The Regents of the University of California

COMMITTEE ON FINANCE
COMMITTEE ON GOVERNANCE
March 19, 2008

The Committees on Finance and Governance met jointly on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Representing the Committee on Finance: Regents Blum, Brewer, Dynes, Garamendi, Gould, Hopkinson, Island, Kozberg, Varner, and Wachter; Advisory members Scorza and Croughan, Staff Advisors Brewer and Johansen
Representing the Committee on Governance: Regents Gould, Pattiz, Schilling, and Wachter

In attendance: Regents Allen, Bugay, De La Peña, Hotchkis, Lozano, Marcus, and O'Connell; Regents-designate Cole and Shewmake, Faculty Representative Brown, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Beckwith, Broome, Dooley, Foley, Lenz, and Sakaki, Chancellors Birgeneau, Bishop, Block, Blumenthal, Fox, Kang, Vanderhoef, and Yang, Acting Chancellor Grey, and Recording Secretary Johns

The meeting convened at 10:35 a.m. with Committee Chair Gould presiding.

RESTRUCTURING OF AND BUDGET FOR THE OFFICE OF THE PRESIDENT

[Background material was mailed to Regents in advance of the meeting, and copies are on file in the Office of the Secretary and Chief of Staff.]

Committee on Finance Chair Gould recalled that last year the Regents heard a report on the functions, fund sources, and size of the Office of the President (UCOP). The current presentation by Provost Hume and Executive Vice President Lapp represents a second phase, an endeavor to make UCOP more focused, efficient, and responsive to the needs of the University.

Provost Hume began the presentation by stating that almost $57 million in immediate savings have been identified at UCOP. The work force will be reduced by more than 400 full-time equivalents (FTEs). This surpasses earlier goals and accelerates progress toward a more efficient operation. Mr. Hume opined that the change the Office of the President is now undertaking is unprecedented in higher education. This change is necessary not only to save money, but to meet the growing challenges to the University and to its long-term competitive position. He stressed that this work is important to ensure that UCOP provides proper support to the President.

This work has two essential requirements. The University must work as a system and remain together as a system; it must transform its leadership and its support for that leadership. The current presentation addresses the second requirement, the effort to develop a leaner support structure. This is a plan for a thorough transformation of the Office of the President. The plan is intentionally designed to be flexible enough for a new president to adapt to his or her own vision. It will make UCOP significantly smaller, more dynamic, responsive, and better able to meet future needs. The plan is proceeding on a brisk timeline with only months between inception and implementation, and anticipated completion in one year.

This presentation of the fiscal year 2008-09 appropriations request for UCOP is a critical next step in the movement toward a new organizational structure with a consolidation of functions and shifting of some responsibilities to campuses or third parties. This process will culminate a year from now with another appropriations request for a completely reengineered Office of the President.

Mr. Hume stressed the detail and clarity of this proposal, which he described as the most thorough and transparent budget process ever undertaken at UCOP. He emphasized that this budget is significantly smaller, including a proposed 20 percent cut in spending and a proposed 23 percent cut in FTEs. He further described this proposal as smarter, more accountable, and more focused. It is aligned with a new vision for UC, a new structural model which looks toward a more complex and challenging future. The Regents will be asked to approve this appropriations request at the May meeting.

Executive Vice President Lapp explained that the proposal is divided into three sections. The first is an appropriations request for UCOP units which report to the President. It is proposed to reduce funding for these units by 20 percent or $52 million, a significant decrease from $255 million to $203 million next year. A 23 percent FTE reduction is proposed for these units, from about 1,750 FTEs to 1,345 FTEs. Of these, a little over half, or 225 FTEs, will be transferred to the campuses. The remaining 180 FTEs are permanent reductions. Six Senior Management Group (SMG) positions will be eliminated as part of the permanent reductions; they represent ten percent of SMG positions at the Office of the President.

Ms. Lapp pointed out that the reduction goal will be achieved with fewer than two dozen layoffs. She noted that a strict vacancy control process was instituted in October 2007 which screens any new hires for approval. In addition, more than 250 UCOP employees signed up for the Voluntary Separation Program, initiated last year; most of them are not included in this reduction. Significant layoffs were also avoided through transfer of functions. She pointed out that there are still vacancies in the base budget. Citing the rigorous restructuring that will occur at UCOP, she explained that these vacancies are being held, if needed, to be reinvested in other units.

Ms. Lapp provided a conservative projection of savings from the Voluntary Separation Program of $1.5 million, but stated that she expects the savings to be more significant. She will report back to the Regents on this in September when exact numbers will be known.

