

University of California
Office of the President

FISCAL YEAR 2008-09
APPROPRIATIONS REQUEST

Executive Summary

Submitted for discussion to the
University of California Board of Regents



March 2008

Table of Contents

Letter from the Provost and Executive Vice President	3
Background	5
The Restructuring Plan	5
The Budget and Appropriations Process	7
FY 2008-09 Appropriations Request	9
Overview	9
Methodology	9
Varied Fund Sources	10
SECTION ONE: The Office of the President	12
Initiatives to Improve UCOP	14
Central Administration Efficiency	14
Streamlining Initiatives	14
Effectiveness Initiatives	15
Next Steps	16
SECTION TWO: The Regents Direct Reports	19
FY 2008-09 Appropriations Request	19
SECTION THREE: THE ACADEMIC SENATE	22
FY 2008-09 Appropriations Request	22
Appendix A	25
Appendix B	26
Glossary	26

LETTER FROM THE PROVOST AND EXECUTIVE VICE PRESIDENT

The University of California stands indisputably as the world's leading public research university. The new knowledge and human capital that it produces improves the lives not only of Californians, but also of people around the nation and the world.

We achieve this by working as a system of ten individual and distinctive campuses, five medical centers and three national laboratories - operating in ways that are cross-disciplinary and responsive to the rapidly changing needs of society. And, as a system, we fuel the economic engine of California, now the world's eighth largest economy, and meet the state's many health, education, safety and security needs.

But UC stands at a pivotal moment in its history. The political will to invest public funds in UC's mission is no longer certain. This, in turn, is creating new financial pressures and threatening the University's competitive position. Our ability to attract and retain the best and brightest is challenged not only by extraordinarily well-endowed private universities in the United States, but also new government-backed teaching and research enterprises in other countries.

Much is at stake. *If UC loses its competitive edge, so will California.*

The battle is by no means lost. On the contrary, UC's strengths are enormous, and our potential is extraordinary. But meeting the challenge will require two things.

- First, that we work as a system, as *one university* unrivaled in its size, quality and multi-faceted distinctiveness, leveraging the power of its ten unique and high-quality campuses.
- Second, that UC transform both its leadership *and the administrative support for that leadership* to advance a clear and compelling long-term strategic mission on behalf of the Regents, the campuses, and the needs of the people of California.

The University of California's Office of the President (UCOP) is critical to this effort. A well-operating central administration can reduce redundancy across the system and help strategically position the campuses to perform the University's core mission.

But it is not currently doing so as effectively as it should. Its structure has grown too large, its functions are too fragmented and its roles, mission and responsibilities have not adapted, as they must, to new circumstances and new challenges.

These deficiencies have been years in the making. The solution, on the other hand, is now clearly envisioned, and the necessary change is being aggressively and urgently implemented.

This document should be read in that context.

The proposal that follows represents more than just a one-year appropriations request. It is also the foundation of an ambitious and unprecedented long-term restructuring initiative, which I am leading as chief operating officer.

The process is already well underway, driven by a brisk timeline that is moving from inception to implementation in a matter of just months.

The steps for achieving this new vision are outlined in the following pages:

- First, *detail and clarity*. This appropriation request provides the Regents and the public with a clear and thorough description of its methodology, based on actual expenditures, not on projections or estimates;
- Second, *smaller – much smaller*. We propose to significantly reduce spending by more than 20% and FTE by 23% for the upcoming fiscal year in departments/units directly reporting to the President, and to continue the process of reduction in FY 2009-10;
- Third, *smarter and more focused*. This proposal establishes the fiscal foundation for a thorough reconfiguration of the Office of the President, following the Regents' Governance Committee's endorsement of a clear delineation of roles as recommended by the Working Group on the Roles of the Office of the President;

- Fourth, *accountable and customer-driven*. We provide a roadmap toward a new level of central administrative efficiency by creating new systemwide service centers, consolidating functions within the Office of the President, and refocusing the provision of core systemwide activities; and
- Fifth, *transparent*. The proposal presents a transparent and detailed department-by-department review of each unit, its missions and functions, and reduction proposals.

For those who may doubt our determination, please read on. ***The following pages represent a declaration of principles and a statement of strategy for organizational change that is very probably unprecedented in size and scope in public higher education.*** It is certainly unprecedented in the known history of UC and its central administration.

By July of next year, the Office of the President will be fully transformed. Traditional boundaries will have disappeared. Clear roles and missions will have emerged. Those roles and missions will be being pursued, at all levels, with a renewed sense of vision and clarity. These changes will save money, enabling us to shift even more public dollars from central administration to the University of California's teaching, research and public service. But even more important than the money are the many improvements in function that will come from these changes.

The changes we are making will help to create new strength. Strength to continue to be the single, greatest public university the world has ever seen, but also to compete and to serve, as *one university*, the vital and changing needs of California, the nation and the world.

I look forward to your approval of this budget proposal, and to your support as we continue these changes.



Wyatt R. Hume
Provost and Executive Vice President

BACKGROUND

As the fulcrum of an extraordinarily successful but highly decentralized public higher education system of ten campuses, five medical centers and three national laboratories, the University of California Office of the President (UCOP) historically has played an important but sometimes ambiguous role. Indeed, its appropriate size, shape and scope of responsibilities have been subject of considerable debate over the years, culminating most recently in a year-long effort by the Board of Regents and the President to assess UCOP and its centralized finance and administrative functions.

The assessment, conducted by the Monitor Company Group, L.P. (Monitor Group), uncovered significant concerns about the performance of UC's central administration; its role in areas where it is perceived to add limited value; and its ability, under its current organizational structure, to meet the political, competitive and financial challenges facing the world's leading public research university.

In this context, the Office of the President launched two parallel initiatives:

An aggressive **restructuring plan** designed to transform the central leadership model at the University of California; and

A new central administration **budget and appropriations process**, which has resulted in this document. It is unprecedented in its rigor, detail and transparency, and is a necessary cornerstone to restructuring the Office of the President.

Each is briefly summarized:

The Restructuring Plan

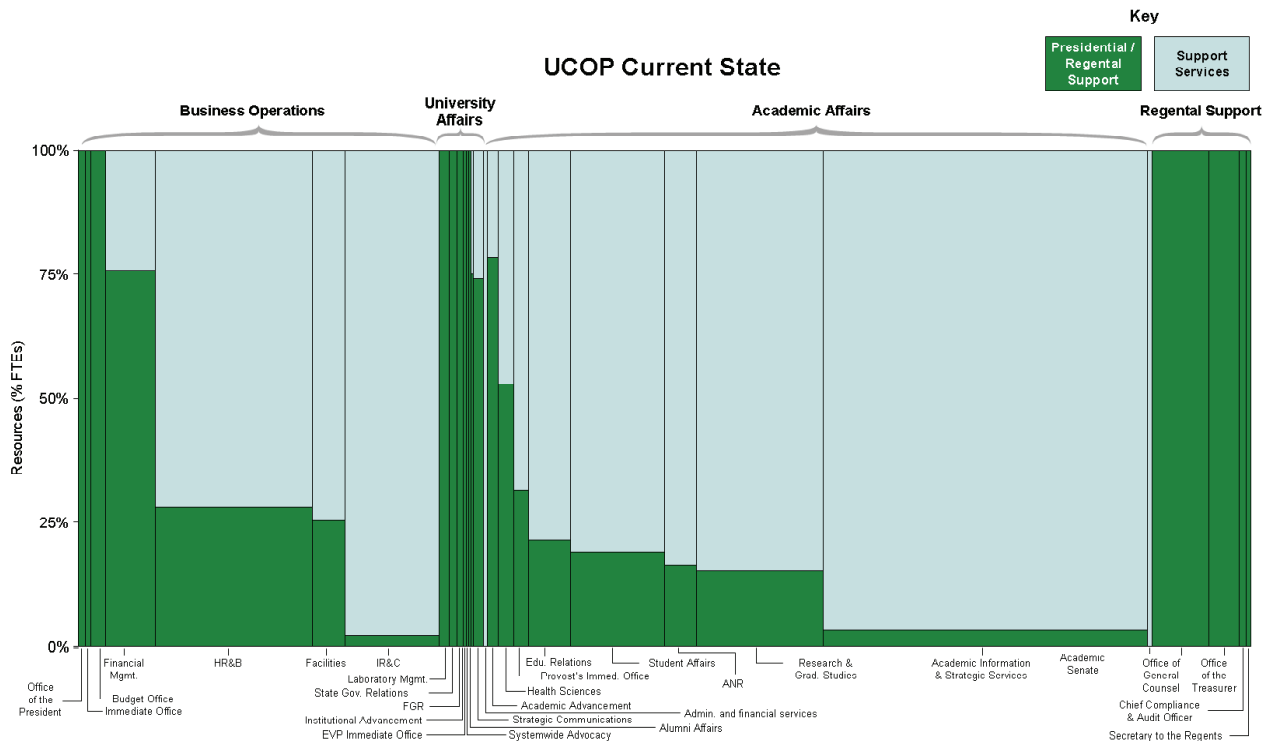
The restructuring plan was born of a need to bolster leadership for the UC system and in response to the Monitor Group's assessment of the President's Office. This assessment found, among other things, that despite many dedicated and committed UCOP employees, there existed a lack of clarity about the office, its purpose and its mission to work on behalf of the president to advance the long-term strategic needs and goals of the system.

