

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of July 14, 2011

APPROVAL OF FISCAL YEAR 2011-12 BUDGET FOR OFFICE OF THE PRESIDENT

EXECUTIVE SUMMARY

According to Regents Policy 5101, implementation of the fiscal year 2011-12 budget for the Office of the President requires the following actions by the Regents:

- Approval of a fiscal year 2011-12 total budget for the Office of the President of **\$553.3 million** – a **four percent** reduction from the adjusted fiscal year 2010-11 base. The unrestricted portion of the proposed budget is **\$311.8 million** – a **\$38.9 million**, or **11 percent**, reduction. The restricted portion of the proposed budget is **\$241.5 million** – a **6.7 percent** increase that reflects expanded activity in such restricted-funding areas as the Treasurer's Office, the University of California Retirement System administration, and State special research programs, as well as an appropriate shifting of funds from unrestricted to restricted funding.
 - As discussed at the May meeting of the Board of Regents, the President originally proposed an Office of the President budget of \$530.7 million, which included both unrestricted (\$298 million) and restricted (\$232.7 million) funding. This budget would have represented an eight percent reduction in overall spending, and a 15 percent reduction in unrestricted spending as a result of \$52.77 million in reductions in core administrative funding and centrally-provided services. In addition, the President identified an additional \$28.15 million in reductions in centrally-administered systemwide programs, initiatives, and centrally-funded campus-based activities.
 - However, realization of this goal was contingent on approval by the Legislature of reductions in a number of legislatively-mandated programs and initiatives. Under budget language approved last month, the Legislature continued to restrict \$20.3 million in direct Office of the President funding. In addition, since the May discussion of the proposed Office of the President budget, the President has identified \$6.9 million in other critical funding needs (detailed in the New Systemwide Initiatives section below).

- The unrestricted cuts, after the Legislature's imposition of program reduction limits, are spread broadly across general administration (**\$4.3 million**), central services and programs (**\$19.2 million**), and systemwide programs and initiatives (**\$15.5 million**). See Display 1.

Display 1: Office of the President Budget Distribution, By Function

	TOTAL BUDGET			UNRESTRICTED BUDGET			
	TOTAL FY 2010-11 BUDGET	CHANGE	TOTAL FY 2011-12 BUDGET	TOTAL FY 2010-11	CHANGE	% CHANGE	TOTAL FY 2011-12
GENERAL ADMINISTRATION	\$ 95,078,120	\$ (937,444)	\$ 94,140,676	\$ 60,399,855	\$ (4,311,311)	-7%	\$ 56,088,544
CENTRAL SERVICES (ADMINISTRATION)	122,160,704	3,888,555	126,049,259	70,180,864	3,564,301	5%	73,745,165
CENTRAL SERVICES (ACADEMIC PROGRAMMING)	189,807,236	(11,178,804)	178,628,432	81,701,443	(22,718,246)	-28%	58,983,197
SYSTEMWIDE INITIATIVES	169,969,127	(15,460,508)	154,508,619	138,488,289	(15,460,508)	-11%	123,027,781
GRAND TOTALS	\$ 577,015,187	\$ (23,688,202)	\$ 553,326,985	\$ 350,770,451	\$ (38,925,765)	-11%	\$ 311,844,686

A detailed budget breakdown can be found in **Attachment 1**.

- These reductions are on top of **\$47.9 million** in previous cuts, net of program transfers, achieved since fiscal year 2007-08, bringing total Office of the President reductions in four years to **\$86.8 million**.

RECOMMENDATION

The President recommends that the Committee on Finance recommend to the Regents that the University of California Office of the President Fiscal Year 2011-12 Budget, as shown in Attachment 1, be approved.

