

Committee on Planning and Budget Administrative Accountability

To: The Academic Senate, Santa Cruz Division:

EVC Simpson's final report on the results of campus ten-year planning (10-7-2002) concludes with a section outlining "campus-wide strategic indicators" of "accountability." (p. 40) The measures of accountability he has identified in that section apply mainly to academic units (p. 41). To date, there have been no performance benchmarks specifically developed for administrative units on campus, including academic and student support services, Business and Administrative Services (BAS) as well as the academic divisions and the central administration itself. This CPB report focuses on campus-wide financial accountability measures, as well as ongoing financial accountability of individual divisions.

Central Administration

Budgetary accountability by the central administration is of utmost concern to the Academic Senate. The critical issue is the administration's discretionary control over the proportion of state funds spent on the University's core mission, Instruction and Research (I&R) under changing demographic and economic conditions. This issue has been addressed by the UC systemwide Committee on Planning and Budget (UCPB) and the campus CPB with the help of Vice Chancellor of Planning and Budget Michaels. Appendix A provides an explanation of the CPB accountability standard developed thus far. Appendix B summarizes the results yielded by our methodology for the period that begins at the onset of the last budget crisis (1990-91) and ends at the onset of the current crisis (2001-2002). Tables analyzing the four most recent 10-year intervals are available on the web at <http://senate.ucsc.edu/cpb/index.html>

The results indicate a sharp reduction the role of I&R in the total campus budget beginning with the cuts that took effect in 1992-93. From 1990-91 to 1995-96 I&R dropped from nearly 57% to under 50% of campus expenditures, while the proportion of discretionary state funds spent on academic administration, institutional support, and student services dramatically increased. These trends seem to reverse later in the decade, with the proportion of state funds spent on I&R rising to over 53% in 1998-99, and then leveling-off or slightly declining depending on how one interprets the effect of Outreach on total campus spending. Last year's CPB recommended reallocating portions of the base budget to I&R in support of the campus's graduate enrollment goal, and, this year, CPEVC Simpson has pledged to protect I&R as the highest priority in the present climate of massive budget cuts. Other things equal, the effect of his pledge should be to increase the proportion of I&R in campus expenditures, even in the unhappy circumstance of declining totals.

But other things are not equal. CPEVC Simpson's final report on 10-year planning states the campus has not invested in the basic infrastructure it needs, not merely to grow in the future, but to accommodate the enrollment growth that has already occurred. CPB first became aware of this deficiency during the 1999-2000 "initiatives process," when BAS submitted a one-year initiative of over \$15M for the infrastructural and site work necessary *before* the campus could propose the new projects necessary to accommodate growth from 10K to 16K students under the

accelerated (5-year) schedule imposed by Tidal Wave II.¹ Because the BAS request would have absorbed all of the growth-generated funds on campus for the first three years, a choice was made to defer the some of the physical planning decisions and investments requested by BAS, and to use these funds for new faculty positions. Now, however, the CPEVC has announced the temporary diversion of 20% of enrollment-generated resources from I&R to fund near-term infrastructural needs that may run as high as \$30M in a given year.² This would create a “reserve” of 41 FTE that, after meeting immediate infrastructure-planning needs, could allow eventual development of new professional schools.

CPB is concerned, however, that this diversion may not be temporary. There is, as yet, no fixed list of infrastructural investments to be made, no schedule for making them, no assurance that the reserved funds will be sufficient to cover known needs, and no formal planning process for professional schools. In sum, no planned eventuality triggers the end of this temporary diversion of funds from the campus’s academic mission.

CPB believes that there must be budgetary accountability for financing a specific list of infrastructural needs and for returning the reserved resources to I&R when these needs are met, whether a professional school materializes or not. We, therefore, propose that a separate accounting of these funds be given annually to the Senate. In addition, we recommend the annual continuation and publication of the tables and charts in Appendix B, with continuing refinements of the methodology, including the addition of comparison institutions inside and outside of the UC system and outcome standards such as CPEVC Simpson proposes in his final report of 10-7-02. This will provide a cumulative measure of the performance of the central administration in restoring funds diverted from I&R to meet short-term needs.