This led to the creation of a Working Group on the Roles of the Office of the President, which included representation by members of the Board of Regents, chancellors and other campus representatives, faculty, and Office of the President senior leadership. In its final report, presented to the Governance Committee of the Board of Regents in January 2008, the Working Group urged that UCOP exist primarily to support the President and his or her work as the University's academic leader, chief academic officer, primary external advocate, and guardian of the public trust. Secondarily, the Working Group recommended that the units within the Office of the President provide systemwide support and services – *but only when the value of UCOP's involvement and leadership has been clearly established.*

Currently, the Office of the President spends nearly 80% of its resources providing support services to campuses, medical centers, laboratories and other systemwide locations. These services range from administration of the Education Abroad Program to K-12 preparatory programs, such as MESA and Puente, to the administration of pension benefits to the UC's approximately 43,350 retirees. Although such services are important to the University and have been successfully administered by UCOP, they are not essential to the fulfillment of the President's four roles. The question that arises is whether these activities could or should be performed by other entities on behalf of the system.

A visual model of the current distribution of functions at the Office of the President is shown in Display 1. The result is a largely horizontal structure, with functions distributed inefficiently across the organization, and with large areas of "blue" that represent the 80% of support services not directly related to supporting the President.

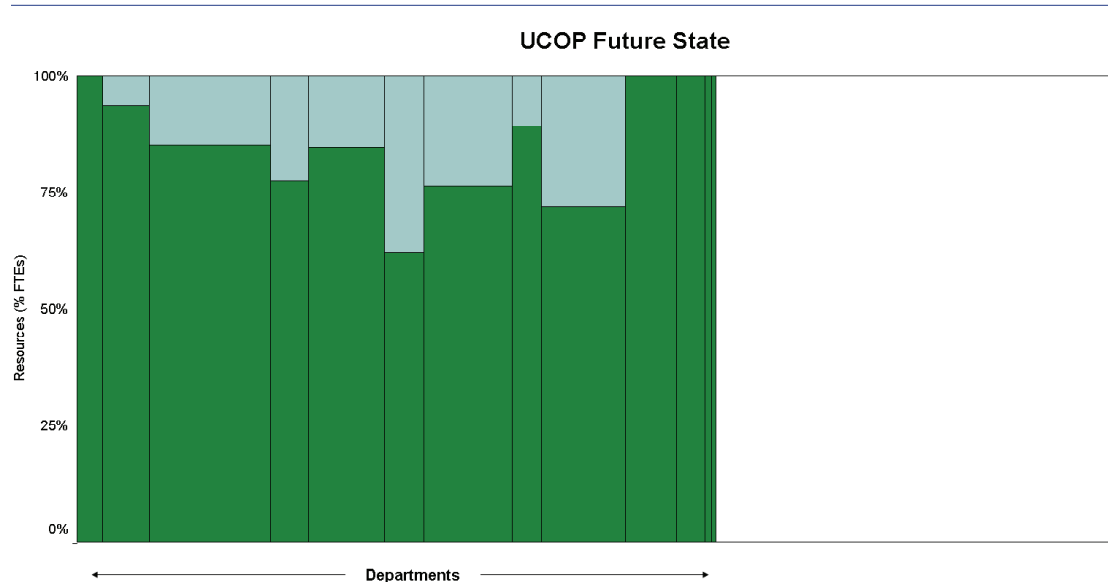
Display 1



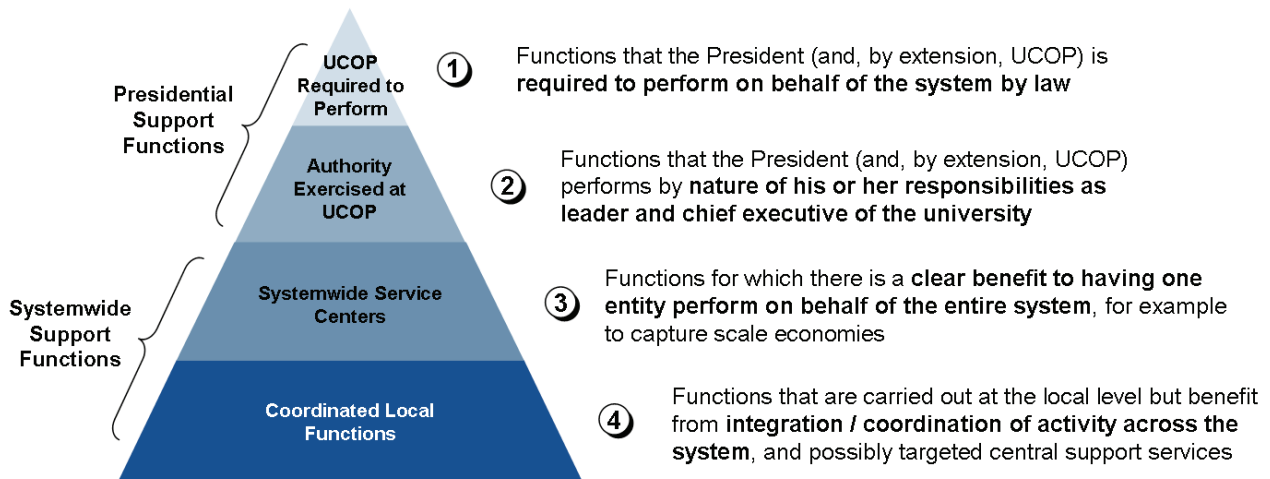
The future UCOP will look quite different. It will reflect a smaller organization focused on critical objectives that will include articulating and implementing a vision and long-term plan for the University. The visual model for such an organization will resemble Display 2.

It reflects a smaller Office of the President that is more rationally organized by the nature of the work rather than traditional organizational boundaries. “Blue areas” continue to exist, but they represent strategic choices based on where functions can be performed most efficiently and with the highest level of service. In some cases, that will continue to be the Office of the President.

Display 2



Further, such a structure is consistent with the four levels of administrative activity recommended by the Working Group for UCOP to usefully support its two broad roles (see below).



The work itself will also change under these new structures. Office of the President administrators will no longer coordinate the work on the campuses without a disciplined view of whether the value of their involvement outweighs the cost. Instead, UCOP will focus on strategic facilitation and value creation. Small strategic units will serve as consultancies designed to convene and provide leadership in systemwide efforts, and to provide advice, counsel and service to the President, the campuses and the people of California.

The budget and appropriations process and resulting request described below represent a major first step in achieving this transformation.

The Budget and Appropriations Process

The changes described above require nothing short of a full-scale reinvention of the Office of the President. Yet it is a vision already being realized with the presentation of this Appropriations Proposal for FY 2008-09, which for the first time documents the purpose and spending of the functions within every department at UCOP.

The roots of this initiative go back to spring 2007. As the Monitor Group assessment was getting underway, the Regents reviewed at their May and July meetings the budget request submitted by UCOP for FY 2007-08.

The FY 2007-08 budget was based on FY 2006-07 funding allocations and staffing levels. However, the lack of centralized comprehensive oversight over department budgets meant that the budget was built at least in part on estimates and projections. The FY 2007-08 proposal was further adjusted for inflationary increases. This moderate incremental budget approach was deemed appropriate at the time because the Monitor Group’s comprehensive organizational review was underway at the time.

The Regents ultimately approved the budget with certain modifications but with the explicit understanding that the Office of the President would undertake a rigorous budget process and provide a detailed budget document and request for FY 2008-09 to the Regents in March 2008 for action at its May 2008 meeting.

