

## Office of the President

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

#### INFORMATION ITEM

*For Meeting of November 15, 2017*

#### **REPORT OF BUDGET TO ACTUAL EXPENDITURES FOR FISCAL YEAR 2016-17 FOR THE OFFICE OF THE PRESIDENT**

As requested by the UC Regents, and consistent with the recommendations included in the California State Auditor's April 2017 report on Office of the President (UCOP) Administrative Expenditures, the summary results of actual expenditures compared to budget and May Forecast for the Fiscal Year 2016-17, ended June 30, 2017 are provided below in Figure 1.

Key figures related to the budget, forecast, and actuals are as follows:

- The total approved budget for FY2016-17 was \$685.7 million. Overall total actual expenditures for the year were \$633 million resulting in a \$52.7 million or eight percent favorable variance to budget.
- The May 2017 Forecast projected total expenses of \$648 million with a favorable variance to budget of \$37.7 million.
- The total difference of actuals to the May Forecast was \$15 million or two percent below the May Forecast expenses. Actual expenditures on Unrestricted funds varied 0.2 percent (\$500,000) from the May Forecast and actual expenditures on Restricted funds varied -5.1 percent (-\$15.5 million) from the May Forecast.
- The FY2017-18 budget was developed based on the May Forecast.

The Office of the President's budget is comprised of two distinct functional areas: Central and Administrative Services, with a budget of \$345.8 million, including UCPath, and Systemwide Academic and Public Service Programs, with a budget of \$339.9 million.

Figure 1

FY 2016-17 BUDGET TO ACTUAL EXPENDITURES OFFICE OF THE PRESIDENT (\$ millions)							
	Expenses (Actual) FY2016-2017	Expenses (Forecast) FY2016- 2017	TOTAL Budget FY 2016-2017	Var-FY16-17 Actual to Forecast/ Over (Under)	Var-FY16-17 Actual to FY16-17 Budget/ Over(Under)	% Over / (Under) Actual vs Forecast	% Over / (Under) Actual to Budget
<b>OFFICE OF THE PRESIDENT</b>							
TOTAL Central & Administrative Services	\$ 292.38	\$ 299.53	\$ 325.66	\$ (7.15)	\$ (33.28)	-2%	-10%
TOTAL Systemwide Academic & Public Svc	325.49	332.25	339.87	(6.75)	(14.38)	-2%	-4%
TOTAL, Excluding UC Path	617.87	631.77	665.53	(13.90)	(47.66)	-2%	-7%
UCPath Operations	15.14	16.25	20.15	(1.11)	(5.01)	-7%	-25%
<b>TOTAL OFFICE OF THE PRESIDENT</b>	<b>\$ 633.01</b>	<b>\$ 648.02</b>	<b>\$ 685.68</b>	<b>\$ (15.01)</b>	<b>\$ (52.67)</b>	<b>-2%</b>	<b>-8%</b>

Details of the FY2016-17 actuals compared to budget and forecast can be found in Figure 3 below.

Actual expenditures for the Central and Administrative portion of the budget total \$292.4 million, excluding UCPath. Total expenditures are favorable by \$33.3 million or ten percent below budget. Including UCPath, actual expenditures total \$307.5 million, favorable by \$38.3 million or 11 percent below budget. The favorable variance of actual expenditures to budget in Central and Administrative Services is mainly due to salary and benefits savings related to vacancies and turnover throughout the year (\$23.5 million), timeline of projects in Procurement (\$2.9 million) and the Office of the Chief Investment Officer (\$2.4 million), UCPath center staffing ramp-up (\$5.0 million), recharge timing (\$3.5 million), and laboratory foundation funding (\$1.1 million).

Actual expenditures for the Systemwide Academic and Public Service Programs total \$325.5 million, favorable by \$14.4 million or four percent below budget. The variance of actual expenditures to budget in the Systemwide Academic and Public Service budget is mainly due to the timing of award distributions for research grant programs (\$11.2 million), timing of expenditures in Agriculture and Natural Resources and salary and benefits savings due to turnover (\$2.8 million), offset by growth in the Education Abroad Program, which led to an increase in the budget for FY2017-18.

