

June 8, 2016

TO: Academic Senate Members of the Davis Division

RE: Resignation of David Lawlor

Dear Colleagues:

Given the lack of consultation prior to CFO/Vice Chancellor Lawlor's resignation, the Executive Council met with Acting Chancellor Hexter last Thursday to discuss the matter. Following our discussion, the Executive Council is confident that there was no connection between the charges under investigation of Chancellor Katehi and the resignation of the CFO.

In recognition of the critical operations that may be put at risk, particularly those tied to the success of the faculty, the Executive Council documented its concerns to Acting Chancellor Hexter. In particular, prior to the CFO's hire, the Academic Senate long struggled with a lack of budget transparency and limited long-range planning from the Administration. For those interested, the following document is a list of the critical initiatives launched in the last 18 months, which the Executive Council, on behalf of the Academic Senate, asked Acting Chancellor Hexter to continue.

The Executive Council will remain in direct communication with Acting Chancellor Hexter to ensure that progress continues in critical planning and financial areas.

Sincerely,



André Knoesen
Chair, Academic Senate
Professor: Electrical and Computer Engineering

June 8, 2016

TO: Academic Senate Members of the Davis Division

RE: Role of the Vice Chancellor and Chief Financial Officer

Dear Colleagues:

In this communication, I want to inform you of the role of a CFO on our campus. The unexpected resignation of David Lawlor, Vice Chancellor and Chief Financial Officer (CFO), is of great concern. The absence of a CFO on the campus places critical operations at great risk, particularly those tied to the success of the faculty. UC Davis was the last UC campus to appoint a CFO.

Situation prior to Fall 2014: Prior to the appointment of a CFO, the Academic Senate long struggled with seemingly intractable problems relating to a lack of budget transparency and limited long-range planning by the administration. It was abundantly clear that a lack of coordinated long-term planning and effective deployment of available resources to address basic campus infrastructure were negatively affecting campus operations, including curriculum delivery. The resulting degradation of infrastructure, both facilities and services, was significantly limiting the ability of faculty to conduct research and perform their teaching duties, and posed a challenge to the hiring of new faculty. Faculty recruitment was recognized to be a key problem for the campus at the time the CFO was hired: in order to meet the needs of growing student enrollments, UC Davis needed to add on the order of 500 faculty, net of retirements and separations, by 2020. How the need for new faculty would be met was, and remains, a serious issue for the Academic Senate.

For many years, faculty ability to teach and conduct research was severely restricted by:

- poor internal budgeting and personnel systems;
- the inability to address poor classroom quality and insufficient capacity with students sitting in the aisles;
- the level and number of unacceptable research facility conditions, especially animal housing with inadequate procedure space and suboptimal use of space;
- a lack of accountability in human resources (performance management, job postings and recruitments took months, position description reviews often got lost, etc.);
- the slowness with which capital projects were completed and the very high internal costs of these facilities, especially considering much less expensive external options;
- a lack of parity in costs of new buildings and renovated spaces as compared to other UC campuses and other public and private universities;
- a lack of accountability and responsibility for building renovations that routinely exceeded budgets and allocations; and
- a lack of clarity and equity concerning indirect cost recovery (the current model is unnecessarily complicated and has resulted in serious tensions between centers and deans).

In summary, the Administration could not effectively prioritize the investment of scarce resources because of a lack of systematic analysis. Instead, resource decisions were made in an isolated and seemingly capricious fashion as immediate needs arose.

Prior to the CFO appointment, the Committee on Planning and Budget (CPB), whose role is to advise on academic planning, budget and resource allocations, was provided information regarding funds from the state only, which is a small and decreasing portion of the campus budget (less than 25%). The Academic Senate could therefore not engage in meaningful academic planning. In short, CPB could not provide the type of informed advice needed to enable the research expected of a Tier one research institution or to deliver the kind of high quality education expected by our students and the taxpayers of California. The lack of budgetary transparency negatively affected curriculum delivery and impeded the identification of both short- and long-term strategies to ensure a high quality education. This problem was exacerbated by a campus budget process that focused on short-term allocations (year-to-year but at times even less). Finally, as CPB noted, budgeting practices on the campus were not completed in accordance with generally accepted accounting practices. New budgets were based on the spending patterns of past budgets with little regard for costs or efficiencies. The pre-CFO approach to budget management did not allow routine monitoring of comparisons between actual performance vs budgeted performance. The lack of a modern fiscal management approach hindered UCD's ability to invest in needed improvements in infrastructure and operations.