The new process was implemented beginning in September 2007. All units within UCOP were required to provide detailed data and supporting materials on their respective budgets and FTE. All of this material was aggregated and verified over several months. All units directly reporting to the President were also directed to submit budget proposals reducing their budgets and FTEs by 10%.

As the budget process was progressing, the restructuring initiative was also moving forward. With the final Monitor Group's assessment and subsequent Working Group report, Provost Hume directed that its recommendations begin to be reflected in the UCOP appropriations proposal being developed for FY 2008-09.

This process faced two main challenges:

- First, UCOP's extensive organizational structure. It consists of a variety of units, each initially designed to support the University's mission. However, additional and overlapping activities and responsibilities have been incorporated over time, but in ways that have left them scattered across a range of different units and departments. It took substantial time and effort to analyze unit functions and responsibilities.
- Second, the lack of a centralized finance and reporting infrastructure internally at UCOP.¹ Assembling the data contained within this report has taken over six months, four dedicated staff members, and the services of Sjoberg Evachenk Consulting, Inc., an outside consulting team co-founded by former California State Auditor Kurt Sjoberg.

Fortunately, these efforts – combined with the renewed clarity of purpose and function throughout UCOP – mean that future accounting of expenditures will be a more routine and faster process than in previous years.

As this retrospective data collection was taking place, prospective initiatives were also being launched. These include:

- Department-by-department reviews to identify both low-priority activities that could be eliminated and high-priority functions requiring additional investment;
- Consolidation of redundant functions into single UCOP-wide units and recasting them as “utilities” that are organized and staffed in order to broadly serve the entire organization in ways that reduce redundancy and achieve efficiencies; and
- Pursuing new business models for core systemwide activities. These models include “service centers,” which are dedicated management units whose overarching mission is to provide high-quality services in the most cost-effective manner possible.

These will be described in further detail in the following pages.

Note that as the FY 2008-09 budget was being prepared, a Voluntary Separation Program (VSP) was offered in December 2007 to employees within the units reporting to the President. As of the January 31, 2008, deadline of the program, over 250 individuals indicated an interest in participating. Under the terms of the program, those individuals must give formal notice of participation by no later than May 1, 2008, with separation from employment by June 30, 2008. Managers of units have been asked to develop work plans to identify which vacated positions are critical and need to be backfilled. The remaining positions will be eliminated.

¹ Due to the lack of appropriate budgeting processes and systems, some data and analysis could not be fully incorporated in this appropriations proposal. These issues are set forth in Appendix A.

FY 2008-09 APPROPRIATIONS REQUEST

Overview

The following proposal represents a new approach for funding the University of California’s centralized administration. The accompanying document —“Department Background and Detail”— provides a detailed analysis of each department/unit within UCOP – each includes a mission and function statement, budget and FTE data and, where applicable, explanations of proposed reductions in each department/unit.

Both this and the accompanying document is broken down into three sections:

- **Section One:** This section includes the departments and units in UCOP that report to the President. The appropriations request for these departments is on page 12 of this document.
- **Section Two:** This section includes the four offices that report directly to the Regents. The appropriations request for these departments is on page 19 of this document.
- **Section Three:** This section includes the Academic Senate. The appropriations request is on page 22 of this document.

Methodology

The 2008-09 appropriations request is dramatically different from earlier submissions in as much as **it is based on actual expenditures and FTE, not on previous year budgets or projections.** Using actual expenditures assures accuracy and uniformity of data across all Office of the President departments.

This approach reverses the working process of traditional incremental budgeting, whereby only increases over the previous year’s budget required justification and approval. It establishes a new focus on what central administration actually needs to spend to fulfill its roles and responsibilities.

As such, **no inflationary increases are built into the proposal.** On the contrary, all departments/units, except the Academic Senate and those offices reporting directly to the Board of Regents, were directed to submit proposals for a minimum of 10% in reductions both for FY 2008-09 expenditures and FTE. This is critical, not only because of growing state fiscal constraints, but because it provides the basis for beginning the process of “right-sizing” the central administration function – a necessary first step in the subsequent design of new systems and structures.

Most importantly, this proposed framework provides a sound basis for future appropriations requests. It is designed to give the Regents a clear, accurate and complete picture of central administration expenditures, broken out by department, unit and function.

Expenditures are provided both on an actual “gross” total as well as on an actual “adjusted” total (Display 4).

Display 4

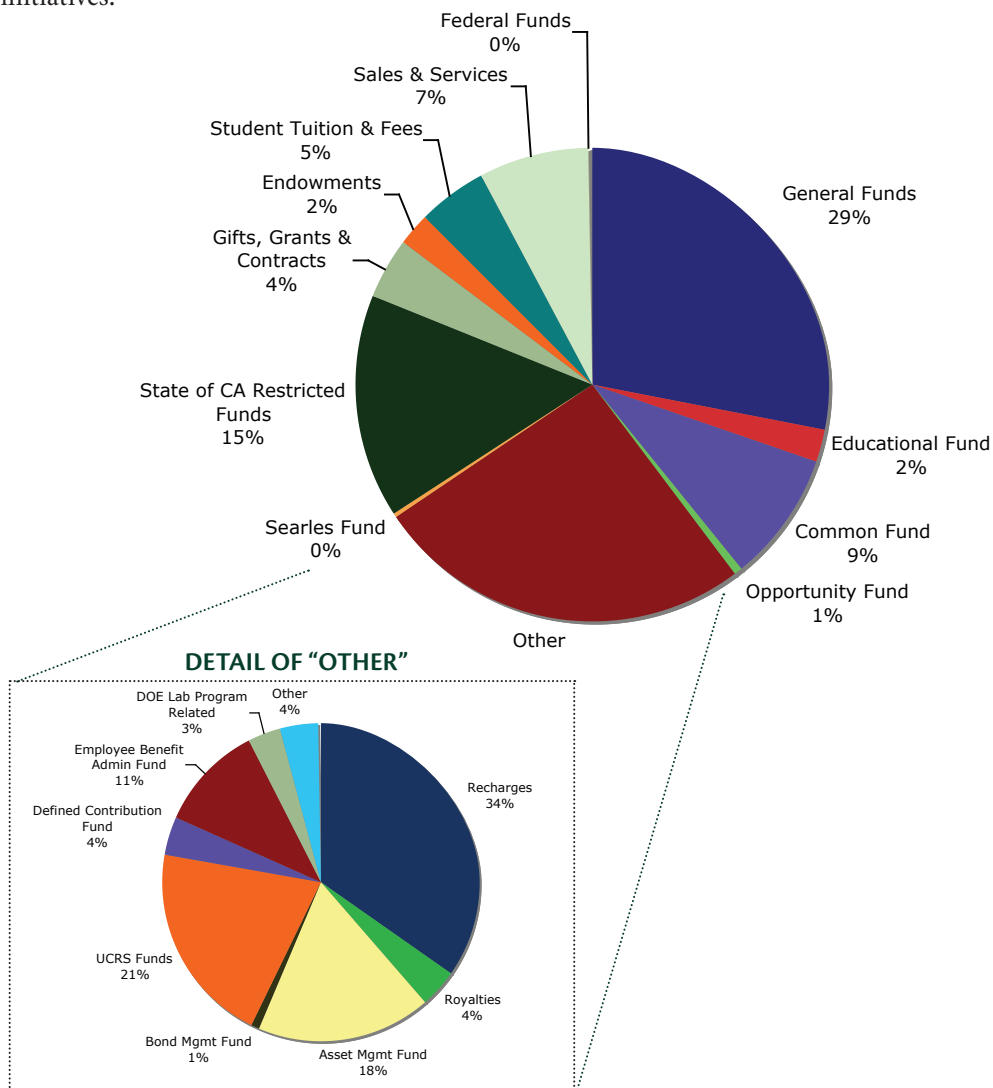
FY 2007-08 CENTRAL ADMINISTRATION EXPENDITURES AND FTE		
	Actual “Gross”	Actual “Adjusted”
Total Expenditures	\$523,819,808	\$296,709,304
UCOP	\$458,013,778	\$255,454,955
Regents Reports	\$63,762,693	\$40,062,708
Academic Senate	\$2,043,337	\$1,191,641
FTE	2,068.98	1,944.71
UCOP	1873.53	1749.26
Regents Reports	185.45	185.45
Academic Senate	10.00	10.00

The “gross” total expenditures and FTE reflect all functions and all Office of the President employees, including the Regents’ direct reports and Academic Senate.