Other Administrative Units

CPB is optimistic about the development of measures of accountability for units below the level of the central administration. This winter, the campus has hired a consulting firm (AVCOR) to review campus business practices and administrative organization. Although prompted by the immediate budget crisis, this decision is consistent with the intention expressed in the ten-year planning document of 10-7-02 to scrutinize the base budgets and functions of non-academic units. The AVCOR process (culminating mid-May) will require analysis of the actual expenditures of all academic and support divisions on campus, and make comparisons with the delivery of similar functions at benchmark institutions in the public and private sectors.

CPB expects full access to the data and comparative benchmarks generated by AVCOR. From this information, we will form independent conclusions about its recommendations and advise the administration accordingly. CPB will also provide the Senate with an assessment of AVCOR’s conclusions, the adequacy of the data on which those conclusions were based, and the administration’s response.

¹ Under the current Long Range Development Plan this growth was to have occurred between 1989 and 2011. The 1999 BAS initiative assumed that it would occur between 1999 and 2005 as a result of Tidal Wave II, and that the accelerated schedule would cost an additional \$5.8M to plan.

² This estimate may reflect the \$13M cost of the new Academic Information System, but does not count the physical planning and infrastructure projects, which are listed as “TBD”. (10-7-02, p.26)

This, however, is only the beginning. The long-term result of the AVCOR process should be transparent standards of reporting the costs and performance of all administrative units to future CPBs. We would expect, moreover, that future CPBs will be able to monitor campus follow-through on planned reorganization, and the degree to which expected efficiencies materialize. The campus has an opportunity over the next six months to put mechanisms of administrative accountability in place that will greatly enhance shared governance in the future.

Respectfully Submitted,
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January 27, 2003

Appendix A: A model for monitoring campus expenditures over time

Our methodology was developed during 1999-2000 – a year in which rapid enrollment growth resumed after nearly a decade of near steady-state. Baseline data were, thus, collected for the period 1989-1999. Since then, we have monitored changes in successive ten-year periods, the most recent being 1992-2002. (Tables analyzing each of these rolling ten-year periods are available on the web at <http://senate.ucsc.edu/cpb/index.html>)

Although our immediate concerns are local, our general approach is an extension of techniques developed by UCPB in 1998-99 to hold campus administrations accountable for reductions in the UC-funded component of teaching and faculty research. Our methodology builds on UCPB's overall approach to measure *change* in expenditures for I&R over time. Our reasoning was as follows:

- The core mission of UCSC is teaching and research – in budgetary terms “I&R.”
- With some exceptions, UCSC receives state funds and student fees from the Office of the President (OP) on the basis of enrollments.
- These enrollment-generated funds, however, are not used only for I&R. They must also cover administration, student services, institutional support (IS), etc.
- Since the early 1990's, OP has distributed enrollment-generated funds to each campus as block grants, leaving each local Administration discretion as to how much shall go to academic administration, student services, IS, etc., as distinct from I&R.
- The Senate on each campus needs to know how its administration has exercised this discretion over time, and particularly how the proportion of UC and state general funds that are spent on each function has changed with growth in the campus budget, and with real growth in the dollars provided for campus operations on a per student and per faculty basis.
- To calculate this we must first subtract out those segments of the annual campus expenditure that are not at all subject to administrative discretion: most notably student financial aid, auxiliary enterprises, and the direct-cost component of sponsored research. The remainder will be designated as the **Adjusted Campus Expenditure**. This derived figure can then be compared with expenditures in each relevant sub-category, such as I&R and administration.
- To be consistent with Adjusted Campus Expenditure, however, further adjustments must be made in the subcategories of the Financial Schedules. Thus, I&R expenditures are recalculated by subtracting the same dollar figure for sponsored research amount that was already subtracted from Adjusted Campus Expenditure. (In this way we filter out the major extramurally funded component of I&R on both sides of the picture. Otherwise, significant growth faculty-generated grants could obscure the trend in the administration's use of enrollment-generated funds for I&R.³ It is important for similar reasons to filter out growth in financial aid [which reflects fee increases] and growth in housing costs [which reflect markets] – neither of which fall under the administration's discretion.).

³ The “indirect costs” returned to each campus are, and should be, included in Adjusted Campus Expenditure. These funds (which UCOP designates as “opportunity funds”) are a discretionary source of income for the administration, and may thus be used for I&R, Institutional Support (including fundraising), capital projects, administration, etc.

