UNIVERSITY PLANNING COMMITTEE
Meeting Minutes
February 17, 2021

Attendees

Ebony Cain
Paul Caron
Lauren Cosentino
Michael Feltner
James Gash
Nelson Granados
Connie Horton
Sara Jackson
Lee Kats
Rick Marrs (chair)
Marilyn Misch
Tim Perrin
Pete Peterson
Phil Phillips
Jeff Pippin
Steven Potts
Greg Ramirez
Mark Roosa
Michael Shires
Nicolle Taylor
Deryck van Rensburg
Helen Williams

Absent

Rick Cupp
Gary Hanson

Observers

Juliano Bonavia
Danny DeWalt
Ildiko Hazak
Seta Khajarian
Jody Semerau
Jonathan See

Guest Presenter

Sean Michael Phillips

I. Call to Order and Devotional

Provost Marrs called the University Planning Committee meeting to order at 8:30 a.m. on February 17, 2021 via Zoom Meeting. Connie Horton presented devotional thoughts.

Marilyn Misch and Michael Feltner moved and seconded approval of the minutes with corrections for January 13, 2021, which were adopted.

II. Office of Financial Planning FY22 External Budget Update

Juliano Bonavia presented the university's expense trends. The university's expenses increased about 3.6% annually over the last ten years. Most of the expense increases occurred in FY18 and

FY19, with FY20 leveling off due to the university's expense optimization measures. Academic spending increased from $180 million in FY11 to $235 million in FY20. Juliano Bonavia presented the distribution of the expenses. About 57% of the expenses in FY20 were personnel and 43% were general expenses. Juliano Bonavia commented that external budgets are built using zero base methods, so these budgets are reset each year. In FY22, OFP is planning for a $1.3 million increase compared to this year, which is a 4.9% increase. Around $533,000 of that increase is due to the largest external budget category, which is facility leases. That is a 4.4% increase which is in line with the average annual increases that are specified in the lease agreements for the graduate campuses. A bigger portion of the increase, around $784,000, is due to institutional insurance. OFP is planning for a 17% increase due to the very challenging insurance market. Pepperdine's utility budget is decreasing due to lower energy rates. The IT budget and the property operations budget are unchanged from this year.

Finally, Juliano Bonavia presented the history of the external expenses. Facility leases, which is the largest category, is 45.9% of the total external budget. In the period from FY17 to FY20, the total external budget is relatively flat. It is due to the fact that some of the increases were offset by favorable facility lease negotiations. In FY21 and FY22 there is a larger level of increase overall because they are resuming a regular level of increase in facility leases and also they have heightened levels of increases in institutional insurance. That has caused a $1.2 million increase in FY21 in external budgets and then a planned $1.3 million increase in FY22. Dean Feltner asked why administrative expenses have increased at a rate that is double the rate of academic spending increases. Juliano Bonavia responded that most of that is due to construction spending, capital spending. Online programs are not included. If online programs were included, then the academic program would be roughly $40 million higher. Jeff Pippin noted that he assumed that capital expenses for renovation would have been capitalized rather than expensed. Juliano Bonavia responded that most are capitalized but not all. Marilyn Misch asked whether facility leases considered academic or administrative expenses. Juliano Bonavia responded that facility leases would be considered administrative or "other" expenses. Institutional insurance would be considered an administrative expense as well.

III. Human Resources FY22 Budget Process

Sean Michael Phillips began by presenting that Human Resources (HR) has a holistic approach to retain a talented workforce. HR has compensation, benefits, work-life integration, performance rewards and development opportunities for the workforce. Compensation and benefits account for a significant portion of the university's annual budget. Sean Michael Phillips presented the benefit cost per FTE. In this unprecedented time HR has seen the first decrease in benefits cost per FTE. HR had a reduction in the pool of benefit eligible employees due to expense optimization measures. Retirement, life insurance and LTD are based off of actual salary dollars. Pepperdine did not have a merit increase. The matching contributions to the retirement plan has been suspended. Lower utilization and strategic efforts led to a net negative renewal for healthcare insurance premiums. The pandemic has significantly impacted the benefit costs this year. There is a 6-8% annual increase nationwide in medical costs. Sean Michael Phillips reviewed Anthem's 12-month loss history. The desired loss ratio is 88%. Sean Michael Phillips presented that the loss ratio was coming down. The pandemic has significantly affected this trend. Because of Pepperdine's loss history, there is a decrease in medical premium renewals resulting in a net negative increase for calendar year 2021. Despite the drivers and the rate increases over time, the university actually incurred an average cost increase of less than 5%, since FY12.

Sean Michael Phillips presented the average medical premium increase for employees compared to the average salary increase. Next, he shared the medical premium cost share between the university and employees. The total dollars spent have decreased the university's benefits budget. He continued showing a table from AON that shows the benchmarks for how employers subsidize health plans. AON is Pepperdine's benefits broker. Sean Michael Phillips presented the 2021 employee contribution rates for the high deductible plan, the Anthem Advantage HMO, the Kaiser plan and the Vivity HMO. There is a zero percent increase for Pepperdine employees in 2021. Reviewing open enrollment changes, the university has an overall decrease in the number of benefited employees. A couple of years ago, HR took steps to reduce and ultimately phase out the very expensive EPO plan. Human Resources actively works to reduce medical costs and keep the university's benefits costs down.

