

Office of the President

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:

DISCUSSION ITEM

For Meeting of March 16, 2017

UNIVERSITY OF CALIFORNIA OPERATING MODEL

This item is one among several in depth discussions of specific topics of interest to the Board of Regents. The item outlines and provides background to illustrate the operating model of the University of California, providing a basis for more substantive discussion during the presentation.

University of California System

The University of California is a large, complex enterprise,¹ structured to allow the benefits of both autonomy and federation in its operations in service of its mission of academics, research, and service. At every UC campus, medical center, agricultural field station and through the vast array of UC's operations, the University's mission is directly served every day. Each UC campus must address a unique set of priorities, needs, and relationships with various constituencies.

Through the University of California Office of the President (UCOP), campuses and medical centers leverage the efficiency of certain consolidated administrative and financial activities, such as a single office to access capital markets. This combined approach has kept ratings strong and the cost of debt low,² advantaging all locations relative to what could be achieved and sustained individually. The University also has developed shared academic enterprises, such as the California Digital Library and the UC Observatories, which have pooled resources and expertise over time to create a capability no single campus could equal on its own. Through significant campus-based operations, each UC location has formed the best operating model to build on the common foundation of services provided by UCOP, freeing leadership, staff and faculty to address local conditions and needs.

¹ See Appendix 1 for data and context on the size and complexity of the University of California System.

² As of the publication of this item, the University's debt is AA rated (see <http://www.ucop.edu/bondholder-information/debt-information/uc-revenue-debt-ratings.html>) and long term borrowing costs are below 4% (weighted average cost of capital).

Campus and Medical Center Operating Models

Each of the ten campuses has its own distinct operating model, but there are many commonalities. The Chancellor of each campus is the chief campus officer and executive head of all activities on that campus. The Chancellor is responsible for the organization and operation of the campus and its internal administration. Campus academic and administrative leadership, faculty and staff, and, where applicable, the clinical enterprise, are structured and aligned to best serve the primary University mission, execute campus strategies and plans, and maintain connections with and commitments to a vast array of constituencies. There are countless examples; one that addresses a variety of local needs is UC Davis' West Village. This public-private partnership was created not only to house students, faculty and staff in a "Zero Net Energy" development, but to provide a "living lab" for energy research³ as well. In addition, its design addresses growth and traffic issues identified through consultation over several years with the City of Davis and Yolo County.

Office of the President Operating Model

UCOP is the systemwide headquarters of the University of California, supporting the academic, research, and public service mission across its campuses, laboratories, and medical centers, and managing its fiscal, administrative, and certain program-specific operations. Overall, UCOP staff comprise approximately one percent of employees systemwide, and UCOP administers less than two percent of the overall budget for UC – one percent is for systemwide academic and public services programs that directly affect campuses and students, and one percent is for central and administrative services, aiding campus operations as well as faculty and staff systemwide and retirees. Operations carried out at the Office of the President can be generally categorized as services, programs or systems which:

- Support the University President in her role as the chief executive and primary external advocate, and support President-led programs and initiatives; and
- Support the institution as a whole. Typically, a program or service is centrally administered on behalf of the system when it meets one or more of these criteria:
 - An administrative burden may be relieved from multiple locations;
 - There is a significant strategic advantage, or a demonstrable effort or monetary savings opportunity presented by a common approach;
 - Economies of scale and scope are enhanced by collectively providing the service or program; or
 - Inconsistency in the administration of a program would expose the organization to unnecessary risk, or increase administrative complexity.

University System Offices

³ See more about UC Davis West Village here: <http://westvillage.ucdavis.edu/>.

