

OFFICE OF THE PRESIDENT FY 2010-11 BUDGET PROPOSAL

EXECUTIVE SUMMARY

- The FY 2010-11 budget proposal was developed using a new methodology that delineates between **systemwide academic programs, core administrative functions, the Regents' direct reports, and the Academic Senate**. This methodology not only provides the Regents with a full picture of Office of the President spending, it also helps to describe how and why functions are distributed throughout the organization.
- The total FY 2010-11 proposed budget for the Office of the President is **\$438.5 million**. This includes **\$241.9 million** for systemwide academic programs, including such activities as the UC Press, the California Digital Library, the Education Abroad Program and K-12 academic preparation. This comprises **55%** of the budget. The budget request to fund the core administrative function of the Office of the President is **\$161.2 million**. This represents **37%** of the total budget and includes the systemwide pension program, financial management, health sciences services, external relations, and policy and analysis, among other functions.
- The Office of the President continues to focus on achieving additional administrative efficiencies, however it also faces new obligations. These include **\$7.6 million** in retirement contributions and increased benefits costs; full recognition of about **\$19 million** in multi-year state research funding, **\$4 million** to restore funding for the Discovery Grants program; and **\$4 million** in new one-time investments in major systemwide information technology initiatives that are being launched to achieve significant future administrative efficiencies.
- While the FY 2010-11 budget proposes a slight increase in funding, the expenditure trends continue downward: Since FY 2007-08, the Office of the President has reduced its adjusted core budget, less recharges, program costs and fund flowthroughs, by **16 percent** – from **\$523.8 million** to **\$438.5 million**. Roughly \$30 million of the budget reduction has been achieved through the transfer of programs to campuses. The remainder - \$55 million – has been the result of layoffs, consolidations and restructuring, new administrative efficiencies, expenditure reductions, and voluntary separations.
- During this time period, UCOP has reduced FTE by **28.6%** - from **2,068.9** to **1479.85 FTE**.
- The Office of the President budget remains a complex combination of funds. They include those that flow through it to the campuses; funds that are restricted in their use; and funds that can be spent on a variety of purposes. These unrestricted funds have emerged as critically important in the effort to shift administrative savings to teaching and research priorities: Whereas only **38 cents** of every dollar initially saved as part of the restructuring process could be repurposed, the unrestricted share of total expenditure reductions since FY 2007-08 now stands at **57 cents** on the dollar. This has helped UCOP to meet a range of commitments – from providing operating support to UC Merced to meeting mandated state budget reductions without deeper reductions to critical operations.
- The proposed budget represents **2.01%** of the overall University of California budget. UCOP's core administrative function comprises just **0.74%** of the total budget. This compares favorably to other public university systems, most of whose central administrations do not include responsibility for such things as systemwide retirement and benefits programs, centralized undergraduate admissions, and administration of national laboratories, as they do at UCOP.

OVERVIEW

Introduction

The FY 2010-11 proposed budget for the University of California Office of the President (UCOP) is the fourth such presentation to the Board of Regents, and provides the greatest clarity yet about the purpose and spending of the University's central administration.

In previous years, proposed budgets have variously referred to two budget baselines:

- The "total" UCOP budget, which includes all central administrative funds, as well as program funds, recharged funds, and research funds.
- The "adjusted" UCOP budget that subtracts these program funds, recharges and fund flowthroughs to reflect actual expenditures on Office of the President administrative salaries, benefits, operating expense and support costs.

While each of these approaches has its merits, neither methodology fully or accurately captures the complexity of the Office of the President budget.

Therefore, for the first time, this budget proposed to the Regents delineates between **systemwide academic programs**¹, **core administrative functions**, the **Regents' direct reports**, and the **Academic Senate**. This methodology not only provides the Regents with a full picture of all Office of the President spending, it also accurately helps to describe how and why functions are distributed throughout the organization.

Background

The central administration expenditure plan is, in fact, a collection of different budgets that reflect the University's vast size, the scope of its mission to the people of California, and historical funding arrangements with the State. Many of the hundreds of different fund sources that support the Office of the President are restricted to an intended purpose and are not fungible for other uses; others, for accounting purposes, simply "flow through" the Office of the President to the campuses.