Compared to the Office of the President's May forecast, actuals of \$633 million were favorable by \$15 million or two percent below forecast. Central and Administrative Services provided \$8.3 million of this favorable result, including \$1.1 million from UCPath; and Systemwide Academic and Public Service Programs provided \$6.7 million of this favorable variance to forecast.

The variances can also be viewed from a funding perspective as follows:

- The actual to budget favorable variance of \$52.7 million is comprised of:
  - \$23.7 million in Unrestricted funds and

- \$29 million in Restricted funds.
- The May 2017 Forecast projected total expenses of \$648 million with a favorable variance to budget of \$37.7 million including:
  - \$24.2 million in Unrestricted funds and
  - \$13.5 million in Restricted funds.
- The total difference of actuals to the May Forecast was \$15 million or two percent below the May Forecast expenses comprised of the following:
  - \$500,000 (0.2 percent) unfavorable Forecast to Actuals on Unrestricted funds
  - \$15.5 million (5.1 percent) favorable Forecast to Actuals on Restricted funds

### **Impact of FY2016-17 Savings to the Office of the President's Strategic Priorities Funds**

The Strategic Priorities Funds (SPF) or One-Time funds have historically been generated through annual savings to budgets, largely derived from salary savings. These savings provide Unrestricted funds that have been allocated to support strategic priorities including Presidential Initiatives, emergent or urgent issues, campus support (ex. UC Riverside School of Medicine) and other important areas consistent with UC's mission.

The development of the FY2017-18 budget included a \$15.7 million projection of the SPF balance as of June 30, 2018, detailed in Figure 2. This projection, also detailed at Regents' meetings in May and June, included:

- A forecast of \$24.2 million in Unrestricted savings (corrected from \$24.8 million); actual Unrestricted savings in FY2016-17 of \$23.7 million are \$500,000 below the forecasted amount.
- The unfavorable variance of \$500,000 is more than offset by accumulated interest income of \$16.4 million which was not included in the forecast due to variability in income.
- The resulting FY2017-18 year-end balance now projected at \$19.4 million is \$3.7 million higher than the \$15.7 million calculated at the time of the budget.

Ongoing funding of the Strategic Priorities Fund is being addressed by the Office of the President in workstreams that address all of the California State Auditor's recommendations.

Figure 2 – Strategic Priorities Fund Balance Trends (\$ millions)

	Actuals	May '17	Revised
	FY16-17	Projection	Projection
		FY17-18P	FY17-18A
Beginning Balance	\$ 43.4	\$ 29.9	\$ 29.9
Interest Income	7.0	-	16.4
One-time Savings from OP Operating Budget <sup>1</sup>	36.6	24.8	23.7
<b>Total Strategic Reserve Balance (as of 7/1)</b>	<b>\$ 87.0</b>	<b>\$ 54.7</b>	<b>\$ 70.0</b>
Multi-year commitments	(49.1)	(39.0)	(50.6)
New commitments made during the year <sup>2</sup>	(8.0)	-	-
<b>Ending Balance<sup>3</sup> (as of 6/30)</b>	<b>\$ 29.9</b>	<b>\$ 15.7</b>	<b>\$ 19.4</b>

<sup>1</sup> A correction of \$600,000 was made to the FY17/18 Projection from \$24.8 million to \$24.2 million

<sup>2</sup> For FY17-18, new commitments cannot be projected, they will be based upon immediate need throughout the year

<sup>3</sup> For FY17-18, year-end balances are projected and do not include new commitments made during the year

