

TRANSPARENCY 101

An open forum sponsored by the Faculty Seminar on UC's Financial Future
Tuesday March 9, 5-7 PM
Room 489, Minor Hall (just west of the Haas School of Business)

Presenter: Professor Emeritus Charles Schwartz
Respondents: Associate Vice Chancellors Erin Gore and John Ellis
Moderator: Professor Alan Schoenfeld

*Where can one find official data on UC and UCB finances?
What do the numbers and the labels attached to them mean?
What are some controversies behind those data?*

Issues related to the University's budget are complex and often difficult to understand. Yet, our collective future depends on making sense of those issues.

On February 2, Associate Vice Chancellor for Budget Erin Gore discussed UC Berkeley's finances at a meeting of the Berkeley Division of the Academic Senate. Her presentation (<http://newscenter.berkeley.edu/news/budget/EGoreFeb2010.shtml>) provides a large amount of information and sets the stage for further inquiry.

On March 9, the Faculty Budget Seminar will sponsor a follow-up session with Professor Charles Schwartz, emeritus professor of physics, Associate Vice Chancellor for Budget Erin Gore, and Associate Vice Chancellor for Finance and Controller John Ellis.

The goals of the session are to see what's clear, and what's not, about available information, and to help all members of the University community understand where the money comes from and where it goes. In the interests of gaining greater clarity, we've dubbed the session "Transparency 101." We welcome all members of the community for the session and a Q-and-A period afterward.

Schwartz Presentation (updated 3/16/10 – pp.13,14)

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Schwartz Presentation

Introduction

Transparency is not a neutral concept. It is the subject of political contest. By that I mean that people in positions of power prefer to keep their decisive activities, their planning, their deal-making as closed as possible; while those on the outside may want to open things up and see what is really going on up there. I imply no evil here. This is just the reality of the familiar cliché, Knowledge is Power.

There are laws about open meetings and about public records that help somewhat in providing some transparency. People at the top often like to talk about how they favor transparency, how they already provide transparency; and they sometimes complain about the busybodies who are never satisfied with the information that is given out.

On December 3, there was a public hearing on this campus by officials involved with the UC Commission on the Future. They heard from many members of this community and the most frequently voiced complaint was: We want more transparency – especially about the facts and the choices surrounding the University's financial and budgetary problems.

Shortly after that event, I received an email from Vice President Peter Taylor, who is UC's Chief Financial Officer. He was at that public meeting and he told me that he was creating a new web site that would provide the transparency that people were asking for. He asked me to take a look at what they had there and offer any suggestions. I looked, I sent him a list of additional documents that I knew of; and he added them. I also said that I thought that this archive was really not useful to people who are not already somewhat expert at reading and interpreting those documents. What is needed, perhaps, is some kind of tutorial. I drew an analogy to the library. When a student, or a professor, goes to the library to look up information on a subject that is new to them, they first go to the Reference Desk and chat with a librarian, to get some useful directions on where to start.

Well, I want to do something like that today. I have planned a little trip through some online resources, where I will concentrate on pointing out stuff that may be of interest and stuff that may be mysterious or even misleading to the newcomer.

This will be in three parts. First, I'll take a quick tour of ucop.edu and comment on some of the data posted there; Second, I'll show you some compilations of data that I have done, trying to answer some particular questions. Third, I'll focus on the Berkeley campus and look at some specific data sources here.

I have prepared more material than I expect we can reasonably cover today. This is written up and posted on the bSpace site for this seminar and also on my own web site <http://socrates.berkeley.edu/~schwartz> for anyone to read and copy. At the end of this session we shall see whether people might want to have a follow-up session, which could also address additional questions that you may pose.

What is wonderful about today's seminar is that we will have some real dialog. Here are two professionals who work for the campus administration:

Erin Gore, Associate Vice Chancellor for Budget and
John Ellis, Associate Vice Chancellor and Controller

They will be here to interrupt me at any time they please, to agree or disagree or expand on what I have said.

And let me add, that when I speak about some controversial issues and suggest that there are practices in University budgeting and accounting habits that can be misleading to the average person, I cast no aspersions on these professionals. My complaints are directed to higher offices at UC (at the level of the President or the Regents) and even more properly to the whole industry that we call Higher Ed – especially the Research Universities.