Certain funds are dedicated to academic programs administered by the Office of the President on behalf of the entire system. In this way, the University of California is unique among public higher education systems: In addition to serving a clear core administrative function, its Office of the President over the years has also acquired responsibility for the administration of dozens of systemwide academic programs. In some cases, administration of these programs has been provided centrally in order to achieve maximum efficiency (centralization versus duplication of programs among campuses); in others, the goal is to provide neutral oversight over programs with sometimes conflicting campus interests. Regardless, all have been counted as part of the Office of the President "budget" – and have fueled the ongoing perception of an overly large central administrative bureaucracy.

¹For full list and description of systemwide academic programs, see Appendix – "Glossary of Systemwide Academic Programs" – on page 116 of the accompanying Detailed Department Narratives and Budget Tables document.

UCOP's appropriate size, shape and scope of responsibilities have been the subject of considerable study and debate over the years, most recently by the Working Group on the Roles of the Office of the President. As the Working Group concluded in its January 2008 report to the Governance Committee of the Board of Regents:

"The Office of the President has two broad functions ... to support the president in executive leadership of the university [and] to provide various services to the wider university community."

This functional delineation between systemwide academic program support and core administration is now even more critical as part of a new initiative by President Yudof, led by Executive Vice President Nathan Brostrom, to change the methodology for distributing University funds and supporting central operations. The goal of the initiative, known as the "Funding Stream Initiative," is to allow campuses to retain almost all revenue generated on a campus through student fees, indirect cost recovery, auxiliary enterprises and other sources, and to provide a clear and adequate funding model for central operations as well as systemwide priorities and initiatives. This requires a clear, accurate and transparent accounting of current funding for these needs, toward which this budget proposal represents a first step.

Overview

The FY 2010-11 budget proposes total appropriations of **\$438,489,028**. This includes direct expenses in all funds, both unrestricted and restricted, including recharges and program flowthroughs for both the departments/ units reporting to the President as well as the Regents' direct reports.

The proposed budget supports a total of **1,479.85** employee FTE.

The functional distribution of the proposed budget is as follows:

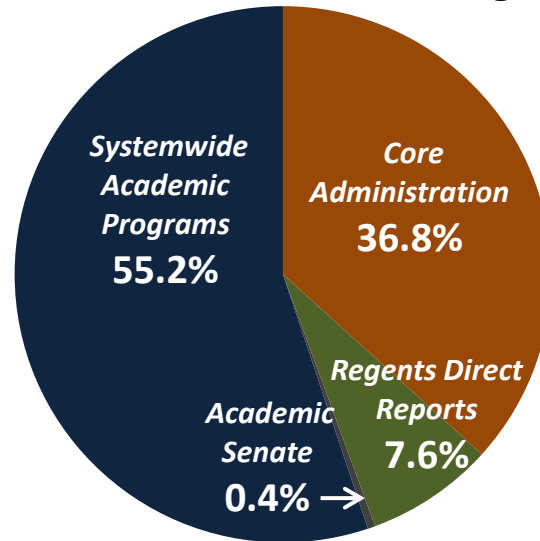
- **Systemwide Academic Programs**, with 442.0 FTE, is proposed to be funded at **\$241,894,734**. These include systemwide research programs, the UC Press, the California Digital Library, the Education Abroad Program, and a range of other academic programs for which there exists a rationale for central management.
- **Core Administration**, with 843.35 FTE, is proposed to be funded at **\$161,239,296**. This includes those functions that directly support the President in performing his responsibilities, including the immediate offices of the President and his senior leadership, as well as the administrative functions that provide systemwide support in such areas as human resources (including the University of California Retirement System), financial management, health sciences services, external relations, and policy and analysis, as well as the administrative functions within the Academic Affairs Division headed by the Provost and Executive Vice President².
- **Regents' Direct Reports**, with 184.5 FTE, is proposed to be funded at **\$33,391,965**. This includes the Office of the Secretary/Chief of Staff, the Treasurer and Chief Investment Officer, the Office of General

² Due to the budgetary distinction between administration and academic programs, both of which functions uniquely reside in the Academic Affairs Division, this year's document does not present that division's budget as a unified entity.

Counsel, and the Office of Ethics, Compliance and Audit Services.

- The **Academic Senate**, with 10.00 FTE, is proposed to be funded at **\$1,963,033**.

Distribution of UCOP Budget



Note that “core administration” includes several non-academic systemwide functions, such as administration of the systemwide retirement and benefits systems, statewide and federal governmental relations, systemwide accounting and risk services, and health sciences and services.