Sean Michael Phillips presented an overview of compensation. HR follows the Equal Pay Act of 1963 and the California Fair Pay Act of 2016. In 2017, HR created a pay equity tool where salaries of similar positions are easily compared across the university. Pepperdine follows Los Angeles County's minimum wage requirement, which is $15 for the county. Pepperdine's own minimum wage requirement for regular, full-time staff is $16.83. Pepperdine follows the State of California for the monthly exempt minimums. Any employee, beginning in January 2022, must make at least $5,200 per month to remain exempt. As of January 2022, Pepperdine has 170 employees who are impacted by this. They are currently exempt but their salary is not enough to keep them exempt. HR and Finance will work with each of the major areas and look at a number of considerations whether it is appropriate to increase an employee's salary. HR will provide a list of all impacted employees to each steering member. The steering members will propose a list of employees to remain exempt and a list of employees to transfer to non-exempt. The University will communicate the changes to the employees. All employees who are moving to non-exempt, will be reclassified effective December 1. On January 1, 2022 the employees who remain exempt will receive their final salary increase. Dean Feltner asked, "In building the FY22 budget, are we budgeting for the retirement match to return effective August 1, 2021?" Sean Michael Phillips replied that retirement match suspension is being discussed by HR. Greg Ramirez commented that they are planning for the retirement match to come back and to release the retirement match suspension effective August 1.

IV. Advancement Office FY22 Budget Process

Lauren Cosentino presented information related to Pepperdine's cost to raise a dollar over the previous five fiscal years. CASE Gift Revenue includes pledges in full, the year committed, and new gifts of cash, stock or property. GAAP Gift Revenue is income received, inclusive of pledge payments and new gifts in cash, stock, or property. Lauren Cosentino presented a chart depicting the cost to raise a dollar. Next, she presented unrestricted giving and excellence funds. Lauren Cosentino noted that each dean and the president has an excellence fund. Advancement would like to bring in more unrestricted dollars. Advancement will be working with the fundraisers on how they place their ask and how they communicate to donors and alumni. Lauren Cosentino commented that in higher education advancement development work, one trend is that people want to give to something designated. Another trend is the donor investor. These donors want to see impact and they want to see how their particular gift changes something for the better. Lauren Cosentino continued presenting a chart on total giving by case. The chart shows how the Law School is benefiting greatly from the Caruso gift. Lauren Cosentino commented that Advancement is looking into putting in place new systems that will enable deans, coaches and the athletic director to help solicit parents, donors and alumni. Advancement also would like to leverage faculty who would be interested in participating as well. Lauren Cosentino noted that Advancement has a great team within the department and a lot of resources.

V. Office of Investment Management FY22 Budget Process

Jeff Pippin presented the 10-year growth of the endowment pool. The endowment pool started with $550 million and they are around $860 million at the end of December. That is around 8% compound growth in the returns. The endowment payout is $338 million. The endowment payout steadily increased in the last ten years. Their formula is a 5% of a five-year moving average fair market value. Jeff Pippin presented the chart for cumulative return, which showed the endowment pool returns over a long period of time, compared to inflation plus 5.5%, which is the long-term return goal to maintain purchasing power of the endowment. The chart presented the policy portfolio, which is the benchmark that the investment committee of the Board of Regents sets for the university's portfolio. The chart also included a 70% equity and 30% fixed income portfolio and the S&P 500. Until January of 2008, the university's endowment pool was outperforming every other comparison by a pretty good margin. Then the great financial crisis happened. The university was still outperforming as the market went down. After 2016, the university's policy portfolio was taking a dip. In 2017, the S&P 500 pure stock portfolio really started to outperform, leading that was the big tech stocks. Right now, there is an extraordinary market intervention by the Federal Reserve and other central banks across the world that have put an extreme amount of liquidity into the system pumping up bank reserves. Five years ago, Pepperdine moved 10% of its equities into a more uncorrelated portfolio. The portfolio performed admirably.

Jeff Pippin reviewed the endowment performance. The university's long term goal, keeping up with inflation, has been met. Jeff Pippin presented a chart showing how the university's endowment is diversified among different asset classes including, private equity, venture capital, hedge funds and commodities. Jeff Pippin commented that diversification lessens the risk and the volatility in the portfolio. Jeff Pippin reviewed the role of asset classes including, marketable equities, fixed income, hedge funds, real assets and private equity. Marketable equities provide liquidity and long term growth. The fixed income portfolio is 10% of the university's portfolio. The university invests in hedge funds and in real assets. The university has 25% invested in real assets, 10% in real estate, 10% in natural resources and 5% in generalized commodity investments. Jeff Pippin presented the long-term asset allocation. The allocation is as follows, 30% in domestic equity, 10% in fixed income, 10% in diversified portfolio, 25% in real assets, 12.5% in emerging markets and 12.5% in international development equity. In terms of return, diversification has not paid off in the last five to seven years. Jeff Pippin noted that they are coming to a time when it will pay off. Greg Ramirez asked Jeff Pippin, in terms of the asset allocation, can he speak to the exposure to energy pre-pandemic and what that looks like now moving forward. Jeff Pippin responded that the exposure pre-pandemic was about 11%. They are at about 8-9% now, because energy went way down. Before the pandemic, it was about 11% in private natural energy.

Juliano Bonavia addressed one of the questions that came up during his presentation asking about the compound annual growth rate for revenues. Juliano Bonavia noted that rate is 2.8% compared to the expense growth rate which is 3.6%, so that revenue growth rate is lower. Juliano Bonavia addressed another question regarding the composition of administrative spending. The administrative spending is due to not only the uncapitalized construction, but also some of the externals, like insurance, facility leases and legal cost. Juliano Bonavia noted that he would like to present on a more in-depth look at administrative versus academic spending at a future meeting.

VI. Adjournment

The meeting was adjourned at 9:48 a.m. The next meeting of the University Planning Committee will convene at 8:30 a.m. on March 17, 2021 via Zoom Meeting.