

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of January 24, 2018

ADOPTION OF REGENTS POLICY ON A CENTRAL OPERATING RESERVE FOR THE UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT AND DISCUSSION OF GUIDELINES GOVERNING THE CENTRAL OPERATING RESERVE

EXECUTIVE SUMMARY

In response to the recommendation made by the California State Auditor in April 2017, the President proposes that the Regents adopt a policy governing an operating reserve requirement for the University of California, Office of the President (UCOP). The Policy delegates to the President of the University the authority to establish implementation guidelines that specify the size and funding source of the reserve and to amend those guidelines. It requires that the President notify the Chair of the Board of Regents, the Chair of the Financial and Capital Strategies Committee, and the Chair of the Compliance and Audit Committee before any funds are drawn.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend that the Regents adopt the Policy on a Central Operating Reserve for the University of California Office of the President, as shown in Attachment 1.

BACKGROUND

In April 2017, the California State Auditor recommended that the Office of the President (UCOP) develop a reserve policy that governs how large its reserves should be and the purposes for which they can be used. In conjunction with the proposed Regents Policy governing UCOP reserves, the President will implement the Presidential Guidelines Governing the UCOP Central Operating Reserve, as shown in Attachment 2 for information and discussion. These Guidelines will govern the funding, spending, and balances of the Central Operating Reserve.

The purpose of the Central Operating Reserve is to provide funding to support ongoing operations in the event of an unexpected one-time disruption in funding and states that this reserve may only be used for planned operating expenses such as payroll and other budgeted

COMMITTEE

January 24, 2018

operating expenses. The Central Operating Reserve is not intended to be used for other purposes such as funding projects or initiatives.

In developing the policy and guidelines, the reserve policy work group researched best practices from other institutions of higher education, municipalities, and organizations that set standards and best practices such as the National Association of College and University Business Officers (NACUBO) and the Government Finance Officers Association (GFAO). The conclusion from this research is that best practice is to have a reserve amount based on size and volatility of the revenue streams. For the institutions the workgroup reviewed, reserves ranged widely, from as low as two percent to as high as 25 percent, depending on the risk profile of the organizations' revenue streams. Most public universities' reserve targets clustered between two and five percent. The workgroup used this guidance to develop the present recommendations.

In addition, during the process of developing its recommendations, the workgroup consulted with Sjoberg Evashenk Consulting, the Board's independent consultant to ensure the work was meeting the expectations set forth by the California State Auditor.

In determining the size of the UCOP Central Operating Reserve, the Audit Task Force workgroup also excluded self-funded programs with existing reserves and building and information technology (IT) reserves required for maintaining assets in good working order (e.g., the UC Washington Center, UC Press, the Education Abroad Program, Operations, Maintenance, and Plant expenses, etc.). The total net funds and expenses covered by the reserve are referred to as "covered funds and expenses."

The Central Operating Reserve Guidelines recommend that this reserve be funded by designating \$15 million or at least 3.5 percent of covered funds and expenses in the President's Endowment Fund, whichever is greater. The guidelines further recommend the following:

- Should operating reserve requirements exceed \$15 million (approximately ten days of covered funds and expenses) or 3.5 percent of covered funds and expenses, the Central Operating Reserve may be supplemented up to a maximum of an additional \$100 million, or three months of covered funds and expenses, with funds from a source such as a loan from the Short Term Investment Pool or other unrestricted sources as approved by the President. Access beyond the \$15 million would require approval from a majority of votes of the Chair of the Board, Chair of the Finance and Capital Strategies Committee, and Chair of the Compliance and Audit committee.
- The Central Operating Reserve target balance shall be reviewed by the President whenever there is a change of ten percent or more in the overall UCOP budget or at least every five years.

COMMITTEE

January 24, 2018

- The Regents Policy also stipulates that the President notify the Chair of the Board of Regents, the Chair of the Financial and Capital Strategies Committee, and the Chair of the Compliance and Audit Committee should spending from the reserve be required.

If approved, the Policy will be effective July 1, 2018 to correspond with the new fiscal year.

Attachment 1: Policy on a Central Operating Reserve for the University of California Office of the President

Attachment 2: Presidential Guidelines Governing the UCOP Central Operating Reserve (for information)