

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of July 18, 2012

APPROVAL OF FISCAL YEAR 2012-13 BUDGET FOR OFFICE OF THE PRESIDENT

EXECUTIVE SUMMARY

Per Regents Policy 5101, implementation of the FY 2012-13 budget for the Office of the President requires the following actions by the Regents:

- Approval of a FY 2012-13 total expenditure plan for the Office of the President of **\$557.7 million** – a **1 percent** increase from the adjusted FY 2011-12 base.

For FY 2012-13, the Office of the President (OP) reduced spending by **three percent** from unrestricted fund sources, including those derived from the new assessment on campus expenditures. While departments identified total reductions of **\$21.4 million**, or seven percent, these were offset by 1) dramatically rising fixed salary and benefit costs, owing largely to increased employer contributions to the University retirement system that total more than \$10 million just from the unrestricted portion of the OP budget; and 2) \$3.4 million in augmentations for strategic initiatives largely designed to reduce campus or systemwide costs. The net reduction for unrestricted funds is **\$7.9 million**.

The overall increase in the OP budget is attributable entirely to a change in budget methodology in the restricted portion of its budget, whereby for the first time \$42 million in patent revenue is accounted for in the budget. These revenues flow through OP to the campuses, and therefore previously had not been considered part of the OP budget. However, in a continuing effort to provide a full accounting of OP budget activity, these revenues are now included in the OP budget base. This increase in restricted spending was offset by reductions in other restricted activity, including in Special State appropriations, in tuition from the Education Abroad Program that has been transferred to the UC Santa Barbara campus, in laboratory management fees, and in UC Press revenue.

- The Office of the President budget is comprised of three distinct budgets:

General Administration Budget, nearly two-thirds of which are derived from unrestricted endowments and from an assessment on campus expenditures. This budget funds core administrative functions such as the President's Executive Office, the

immediate offices of other OP senior leadership, and the governance responsibilities performed by the direct reports of the Board of Regents and the Academic Senate. For FY 2012-13, the proposed General Administration total budget is **\$116.5 million**.

Note that this represents an overall \$22 million (23.8 percent) increase in the total General Administration budget (and a 35 percent increase in unrestricted funding). However, the growth is attributable almost entirely to a new methodology whereby benefit costs, which previously had been distributed from a central fund, are redistributed into General Administration department budgets. This is designed to increase department accountability over both salary and benefit costs.

Central Services Budget, nearly two-thirds of which is derived from restricted funds. This budget funds functions which the Office of the President provides to the entire system as an efficiency to avoid redundancy of functions. These range from management of the single retirement and benefits systems to central administration of a single digital library system, the University of California Press, campus-based research, admissions and student academic preparation and access programs. For FY 2012-13, the proposed Central Services total budget is **\$290.4 million**, a 4.6 percent reduction.

Systemwide Initiatives Budget, nearly 80 percent of which is derived from unrestricted funds. This budget funds primarily academic or public service programs administered 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 related public service activities conducted on behalf of the system; the statewide cooperative extension program administered by Agriculture & Natural Resources; and the administration of non-campus-based facilities, such as the UC Washington Center and centers in the Central Valley. For FY 2012-13, the proposed Systemwide Initiatives total budget is **\$150.6 million**, a 2 percent reduction.

A detailed budget breakdown for Office of the President funding can be found in **Attachment 1**.

These reductions are on top of previous cuts achieved since FY 2007-08, bringing total OP reductions in five years, net of program transfers, to **\$94.7 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 2012-13 budget, as shown in Attachment 1, be approved.

BACKGROUND

Overview - The FY 2012-13 budget for the Office of the President is the culmination of a process that began in 2007, when the Office of the President submitted a simple statement of expenditures to the Board of Regents. Since then the Office of the

President has developed a rigorous and transparent budget that fully reflects the complexities of the central administration's structure and funding mechanisms. Its features include:

Comprehensiveness. Since the FY 2011-12 budget, the Office of the President budget has reconciled funding into one consolidated budget, including all restricted and unrestricted funds previously included in the OP 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.

Rigor. New reporting and budget development systems at the Office of the President provide comprehensive oversight over department budgets.

Transparency. FY 2011-12 marked the implementation of a new funding model for the University (The Funding Streams Initiative), through which the Office of the President derives much of its unrestricted funding from a low-based assessment (1.6 percent in FY 2011-12) on campus activities. This shift has given the campuses increased input into the purpose and role of the central administrative office for the University of California, as well as the size and shape of the Office of the President budget. Campus leadership, principally through the newly-established Executive Budget Committee of campus Executive Vice Chancellors and Vice Chancellors of Planning and Budget, were significant partners in guiding both the process and ultimate recommendations for the FY 2012-13 Office of the President budget.