The “adjusted” total provides a more accurate reflection of actual administrative spending because it excludes the nearly 43% of total expenditures that are considered “below the line” costs, most of them for academic programs.² These comprise such things as program funds restricted for a specific use (i.e. earmarked federal research funds); funds that merely “flow through” the Office of the President to fund a specific program or activity located on a campus or other location (e.g., MESA, COSMOS, Agriculture and Natural Resources funds, and various research funds focused on breast cancer, AIDS/HIV, and labor and welfare policy, among others); costs that are recouped through “recharges” to the campuses and laboratories for service enterprises (e.g., payroll mainframe support and strategic sourcing) and, for accounting purposes, for direct services provided internally; and others.

Varied Fund Sources

The Office of the President is supported by 79 different fund sources, excluding those that support small research initiatives.



² The Keck Telescope project is a good example of how fund flowthroughs can distort a department budget. Annual funding for the project, located on Mauna Kea in Hawaii and operated as a partnership of the University of California, the California Institute of Technology and the National Aeronautics and Space Administration (NASA), flows through the Provost and Executive Vice President’s Immediate Office. The \$11.8 million annual funding for Keck comprises 79 percent of the Immediate Office’s total annual expenditures, yet supports no FTE or other office activity.

The largest source of funds are general funds, which include funds provided by the State of California and spent within the overall constraints of the approved budget. Additional sources of general funds are student fees, such as admissions fees and non-resident tuition, and a portion of federal contract and grant overhead. This category also includes State Special Funds that are non-general funds appropriated for special research projects or received under contracts with state agencies.

After various earned revenue, common funds – provided from 17 unique and predominately unrestricted funding sources – represent another significant source of central administration funding. Common fund sources include funds under the control of and allocated at the discretion of the President, as well as funds from medical centers, short term interest pool (STIP), auxiliary enterprises, patent income, benefits administration fund, general endowment pool, high income pool, Continuing Education of the Bar, faculty housing, risk management and medical compensation plan.

Another major source of funds come from income generated from endowments and funds functioning as endowments and available to support the educational and research activities of the University. These include such funds as Searles and Lee Jacks.

A full description of these and all other fund sources can be found in Appendix B.

SECTION ONE: THE OFFICE OF THE PRESIDENT

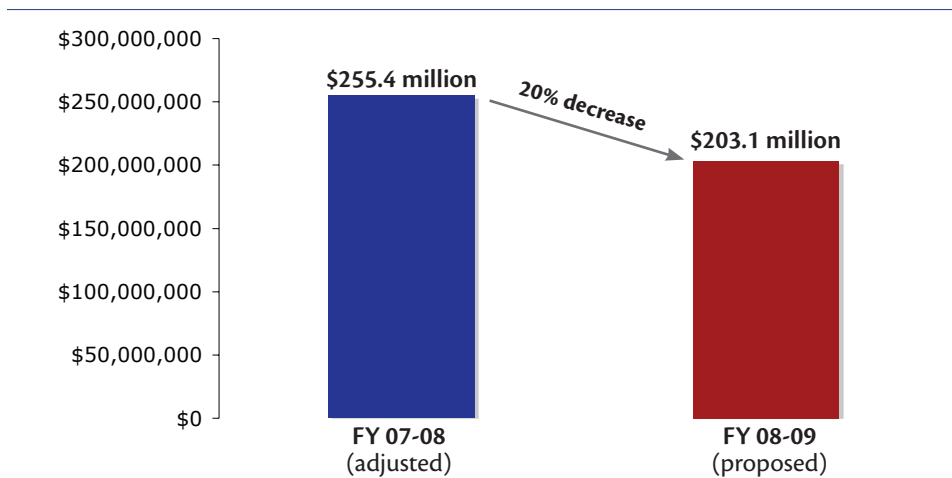
FY 2008-09 Appropriations Request

The Provost and Executive Vice President, in his capacity as chief operating officer, is proposing a significantly reduced central administration spending and FTE plan for the upcoming fiscal year for the departments/units reporting directly to the President.

APPROPRIATIONS REQUEST: For the Office of the President (excluding the Academic Senate and the Regents' direct reports), the Provost and Executive Vice President requests a FY 2008-09 appropriation of **\$203,109,678**. This represents an expenditure reduction from FY 2007-08 projected expenditures, after adjusting for program costs, fund flowthroughs and recharge activity, of **\$51.66 million**, or **20.2%**.

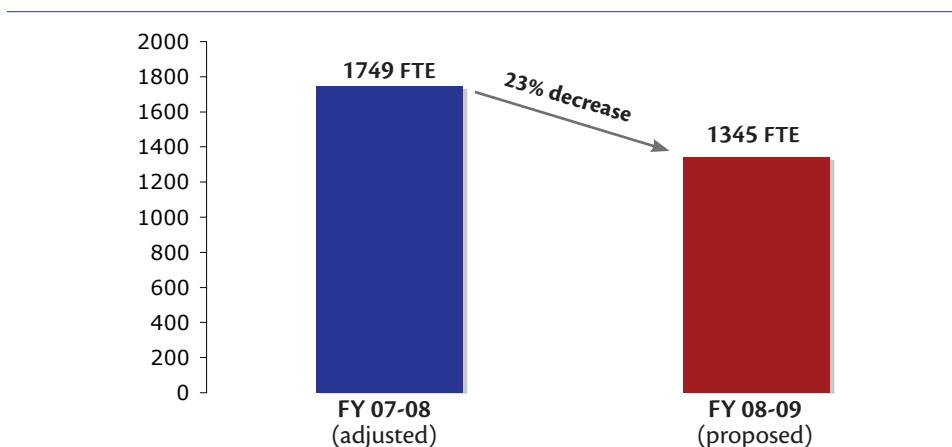
With additional reductions, achieved through a conservative estimate of Voluntary Separation Program savings and capturing of one-time unexpended funds from previous fiscal years (detailed below), the Office of the President will achieve a total of **\$56.66 million** in reductions.

A Significantly Reduced UCOP Central Administration Budget



This request also represents a significant reduction of **404** positions – a **23%** one-year reduction in FTE from **1749** FTE in FY 2007-08 within units reporting to the President to **1345** in FY 2008-09. This includes the anticipated elimination of **6** Senior Management Group positions.

UCOP Workforce Reductions



These reductions have been achieved through a combination of program eliminations and reductions, as well as transfers of responsibilities to the campuses, consistent with the recommendations of the Working Group

on the Roles of the Office of the President. Of the reductions proposed in this submission, nearly 47 cents of every reduced dollar is generated by elimination or reduction of functions, responsibilities and/or FTE. The remaining 53 cents represents functions to be shifted from UCOP to campuses.

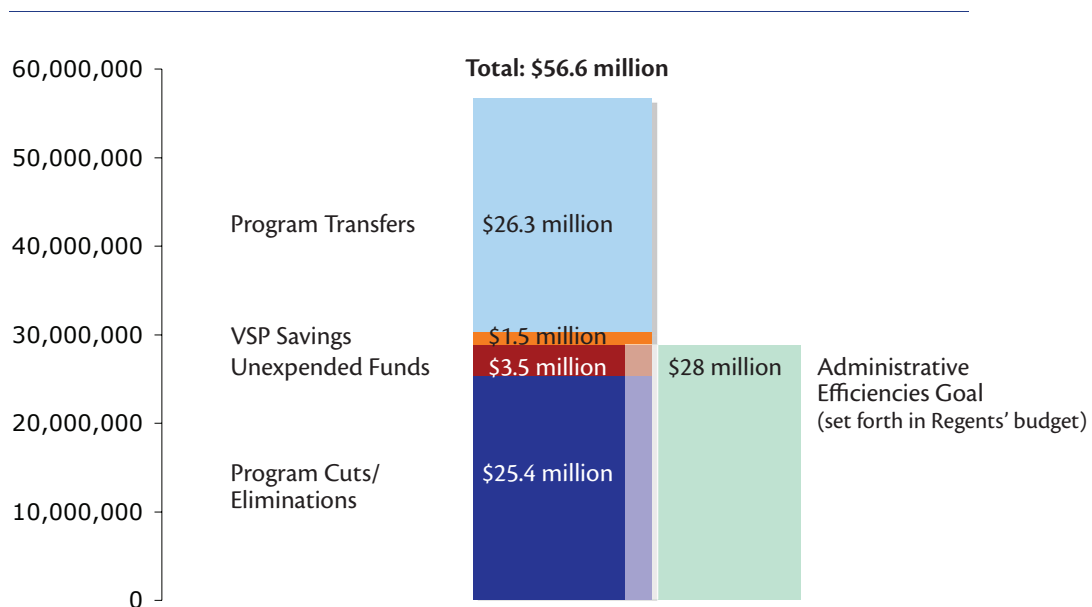
The proposal contains an additional **\$1.5 million** in anticipated savings from the Voluntary Separation Program. This incentive program was announced last December 2007 and as of the program close deadline of January 31, 2008, over 250 individuals have indicated an interest in participation. Those electing to participate in the program must provide final notification to their supervisors no later than May 31, 2008, and leave UCOP employment by June 30, 2008.

