# Financial Reform Initiative

## White Paper: Listening Tour Findings

Finance Reform Team: November 2016

Chief Financial Office

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This White Paper is the product of Finance Planning & Analysis in the Chief Operating Officer Group (CFO).

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# I. INTRODUCTION

In response to campus feedback, the Finance Reform Initiative is designed to improve the transparency of funding decisions, align incentives with campus goals, provide a responsive central allocation model and simplify our planning and management environment. To better inform these efforts, the Project team undertook a "listening tour" of the leaders of respective academic units during August and September 2016. The goals of the tour were three fold:

1. To listen to viewpoints regarding the current distribution of campus support and suggestions for improvements
2. To seek input on the impact of an allocation model based on standard metrics
3. To understand what success would look like from the Deans' perspective

This White Paper focuses on the main common themes that we heard during the tour rather than providing an exhaustive survey of the issues. It is hoped that these findings will (i) complement current efforts by the Deans' advisory groups to review incentives, (ii) support prioritization of reform efforts and (iii) shape the scenarios to be tested within the Central Allocation Model.

A total of 21 meetings were undertaken as listed below. We would like to express our sincere appreciation to the Deans and to their senior administrative staff (i.e., Assistant Deans, Chief Operating Officers, Chief Administrative Officers, Divisional Finance Leads) for taking the time to share their invaluable perspectives and feedback.

| Date | Name of School, College or Division | Participants |
|---|---|---|
| July 28th | School of Journalism | Dean & Asst Dean |
| July 29th | College of L&S: Mathematical & Physical Sciences Division | Dean & Budget Officer |
| July 29th | College of Chemistry | Dean & Asst Dean |
| Aug 1st | College of Environmental Design | Dean & Asst Dean |
| Aug 1st | School of Optometry | Dean & Asst Dean |
| Aug 3rd | UC Extension | Dean & Chief Operating Officer |
| Aug 9th | College of Natural Resources | Dean & Asst Dean |
| Aug 23rd | School of Public Health | Dean & CAO |
| Aug 23rd | College of L&S: Arts & Humanities Division | Dean & Budget Officer |
| Aug 24th | Goldman School of Public Policy | Dean & CAO |
| Aug 25th | College of L&S: Social Sciences Division | Dean & Asst Dean, Budget Officer |
| Sept 6 | Haas School of Business | Dean, Sr Asst Dean, DFL |
| Sept 8 | University Library | Dean, Budget Director |
| Sept 8 | College of L&S: Biological Sciences Division | Dean, Budget Officer |
| Sept 13th | Boalt Hall School of Law | Dean, Sr Asst Dean, CFO |
| Sept 21st | Undergraduate Division | Dean, Director |
| Sept 23rd | Summer Session | Dean, IT Director |
| Sept 26th | School of Information | Dean, Asst Dean & CAO |
| Sept 30th | Graduate School of Education | Dean, Asst Dean |
| Oct 17th | Graduate Division | Dean, CAO |
| Oct 25th | School of Social Welfare | Asst Dean, CAO |

## II. KEY FINDINGS SUMMARY

The listening tour created an opportunity for a timely conversation with campus leaders. Participation by nearly all of the Deans indicated the significance of this topic. The interactions were extremely collegial and provided a rich set of feedback, much of which was beyond the scope of the Finance Reform Initiative. In general, while these leaders expressed some concerns about the impact of potential changes, they were optimistic about the Project and recognized the importance of contributing towards the common good of UC Berkeley.

This section will elaborate on seven of the most common themes that we identified from the listening tour namely:

1. Reputational risks and peer comparisons
2. Transparency
3. Budget Committee
4. Revenue generation
5. Administrative processes, systems and campus environment
6. Strategic planning

### 1. Reputational risks and peer comparisons

In discussing Finance Reform, one of the issues that came up repeatedly was the reputational risks for U.C. Berkeley, associated with the campus' current financial constraints and the funding system currently in place. Seven Deans, felt that they had the potential to grow and increase their standing in the rankings, but expressed concerns regarding the relatively small size of their faculty compared to their respective peers. They referred to difficulties in attracting world-class faculty, given the highly publicized financial problems of the campus and the realities of substandard facilities. Four Deans indicated that they faced challenges meeting the growing costs of startup for new faculty. Many acknowledged that they had already experienced declines in faculty numbers in recent years and expressed concern about their ability to continue to implement their strategic plans given forthcoming retirements and uncertainty over the likelihood of being awarded replacement faculty. Others felt hampered by not being awarded ladder faculty FTE or funding for lecturers and GSIs to meet growing enrollments. There was also particular concern about the risks to Berkeley's national and international rankings due to the rising student to faculty FTE ratios. Lastly, there were concerns about how to meet the need for faculty to teach emerging areas of research.