It is difficult to find comparators to the functions delivered by the Office of the President for the University of California. Other university system offices serve at least one of these functions, but not all:

- 1) UCOP takes a lead position in operating certain functions and activities that campuses then do not need to provide. For instance, UCOP administers many human resource functions on behalf of the whole system, including collective bargaining, health and benefits program administration, and retirement program management. UCOP operates a separate investment office and negotiates capital financing with a stronger credit rating than many other public entities and than any one campus could achieve on its own, enabling greater borrowing capacity and lower rates collectively across campus and medical center operations.
- 2) UCOP provides some discrete functions or services that are then leveraged by campus staff for final, locally optimized, execution. Through ApplyUC and centralized financial aid functions, UCOP minimizes the administrative requirements of those functions on individual campuses and allows UCOP to provide strategic coordination on enrollment and financial aid targets, ensuring alignment with legislatively set targets and the Master Plan more broadly.
- 3) By providing a coordinating and convening role, UCOP aids in strengthening the system through the integration of best practices and innovations. UC Health manages the fourth-largest healthcare delivery system in California, providing oversight and support for collaborations. UC Center for Health Quality and Innovation program began as a pilot, and has now expanded its scope to create and implement systemwide strategies aimed at developing new clinical services and approaches that will lead to better outcomes, improved value, new revenue, and increase patient volume.
- 4) The Office of the President is more frequently called upon to provide leadership and subject matter expertise in emerging areas of systemwide interest and where a campus or systemwide demand cannot yet or should not be met. One example of this is exemplified in the creation of our newest campus, UC Merced. The Office of the Chief Financial Officer at UCOP was able to augment campus staff and make available key talent (e.g., individuals from capital markets finance, design and construction services, and the office of loan programs) for set periods during the campus's development. Another example is in the area of energy services. The Energy and Facilities Management Services office is currently responsible for and has executive delegation on behalf of participating campuses to negotiate and procure electricity as a commodity and on behalf of the University. It is exploring replacing the traditional natural gas sources wholly or partially with biogas, primarily because of new regulations on emission and achieving the initiatives identified by the Climate Solutions Working Group. At the request of the campuses, the unit has developed a strategy for securing adequate sources from an emerging biogas market and is currently pursuing in-state and out-of-state supply options.

With UCOP managing these and many other operations, campuses and medical centers are able to focus more on UC students and patients, and UC's vital research endeavors.

Though still small in number, systemwide services which serve the institution as a whole are increasingly hosted at a campus location, typically when doing so leverages special expertise.⁴ Similarly, staff from UCOP may be embedded in a campus department or have a dual-reporting relationship to local campus leadership when that arrangement benefits the outcome of the program.

Conclusion

The current alignment of functions and expertise is purposeful. Centralizing certain functions at the Office of the President allows the “sum to be greater than its parts,” maximizing both efficiency in operations and expertise in functions, which is only gained through deeper specialization. Similarly, current campus operations are best aligned under campus leadership, forging strong ties with the community and focusing on the specific needs of today’s enrolled student body, or patient population, or convening faculty experts to grapple with a research challenge.

The operations of an institution the size and complexity of the University of California are difficult to succinctly distill. And it is continually evolving, reacting to our changing environment – and often, working actively to change that environment.

Key to Acronyms

ANR	Agriculture and Natural Resources
UCOP	University of California Office of the President

ATTACHMENT

Appendix 1: Summary Background – University of California

⁴ Examples include: “UCRecruit,” a UC-wide academic personnel recruitment system hosted at UC Irvine (for more information, see <https://recruit.ap.uci.edu/about>); and the “UC Education Abroad Program,” a UC-wide program hosted at UC Santa Barbara, (for more information, see: <http://regents.universityofcalifornia.edu/regmeet/jan12/e1.pdf>)

APPENDIX 1: SUMMARY BACKGROUND – UNIVERSITY OF CALIFORNIA***UNIVERSITY MISSION AND PRINCIPLES***

The University of California is, at its core and out to every facet of its operations, a mission-driven institution. The mission of the University is teaching, research, and public service. The structure of the University reflects its commitment to the following principles:

- UC is a land-grant institution, with responsibilities to the people of the State of California for advancing their welfare, as well as pursuing scholarly and scientific inquiry.
- UC is the designated research university within the public higher education system of California.
- UC operates under shared governance by the Regents, President of the University, and Academic Senate, which requires ongoing consultation among the three.
- UC is a single federation of campuses, benefiting from a balance between distinctive campus excellence and autonomy, and the interest of the institution as a whole.
- UC is an institution in which the Regents delegate authority for management of the University's affairs to the President of the University, supported by the administrative structure that she puts in place.
- The Chancellor of each campus is the chief campus officer and executive head of all activities on that campus. The Chancellor is responsible for the organization and operation of the campus and its internal administration;
- The Regents delegate authority to the Academic Senate to determine conditions for admission, certificates, and degrees, and to authorize and supervise all courses and curricula.