Figure 3

FY 2016-17 BUDGET TO ACTUAL EXPENDITURES OFFICE OF THE PRESIDENT (\$ millions)							
	Expenses (Actual) FY2016-2017	Expenses (Forecast) FY2016- 2017	TOTAL Budget FY 2016-2017	Var-FY16-17 Actual to Forecast/ Over (Under)	Var-FY16-17 Actual to FY16-17 Budget/ Over(Under)	% Over / (Under) Actual vs Forecast	% Over / (Under) Actual to Budget
<b>OFFICE OF THE PRESIDENT</b>							
<b>Central and Administrative Services</b>	<b>245.29</b>	<b>249.82</b>	<b>267.70</b>	<b>(4.53)</b>	<b>(22.41)</b>	<b>-2%</b>	<b>-8%</b>
Academic Affairs	28.11	28.11	29.93	0.00	(1.82)	0%	-6%
Innovation & Entrepreneurship	52.24	53.60	52.73	(1.36)	(0.48)	-3%	-1%
Finance	31.40	33.09	39.77	(1.69)	(8.38)	-5%	-21%
Operations	111.57	111.32	119.30	0.25	(7.73)	0%	-6%
President's Exec. Office	3.01	3.41	3.18	(0.40)	(0.18)	-12%	-6%
Health Sciences	3.59	3.69	4.17	(0.10)	(0.58)	-3%	-14%
Governmental Relations	4.88	5.07	5.41	(0.19)	(0.53)	-4%	-10%
Public Affairs	10.49	11.53	13.21	(1.04)	(2.73)	-9%	-21%
<b>Regents Officers</b>	<b>47.09</b>	<b>49.71</b>	<b>57.96</b>	<b>(2.62)</b>	<b>(10.87)</b>	<b>-5%</b>	<b>-19%</b>
General Counsel	10.30	10.91	11.65	(0.62)	(1.35)	-6%	-12%
Secretary of the Regents	2.93	2.76	2.91	0.18	0.02	6%	1%
Ethics & Compliance	5.69	7.34	7.67	(1.65)	(1.98)	-23%	-26%
Investments Office	28.17	28.70	35.74	(0.53)	(7.56)	-2%	-21%
<b>TOTAL w/o UCPath Operations</b>	<b>292.38</b>	<b>299.53</b>	<b>325.66</b>	<b>(7.15)</b>	<b>(33.28)</b>	<b>-2%</b>	<b>-10%</b>
<b>UCPath Operations</b>	<b>15.14</b>	<b>16.25</b>	<b>20.15</b>	<b>(1.11)</b>	<b>(5.01)</b>	<b>-7%</b>	<b>-25%</b>
<b>Grand Total (including UCPath Operations)</b>	<b>307.52</b>	<b>315.78</b>	<b>345.81</b>	<b>(8.26)</b>	<b>(38.29)</b>	<b>-3%</b>	<b>-11%</b>
<b>FY 2016-17 BUDGET TO ACTUAL EXPENDITURES OFFICE OF THE PRESIDENT (\$ millions)</b>							
	Expenses (Actual) FY2016-2017	Expenses (Forecast) FY2016- 2017	TOTAL Budget FY 2016-2017	Var-FY16-17 Actual to Forecast/ Over (Under)	Var-FY16-17 Actual to FY16-17 Budget/ Over(Under)	% Over / (Under) Actual vs Forecast	% Over / (Under) Actual to Budget
<b>SYSTEMWIDE ACADEMIC &amp; PUBLIC SERVICE PROGRAMS</b>							
Instruction	57.45	52.95	53.67	4.50	3.79	9%	7%
Research	95.45	106.68	108.58	(11.23)	(13.13)	-11%	-12%
Public Service	16.31	16.32	16.43	(0.01)	(0.12)	0%	-1%
Academic Support	44.68	46.31	46.40	(1.63)	(1.72)	-4%	-4%
National Laboratories	3.52	3.59	3.94	(0.07)	(0.42)	-2%	-11%
Presidential Initiatives	9.77	5.57	9.77	4.20	0.00	75%	0%
<b>TOTAL</b>	<b>227.18</b>	<b>231.43</b>	<b>238.79</b>	<b>(4.24)</b>	<b>(11.61)</b>	<b>-2%</b>	<b>-5%</b>
<b>Agriculture and Natural Resources</b>	<b>98.31</b>	<b>100.82</b>	<b>101.08</b>	<b>(2.51)</b>	<b>(2.77)</b>	<b>-2%</b>	<b>-3%</b>
<b>SYSTEMWIDE Total (including ANR)</b>	<b>325.49</b>	<b>332.25</b>	<b>339.87</b>	<b>(6.75)</b>	<b>(14.38)</b>	<b>-2%</b>	<b>-4%</b>
<b>TOTAL OF BOTH TABLES (w/o UCPath)</b>	<b>617.87</b>	<b>631.77</b>	<b>665.53</b>	<b>(13.90)</b>	<b>(47.66)</b>	<b>-2%</b>	<b>-7%</b>
<b>GRAND TOTAL</b>	<b>633.01</b>	<b>648.02</b>	<b>685.68</b>	<b>(15.01)</b>	<b>(52.67)</b>	<b>-2%</b>	<b>-8%</b>
<b>Strategic Priorities Fund Year End Projected</b>							
	Committed	50.6					
	Uncommitted	19.4					

