

## Budget Advisory Committee: Self-Supporting Activities Subcommittee Recommendations

Per our charge the subcommittee focused on auxiliaries, major self-supporting/recharge units and other income producing activities. The following recommendations are offered to improve and streamline current processes and identify opportunities to reduce, consolidate or eliminate services.

There are many types of self-supporting units on campus and to focus our efforts we gave our main attention to the major self-supporting service units which provide core services to the campus and have the biggest impact on campus departments (Appendix 1).

Our over-arching recommendation is to look carefully at the manner in which the campus subsidizes overhead of self-supporting units and to determine when it is in the best interest of the campus to continue these subsidies. Based on this analysis, we recommend that we consider whether or not to continue providing these services. We expect that the review of overhead may result in a reframing of the self-supporting assessment, to be more in-line with requiring self-supporting units to pay appropriate overhead.

While we are recommending a near-term continuation of the across-the-board assessment, there needs to be thoughtful and comprehensive strategic planning on the part of high-level campus administrators to address long term realities. We are concerned that the continued across-the-board assessments would degrade the mission of these units.

Finally we want to acknowledge that mentioning a particular unit as an example in no way implies we believe that the unit is inefficient or problematic. All campus units are doing their best in very difficult times. It is quite possible that the self-supporting units themselves will benefit from some of the recommendations of the committee.

The Subcommittee recommends the following:

- 1. Review and evaluate mandated services to determine if they should remain mandated and evaluate select services that may benefit from becoming mandated.**

The sub-committee believes that the lack of competitive forces associated with mandated services limits organizational drive toward efficiency and effectiveness. It may be that these mandated services are efficient, effective and competitively priced, but there are no systems to ensure this. The sub-committee further recognizes that there may be potential cost savings if fee based services were competitively bid rather than mandated.

Conversely, the university may be losing buying power, revenue and organizational effectiveness by not mandating some services. We propose that a risk benefit analysis be completed for services mandated by policy, in order to determine if these services should continue to be mandated or should be open to market competition. This review should focus on services that have potential for biggest impact.

- a. Perform a risk assessment to determine if the benefits of mandating the services outweigh the costs. Benefits of in-sourcing may include meeting campus safety standards, following labor contracts, and greater control over the provision of services. Benefits of outsourcing may be lower costs to campus units.
  - b. Similar to UCOP's efforts on strategic sourcing, evaluate the benefits of mandating some services that may leverage UCD's buying power (e.g. catering, travel, cell phones).
  - c. Consider removing the restrictions associated with outsourcing commodity type services that can be provided by the open market at lower cost without risk to the campus. Possible examples: painting offices, carpet replacement, purchase of vehicles.
  - d. For services that are determined to have sufficient reason to remain mandated, institute a review process to ensure that units operate efficiently. General business practices should include:
    1. business transparency with customer involvement
    2. competitive pricing and service standards
    3. accountability for organizational effectiveness
    4. use of standard pricing for most frequently used services and tracking of employee performance to those standards
    5. clear and timely communication of changes to rates or service levels.
- 2. Fully cost major self-supporting service activities so that we better understand the level of campus contribution that is being made to these activities and determine if it is appropriate to continue to offer these services.**

The committee recognizes that self-supporting service units do not pay the full indirect cost of their enterprise (e.g. police, fire, utilities, general administration). This is appropriate given that to charge indirects would raise the rates that are charged to campus departments. But at the same time, this masks the full cost of the service. Understanding the full cost would help us better understand if the benefits of in-house service exceed the benefits of private sector alternatives. We propose that the campus calculate the full cost of the indirect subsidy provided to the service units and determine whether the benefit of having the service provided on campus is worth the cost. Possible examples: Central Storehouse, Reprographics, Fleet services. Criteria for review are consistent with item #1a.

A related issue is the campus subsidies (direct and indirect) that are provided to entities such as the Mondavi Center, Intercollegiate Athletics, and the Conference Center. Though these units are outside the purview of this committee, we recognize that as revenue generating entities, they share some of the financial and policy concerns as self-supporting entities. We encourage the campus to have clear and consistent policies regarding payment of overhead by these units, and that there is transparency in regards to the level and purpose of subsidies provided.

3. **Improve the transparency and accountability of decision making for service units that are funded with both recharge and state funds (examples: Facilities, IET, Accounting and Financial services).**

This is especially important in circumstances where services are reduced or shifted from core funded to fee-based. Our intention is not to micro-manage these units or to determine how they should manage various fund sources, but to ensure that there is reasonable oversight over decisions that have campus-wide implications.