- In some years it may also be necessary to adjust out supplemental appropriations designated by the Legislature for special purposes such as public service (e.g. Outreach) and deferred maintenance. (UCSC's expenditures on Outreach, for example, rose from negligible amounts to a high of \$15M during the good budget years, but the appropriation for Outreach has been largely eliminated from this and next year's budget. The attached Figure, Appendix B, shows the short-term effect of adjusting out this factor. A further refinement would distinguish between the expenditure and the appropriation for Outreach in order to determine how much (if any) discretionary campus funding has been used for this purpose in the past, and how much (if any) enrollment-generated funding will go to Outreach now that state-appropriations have been drastically cut.
- To address our local concern about growth in administrative costs, we also needed to **disaggregate/reaggregate** some of the components of existing budgetary categories in the financial schedules. Thus, the subcategories "Academic Administration" (the Deans offices) and "Executive Administration" (the Chancellor's and Provost's offices) are broken out of Academic Support and IS, respectively, and reagggregated into a new category. (This allows us to investigate the effects of growth in the number and salary of academic administrators on the relative ability of the campus to fund its core mission.)
- This reaggregation of the cost of academic administration into a single category has consequences for other categories. Thus, IS at Santa Cruz is recalculated to exclude Executive Management, and Academic Support is recalculated to exclude Academic Administration. (We have not looked, thus far, at the remainder of Academic Support, which includes library funding, etc.)
- Each adjusted and reagggregated sub-category of expenditure is then **indexed** to the adjusted total campus expenditure, and the rates of growth in each subcategory are compared to each other and to the rate of growth in the total.
- In addition the adjusted total, and each adjusted subcategory is indexed to **Faculty FTE** (both budgeted and filled), and to **Student FTE**.⁴ Once again, the rates of growth in each indexed subcategory are compared to each other and to the rate of growth in the indexed total.
- Inasmuch as we are interested in **trends**, and not absolute values, our methodology is applied to rolling ten-year periods. This allows us to see the longer-term effects of administration spending decisions, and it eventually washes out the effects of budgetary events that are unique to the beginning or end-year of a particular period. (We have, thus far, only applied our methodology to the four most recent rolling ten-year periods.)
- Applying the methodology comparatively across UC campuses is sometimes necessary to control for the effects of system-wide and state policies, and thus hold the campus administration accountable only for budgetary decisions that fell within its discretion.⁵ We can determine, for example, whether trends at UCSC corresponded to trends at other campuses (or the system as a whole) and whether the effects were larger or smaller.

⁴ The distinction in the table between "filled" and "budgeted" FTE is an reflects local issues about the use of TAS funds, and is more relevant at the divisional than at the campus level.

⁵ The availability of systemwide data, however, lags campus data by c. 6-8 months.

The methodology that we developed from these points allows us to use calculations based on UCOP's published Financial Schedules⁶ for all campuses to see how our campus uses the funds generated by enrollments (both state-funds and education fees) as well as other UC General Funds to deliver its core mission over time. Each year, we ask the administration how each (adjusted) component of (adjusted) expenditure varies as a proportion of adjusted total expenditures. We also determine the extent to which increases (or decreases) in enrollment-based funding per student FTE and per faculty FTE are proportionally reflected in increases in I&R, IS, and academic administration expenditures per student and per faculty FTE over time. These variations can be calculated both as a changing percentage of a total, and as a changing percentage of a change. Thus, we can measure the effect of growth in enrollment-generated revenue on the average expenditure on I&R per student and faculty FTE, and we can measure what proportion of the increase in enrollment-generated revenue is going to the core mission over time.

Limitations: Our methodology does not attempt to define from a static pointed of view what should or should not be counted as part of the core mission. Thus, we do not concern ourselves, e.g. with which staff positions are “really” to be considered instructional support under I&R and which should “really” be counted as IS and administration. For our purpose, it matters only that there are no significant changes in the proportional magnitude of a given item wherever it might be reflected in the financial schedules, and that there are no changes in where that particular item appears in financial schedules. If there were to be significant changes, we could refine our methodology by adjusting these items out of both total campus expenditure and the relevant subcategory. This is relatively easy to do. We already do it for extramurally-funded positions, and the discussion above suggests how and why we would refine it to measure the effects of recent expenditures on Outreach on the campus's funding of its core mission.