The proposed budget represents 2.01% of the overall University of California budget. UCOP’s core administrative function comprises just 0.74% of the total budget. This compares favorably to other public university systems, most of whose central administrations do not include responsibility for such things as systemwide retirement and benefits programs, centralized undergraduate admissions, and administration of national laboratories, as they do at UCOP.

Review of Office of the President Budget Process – FY 2007-08 to FY 2010-11

The FY 2010-11 budget proposal is the culmination of a process that began in 2007, when the Office of the President submitted its first stand alone appropriations request to the Board of Regents. This proposal reflected the organizational weaknesses of the Office of the President of the time: The budget lacked rigor, systems and comprehensive oversight over department budgets, and ultimately was built at least in part on estimates and projections.

Since then the Office of the President has developed a rigorous budget process that recognizes the complexities of the central administration’s structure and funding mechanisms. This has been an evolutionary process, reflecting the following milestones:

- The **FY 2008-09 budget**, presented at the beginning of the Office of the President restructuring initiative, provided the Regents with the first detailed budget document. It identified a total budget base, less

carryforwards, of \$523.8 million. It also identified an employee base of 2,069 FTE, including the Regents' direct reports and the Academic Senate.

The budget was based on actual expenditures and FTE, not on previous year budgets or projections, thus assuring accuracy and uniformity of data across all UCOP departments. This approach reversed the working process of traditional incremental budgeting whereby only increases over the previous year's budget required justification and approval. It established a new focus on what central administration actually needs to spend to fulfill its roles and responsibilities, and provided a sound basis for future appropriations request.

The budget material was aggregated and verified over several months. However, due to the continuing lack of a centralized finance and reporting infrastructure internally at UCOP, this process required the services of Sjoberg Evachenk Consulting, Inc., an outside consulting firm co-founded by former California State Auditor Kurt Sjoberg.

- A revised **FY 2008-09 budget** was presented to the Regents in November 2008, after the arrival of President Yudof. It was intended to show progress in the restructuring of the Office of the President as well as to advance broader understanding of how the Office of the President is financed, as outlined in President Yudof's September 2008 white paper³, "*Understanding Revenues and Expenditures in the University of California Office of the President*," in which he described the complexity of revenues streams and accounting procedures for the University of California Office of the President (and for all public universities and public university systems), and how they differ substantially from those of private corporations.

The paper provided the Regents and the public with the clearest delineation up to that point of UCOP's unique funding structure, which includes **restricted fund revenues** (funds that are earmarked by the federal and state governments for particular purposes, funds that are derived from the UC retirement plan, designated gift funds, foundation grants for specific activities and programs, income from auxiliary enterprises, such as the UC Press, as well as self-supporting activities); **unrestricted funds** (appropriated state funds, student fee income, income from indirect cost recovery); and **pass-through funds**, which consists of revenues that are passed through to the campuses, either directly as an accounting practice or as a distribution back to the campuses of revenues earned by the campuses (*e.g.*, indirect federal cost recovery, fees, income from intellectual property and appropriations).

Noting that "much of the conceptual disarray and misunderstanding of the number of full-time equivalent employees (FTEs), the scope of the Office of the President, and the magnitude of expenditures is a result of the failure to distinguish between these three categories of funding," President Yudof requested a breakdown of the revised FY 2008-09 budget, both personnel and non-personnel, by fund source (unrestricted vs. restricted) to determine how much of the savings from UCOP's budget and FTE was unrestricted in how it could be deployed to meet other University priorities. Through this process it was determined that only 38 cents of every dollar saved through the restructuring process could be repurposed for other priorities.

The **FY 2009-10 budget** further clarified the Office of the President funding picture. In addition to extending budget strategies from strict controls on expenditures for personnel, travel, entertainment and other expenses, it provided a measure of the evolving impact of the organizational consolidations,

³ http://www.universityofcalifornia.edu/president/speeches/understanding_revs_exps_0908.pdf

reorganizations and other restructuring initiatives. By and large, the FY 2009-10 budget was the first to reflect the emerging size, shape and scope of the “new” Office of the President, with a total proposal of **\$403.9 million**.

But as critically, the FY 2009-10 budget continued to impose a rigorous review of restricted and unrestricted budget expenditures. This effort resulted in substantial additional dollars – and greater flexibility for the President – for reprogramming to higher priorities, new initiatives and campus needs.

Note that as a result of the one-time State budget reductions imposed during the FY 2009-10 fiscal year, the Office of the President also underwent a midyear budget reduction exercise that produced an additional **\$5.6 million** in net savings (**\$8.2 million** in unrestricted funds less \$2.6 in expenditures transferred to restricted funds) most of it from permanent reductions in salaries, benefits, travel and supplies.

