

COMMITTEE ON PLANNING AND BUDGET
Annual Report, 2003-04

To the Academic Senate, Santa Cruz Division:

Introduction

CPB conducted business this year in the context of the state budget crisis and changes in offices of the Governor, Chancellor and Campus Provost/EVC. At UCSC, the state economic crisis has resulted in significant cuts in our total state operating funds, which we must treat as a permanent reduction to the annual budget. In addition to the short-term budget reductions, critical planning and budget issues face the campus in the context of enrollment growth and the negotiation of a new Long Range Development Plan (LRDP). Finally, the campus continued the Executive Budget Committee (EBC) process, focusing this year on the reorganization of business and information technology functions and of other academic support functions. CPB promised to update the Senate on the progress of the EBC process as of June 2004. We will do so here, providing an assessment of key EBC initiatives and their relevance to the core mission and values of the campus, as well as the potential to achieve expected savings. We will report first on specific issues CPB addressed during the year and conclude with a summary of continuing issues and questions for the future.

How CPB Functions

CPB consists of ten regular members (one of whom serves as Chair), including two *ex officio* members, the Chair and Vice-Chair of the Senate. All members are selected by the Committee on Committees (COC) subject to Senate approval. CPB brings a balance of perspectives to campus issues by including members from each academic division. CPB also included a graduate student representative, and for part of the year, an undergraduate representative. For the third year, CPB extended an open invitation to Vice Chancellor for Planning and Budget Meredith Michaels to attend its meetings, which she did regularly. Senate staff members also attended meetings. This year was marked by an unusual development of circumstances in which the Senate Vice-Chair, an *ex officio* CPB member, was appointed Interim Campus Provost and EVC mid-way through the academic term and was replaced by the new Senate Vice Chair.

CPB meets weekly on Thursdays during the academic year. Information packets and agendas are circulated to members in advance of meetings, and consultations are scheduled well in advance. Meetings include a combination of in-person consultation, oral reports from CPB members, and discussion. In 2003-4, our primary dialogue was first with CPEVC John Simpson, then with his first interim replacement, Interim CPEVC Chemers, and subsequently with Chemers's replacement, current Interim CPEVC Delaney.

Communication among CPB members outside the normal meetings is conducted primarily via email. In addition to meeting attendance, CPB members represent CPB on other academic and administrative committees as well as sharing the tasks of writing and

editing CPB documents. The roles of the Chair include setting meeting agendas, facilitating meetings, assigning tasks to CPB members for preparing reports and written responses, meeting commitments in terms of timely response to consultation, and signing CPB documents. All CPB letters and reports, unless otherwise noted, represent the consensus opinion of CPB. Consensus is sought, first via email discussion and edits to draft letters and documents, but final conclusions emerge from discussion and agreement at CPB meetings.

Below we present key aspects of CPB's deliberations and recommendations to the Senate and campus administration over the 2003-04 term. These include issues relating to the following: the absence of a campus spousal hiring policy; University Extension; writing and the new general education requirements; budget reduction strategies and issues; resource requests by units in response to budget reduction targets; the EBC process; and, discussions over future campus growth and the LRDP.

1. Spousal policy: (Request for an administrative policy on spousal hires)

CPB reviewed and recommended against one departmental FTE request for waiver of an open search for a spousal hire. This specific case raised, again, the on-going problem of the absence of a UCSC spousal hiring policy. While it is recognized that no single policy could sufficiently address all possible scenarios, there is still a clear need for a general policy that sets standard criteria for consideration in spousal hires (e.g., fit with the academic and hiring plans of the affected department(s) and division, budgetary implications for the affected department(s) and division, quality of the candidate, etc.). In all the spousal hiring cases of the past few years, CPB has repeatedly requested that the Administration articulate such a policy. We have reiterated this request again this year.

2. UNEX (CPB report; recommendation for a Senate oversight committee)

CPB issued a report to the Senate <http://senate.ucsc.edu/cpb/CPBunexRpt1429.pdf> on the poor financial status of UCSC Extension. As stated in that report, UCSC University Extension has been in a state of fiscal crisis for four years, amassing a projected cumulative deficit of c. \$15M through the past fiscal year (2003-04). The committee recognized that there was a high likelihood that this deficit will continue to grow, since the business plan of UNEX does not provide a viable means to increase enrollments and decrease costs so that annual revenues exceed expenses.