Priority-based budgeting. The FY 2012-13 Office of the President budget is designed to serve as a meaningful strategic expenditure plan that well-serves the various OP stakeholders. It seeks to reverse a long practice of incremental budgeting and the perception that the OP budget remains misaligned with its priorities, the result of treating value-added functions the same as lower-priority functions. The FY 2012-13 budget process deployed tools designed to identify and eliminate redundant or outdated work functions, and to improve alignment of OP functions and budget to the organization's top strategic priorities and to better position it to meet the longer-term needs of the campuses, the Regents and the legislature.

Under the emerging model for the Office of the President, responsibilities and services not consistent with its delineated roles and responsibilities are being 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.

Other highlights - The FY 2012-13 Office of the President budget was developed under strict funding constraints, imposed by State funding reductions, increases in mandatory fixed costs, and a desire to minimize budget reduction impacts on the campuses. More specifically:

Mandatory Fixed Costs. As noted above, the Office of the President shares the challenge faced throughout the University of California system of meeting dramatically rising fixed

salary and benefit costs, owing in large part to increased employer contributions to the University retirement system. Like the campuses, the Office of the President must absorb those increased costs within its current operating budget. For FY 2012-13, those costs total more than \$10 million just from the unrestricted portion of its budget.

Augmentations. As part of the priority-based budgeting process, Office of the President departments were asked to identify and provide analysis for new initiatives that could be undertaken to either enhance services to or reduce systemwide costs for one or more of OP's stakeholders. Senior leadership reviewed and prioritized the requests, rejecting outright or deferring to future years most new initiatives. Further, all augmentations were offset by reductions in other functions. Total permanent program augmentations for FY 2012-13 are **\$3.4 million** in unrestricted funds.

Priority was given to those that would provide identifiable cost savings to the campuses. An example is a proposed 6 percent increase in the unrestricted budget for the California Digital Library, which through its centralized purchasing of digitized library material can achieve significant budget savings for campus library budgets.

Campus Assessment. Under the current methodology agreed upon in the design of the new Funding Streams model, the campus assessment used to fund Office of the President activities is based on campus expenditures. With the growth of expenditures on the campuses, the current campus assessment rate would have provided for an additional \$18 million in funding for the OP budget. However, the President directed early in the budget process that OP not only would forego any increase in assessment funds, but that it would identify budget reductions to cover both mandatory fixed costs as well as any new augmentations. Not only was this achieved, but OP achieved additional reductions of \$7.9 million in unrestricted funding. This will result in a decrease in the campus assessment rate, currently at 1.6 percent of campus expenditures, to approximately 1.5 percent.

Note that the Office of the President, in consultation with the campuses, is exploring new methodologies on which to base the campus assessment. The shared desire is to develop a methodology that is both equitable across the campuses but also keeps the rate as low as possible while still funding OP's core budget needs.

Full-time equivalent (FTE) employees for all Office of the President operations, including Regents' direct reports and the Academic Senate, is proposed at **1,440**. This represents a slight net decrease of 82 FTE (5.4 percent) from FY 2011-12 totals. With these additional decreases, total FTE at the Office of the President has been reduced overall by nearly **25 percent**, from 1,914 to 1,440, net of program transfers, since FY 2008-09.

(Attachment)