However, the UCOP budget during the same period incurred additional obligations. These include **\$20.7 million** for the Education Abroad Program, which had been eliminated from the FY 2009-10 budget with the expectation that its administration and budget would be moved *to a campus*; this has not yet been accomplished, so therefore its budget has been restored to the UCOP base.

These and other in-year reductions resulted in a new FY 2010-11 budget base of **\$413.9 million**.

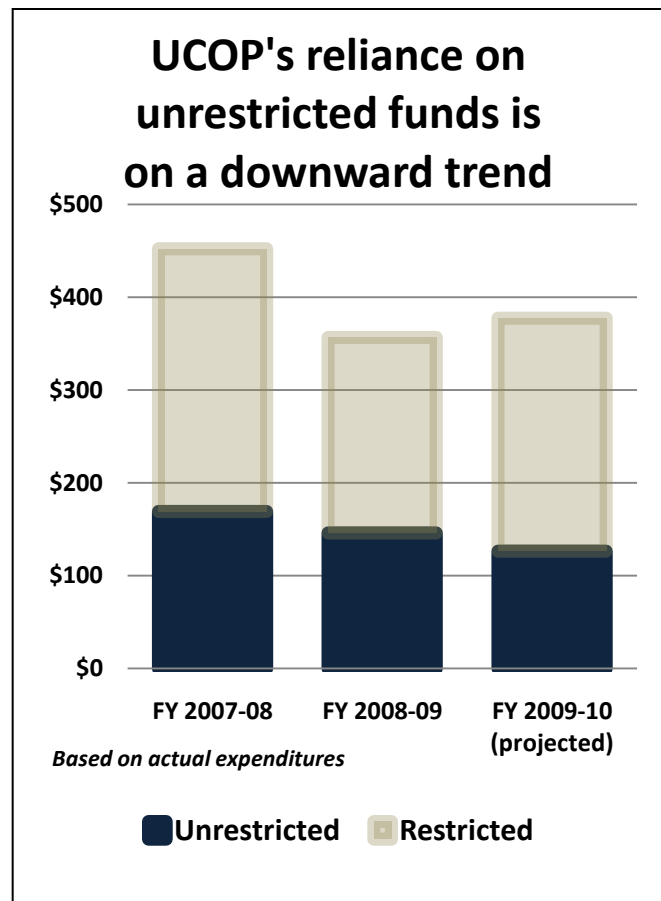
Current Budget Situation

This progression brings the Office of the President budget to its current proposal for FY 2010-11. Key features include:

- **A responsible balance between the use of restricted and unrestricted funding.**

As the chart on the right shows, the general trend through FY 2007-08 had been to finance UCOP operations with increasing amounts of unrestricted money, most of it in State and endowment funds⁴. This practice not only reduced the amount of fungible money available to meet other University funding priorities, it also did not accurately reflect the actual functions being performed at the Office of the President.

At President Yudof’s direction, the budget has been carefully analyzed and funding sources have