The underlying contributors to UNEX's fiscal deficits are the obligation to very high lease costs for facilities in Cupertino and Sunnyvale, a dramatic drop in enrollments (from 54,884 in 2000-01 to 29,167 in 2002-03), and the continued offering of many courses that cost more to provide than they generate in revenue (e.g., the average margin on recent courses offerings was 34% for courses that comprised 83% of revenues; courses required a margin of c. 45 – 50% to break even). Over the period 1997 – 2003 total fee income dropped 35% (from c. \$20M/year to c. \$13M in 2002-03), while total expenses were reduced by only 18% over this same period.

This past year both the Administration and Extension suggested the convening of a new task force to address questions about Extension's goals and mission, administration and

governance, and curriculum. A specific object of study for the Senate in 2004-05 should be to investigate the option of creating a new standing committee (e.g., an advisory board) that would assure in the long-term a continuing relationship between the faculty and UCSC Extension. Several other UC campuses have such committees. CPB supports forming such a standing committee to address UNEX's fiscal recovery and long-term viability. Two immediate steps we recommended to the Chancellor were: (1) consult with CPB in early Fall 2004 on a plan for cost-cutting and program reduction that would eliminate the UNEX deficit for fiscal 2005-2006 and beyond; and (2) present any proposed future expansions of UNEX to CPB and other relevant Senate Committees, with specific reference to how the campus as a whole benefits from the success of these programs and/or how the liability of the campus as a whole is avoided in the event of their failure.

3. Writing and New General Education Requirements

The members of CPB strongly endorsed the main features of the Council of Provosts and Writing Program's "Proposed Changes to UCSC's Composition General Education Requirement and Writing Instruction in the First Year," a version of which was passed at the May 21, 2004 Academic Senate meeting. This collaboration between the colleges and the Writing Program has the potential to resolve many long-standing structural issues that have beset both the Core courses and the Writing Program, while at the same time significantly improving the campus's first-year curriculum. Nonetheless, the members of CPB asked for greater clarification on several issues: 1) the administrative home for the Writing Program; 2) the role of Teaching Assistantships; and 3) maximum limits on class size. Consistent with its desire to preserve pedagogical integrity, CPB hopes that future discussions about writing instruction on campus will include serious consideration of ways to remedy the negative effects of recent cuts (including the issues of upper-division courses, class size, and writing tutoring).

4. Report on Budget Reduction Strategies

CPB issued a report to the Senate

<http://senate.ucsc.edu/cpb/ReportSenateFeb2004final.pdf>

commenting on the need to accommodate budget reductions in a targeted, as opposed to across-the-board, manner, in parallel with the EBC process. CPB recommended two principles to guide the budget cutting process: (1) strategic cuts are preferable to across-the-board cuts, and (2) all cuts should be pursued as far from the classroom and research lab as possible.

We offered the following recommendations, hoping to minimize, to the greatest extent possible, the detrimental impact of cuts on academic and research enterprises, and to support the campus's commitment to achieve greater functional and budgetary efficiency through the EBC process.

1. Campus-wide budget cuts

- (a) Make an accounting of each cut, the cost-savings, the effect to the base budget of the unit, and where savings are recaptured.
- (b) Specify what adjustments must be made in current base budgets before across-the-board cuts can be fairly imposed.

- (c) Conduct a review of carry-forward funds in each unit.
 - (d) Identify units with chronic operating deficits and/or negative carry-forwards and analyze the performance of those units in order to optimize the campus use of its internal debt capacity.
 - (e) Hold in central reserve a sufficient number of unfilled FTE but allow continued hiring for the next 2-3 years to support ongoing program planning and development.
2. *Academic support unit budget cuts*
- (a) Define levels of service that can be provided at reduced funding levels.
 - (b) Consult affected constituencies about which outcomes are preferable.
 - (c) Determine the balance between reduction in level of service and the effect of savings on the instruction/research mission.
 - (d) Have timelines and benchmarks for achieving expected cost reductions.
3. *Academic unit budget cuts*
- (a) Take care in allocating cuts to academic units and require Senate consultation. Cuts applied uniformly will have the greatest negative impact on the most efficient departments.
 - (b) Achieve substantial growth in graduate student enrollment, in absolute numbers and in relative proportion to undergraduates. Graduate student financial support should increase in order for UCSC to advance its goals in the area of graduate education.
 - (c) Ensure that first-year education is not neglected during these difficult times by avoiding formulaic cuts to important curricula such as college core courses and writing courses.
 - (d) Preserve access for undergraduate students across the range of UC-eligible students.

