The Honorable Denise Moreno Ducheny  
Chair, Joint Legislative Budget Committee  
State Capitol, Room 5035  
Sacramento, California 95814

Dear Senator Ducheny:

Pursuant to Item 6440-001-0001 of the Supplemental Report of the 2006 Budget Act, enclosed is the University of California's annual report to the Legislature on the Organizational Review of the UC Office of the President.

If you have any questions regarding this report, Associate Vice President Debora Obley would be pleased to speak with you. She can be reached by telephone at (510) 987-9112, or by e-mail at Debora.Obley@ucop.edu.

Sincerely,

Robert C. Dynes

Enclosure

cc: The Honorable Jack Scott, Chair  
Senate Budget and Fiscal Review Subcommittee #1  
(Attn: Ms. Amy Supinger)  
(Attn: Ms. Cheryl Black)  
The Honorable Julia Brownley, Chair  
Assembly Budget Subcommittee #2  
(Attn: Ms. Sara Bachez)  
(Attn: Ms. Amy Rutschow)  
Ms. Elizabeth Hill, Legislative Analyst  
Mr. Mike Genest, Director of Finance  
Mr. E. Dotson Wilson, Chief Clerk of the Assembly  
Mr. Gregory Schmidt, Secretary of the Senate  
Ms. Diane Boyer-Vine, Legislative Counsel  
Ms. Sara Swan, Department of Finance  
Mr. Steve Boilard, Legislative Analyst’s Office  
Joint Legislative Budget Committee (18)  
Provost Wyatt R. Hume  
Executive Vice President Katherine N. Lapp  
Vice President Patrick J. Lenz  
Associate Vice President Debora Obley  
Interim Assistant Vice President Karen French  
Interim Associate Director Jenny Kao
UCOP Organizational Review Legislative Report

2007-08 Legislative Session

UNIVERSITY OF CALIFORNIA
Office of the President
June 2008
Supplemental Report Language to the 2006-07 State Budget Act states the following:

"The University of California is undertaking a comprehensive review and analysis of the Office of the President with the intention of enhancing the performance of the University's management and oversight mechanisms such that they complement and advance the University's overall academic excellence. It is the intent of the Legislature that the University report to the fiscal and policy committees of the Legislature by April 1, 2007 on the progress of this comprehensive review, and present a written report to the Legislature prior to July 1, 2007.

"This report shall include a review of the functions that should be performed by the Office of the President as well as the staffing and resources necessary to adequately perform those functions. This review shall report on historic and current staffing positions, policies, recruitment activities to fill vacant positions, and compensation levels in the UC President's Office. The review shall include an examination of the functions that might better be performed if decentralized to a campus as well as those functions now performed at the campus level that might better be performed in the Office of the President, as well as provide specific recommendations to improve program operations and strengthen public accountability."

This report responds to the commitment made in the University’s June 2007 update to provide a further report to the Legislature in May 2008, detailing the outcomes of the restructuring effort underway for the last 26 months. President-Designate Mark Yudof has stated his intention to continue the restructuring effort, which is expected to produce further reorganization and downsizing of the Office of the President over the coming year.

Introduction
As the crossroads 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 the 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. An aggressive restructuring plan has been designed to transform the
central leadership model at the University of California and a new central administration budget and appropriations process has been implemented with unprecedented rigor, detail and transparency.

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 recommended 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. Further, the Working Group recommended that the Office of the President provide systemwide support and services 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 student academic preparatory programs, such as MESA and Puente, to the administration of pension benefits to the University’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.

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; and it will reflect a structure that is more rationally organized by the nature of the work rather than traditional organizational boundaries.

The work itself will also change under this new structure. 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 new budget and appropriations process was implemented beginning in September 2007. All units within UCOP were required to provide detailed data and supporting materials on their

1 http://www.universityofcalifornia.edu/future/roleofOPrpt.pdf
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 at least ten percent.

The Appropriations Request
For the Office of the President (excluding the Academic Senate and the Regents’ direct reports), the Appropriations Request for 2008-09 was $203,109,678. This represents an expenditure reduction from 2007-08 projected expenditures, after adjusting for program costs, fund follow-throughs and recharge activity, of $51.66 million, or 20.2 percent. With additional reductions, achieved through a conservative estimate of the Voluntary Separation Program savings and capturing of one-time unexpended funds from previous fiscal years, the Office of the President will achieve a total of $56.66 million in reductions.

This request also represents a significant reduction of 404 positions – a 23 percent one-year reduction in FTE from 1,749 FTE in 2007-08 within units reporting to the President to 1,345 in 2008-09. This includes the anticipated elimination of six Senior Management Group positions. 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.

Multiple initiatives are currently underway to clarify which functions and activities are appropriately performed at the Office of the President:

- 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;
- Evaluating the most appropriate location for systemwide support services. The 2008-09 budget reflects over $26 million dollars and 225 FTE in programs and services that have been relocated to a campus; 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. In some cases these activities may continue to be performed by the University, on a campus or at the Office of the President. In other cases, third-party outsourcing will be considered.

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. These combined reductions exceed the Office of the President’s goal to achieve

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2 http://www.universityofcalifornia.edu/future/op_budget.html
3 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.
$28 million in central administration efficiencies, as set forth in the Regents’ 2008-09 Budget for Current Operations adopted by the board in November 2007. 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 Governor’s January budget proposal. The UCOP Budget Appropriation for 2008-09 was approved by the Regents at their meeting in May 2008.

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. 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.