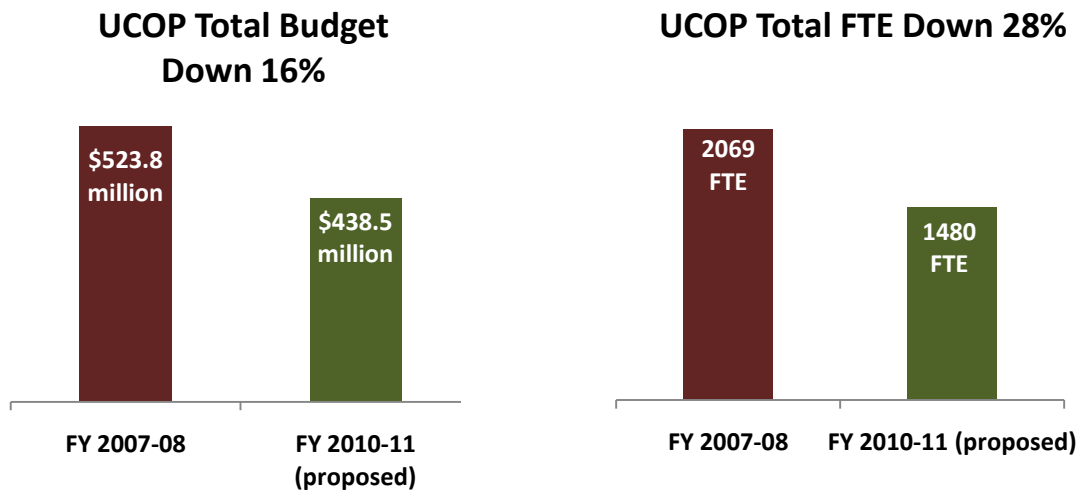


⁴ While the percentage of unrestricted funds used to finance UCOP operations rose to a high of more than 40% in FY 2008-09, this reflects the temporary impacts of restructuring: Positions formerly funded with restricted funds were consolidated into central units funded with unrestricted funds. Further analysis has shifted funding for these positions back to restricted sources.

been shifted as appropriate from unrestricted to restricted sources. This and other unrestricted money thereby freed up has been directed to two principal uses: (1) a permanent shift of \$6.1 million from UCOP administration to the operating budget of the UC Merced campus and (2) to help meet systemwide budget cuts imposed by the State Legislature.

- **An organization that has been sharply reduced through significant consolidation and restructuring and is now focused on achieving continuous efficiencies and improvements.**

Since the launch of the Office of the President restructuring initiative, the Office of the President has reduced its adjusted core total budget, including recharges, program costs and fund flowthroughs, by 16 percent – from \$523.8 million to \$438.5 million. It has reduced FTE by 28.6% - from 2,068.9 to 1479.85 FTE. While roughly \$30 million of the budget reduction has been achieved through the transfer of programs to campuses, the remainder - \$55 million – has been the result of layoffs, consolidations and restructuring, new administrative efficiencies, expenditure reductions, and voluntary separations.



Moving forward, the Office of the President continues to focus on identifying additional efficiencies and continuous improvement, as well as where additional investments may be needed to strengthen critical functions.

- **Better delineation of UCOP's core administrative and systemwide support functions to more accurately reflect the way it is organized and how it is funded.**

As noted above, the University of California is unique among public higher education systems: In addition to serving a clear core administrative function, its Office of the President over the years has also acquired responsibility for the administration of dozens of systemwide academic programs, including the UC Press, the California Digital Library, a variety of different K-12 academic preparation programs, and a wide range of research activities. Supported research includes major programs to battle HIV-AIDS, breast cancer, and tobacco-related diseases, as well as industry-university cooperative programs to disseminate innovations out of UC labs.

Not all systemwide functions are academic: A number of business, finance and external affairs programs are also conducted in Oakland on behalf of the entire system. These include systemwide retirement and

benefits programs under UCOP Business Operations; Banking Services, Treasury Cash Management, Risk Services, and General Accounting under the Chief Financial Officer; state and federal governmental relations and systemwide communications, including for undergraduate admissions, under External Relations; and Health Sciences and Services. However, these have been determined to constitute “core” administrative responsibilities that fall to the President of the University.⁵

As part of the restructuring process, divisional reviews identified several programs for which there was no longer sufficient rationale for their administration by the central administration; it was concluded that these programs could be operated more effectively and efficiently on a campus or by a third-party. One example is the Continuing Education of the Bar (CEB), the financially self-sustaining service providing continuing professional education for the state’s legal community. Despite its long history at UCOP, it was determined that CEB would be strengthened by administration at UCLA, with both its law school and extension programs.

It is critical that the programs residing at UCOP undergo continued analysis to ensure sufficient continuing benefit for remaining under the central administration, or whether they can be operated more effectively and efficiently on a campus or by a third-party or whether they should be sunset completely. This review will be facilitated by implementation of the University funding stream initiative referred to earlier in this summary.

Budget Proposal Strategy

The proposed FY 2010-11 Office of the President budget continues the consolidation/restructuring and fund source (restricted vs. unrestricted) strategies described above. Departments were directed to work from a base derived from the FY 2009-10 midyear budget reductions, noted above, that produced an additional \$8.2 million in unrestricted savings, of which almost half was in personnel costs and the remainder in supplies, travel and other related categories. These midyear reductions provided the new base for the FY 2010-11 budget proposal.

In addition, departments were directed to identify core administration vs. systemwide academic programming functions, subject to review by division and budget office leadership. Further, departments were required to provide contingency planning for possible cuts of 5%, 7% or 10% in the event of deeper cuts in state funding⁶.