5. Resource Requests and Divisional Budget Reductions

CPB provided analyses and recommendations to Interim CPEVC Delaney on the resource requests and divisional budget reduction plans submitted by the academic and academic support units. At the time, the need to accommodate permanent budget reductions on the order of 10-12% of total state operating funds in the midst of the ongoing EBC process presented an enormous challenge to both the central administration and to unit heads.

In general, the academic divisions' responses to the budget reduction requests were thorough and compelling in describing the negative impacts of the proposed cuts on their basic instructional and research missions. All of the proposed budget reduction measures (returning faculty FTE, cutting TAS and TA funding, reducing academic support and advising) would have significant negative consequences on the divisions' ability to meet their responsibilities. As of spring 2004, the EBC effort, focused on achieving operational efficiencies in the academic support units, appears to have had a mixed impact on the

academic divisions, reducing cuts to academic units by \$1.1 million gleaned from consolidations, but at the same time moving staff provisions from divisional to centralized budgets. We are concerned about the absence of a plan to return cost-efficiency savings to the divisions.

The budget-cutting plans of the academic support units summarized the proposed areas of budget cuts; however, they did not provide sufficient information on expenditures to ascertain whether those cuts were the maximum that they could absorb without permanently compromising the essential functions of those units. Neither did the proposals reflect the savings to be gained through consolidation of campus business and service functions (including IT) projected through the EBC process. Business services and IT, two areas where savings could have been realized, were “sequestered” from the budget-cutting process altogether and will be discussed below.

We made the following general recommendations for the academic support unit budget reductions, which do not appear to have had any effect on the final outcome:

- The budget reduction proposals for each unit should identify functions that the campus might choose to no longer perform in the interest of preserving funding for other necessary functions of higher priority across the campus.
- The academic support units must incorporate the EBC projected savings in their cost reductions.
- The projected EBC savings should be introduced by campus managers into the budget reduction models as they evolve.

6. The EBC Process: Update

The Executive Budget Committee (EBC) process was initiated at a time of significant, statewide budget shortfalls by then-CPEVC Simpson as a means to achieve improved operational efficiencies and budgetary savings that would mitigate the impact of the budget cuts and help build flexibility and capacity for the future. In January 2003 CPEVC Simpson hired a management consultant team (AVCOR) to advise the campus on how best to achieve these cost savings and efficiencies. During the subsequent CPB consultations on the EBC process, we focused on the progress towards achieving its stated goals, which were the primary justification for the large financial investment in the AVCOR consultants and the perhaps even greater investment by UCSC staff.

Our analyses focused on the sensitivity of the EBC initiatives to the core mission and values of the campus, the quality of the data and analysis used to inform the EBC process, the articulation of clear next steps for achieving the expected savings, and, on measures of administrative accountability for pursuing and achieving the agreed upon initiatives(<http://senate.ucsc.edu/cpb/cpbar1406.pdf>; <http://senate.ucsc.edu/cpb/ReportSenateFeb2004final.pdf>). A key and recurring recommendation from CPB was the need for determining the costs of current campus operations, estimating the costs of that level of service at a well-managed institution, and then, finally, determining what level of service we would choose, in light of what we could afford. This fundamental recommendation has yet to be addressed by the administration.

The vast majority of operational and budgetary efficiencies to be gained would be in the areas of business transformations and information and technology services (ITS). CPB was supportive of most of those initiatives, many of which were recognized as worthwhile even if there were no need to accommodate statewide budgetary shortfalls. Several of the promising initiatives, such as e-procurement and time and attendance standardization have progressed well into the implementation stage.

In December 2003, it was apparent that potential EBC savings would not be realized for approximately 2 – 5 years and would require substantial, one-time financial investment as well as significant investment in staff time. We subsequently learned, in June 2004, that achieving cost savings had ceased to be a “driver” of the EBC process, and instead that business, ITS, and other service “transformations” were now being pursued primarily because they were organizationally justified. However, several fundamental questions, key to justifying the EBC transformations, and to evaluating its progress and success, have yet to be answered. Was UCSC under investing or overspending on current business and IT practices? Was the substantial investment (financial and staff time) in the EBC process justified, particularly during this period of budget shortfalls, and will the reorganized university functions produce measurable cost savings that could be redirected towards preserving and strengthening academic functions in coming years? As a result, CPB is concerned that the campus may be left with no way to track the cumulative costs and benefits of the EBC process.