Departments are currently analyzing which positions if vacated are critical and, therefore, need to be filled and which positions can be eliminated. The final results of this work and the projected FTE and dollar savings from this initiative will be reported to the Regents in September 2008.

It is fully expected that the Voluntary Separation Program will achieve at least \$1.5 million in permanent savings after the cost of paying out severance payments to those participating in the program. Further workforce reductions from the program will make possible additional savings and opportunities for continued restructuring of UCOP in FY 2008-09. A full report on the results of this program will be provided to the Regents in September 2008.

Finally, the proposed budget also includes one-time savings of **\$3.5 million** achieved through a process of identifying unexpended funds from prior fiscal years, reallocated to the subsequent fiscal year.

Total UCOP Expenditures Reductions



These combined reductions exceed the Office of the President's goal to achieve \$28 million in central administration efficiencies, as set forth in the Regents' 2008-09 Budget for Current Operations adopted by the board in November. They also begin to meet the University's January 2008 commitment to achieve an additional \$40 million in administrative savings through systemwide efficiencies and collaborations, as recommended in the wake of the Governor's January budget proposal.

Finally, several departments have taken additional administrative reductions from "below the line" program funds that are not being counted as part of their adjusted base. These generally fund specific programs or activities located on a campus or other location. Examples include administrative transfers of or reductions in research grant programs. In many cases, these savings are being invested back into the programs themselves. These additional administrative reductions total **\$12,796,398**.

Initiatives to Improve UCOP Central Administration Efficiency

The FY 2008-09 Appropriations Request for UCOP's central administration is only the first step of the longer-term restructuring initiative that is described above and that will, with the assistance of the Monitor Group, result in an Office of the President that is smarter as well as smaller.

To that end, the restructuring process has two major components.

- The first is to streamline and right-size central administration operations at UCOP. The across-the-board reductions described above begins the process of containing growth over the last decade that often occurred organically, the result of system services landing at the Office of the President by default rather than by strategic design.

More reductions will follow as a new management structure for UCOP emerges. This new structure will be presented to the Board of Regents in detail at its May 2008 meeting, and it is expected that UCOP would transition into the new structure during FY 2008-09. The final size and shape of the new UCOP structure will be reflected in the FY 2009-10 Appropriations Request that will be presented to the Regents next year.

- The second restructuring component involves improving the effectiveness of UCOP operations. Several initial recommendations are contained in the FY 2008-09 Appropriations Request, but considerable more attention will be paid to other efficiency opportunities in the months ahead.

These two components are more fully described in the following section.

Streamlining Initiatives

The FY 2009-10 Appropriations Request is intended to reflect a nearly final-state view of the reengineered Office of the President. It will emerge in large part following ongoing initiatives:

Eliminating low-priority activities: As part of the FY 2008-09 budget process, the Office of the President has embarked on a department-by-department review of low-priority central administration activities. Among those identified are functions deemed important but that can be effectively performed on one or more campuses (such as managing various student financial services, including reporting of selected data). Others are not fundamental to UCOP's core mission (alumni merchandise sales) or involve support services that can be curtailed without dramatically impacting productivity (mail delivery services and central support for conferences and events). Eliminating or reducing these activities will produce roughly \$500,000 in savings in the short-term, with more achieved over the next six months.

Creating new systemwide service centers: An aggressive examination of the Office of the President's role as a provider of services to the campuses or system has also been undertaken. The goal, as outlined in the Report on the Working Group on the Roles of the Office of the President, is to reconfigure these service functions from "undifferentiated departments" within UCOP into distinct "Service Centers" – what the Working Group describes as "dedicated management units," whose overarching mission should be to provide high-quality services in the most cost-effective manner possible.

To that end, the FY 2008-09 Appropriations Request identifies several Service Center candidates, which pose opportunities to achieve both cost savings and service quality improvements. Among the largest of these is the **Continuing Education of the Bar** (CEB), the financially self-sustaining service providing continuing professional education for members of the California Bar. UCOP's Department of Academic Information & Strategic Systems is proposing to shift responsibility for CEB to a campus, for a transfer of 197 FTE and \$14 million from UCOP.

Consolidating functions within the Office of the President: A third focus of the streamlining effort is to reduce redundancy within the central administration. Among the functions that are performed in the various departments, in many cases duplicating similar services, are PC/server support; communications; institutional research, reporting and analysis; legislative analysis; payroll; and business administration, including budget.

Consolidating these functions into single UCOP-wide units is an effort to recast them as “utilities” that are organized and staffed in order to broadly serve the entire centralized enterprise.

The first consolidation opportunity is focusing on desktop IT and server support. The effort, which is already underway, is designed to provide more uniform, secure and professional level of IT service across the UCOP, and is projected to reduce 8-12 FTE.

Similarly, work is underway to create a UCOP budget unit reporting directly to the Executive Vice President of Business Operations. The goal is to streamline the budget process across UCOP, bringing together disparate department budget officers into a small consolidated budget utility dedicated to budgeting and forecasting, management reporting, and financial analysis/decision support.

The unit’s functional responsibilities would include preparing the annual UCOP budget; generating monthly or quarterly budget and actual variance reports; investigating, evaluating and communicating financial performance and variances between budget and actual; creating, producing and distributing standard internal reports for management review; and providing budget planning and analysis support. Taken together, this unit will be positioned to provide unprecedented accountability about centralized administration expenditures to both management and the Regents.

Pursue new business models for core systemwide activities: The restructuring initiative will also pursue entirely new business models for the central administration.

The most immediate candidate is the administration of retiree benefits for all systemwide annuitants, the largest function of the department of Human Resource & Benefits. Over half of HR&B’s resources – a total of \$22 million annually and 120 FTE — are allocated to retirement counseling, pension administration and accounting and operating a customer service center.

While benefits administration is a critical function that must be performed at the highest fiduciary standards, it is nonetheless a function that other complex and large organizations have successfully utilized third party vendors to perform. For UCOP, this initiative would reduce personnel costs significantly in the short-term and avoid large future investments in technology and infrastructure required to service such a large population. Importantly, it will also allow HR&B leadership to have greater focus on the critical human assets issues in the University because they are no longer managing a large transactional organization. An RFP will be issued in April, followed by an evaluation and, if the process yields an appropriate model, the vendor selection process will be completed in Fall 2008. A transition to a new delivery model would occur over a 12- to 18-month period.

Effectiveness Initiatives

The Office of the President remains critical to the success of the University of California system. Yet its effectiveness can be dramatically improved through the following efforts, among others:

Identifying high-priority investment needs: This involves identifying functions or processes that either require restructuring or rebuilding or that are missing or underdeveloped. In the newly-consolidated Office of Research and Graduate Studies, for example, considerable economies of scale are being achieved by consolidating research functions in a single unit. At the same time, however, for this new department to effectively help shape the state’s research agenda, it must build capacity in several critical areas, including in strategic planning; expanded policy analysis; a streamlined but more strategically-positioned funding and grant function to seed new research; and improved communications capabilities between centralized research and the campuses.

Streamlining approvals and other activities: In addition, working with the Monitor Group, the Office of the President established a Work Group, comprised of campus and central administration representatives, to analyze and, where appropriate, redesign the process for capital project approval/delivery in order to streamline the process, reduce unnecessary delays and thereby avoid cost impacts. The Work Group has developed a new design process primarily for non-State capital projects which represent roughly 50% of all projects, and the redesigned process is currently under consideration by the Regents.

Assuming the process redesign is approved by the Regents, the current UCOP structure related to the capital planning process would need to be redesigned as well.

Next Steps

The Office of the President faces a critical next few months as it divests itself of a significant number of responsibilities and helps employees transition to new opportunities while simultaneously responding to the State's budget crisis and the continuing day-to-day challenges of the University's central administration.

