

The Regents of the University of California

**SPECIAL COMMITTEE ON REGENTS' PROCEDURES**

May 14, 1998

The Special Committee on Regents' Procedures met on the above date at Covell Commons, Los Angeles campus.

Members present: Regents Atkinson, Khachigian, Lee, Levin, McClymond, Montoya, and Parsky

In attendance: Regents Chandler, Davies, Johnson, Nakashima, Ochoa, and Soderquist, Regents-designate Espinoza, Miura, and Willmon, Faculty Representatives Dorr and Weiss, Secretary Trivette, General Counsel Holst, Treasurer Small, Provost King, Senior Vice President Kennedy, Vice Presidents Broome, Darling, and Gomes, Chancellors Berdahl, Dynes, Orbach, and Yang, Vice Chancellor Bainton representing Chancellor Debas, Laboratory Directors Browne and Tarter, and Recording Secretary Bryan

The meeting convened at 5:10 p.m. with Committee Chair Levin presiding.

**PROCEDURE TO ESTABLISH EXPENDITURE AND ADMINISTRATION COST RECOVERY RATES ON REGENTS' GENERAL ENDOWMENT POOL (GEP) ASSETS**

It was recalled that in order to implement an orderly transition to the total return endowment expenditure policy adopted by The Regents at the March 1998 meeting, the President intends to recommend at the June 1998 meeting the following procedure for the review and adoption by The Regents of the endowment expenditure rate and the rate for the recovery of endowment administration expenses under the new policy:

- A. For the initial endowment expenditure rate under the total return policy, the President shall recommend to the Committee on Finance an expenditure rate and a formula for implementation of that rate for the beneficiaries of the University's endowments.
- B. The President shall also recommend to the Committee on Finance an initial endowment administration cost recovery rate and formula based on an analysis of the actual and reasonable costs of endowment administration.
- C. The Committee on Finance shall review the recommended endowment expenditure and cost recovery rates and implementation formulae and, with the concurrence of the Committee on Investments, in consultation with the Treasurer, shall forward its recommendations to the full Board for consideration and action.

- D. For subsequent years, the President shall, in connection with the preparation of the University's annual budget, recommend to the Committee on Finance modification or continuance of the endowment expenditure and cost recovery rates for the ensuing fiscal year.
- E. The Committee on Finance shall review the recommendation for modification or continuance of the endowment expenditure and cost recovery rates and, with the concurrence of the Committee on Investments, in consultation with the Treasurer, shall forward its recommendation to the full Board for consideration and action.

At the March 1998 meeting, The Regents adopted a total return expenditure policy for eligible endowment assets invested in the General Endowment Pool, as permitted under the Uniform Management of Institutional Funds Act (UMIFA). At the same time, The Regents adopted an endowment administration cost recovery program, as permitted by California trust law and UMIFA. In order to provide a transition to the new policy, the President intends to propose that, following discussion at this meeting, the Special Committee on Regents' Procedures recommend to the full Board at the June meeting that the initial and subsequent endowment expenditure and cost recovery rates be adopted as described in the procedures in the item above and in greater detail below.

With respect to the establishment of the initial endowment expenditure rate under the new policy, the President shall consult with the Treasurer, the Academic Council, the chancellors, representatives of the campus foundations, and others concerned and shall recommend to the Committee on Finance an initial endowment expenditure rate and implementation formula to permit an orderly transition to the new endowment expenditure policy. The recommendation shall be consistent with the goals and guiding principles of the General Endowment Pool Expenditure Policy, which is being discussed at this month's Regents meeting.

The President shall also recommend to the Committee on Finance an initial endowment administration cost recovery rate and implementation formula based on an analysis of the actual and reasonable costs of endowment administration. The Committee on Finance, with the concurrence of the Committee on Investments, in consultation with the Treasurer, shall forward its recommendations on the initial endowment expenditure and cost recovery rates and implementation formulae to the full Board for consideration and action.

In subsequent years, in connection with the preparation of the University's annual budget, the President shall also consult with the Treasurer, the Academic Council, the Chancellors, and representatives of the Campus Foundations and shall recommend to the Committee on Finance whether the expenditure rate and a cost recovery rate should be continued or modified for the ensuing fiscal year. The Committee on Finance, with the concurrence of the Committee on Investments, and in consultation with the Treasurer, shall forward its recommendations to the full Board for consideration and action.

Vice President Darling reviewed the process by which the Regents would set the rates. He noted that the process was recommended following discussion with other universities that have

recently converted from income only to total return expenditure policies and with the Treasurer and the General Counsel. The President intends to propose that both rates be adopted in close coordination with the Treasurer's Office. One of the first steps will be to consult with the Treasurer on what a prudent level of expenditure would be for these rates in view of recent investment performance, market outlook, inflationary trends, and other relevant considerations. After that, the President would consult with the Academic Council and various other bodies within the University. His proposal to the Committee on Finance would become part of the annual budget presentation, which will include a review of all revenue sources. The Committee on Finance would seek the concurrence of the Committee on Investments, in consultation with the Treasurer, to ensure prudent rates. The proposal would then be presented to the Board.

Regent-designate Miura asked how the cost recovery rate would be allocated to the campuses. Mr. Darling responded that the details about the process will be explained in a subsequent presentation.

Regent Khachigian suggested that the phrase "after consultation with the Treasurer" be inserted following the comma in the first paragraph of the President's recommendation.

Regent Parsky believed the general procedures to be appropriate, although he felt that the language could be streamlined by combining the first and fourth paragraphs, indicating that the first year of the process will be slightly out of line with the budget preparation process. He believed that it is important, however, to establish that in future the President will present the rates as part of the overall budget process. His main concern was that the rate that is applied for the general endowment pool be done in the context of understanding the entire budget and its needs. Also, he suggested substituting the word "approval" for the word "concurrence" in terms of seeking approval of the Committee on Investments, with an orientation toward what would be prudent in light of the performance of the investment portfolio.

Regent Lee recalled the importance of considering the returns on a long-term basis to make sure that the spending rate can be supported. Committee Chair Levin agreed that any consultation between the Committee on Investments and the Treasurer in bringing these rates about would take into consideration the long-term view of spending policies and the protection of the corpus.

The meeting adjourned at 5:15 p.m.

Attest:

Secretary