I should also mention one word fight that may arise. It involves the word “fungibility”. Money is fungible, and how can you really distinguish between one dollar bill in your bank account and another? Well, the university maintains thousands of accounts. Money comes from many different sources and is spent for many different purposes. Those with the responsibility for allocating funds often have authority over many different pots of money; and they may value the freedom to take from here or from there for this purpose or that purpose. Money, if not formally restricted as to its use, is fungible.

What does that imply for the concept of transparency, which is what this session is all about? There is a contradiction here, a substantial tension, which I can summarize as:

FUNGIBILITY is the ANTITHESIS of TRANSPARENCY

Part 1: A Quick Tour of UC Data Sources

Pointing out some Booby Traps and Controversies

For all UC, start at <http://www.ucop.edu>

Reporting transparency is a convenient collection of many existing reports – but there is no guidance on how to use it.

Miscellaneous – **Campus Financial Schedules** - detailed accounting reports – this is my personal favorite resource.

Look at Consolidated Schedule 12-D: a flow chart of money in and money out for all UC

Check out the nomenclature: What are General Funds?, What is SSEA?, What is Other? What is Institutional Support? What is Auxiliary Enterprises?, What is Instruction?

Look at Berkeley Schedule A (revenues), this is what Erin Gore showed on Feb 2. See Unrestricted and Restricted types of funds. Also note Schedules B, C, D , which have much more details for each campus,

Go to ucop.edu's Commission page, **Fact Sheets** – read lies about “Restricted funds”

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Budget detail 181 pages, lots of talk, some numbers, some hidden gems.

Income and Funds Available: lots of interesting numbers

Pages 18 & 21-22: discussion of ICR but not much detailed data
Page 114 (Student Fees) comments about funding for construction.

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Bond Information – Annual Debt Capital Report – see graph on pdf page 4

Also see pdf page 15 for Bond Market measures. No details for internal performance.

>>> This is a big controversial topic, to be discussed in our seminar on March 30. <<<

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Statistical Summary of Students and Staff

See Oct 2009 FTE data : Management / Academic Staff / PSS

We shall look at my compilation of 16 years' development of two of those numbers:
For Berkeley: Overall employment grew 23%, Management grew 316%

Part 2: Some Compilations of Data – Systemwide

UC Facts in Brief from the Annual Financial Report for 2008-2009 (page 2)

Students

Undergraduate fall enrollment	173,078
Graduate fall enrollment	52,962
Total fall enrollment	226,040

Faculty and Staff (FTE) 134,912

Primary Revenue Sources	\$ in Millions
Student tuition and fees, net	\$ 2,097
Grants and contracts, net	\$ 4,708
Medical Centers, educational activities and auxiliary enterprises, net	\$ 8,100
State educational, financing and capital appropriations	\$ 2,890
Private gifts, net	\$ 664
Capital gifts and grants, net	\$ 155
Department of Energy laboratories	\$ 668
Total	\$ 19,281

Notes. On page 21 these are discussed in more detail, under the heading “Revenues Supporting Core Activities”. Elsewhere “Core Funds” are designated as meaning only State and UC General Funds plus Student Fees.

On page 23 there is a breakdown of the largest item above (\$8,100), as follows:

Medical centers, net	\$ 5,496
Educational activities, net	\$ 1,460
Auxiliary enterprises, net	\$ 1,144

Operating Expenses by Function	\$ in Millions
Instruction	\$ 4,266
Research	\$ 3,741
Public service	\$ 491
Academic support	\$ 1,492
Student services	\$ 614
Institutional support	\$ 1,055
Operation and maintenance of plant	\$ 565
Student financial aid	\$ 458
Medical centers	\$ 5,226
Auxiliary enterprises	\$ 970
Depreciation and amortization	\$ 1,197
Department of Energy laboratories	\$ 662
Other	\$ 105
Total	\$ 20,842

Notes. This same data, broken down by campus, is given on page 117.