**FY 2012-13 BUDGET SUMMARY
OFFICE OF THE PRESIDENT**

	TOTAL BUDGET			UNRESTRICTED BUDGET			
	TOTAL FY 2011-12	CHANGE	TOTAL FY 2012-13 BUDGET	TOTAL FY 2011-12	CHANGE	% CHANGE	TOTAL FY 2012-13
GENERAL ADMINISTRATION	\$ 94,066,042	\$ 22,423,881	\$ 116,489,923	\$ 56,118,394	\$ 18,005,437	32%	\$ 74,123,831
OP Core Administration	56,806,274	16,805,625	73,611,899	40,312,234	13,994,796	35%	54,307,030
Academic Affairs	12,230,458	4,292,284	16,522,742	12,029,586	4,397,470	37%	16,427,056
Finance	5,007,974	706,654	5,714,628	2,000,825	1,050,502	53%	3,051,327
Business Operations	18,536,650	8,873,310	27,409,960	12,534,830	3,931,041	31%	16,465,871
President's Exec. Office	4,518,138	633,957	5,152,095	4,251,612	618,608	15%	4,870,220
Health Sciences	3,979,574	(939,059)	3,040,515	2,151,574	888,941	41%	3,040,515
External Relations	8,634,338	3,172,555	11,806,893	7,343,807	3,108,234	42%	10,452,041
Lab Management	3,899,142	65,924	3,965,066	-	-	-	-
Academic Senate	1,645,188	181,591	1,826,779	1,645,188	147,153	9%	1,792,341
Regents Officers	35,614,580	5,436,665	41,051,245	14,160,972	3,863,488	27%	18,024,460
General Counsel	7,832,533	3,186,093	11,018,626	6,837,171	2,465,629	36%	9,302,800
Secretary/COS	2,855,985	446,612	3,302,597	2,850,985	446,612	16%	3,297,597
Ethics & Compliance	4,477,859	951,247	5,429,106	4,472,816	951,247	21%	5,424,063
Treasurer	20,448,203	852,713	21,300,916	-	-	-	-
CENTRAL SERVICES	304,568,951	(14,178,887)	290,390,064	131,839,622	(22,956,548)	-17%	108,883,074
ACADEMIC AFFAIRS							
Admissions/Enrollment Services	13,164,902	(1,162,773)	12,002,129	11,634,902	(746,374)	-6%	10,888,528
Financial Aid Services	2,345,537	(338,706)	2,006,831	2,345,537	(338,706)	-14%	2,006,831
Technology Transfer	3,770,482	41,398,103	45,168,585	2,287,805	22,287	1%	2,310,092
Other Academic Initiatives	800,000	-	800,000	800,000	135,000	17%	935,000
BUSINESS OPERATIONS							
Compensation, Retirement, Benefits	41,104,602	(4,375,992)	36,728,610	4,199,386	(323,532)	-8%	3,875,854
Information Technology Services	9,211,529	141,964	9,353,493	6,846,673	29,847	0%	6,876,520
Systemwide Budget/Facilities	4,716,278	1,844,051	6,560,329	4,391,294	1,838,292	42%	6,229,586
CHIEF FINANCIAL OFFICER							
Banking, Tax, Accounting and Audit	8,346,857	906,067	9,252,924	3,188,381	545,190	17%	3,733,571
External Financing	814,207	75,886	890,093	-	-	-	-
Office of Loan Programs	1,428,678	208,683	1,637,361	-	-	-	-
Risk Services	-	-	-	-	-	-	-
Strategic Sourcing	3,203,904	(1,933,073)	1,270,831	3,203,904	(1,933,073)	-60%	1,270,831
EXTERNAL RELATIONS							
Institutional Advancement	2,715,376	677,094	3,392,470	390,376	(390,376)	-100%	-
HEALTH SCIENCES							
Clinical Trials Fund	1,000,000	(1,000,000)	-	1,000,000	(1,000,000)	-100%	-
Centrally Funded	33,405,884	(16,966,040)	16,439,844	33,405,884	(17,936,568)	-54%	15,469,316
<i>Debt service, rent, business processing, undistributed benefits and other</i>							
AGRICULTURE & NATURAL RESOURCES (OP)	3,327,206	806,204	4,133,410	2,726,339	630,750	23%	3,357,089
INFO PUBLISHING & BROADCAST	44,735,260	968,719	45,703,979	14,767,069	3,632,067	25%	18,399,136
<i>Including California Digital Library and UC Press</i>							
PREPARATION & ACCESS	18,202,222	(3,751,453)	14,450,769	9,179,871	270,898	3%	9,450,769
RESEARCH	85,068,763	(10,281,192)	74,787,571	28,184,628	(4,547,602)	-16%	23,637,026
SYSTEMWIDE INSTRUCTION PROGRAMS	27,207,264	(21,396,429)	5,810,835	3,287,573	(2,844,648)	-87%	442,925
SYSTEMWIDE INITIATIVES	153,617,284	(3,036,944)	150,580,340	122,621,446	(2,985,623)	-2%	119,635,823
Agriculture & Natural Resource (Systemwide)	82,444,216	(1,503,587)	80,940,629	59,184,554	(727,266)	-1%	58,457,288
Multi-Campus Research Units	14,369,571	-	14,369,571	11,458,395	-	0%	11,458,395
Systemwide Initiatives	56,803,497	(1,533,357)	55,270,140	51,978,497	(2,258,357)	-4%	49,720,140
PRESIDENTIAL INITIATIVES	10,000,000	-	10,000,000	10,000,000	-	0%	10,000,000
ADMISSIONS & FINANCIAL AID	146,000	-	146,000	146,000	-	0%	146,000
ADVOCACY/DEVELOPMENT	350,000	(150,000)	200,000	350,000	(150,000)	-43%	200,000
FACILITIES	16,558,000	140,000	16,698,000	16,558,000	140,000	1%	16,698,000
INFO PUBLISHING & BROADCAST	12,585	-	12,585	12,585	-	0%	12,585
INSTITUTIONAL SUPPORT	9,284,858	(1,480,000)	7,804,858	9,284,858	(1,480,000)	-16%	7,804,858
<i>Includes UC Merced enrollment growth (\$6.5 million)</i>							
PUBLIC SERVICE	1,260,538	31,409	1,291,947	1,260,538	31,409	2%	1,291,947
RESEARCH	17,976,750	(75,000)	17,901,750	13,151,750	(800,000)	-6%	12,351,750
SYSTEMWIDE INSTRUCTION PROGRAMS	1,214,766	234	1,215,000	1,214,766	234	0%	1,215,000
GRAND TOTALS	\$ 552,252,277	\$ 5,208,050	\$ 557,460,327	\$ 310,579,462	\$ (7,936,734)	-3%	\$ 302,642,728