

The Regents of the University of California

SPECIAL COMMITTEE ON REGENTS' PROCEDURES

June 18, 1998

The Special Committee on Regents' Procedures met on the above date at UCSF-Laurel Heights, San Francisco.

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

In attendance: Regents Chandler, Davies, Hotchkis, Johnson, Ochoa, Preuss, Sayles, 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, Gomes, Hershman, and Hopper, Chancellors Berdahl, Carnesale, Dynes, Orbach, Wilkening, and Yang, and Recording Secretary Nietfeld

The meeting convened at 11:55 a.m. with Special Committee Chair Levin presiding.

ADOPTION OF PROCEDURES TO ESTABLISH EXPENDITURE AND ADMINISTRATIVE COST RECOVERY RATES ON REGENTS' GENERAL ENDOWMENT POOL (GEP) ASSETS

To implement the endowment expenditure policy adopted by The Regents in March 1998 for eligible endowed funds invested in the General Endowment Pool, consistent with the provisions of the Uniform Management of Institutional Funds Act (UMIFA), the President recommended the following procedure for the review and adoption by The Regents of the endowment expenditure rate and the endowment administrative cost recovery rate:

- A. In conjunction with the preparation and presentation of the University's annual budget, the President shall, following consultation with the Treasurer and other concerned parties, recommend to the Committee on Finance an endowment expenditure rate for the University's eligible endowed funds that is consistent with the standard established by UMIFA in the California Probate Code § 18506(b), as well as a formula for implementation of the rate.
- B. The Committee on Finance shall, with the approval of the Committee on Investments, recommend to the full Board an endowment expenditure rate. The Committee on Investments shall consult with the Treasurer about the prudent expenditure rate in view of the Probate Code provisions cited above, including, but not limited to, consideration of long-term and recent investment performance, the market risk and outlook, and the needs of the University.
- C. Concurrently, the President shall also recommend to the Committee on Finance an endowment administrative cost recovery rate based on an analysis of the actual and

reasonable costs of endowment administration for the University's eligible endowed funds; the Committee on Finance shall recommend to the full Board an endowment administrative cost recovery rate.

- D. For 1998-99, the initial year of endowment administration under the new expenditure policy, the President's recommendations to the Committee on Finance regarding an endowment expenditure rate and an endowment administrative cost recovery rate may be made separately from the presentations on the University's budget.

Vice President Darling recalled that at the March 1998 meeting The Regents adopted an expenditure policy for eligible endowment assets invested in the General Endowment Pool (GEP), as permitted under the Uniform Management of Institutional Funds Act (UMIFA). At the same time, The Regents adopted an endowment administrative cost recovery program, as permitted by California trust law and UMIFA. In order to provide a transition to the new policy, the President is recommending that the initial and subsequent endowment expenditure and cost recovery rates be adopted as described below.

In conjunction with the preparation and presentation of the University's annual budget, the President, following consultation with the Treasurer, the General Counsel, the Academic Council, the chancellors, the campus foundation representatives, and others concerned, will recommend to the Committee on Finance an endowment expenditure rate to apply to the University's eligible endowed funds invested in the GEP and the formula for implementation. The recommendation would aim to provide a prudent expenditure level consistent with the provisions of California Probate Code §18506(b), which states:

...the members of the governing board shall consider the long- and short-term needs of the institution in carrying out its educational, religious, charitable, or other eleemosynary purposes, its present and anticipated financial requirements, expected total return on its investments, general economic conditions, the appropriateness of a reasonable proportion of higher risk investment with respect to institutional funds as a whole, income, growth, and long-term net appreciation, as well as the probable safety of funds.

The Committee on Finance will forward its recommendations for an endowment expenditure rate and an endowment administrative cost recovery rate to the Board for consideration and action. In doing so, the Committee on Finance will seek the approval of the Committee on Investments regarding the endowment expenditure rate.

For the 1998-99 fiscal year, the initial year of endowment administration under the new endowment expenditure policy, to establish a new administrative process, the President's recommendations to the Committee on Finance regarding an endowment expenditure rate and an endowment administrative cost recovery rate may be made separately from the presentations on the University's budget.

For subsequent years, it is expected that the recommendations pertaining to endowment expenditure and cost recovery will be made as a part of the presentation of the University's budget.

Regent Levin noted that the adoption of the spending policy resulted from efforts on the part of presidents of the campus foundations, who came together to recommend this method of funding campus development programs. The presidents worked closely with the Office of the President and the Office of the Treasurer to bring the item forward.

President Atkinson instructed Vice President Darling to communicate to former Chairman del Junco that the Board had now implemented an endowment expenditure policy.

The meeting adjourned at 12:00 noon.

Attest:

Secretary