



320 STEPHENS HALL
UNIVERSITY OF CALIFORNIA

April 28, 2015

JOHN WILTON
Vice Chancellor for Administration and Finance

*Subject: Residential Student Service Programs (RSSP) financial and operating model
assessment*

Dear John,

On April 13 and 27, 2015, the Divisional Council (DIVCO) considered the Deloitte Consulting assessment of RSSP, informed by a report submitted by the Committee on Academic Planning and Resource Allocation (CAPRA). DIVCO endorsed the CAPRA report, which is appended here in its entirety.

Sincerely,

A handwritten signature in black ink, reading 'P Papadopoulos'.

Panos Papadopoulos
Chair, Berkeley Division of the Academic Senate
Chancellor's Professor of Mechanical Engineering

Encl.

Cc: Nancy Wallace, Chair, Committee on Academic Planning and Resource
Allocation
Diane Sprouse, Senate Analyst, Committee on Academic Planning and Resource
Allocation

April 22, 2015

**TO: PANOS PAPADOPOULOS, CHAIR
BERKELEY DIVISION OF THE ACADEMIC SENATE**

**RE: CAPRA Review of the *RSSP Financial and Operating Model Assessment*
prepared by Deloitte**

Overall Assessment:

The *RSSP Financial and Operating Model Assessment* that has been prepared by Deloitte presents a stark financial justification for the administrative realignment of the operations for capital related services, dining, and housing functions between the Student Affairs/Residential and Student Service Programs and the Vice Chancellor of Administration and Finance and the Vice Chancellor of Real Estate. In CAPRA's opinion the key reasons for this needed realignment include the following operational realities: 1) the duplication of work effort between RSSP and the VCRE for the same services under the current model of operation; 2) the fact that the total annual expenses to revenue ratios for housing is higher than the median of peer institutions (54% versus 50%); 3) the fact that the net income of the student dining services is currently negative and the total annual expenses to revenue ratio of dining services currently far exceeds peer institutions (115% versus 83%); 4) the fact that important segments of the current custodial, maintenance and trade cost under RSSP are more than peer institutions (\$1.50 per square foot (psf) versus \$3.50 psf for custodial; \$1.01 psf versus \$1.70 psf for maintenance and trade labor costs); and 4) the severe debt capacity constraints the Berkeley campus faces both currently and in the foreseeable future.

CAPRA strongly supports the realignment option that would: 1) consolidate facility services functions for custodial support, maintenance and trades, grounds, and design and project management support; 2) maintain the dining halls within RSSP, but operate under a revised financial structure that would realign dining restaurants and retail to an auxiliary services group that would manage third party contracts; 3) Divide housing with the SA-RSSP managing student facing processes and A&F/RE responsible for the non-student facing processes; 4) structure the university's relationship with a public/private partnership (P3) provider based on the proposed "Auxiliary Services Intermediary" model. This new model would eliminate important segments of duplicated services between SA/RSSP and A&F/RE and would provide clarity of financial management and oversight especially with respect to capital projects, services contract negotiations, and the implementation of coherent funding strategies. Although the proposed financial model finds a wide band on the estimated savings to the UCB campus of between \$4 and \$18 million dollars, CAPRA believes that the four recommendations that are summarized above will undoubtedly lead to efficiency gains due to reduced duplication of costs and centralized financial oversight and planning over housing, dining and services (custodial, maintenance, grounds, and design and project services). More importantly, the proposal should allow for decreased operating expenses and decreases in campus capital expenditures due to the reliance on third parties for 40% of student housing. Although

the proposed model will result in losses in revenue due to the third party contracts for housing services, the strategy affords a crucial benefit of lowering the required debt burden for the university. Given the current campus budget shortfalls and the reality that the university is very near its debt capacity, this potential benefit associated with the issuance of more general obligation debt in the opinion of CAPRA members is of paramount importance.

Despite the many positive features of the proposed four-element strategy of realignment, CAPRA notes several concerns. First, the implementation of the proposal requires significant additions to the existing staffing levels within the A&F/RE to guarantee the needed depth of professional personnel who can execute on the proposed financial and management strategies. These new staff members will need to build an entirely new entrepreneurial culture with strong financial controls. Second, the proposal makes it clear that an alignment of the leadership and staff of the SA/RSSP and the VCRE/VCA&F is critical to a successful implementation of the proposed strategy and CAPRA strongly concurs. CAPRA members are especially concerned about the need to rapidly establish processes to build working alliances between the existing SA/RSSP staff and the new entrepreneurial functions proposed for the A&F/RE units. Third, CAPRA believes that Deloitte should maintain a role in the phase-in of the proposed strategy and the implementation of the “Auxiliary Services Intermediary” model. Fourth, CAPRA strongly suggests that performance benchmarks should be established prior to the implementation of the proposed strategy so as to avoid the poor coordination and lack of performance metrics in the campus implementations of the Bain & Company 2010 proposals for operational excellence and the creation of Campus Shared Services (CSS). Fifth, the proposal leaves considerable ambiguity about the cost and revenue efficiencies of other services within RSSP such as the Early Childhood Education Program (ECEP), catering, and the summer conference programs run through housing and dining services. CAPRA strongly suggests that a careful analysis of these services also be undertaken with a view to establishing stronger fiscal controls over them.