Ms. Lapp reported that an additional $3.5 million in unexpended funds have been identified and are being applied toward the reduction, for a total reduction of $56.7 million, or 22.2 percent. She recalled the target of $28 million in efficiencies for UCOP, part of the budget approved by the Regents in November 2007, and compared this figure with the currently proposed reductions. These include $25.4 million in permanent budget reductions, $1.5 million in savings from the Voluntary Separation Program, and $3.5 million in unexpended funds, for a subtotal of $30.4 million, exceeding the $28 million goal. She expressed confidence that UCOP will identify and report additional savings in the coming months.

The remainder of the $56.7 million reduction is made up by $26.3 million in program transfers. Ms. Lapp recalled that, in its January 2008 report, the Working Group on the Roles of the Office of the President recommended identifying units at UCOP that might not need to be located there. The largest program transfer is the Continuing Education of the Bar (CEB), a self-sustaining legal education program which includes 197 FTEs. It is proposed to transfer CEB to a campus with a law school and Extension offices.

Ms. Lapp recalled the UCOP budget request for fiscal year 2007-08, presented at the May 2007 meeting. This budget was not aggregated, but divided by unit. It included only estimates and permanent funds, and reflected only FTEs supported by permanent funds, accounting for only 968 FTEs at UCOP. By contrast, the current appropriations request was developed through a painstaking examination of every unit including its employees, payroll data, and budget. Last year's budget also included incremental budgeting, adding for inflation. The current document does not include any inflationary increases, but is based on last year's actual expenditures. It provides a financial foundation for UCOP to make resource allocation decisions based on accurate and timely data.

The previous year's budget only accounted for about $425 million in UCOP expenditures. Total UCOP expenditures are in fact a little over $523 million, and the FTE total is 2,068. Ms. Lapp described the Office of the President as a flow-through mechanism for many funds which go to campus programs and activities and to research. If one excludes these funds, the actual adjusted total for UCOP expenditures is approximately $296 million. As an example, Ms. Lapp cited the

Keck Telescope project, a joint undertaking of UC, Caltech, and NASA. The $12 million received for this project were excluded from the base budget. Likewise, many FTEs at the Office of the President provide services to programs and the campuses. There are approximately 158 FTEs in information technology; of these, 85 provide payroll support for 63 percent of the entire University. These latter and other similar FTEs were also excluded from the base budget, leaving a total of approximately 1,945 FTEs at UCOP.

If one subtracts Academic Senate FTEs and those which report directly to the Regents from this number, it leaves a total of about 1,750 FTEs at UCOP, which Ms. Lapp described as a large number. Almost two-thirds of these are in Academic Affairs, while about 500 FTEs are in Business Operations, 84 are in University Affairs and Laboratory Management, and 11 in the President's Immediate Office. The large FTE number in Academic Affairs includes 54 FTEs in Agriculture and Natural Resources, almost 200 in CEB, 141 at the UC Press, 85 in student academic preparation programs, 63 in support for special research programs, and 100 in the Education Abroad Program.

In Business Operations, about 160 FTEs provide basic information technology support. Benefits Administration encompasses 120 FTEs, answering inquiries from retirees and annuitants. This accounts for almost half of the FTEs in Human Resources and Benefits. The current document proposes an alternate business model to provide these services. It is proposed to issue a Request for Proposals in April to see if there are other business models that can provide this support at lower cost, or provide better service at the same cost. Ms. Lapp cited UCOP's limited systems and information technology resources, and the successful transfer of retirement plan administration to Fidelity Investments.

Next Ms. Lapp discussed a chart showing that about 20 percent or 350 FTEs at UCOP directly support the President. The remaining FTEs are engaged in University support activities. In the coming months, each of these University support activities will be examined to ensure that they do not overwhelm necessary support and strategic policy guidance for the President.

Ms. Lapp briefly recalled the timeline of the Voluntary Separation Program, noting that over 250 employees may be leaving UCOP by June 30. This will place significant stress on remaining employees. Managers have been asked to formulate plans to allow units to operate without these departing employees. UCOP will move as quickly as possible to fill critical positions.

Next Ms. Lapp mentioned efforts to take administrative savings and invest them back into programs. She cited $9 million to $12 million in reductions involving restricted funds which could not be counted as budget savings, and which were put back into programs. As examples, about $1.8 million in administrative savings were put back into the Education Abroad Program, and about $1.5 million into the President's Postdoctoral Fellowship Program. She described these savings as a positive side effect of the current budget exercise.