This will require the support from the Regents. But there can be no doubting our determination:

- In May 2008, the Regents will approve a final FY 2008-09 Appropriations for the Office of the President;
- In May 2008, Provost Hume will propose a new organization structure for the Office of the President, including for its senior administration;
- By July 2008, a new UCOP budget unit will be created and in operation, and at least two new consolidated utilities focused on communications and institutional research, will be underway;
- By Fall 2008, additional utilities and department reorganizations will be completed;
- By January 2009, reconfigurations of both the academic affairs and external relations functions at the Office of the President will be completed; and
- In March 2009, the Regents will be presented a UCOP central administration Appropriations Proposal for FY 2009-10.

This next fiscal year proposal will reflect a far different central organization than the one that exists today, one that will result from current efforts that are major, ongoing – and that are unprecedented.

The process involves many painful actions and difficult choices; but it is also a necessary one at a time when the University of California is facing unprecedented competitive pressures. Its response to the challenges facing it must be decisive, swift and strategic – and that requires an organization that is structured accordingly. It is appropriate, it is necessary, and it is what befits the leading and still most excellent public research university in the world.

At A Glance: Central Administration Expenditures and Reductions

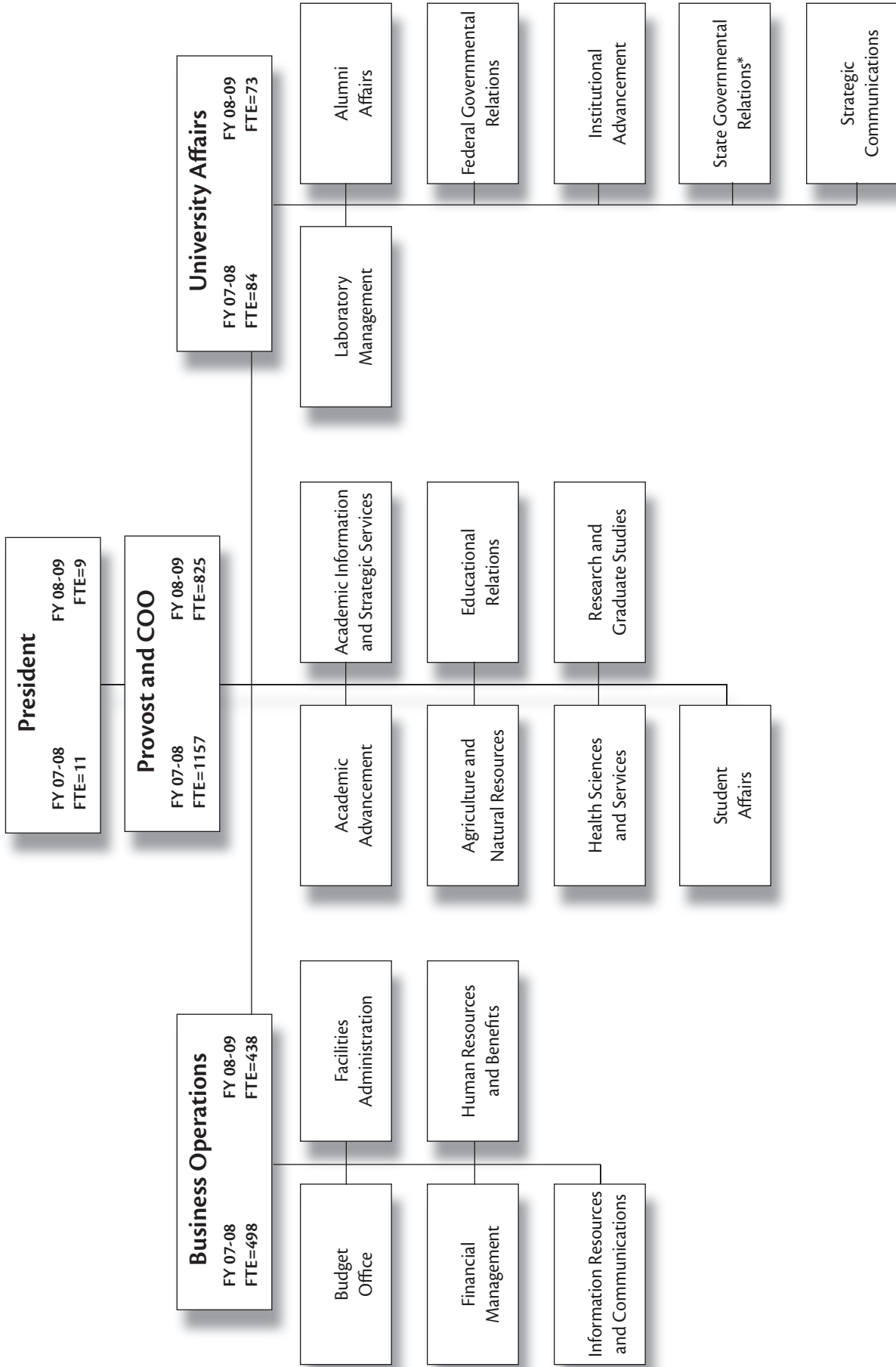
	Total 07-08 Expenditures		Total 07-08 FTE		Adjusted Base		Adjusted Base FTE		Actual cuts (FTE)		Actual cuts (budget)		Cost transfers (FTE)		Cost transfers (budget)		Proposed Appropriation		Proposed FTE		TOTAL BUDGET REDUCTION		TOTAL FTE CUT	
Academic Advancement	\$4,446,713	17.05	\$2,053,956	17.05	\$55,004	0.00	\$177,096	2	\$1,821,857	15.05	\$232,100	2.00												
Academic Information & Strategic Services	\$113,353,292	550.51	\$87,385,387	550.51	\$5,038,094	31.96	\$23,734,508	198.00	\$58,612,785	320.55	\$28,772,602	229.96												
Agriculture & Natural Resource	\$5,845,784	54.48	\$5,002,391	44.95	\$500,239	4.00	0	0.00	\$4,502,152	40.95	\$500,239	4.00												
Budget Office	\$3,971,638	34.00	\$3,971,638	34.00	\$581,078	5.00	0	0.00	\$3,390,560	29.00	\$581,078	5.00												
Business Operations - Immediate Office	\$1,874,550	12.27	\$1,874,550	12.27	\$187,455	3.27	0	0.00	\$1,688,308	9.00	\$187,455	3.27												
Educational Relations	\$19,640,840	70.77	\$9,446,204	70.77	\$1,025,463	7.35	\$1,611,773	17.31	\$6,808,967	46.11	\$2,637,236	24.66												
Facilities Administration	\$6,874,984	60.35	\$6,523,367	60.35	\$498,359	6.00	\$219,236	2.00	\$5,805,772	52.35	\$717,595	8.00												
Financial Management	\$12,619,539	88.56	\$7,731,247	58.90	\$773,125	8.76	0	0.00	\$6,958,122	50.14	\$773,125	8.76												
Health Sciences & Services	\$4,339,590	32.34	\$4,339,590	32.34	\$1,025,892	6.00	\$126,470	1.34	\$3,187,227	25.00	\$1,152,362	7.34												
Human Resources and Benefits	\$52,586,869	258.65	\$44,521,663	258.65	\$5,797,958	22.00	0	0.00	\$38,723,705	236.65	\$5,797,958	22.00												
Information Resources & Communications	\$37,245,100	158.80	\$9,413,397	73.80	\$1,012,475	13.35	0	0.00	\$8,400,922	60.45	\$1,012,475	13.35												
Lab Management	\$4,554,077	16.98	\$4,554,077	16.98	\$1,055,353	2.58	0	0.00	\$3,498,724	14.40	\$1,055,353	2.58												
President - Immediate Office	\$1,769,791	10.55	\$1,769,791	10.55	\$299,330	1.75	0	0.00	\$1,470,461	8.80	\$299,330	1.75												
Provost - Immediate Office	\$14,934,240	23.97	\$3,090,594	23.97	\$211,422	1.19	\$391,741	4.30	\$2,487,431	18.48	\$603,163	5.49												
Research and Graduate Studies	\$119,215,733	226.75	\$31,455,299	226.75	\$3,797,681	29.18	0	0.00	\$26,832,272	197.57	\$3,797,681	29.18												
Student Affairs	\$44,812,062	191.20	\$22,392,828	191.12	\$2,551,663	29.60	0	0.00	\$19,841,165	161.52	\$2,551,663	29.60												
University Affairs	\$9,928,976	66.30	\$9,928,976	66.30	\$963,683	7.40	\$29,216	0.40	\$9,079,248	58.50	\$992,899	7.80												
TOTAL	\$458,013,778	1873.53	\$255,454,955	1749.26	\$25,374,274	179.39	\$26,290,040	225.35	\$203,109,678	1344.52	\$51,664,314	404.74												

Office of the President

17

Proposed appropriations exclude program flowthrough funds and service enterprise expenditures, such as recharge activity.