The rationale for dropping cost savings as a primary driver of the EBC process was never directly articulated. It appears to be the outcome of a combination of factors. There was a pervasive distrust and general discounting of the AVCOR-generated data among the current administrators. However, as far as CPB is aware, the administration did not produce alternative data that was as systematic, accurate or compelling as the AVCOR results. In the absence of these alternative data, the discounting of the AVCOR results does not appear justified.

By the summer of 2004, only the minimal savings of \$1.1 M have been realized from the consolidation of business and HR functions, and no estimates of cost savings (or additional investments) are expected from the newly consolidated ITS. Unfortunately, the net outcome of the EBC process is thus far impossible to assess in light of the original aims.

CPB’s key conclusions with regards to the EBC process are as follows:

- In lieu of an adequate explanation for the abandonment of some key aspects of the EBC process, we are left speculating about what to expect in terms of operational and cost efficiencies for these units. Cost savings are clearly no longer a primary driver of the EBC process, and it is unclear whether and to what extent operational efficiencies remain a tenable goal. In the short-term, it is therefore not clear whether the substantial financial and staff investment in the EBC process are justified.

- Several key EBC initiatives (business and ITS transformations) have entered the implementation phase without the needed development of a budget model to accommodate the impact of these transformations on the academic units. CPB agrees that the campus needs an alternative to the current decentralized base-increment model, as recommended early in the EBC process, if the campus is to achieve improved operational efficiency, transparency, and accountability.
- The necessary measures of managerial accountability were not in place as of June 2004. We will have no way of assessing the success of the EBC process without effective measurement systems (data gathering and analyses) to monitor performance and accountability.
- The role of CPB as an independent analyst of the data, upon which the decisions were made, was underutilized in the EBC process. We have been forced to speculate about why this happened, and we attribute it in part to a breakdown in communication of the available data and in the presentation of compelling arguments that must be rectified if the Senate is to provide the independent analysis fundamental to the process of shared governance.

7. Growth/LRDP/Strategic Futures Committee

CPB issued a report to the Senate in June 2004 (<http://senate.ucsc.edu/cpb/CPBGroRptS041430.pdf>) in response to the SFC/LRDP process, the proposed LRDP enrollment cap of 21,000 FTE, and the important issues underlying future enrollment growth at UCSC. In that report we address the fact that the 21,000 FTE number was not presented for formal consideration by the Senate, and cannot be endorsed by CPB until critical issues are addressed. The most central of these issues is that university-wide academic plans, endorsed by both the Senate and the administration, should precede future growth. CPB recommends a broader campus discussion of the desirability and phasing of growth under alternative scenarios before final decisions are made in the LRDP process.

The SFC Draft Report presents the 21,000 FTE limit for 2020 as a point on the continuum of campus growth, between minimal growth to 17,000 and aggressive growth to 25,000. The SFC correctly states that enrollment growth is one possible means for the campus to advance towards its long-standing goals in undergraduate education, graduate education, and research, if managed properly. The SFC's procedure implicitly assumes that the campus can only improve through growth-generated FTE. We know, however, that enrollment growth alone, especially rapid incremental growth, does not in itself provide means enough to achieve those goals.

The assumption of growth in the SFC Draft Report raises several important questions:

- How would growth to 21,000 FTE advance our 15% graduate enrollment goal, if the majority of growth continues to be at the freshman level?
- What resources beside funds from undergraduate enrollment will be needed to fund graduate education and research from now on?
- How can we redesign our planning process to develop academic plans outside of growth already in place?

- How can we tie growth to achievement of planning benchmarks in graduate enrollment, facilities, and infrastructure?

There are at least two alternatives to the pursuit of resources solely through enrollment growth, which can be pursued simultaneously, that should be considered: one is to set priorities for the redeployment of existing resources, as mature campuses do, and the other is to seek new revenues from a variety of sources (including, but not limited to, the State). CPB has repeatedly stated that the absence of articulated campus priorities, even during periods of growth, is a shortcoming of the planning process that must be addressed if growth is to be desirable and maximally advance the campus towards achieving its goals (See CPB reports on Campus Planning and Enrollments).

