

**Office of the President**

**TO MEMBERS OF THE COMMITTEE ON FINANCE:**

**ACTION ITEM**

*For Meeting of November 19, 2008*

**AUTHORIZATION FOR BORROWING FROM COMBINED INVESTMENT PORTFOLIOS OF THE SHORT-TERM INVESTMENT POOL AND THE TOTAL RETURN INVESTMENT POOL**

**EXECUTIVE SUMMARY**

The item recommends the Regents authorize allocations for the use of funds from the Short-Term Investment Pool (STIP) and the Total Return Investment Pool (TRIP) investment portfolios for up to 40 percent of the combined outstanding balances. This authorization would continue to allow for the use of these funds for liquidity support for the Commercial Paper (CP) Program, Medical Center working capital needs, and for the University of California Mortgage Origination Program (MOP).

Current Regental policy authorizes the use of up to 50 percent of legally available cash balances in the unrestricted portion of STIP to support the total of the CP Program, Medical Center working capital, and MOP loans. In May, 2008 the Regents authorized a revision in investment strategy that allows the option for a campus to invest a portion of their STIP balance into TRIP in order to earn a higher investment return for a portion of the University's working capital funds in exchange for modestly increased risk. This reallocation of a portion of STIP into TRIP, in addition to an increase in the authorized limits for CP, has now resulted in a need to update the policy to include reference to the newly-formed TRIP and to amend the percentage of the authorized uses of the combined STIP/TRIP funds for CP, Medical Center working capital, and the MOP as the current approved limitations under the existing policy may become too restrictive as more funds potentially move between STIP and TRIP.

Given the fluidity of these prescribed needs, the established dollar limitations for the CP Program, Medical Center working capital, and MOP loans would be applied in accordance with Regental policy on a quarterly basis subject to outstanding STIP/TRIP balances and projected utilization as follows:

- 1) The new authorization would utilize no more than 40 percent of the combined investment portfolios of STIP/TRIP for CP, Medical Center working capital, and MOP, and

- 2) There would not be pre-determined limitations for each of the three programs. Limitation as to the aggregate use(s) of 40 percent will provide flexibility for the President to determine priorities for each program and adapt allocations as funds move between STIP and TRIP.

**Previous Actions:**

**January 1996:** The Regents authorize the establishment of the CP Program of \$550 million.

**March 1999:** The Regents authorize an amendment to the CP Program which allows the Treasurer to utilize legally available cash balances in STIP for liquidity support for the CP Program.

**March 1999:** The Regents authorize an amendment on borrowing from STIP to utilize \$550 million for liquidity support of the CP, decrease hospital working capital borrowing from 20 percent to 15 percent and MOP loans from 30 percent to 25 percent of legally available cash balances of unrestricted STIP; all subject to a 50 percent overall use limitation.

**November 2001:** The Regents authorize, in addition to other modifications to MOP, a modification of MOP loans from 25 percent to 30 percent of legally available cash balances of unrestricted STIP

**May 2008:** The Regents establish a Total Return Investment Pool (TRIP).

**July 2008:** The Regents authorize an increase in the CP program from \$550 million to \$2 billion.

### RECOMMENDATION

The President recommends that the Committee on Finance recommend to the Regents to authorize allocations of funds from the combined Short-Term Investment Pool (STIP) and the Total Return Investment Pool (TRIP) investment portfolios for up to 40 percent of the combined outstanding balances for liquidity support for the Commercial Paper (CP) Program, Medical Center working capital needs and for the University of California Mortgage Origination Program (MOP). Given the fluidity of these needs, the limitations for the CP Program, Medical Center working capital and MOP would be determined by the President in accordance with Regental policy on a quarterly basis subject to outstanding STIP/TRIP balances and projected utilization. In addition, each specific use would be modified as follows with the understanding that all other actions related to the July 2008 authorization for the increase of the CP program and all other guidelines and parameters related to the Medical Center working capital and MOP remain unchanged:

#### Deletions shown by ~~strikeout~~, additions by underlining

A. For the Commercial Paper Program

- (1) That the President be authorized to either utilize ~~legally available cash balances in the unrestricted portion~~ a portion of the combined investment portfolios of STIP/TRIP as liquidity support for the CP Program or, if determined necessary by the President, negotiate a standby letter of credit, line of credit or other liquidity agreement provided that repayment of any advances shall be provided from previously approved sources.