### 2. Transparency

All of the Deans commented that the current distribution of campus funding obscured funding flows and created negatives incentives. The Deans from the professional schools amplified many of the budgeting distortions and financial issues that they had articulated in late 2014[1]. The plethora of

[1] Budgeting Distortions from the Dean's Perspective: A Non-Exhaustive List 9/17/2014 – attached.

special arrangements, Memoranda of Understanding (MOUs) and off cycle requests had resulted in a great deal of distrust between the campus and the center, with many units feeling that funding may be based upon a Dean's ability to negotiate.

Seven Deans expressed frustration regarding the lack of acknowledgement of their contributions, in the form of student enrollments (i.e., tuition), to the financial health and well-being of UC Berkeley. It was unclear to them what their contribution actually is since no measures of this sort are currently reported. The term 'net contributor' was frequently used to highlight the perception that Schools were generating more revenue for the campus than support received. Many confirmed their commitment to the advancement of campus priorities but wished for greater transparency, equity and participation in the decision making process.

Eight Deans felt that solid decision making was hindered by a lack of understanding of the underlying cost structures related to pedagogy, overhead and staffing needs and how these varied unit by unit. Many felt that this was particularly evident in the Temporary Academic Support (TAS) distributions with some units feeling like they were being "cut to the bone" while others were doing comparably well. Concerns were also expressed over the ways that baseline funding had been cut over time in ways that were idiosyncratic to specific departments and divisions and that made comparisons difficult.

There was also a desire for more clarity and understanding regarding who was responsible for maintenance and support of space related costs, at present this is negotiated on a project by project basis.

## 3. The Budget Committee

While the Deans recognized the important role of the Budget Committee in maintaining the quality of UC Berkeley's academic preeminence, 80 percent of participants wanted their interactions with the Budget Committee to be improved. One of the most significant concerns related to the fact that faculty FTE were awarded without regard to the startup costs to be incurred by the units. There was concern that the Budget Committee decisions were insufficiently informed by the campus strategic plan and directions. Many were unsure of the basis upon which decisions were made, and would like to receive more information regarding the actions taken by the Budget Committee. Three Deans found a "faculty based funding model" to be problematic and felt that inadequate attention was directed towards programs with revenue growth potential.

## 4. Revenue generation

A number of Deans welcomed the current revenue sharing opportunities with campus with respect to PDST and/or SSGPDP programs. Several felt that these arrangements should be standardized across campus. Many were concerned about the length of time for UCOP to approve new degrees and fees.

Every Dean recognized the importance of generating revenue. However, six Deans specifically noted that they felt impeded from launching, delivering and maximizing the potential of new programs by a lack of "bandwidth," expertise and clear expectations. Several Deans demonstrated considerable expertise and familiarity with creating professional degrees. One Dean from a graduate school offered to share its experience with others.

Five Deans suggested the establishment of a negotiated "compact" with campus which would consist of an agreed set of productivity guidelines (faculty workload) as well as revenue targets. Others recommended a way be found for faculty to make more than their regular academic salary (plus summer ninths) as a reward for various income generating approaches (e.g., increased research, fund raising, online teaching etc.). Finally, some Deans recommended a line of credit to provide access to funding for new initiatives where local funding is not available.

## 5. Administrative Processes, Systems and Campus Environment (including space and facilities)

Deans expressed concerns regarding the lack of predictability for, and sensitivity of campus support funding streams. Predictability is challenged in the face of (i) the heavy reliance on salary savings as a means to fund instructional support (ii) the year-to-year nature of funding cuts or flows from the annual budget cycle, (iii) the size and amount of off-cycle funding requests. While much of campus support is unpredictable, the other portion is predictable but not sensitive to changes in behavior. Several Deans noted with frustration that if they expanded their programs this action would have no effect on their Division level allocations. To be able to mount revenue generating activities, it was noted that Dean's need to be able to plan over the midterm time frame with robust multi-year budgets.

In over half of the interviews CSS service was also seen as problematic with units having had experienced delays in in processing transactions and creating additional workload.