<http://senate.ucsc.edu/cpb/index.htm>

In light of this, CPB recommends the following immediate steps:

1. Develop a campus-wide academic plan that will help the campus to define acceptable growth. This plan should link academic and budgetary priorities for academic growth and retain flexibility to pursue strategic opportunities. The plan should also include rationales for academic and research growth and should define the specific resource and planning conditions under which enrollment growth would improve the campus. It should be recognized that:
 - the current divisional 10-year plans do not constitute campus-wide plans,
 - the current incremental growth model does not facilitate campus-wide planning,
2. Create a campus-wide committee with responsibility for academic planning on an on going basis to facilitate development of campus-wide plans,
3. Define specific resource and planning conditions under which revenue generated by growth in undergraduate enrollment improves the overall balance and quality of the campus,
4. Develop a robust Graduate Division to promote existing and new graduate programs,
5. Restructure the VPAA and VPDUE positions,
6. Provide structural means for developing new schools and enhancing existing programs,
7. Enhance the fund-raising performance of University Relations,
8. Strengthen the role of departments and their chairs in academic planning,
9. Ensure that functional efficiency and capacity-building in the academic support and administrative units are maximized under the Executive Budget Committee process.

8. Continuing Issues

A number of issues that CPB dealt with in 2003-04, including many of those discussed above, are on-going and sufficiently substantive that we recommend continued close consideration by CPB in 2004-05. These include:

- The LRDP process and enrollment growth
- The EBC process
- The WASC process

- Graduate Division administrative structure
- Administrative reorganization. The Grey report on the administrative and academic structure at UCSC was issued but there has not yet been formal discussion of its findings and recommendations.
- UNEX and the role of Senate oversight

Respectfully Submitted:

COMMITTEE ON PLANNING AND BUDGET

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January 11, 2005

* filed a Minority View (attached)

MINORITY VIEW

Although I fully concur with the Report of the Committee, I wish to elaborate upon and underscore certain of its points from my perspective as both the Committee's Chair for the past three years and as an individual member for the past five years. Please note that what follows does not necessarily reflect the view of any other committee member during my period of service.

Process

CPB was not able to issue timely reports on the EBC and the SFC as originally planned. These are both administrative committees on which members of CPB served, not as representatives of CPB, but in their respective capacities as Chair and Vice Chair of the Senate. It was, thus, unclear throughout the year whether CPB should communicate with EBC and SFC through them or independently, and what role they should play in CPB's internal deliberations about decisions that they may have already supported in other venues. While CPB was discussing these procedural questions, critical administrative decisions were made by the EBC (not to pursue cost reductions) and by the SFC (the 21,000 enrollment cap). These decisions were made with the full participation and knowledge of top officers of the Senate, but without opportunity for a formal response by CPB until the academic year was over in the case of SFC, and until now in the case of EBC.

Although the belatedness of our reports can be explained as an unavoidable result of disagreements among Committee members, I believe that these disagreements themselves were partly the product of two structural factors: (1) a growing tendency of the Senate leadership to deal informally with the administration ahead of CPB, and to provide the administration with opportunities to deal with them instead of CPB; (2) the inherent role conflicts they have when they have already participated (and are still participating) in the decisions of administrative committees that CPB must review. These structural factors should be explicitly addressed by future CPBs, and also by COC, which might consider whether the Senate leadership should participate in Senate committees only by invitation on matters where they feel free to deal with the administration independently of those committees.

University Extension (UNEX)

Implicit in CPB's Report is a deeper underlying cause of the UNEX deficit: the decision by the campus administration in the late 1990s to make UCSC's Extension the second largest in the UC system, and to focus its expansion on in-house professional development programs for high tech companies in Silicon Valley. As these programs were originally designed, the campus got no direct financial benefit from their potential for success, but was (and still is) financially liable for their failure. This costly decision has thus far reduced total campus reserves (and hence our capacity to finance deficits in other areas) by \$15M with no end in sight. The Senate was not consulted about this

decision, or about the apparent priority that UNEX enjoys over other campus units in being allowed to finance an annual operating deficit as a “negative carryforward.”

Although the need for future Senate consultation on UNEX is central to CPB’s Report, I would also underscore our recommendation that the administration stop the present losses in UNEX *before* creating a task force to consider its long-term future. Finally, I would note that the administration did not respond to CPB’s Report on UNEX as of September 1, 2004.

Divisional Budget Reductions

This year’s budget cut (2004-2005 fiscal year) was probably worse for the core campus mission of Instruction and Research than it would have been had there been no EBC process. To be sure, the administration kept its promise to cut the academic divisions at a lower percentage rate than other campus units. This lower nominal rate was imposed, however, only *after* the expenditures under study by the EBC (business, services, and IT) were “sequestered” (hypothetically removed) from all of the budgets to be cut. As a consequence of sequestration, the academic divisions had to absorb all of their cuts in areas that directly affect our core academic mission – academic advising, TA support, and TAS funding. The presumed rationale for this is that *even* larger cuts would occur in the areas under study by the EBC. As CPB reports, however, *no* savings targets were actually developed for these areas. Neither had the functions associated with the sequestered costs been formally transferred to managers with a mandate to deliver measurable cost savings over time. As of September 1, 2004, the management responsibility for these functions remained where it was, and their future cost (for all we know) was expected to be the same or higher.

