Director Marci Dragun
Director Courtney Power
Director Chip Robertson

Chair Donald Bradley called the meeting to order and ordered the Secretary of the Board to call the roll for the Finance Committee.

2. Public Comment
None

*3. Approval of Minutes – November 10, 2016
Chair Bradley called for the approval of the minutes. The minutes were approved.

4. Investment Report as of December 31, 2016
Chief Financial Officer David Seward gave an update on investments. The general endowment pool (GEP) experienced total returns of 7.07 percent for the first two quarters of 2016-2017. He noted that the College has been dedicated to managing the cash position in order to avoid liquidating to cover cash outflow unless absolutely necessary.

The Short Term Investment Pool (STIP) experienced total returns of 0.59 percent as of December 31, 2016. Chair Bradley asked how much money was in STIP. Chief Financial Officer David Seward answered that there is about \$14 million currently in the STIP with about \$4 million - \$5 million in operating expenses.

Chief Financial Officer David Seward noted that there is typically about \$16 million at the end of the year for cash coverage.

*5. State Budget Report as of December 31, 2016
and Mid-Year Budget Changes

Chief Financial Officer Seward discussed the changes in the mid-year state budget. There has been an erosion in revenue for core operations resulting in a net reduction of \$488,000. Though 340 students enrolled this school year, the second and third year classes amount to 276 and 282 respectively. This created a net \$500,000 decrease in revenue.

In regards to expenditures, the biggest unbudgeted expenses were the Public Safety officer settlements. This amounted to \$364,000. He reported that there were some salary savings—financial services had a \$620,000 savings capture. Funds that were un-programmed for loan assistance repayment have been shifted to help fund bar pass mitigations. He noted that public interest loan forgiveness funds have been underspent for two years and have now been shifted to cover the bar pass mitigations and summer public interest grants.

Chancellor & Dean Faigman further explained that for students who did not pass the bar exam in 2016, the College offered them the option of taking either AdaptiBar for MBEs or another program for bar essays. This cost was about \$50,000. Public interest summer grants totaled about \$80,000 last year.

Chief Financial Officer Seward reported that with all the changes in the current fiscal year, the operating deficit is about 12 percent, or \$6.5 million. This is primarily a result of tuition discounting strategies. However, this is offset by about \$1.8 million in net income from auxiliaries. Last year, the fiscal year ended with a deficit of about \$1.2 million for the state budget.

He noted that next year, with core operations estimated at \$8.3 million and net income from auxiliaries at \$2.2 million due to rent increases in the Tower, there would be an estimated net of \$6.1 million. This is on track with original projections.

The College submits fiscal data to the State annually, and as such, a legislative analyst reviews operating deficits. Chief Financial Officer Seward discussed the legislative analyst's report which predicts an ending balance of \$10.2 million in 2017-2018.

Chair Bradley asked the amount of the non-state reserve and the Tower reserve. Chief Financial Officer Seward responded that the reserve for the Tower is about \$4 million or \$5 million. In total, the reserves are about \$9 million.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the mid-year revised state budget.

*6. State Contracts in Excess of \$50,000

6.1 Vendor TBD - Room Scheduling Software

This contract is still in the public bidding stage. A recommendation cannot be made until the March 2017 Board of Directors Meeting.

6.2 Vendor TBD – Classroom K Audio-visual

This contract is still in the public bidding stage. A recommendation cannot be made until the March 2017 Board of Directors Meeting.

Director Robertson inquired as to whether or not it is necessary to spend \$75,000 on the Classroom K upgrade. Chief Financial Officer noted that Classroom K had not been updated in several years and that with the upgrades, the College would be able to test the new technologies that would be built into the new buildings.

6.3 KONE Elevator – Snodgrass Hall Elevator Controls

Chief Financial Officer Seward seeks authority to complete necessary repairs on elevators in the 198 McAllister building. The repairs would amount to \$57,000 for some control equipment.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the above contract in excess of \$50,000.

7. Multi-year Budget Planning - Core Operations & Auxiliary Enterprises

Not discussed.

*8. Auxiliary Enterprises Budget Report as of December 31, 2016 and Mid-Year Budget Changes

Chief Financial Officer Seward distributed the proposed budget summary. He reported that there is a net income from all auxiliaries of \$1.808 million and a total of \$1 million shown as non-cash expenditures for overhead charges. The actual cash flow is about \$2.8 million in net revenue. Exempting overheads, the Tower has a net cash flow of \$2.4 million and the parking garage has a net cash flow of about \$210,000.

Chief Financial Officer Seward noted that Jarda Byrch is the new building manager and he also plans to deploy him on project support for the long-range campus plan.

Director Robertson asked if the Tower has insurance. Chief Financial Officer Seward replied that the both the Tower and core operations have insurance coverage should there be a business interruption.

Chief Financial Officer Seward also reported that renovation of the Skyroom has been completed, saving \$25,000. Other projects have been deferred until the next fiscal year. He also noted that Tower reserve funds are fully invested in the general endowment pool.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the mid-year budget changes for the auxiliary enterprises.

*9. Nonstate Budget Changes

Chief Financial Officer Seward noted that these nonstate budget changes are mostly ministerial and are all related to four grants—\$800,000 worth—that came in post-budget through the Center for Gender and Refugee Studies run by Professor Karen Musalo.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve revising the budget to reflect these four grants.