Accomplishments and Ongoing Progress, Fall 2014 to May 2016: The creation of a CFO position was a critical step in making progress toward solving these problems. In a very short time, the CFO transformed the operation by taking definitive measures to identify, prioritize, and fund improvements. The fundamental contribution of the CFO position has been to integrate identification and prioritization of long-term campus needs within a multi-year budget planning process focused on meeting UCD's goals in research and education.

- **Greater fiscal transparency:** In order to address inadequate budgeting practices, the CFO implemented comprehensive synchronization of sources and uses in all schools and divisions. Actual expenditures and budgets are now compared quarterly. This has the immediate effect of disciplining financial management, encouraging transparency and leading to greater understanding of resource management.
- **Committee on Planning and Budget and Multi-year, all-source budget planning process:** Immediately upon being hired, the CFO implemented a multi-year, all-source budget planning process. CPB began a collaboration that resulted in multi-year, all-source planning in a fully transparent manner, which enabled meaningful Academic Senate participation in ways that were not possible before. The full campus budget was available for review and comment. CPB launched a series of discussions with other Senate committees and the colleges/division/schools to identify a set of metrics by which the Academic Senate could monitor performance and educational effects of budgetary decisions. Over the past three years, the process has been expanded to its current form, in which faculty executive committees of the colleges and schools are asked for comments on metrics and budgets each year. CPB then collates, documents and assesses grassroots

concerns and transmits key concerns to the Provost. This process allows independent perspectives from the ground up on budget and curriculum matters. Following strong support for Academic Senate engagement in the budget process, CPB has worked hard with the CFO's office to establish this process and the campus budget process is better for its existence.

- **Identifying and allocating resources to improve salary competitiveness and equity:**

It also became known that UC Davis faculty compensation, compared to other UC campuses, has dropped to the lowest in the UC system. This occurred due to off-scale salary adjustments that were not coupled to the established merit and promotion system. These adjustments were occurring at the level of a Dean to attract and retain existing faculty in a fully discretionary manner, resulting in large inequities within the faculty ranks, and the overall lowest faculty compensation in the UC system. The salary increases at the Dean's level came at the cost of other college or school priorities.

When the Academic Senate brought this systemic problem to the attention of the Chancellor, she made a decision to allocate additional campus funds toward reducing salary inequities among faculty members, which has reduced the incentive for high-performing faculty members to seek outside offers. The CFO was instructed to determine if this was feasible.

As part of long-term campus budgeting and planning, the CFO then developed a multiyear strategy for increasing faculty salaries. In addition to the 3% UCOP-mandated ladder faculty salary increase in July 2015, an additional 1% was allocated by the campus. This plan will be continued in 2016, i.e. in addition to 3% mandated by UCOP another 1% will be allocated from campus resources. These additional campus allocations are essential in improving the competitiveness of UCD salaries, and will aid the campus in attracting and retaining high-caliber faculty members.

- **Instructional and Research Facilities:** The CFO implemented a gap analysis for classrooms, teaching labs, research facilities, housing, dining, and hospital amenities. Previously these projects were done piecemeal with money spent in isolation from any comprehensive or big-picture needs assessment. It was found that UC Davis has excellent student housing, whereas classroom and teaching labs are substandard, indicative of inappropriate prioritization of such projects; the sole priority appeared to be to invest campus resources in projects like housing that would return some income. However, these priorities ignored the importance of balancing the quality of all spaces utilized by students. Under the CFO, the gap analysis began with sub teams taking a holistic view with the aim to prioritize spending across one area versus optimizing one area. The analysis also includes roadmaps for technology and classroom upgrades. Examples of these early successes is included in the following story: <http://cfo.ucdavis.edu/news/classrooms.html>.