To see flows from revenue sources to expenditure functions, see Schedule 12-D of CFS. Comparing Two UC Campuses 2008-09 (\$ in Millions)

Operating Expenses by Function	Berkeley	Los Angeles
Instruction	\$ 545	\$1,118
Research	\$ 482	\$ 635
Public service	\$ 61	\$ 92
Academic support	\$ 115	\$ 321
Student services	\$ 121	\$ 70
Institutional support	\$ 132	\$ 144
Operation and maintenance of plant	\$ 71	\$ 97
Student financial aid	\$ 78	\$ 71
Medical centers	\$ -	\$1,225
Auxiliary enterprises	\$ 118	\$ 244
Depreciation and amortization	\$ 144	\$ 239
Other	<u>\$ 22</u>	<u>\$ 33</u>
 Total	 \$ 1,888	 \$ 4,290

How does one understand the marked disparity seen above?

-----→ Medical Enterprises

But look at the discrepancy in Instructional expenditures!

-----→ Look more closely at the data

Expenditures of Current Funds for Instruction from various Sources

Fiscal Year 2008-2009 Comparing two UC campuses

Source UC Campus Financial Schedules, Schedules 1D and 4D

Expenditures for INSTRUCTION 2008-09 (\$ in Millions)

Source of Funds	Berkeley	UCLA	Difference
General Funds	282	320	38
Tuition & Fees	154	246	92 *
Federal Gov't	3	35	32
Special State Approp & Contracts	27	7	(20)
Local Gov't	3	10	
Private Gifts, Grants & Contracts	32	36	
Endowment & Similar Funds	18	10	
S&S of Educational Activities	16	419	403
S&S of Auxiliary Enterprises	-	-	
S&S of Medical Centers	-	-	
Other Sources	9	35	26
Reserves	1	-	
 Total Expenditure for Instruction	 545	 1,118	 573

Total Enrollment 35,409 39,650

* University Extension explains about half of this difference

----→ Beware in using IPEDS

Do you think you know what those categories really mean?

-----→ Definition from the UC Accounting Manual (following NACUBO):

A. INSTRUCTION--40XXXX

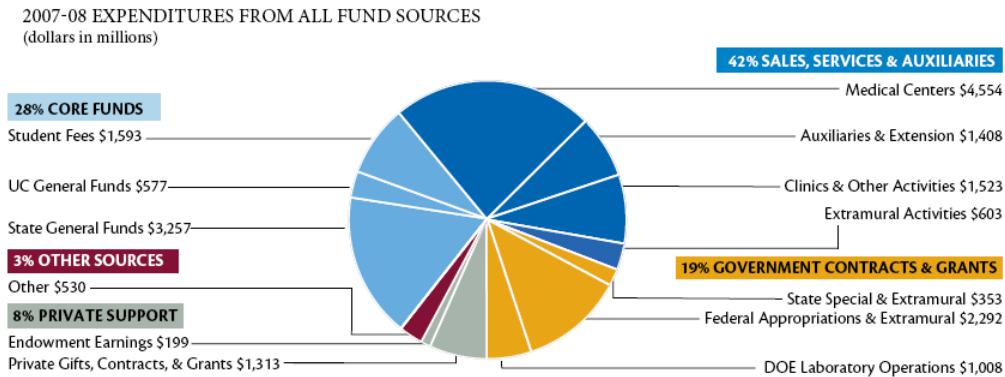
This category includes expenditures for most activities that are part of an institution's instruction program, including expenditures [for] the following:

- Subject A;
- academic, occupational and vocational instruction (credit or noncredit courses), for regular, special, or extension sessions;
- departmental research and public service that are not separately budgeted; and
- expenditures for department chairpersons who are also instructors.

WHAT IS DEPARTMENTAL RESEARCH? and
WHY IS ALL OF IT COUNTED AS EXPENDITURE FOR INSTRUCTION?

This question arises from a long history of accounting habits that are embedded in all of higher education, especially affecting Research Universities. This is a very important and a very controversial topic, which I hope we shall explore thoroughly ... but not today.

Copied from UCOP document, “The UC Budget: Myths & Facts”:



This shows the various sources of UC funds, as in the earlier table. Here we see the definition of “Core Funds” which is so central to current discussions about the budget and also for the long term financial future of the University. (This shows data for the previous year 2007-08. The latest year shows a marked decrease in the State General Funds portion and a marked increase in the Student Fees portion. That trend is accelerating as we go to 2009-10 and 2010-11.)