Many Deans would like a greater understanding of "common good" services and what benefits should be shared and available for all on campus. They raised concerns in relation to facilities maintenance, including the poor quality of custodial services, lack of clarity on who is responsible for providing or paying for services and complaints regarding the excessive amount of transactional costs associated with recharges. Many shared the perception that some non-academic units were recouping budget reductions via increased recharge rates.

Space related issues were wide-reaching and included the lack of space, hoarding, quality, maintenance, renovation, and lack of clarity on who was responsible for renovation and maintenance.

## 6. Strategic Planning

Five Deans cited that an absence of a shared campus strategic vision made it difficult to collectively focus on campus priorities. Others referred to the need for more clarity relating to the governance of strategic priorities and risk management. There were also concerns about the lack of transparency of decision rights and a perceived misalignment regarding responsibilities and access to related revenue streams.

One Dean suggested a decision-making matrix to visualize a strategic planning process that would enable the campus to consider and decide on the tradeoffs between revenue generation activities and the impact on quality and ranking.

### 7. Miscellaneous

In addition to these common themes, there were some more unique concerns expressed. Two of these issues included: (i) online education practices and the required payment of campus fees and (ii) the separate charging of course material fees beyond the core budget.

During our conversations, we also noted some inconsistencies with respect to understanding of campus metrics and financial practices.

## III. METRICS

The Deans generally agreed that the following, proposed standard metrics most accurately reflected their most significant cost drivers and should be considered and tested within the Central Allocation Model.

- Student Credit Hours
- Student FTE
- Faculty FTE
- Headcount Undergraduate Majors
- Headcount Academic Graduate Students
- Headcount Professional Graduate Students (SSGPDP, PDST)
- Student Residency Status
- Degrees Granted, by type of degree

SCH was generally regarded as an important metric to measure instruction but comments were made that SCH alone would not account for pedagogical differences. The SCH metric should be balanced with some outcome metrics (and to offset the inclination to just accumulate SCH). (It should be noted that the Committee on Courses can also act as an important control point to prevent the proliferation of redundant courses to capture SCH). Cost drivers relating to “Online SCH” are becoming increasingly significant.

Other comments included:

- A desire for research-related metrics including ICR.
- Headcount Majors or Non Majors should be considered in the allocation of instruction related costs, such as advising.

- There is a desire to consider the different student demographics within a School or College as an indicator for the level of advising and other student support costs.
- Metrics that measure a units' contributions to UC Berkeley's public service could be identified.

During our meetings, it also became apparent that units such as the UC Berkeley Library, UC Berkeley Extension, Summer Sessions, the Graduate and Undergraduate Divisions have a set of unique cost drivers pertinent to the flow of campus resources that will merit individualized attention. For example, Summer Sessions highlighted that a SCH based allocation model for Schools and Colleges would negatively impact diverting SCH towards Summer Session programs. Other metrics such as a base payment plus capitation amount, research FTE, size of the print collection, the size of the digital collection and # of admissions are some of the additional measures which can be considered as circumstances warrant.

## IV. WHAT DOES SUCCESS LOOK LIKE

The listening tour manifested many overlapping perspectives with respect to the "elements for success" for the Finance Reform Initiative. One Dean succinctly summarized many Deans' views as follows:

- A transparent road map that governs how revenues flow on campus
- A reasonable explanation of how campus common services are allocated
- Streamlined, simplified metrics-informed allocation that is adjusted according to workload and that takes pedagogical differences into account
- A better understanding of governance and who is responsible for what
- A shift away from incremental budgeting and the permanent budget
- A reformed budget process and a meaningful set of budgetary tools at the School and College level
- Minimal off cycle commitments

## V. CONCLUSIONS

To conclude, the listening tour was welcomed by the participants and the interactions were positive and engaging. The tour confirmed that the campus is eager for change which will facilitate a positive transition towards a revised budgeting methodology.

What we heard was consistent with many of the budgeting and financial issues that have been raised over time. But the level of “pain” was high and seems to have intensified in parallel with the recent budget cuts and the uncertain campus operating environment. Many Deans expressed concerns about their ability to maintain UC Berkeley’s academic preeminence due to the difficulties of attracting world class faculty. There was particular concern about the risks to Berkeley’s rankings due to the rising student to faculty FTE ratios and challenges to growing the size of their programs.

