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Finance Committee - Minutes 08/10/2017

UC Hastings Board of Directors

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

FINANCE COMMITTEE

MINUTES SUMMARY

Thursday, August 10, 2017 – 10:15 a.m.

UC Hastings College of the Law
A. Frank Bray Board Room
198 McAllister Street, 1-Mezzanine
San Francisco, California 94102

1. Roll Call

Committee Members Present:

Chair Donald Bradley
Director Tina Combs
Director Marci Dragan
Director Tom Gede
Director Claes Lewenhaupt
Director Mary Noel Pepys
Director Chip Robertson
Director Courtney Power

Staff Present:

Chancellor & Dean David Faigman
General Counsel Elise Traynum
CFO David Seward
Academic Dean Designate Morris Ratner
Director of External Relations Alex Shapiro
Budget Officer Carol Cole
Chief of Staff Anne Marie Helm

Chair Donald Bradley called the meeting to order and the Secretary called the roll for the Finance Committee meeting.

2. Public Comment Period

None.

*3. Approval of Minutes – May 11, 2017

Chair Bradley called for the approval of the May 11, 2017 minutes. The minutes were approved.

4. 2016-17 Year-end Investment Report

Chief Financial Officer David Seward discussed the latest investment report. He reported that the General Endowment Pool experienced total returns of 14.8 percent for the fiscal year, which ended on June 30, 2017. This return was 200 basis points above the projected target. This investment return will be reflected in the financial statements, the long-range plan, and the five-year fiscal plan. He noted that the markets may continue to have periods of great instability, giving an example that if the markets drop 50 percent, the College's reserves will drop 50 percent as well. While this is a risk, the College can mitigate by taking a cash position. He noted, however, that had such a position been taken last year, the College would not have benefited from the 14.8 percent investment return.

Director Combs asked about fiscal planning in relation to market volatility. Chief Financial Officer Seward reported that he will present, at the September 2017 Board of Directors meeting, a written recommendation that the College liquidate between \$4 million and \$8 million of its investments in order to fund the projected \$8 million deficit.

5. State Budget Report - Preliminary 2016-17 Year-end

Chief Financial Officer Seward presented the preliminary 2016-17 year-end State budget report. He reported that last year at the end of the fiscal year in June 2016, the College had a total of over \$3 million in realized and unrealized gain. \$640,000 of this realized gain was the result of liquidated investments.

In regards to expenditures, there were savings in a number of departments and areas. He noted that the College began the year expecting that after financial aid, there would be a deficit of \$6.5 million. However, the College actually saw a deficit of \$4.5 million. He noted that the College may end the year with positive net assets in this area.

*6. Core Operations - State Budget for 2017-18

Chief Financial Officer Seward next discussed State appropriations. He noted that the report for State appropriations reflects the nine percent increase in State funding. The College is in its sixth year of stable fees and as such there has been no increase in general enrollment fees. He went on to discuss how the enrollment numbers will affect the budget.

Director Gede asked how other UC law schools have managed given the tuition freeze. Chief Financial Officer Seward responded that the schools all have their own central campus administration, and thus don't have to pay for certain overhead such as security or building maintenance and as such, they get to keep all of their professional school fees. UC Davis for instance, has significantly increased enrollment for its first-year class because they depleted their reserves due to tuition discounting. Other schools may be running on a deficit or may increase their LLM enrollment. However, the College's LLM enrollment is down to twenty-one full time LLM students from last year's 24.5 full time LLM students.

Director Gede also asked about the impact of veteran fee waivers. The veteran fee waiver accounts for \$830,000 to \$833,000 in tuition.

There have been a number of full time employee positions added in the Academic Office and the Chief Financial Officer's department. The budget allows for an allocation of \$189,000 for matters that arise during the course of the year to support the operations of the Academic Dean or other reorganizations.

He further noted that he is budgeting a compensation pool of 1.5 percent for all faculty and staff, which should cover wage negotiations and collective bargaining agreements with the unions on campus. He noted that non-represented staff have not had a compensation change since January 2016, when represented employees received a 2.5% increase. Secretary of the Board and General Counsel Elise Traynum further discussed union negotiations and the proposal to place AFSCME unit members on a salary step structure.

Chief Financial Officer Seward further discussed the impact that tuition discounting has had on the core operations budget. He noted that the College may end up with a projected reserve of \$7.7 million in state funds.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the core operations state budget for 2017-2018.

7. Core Operations – State Budget Planning for 2018-19

Chief Financial Officer Seward discussed core operations state budget planning for 2018-2019. He noted that if the College pursued a tuition fee increase with the state, the College could see a net of \$200,000. However, this would go against the governor's continued tuition freeze.

8. Budget Planning – Update of Five Year Budget Model

Chief Financial Officer Seward discussed the updates to the five-year budget model. He noted that the budget that was previously approved would result in an \$8.1 million deficit in state operations and \$100,000 removed from the planned fund for Kane Hall improvements. With the positive income of \$1.9 million from auxiliaries and assuming no changes in the market, the projected deficit is \$5.8 million from operations. He noted that this is not far from what was already projected. The reserves would decrease from \$31.8 million to \$24 million for the current fiscal year, assuming no investment gains or losses.

