

Reallocation of Fund Balances and Budget Reductions

As required by the April 2017 CSA audit, UCOP must report to the Regents the accumulated three-year total funds reallocated to campuses as a result of fund balance and UCOP budget reductions. Having reviewed fund balances as of the June 30 fiscal year-end close for the three years following the audit's release (2017-2019), and achieved savings as reflected in the FY17-18, FY18-19, and FY19-20 budgets, UCOP has identified **total reallocated funds of \$166.3M**, summarized below and detailed in Schedule A. The Regents will review this information at the November 2019 Regents meeting, and is posted on the Regents website here:

Figure 1: Fund Reallocation

<i>\$ millions</i>	FY17-18	FY18-19	FY19-20	Total Reallocation
Direct	\$ 29.0	\$ 38.4	\$ 20.2	\$ 87.6
Indirect	4.0	39.2	35.5	78.7
Total	\$ 33.0	\$ 77.6	\$ 55.7	\$ 166.3

UCOP has directly reallocated \$87.6M in fund balances to the campuses, in support of campus housing projects (\$65.5M), campus seismic work (\$7.1M), campus development efforts (\$7M), and the UC Riverside Medical School (\$8M).

Direct reallocations are defined as funds that have been reallocated to the campuses after the June 30, 2017 fiscal year-end close so that the campuses can apply those funds as defined in Section I of Schedule A. For example, the \$8M Riverside School of Medicine commitment was part of a total \$20M commitment, of which \$12M was transferred from fund balances before June 30, 2017 (and therefore not included in Schedule A), and the remaining \$8M was transferred after June 30, 2017 (and thus included in Schedule A). All other reallocation decisions and transfers were made after April 2017.

Indirect reallocations are defined as UCOP savings that translated into budget reductions, or the use of fund balances to address budget gaps, both of which reduced the financial resources required of the campuses to support the UCOP budget and the services it provides. Indirect reallocations are largely the result of the CSA's recommendation to the Legislature to directly appropriate UCOP's budget, and the resulting decision to hold the budget flat to FY16-17 levels with restrictions against assessing the campuses for any difference. The outcome of those decisions freed up funding for the campuses to be used for other campus priorities.

UCOP has **indirectly reallocated \$78.7M** in funds to campuses by reducing UCOP's fund balances (\$50.8M) to support strategic priorities that would otherwise have been funded through the assessment. In response to Assembly Bill 97 (FY18-19) and a review of program, salary, and benefit costs, UCOP also reduced operating expenses (\$27.9M) which would also have been funded through the assessment. Of this total, AB97 specifically redirected \$8.6M to fund campus enrollment growth.

As of June 30, 2019, the cumulative impact of the reallocation process has been a **reduction of unrestricted fund balances from \$90.0M to \$0M** to the benefit of the campuses.

Schedule A: UCOP Reallocations to Campuses from Fund Balances and Budget Reductions

\$ in millions

Summary - UCOP Reallocations to Campuses from Fund Balances and Budget Reductions by Recommendation

CSA		Direct	Indirect	Total
Rec #	Total Reallocations By CSA Recommendation #			
#31	Reallocate funds identified from fund restrictions and commitments	\$ 87.6	\$ 64.7	\$ 152.3
#36	Reallocate funds to campuses from salary and benefit adjustments		\$ 3.1	\$ 3.1
#41	Reallocate funds from systemwide initiatives and administrative costs		\$ 10.9	\$ 10.9
	Total Reallocations By CSA Recommendation #	\$ 87.6	\$ 78.7	\$ 166.3

Detail - UCOP Reallocations to Campuses from Fund Balances and Budget Reductions by Direct/Indirect*

CSA	Reallocation Sources and Uses (\$ million)	FY17-18	FY18-19	Total to Date	FY19-20	3-Year Total
I.	<u>Direct Reallocation to Campuses from Fund Balances</u>					
#31	Housing Loan Programs - Campus housing	\$ 27.0	\$ 26.5	\$ 53.5	\$ 5.0	\$ 58.5
#31	General Obligation Bond Income - Campus housing	-	3.5	3.5	3.5	7.0
#31	General Obligation Bond Income - Campus seismic	-	2.4	2.4	4.7	7.1
#31	Investment Income/Other Unrestricted - UCR SOM	2.0	6.0	8.0	-	8.0
#31	Endowment Cost Recovery - Campus Development Efforts	-	-	-	7.0	7.0
	Total Direct Reallocation to Campuses from Fund Balances	\$ 29.0	\$ 38.4	\$ 67.4	\$ 20.2	\$ 87.6
II.	<u>Indirect Reallocation to Campuses from Fund Balances</u>					
#31	Program fund balances - FY19-20 budget gap	\$ -	\$ -	\$ -	\$ 1.2	\$ 1.2
#31	Unrestricted fund balances - Strategic Priorities	-	20.3	20.3	29.3	49.6
	Total Indirect Reallocation from Fund Balances	\$ -	\$ 20.3	\$ 20.3	\$ 30.5	\$ 50.8
III.	<u>Indirect Reallocation to Campuses from Salary/Benefit Budget Reductions</u>					
#31	Incremental increases in unrestricted vacancy factor	\$ 4.0	\$ 4.7	\$ 8.7	\$ 1.7	\$ 10.4
#31	One-time reductions - FY19-20 budget gap	-	-	-	3.5	3.5
#36	Employee Benefits - Car Allowance	-	0.7	0.7	-	0.7
#36	Employee Benefits - Mobile Devices	-	0.1	0.1	-	0.1
#36	Employee Benefits - Meals, Lodging, Business Meetings & Entertainment	-	2.4	2.4	-	2.4
#36	Employee Benefits - Employer contributions to SMG retirement savings plan	-	0.1	0.1	-	0.1
#36	Impact of narrowing salary ranges	-	-	-	(0.2)	(0.2)
#41	Position reductions	-	1.3	1.3	-	1.3
	Total Indirect Reallocation from Salary/Benefit Reductions	\$ 4.0	\$ 9.3	\$ 13.3	\$ 5.0	\$ 18.3
IV.	<u>Indirect Reallocation to Campuses from Other Budget Reductions</u>					
#41	Program reductions	\$ -	\$ 1.0	\$ 1.0	\$ -	\$ 1.0
#41	AB97 - Administrative Expenses	-	6.0	6.0	-	6.0
#41	AB97 - President's Initiatives Fund	-	2.0	2.0	-	2.0
#41	AB97 - Programs & Initiatives	-	0.6	0.6	-	0.6
	Total Indirect Reallocation from Other Budget Reductions	\$ -	\$ 9.6	\$ 9.6	\$ -	\$ 9.6
	Total Indirect Reallocations	\$ 4.0	\$ 39.2	\$ 43.2	\$ 35.5	\$ 78.7
	Total Direct and Indirect Reallocations	\$ 33.0	\$ 77.6	\$ 110.6	\$ 55.7	\$ 166.3

***Direct reallocations** are defined as funds that have been reallocated to the campuses after the June 30, 2017 fiscal year-end close so that the campuses can apply those funds as defined in Section I above. **Indirect reallocations** are defined as UCOP savings that translated into budget reductions, or the use of fund balances to address budget gaps, both of which reduced the financial resources required of the campuses to support the UCOP budget and the services it provides.