The possible need to refine our methodology in this way points to a further limitation: it is not a formula for reaching a final judgment on administrative performance, but rather a framework for raising questions based on observable trends. There is, for example, no intrinsic reason why the proportional cost of academic administration should remain constant on a per student basis – other things equal, it should probably decline as enrollments grow. If, however, expenditures for academic administration have grown more than three times faster than adjusted expenses (and sixteen times faster than I&R expenditures), questions will arise. (See, e.g., the Table for 1990-91 to 2000-01). These questions can often be answered, and the adequacy of the answers can in turn be measured by seeing how much of the observable trend they explain.

Strengths: An important strength of our methodology is that it has enabled the Senate and the Administration to speak in similar language about topics of mutual concern. Our budgetary questions are now intelligible to the Administration, and their answers are now responsive to our concerns about the declining proportional budgetary commitment to I&R on the UCSC campus over time. A shared commitment to a methodology such as ours will be vital as UC enters another period of budgetary crisis.

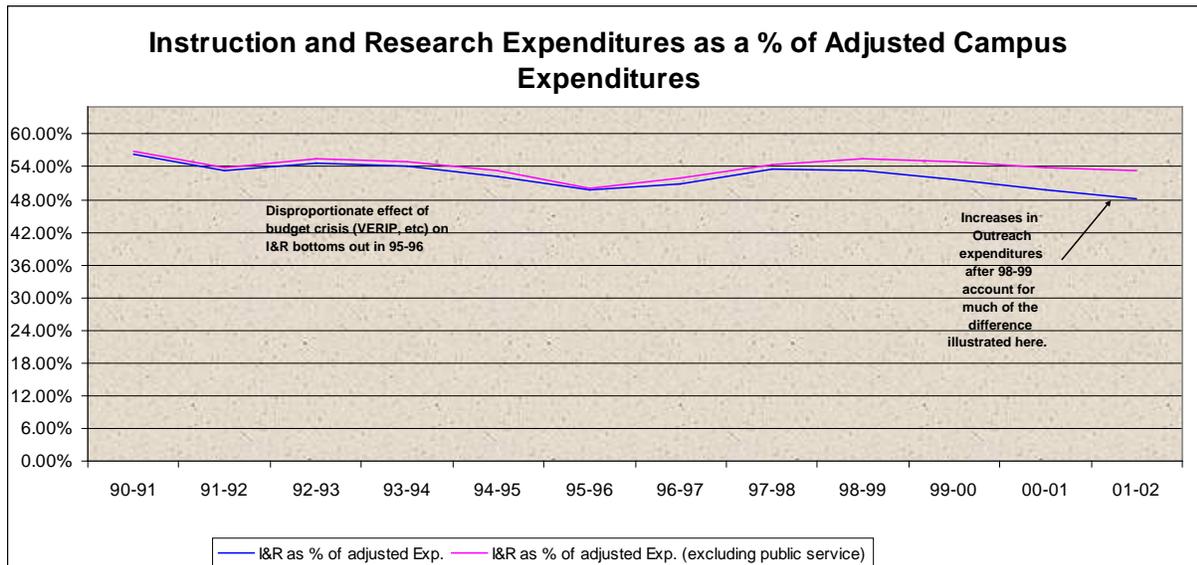
Future Development: This methodology is a work-in-progress. It is clear, for example, that adjustments must be made to give us a more accurate understanding of the effect of Outreach (its growth and contraction) on the administration's use of discretionary funds. A further refinement might be the development of techniques for analyzing the Student Services component of “Other” in the tables developed thus far. Student Services has been the fastest growing component of higher education expenditures nationwide. To understand this on our own campus we must develop techniques for adjusting out the non-discretionary portion of these expenditures. CPB is also aware of

⁶ Schedule C gives annual expenditures for each campus at the necessary level of detail.

the need to develop outcome measures for educational quality that determine how well we are doing with the funds provided. These outcome measures, however, should supplement and not replace the financial measures described above.

Appendix B:

(For analytical tables for the ten-year periods beginning in 1988-89-1998-99 see, <http://senate.ucsc.edu/cpb/index.html>)



Explanatory Notes:

I&R as % of Adjusted Expenditures shows instruction and research expenditures, *excluding* sponsored research, as a percent of UCSC's Adjusted Expenditures (total campus expenditures, excluding student financial aid, auxiliary enterprises, and sponsored research).

I&R as % of Adjusted Expenditures (excluding public service) shows instruction and research expenditures, *excluding* sponsored research, as a percent of UCSC's Adjusted Expenditures (total campus expenditures, excluding student financial aid, auxiliary enterprises, sponsored research, *and* public service).