4. **Continue the 3% Self-Supporting Assessment in the near-term (through 2010-11).**

While the committee is not totally comfortable with the assessment as currently implemented, we understand the goal of “spreading the pain” and asking self-supporting units to develop efficiencies similar to what is being asked of academic and other core funded units that have taken direct budget cuts. Self-supporting units face challenges (e.g. market forces, reduced demand for services, costs of labor contracts) that core funded units do not. However the current 3% assessment is significantly less than the budget cuts that have been assigned to core budgets. Comparing hardships is not our goal, but we do want to acknowledge that all campus departments and programs are challenged and are doing their best in these difficult budget times.

In recommending a continuation of the assessment we advise the following:

- a. Apply the assessment consistently and as broadly as possible while keeping in mind limitations associated with federal costing (i.e. units pay assessment on percentage of funds that are not from federal grants).
  - b. If the assessment is needed on an ongoing basis further study will be required to:
    1. Develop a principled approach to the level of the assessment (possibly derived from an analysis of overhead costs articulated in #2.)
    2. Determine if the assessment has unintended consequences for some units.
    3. Ensure equity to the extent possible.
    4. Evaluate impact to service, and long and short-term impact of assessment, especially for blended-funded units that are subject to reductions in core funds.
5. **Eliminate the academic exemption for the non-university differential (NUD).** In the current budget climate it is critical that to the extent possible, all external users pay the full cost of services. We recognize that this change will have a significant impact on one particular program area, and suggest a phasing-in of the increase. In regards to the departmental administration component of the NUD, we advise giving units the options of including these components in the rate, where appropriate, or charging the departmental administration component of the NUD. Regardless of approach, we do not support allowing units to subsidize administrative overhead associated with services provided to external customers. A chart summarizing the impact of these changes is in Appendix 2.

6. **Develop a review process to ensure structured planning and to create greater efficiency and accountability for self-supporting service activities.** Currently there is no consistent, campus-level review of major self-supporting units. The Administrative Unit Review could serve this function, but that process has been inconsistently used for the past few years. The committee foresees that such a process could support our concerns related to efficiency, transparency and accountability (expressed in recommendations 1d, and 3).
7. **Support ORMP recommendations to streamline the rate process.** There is a perception in some areas that it is too difficult to establish rates and these units therefore do not recover appropriate costs from contracts and grants. ORMP should continue their work to streamline and simplify the rate process so that it is more easily understood and accessible.
8. **Support ORMP recommendations regarding developing some level of review and oversight for Direct Cost Agreements.** It is apparent that there is a level of conflict between auxiliaries that pay for services through direct cost agreements, and the units that provide the services. Continuing budget difficulties will only exacerbate these conflicts. Similar to recommendation #2, we need consistency and transparency in developing DCA's so that we better understand the costs to campus units and the level of campus support for these activities.
9. **Recommend that the campus reconvene the Commercial Activities Group.** With budgets tight, auxiliaries and some service units are looking for creative opportunities for additional revenue. Our campus policies on external income may not reflect the university's current thinking or best interests relative to income generating opportunities. The Group should review opportunities for revenue generation and consistent application of commercial activities policies and consider the appropriateness of campus service providers acquiring sponsorships from private firms.

We understand that these recommendations will generate additional workload for campus administration, primarily ORMP. We are not recommending an indiscriminate analysis of every self-supporting unit, but rather we suggest focusing on those areas that have the greatest possibility of savings or service improvement. For example, the number of mandated services on campus is small, as is the number of large-scale self-supporting units: the focus of work should be in these areas. Ongoing review processes should be streamlined to make the most effective use of staff time. We understand that ORMP is looking at modifying some of their review processes (as indicated in two of our recommendations). We hope our recommendations are seen as supporting and enhancing efforts already underway.

Budget Advisory Committee - Self-Supporting Activities Sub Committee Membership:

Karen Hull - Associate Vice Chancellor, HR (co-chair)

Ann Orel - Professor, Applied Science (co-chair)

Peter Blando - Business Services Manager, IET & Chair, Staff Assembly

Brett Burns – Director, Memorial Union Auxiliary Services

Lucy Bunch – Analyst, Office of Resource Management & Planning

Rita Bunch – Assistant Dean/COO, UC Davis Extension

Colin Cameron – Professor, Economics

Emily Galindo – Director, Student Housing

Jacquelyn Gervay Hague – Professor, Chemistry

Linaflor Layiktezh – Director, Campus Events and Visitor Services

Susan M. Moore – Associate Accounting Officer, Accounting & Financial Services

Garry Pearson – Greenhouse Manager, Plant Sciences

Julia Simon – Chair and Professor, French and Italian

James S. Trimmer – Professor, Neurobiology, Physiology and Behavior

Dan Wilson – Manager, Geotech Modeling, Civil & Environmental Engineering

Budget Advisory Ccommittee - Self-supporting Activities Sub Committee:

Appendix 1 : Major Self-supporting units and mandated services

Organization	Name	2007-08 Income	2007-08 Recharge	TOTAL: Inc+Rech	Includes Mandated Services?
<b>VC Unit</b>	<b>Major self-supporting service unit</b>				
IET	INFO AND EDUC TECHNOLOGY	\$820	\$17,608	\$18,429	yes
ORMP	FACILITIES	\$32	\$27,723	\$27,755	yes
ORMP	ARCHITECTS AND ENGINEERS		\$7,856	\$7,856	yes
VCAD	REPRO GRAPHICS	\$67	\$6,712	\$6,779	no
VCAD	FLEET SERVICE	\$198	\$5,752	\$5,949	some
VCAD	STOREHOUSE	\$5	\$4,374	\$4,379	no
VCAD	TEMPORARY EMPLOYMENT POOL		\$5,385	\$5,385	no
VCAD	BULK MAIL CENTER	\$6	\$1,826	\$1,833	no
VCAD	EH&S	\$2	\$962	\$964	yes
<b>VC Unit</b>	<b>Mandated service</b>				
VCAD	POLICE RECHARGES	\$91	\$887	\$978	yes
VCAD	EMPLOYEE HEALTH SERVICE INCOME	\$427	\$439	\$866	yes
OEVC	SISS: VISA SERVICE FEE INCOME		\$611	\$611	yes
VCAD	A&FS CAPITAL ASSET ACCTG RECHARGE		\$570	\$570	yes
OEVC	TICKETING OFFICE AT THE MONDAVI CENTER	\$93	\$343	\$436	yes
VCAD	FIRE: ADMIN - PLAN REV & CONST		\$393	\$393	yes
VCAD	BARGAIN BARN	\$167	\$165	\$332	yes
VCAD	POLICE AUXILIARY SERVICES (Live Scan)	\$5	\$448	\$453	yes
VCAD	POLICE ALARM MONITOR & FALSE ALARM	\$0	\$127	\$127	yes
VCAD	EMPLOYMENT-BACKGROUND CHECK SERVICE		\$149	\$149	yes
VCAD	BOX OFFICE SERVICE INCOME	\$5	\$80	\$85	yes
VCAD	HUMAN RES: DRUG & ALCOHOL TEST		\$42	\$42	yes

Budget Advisory Committee - Self-supporting Activities Sub Committee:

Recommendation 5 - Appendix 2

Change to Non-university differential collected if all units recover full amount

2007-08 by Dean/VC

Dean/VC unit	Current				All pay full NUD			
	Full NUD collected <sup>1</sup>	Dept share of Full NUD	Reduced NUD Collected <sup>2</sup>	total NUD	Total if All Pay Full	Addl funds Collected	Dept share of addl funds	Campus share of addl funds
Engineering	(\$12,142)	(\$6,132)	(\$10,417)	(\$22,559)	(\$48,211)	(\$25,652)	(\$12,954)	(\$12,698)
CAES	(\$148,825)	(\$75,156)	(\$20,954)	(\$169,779)	(\$221,377)	(\$51,599)	(\$26,057)	(\$25,541)
CBS	(\$69,609)	(\$35,153)	(\$704)	(\$70,313)	(\$72,046)	(\$1,733)	(\$875)	(\$858)
CLAS	(\$17,896)	(\$9,038)	(\$42,283)	(\$60,179)	(\$164,299)	(\$104,121)	(\$52,581)	(\$51,540)
Education	(\$480)	(\$243)	(\$8,283)	(\$8,763)	(\$29,159)	(\$20,396)	(\$10,300)	(\$10,096)
GSM	\$0	\$0	(\$1,219)	(\$1,219)	(\$4,219)	(\$3,001)	(\$1,515)	(\$1,485)
IET	\$0	\$0	(\$3,687)	(\$3,687)	(\$12,765)	(\$9,078)	(\$4,585)	(\$4,494)
Medicine	(\$1,031)	(\$521)	(\$15,774)	(\$16,806)	(\$55,651)	(\$38,845)	(\$19,617)	(\$19,228)
Vet Med	(\$244,673)	(\$123,560)	(\$554,992)	(\$799,665)	(\$2,166,332)	(\$1,366,667)	(\$690,167)	(\$676,500)
Office of Research	(\$314,909)	(\$159,029)	(\$926)	(\$315,835)	(\$318,115)	(\$2,280)	(\$1,151)	(\$1,129)
Administration	(\$9,160)	(\$4,626)	(\$36,173)	(\$45,333)	(\$134,410)	(\$89,077)	(\$44,984)	(\$44,093)
<b>Total</b>	<b>(\$818,725)</b>	<b>(\$413,456)</b>	<b>(\$695,411)</b>	<b>(\$1,514,136)</b>	<b>(\$3,226,585)</b>	<b>(\$1,712,449)</b>	<b>(\$864,787)</b>	<b>(\$847,662)</b>

1: Full NUD is 27.7% ; departments receive 14 percentage points (51%).

2: reduced NUD is 8% ; all funds returned to central campus