UNIVERSITY OF CALIFORNIA SYSTEM

The University is an organization with annual revenues over \$30 billion and a predominately California-based employee population of about 200,000. The University encompasses ten campuses, five medical centers, and a statewide Division of Agriculture and Natural Resources. The University is also involved in the operation and management oversight of three National Laboratories for the U.S. Department of Energy.

UC is the third-largest employer and manages the fourth-largest healthcare delivery system in the state. The University enrolls more than 264,000 students. Nearly 80,000 students – 40 percent of all undergraduates and 46 percent of California undergraduates – received Pell Grants in 2015. Four UC campuses – Davis, Irvine, Los Angeles and Riverside – each enroll more low-income students than the Ivy League institutions combined. Graduate education at UC is ranked at the highest levels among the country's leading universities. Graduate students support the academic and research enterprise by serving as graduate student instructors and graduate student researchers. The quality of UC's graduate students is also a critical factor in retaining faculty in many academic disciplines. In 2017, 22 UC graduate students received Sloan Research Fellowship awards, which recognize early-career scientists and scholars whose achievements and potential identify them as rising stars. More than 20 UC Ph.D.s have gone on to receive Nobel Prizes. Though graduate enrollment has grown, commensurate growth in undergraduates has

kept the share of graduate enrollment relatively steady over the past 16 years. Just over 20 percent of UC students are graduate students. Ten percent are in academic doctoral programs.

The University provides its students with a rich learning environment that is created by faculty who are actively engaged in both teaching and academic research. Because full-time permanent faculty have demonstrable scholarship and research experience, their instruction is a valuable part of a student's learning experience. When faculty incorporate their pre-publication research results into their courses, UC students gain access to insights and discoveries even before they are presented to the wider research community. A total of 61 faculty and researchers affiliated with the University of California have won 62 Nobel Prizes. Sixty-seven UC faculty have been awarded the National Medal of Science. Sixteen UC faculty have received the Pulitzer Prize. These and countless other extraordinary achievements, and those yet to come, of UC's faculty further underscore the University's commitment to excellence and quality.

UC is unique among top research universities in providing educational opportunity to large numbers of low-income and first-generation students. It is also expanding efforts to boost enrollment among underrepresented racial/ethnic groups and community college transfer students. For families, UC can be the most affordable public higher education option within California. The Institute for College Access & Success, an independent nonprofit working to make higher education accessible and affordable, released a brief comparing the total cost of college for very low-income students at the three public postsecondary sectors of California: the nine UC campuses and nearby California State University (CSU) and California Community College (CCC) campuses. Their analysis showed that for six of UC's nine undergraduate campuses, it was less expensive for a student to attend UC than to attend the local CSU or CCC. UC's strong financial aid program, with significant support from the State and federal government, keeps UC affordable. As a result, 57 percent of UC undergrads in 2015-16 had all systemwide tuition and fees covered by grants, scholarships and other aid. The proportion of students graduating without any debt is higher than it was a decade ago. About 45 percent of students graduate without any debt; of those who do borrow, the amount, on average, is \$20,800, well below the national average of \$29,400.

The University is also a driving force of California's economy. UC research expenditures have doubled to almost \$4.3 billion over the last 15 years, with the majority of funds coming from outside California. UC receives one-tenth of the nation's academic research and development funds, and is the largest recipient of research funding from the National Institutes of Health and the National Science Foundation. These funds not only support research activities but are also used to create jobs and purchase goods and services throughout California beyond the ten campuses and five medical centers. Furthermore, commercialization of UC research often results in inventions, patents, licenses, products, services and startup companies that create additional jobs and local economic activity throughout California. UC has launched the Innovation and Entrepreneurship Initiative to further the reach of UC research by building a vibrant and innovative entrepreneurial culture across the entire University. This activity has been greatly

enhanced and sped up with the passage of California Assembly Bill (AB) 2664, which¹ requires the University of California to “make one-time expenditures for activities to expand or accelerate economic development in the state in ways that are aligned with other efforts to support innovation and entrepreneurship.” There are more than 85 programs at UC supporting entrepreneurs at all stages of the innovation pipeline: from developing an idea to mentoring to incubating a startup company. Many programs launched or ramped up in 2015 and 2016.