Ms. Lapp then noted savings achieved through consolidations, which are not being counted in the budget. An effort to consolidate UCOP desktop support that began in late 2007 may realize savings of eight to ten FTEs. Ms. Lapp stressed the importance of a single Budget Office for UCOP, and reported that the current effort to consolidate this function should be completed by July 1, in time for the new fiscal year. Additional consolidation is being considered in communications and institutional reporting.

The second section of the current proposal concerns direct reports to the Regents, and is an appropriations request of about $42 million with 190 FTEs. This represents a slight increase of 4.5 percent or $1.8 million, due to the expanded role of the Compliance and Audit unit. The third section of the proposal is an appropriations request for the Academic Senate of about $1.2 million, with 10 FTEs. The $29,000 increase will support the expanded role of the Academic Senate at the Merced campus.

Ms. Lapp informed the Committees that there are 79 funding sources for the Office of the President. She noted the 30 percent in support from General Funds. She then focused on the "Other" funding category, which consists mostly of restricted funds, such as UCRS Funds, the Asset Management Fund, and campus recharges. Ms. Lapp stressed the difficulty and complexity of the task of formulating the current budget, which involved UCOP staff and the help of an outside consultant. She noted that some expenditures could not be included in the base budget this year, such as debt service, lease costs, overtime, stipends, and incentive awards. These will be included in the budget next year. Ms. Lapp concluded by emphasizing the significant dedication of UCOP employees and noting two recent UCOP town hall meetings to discuss the budget situation with employees.

Provost Hume briefly reviewed progress made over the last six months. The August 2007 action plan ensured competitive faculty salaries, integration of academic and budget planning, and a research focus on some of the state's most pressing problems. He opined that the openness and transparency of the process has been beneficial. A revised plan for faculty salary scales has now been presented. The current presentation demonstrates a new and different appropriations process, and an overhaul of external relations operations is now under way.

Mr. Hume underscored the magnitude of current challenges. If the Regents approve this appropriations request, the administration will present a new organizational structure for the Office of the President, including senior administration, at the May meeting. He anticipated that UCOP will have a new Budget unit by July, and at least two new consolidated utilities. By fall 2008 there will be additional utilities consolidations, and by January 2009, a reconfiguration of Academic Affairs and External Relations. There is an ongoing effort to divest UCOP of its non-core responsibilities. It is expected that, through these efforts, the Office of the President will become more effective, its services better managed, more responsive to customers, and delivered at much lower cost to the UC system. In March 2009 the Regents will receive an appropriations request for a new Office of the President. Mr. Hume concluded by stressing that the current approach incorporates the flexibility needed by the next President, who will work with the advantage of a smaller but enhanced Office of the President.

Regent Hopkinson praised the budget for providing substantive information. She expressed concern that all vacant positions appear to have been eliminated and stated that there is a strategic need to evaluate such positions. She believed it might not be correct or appropriate to transfer some functions to campuses. While these transfers result in savings in the UCOP budget, there is an increased cost at campuses. Thus, a transfer does not result in true savings and can disrupt the lives of individuals and families.

Regent Hopkinson requested clarification of the recharges shown in the budget summary. She suggested that the recharges might result in an understatement of actual costs for UCOP. She cited figures for Financial Management as an example. She expressed concern that the mission statement for Laboratory Management does not include the word “oversight” and stressed the importance of the oversight issue. Regent Hopkinson also noted that the budget does not include discussion of a provision to implement a new Human Resources system. She observed that UC would not have experienced a compensation crisis if a proper system had been in place. Such a system is expensive, and the University should plan and allocate resources for it, even if the University cannot afford it in the short term. Regent Hopkinson opined that the proposed reduction to the President’s Immediate Office is not significant, and should be postponed until a new President is appointed, to allow the President to make reallocations.

Regent Hopkinson noted that the units reporting directly to the Regents had been exempted from reductions, and questioned this. The Regents had decided to add functions to the Office of the Secretary and Chief of Staff, but the other directly reporting units should be reviewed.

Regent Hopkinson asked if the UCOP organization chart provided in the summary was meant to reflect the current or future state of the Office of the President. She stressed the need for in-depth discussion of the long-term, future structure of UCOP and its operations. Provost Hume responded that the UCOP organization chart in question is a description of the present structure, which is meant to highlight the level of change. He stated that the discussion of this issue will continue until May, when a new organizational structure will be proposed.

Executive Vice President Lapp explained that the process of vacancy elimination was a strategic review, carried out carefully with every unit or department head. She noted that there are still vacancies in the current budget proposal. She suggested that she could discuss the specific reductions made to Financial Management with Regent Hopkinson later. Ms. Lapp concurred that UCOP needs a Human Resources Information System. It is a focus of attention, and the current budget process will allow her to track resources, locate funds, and develop a financing mechanism.