Two further points are worth mentioning.

- The >\$31M campus expenditure on IT was entirely exempt from campus budget reductions. (Technically, the CPEVC “bought out” IT’s cut, which might otherwise have been as high as \$3M.) This decision to leave IT’s budget intact for the current fiscal year was notwithstanding the fact that IT had not yet proposed major investments for this year, and that it has, in any event, a reserve of \$6-7M for this purpose. CPB was not consulted on the Interim CPEVC’s decision to leave the IT budget intact.
- Whether Student Affairs was substantially exempt from cuts is open to interpretation. If the legislature’s partial elimination of Outreach funds is counted against Student Affairs, then it experienced the largest cut of any unit. If, however, Outreach funds are treated separately (because they come from a separate legislative appropriation), then Student Affairs received relatively minor cuts.

The EBC Process

In its 2002-2003 Annual Report, CPB praised the administration for collecting evidence of inefficient campus operations and for sharing that information with us. We believed

that, having gone this far in the EBC process, our campus leaders could not fail to act on what they knew.

CPB's 2003-2004 Annual Report should be read in contrast to the previous Annual Report. Our clear message this year is that the administration has ceased to collect information that would benchmark the efficiency of campus operations and has ceased to provide CPB with cost-related information that is already gathered. Although "efficiency" remains a stated goal of the EBC process, this no longer means that the same services would cost less or that better, more extensive service will be provided at equivalent cost. *If* long-term cost-savings do eventually occur, the campus will not be able to track them, and will never know whether they were large enough to justify the time and expense of the EBC process itself. The CPB Report notes this point, as well as the administration's inability to produce a funding model that would define what it is willing to spend on business and IT services and the level of service it expects for that money. This funding model was necessary to determine by how much (and through what mechanisms) a unit's base budget should be reduced when it is no longer responsible for business and IT functions, and thus to what extent the promised "transformation" of these functions must be centrally funded out of reserves. Without such a funding model, savings from the EBC process could not be harvested centrally and used for other purposes as originally promised.

The CPB Report accurately describes the central failures of the EBC Process, but does not go on to explain how its goals were largely inverted over the course of the past year. CPEVC Simpson made little, if any, progress in developing the promised funding model, and hesitated to make any organizational changes without it. Before he left campus, however, he authorized AVCOR to turn over all of the data that it had collected to CPB, and permitted CPB to release it. The AVCOR data (which did not yet include IT) demonstrated that the campus should be able to deliver approximately the same quality of business services with 180-200 fewer staff FTE, which, combined with other economies, could produce permanent annual savings of over \$10M per year.. Based on this data, AVCOR proposed a timetable for realizing substantial savings beginning in Spring 2004, at which time CPB hoped to report that measures of managerial accountability were in place that would allow the campus to track the cumulative benefits of the EBC process over the years to come.

Final approval of the timetable for savings was, however, contingent on the reports of the implementation teams in which mid-level managers of the affected units were heavily represented. On December 15, 2003, these committees reported that potential EBC savings would not be realized for 2 – 5 years and would require substantial, one-time financial investment as well as significant investment in staff time. No measures for tracking the expected cost-saving were proposed, and no targets were given.

On June 15, 2004 (a week after CPB's final meeting), the Chair and Vice Chairs of CPB were invited to a year-end meeting of the EBC. Here we were told for the first time that cost saving had dropped out as a "driver" of the EBC process, but that business and service "transformations" were now being pursued for their own sake. The decision to

drop all accountability for cost-savings from the EBC process was made unilaterally by the administration without consultation with CPB or any other Senate Committee.

The story of the IT Transformation is particularly disturbing in this regard. In Spring 2003, AVCOR used heuristic methods to estimate that campus IT costs were at least \$31M. Senior IT administrators agreed that this number, if accurate, was excessive and demanded a costly empirical survey to refute it. When the survey data were finally made available to CPB in February 2004, the real cost of campus IT proved to be at least as high as AVCOR's estimate, and seemed to demonstrate AVCOR's conclusion that UCSC had twice the ratio of IT support personnel to end users of comparison institutions, without demonstrating a comparable difference in quality of service. The Report also suggested, however, that some of the apparent over-spending on support staff is attributable to historic under-investment in servers and software. On this basis, IT management now argued that the \$31M campus expenditure was in fact too low, and hired another consultant, Gartner, to develop metrics demonstrating this.