*10. Endowment Management – Spending Rate for 2017-18

Chief Financial Officer Seward seeks a continuation of the 4.35 percent payout rate on the endowment. The payout rate is calculated on the base of a rolling average of the market value of the endowment. The College previously adopted a total return spending policy whereby the amount dispensed is based on changes in total market value. A 0.35 percent surcharge is applied as a cost recovery mechanism to help support the Advancement Office and the fundraising team.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the endowment payout rate at 4.35 percent for the current fiscal year.

11. Federal Indirect Cost Recovery Rate

Chief Financial Officer Seward explained that in the last ten years, the College has had four or five NSF and NIH grants and that the vast majority of the College's grant activity has been through private foundations and donations. In order to support the grant activities of the College, Chief Financial Officer Seward went into negotiations with the Department of Health and Human Services to negotiate an indirect cost recovery rate pursuant to the Office of Management and Budget. As a result, there is now an on-campus rate of 46 percent. This means if the College submits a grant for \$100,000 and if the grant is short-form and has provisions for overhead recovery, the College can claim \$146,000 on a cost base. This will support the Hastings centers in their grant solicitation processes.

*12. Rate and Fee Changes

12.1 Student Housing – Residential Rate Increases for 2017-18

Chief Financial Officer discussed the McAllister Tower 2017 rent pricing analysis. He noted that there is quite a bit of space between the College's rate structures and current rental market rates. Thus, he proposes a seven percent rate increase which would continue to provide a substantial subsidy off of the market rate, but also provide much-needed cash to support the College's operations. A seven percent increase would generate roughly \$350,000 in net income per year. This would also assist in interior renovation and repair of the Tower.

Director Robertson asked whether the College should be concerned with raising the rate given the focus on affordability from the State. This rate may need to be moderated when the cap on tuition fee increases is removed, but Chief Financial Officer Seward said he was confident in making this recommendation. He also noted that rent is raised in the Tower between five and seven percent every year, but still remains below market rates.

Upon motion duly made, seconded, and carried, the Finance Committee ratified the action of the executive committee and recommended that the Board of Directors approve the McAllister Tower rent increase in the residential units by seven percent effective August 1.

12.2 Parking Garage Rate Increase

Chair Bradley reported that the executive committee met and approved an increase in the early bird rate in the parking garage from \$15.00 to \$18.00 effective February 1.

Upon motion duly made, seconded, and carried, the Finance Committee ratified the action of the executive committee and recommended that the Board of Directors approve the increase of the early bird parking rate from \$15.00 to \$18.00.

*13. Time Reporting System Implementation - Transition Assistance Program

Chair Bradley reported that the executive committee met earlier and discussed the Transition Assistance Program and approved its adoption.

Upon motion duly made, seconded, and carried, the Finance Committee ratified the action of the executive committee and recommended that the Board of Directors approve the Time Reporting System Implementation Transition Assistance Program.

14. Update on IRS Audit of 403b and 457 Plans

Chief Financial Officer Seward gave an update on the IRS audit of the College's 403(b) and 457 retirement plans. He noted that Hastings is a passive participant in these plans, but the College does have a role in plan administration on employee intake when the College reviews eligibility requirements before processing. The College does not control investment choices or compliance. The UC system has been cooperative in helping with this audit. There may be a full-on audit of the UC system and its management of these programs. He noted that there have been abuse of the 403(b) and 457 plans at school district levels and water districts, which may be the impetus behind this inquiry. A meeting has been scheduled for the College to meet with both the UC and the auditors to discuss how to close the matter.

15. Update on Long Range Campus Plan

Chancellor & Dean David Faigman reported that the long range campus plan is moving along as expected. There were five semi-finalists for the construction of 333 Golden Gate. These five were then narrowed down to three semi-finalists. There have been two confidential meetings with each of the construction design teams to look at preliminary plans and view early drawings of the buildings.

There are meetings on March 6th and 7th for the final presentations of each of the design teams. The meeting will consist of three individuals from the State, Chief Financial Officer Seward and Chancellor & Dean Faigman. Representatives of the Board of Directors, the Hastings Foundation, and the Board of Governors have been invited to participate as well. After this, a winner is expected in March. The winner will go through the necessary state contracting, likely by June, at which point they can have access to the land. Actual construction is expected to begin by June 2018 and end around late September or early October 2019. The expected move-in date will be January 1, 2020.

During construction of 333 Golden Gate, plans will be discussed about how to demolish and rebuild 198 McAllister, which may include academic space, ground floor activation partners, the YMCA, a coalition of legal services corporations, and 12 stories of subsidized student housing.

Work is also being conducted on 100 McAllister. A seismic study is in process to determine whether or not the Tower can be retrofitted for earthquakes and renovated at a cost that would support subsidized student housing. If it can, then 198 McAllister and the Tower would serve both UCSF and Hastings for student housing needs.

A lengthy discussion ensued about the possibility of the University of California Retirement Program participating as an equity partner in the development of these buildings along with a discussion on P3s.

16. Report on Faculty and Staff Salaries over \$100,000
(To be Distributed)
Chief Financial Officer Seward distributed a report listing all individuals earning over \$100,000 annually. The report excludes corporate officers.
17. List of Checks over \$50,000
Not discussed.

Director Robertson inquired about the status of collaborating with UCSF to provide student health services. A lengthy discussion then ensued about collaborating with UCSF to provide student health services and what it would mean to have or not have a student health services department on campus.

- *18. Adjournment
There being no further business to come before the Finance Committee, the meeting was adjourned.