BACKGROUND

- Revised Base Budget.** The proposed Office of the President budget for fiscal year 2011-12 is built on a revised base budget of **\$577.02 million**. This new base reflects implementation of the new Funding Streams model described below, and has been corrected and adjusted to include all fiscal year 2010-11 restricted and unrestricted funds previously included in the Office of the President budget as well as those funds historically held and distributed by the systemwide budget office. These corrections and adjustments, including the permanent budgeting of ongoing temporary funding, increase the base budget by \$137 million from the \$438 million fiscal year 2010-11 budget approved by the Regents in May 2010.
 - The unrestricted portion of the base is **\$350.77 million**. It is comprised of General Funds and Education Fees, Common Fund, Opportunity Fund and Off-the-Top Fund, Education Fund, the Searles Fund, and additional unrestricted endowment and revenue funds.
 - The restricted portion is **\$226.24 million**, and includes special State and federal funds (including Laboratory Management fees); restricted endowment income, gifts, and private funds; restricted funds derived from asset management, the retirement system, benefits administration, risk management, as well as recharges and income.

- **State budget restrictions on reductions.** As noted above, legislative restrictions imposed on proposed program reductions increased the Office of the President overall budget by \$22.6 million. These impacts are detailed in Display 2.

DISPLAY 2: Office of the President Budget, Unrestricted Budget and Net Cuts

	ORIGINAL PROPOSAL	REVISED PROPOSAL
	<i>Reflections corrections and adjustments, i.e. permanent funding of temporary budgets)</i>	<i>Reflects legislature restrictions, plus \$6.9 million in adjustments</i>
TOTAL OP BUDGET	\$ 530,731,889	\$ 553,326,985
TOTAL UNRESTRICTED BUDGET	298,002,890	311,844,686
TOTAL NET CUTS	(80,912,561)	(58,061,615)
<i>OP Budget Cuts</i>	<i>(52,767,561)</i>	<i>(38,925,765)</i>
<i>Systemwide Cuts</i>	<i>(28,145,000)</i>	<i>(19,135,850)</i>

- **Funding Streams Initiative.** The Office of the President operating budget for fiscal year 2011-12 has also been impacted by implementation of a new funding model for the University (the Funding Streams Initiative). The new model, which significantly changes the way funds are distributed between the Office of the President and the campuses, is designed to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue. At the same time it fundamentally alters both the relationship between the campuses and the Office of the President as well as the purpose and role of the central administrative office for the University of California.

Implementation of the new funding model has required rationalizing and reconciling historical funding categories into one consolidated budget, including all restricted and unrestricted funds previously included in the Office of the President budget as well as those funds historically held and distributed by the systemwide budget office for campus-based activities. These also include ongoing funding previously budgeted as temporary. As noted above, these changes increase the Office of the President budget base by \$137 million.

- Under the old funding model, the Office of the President derived its unrestricted funding from a variety of fund sources. However, the elimination of various funding redirections between the campuses and the Office of the President required the development of a new methodology for funding central operations, including its governance functions, multi-campus research programs and institutes, and the Division of Agriculture and Natural Resources. Therefore, to replace the eliminated redirections, the University has established a low broad-based assessment on campus funds to support central activities, beginning in 2011-12. Aside from fund sources with external restrictions, chancellors will be authorized to draw at their discretion from a full range of campus operating revenues to meet the assessment, including auxiliary and medical center revenues. The goal is to establish an appropriate funding level of core funding for the Office of the President's central administration and governance activities, but as importantly to keep the assessment on campus funds as low as possible in order to maximize funding for the campus-based teaching, research and public service missions of the University.

While the President had set as an initial objective a campus assessment of less than 1.5 percent, the proposed rate is now 1.6 percent. As Display 3 illustrates, this higher rate is the result of two factors: 1) an increase in the total campus assessment due to additional adjustments and the legislative budget decisions, both in regard to funding of earmarks and the lack of funding for UC Merced enrollment growth; and 2) a request by campus leadership to exclude both plant funds and scholarship allowances from the expenditure base on which the assessment is calculated, thus lowering the overall base from \$19.5 billion to \$17.3 billion.