B. For Medical Centers' Working Capital Borrowing:

- (1) That the President be authorized to utilize the combined investment portfolios of STIP/TRIP for medical centers' working capital borrowings. A hospital's working capital borrowings from STIP/TRIP for a month shall not exceed 60 percent of the hospital's total accounts receivable for that same month (total accounts receivable being defined as patient accounts receivable, net of allowances). ~~plus intergovernmental transfers under SB 855, SB 1255, and Medical-Cal Medical Education programs); and~~
- ~~(2) The total working capital borrowing for the medical centers shall not exceed 15 percent of legally available cash balances of the unrestricted portion of STIP.~~

C. For Mortgage Origination Program (MOP) Loans:

- (1) That the President be authorized to utilize the liquidity available in the combined investment portfolios of STIP/TRIP for the Mortgage Origination Program (MOP) Loans. ~~The allocations shall be at levels determined to insure that the~~

~~aggregate outstanding balance of the loan portfolio does not exceed 25 percent of the legally available cash balances of the unrestricted portion of STIP.~~

### BACKGROUND

At the May, 2008 meeting, the Regents approved the establishment of the Total Return Investment Pool (TRIP) to create an alternative investment fund, utilizing a portion of STIP, to create higher expected returns for a portion of STIP with modestly increased risk. In August, 2008 the Treasurer's office implemented investment into TRIP. As of September 30, 2008, the balance in STIP was \$6.401 billion and TRIP was \$1.432 billion. With the changes in investment strategy, it became apparent that corresponding action(s) needed to be taken for those programs that utilize STIP for CP liquidity support, possible working capital needs at Medical Centers, and MOP loans.

The proposed new authorization would ensure that the aggregate use of the combined investment portfolios of STIP/TRIP for the combination of Medical Center working capital, MOP loans, and the Commercial Paper Program would not exceed 40 percent of the total STIP/TRIP balance. Limitations for each use would be determined by the President in accordance with Regental policy on a quarterly basis.

The total limitations under the existing authorization(s) as indicated below are equivalent to 33 percent of the combined STIP/TRIP balances. This recommended action would result in uses equivalent to 38 percent of the combined investment portfolios of STIP/TRIP, primarily as a result of the need for increased CP liquidity support. The table below summarizes uses for each program and expected dollar limitations of uses with the approval of this Item.

	<b>Limitations</b>	
	<i>As of June 30, 2008</i>	<i>Post Item Approval</i>
Medical Center Working Capital	\$625,832,000	\$625,832,000
MOP	\$1,380,300,000	\$1,380,300,000
Commercial Paper	\$550,000,000	\$1,000,000,000
<b>TOTAL (\$)</b>	<b>\$2,556,132</b>	<b>\$3,006,132</b>
<b>TOTAL (%) of STIP/TRIP</b>	<b>33%</b>	<b>38%</b>

\*\* Percentages are based on STIP and TRIP balances as of September 30, 2008\*\*

#### ***Commercial Paper Program***

The new authorization for the CP program was approved at the July, 2008 meeting increasing the total borrowing authorization from \$550 million to \$2 billion. The new authorizations would provide flexibility for managing the CP Program and for future capital needs. This action would update and supersede an action in the July 2008 item, *Authorization for Increase of Commercial Paper Program*, that specified that the President be able to utilize legally available cash balances in the unrestricted portion of STIP and changes the action to authorize the President to utilize the combined investment portfolio balances of both STIP/TRIP up to a maximum of 40 percent of these balances. The expectation is that the liquidity support for the CP program would be \$1 billion which includes interim capital needs, working capital, and gift funding. Liquidity

funded by the University's own resources generally provides the most cost effective liquidity support. At times, it will be more cost effective for the University to secure an external source of credit. External Finance will continually monitor the credit markets to determine the most economic source of liquidity support.

### *Medical Center Working Capital*

This action amends the definition of total accounts receivable subject to the 60 percent limitation to exclude intergovernmental transfers as the SB 855, SB 1255, and Medi-Cal Medical Education Programs are no longer in existence and the reference is now obsolete. Based on this previous definition, the combined Medical Center working capital borrowing and prior limitations of 15 percent of legally available cash balances in the unrestricted portion of STIP results in a limitation as of June 30, 2008 for the Medical Center working capital of \$625.832 million. It is expected that the President would maintain approximately similar dollar limitations for medical center working capital for the foreseeable future. Although rarely utilized, access to working capital borrowing for the medical centers continues to be an important source of liquidity.

### *MOP Loans*

In July 1984, the Regents authorized the President to implement the University of California Mortgage Origination Program (Program) under which first deed-of-trust mortgage loans could be provided to eligible Academic Senate members and now certain staff members. The actions of the July 1984 meeting established the Program Framework, including a funding source defined as the legally available cash balances in the unrestricted portion of STIP. At the November 2001 meeting the Regents approved modifications to the Mortgage Origination Program parameters and in addition increased the maximum aggregate outstanding balance of the loan portfolio to 30 percent from 25 percent of legally available cash balances in the unrestricted portion of STIP. Based on this definition the MOP loan limitation as of June 30, 2008 was \$1,380.3 million. As of June 30, 2008 the actual outstanding balance of the Program's loan portfolio was \$585.608 million. It is expected that the President would maintain approximately similar dollar limitations for MOP loans for the foreseeable future.