The Gartner Report, described to CPB as a work-in-progress, was circulated within the administration and became the basis for the EBC's final decision on IT in June/July to maintain and increase the current level of IT spending. Despite repeated requests, this Report was withheld from CPB as of September 1, 2004, when its term expired, leaving IT effectively exempt from demonstrating (at least to CPB) that whatever investments it seeks will pay for themselves in lower employment costs. Instead, CPB was informed that the focus of the IT Transformation is now on enhancing employee and consumer satisfaction – desirable in themselves, but no substitute, we believed, for measurable cost controls.

Holding campus managers accountable for costs is, of course, the proper role of top campus management. CPEVC Simpson spoke the language of cost reduction, but neither he nor then-Chancellor Greenwood were willing to forthrightly address the fact that this meant lower employee headcounts – and, so took no concrete steps. Interim CPEVC Delaney speaks with pride the language of job protection and avoids addressing forthrightly the question of costs. In the past year, we have seen a shift from the one discourse to the other without any hard choices being made about the past and without any vision for the future.

Growth/LRDP/Strategic Futures Committee

On this aspect of the Annual Report, I would like to make two supplementary points:

- The essence of the Committee's recommendation is not simply that we have a plan that would justify growth, but that this plan must state *conditions* to be met before enrollment targets will be increased. Such a plan would be different in kind from past plans.
- The problem is not the *last* two thousand students who are admitted without a plan, but the *next* two thousand students who are coming. These are the two thousand undergraduates that we would have accommodated at the Silicon

Valley Center beginning around now under Chancellor Greenwood's 1999 understanding with President Atkinson. When we ceased planning for the undergraduate component of that Center in 2001, campus administrators were *not* asked to plan for 17K students at the Santa Cruz campus as part of the 10-year planning process then commencing. Indeed, the absence of an undergraduate component in our Silicon Valley Center was never publicly acknowledged by the administration – perhaps because this would reveal that it was committed to exceeding its present LRDP cap long before it actually proposed to do so. CPB has consistently pointed out since 1999 that there has been no plan to accommodate these two thousand undergraduates, either in Santa Cruz or in Silicon Valley

Ongoing Issues

Over the past several years CPB has touched upon some of the most troubling issues of campus management. I enumerate them here in the hope that they will be addressed by our new Chancellor.

Campus Management: We have no way of knowing what various campus functions cost, and, therefore, we do not deliberate within the budget process about what they should cost. In this respect the campus is unlike a business where managerial efficiency is measured and rewarded, and where the gains are harvested by the enterprise where they are then reflected as investments and retained earnings. Most universities, in contrast, reward managerial efficiency by not reducing the manager's base budget for the following year, while allowing the manager to carry forward any savings. In future years these funds can be spent off-budget – i.e., without appearing in the annual base or as an incremental appropriation. The discretionary use of carryforwards is, of course, subject to audit, but not to any form of managerial accountability for what is spent. Campus financial management systematically conceals inefficiency by focusing attention on each unit's annual appropriation (base budget) and away from its *actual expenditures* from all sources, including reserves. Unless expenditures are directly monitored, there is no way to know a manager's real priorities and assess his/her effectiveness in implementing them.

Core and business functions: In the core areas of instruction and research, the campus should not be managed like a business. The budgetary meaning of the tenure system is that ladder FTE positions become part of a unit's base, and that savings from filled FTE (due to leave, vacancy, etc.) are carried forward. Here, the justification is to protect academic freedom. A similar justification can be given for allowing recipients of research grants to carry forward unspent funds to continue their original project, rather than requiring them to apply for new or incremental funding. In these areas, campus management should be driven by academic vision, with operational efficiency a secondary goal.

There are many areas, however, (purchasing, staff HR, billing, maintenance, staff IT, etc.), where universities perform the same functions as private institutions of

comparable size and complexity. Here, ordinary standards of managerial accountability should apply unless deviations are transparently justified as necessary to the campus's academic mission. The mistake has been to treat expenditures on these functions as though they were part of some manager's base budget, and thus a source of carryforwards that can be spent without consideration of what the total campus cost of each function should be. By strictly applying standards of managerial accountability in these areas, the campus can make more funding available for its core mission of instruction and research.