DISPLAY 3: Campus Funding Streams Assessment

	ORIGINAL PROPOSAL	REVISED PROPOSAL
	<i>Reflections corrections and adjustments, i.e. permanent funding of temporary budgets)</i>	<i>Reflects legislature restrictions, plus \$6.9 million in adjustments</i>
TOTAL CAMPUS ASSESSMENT	267,283,668	277,696,667
ASSESSMENT RATE		
At \$17.3B expenditure base*	1.54%	1.60%
At \$19.5B expenditure base**	1.37%	1.42%
* Excludes plant funds and scholarship allowance		
** Includes all expenditures		

Every effort has been made to set as low a campus funding stream assessment rate as possible. Beyond reductions to its core budget, the Office of the President has identified and maximized other unrestricted fund sources. They include the **Searles Fund**, an endowment which previously had been categorized as restricted though its terms allow for use to finance “general purposes” of the University which cannot be covered by other funding sources; a collection of other unrestricted funds that have been combined to create a general **President’s Endowment Fund** for the purpose of funding non-permanent systemwide operations and initiatives; and a collection of **Other Funds** derived from indirect cost recovery, short-term investment earnings and an assessment on restricted Office of the President funds to support general central administration services and operations. Through this strategy, the Office of the President has removed **\$34.1 million** from the campus funding streams assessment.

- **Evolving role of the Office of the President.** The proposed budget that results from the new funding stream model moves the Office of the President more closely to the President’s vision for the appropriate role of the central administration. As such, the description of the Office of the President programs and activities as well as those of the systemwide programs administered from the center is being revised.

In the evolving model, the Office of the President performs three distinct and separate functions:

- **General administration**, which includes those responsibilities that the Office of the President performs on behalf of the entire University of California system, including the medical centers and the one National Laboratory it still individually manages. These

responsibilities include governance, as performed by the direct reports of the Board of Regents and the Academic Senate.

- **Central services**, which the Office of the President provides to the entire system as an efficiency to avoid redundancy of functions. These services include 1) **administrative functions**, both academic and non-academic, including management of the single retirement and benefits systems, and the financial management of the University, including banking services, cash management, corporate accounting, risk services, and strategic sourcing; and 2) **academic programming**, including central administration of a single digital library system, the University of California Press, campus-based research, admissions and student academic preparation and access programs.
- **Systemwide initiatives**, which are administrated at and/or funded from the center to the benefit of the entire University of California system. These initiatives include critical academic and research programs, such as the UC Observatories and the California Institutes for Science and Innovation; external relations, advocacy and public service activities conducted on behalf of the system; the statewide cooperative extension program administered by Agriculture and Natural Resources; and the administration of non-campus-based facilities, such as the UC Washington Center and centers in the Central Valley.

Under the emerging model for the Office of the President, responsibilities and services not consistent with its delineated roles and responsibilities should be discontinued or devolved to the campuses. It reverses a growth trajectory over the previous decade that often occurred organically, the result of system services landing at the Office of the President by default rather than by strategic design.

Looking to the future, common systems at the University of California will be critical to achieving further efficiencies and cost savings across the UC system. However, under this new model, the Office of the President will play an important role in developing, facilitating and even incubating initiatives, but with an eye to continuing to administer at the Office of the President only those that make strategic sense. Others will be outsourced for ongoing administration by the appropriate campus or non-campus entity.

- **New Systemwide Initiatives.** The proposed budget includes funding for four new systemwide initiatives:
 - **Clinical Data Warehouse** (\$1,000,000 annually for five years), requested by Health Services to develop infrastructure to integrate clinical data across the UC medical enterprise.
 - **Decision Support System** (\$2,500,000, eventually declining to \$800,000 annually), requested by Business Operations (Information Resources and Communications), to create more cost efficient, transparent, timely and responsive systemwide information services.

