California Performance Review Commission
Administrative Vice Chancellor Peter Blackman Testimony on Business Issues Related to CPR Recommendations

September 9, 2004
Los Angeles County Museum of Natural History

- Co-chairs Kozberg and Hauck, members of the Commission, I want to thank you for giving me the opportunity to present the University of California's views with respect to the CPR recommendations focused on business practices.

- The state is facing an unprecedented challenge to meet its infrastructure renewal needs. As the Commission has found, "investment and development of infrastructure has not increased to meet the demand by population growth in California." As Vice Chancellor of Administration at UCLA, I know that the finding is clearly evident in public higher education in California.

- As is the case for many industries in the state, the cost of "doing business", or in our case, providing higher education for Californians, is rising at an alarming rate, faster than the national average. This is due in large part to higher construction costs, skyrocketing energy bills, and expenses resulting from the state's increasingly complex regulatory environment.

- But unlike business, UC is facing surging enrollments and declining revenues. Over the last four years, our enrollment has grown by 9% while our operating budget has been cut by 15%. In 1970, UC received 7% of the State General Fund; today we receive 3.5%.

- It is a real concern, that these trends over the long term, could substantially undermine the University's standing as the nation's best public institution of higher education and a leader in scientific and technological innovation. These trends also threaten the University's contribution to the economic vitality of the state.

- That is why the efforts you are undertaking have been very well received at UC. We know that to maintain our excellence, the University must work smarter. We must push relentlessly for operational efficiencies. We must innovate. We must, in the Commission's words, "…remove duplication of effort, streamline accountabilities, reduce costs at no drop in service and increase service with no increase in cost…."

- Like the Commission, UC is constantly reviewing operations for ways to improve our efficiency and we have been successful in several areas. {UCLA EXAMPLE}

- In addition, we are working with the State. For example, we are currently in discussions with the Department of Finance to identify processes that will provide the University with tools to help us manage our construction program more effectively, including: creating more flexibility in the management of projects in areas such as the process of authorizing augmentations to project budgets; enacting scope change actions to keep project costs within budget; and making greater use of contracting methodologies

- The University also finds in your proposals further opportunities for fiscal relief and streamlining in three major areas of our business operations - construction, energy and state contracting. I will touch briefly on each of these areas today, but we have also submitted a more detailed written report for your review.

- **Construction:** Outdated provisions of the state's competitive bidding laws hamper our ability to deliver construction projects in a timely and cost effective way. Amending the University's construction competitive bidding requirements would provide an estimated annual savings in excess of $20 million and increase our flexibility to best fulfill our mission to the state. Our proposed changes include:

  - Allowing contracts to be selected on the basis of the best combination of price and qualifications
  - Allowing for electronic notice to potential bidders
  - Increasing the floor for competitively bid projects to reflect inflation to allow more projects to be informally bid
  - Adding an annual adjuster keyed to the California construction cost index; and
  - Increasing flexibility on the use of UC employees for infrastructure, maintenance and repair work.

- **Energy:** The University strongly supports efforts to increase energy conservation by public entities. UC is a national leader among universities in energy and sustainability policy. In June of this year, we adopted a policy requiring all new buildings to exceed state energy efficiency standards by 20% and comply with the UC Green Building Design Guide.

  - We can reduce consumption through efficiency measures. Yet such measures are costly. We estimate that a 25% reduction will cost $300 to $400 million. We have participated in the State's Energy Revenue Bond financing program. However, with UC running deficits in its purchased utility budgets, we are unable to use energy savings for these measures. We need state assistance to create incentives and provide funding to pursue energy conservation projects.
  - But energy efficiency alone is not enough. Even with aggressive conservation and energy efficiency programs, UC will continue to face energy deficits. Long-term reduction in state energy costs will only be possible with a stable, predictable energy market. In the current market, we will be unable to benefit from the significant cost savings that come with long-term energy contracts.

- **Contracting Inefficiencies:** We know that the needs of the California economy are increasingly driven by the cutting-edge knowledge generated at the University of California and we applaud your proposals with respect to technology transfer.

  - Specifically, UC concurs with the pressing need to develop a state intellectual property policy to ensure rapid commercialization of research results.
  - We also agree with the need to immediately adopt a single research contract with an electronic based invoicing process. We estimate that standardizing state contracts and grants could save UC as much as $1.65 million annually, and would probably result in similar savings for State agencies.

- I want to thank you for the opportunity to testify. On behalf of UC, I also want to thank the Governor and the Commission for your vision, determination to bring about change and leadership in this effort to restructure and reorganize state government. Difficult times demand the kind of innovative thinking and reforms you have put forth, and we look forward to working with you in continuing to rise to these - our new challenges.