Carryforwards and Plans: We need to find a point along the continuum between funds that are carried forward because they are committed and funds that are committed only in order to be carried forward.

Public sector institutions do not have capital budgets; they cannot amortize investments over time. They pay for "investments" as ordinary expenditures, and, therefore, need to maintain budgetary reserves sufficient to meet their contractual obligations over time. Given budgetary instability, it is also desirable for public sector managers to maintain a degree of float in each year's base budget. Carryforwards for these purposes are justified, as are those necessary to protect academic freedom in instruction and research from the tendency to run universities on a narrow business model.

There is, however, a moment at the end of each fiscal year when all units are asked to justify their carryforwards as nominal commitments. For this purpose they need to cite their plans. The existence of these "plans" is taken at that moment to be the budgetary equivalent of any other financial commitment, even though there is no mechanism for holding a unit head accountable for actually implementing the plan, or for using carryforwards rather than new funds to do so.

Plans and Budgets: Campus planning needs to be more directly linked to the budget process than it has been. At present, the main use of planning is to justify annual carryforwards as though they were all "committed" funds. Many of these carryforwards can be subsequently uncommitted, and there is no follow-on mechanism to account for their future use. There is, moreover, little if anything in the planning process that sets conditions for moving an item from plan to expenditure. A central focus of campus plans should be on setting the budgetary conditions for implementing the plan, and thus on setting the campus's priorities. Unless and until the planning process is refocused in this way, plans can be appropriately viewed by many faculty and staff as the graveyard of ideas that have not made it into the campus budget.

[On the subject of planning, I must note for the record that the last set of "Ten-Year Plans" did not result in a campuswide plan endorsed by CPB and/or approved by then-CPEVC Simpson. Many elements of the submitted plans were found to be inadequate in the process of CPB consultation with him – a fact that was not forthrightly disclosed by the CPEVC to the campus at large. Today,

however, the mere *existence* of those inadequate planning documents is taken as a basis for the campus to move forward with a new LRDP and to make other decisions with long-range consequences.]

Campus growth: Even when the state “fully” funds enrollment growth, the amount that the campus gets for each new student is less than our average expenditure on existing students. Enrollment growth, in a vacuum, may make the campus presumptively poorer.

This presumption can be rebutted, however, by a comprehensive plan – academic, infrastructural, managerial, and capital – that allows the campus to use new enrollments and the funds they generate to implement a prioritized and sequenced set of goals. Such a plan would make future enrollment growth *conditional* on the past performance of the campus administration in meeting past goals. The campus administration, however, has not thus far been willing to be held accountable for its performance in any area and, especially, in the all-important area of fundraising from non-state sources. The unintended negative consequence is that enrollment growth that might be desirable when tied to such fundraising can prove to be undesirable otherwise.

The role of the Senate: There must be a campus constituency demanding administrative accountability. The systemwide Office of the President expects Chancellors to be fundraisers, and does not collect data on managerial efficiency that might fall into the hands of the legislature. Efficient campus managers do not want to be penalized for accumulating carryforwards, and Chancellors and EVCs often protect their less efficient managers who might otherwise blame the central administration if services break down due to cuts in their base budget. As academics themselves, Chancellors and EVCs know what to expect when instructional funds are cut, and this is what it often seems easiest to do.

The only permanent campus constituency capable of resisting this tendency and demanding accountability for the rest of campus management is the Academic Senate. CPB’s responsibility is to inform the Senate of the budgetary choices that the administration has and of how well the administration has made these choices. It is to finally discharge this responsibility to the Senate that I write these supplementary comments on CPB’s Annual Report summing up what I have learned in five years of service.

The foregoing remarks assume that, unlike the administration, the Senate, in most of its activities, is an open forum that does not need to speak with one voice through the Senate Chair. I believe that, until the Senate has acted as a body, it can appropriately speak with multiple voices through its multiple committees, and that there are circumstances in which CPB must report proactively to the Senate as a whole. In choosing here to add detail and background to CPB’s Annual Report, I give less weight to the Committee’s wish for continuing influence on the administration than to its duty to hold the administration publicly accountable for the choices it has made. CPB is, I believe, the

main representative of the faculty's right to administrative accountability; the Committee's highest priority should be to keep the Senate informed about decisions that might otherwise remain behind the scenes.

Bob Meister, Member and Chair, CPB