- **Litigation Reserve Fund** (\$400,000), requested by the General Counsel for systemwide litigation expenses not covered by Risk Services.
- **Systemwide Procurement Initiative** (\$3,000,000 for year one; \$1,000,000 annually, through 2018), requested by the Chief Financial Officer (Strategic Sourcing) to bring systemwide savings generated from strategic sourcing/procurement up from \$60 million to \$200 million – savings that will accrue directly to the campuses.
- **Full-time equivalent (FTE) employees** for all Office of the President operations, including Regents' direct reports and the Academic Senate, is proposed at **1,522**. This represents a slight net increase of 44 FTE (three percent) from fiscal year 2010-11 totals, owing mostly to General Counsel personnel increases to achieve significant reductions in outside counsel costs; and to Human Resources, which has growing retirement system personnel needs and is bringing back in-house, at a net budget neutral cost, local human resource support after a two-year trial outsourcing effort. Even with these increases, total FTE at the Office of the President has been reduced overall by nearly **20 percent**, from 1,914 to 1,522, net of program transfers, since fiscal year 2008-09.
- **“Glide Path” Funding.** An additional **\$19.1 million** in reductions are recommended for Office of the President-funded non-funding stream programs and initiatives. Some of these reductions will impact campus programs, some of which the President is recommending should be eligible for temporary “glide path” funding from one-time Office of the President savings to allow campuses maximum flexibility to make longer-term funding decisions. It is projected that this glide path funding would total \$15.4 million the first year, and diminish in annual costs in out years.

(Attachment: Budget Summary)

