

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

INFORMATION ITEM

For Meeting of March 14, 2018

REPORT OF BUDGET TO ACTUAL EXPENDITURES FOR FIRST AND SECOND QUARTERS FISCAL YEAR 2017-18 FOR THE OFFICE OF THE PRESIDENT

As part of the annual budget performance monitoring and reporting at UC Office of the President, Figure 1 on page two provides the summary results of year-to-date actual expenditures for Fiscal Year 2017-18 through December compared to the Fiscal Year 2017-18 budget approved by the Regents in July 2017.

Consistent with the recommendations included in the California State Auditor's April 2017 report, UCOP is implementing best practices in establishing a new budget process and clearer, more transparent reporting to more comprehensively report on UCOP operating activities.

Budget Performance Summary

Key metrics related to the budget and mid-year actuals:

- The total FY2017-18 approved budget was \$797.5 million.
- As of December 31, mid-year actual expenditures total \$329.4 million or 41 percent of the full year budget. Compared to a budget of \$394.2 million for the six months ending in December, actuals of \$329.4 million show a favorable variance of \$64.8 million comprised of \$24.7 million in unrestricted funds and \$40.1 million in restricted funds.
- Savings at mid-year are due largely to seasonality of expenditures, expansion of UCPath in the second half of the year, timing of research grant awards, and vacancy savings.

Explanation of Material Variances

Key factors in understanding UCOP's mid-year actuals are the limitations of the current budgeting system and the seasonality of UCOP expenses. The existing Budget Development System (BDS):

- Does not allow for detailed budgeting by month, and therefore does not currently reflect seasonality.
- Spreads all expenses across the months equally regardless of when actual expenses are expected to be incurred.
- Will be addressed when UCOP replaces its current budget system.

Seasonality this year is slightly more second-half weighted than incurred in the prior year (see Table 1 below):

- In FY2016-17, total actual expenditures for the first six months were 48 percent compared to 52 percent in the second half of the year.
- For FY2017-2018 total actual expenditures for the first six months were 41 percent of total annual budget.
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- Most seasonality occurs in the Central and Administrative Services budget and is particularly noticeable in the UCPath budget as services expand over time to additional campuses.
- Other seasonality factors include: annual payments for patent expenses and other non-salary expenses (e.g., audit fees).

Table 1: UCOP Seasonality of Actual Expenditures FY2016-17

	7/1/16 - 12/31/16	1/1/17 - 6/30/17	Total
Central & Administrative Services	45%	55%	100%
UCPath Center	36%	64%	100%
Systemwide Academic & Public Service Programs	54%	46%	100%
ANR	49%	51%	100%
Grand Total	48%	52%	100%

In addition, UCOP is implementing a regular forecasting process that will allow closer monitoring of actual expenditures and seasonality throughout the year to improve the accuracy of year-end forecasts.

Budget Performance Details

The UCOP budget is comprised of two functional areas: Central and Administrative Services, with a FY2017-18 budget of \$388.6 million including UCPath, and Systemwide Academic and Public Service Programs, with a budget of \$408.8 million.

Key metrics in the Central and Administrative Services budget:

- Including UCPath, actual expenditures total \$160.1 million, favorable by \$29.7 million or 16 percent below budget. Excluding UCPath, actual expenditures are 13 percent below budget.
- Favorable variances are primarily due to:
 - \$7.4 million in salary and benefits savings related to vacancies and turnover throughout the year.

- \$8.7 million due to UCPATH center expansion and expense timing. UCPATH will see higher expenses in the second half of the year as more campuses come onto the new system, and UCPATH expects full-year expenditures to be in line with the budget of \$54.2 million.
- Additional variances include the timing of various payments, including the financial audit fees (\$2 million); strategic procurement loan repayment (\$1 million); cybersecurity (\$1.5 million) and Fidelity contract (\$2 million).

Key metrics for Systemwide Academic and Public Service Programs budget:

- Actual expenditures total \$169.3 million, favorable by \$35.1 million or 17 percent below budget due primarily to:
 - The timing of award distributions for research grant programs (\$33 million for Tobacco Disease Research, much of which will likely be paid out in future years, and \$3 million for Breast Cancer Research).
 - The \$78 million budget for Tobacco Related Disease Research. These funds are reimbursed to UC based on completed research. Based on research activities completed through December, UC will not complete \$78 million, as budgeted, in this fiscal year, and the full-year forecast will reflect a reduction of both revenues and expenses of \$18 million related to the timing of this effort.