In the text above this graph in the UCOP document we read the following.

Myth: *UC doesn't really have a budget problem because it has so many different fund sources it can dip into.*

Fact: **UC's budget is made up of many different fund sources, but most of them are restricted to specific uses and cannot be used for other purposes.**

This claim about restricted funds is actually false. There are a number of funds that come from external sources with binding commitments about how those funds are to be used by UC. Those “restricted” funds reside in the lower and lower-right portion of the pie graph (yellow and grey in color) and they constitute 27% of the total. The rest are all “unrestricted” funds, which means that the top administrators of the University have full legal authority to use those funds as they see fit. Those are the “Core Funds” (28%) and also the “Sales, Services and Auxiliaries” (42%)

Core Funds consist of:

- State General Funds = State Appropriations
- UC General Funds = Money collected by UC that “belongs” to the State:
Nonresident Tuition; Portion of Indirect Cost Recovery; etc.
- Student Fees (Educational, Registration, Professional School Fees, gross)

Core Funds in Recent Years, from the Regents’ Budget (\$ in Millions)

<u>Sources</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
State General Funds	\$ 3,077	\$ 3,274	\$ 3,217	\$ 2,636	\$ 3,539 *
UC General Funds	\$ 561	\$ 577	\$ 617	\$ 626	\$ 648 *
Student Fees	\$ 1,437	\$ 1,574	\$ 1,735	\$ 2,003	\$ 2,439 *
Total Core Funds	\$ 5,075	\$ 5,425	\$ 5,569	\$ 5,265	\$ 6,626 *
Total Operations **	\$16,176	\$17,430	\$18,952	\$19,384	\$21,377 *

* Proposed as of November 2009

** Excluding Department of Energy Laboratories

UC President Mark Yudof, interviewed by Spencer Michels on November 20, 2009

(http://www.pbs.org/newshour/bb/education/july-dec09/feehikes_11-20.html)

“Many of our, if I can put it this way, businesses are in good shape. We're doing very well there. Our hospitals are full, our medical business, our medical research, the patient care. So, we have this core problem: Who is going to pay the salary of the English department? We have to have it. Who's going to pay it in sociology, in the humanities? And that's where we're running into trouble.”

Core Funds pay for: [approximate amount in \$M for 2007-08]

- Full Salaries and Benefits for:
Regular Faculty, Lecturers, GSIs, Departmental Support Staff [\$2,200]
 - Libraries & some other Academic Support [\$400]
 - Student Services [\$600]
 - A portion of Overhead costs:
Institutional Support (high level administration) [\$530]
Operation & Maintenance of Plant [\$470]
 - A portion of Student Financial Aid (1/3 of Student Fees) [\$500]
- Total [\$4,700]

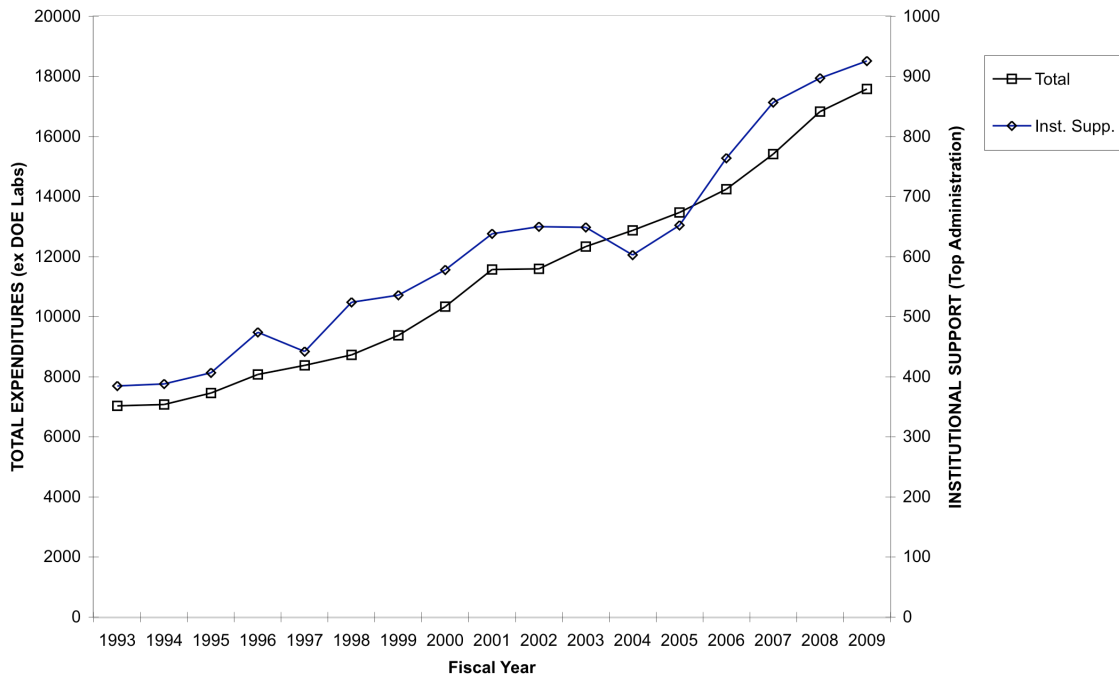
In terms of UC Missions, Core Funds pay for:

- Undergraduate Education;
- Graduate Education;
- Faculty Research and Public Service that is not “sponsored”.

(In the accounting language, this is called Departmental Research. In the budget language, we speak of the I&R Budget.)

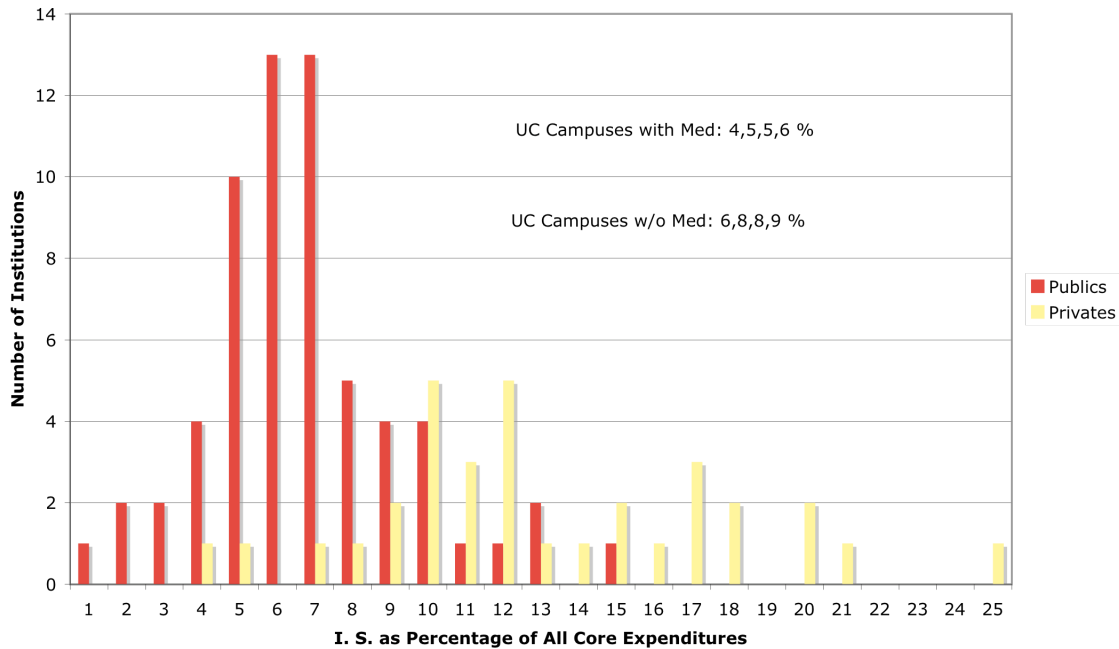
Looking to measure the UC Administration, here is one way to do it:

UC Expenditures of Current Funds (\$ Millions)