University of California Office of the President – Central Administration



*Currently reports to the Provost and the Executive Vice President— Business Operations

SECTION TWO: THE REGENTS DIRECT REPORTS

FY 2008-09 Appropriations Request

The Provost and Executive Vice President, in his capacity as chief operating officer, is proposing funding necessary for meeting the Board of Regents' goals in regard to expanding the roles and responsibilities of many of its direct reports. These include the new **Ethics, Compliance and Audit Services** unit; the **General Counsel**; the **Secretary and Chief of Staff to the Regents**; and the **Treasurer's Office**.

APPROPRIATIONS REQUEST: The Provost and Executive Vice President requests a FY 2008-09 appropriation of **\$41,862,866** and FTE of **189.95**.

This is on base FY 2007-08 expenditures, after adjusting for program costs, fund flowthroughs, and recharge activity, of **\$40,062,708** and total base FTE of **185.45**.

This represents an expenditure increase of **\$1,800,158**, or **4.5%**.

The appropriations request for each Regents' direct report unit is broken down as follows:

Ethics, Compliance and Audit Services – \$5,371,220

General Counsel – \$14,684,055

Secretary and Chief of Staff – \$3,194,991

Treasurer's Office – \$18,612,600

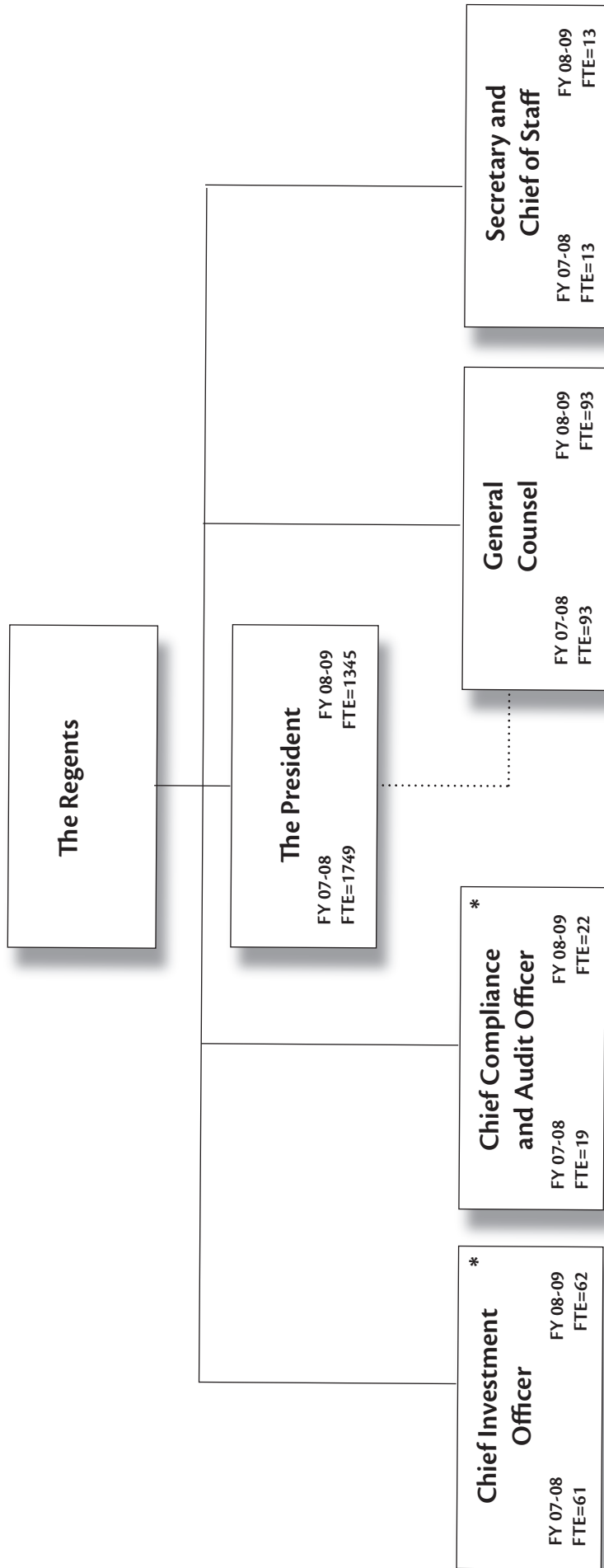
At A Glance: Regents Direct Reports Expenditures and Reductions

	Total 07-08 Expenditures		Total 07-08 FTE		Adjusted Base		Adjusted Base FTE		Actual cuts (budget)		Actual cuts (FTE)		Cost transfers (budget)		Cost transfers (FTE)		Proposed Appropriation		Proposed FTE		TOTAL BUDGET REDUCTION		TOTAL FTE CUT	
Regents																								
Ethics, Compliance & Audit Services	\$3,942,535	18.80	\$3,942,535	18.80	-\$1,428,685	-3.50	0	0.00	\$5,371,220	22.30	-\$1,428,685	-3.50	0	0.00	\$5,371,220	22.30	-\$1,428,685	-3.50						
General Counsel	\$38,384,040	92.65	\$14,684,055	92.65	\$0	0.00	0	0.00	\$14,684,055	92.65	\$0	0.00	0	0.00	\$14,684,055	92.65	\$0	0.00						
Secretary - Chief of Staff	\$2,919,314	13.00	\$2,919,314	13.00	-\$275,677	0.00	0	0.00	\$3,194,991	13.00	-\$275,677	0.00	0	0.00	\$3,194,991	13.00	-\$275,677	0.00						
Treasurer, Office of	\$18,516,804	61.00	\$18,516,804	61.00	-\$95,796	-1.00	0	0.00	\$18,612,600	62.00	-\$95,796	-1.00	0	0.00	\$18,612,600	62.00	-\$95,796	-1.00						
Regents' Direct Reports Subtotal	\$63,762,693	185.45	\$40,062,708	185.45	-\$1,800,158	-4.50	\$0	\$0	\$41,862,866	189.95	-\$1,800,158	-4.50	\$0	\$0	\$41,862,866	189.95	-\$1,800,158	-4.50						

Proposed appropriations exclude program flowthrough funds and service enterprise expenditures, such as recharge activity.

University of California

Direct Reports to the Regents



*Administrative oversight by Executive VicePresident – Business Operations

SECTION THREE: THE ACADEMIC SENATE

FY 2008-09 APPROPRIATIONS REQUEST

The Provost and Executive Vice President, in his capacity as chief operating officer, is proposing a small increase in the appropriations to support the activities of the Academic Senate.

APPROPRIATIONS REQUEST: The Provost and Executive Vice President requests a FY 2008-09 appropriation of **\$1,221,086** and FTE of **10**.

This is on base FY 2007-08 expenditures, after adjusting for program costs, fund flowthroughs, and recharge activity, of **\$1,191,641** and total base FTE of **10**.

This represents an expenditure increase of **\$29,445**, or **2.5%**.

At A Glance: Academic Senate Expenditures and Reductions

	Total 07-08 Expenditures	Total 07-08 FTE	Adjusted Base	Adjusted Base FTE	Actual cuts (budget)	Actual cuts (FTE)	Cost transfers (budget)	Cost transfers (FTE)	Proposed Appropriation	Proposed FTE	TOTAL	
											BUDGET REDUCTION	FTE CUT
Academic Senate	\$2,043,337	10.00	\$1,191,641	10.00	-\$29,445	0.00	0	0.00	\$1,221,086	10.00	-\$29,445	0.00

Proposed appropriations exclude program flowthrough funds and service enterprise expenditures, such as recharge activity.

**University of California
Academic Senate**

The President
FY 07-08 FY 08-09
FTE=1876 FTE=1503

Academic Senate
FY 07-08 FY 08-09
FTE=10 FTE=10

APPENDIX A

This FY 2008-09 Appropriations Request provides the Regents and the public with a clear and detailed analysis about the size and shape of each department and unit in the Office of the President.

