

## Office of the President

### TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

#### DISCUSSION ITEM

*For Meeting of March 14, 2018*

#### **UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT FISCAL YEAR 2018-19 BUDGET PROCESS AND PRESENTATION PROTOTYPE**

In response to the April 2017 California State Auditor (CSA) recommendations, the UC Office of the President (UCOP) is working to improve its budget process to increase consistency, clarity, and efficiency, solicit greater stakeholder input during the budget cycle, and deliver complete and transparent budget presentations. The CSA Budget Process and Presentation Recommendations are included in Attachment 1.

Since the January 2018 update, UCOP has continued to develop its Fiscal Year (FY) 2018-19 budget. The focus in this budgeting phase is on analyzing and planning major factors that affect the budget and determining which further adjustments are required to recognize organizational priorities while managing within the expected funding levels. Factors such as the reductions related to State Assembly Bill 97 (AB97) which required redirection of UCOP State funds to support increased enrollment (see Attachment 2) and changes to budgeting practices related to the UCOP restructuring efforts are being incorporated into the final budget proposal for May 2018.

The purpose of this item is to provide a progress update and to review the new budget presentation prototypes for the FY 2018-19 budget to be presented in May 2018.

- Section I provides an overview of ongoing budgeting activities
- Section II summarizes impacts from the February 2018 UCOP restructuring effort update
- Section III describes new budget presentation elements for the FY 2018-19 budget presentation (see Attachments 3 and 4)

These improvements continue to build on budget process changes introduced earlier this year including a phased budget process, adding targeted zero-based budgeting, and implementing a forecasting process.

#### **I. Ongoing Budgeting Activities**

As a part of UCOP's ongoing efforts to improve the accuracy and consistency of the UCOP budget, a number of activities are under way to prepare for the May 2018 budget presentation, several of which are new to the annual process:

- Analysis and scenario planning of several budget impacts such as total vacancy factor, benefits increases, and unavoidable cost increases or revenue changes
- Analysis of budget and accounting practice changes related to the February 2018 UCOP restructuring effort update
- Workforce planning for FY 2018-19
- Analysis of the Strategic Priorities Fund commitments and projected balances including Presidential initiative budgets
- Completion and review of division and department forecasts for FY 2017-18
- Revenue budgets development for FY 2018-19
- Continued consultation with the Executive Budget Committee and the Regents' independent auditor, Sjoberg Evashenk

In the last phases of the budget process, UCOP Budget and Finance and divisions and departments will enter final adjustments into the Budget Development System (BDS) in preparation for the May 2018 budget presentation to the Regents.

## **II. Impacts of the UCOP Restructuring Effort Update**

A number of budgeting and accounting changes were identified by UCOP, the CSA, PricewaterhouseCoopers (PwC), and Huron. The President took the opportunity in February 2018 to outline several changes that will affect the UCOP budget presentation. These changes provide greater clarity and consistency in the budget presentation; they do not change the underlying cost structure. The three areas addressed are:

- **Budgeting for UCOP Revenues and Expenses:** UCOP will reflect all planned revenues and expenses in the annual operating budget by adhering to a set of budgeting guidelines that stipulate which financial transactions count as revenue and expenses for UCOP.
- **Excluding Systemwide Transactions from the UCOP Operating Budget:** UCOP will consistently exclude systemwide pass-through financial transactions from the UCOP operating budget.
- **Internal Budgeting Practices:** UCOP will reduce the administrative effort required to manage the operating budget and to ensure that expenses are funded by the appropriate revenue sources. These practices will not change the overall budget.

## **III. Budget Presentation Improvements**

In addition to changing budgeting practices and processes, UCOP is developing new budget presentation elements for the May 2018 Regents presentation. These new elements will build on the changes incorporated into the May 2017 presentation. A summary of budget presentation changes and prototypes of each new element listed below are included in Attachments 3 and 4.

New budget presentation elements include:

- A single Regents budget item (rather than two separate items)
- All ongoing operating and one-time expenses in one budget
- “Sources and Uses” report which includes:
  - Total budgeted revenues
  - Budget to actuals comparisons
  - Clear reporting of pass-through funds
  - Alignment of accounting practices related to recharges to reflect gross revenues and expenditures for all divisions and departments
  - Fund balances
  - Reserve balances
- New fund restrictions designations
- New Cause of Change analysis detailing year-over-year budget change drivers
- Strategic Priorities Fund reporting that clearly reflects known commitments and uncommitted balances

To facilitate these changes, interim enhancements are being made to the existing BDS system. While these interim system enhancements are improving consistency of data and reporting, report production, new analyses creation, and data validation remain a time- and labor-intensive process. Replacing the BDS system remains a high priority.

Changes will continue to be made in FY 2019-20 including:

- New UCOP budgeted revenue and expense by category view (similar to a statement of revenue and expenses)
- Impacts of changes related to UCOP restructuring efforts

**Key to Acronyms**

BDS	Budget Development System
CSA	California State Auditor
FY	Fiscal Year
UCOP	UC Office of the President

Attachment 1: CSA Budget Process and Presentation Recommendations

Attachment 2: AB97 Reductions

**Attachment 3: Summary of UCOP Budget Reporting Enhancements**

**Attachment 4: UCOP Budget Proposal Prototype**

## **CSA Budget Process and Presentation Recommendations**

### **CSA Budget Process Recommendations:**

By April 2018:

- Increase campus stakeholder input in the budget development process by reconvening the campus budget committee and establishing an agreed-upon charter that describes the committee's scope, role, and protocol for reviewing and providing comments on the Office of the President's annual budget.

By April 2019:

- Implement the best practices for budgeting identified by the Government Finance Officers Association (GFOA) and the National Association of College and University Business Officers (NACUBO), including developing budget policies and procedures and formally documenting, approving, and justifying all one-time and unexpended expenditure requests.

By April 2020:

- Evaluate its budget process to ensure it is efficient and has adequate safeguards that ensure staff approve and justify all budget expenditures. If the Office of the President determines that its safeguards are sufficient, it should begin developing a multi-year budget plan.
- Report to the Regents on the amount of funds it reallocates to campuses as a result of implementing our recommendations.

### **CSA Budget Presentation Recommendations:**

By April 2018:

- Implement UCOP's recommended budget presentation shown in figure 11. Specifically, the Office of the President's budget presentation to the Regents should include a comparison of its proposed budget to its actual expenditures for the previous year. It should also include all its expenditures and identify changes to the discretionary and restricted reserves. The Office of the President should combine both the disclosed and undisclosed budget into one budget presentation.

By April 2019:

- Continue to present a comprehensive budget based on the presentation in Figure 11 to the Regents, the Legislature, and the public.