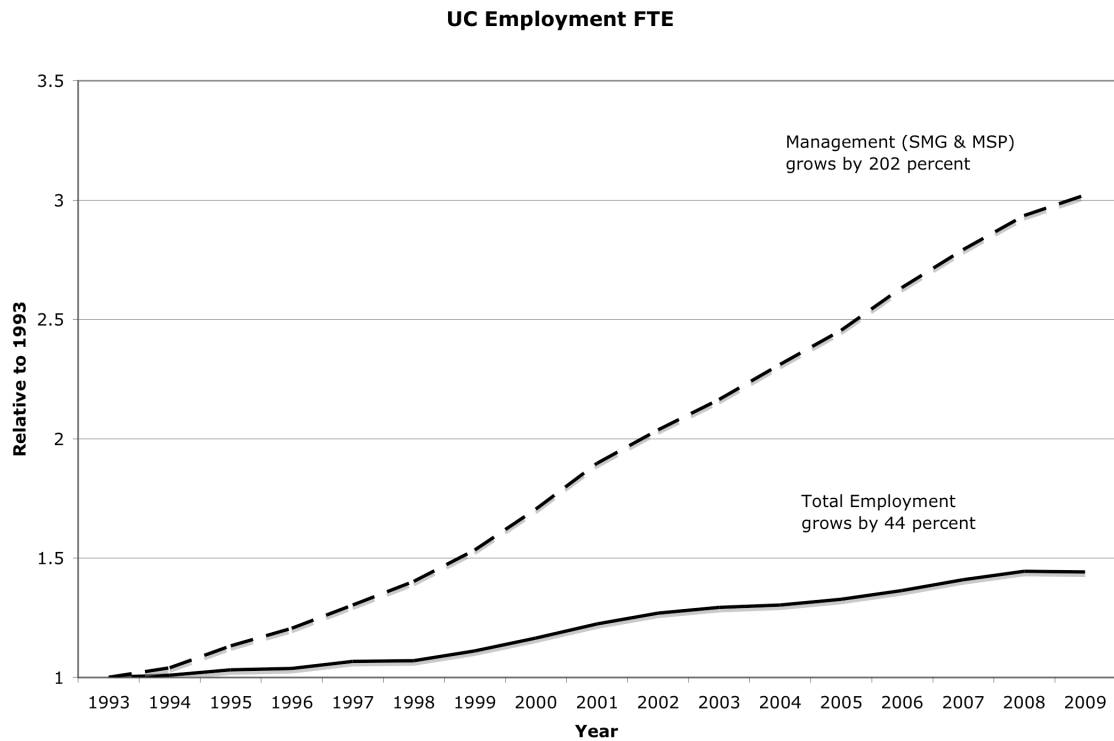


That shows nothing noteworthy. Here is some comparative data (from IPEDS):
What is IPEDS? Is it reliable?

Institutional Support as a Percent of Core Expenditures at top Research Universities



Here is another measure, in terms of Employee statistics. It looks very different.



data from <http://www.ucop.edu/ucophome/uwnews/stat/>

Even in this current year of financial emergency, UC's Management continues to grow. Why?

There have been a few attempts by UC officials to offer explanations for this data. We can go into this more deeply if people want to.

For some more detailed data, see the following table, which I published in May 2007. ["Financing the University – Part 12" posted at <http://socrates.berkeley.edu/~schwartz>]

TABLE 1. Total Employment Numbers at UC: Management Grows the Most

<u>Personnel Classifications</u>	<u>Oct 1996</u>	<u>Oct 2006</u>	<u>% CHANGE</u>
SMG & MSP (Management)	3,380	7,381	+118% <<<
Academic Staff:			
Academic Administrators	408	611	
Regular Teaching Faculty – Ladder Ranks	6,778	8,424	+24%
Regular Teaching Faculty – Acting Ranks	77	56	
Lecturers	1,157	1,784	+54%
Other Teaching Faculty	3,002	4,359	+45%
Student Assistants	9,810	13,071	+33%
Research	5,789	8,496	+47%
Librarian	477	496	
Cooperative Extension	395	332	
University Extension	251	173	
Other Academic Personnel	212	285	
Sub-Total Academic Staff	28,356	38,087	+34%
Professional and Support Staff:			
Clerical & Allied Services	23,092	20,218	-12%
Communications-Arts & Graphics	1,513	1,992	+32%
Architecture, Engineering & Applied Svc	921	969	
Fiscal, Management & Staff Svc	8,750	17,345	+98% <<<
Food & Linen Services	1,367	2,150	+57%
Health Care & Allied Services	13,850	20,723	+50%
Maintenance, Fabrication, & Operations	6,094	7,073	+16%
Protective Services	700	808	
Sciences, Laboratory & Allied Services	5,642	6,665	+18%
Student Services	2,353	3,690	+57%
Other	226	256	
Sub-Total PSS	64,508	81,888	+27%
TOTAL Employment	96,885	127,372	+31%
Student Enrollment	154,198	205,368	+33%