Committee Chair Gould referred to the units reporting to the Regents, noting that he has met with the leadership of each unit. Most growth has occurred in the Audit and Compliance area. He emphasized that there was appropriate review in this case. Regent Hopkinson stated that the Offices of the General Counsel and Treasurer were not subjected to the same kind of scrutiny for achieving efficiencies.

Regent Lozano suggested that the Regents should, over the next 12 months, look at their own offices for potential streamlining and efficiency. She concurred with the need to allow flexibility for the incoming President.

Chairman Blum described the current proposal as a good beginning, and expressed confidence that efficiency will improve.

Staff Advisor Johansen thanked Executive Vice President Lapp and Provost Hume for their efforts to communicate with UCOP staff. He observed that UCOP and systemwide staff are anxious about current developments. Restructuring at UCOP is seen as a preview for developments at the local level. He encouraged Ms. Lapp and Mr. Hume to continue this interactive process with openness.

Regent Island expressed skepticism about the University's ability to restructure itself from within. He opined that the premise of the restructuring work, to take the existing operation and make it leaner, has not produced the required rigorous result. He stated that the current proposal describes the existing units at UCOP but does not make a case for their continued necessity. The transfer of a unit can not be claimed as part of a budget reduction. Regent Island suggested that the restructuring might have been conceived as a zero-base budgeting activity, and asked the presenters to consider what the Office of the President would look like if limited to 400-500 FTEs. He suggested that a $300 million budget is larger than necessary, and that many of the functions assigned to UCOP might be better or more efficiently accomplished at the campuses. He stated that the restructuring and creation of a new Office of the President requires more rigor and challenging assumptions.

Regent Marcus expressed appreciation for the work of UCOP employees. He emphasized that an important issue is whether the restructuring effort will allow the University to obtain more money from the State for academic programs. He opined that, theoretically, the best-managed institutions should have the greatest credibility and deserve the greatest consideration in budget matters. He expressed the hope that $50 million in savings by the University would be rewarded by a tenfold return from the State. He stated that no other organization in the State budget process is approaching the University in this effort.

Regent Allen expressed concern about staff morale and urged the Regents to express appreciation for their work. He affirmed that there was serious consideration of the relationship between UCOP and the campuses in this proposal. He referred to the 85 FTEs in K-12 academic preparation programs, and the demonstrated success of these programs. He expressed concern about the loss of staff through the Voluntary Separation Program and asked when vacancy controls would be lifted for these programs.

Provost Hume responded that every effort is being made to ensure that these programs are administered as efficiently as possible. UCOP is working to reduce the number of administrative staff, sufficient with effective administration. He noted that savings are going back into these programs, not to the administrative center, as in the case of other programs using earmarked funds, such as special research programs. Mr. Hume emphasized delivery of the program as the primary goal.

Executive Vice President Lapp described the vacancy control process as rigorous, but noted that critical hires are allowed to go forward. She anticipated that the vacancy control process will end when the future structure of UCOP is more clearly determined, probably within the next few months. Unit managers will receive funding and approved FTEs, and performance will be monitored.

In response to Regent Island's remarks, Ms. Lapp stressed that the current proposal is the first step. The process requested by Regent Island requires timely, reliable, and accurate data. She recalled that last year's budget understated FTEs by almost 1,000 and expenditures by almost $100 million. The data now available will be used as a basis for informed decisions in the next few months, especially about the roughly 80 percent of activities at UCOP which do not support the President. She cited the proposals to move CEB, and to implement a different business structure, through an outside entity, for Benefits Administration.

In response to Regent Island, Provost Hume described the current proposal as the constraining budget which takes UCOP to the first step. Next year's budget will reflect the new Office of the President. Mr. Hume stated that he will return to the Regents in May with a new proposed leadership structure, the second constraining influence. He stressed the goal of providing better support to the President, in order to be more effective in advocating for the University with the State and in safeguarding the public trust. He believed that it is possible to do this and save money at the same time. Many UCOP functions, while important, do not support the President, and require different management.

Committee Chair Gould observed that this item will come back before the Board, and encouraged the Regents in the meantime to discuss issues of concern with Ms. Lapp and Mr. Hume.

Regent Allen urged that, in the vacancy control process, those positions with the greatest effect on students be treated with the same rigor and understanding as other positions. He expressed his concern about student academic preparation and transfer admission programs.

Regent Island suggested a disciplined process to examine how best to structure the Office of the President, specifically regarding functions that might better be assigned to campuses.

The meeting adjourned at 11:40 a.m.

Attest:

Secretary and Chief of Staff