In addition to the concerns raised above, the following additional perspectives are particularly noteworthy:

- Many Deans seek greater visibility and recognition for the financial contribution that their respective School and/or College brings to campus in the form of tuition paid by their students and would like greater equity and participation in the decision making process. While it was understood that an amount of tuition should be provided to campus for general operations, there was a desire to understand the extent to which School or Colleges are “ net contributors ” to campus.
- In comparison to academic expectations and measures of quality, which are clearly understood, the same is not true for expectations regarding administrative roles and responsibilities. Several Deans raised the idea of a “compact” with campus that would clarify roles and performance expectations. Suggestions included (i) a set of clear guidelines for start up and retention, (ii) productivity guidelines, (iii) responsibilities regarding space allocation and common goods/services, (iv) distribution of ICR and (v) fundraising targets.
- Many Deans felt that they had the potential to grow and meet changes in student interest but were hampered by a variety of factors including restrictive policies related to the creation of faculty FTE from non-state funds and lengthy approval process for PDST and SSGPDP fees and degrees. Many Deans expressed concerns regarding the lack of available staff (and Dean) time and expertise to focus on new strategic endeavors with revenue generating potential.
- Several Deans suggested a “line of credit” approach with a pool of available campus funds to be drawn upon to finance startup and retention and to provide seed funding for new initiatives. Such a funding mechanism could help with the lack of discretionary funding commented on by some Deans.

The new metrics-informed Central Allocation Model that is being developed is a clear and direct response to many of the widespread shortcomings and concerns in the current system. The new model will be designed to provide a more predictable relationship between workload and funding by allocating a portion of tuition revenue using a mix of metrics related to enrollments and workload incurred. A portion of tuition and state funds will be reserved for “topping off” units and for strategic initiatives including cross disciplinary collaborations. The allocations will be adjusted to account for pedagogical differences. Echoing the concerns of the Deans, the model has the ability to incorporate a set of performance standards relating to productivity and to adjust allocations as desired. In addition, a pool of strategic funding will be created to support the launch of new initiatives. In parallel, policies will be reviewed and updates suggested to better align policy and desired outcomes as recommended by the respective campus advisory groups.

Several concerns were raised that are beyond the scope of the Finance Reform Initiative including issues pertaining to space, facilities and the Budget Committee. Finance Reform can, at some stage in the future, provide an opportunity to either charge for space or alternatively allocate funding for the maintenance of space (in a metrics-informed manner) pursuant to the recommendations reached by the decision-making body.

Separate efforts are also underway to review administrative practices with the goal of simplifying and reducing excessive recharge transactions currently in use by some non-academic units.

The interactions of the Schools and Colleges with the Budget Committee are a matter best discussed with the academic leadership of Campus and the Academic Senate. The Budget Committee currently receives many data points and annual faculty recruitment proposals from Schools and Colleges on which to base their decisions. Finance reform can add an overarching look at the dollars expected to be allocated unit by unit providing an additional layer of information, but not directly informing faculty decisions.

In closing, it should be remembered that the central campus allocation computation will reflect the decisions reached and policies enacted by empowered parties on campus - operationalizing those decisions but not driving them.

**APPENDIX**

The goals of the Finance Reform Initiative are to:

- Sustain and enhance the academic preeminence of UC Berkeley, underpinned by a sustainable financial model
- Strengthen units' abilities to influence revenue growth
- Simplify allocation decisions and processes
- Better allocate funding in line with campus priorities and workload
- Ensure provision of adequate strategic funding
- Allow campus leaders at every level to be nimble in allocating resources
- Encourage more horizontal collaboration

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**LISTENING TOUR SAMPLE QUESTIONS:**

1) What are your most important financial problems for which you see Finance Reform providing solutions e.g., incentives, processes, decision rights, transparency, etc.)?

2) How do you think campus should provide incentives to (i) grow revenues; (ii) develop cost-containment ideas; and (iii) achieve administrative efficiencies? Are there other dimensions along which we should provide incentives?

3) The following metrics are being considered as data points with respect to the distribution of central resources. Which of these metrics do you think are appropriate for campus to use? Which would most significantly affect your costs?

- Student Credit Hours
- Student FTE
- Faculty FTE
- Headcount Undergraduate Majors
- Headcount Academic Graduate Students
- Headcount Professional Graduate Students (SSGPDP, PDST)
- Student Residency Status
- Degrees Granted, by type of degree

4) Are there other metrics that you are using or think we should use, and for what reason?

5) Once operationalized, what does successful campus Finance Reform look like to you?