SHARED GOVERNANCE AND THE ACADEMIC SENATE

The Systemwide Academic Senate and the ten Divisional Senates provide the organizational framework that enables the faculty to exercise its right to participate in the University's governance. Consultation with senior administration occurs both at the systemwide level between the Academic Council Chair and the President of the University and on the campus level between the Divisional Senate Chairs and the Chancellors. In accordance with the tenets of shared governance, the Senate's responsibilities include authorizing, approving, and supervising all courses and determining the conditions for admissions, certificates, and degrees. In other areas of University life, the Senate exercises an active advisory role. The Senate advises the President of the University and Chancellors on budget matters and on the administration of the libraries. Campus and systemwide officials regularly seek advice and review from the Senate on a wide variety of issues affecting faculty welfare and the academic environment. The Senate participates in searches for deans, chancellors, and the president.

UC CAMPUSES AND MEDICAL CENTERS

Each of the ten campuses has its own distinct operating model, but there are many commonalities. The Chancellor of each campus is the chief campus officer and executive head of all activities on that campus. The Chancellor is responsible for the organization and operation of the campus and its internal administration.

Five UC campuses (UC Davis, UC Irvine, UC Los Angeles, UC San Diego and UC San Francisco) are home to one of UC's medical centers. Recently, the University of California's Board of Regents streamlined oversight of UC Health to promote the continued growth of UC's academic medical centers. UC medical centers also provide vital support for UC's medical schools, which train nearly half of all medical students in California. Administrative authority with respect to the Medical Centers is vested in the President, who has delegated certain authority to the Chancellor of the applicable campus. At each applicable campus, direct management authority has been further delegated by the Chancellor to a senior executive at the medical center.

¹ CA AB 2664 is called “the Innovation and Entrepreneurship Expansion Initiative,” authored by Assemblywoman Jacqui Irwin, D-Thousand Oaks, and signed last fall by Gov. Jerry Brown.

UCOP STRUCTURE

The Office of the President is structurally organized into seven major divisions, reporting directly to the President of the University:

- Academic Affairs, led by Provost and Executive Vice President Aimée Dorr
- Office of the Chief Financial Officer, led by Executive Vice President Nathan Brostrom
- Office of the Chief Operating Officer, led by Executive Vice President Rachael Nava
- UC Health, led by Executive Vice President John Stobo, MD
- Research Innovation and Entrepreneurship, led by Senior Vice President Christine Gulbranson
- Public Affairs, led by Senior Vice President Julie Henderson
- Government Relations, led by Senior Vice President Nelson Peacock

The University of California is the prime contractor for the management and operation of Lawrence Berkeley National Laboratory. The University is also a partner in the Lawrence Livermore National Security, LLC (LLNS) which manages Lawrence Livermore National Laboratory, and Los Alamos National Security LLC, which manages Los Alamos National Laboratory. UC's Office of the National Laboratories is led by Vice President Kim Budil.

The Agriculture and Natural Resources (ANR) division coordinates the University's statewide agricultural programs, led by Vice President Glenda Humiston. Through research and education, ANR provides worldwide leadership in sustainable, safe, nutritious food production and delivery; promotes economic success in a global economy; helps sustain a productive natural environment; and encourages youth development.

UCOP also staffs and supports the Principal Officers of the Regents, who are appointed by the Board and, other than the Secretary, report to both the Board and the President:

- Secretary and Chief of Staff to the Regents Anne Shaw
- General Counsel and Vice President for Legal Affairs Charles Robinson
- Chief Investment Officer and Vice President for Investments Jagdeep Bachher
- Chief Compliance and Audit Officer and Senior Vice President John Lohse (Interim)