Notes

Numbers above count FTE (Full-Time Equivalent) positions, excluding DOE laboratories.

SMG = Senior Management Group

MSP = Management and Senior Professionals

Source: <http://www.ucop.edu/ucophome/uwnews/stat/>

Recent Update on this Controversy

On February 28, 2010, the Sacramento Bee ran an editorial, titled “To help UC, first slow bloat at the top.” They used numbers such as I have shown above and cited me as “a lone crusader on this issue for 20 years.”

Around March 8, 2010, the UCOP issued a 6-page document, titled,

“The University of California Academic and Non-Academic Personnel Growth FY 1997-98 to FY 2008-09| Executive Summary”

This was apparently a response to the Sacramento Bee Editorial. Their motivation: “The current budget crisis has rekindled concerns that growth in “administration” is outpacing growth in student enrollments and comes at the expense of faculty and instruction.”

This document provides lots of data on many aspects of UC employment. Let’s look to see what it has to say about administration.

Among the Key Findings we read:

“There has been a modest shift in the distribution of employees from the PSS (Professional and Support Staff) to the MSP (Management and Senior Professional) category, with MSP growing from 3% to 5% of all personnel FTE.” ...
 “The number of executive leadership personnel (SMG) declined during this period from 315 to 293 FTE, and represents well below 1% of total employee FTE.”

And here (on page 6) is the data to support those conclusions.

Table 4: Growth in MSP FTE – Top 10 Occupational Areas

CTO	Class Title Outline (CTO) Name	FTE			% of MSP		% of All FTE	
		97-98	08-09	Change	97-98	08-09	97-98	08-09
M10	Managers	1,973	4,382	2,409	58%	54%	2%	3%
F15	Computer Prog. & Analysis	440	1,407	967	13%	17%	<1%	1%
H40	Physicians & Dentists	441	673	232	13%	8%	<1%	<1%
F20	Admin, Budget/ Personnel Analysis	195	489	294	6%	6%	<1%	<1%
H35	Nursing Services	87	342	255	3%	4%	<1%	<1%
E20	Engineering	84	211	127	2%	3%	<1%	<1%
F30	Management Services	53	147	94	2%	2%	<1%	<1%
M20	Coaches & Related Prof.	17	87	70	<1%	1%	<1%	<1%
H50	Pharmacists	28	70	42	1%	1%	<1%	<1%
I25	Sciences	0	30	30	New	<1%	<1%	<1%
	All Other MSP CTOs	104	271	167	3%	3%	<1%	<1%
Total, MSP		3,422	8,109	4,687			3%	5%
Total, Non-Academic		80,107	112,204	31,590				
Total, All Academic & Non-Academic		109,476	152,398	42,922				

Source: UC Corporate Payroll System, Fiscal Year data.

*Not in the top 10 title codes in 1997-98; “Mgt and Prof Prog” was in the top 10 during this period.

Let's check that out.

There is no argument about the SMG (Senior Management Group); it has not grown; it is rather small in size (around 300 people or about 0.2% of all UC employees); and it absorbs about \$80 million in annual compensation – just under 1% of the total UC payroll.

The much larger group is called MSP – Management and Senior Professionals. Their number of FTE (see the above table) increased from 3422 to 8109. That is an increase of 137% over the same time period that total employment FTE increased by only 39%.

This is the main fact at issue in the Sac Bee editorial and in my papers. But the UCOP document does not even acknowledge these percentage growth figures. Here is their statement (on page 6):

“FTE in the MSP personnel program has increased from 3,400 to 8,100 in eleven years, but still represents only 5% of all FTE – up slightly from 3% of the total in 1997-98.”