Budget Proposal Highlights

The following are the highlights of the FY 2010-11 University of California Office of the President budget proposal:

⁵ For a fuller discussion on the roles of the Office of the President, see the January 2008 report by the Working Group on the Roles of the Office of the President, chaired by former UC Davis Chancellor Larry Vanderhoef. The report was provided to the Governance Committee of the Board of Regents.

⁶ These contingency discussions, including their possible impacts on department and/or program operations, are included in the departmental narratives that follow. The narratives, as well, summarize the most significant budget actions being proposed. More detailed and complete descriptions of budget changes are contained in the accompanying tables.

- Despite continuing UCOP restructuring and the reduction of an additional 20 FTE, the overall Office of the President budget is up 6%, from \$413.9 million to \$438.5 million. This reflects four major new obligations:
 - \$7.6 million in retirement contributions and increased benefits costs;
 - \$19 million in multi-year state research funding, which fully recognizes the total appropriation and not just the annual obligation, as had been the previous practice;
 - \$4 million to restore funding for the Discovery Grants program;
 - \$4 million in new funding to support major systemwide information technology initiatives, including the undergraduate admissions ApplyUC project and the Shared Research Computing Services network. This is in addition to a previously committed amount of \$3.9 million in continuing temporary funding for these projects, for a total of \$7.9 million. These initiatives are projected to produce annual savings of at least \$4 million.
- These increases have been partially offset by additional reductions, including \$5.6 million in permanent ongoing budget cuts achieved in the midyear revised FY 2009-10 budget and \$2.5 million in additional FTE reductions.
- UCOP's unrestricted budget is essentially flat over last year at \$171 million. The restricted budget is up by \$25 million to \$268 million, reflecting the state funding for research programs and new IT initiatives.
- The distribution of unrestricted and restricted funding for **core administration** has been reversed over the last fiscal year, with a slight majority of funding (51%) now coming from restricted fund sources.
- The budget proposes a \$14.5 million (9.9%) increase for core administrative funding from all sources to support the implementation and ongoing support for new information technology initiatives, higher benefit costs, and additional staffing in the Retirement Administrative Service Center and in the Office of Budget and Capital Resources.
- **Systemwide academic program** funding remains roughly two-thirds supported by restricted fund sources (68%).
- The budget proposes a net **\$19.3 million** (8%) increase for systemwide academic program funding, nearly all of which is for research programs on restricted funds.
- The **Regents' Direct Reports** total budget is down by almost \$9.5 million, due almost entirely to the new Office of the General Counsel cost recovery program⁷.

The Office of the President will maintain a restructuring contingency of \$1.5 million in unrestricted funds for the purpose of continuing to strengthen the organization in functional areas that require new investments and support.

⁷ The OGC proposal anticipates \$9 million in anticipated net savings from a new recharge funding model. In the new model, OGC will charge for services provided to UCOP programs on restricted funds and also recover the costs of services provided specifically to campuses. The total amount of recharge income will amount to about \$10.4 million, less the addition of several new positions to improve service levels. The amount of recharge recovery will be deducted from the total UCOP support calculated for the "Funding Stream Initiative."

Conclusion

The FY 2010-11 proposed budget for the University of California Office of the President is the culmination of a process that began three years ago.

In that time, the Office of the President budget process has developed discipline and comprehensive oversight over expenditures. This will include ongoing analysis of systemwide programs for their value and opportunities to achieve greater efficiencies.

In addition, UCOP is putting in place adequate reporting systems both to track expenses and trends as well as to impose high accountability standards. Most notable, the UCOP Budget Office will undertake in the coming year the installation of a new budget development and reporting system with the support of the UCLA campus (which also provides the finance and accounting systems used in UCOP). The new system will allow for better projection and integration of all personnel costs, as well as better budgeting and control of non-personnel expenditures. Implementation planning will begin in the coming weeks with the intent of having the new system operational during the 2010-11 fiscal year.

As critically, the three annual and one midterm budgets that have been presented to the Regents each have reflected evolving understanding of how the Office of the President is funded between restricted and unrestricted sources, and has steadily moved the organization to a more appropriate distribution between the two fund sources in order to provide leadership with greater flexibility to meet the changing funding challenges of the institution.

Finally, the budgets have provided ever greater clarity about how the Office of the President functions, both as a central administrative unit as well as in providing oversight of academic programs administered by the Office of the President on behalf of the entire system.

This progression brings the Office of the President budget to its current proposal for FY 2010-11. After several years of organizational change, accompanied by steps to impose significant rigor to UCOP's budget systems and processes, the proposal presented here represents a sound new budget foundation from which to plan and build for the future.