### Comparison of UCOP Budget and Actuals to Audited Statement of Revenues and Expenses

As required by the UC Board of Regents, UCOP engaged PricewaterhouseCoopers LLC, its independent auditor, to audit the statement of revenues and expenses for the Office of the President. The audited UCOP statement of revenues and expenses for the year ended June 30, 2017 has been provided under the separate Regent's item C5, *Annual Report of External Auditors for the Year Ended June 30, 2017*. The statement of revenues and expenses was prepared based on the University's accounting principles and includes all financial activities of UCOP, including activities at campuses for systemwide programs. In contrast, the UCOP operating budget reporting presents the UCOP operating budget, designed to track budget to actuals for planned funding sources and operating expenses by activity.

In order to understand the comparison between the audited statement of revenue and expenses and the UCOP operating budget presented above for the budget to actuals, additional context regarding how items are reflected in each report includes, but is not limited to the following:

- **Non-cash and other accounting adjustments not reflected in the operating budget:** Certain revenues and expenses recorded in the statement of revenues and expenses do not require cash payments or are not available to spend, and are therefore excluded from the UCOP operating budget. Examples of these items are appreciation on investments, depreciation, debt service, and actuarial adjustments for pension and retiree health.
- **Excluded activities:** Certain activities at campuses for a limited number of specific systemwide programs such as Agriculture and Natural Resources directly receive revenues, such as contract and grant funding, besides general campus assessment funds and only these directly received revenues and associated expenses are not included in the UCOP operating budget.
- **Differences in reporting treatment:** Certain fee-for-service expenses that are incurred centrally at UCOP on behalf of the campuses to capture cost and efficiency benefits (e.g. systemwide contracts for IT services and outside counsel expenses) are shown in the UCOP operating budget as expenses with an offsetting campus reimbursement based on actuals. The reimbursements are reflected in the statement of revenue and expenses as revenue.

Consistent with the recommendations included in the California State Auditor's April 2017 report, UCOP is implementing all audit recommendations required annually between April 2018 and April 2020. The University is implementing best practices in establishing a new budget process and clearer, more transparent reporting to more comprehensively report on Office of the President operating activities. A high-level overview of the comparison between the statement of revenues and expenses and the UCOP operating budget to actuals can be found in Figure 4 below.

**Figure 4 - Fiscal Year 2016-2017 Comparison of audited statement of revenues and expenses to UCOP budget to actuals**

(\$ millions)	Statement of Revenues and Expenses	Reporting Differences		UCOP Operating Budget
Operating Revenues	742.7	(78.3)	<sup>1</sup>	664.4
Non-Operating Revenues	208.0	(186.8)	<sup>2</sup>	21.2
<b>Total Revenues</b>	<b>950.7</b>	<b>(265.1)</b>		<b>685.6</b>
Salary and Benefits	389.3	(25.6)	<sup>3</sup>	363.7
Non-Salary Expense	364.3	(99.1)	<sup>4</sup>	265.3
Total Operating Expense	753.6	(124.7)		628.9
Total Non-Operating Expense	25.4	(21.2)	<sup>5</sup>	4.2
<b>Total Expense</b>	<b>779.0</b>	<b>(145.9)</b>		<b>633.1</b>
<b>Income after nonoperating revenues</b>	<b>171.7</b>	<b>(119.2)</b>		<b>52.5</b>

<sup>1</sup> Payments received related to campus fee-for-service reimbursements are recorded as offsets to expenses in the UCOP operating budget and are therefore not recorded as revenues.

<sup>2</sup> Investment income and gains and private gifts not budgeted since the revenues are not available to spend including a \$161 million net investments increase.

<sup>3</sup> Pension and retiree health benefits adjustment to remove actuarial accruals as the budget includes only required contributions.

<sup>4</sup> Depreciation is a non-cash expense therefore not recorded in the UCOP operating budget. Expenses related to campus fee-for-service payments are recorded as expenses in the UCOP operating budget with an offsetting reimbursement in the expense line item.

<sup>5</sup> Capital asset disposal losses and bond interest expense are not cash items and therefore not included in the UCOP operating budget.