This is unconscionable data manipulation. Instead of addressing the problem that others have raised, they try to bury it in a blizzard of irrelevant data and then pass it off as too small to worry about.

If there is no justification for that 4,700 FTE growth in management positions, that is an annual expenditure of over half-a-billion dollars. That is a big deal!

Well, they do offer a justification. They say that there has been a large increase in IT and therefore more computer professionals are needed to manage those systems. That is true. In my more detailed studies of this subject I made the very same observation; and I therefore removed all the computer jobs from my analysis. My final result estimated that there was unjustified growth in management and management-support positions, over the period 1996-2006, which cost the university about \$600 million per year. And this apparent wastage was found both at the medical centers and also on the campuses. Berkeley happened to be the worst campus in that study: my estimate was that we are wasting \$90 million per year on unexplained management bloat..

Have you heard about Operational Excellence? The Chancellor at Berkeley has hired an outside firm of management experts - Bain & Co – to make our campus run more efficiently. I did speak with them at the beginning of their work and shared all my data and analysis. We wait to see what they come up with.

Student Fee Revenues (estimates for 2009-10 from the Regents' Budget)

<u>Type of Student Fee</u>	<u>\$ Millions</u>	<u>Allocation of the Funds</u> (as per Regents' Policy)
Educational Fees	\$1,631	in The Pot with State General Funds
Registration Fees	\$ 196	for Student Services via Student Advisory Cttee
Other (Campus) Fees	\$ 330	similar to above
Professional School Fees	\$ 176	to advance the mission of each program
NonResident Tuition	\$ 272	UC General Funds >> to campuses of origin *
University Extension	\$ 212	University Extension
Other Fees	<u>\$ 38</u>	Applications; Summer Session
Total Student Fees	\$2,855	(compare Total State Appropriations = \$2,701)

* Note. Recently, the leadership of the Berkeley Division of the Academic Senate gave its approval for an increase in enrollment of Non-Resident undergraduates, with the condition that the added income be used to advance undergraduate education on this campus; and it is reported that the Chancellor accepted that condition.

A suggestion: The Regents should amend their Student Fee Policy so that the Educational Fees are used, with first priority, to support the educational programs for the students paying those fees, with *transparent accounting reports* on the allocation of those funds. Perhaps there should also be Student Advisory Committees empowered to advise the University administration on the allocation of these funds.

In fact, as things stand now, I have been unable to find out whether funds received as students' Educational Fees are recorded and tracked as a distinct accounting entity or whether they are just thrown in the pot with state General Funds.

Part 3: Look into a recent budget document for this campus

Berkeley Financial Overview by Associate Vice Chancellor Erin Gore

<http://newscenter.berkeley.edu/news/budget/img/goreFinOverview2-2-10.pdf>

Lots of this data comes from the Campus Financial Schedules that we have been looking at already. So I won't dwell on that; but, instead, point out a few items that can be argued over. My complaints are mostly aimed at the higher system and its practices (UCOP, the Higher Ed establishment) rather than at the local officers.

Page 4: "General" Funds means state appropriations

"Designated" Funds means other unrestricted income to The Regents.

Both are equally "Unrestricted" in that UC has full authority to allocate all those monies as it sees fit. That phrase at the top about not being "uncommitted" is another UCOP dodge.

Page 6 and again on Page 9: "State Educational Appropriation" is a misleading label. That money goes for all the core missions of UC: teaching and research and public service. Hiding that whole bundle under the label of "Educational" funding leads some people to think that all that money goes to support and subsidize our students; and thus they can say:

Hey, those students get a private benefit from the taxpayers. They should pay their own way. Cut the UC budget!

The research component of state appropriations for UC is a vitally important public good; it should not be hidden under some misleading label. This is a bad old habit.

Several Pages use Inflation Adjusted Data – using HEPI rather than CPI. This means ...

Page 15: "Expense by Activity" is a bad job by someone to rewrite the categories of expenditures. The worst feature is that it hides most of "Administration"

For the Berkeley Campus I recommend **Cal Profiles** as a uniquely rich data source