However, it also includes considerable constraints, imposed in large part by the difficulty of gathering accurate financial data. This is due to UCOP's extensive organizational structure and the lack of a centralized and integrated finance and reporting infrastructure.

Therefore, in reviewing this data, please keep in mind the following:

- Department totals do not include Senior Management Group compensation above base pay (automobile allowances, relocation allowances, etc.). Such compensation, which is projected to total \$2.3 million during 2007-08 for Office of the President senior managers, is reported annually to the Regents and to the Legislature.
- Department totals do not include stipends paid to all employees for the performance of additional responsibilities for temporary periods of time. Stipends that are exceptions to policy or requested for employees who earn \$200,000 or greater annually are also reported and approved by the Regents. Total stipends during 2007-08 for Office of the President employees are projected to total \$934,000.
- Department totals do not include incentive award bonuses to Office of the President staff. These are projected to total \$4.8 million in FY 2007-08.
- The Treasurer's Office totals do not include Annual Incentive Plan bonuses, expected to total \$1.3 million for FY 2007-08. These bonuses are approved by the Regents.
- Department totals do not include overtime paid to employees. Total overtime during FY 2007-08 for Office of the President employees is projected at \$249,000.
- Officewide totals do not include approximately \$18 million in expenditures covered by UCOP's central accounts. Most of these expenditures are related to debt service and lease costs for space utilized by UCOP departments. These bring in approximately \$13 million in recharge credits, with a net of \$6 million in expenditures.

Fortunately, new systems are being created which, along with the foundation provided by the just-completed FY 2008-09 budget and appropriations process, means that future accounting of expenditures will be a morroutine and reliable process. These will be included in all future appropriations requests.

Finally, please note that FTE targeted for elimination will be in accordance with policy and bargaining unit agreements.

APPENDIX B

GLOSSARY OF TERMS – SOURCES OF UCOP FUNDS

The University classifies unrestricted and restricted funds in broad bands that relate to the nature of each fund. The following presents general definitions of the broad bands of funds included in the Fiscal Year 2008-2009 Appropriations Proposals. Also included in this glossary are certain specific funds most commonly used by the University of California Office of the President.

Unrestricted Use Funds

Generally, unrestricted funds may be used for any institutional purpose designated by the Regents.

19900 to 19999—General Funds

Funds that may be used by the entity that has no restrictions and is not dedicated to a particular program or agency. University of California General Funds are derived primarily from State of California appropriations and spent within the overall constraints of the approved budget. Additional sources of General Funds may include: application for admissions fees; non-resident tuition; interest on General Fund balances; portion of federal contract and grant overhead; federal Department of Energy allowance for overhead and management; and overhead on California State agency agreements.

05397—Educational Fund

The Education Fund consists of indirect cost recovery from private grants and income from investments in the Short-Term Investment Pool. The Educational Fund is used to meet special needs of the University's educational programs.

07427—University Opportunity Fund

The University Opportunity Fund was established by the Regents in 1970 by combining two funds, the University Fund and the Opportunity Fund. It is comprised principally of 45% of the indirect cost recovery from federal contracts and grants after deducting the "Off-the-Top" overhead and Garamendi Project Funds. Other sources of income emanate from certain investments and loans. The total in this fund is annually available for allocation and approved by the Regents.

69400—Office of the President Common Fund

Funds stem from 17 unique and predominately unrestricted funding sources and are used for a variety of University purposes.

20000-20399—Student Tuition and Fees

Student fees represent funds used to provide services to regularly enrolled students and, in the case of University Extensions and Summer Sessions, to support the entire instructional program. These funds are generated from: Educational Fees; Registration Fees; Special Law/Medical Fees; Professional School Fees; University Extension Fees; Summer Session Fees; and others.

04100-09799—Endowment Principal

Endowments require that the principal be invested in perpetuity with the income or approved payout used in accordance with terms stipulated by donors or determined by the Regents. This group of fund numbers typically includes endowments that may be used at the discretion of the University and provides basic operating support.

34909—Chen Jen Buddhism Fund

Established December 29, 1999 with a gift of real estate from the Jen Chen Buddhism World Center, the real estate parcels were eventually all sold. Payouts from the General Endowment Pool are now used at the Presidents discretion to support the Office of Institutional Advancement and fund-raising activities of the campuses.

36319—Lee Jacks Fund

This fund was established on May 11, 1966 from the bequest of 1/3 of the Lee L. Jacks estate. Payouts from the GEP and real estate are used at the Presidents discretion to support campus development office budgets on any campus except Berkeley and Los Angeles.

38070—Searles Fund

The fund was established in 1919 with a gift from Edward F. Searles and augmented by a bequest from his estate. Payouts from the GEP and other separate investments held by the fund are used to finance general purposes of the University which cannot be covered by other funding sources.

60000-65999—Sales and Services

This category is broken into three sub-sections:

Educational Activities

These funds are used to operate organized activities, i.e. income-producing activities operated by departments in connection with the training of students. Such activities may include operations of medical, veterinary, and dental school clinics. Funds generated are also used for the activities of educational departments.

Auxiliary Enterprises

These funds are used in the operation of auxiliary enterprises. Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Programs include residence and dining services, parking, intercollegiate athletics,

bookstores, and faculty housing. No State funds are provided for auxiliary enterprises.

Medical Activities

Funds within this category are associated with income generated from services relating to the five medical centers including clinical teaching support, ambulatory care center, and hospitals and clinics.

66000-69999—Other Sources

This category includes other non-restricted funding sources not otherwise categorized. Such sources include royalties on patents, some sales of surplus equipment, dental work performed at student health centers, and sales of University Press publications. These funds are used for purposes related to the income source.

Within this group are a number of funds classified as “recharge”. The University defines recharges in three categories:

- Category 1. The cost charged to a University department for specific goods or services provided by another University department. Included in this category are goods and services provided by auxiliary and service enterprises, academic department support units, plant services departments, and other departments—other than central campus administrative offices—with approved recharge budgets.
- Category 2. The cost charged to self-supporting activities which are primarily funded from external income for identifiable services provided by central campus administrative offices.
- Category 3. The cost charged to University departments for special services and abnormal levels of services provided by central campus administrative offices which are beyond the normal services provided by those offices.

Restricted Use Funds

Restricted use funds are subject to special restrictions established by various outside sources in accordance with the purpose of which the fund was given.

18000-18999 and 20400-20939--State of California

These funds are appropriated by the California State Legislature for special research projects or received under contracts with State agencies. State funds for general operating purposes are classified under General Funds. These State funds include such sources as State Lottery Education Funds, Cigarette and Tobacco Product Surtax Fund, and Breast Cancer research Program.

21000-33999—Federal Funds

Funds from the federal government must be used in compliance with the laws, rules, regulations and/or provisions governing the project or program. A major portion of federal funds are used for research under

contracts and grants and other funds are used for Federal Student Financial Aid programs.

34100-39799—Endowment Income

Endowments require that the principal be invested in perpetuity with the income or approved payout used in accordance with terms stipulated by donors or determined by the Regents. For the University of California, endowment income provides the basic operating support. The use of Endowment Income is designated by the donor and typically restricted to the enrichment of educational and research programs beyond the level that the State of California can provide. Some Endowment Funds are fully restricted and others are available for discretionary use of the University (as noted above).

36703— Sara W. Lowenhaupt Scholarship Fund

The fund was established November 30, 1965 from a bequest from the estate of Sara W. Lowenhaupt. Payouts to be used for scholarships to enable foreign students to study at the University of California, and University of California students study in universities and colleges outside of the United States, or if the need for such fail, then for scholarships in the social sciences, in accordance with the terms of the bequest. All scholarships supported by this fund to be available to graduate or undergraduate students.

37249— Koret UC Leads Symposium Fund

This fund was established June 30, 2004 with a portion of a donation from the Koret Foundation. Payout from the GEP is used to support the UC Leads Symposium and is administered by the Director, Graduate Student Advancement.

39800-59999—Private Gifts, Grants, and Contracts

Like endowments, funds generated by private gifts, grants, contracts must be used in accordance with the provisions of the gift, grant or contract. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other such as not-for-profit entities. Private contracts are entered into with for-profit and other organizations to perform research or other services.

75000-79999—Reserves

Reserves represent fund balances set aside for future use. They are appropriated to expenditure accounts or transferred to other funds as they are needed. One example is the self-insurance reserve which is derived from insurance charges to departments. Other examples are the numerous reserves for maintenance and replacement of equipment derived from the earnings of auxiliary and service enterprises, organized activities, and other income-producing activities.