- McClellan Nuclear reactor:** A substantial challenge for the campus in the area of research is the operations of the McClellan Nuclear Research Center (MNRC). The campus assumed responsibility for operating the nuclear reactor on the McClellan military base during the Chancellor Vanderhoef era. Upon arrival on the campus the CFO discovered the facility was operating at a serious deficit, and then looked into options for decommissioning the reactor. The potential financial liability to the campus of decommissioning the reactor is very large and requires significant long-range planning and coordination among campus administrative units and UCOP. In dealing with the McClellan Nuclear reactor, the CFO hired a retired vice admiral, who is also naval academy nuclear engineer and was deputy undersecretary at DOE, to lead the evaluation of the reactor shutdown with internal stakeholders, Lawrence Livermore labs, Department of Energy and the Nuclear Regulatory Commission. Coordinated activities between the Office of Research and CFO has resulted in a strategy in which all key stakeholders, including MNRC employees, are actively engaged. *With the departure of the CFO and retired vice admiral, this effort is now at critical risk.*
- Lab Renovation and Design Review:** For decades, getting labs renovated or prepared for newly arriving faculty has been exceedingly cost ineffective and regularly results in very long delays (years), to the extent that junior faculty often go up for tenure without their labs being completed and are only able to be productive based upon their ability to secure use of borrowed spaces. Space renovation normally would not begin (including the design phase) until the faculty member arrived. At that point nothing had been done to the assigned space. The faculty member started with a blank page with unrealistic expectations of their abilities to design a laboratory from scratch. Renovation cost estimates were often wildly inaccurate. Faculty reported needing to identify other individuals to assist them with the design phase, citing a lack of knowledge and a lack of support in the design process. Instructional spaces (classrooms, instructional labs, studios, etc.) are also wholly inadequate on the Davis campus. Projects were done piecemeal with little coordination and with money spent in isolation; prioritization was often based on the *squeaky wheel model*, not a priority of need.

The CFO implemented a plan, in consultation with faculty, where the needs of new faculty are reviewed annually on campus. The first annual review indicated that a major issue for new faculty was the cost-overruns and extensive delays in lab renovation projects to the point that it could take up to two years for facilities to be renovated and have equipment up and running. It was brought to the attention of the CFO that other campuses within UC were able to deliver renovation projects in a more cost-effective and timely manner.

The CFO created a small unofficial task force to investigate various case studies in order to understand the scope of the problem. In every case it was clear that the issue was our outdated and inefficient processes. In response to this realization, several formal planning efforts were launched by the CFO. One initiative is that Design and Construction Management (DCM) and Building Maintenance Services (BMS) will, starting with 2016 recruitments, seek information on proposed renovations as early as possible in a new faculty recruitment, which is at the point of release of the position for a search. DCM will work with the department chair or designee to initially scope out the

project and interact with the successful candidates prior to their arrival on campus. Faculty members will be provided with discipline-based design templates from which they can choose their optimal arrangement, with the goal of working space being available upon arrival.

A second initiative is to bring our costs in alignment with those of other UC campuses. New documentation to capture programmatic requirements, costs, and schedules will now be mandatory. Another problem was that overhead costs indirectly related to renovations project were routinely assigned to projects, thus making it difficult to know the true costs of renovations. The overhead costs have now been changed to cover only the direct costs of salary and benefits of individuals directly involved in the planning process.

A third initiative is to provide the Academic Senate, on an annual basis, a report on the status of renovation projects (the first report was provided to the Representative Assembly on June 1st, 2016). The status of these innovative approaches to laboratory renewal and new building design are in various stages of discussion and implementation. The Academic Senate now requests, as new standard operating procedures (SOPs) for construction, a full assessment of the status of these initiatives and a process by which they can be completed/implemented.

- **Comprehensive multi-year plan to manage deferred maintenance:** Deferred maintenance and inefficiencies in building renovations are enormous obstacles in accommodating increases in the number of faculty and students that our campus must support to meet our education and research missions.