**FY 2011-12 BUDGET SUMMARY
OFFICE OF THE PRESIDENT**

	TOTAL BUDGET			UNRESTRICTED BUDGET			
	TOTAL FY 2010-11 BUDGET	CHANGE	TOTAL FY 2011-12 BUDGET	TOTAL FY 2010-11	CHANGE	% CHANGE	TOTAL FY 2011-12
GENERAL ADMINISTRATION	\$ 95,078,120	\$ (937,444)	\$ 94,140,676	\$ 60,399,855	\$ (4,311,311)	-7%	\$ 56,088,544
OP Core Administration	55,129,568	1,751,340	56,880,908	41,434,557	(1,152,173)	-3%	40,282,384
Academic Affairs	12,511,076	(280,618)	12,230,458	12,379,369	(349,783)	-3%	12,029,586
Finance	3,836,588	1,171,386	5,007,974	1,864,153	136,672	7%	2,000,825
Business Operations	18,346,483	471,040	18,817,523	13,544,453	(1,039,473)	-8%	12,504,980
President's Exec. Office	4,741,706	(223,568)	4,518,138	4,485,356	(233,744)	-5%	4,251,612
Health Sciences	3,928,656	50,918	3,979,574	2,100,656	50,918	2%	2,151,574
External Relations	8,185,281	449,057	8,634,338	7,060,570	283,237	4%	7,343,807
Lab Management	3,579,778	113,125	3,692,903	-	-	-	-
Academic Senate	1,807,561	(162,373)	1,645,188	1,807,561	(162,373)	-9%	1,645,188
Regents Officers	38,140,991	(2,526,411)	35,614,580	17,157,737	(2,996,765)	-17%	14,160,972
General Counsel	10,556,547	(2,324,014)	7,832,533	9,509,356	(2,672,185)	-28%	6,837,171
Secretary/COS	2,954,319	(98,334)	2,855,985	2,949,319	(98,334)	-3%	2,850,985
Ethics & Compliance	4,704,105	(226,246)	4,477,859	4,699,062	(226,246)	-5%	4,472,816
Treasurer	19,926,020	522,183	20,448,203	-	-	-	-
CENTRAL SERVICES (ADMINISTRATION)	122,160,704	3,888,555	126,049,259	70,180,864	3,564,301	5%	73,745,165
Central Administrative Services	88,518,254	4,104,098	92,622,352	36,538,414	3,779,844	10%	40,318,258
ACADEMIC AFFAIRS							
Admissions/Enrollment Services	13,442,145	(1,192,419)	12,249,726	12,507,145	(1,189,341)	-10%	11,317,804
Financial Aid Services	2,345,537	-	2,345,537	2,345,537	-	0%	2,345,537
Technology Transfer	1,017,650	-	1,017,650	1,017,650	-	0%	1,017,650
Other Academic Initiatives	707,747	92,253	800,000	707,747	92,253	13%	800,000
BUSINESS OPERATIONS							
Compensation, Retirement, Benefits	41,191,195	(86,593)	41,104,602	4,885,610	(686,224)	-14%	4,199,386
Information Technology Services	7,442,490	(730,961)	6,711,529	4,743,666	2,103,007	44%	6,846,673
Systemwide Budget/Facilities	4,735,125	(18,847)	4,716,278	4,425,019	(33,725)	-1%	4,391,294
CHIEF FINANCIAL OFFICER							
Banking, Tax, Accounting and Audit	7,075,078	(795,089)	6,279,989	3,190,525	(370,533)	-12%	2,819,992
External Financing	780,596	33,611	814,207	-	-	-	-
Office of Loan Programs	1,424,794	3,884	1,428,678	-	-	-	-
Risk Services	15,000	(15,000)	-	-	-	-	-
Strategic Sourcing	191,366	12,538	203,904	191,366	3,012,538	1574%	3,203,904
Travel Management Services	377,101	4,114	381,215	364,664	3,725	1%	368,389
EXTERNAL RELATIONS							
Institutional Advancement	2,992,232	(276,856)	2,715,376	542,232	(151,856)	-28%	390,376
HEALTH SCIENCES							
Clinical Trials Fund	-	-	-	-	1,000,000	100%	1,000,000
Centrally Funded	33,642,450	(215,543)	33,426,907	33,642,450	(215,543)	-1%	33,426,907
<i>Debt service, rent, business processing, undistributed benefits and other</i>							
CENTRAL SERVICES (ACADEMIC PROGRAMMING)	189,807,236	(11,178,804)	178,628,432	81,701,443	(22,718,246)	-28%	58,983,197
AGRICULTURE & NATURAL RESOURCES (OP)	3,544,870	(217,664)	3,327,206	2,944,003	(217,664)	-7%	2,726,339
INFO PUBLISHING & BROADCAST	44,944,612	(209,352)	44,735,260	17,234,299	(1,717,230)	(0)	15,517,069
<i>Including California Digital Library and UC Press</i>							
PREPARATION & ACCESS	19,906,464	(1,616,525)	18,289,939	11,406,464	(2,138,876)	-19%	9,267,588
RESEARCH	102,945,626	(17,876,863)	85,068,763	45,793,567	(17,608,939)	-38%	28,184,628
SYSTEMWIDE INSTRUCTION PROGRAMS	18,465,664	8,741,600	27,207,264	4,323,110	(1,035,537)	-24%	3,287,573
SYSTEMWIDE INITIATIVES	169,969,127	(15,460,508)	154,508,619	138,488,289	(15,460,508)	-11%	123,027,781
Agriculture & Natural Resource (Systemwide)	85,523,228	(3,113,178)	82,410,050	62,263,566	(3,113,178)	-5%	59,150,388
Multi-Campus Research Units	14,869,571	(500,000)	14,369,571	11,958,395	(500,000)	-4%	11,458,395
Systemwide Initiatives	69,576,328	(11,847,330)	57,728,998	64,266,328	(11,847,330)	-18%	52,418,998
PRESIDENTIAL INITIATIVES	10,000,000	-	10,000,000	10,000,000	-	-	10,000,000
ADMISSIONS & FINANCIAL AID	759,000	(613,000)	146,000	759,000	(613,000)	-81%	146,000
ADVOCACY/DEVELOPMENT	7,947,000	(7,597,000)	350,000	7,947,000	(7,597,000)	-96%	350,000
FACILITIES	16,998,000	-	16,998,000	16,998,000	-	-	16,998,000
INFO PUBLISHING & BROADCAST	1,292,500	(1,279,915)	12,585	1,292,500	(1,279,915)	-99%	12,585
INSTITUTIONAL SUPPORT	9,941,108	(360,158)	9,580,950	9,671,108	6,139,842	63%	9,310,950
PUBLIC SERVICE	1,601,947	(367,000)	1,234,947	1,601,947	(367,000)	-23%	1,234,947
RESEARCH	19,202,085	(1,225,335)	17,976,750	14,377,085	(1,225,335)	-9%	13,151,750
SYSTEMWIDE INSTRUCTION PROGRAMS	1,834,688	(404,922)	1,429,766	1,619,688	(404,922)	-25%	1,214,766
GRAND TOTALS	\$ 577,015,187	\$ (23,688,202)	\$ 553,326,985	\$ 350,770,451	\$ (38,925,765)	-11%	\$ 311,844,686