Figure 1 below compares actual expenses to budget for the six months ending December 31 for the two portions of the UCOP budget and UCPATH without adjustment for seasonality. Figure 2 below compares actual expenses to budget for the six months through December 31 by detailed functional area without adjustment for seasonality.

Figure 1: Year-To-Date Actuals vs. Budget

FY 2017-18 BUDGET TO ACTUAL EXPENDITURES OFFICE OF THE PRESIDENT (\$ millions)				
	Expenses (Actual) FY2017-2018 thru 12/31/17	Q1 & Q2 Budget FY 2017-2018	Var-FY17-18 Actual to FY17-18 Budget/ Over(Under)	% Over / (Under) Actual to Budget
OFFICE OF THE PRESIDENT				
TOTAL Central & Administrative Services	\$ 147.05	\$ 168.11	\$ (21.06)	-13%
TOTAL Systemwide Academic & Public Service	169.33	204.42	(35.09)	-17%
TOTAL, Excluding UC Path	316.39	372.53	(56.15)	-15%
UCPath Operations	13.02	21.67	(8.65)	-40%
TOTAL OFFICE OF THE PRESIDENT	\$ 329.40	\$ 394.20	\$ (64.80)	-16%

Figure 2

FY 2017-18 BUDGET TO ACTUAL EXPENDITURES OFFICE OF THE PRESIDENT (\$ millions)				
	Expenses (Actual) FY2017-2018 thru 12/31/17	Q1 & Q2 Budget FY 2017-2018	Var-FY17-18 Actual to FY17-18 Budget/ Over(Under)	% Over / (Under) Actual to Budget
OFFICE OF THE PRESIDENT				
Central and Administrative Services	119.29	138.88	(19.59)	-14%
Academic Affairs	12.54	15.02	(2.48)	-16%
Innovation & Entrepreneurship	29.94	30.96	(1.03)	-3%
Finance	15.46	20.42	(4.97)	-24%
Operations	51.13	59.29	(8.16)	-14%
President's Exec. Office	1.31	1.30	0.00	0%
Health Sciences	1.56	2.08	(0.52)	-25%
Governmental Relations	2.21	2.72	(0.51)	-19%
Public Affairs	5.14	7.09	(1.95)	-27%
General Counsel	5.72	6.24	(0.52)	-8%
Secretary of the Regents	1.32	1.54	(0.22)	-14%
Ethics & Compliance	3.18	3.77	(0.59)	-16%
Investments Office	17.54	17.67	(0.13)	-1%
TOTAL w/o UCPath Operations	147.05	168.11	(21.06)	-13%
UCPath Operations	13.02	21.67	(8.65)	-40%
Grand Total (including UCPath Operations)	160.07	189.78	(29.71)	-16%
FY 2017-18 BUDGET TO ACTUAL EXPENDITURES OFFICE OF THE PRESIDENT (\$ millions)				
	Expenses (Actual) FY2017-2018 thru 12/31/17	Q1 & Q2 Budget FY 2017-2018	Var-FY17-18 Actual to FY17-18 Budget/ Over(Under)	% Over / (Under) Actual to Budget
SYSTEMWIDE ACADEMIC & PUBLIC SERVICE PROGRAMS				
Instruction	28.04	29.19	(1.15)	-4%
Research	52.95	86.14	(33.19)	-39%
Public Service	5.79	7.60	(1.81)	-24%
Academic Support	24.99	23.34	1.65	7%
National Laboratories	2.17	2.14	0.03	1%
Presidential Initiatives	4.88	4.88	0.00	0%
TOTAL	118.82	153.29	(34.47)	-22%
Agriculture and Natural Resources	50.52	51.13	(0.62)	-1%
Grand Total (including ANR)	169.33	204.42	(35.09)	-17%
TOTAL OF BOTH TABLES (w/o UCPath)	316.39	372.53	(56.15)	-15%
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**FINANCE AND CAPITAL STRATEGIES -5-
COMMITTEE
March 14, 2018**

F18

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Strategic Priorities Funds Update

The FY2017-18 approved budget for spending from the Strategic Priorities Fund is \$39 million per the May 2017 budget presentation to the Regents. Through December, UCOP has made funding commitments of \$33.5 million. The balance available to spend for the remainder of the fiscal year is \$5.5 million.