The introduction by the CFO of a multi-year, all-source budget planning process allowed a much more holistic approach to managing deferred maintenance. For the first time, there now exists a comprehensive multi-year plan to manage deferred maintenance that allows resources to match prioritization of the construction and renovation of buildings. In addition, the prioritization process allows CPB to elevate curricular delivery concerns and therefore reprioritize campus maintenance projects. Under the CFO's leadership the campus was successful in obtaining \$90 M in Century Bond proceeds, which will go towards deferred maintenance, including classrooms, faculty offices and laboratory renovations.

- **Modernization of human resource operations:** Hiring faculty was further inhibited by substantial inefficiencies in the operating practices in the human resources (HR) area. Facility managers as well as HR incumbent administrative staff did not appreciate or embrace the need to support faculty. Faculty, staff and students were viewed as unwanted entities merely increasing workload, not as customers in need of support. Phones were not answered, phone messages and emails were not returned, and complaints were dismissed without investigation or consideration.

The CFO has led a complete transformation of human resource operations on the campus that required the reengineering of 18 sub-processes concerning hiring, job review and classification. This restructuring has significantly improved support to faculty and staff.

- **On campus faculty and staff housing:** A significant challenge in hiring faculty to Davis is the extremely low housing vacancy rate in Davis of 0.2%.¹ The efforts to provide on campus housing options for faculty were stalled by legal challenges and substantial cost overruns.

The CFO fast-tracked the development of faculty and staff housing in West Village and brought project management in-house. This allowed for the efficient completion of projects and the savings of up to \$80 M that will be available to potentially pass back to faculty and staff via housing prices.

- **Customer service standards and benchmarking of cost and maturity of processes:** The CFO implemented “customer” service standards and implemented benchmarking of costs and maturity of processes. This effort is complete for 75% of the services division. It is estimated that benchmarking will save UC Davis tens of millions on minor cap and major cap and other services. Departments within Finance, Operations, and Administration units have been working in this direction over the past year with some, but not all, embracing this new focus on customer satisfaction and responsiveness.
- **Construction cost benchmarking:** In an important and much needed effort, for the first time the construction costs of all new larger building projects are now going to be benchmarked against those of other public and private institutions and the private sector. This effort must be continued to also incorporate benchmarking for smaller laboratory renovation projects. The CFO implemented benchmarking of costs, maturity of processes, and quality of customer service, and this effort is complete for 75% of the division including Facilities, Environmental Health and Safety, Design & Construction Management, and Human Resources. It is estimated that benchmarking will save UC Davis tens of millions on minor cap and major cap and other services as overhead charges must now be directly associated with the project. In the past, overhead to cover costs of unrelated activities and individuals were routinely added to construction costs and construction projects were viewed as revenue generators by facilities. It was long suspected that the errors in design that led to costly retrofits and change orders were done deliberately to maintain and sustain income streams. This process has been stopped. The first annual financial report was completed last year <http://cfo.ucdavis.edu/documents/publications/financial-report-2014-15-web.pdf>.
- **Prioritization of Improvements in Animal Care Facilities and Processes:** The Committee on Research (COR) charge is to provide a faculty perspective on the research mission of the Division and the University including budgetary needs to support research infrastructure. In 2013-14 COR had identified one specific and longstanding problem negatively impacting the Davis campus: the lack of adequate and modern animal housing/research facilities on campus. Rodent-based research is a major component of biomedical research funded by the National Institute of Health and makes up a

¹ http://housing.ucdavis.edu/_pdf/vacancy_report/2015-vacancy-report.pdf

considerable portion of the total Contract and Grants (C&G) expenditures. In 2014-15 it was estimated that 10% of total C&G expenditures came from rodent research. This number is expected to increase as the campus grows. It is projected that over the next 10 years, total faculty FTEs in the College of Agriculture and Environmental Sciences, College of Biological Sciences, and School of Medicine will increase by an average of 1.8% annually and that a large number of these hires will perform rodent research. As a result of new hires, it is projected that the need for animal housing space will increase by 51% for mice and 38% for rats. The lack of modern animal research space threatens the ability of many of our faculty to conduct their research and to compete for large federally funded initiatives. To illustrate the depth of the problem, it is important to point out that no significant investment had been made in facilities for the School of Veterinary Medicine until that school was put on notice of loss of accreditation. In response facilities were upgraded to meet acceptable animal care and other needed standards.