Next year, once tuition discounting decreases from 46 percent to 37.5 percent, the rate of decreasing reserves will lessen to some degree. He noted that the budget model assumes a ten percent tuition fee increase in 2019-2020 after Governor Brown exits office. He also noted that a two percent core operating cost increase, the refinancing of the debt on the parking garage, increased parking rates by five percent, and seven percent rent increases in the Tower are all reflected in the five-year budget plan.

As a result of tuition discounting, the College will run through its reserves in 2019-2020 and will be funding all capital and building enhancements from either the non-state

Hasting Digardi Hall reserves or the Tower reserves, while preserving state funds for core programs.

This five-year plan does not reflect any gifts or donations received. Chancellor & Dean Faigman discussed private donations and the goal to build an endowment of \$200 million, which can help with tuition discounting and keep the school competitive in enrollment.

9. Non State Budget Report - Preliminary 2016-17 Year-end
Not discussed.
- *10. Non State Budget for 2017-18
Chief Financial Officer Seward requested an approval of the nonstate budget for 2017-2018.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the nonstate budget for 2017-2018.

11. Preliminary 2016-17 Year-end Auxiliary Enterprises Budget Report
Not discussed.
12. State Contracts in Excess of \$50,000

- *12.1 Student Loan Servicing – Educational Computer Systems, Inc.
- *12.2 Library Data Services – Bloomberg BNA
- *12.3 Library Data Services – LexisNexis
- *12.4 Library Data Services – Westlaw
- *12.5 Payroll Time reporting System – UC Regents
- *12.6 Information Retrieval – Innovative Interfaces, Inc.,

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

13. Nonstate Contracts and Grants in Excess of \$50,000
 - *13.1 Venue Rental Homecoming and Reunion – Fairmont Hotel
This contract is for the rental agreement for the reunion.
 - *13.2 LRCP Feasibility Review - Economic Planning Services
This contract is for the Colleges' share of the cost for the Local 2 project related to the long-range campus plan.
 - *13.3 LRCP Project Support – Consulting Services – Kasey Asberry
This contract is for consulting services on sustainability in regards to the 333 Golden Gate building project.
- *14. Long Range Campus Plan – Project Update & Predevelopment Budget
Chief Financial Officer Seward requested an allocation of \$2,744,026 for the predevelopment budget in order to continue with implementation in 2017-2018. He also

reported that the projected cost for construction plans for sixth floor of the 200 McAllister building increased to \$9.4 million from \$2.6 million. As such, the College will put the sixth floor roof project on hold. The College will continue with the state-deferred maintenance program. The 2016-2017 predevelopment budget has a remaining balance of \$10,709.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the 2017-2018 predevelopment budget.

- *15. Annual Update of Five Year Infrastructure Plan 2018-2023
State of California, Department of Finance
Not discussed.

- *16. Planning – Proposal to Develop an Environmental Sustainability Plan
Chief Financial Officer Seward reported that both the University of California and the State of California have adopted sustainability plans. Though the Governor’s directives do not apply to the College, Chief Financial Officer Seward would like to propose that the College develop a sustainability plan. The plan would be presented at the November 2017 Board of Directors meeting. One of the goals of the plan would be to work with the San Francisco Public Utilities Commission in order to the city’s municipal water grid, which may support the new housing structures and the use of water reclamation.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the proposal to develop an environmental sustainability plan.

- *17. Hastings Series 2018 Bonds – Approval to Refinance
Chief Financial Officer Seward discussed his proposal that the College refinance the debt on the parking garage through the 2008 issued bonds and issue new series 2018 bonds. The refinance would allow for an opportunity for defeasance with no restriction or penalty on April 2018. He noted that refinancing would require another discussion with Moody’s regarding the grade of the bonds.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the refinancing of the Hastings bonds.

- *18. Digardi Quasi Endowment – Approval to Augment
Chancellor & Dean David Faigman discussed the restructuring of the Digardi Quasi Endowment and the distribution of funds derived from endowments for professorships. He noted that historically, there were different endowment amounts for all chairs and professorships depending on the original gift. When distinguished professors were given a chair, some received either a low or high payout due to timing. As there was no rational behind the random distinction of payouts, Chancellor & Dean Faigman decided to set the same rate for all the endowment payouts at \$20,000. In order for the Digardi Endowment to be in line with the others providing a \$20,000 payout, the endowment must be augmented by \$150,000 through unrestricted funds.

Upon motion duly made, seconded, and carried, the Finance Committee recommended that the Board of Directors approve the augmentation of the Digardi Quasi Endowment by \$150,000.

19. Annual Report on Insurance Coverage – 2017-18
The insurance deductible has been increased in an effort to moderate the increase in premium for legal liabilities and for property liabilities.
20. Listing of Checks and Wire Transfers over \$50,000
Not discussed.
- *21. Adjournment
There being no further business to come before the Finance Committee, the meeting was adjourned.