The CFO worked closely with the COR to prioritize projects related to improving animal-care facilities and processes (more details below). The Animal Research Subcommittee report (Feb 2015) identified three major issues that were negatively impacting faculty and their ability to perform rodent research on the UCD campus. The issues were: 1) The infrastructure on the UC Davis and Sacramento Campus is inadequate to support ongoing and future rodent-related research; 2) The costs for faculty in support of housing and care for rodents is not transparent, varies greatly by School/College, and is becoming unaffordable for many; and 3) The oversight and decision-making processes to deal with animal-related research at UCD are fragmented.

In April 2015 a Joint Animal Task Force was created in close collaboration with the CFO and the Academic Senate Chair to address each of these issues.

- Inadequate and Failing Infrastructure: In 2014, a proposal for a new centralized cage wash was presented to upper management at a cost of ~30 M. The project was not funded. However, the Task Force identified a new cage wash as a critical need and the proposal was revisited. It was shown that a new cage wash will reduce utility costs and save ~1 M gallons of water per year. A new facility will also provide more efficient material handling and result in improved staffing efficiency and lower costs. A new cage facility was approved at a new cost of ~15 M. The current status of this project is unknown. This project represents a critical need and must go forward. An outside consulting group, The Estimate Group, was hired by the CFO to evaluate the existing rodent *vivaria* and provide an assessment of current and future needs. Key findings of the report were that 45% of the rodent *vivaria* space was built more than 30 years ago, 33% of the existing space has outlived its useful life, and over 58% of existing space requires major HVAC upgrades or replacement. These spaces need to be decommissioned and new spaces need to be built. A proposal has been put forth to construct a new 33,000 plus sq. ft. rodent facility adjacent to the new cage-wash facility on the Davis campus. Further recommendations are to renovate the vivaria in Genome Building Science facility (Davis campus) and Research Building III (Sacramento campus) to increase capacity. Failure to deal with infrastructure needs will

seriously hamper rodent research and the ability to increase C&G expenditures on this campus. Furthermore, should any of our existing infrastructure fail we risk the chance of not receiving AAALAC accreditation, which is required of a University to be eligible for federal funding such as NIH, NSF, USDA, etc.

- High Cost of Rodent Research at UC Davis: A comprehensive analysis of the costs involved in the housing and care of rodents was performed. An analysis of our rates (TRACS only) relative to other research institutions was performed and revealed that our rates are on average higher for both mice and rats. The next steps are to develop a new transparent and lower rate structure for rodents. This effort is a critical need for faculty. The high rates for animal housing and care at UCD make it more difficult for faculty to make progress on their research and be competitive for external funding. Furthermore, the high rates are impacting the ability to recruit and retain faculty whose research depends on rodents.
- Administrative Oversight: After much discussion, it was decided that a new administrative position, “Deputy Institutional Official” was needed to oversee the entire Animal Research and Teaching program at UCD. This person would report to the CFO and VC-Research. Recruitment for this position started in April 2016, but has been postponed as a result of recent events. We are at a critical juncture and we need someone with strong leadership skills and vision that can work with both the administration and faculty to manage, harmonize, and further develop one of the largest and most diverse animal research and teaching program in the United States. If we do not hire a DIO, we need to proceed with hiring a new Attending Veterinarian since Dr. Vic Lucas, DVM, has announced his retirement.

In conclusion, within a very short 18-month period, the CFO made a significant number of positive changes that have already resulted in improvements, which, if can be sustained, will enable faculty to improve their research and instruction pursuits.

Sincerely,



André Knoesen
Chair, Academic Senate
Professor: Electrical and Computer Engineering