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Letter - Strategic Investment Fund Update

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Strategic Investment Fund Update

June 9, 2014

To: The University Community

From: Pamela A. Eibeck, President

Subject: Strategic Investment Fund (SIF) Update

It is my pleasure to announce that thanks to your hard work, University of the Pacific has established a Strategic Investment Fund (SIF) to allow us to invest in critical strategic efforts over the next few years. This is an enormous accomplishment. Our University community has worked incredibly hard over the last year to review our administrative efficiency, making tough choices along the way. Coupled with Academic Planning and Alignment, these projects required intensive effort and emotional fortitude. I am profoundly grateful for your efforts, your patience, and your confidence in Pacific's future throughout this process.

The Strategic Investment Fund will help Pacific change with the times, without relying on steep tuition increases. The fund will be used for projects or initiatives that will lead to the accomplishment of *Pacific 2020's* four strategies: building our academic strength and reputation, pursuing new students in our three cities, preparing our students for success, and developing organizational capacity. Once accomplished, these strategies will enable the University to fulfill its 2020 vision of a transformative educational experience for all students.

The SIF is the result of the reallocations of 7% of budgets in administrative units and 6% of academic units' budgets, with the exception of the McGeorge and Dugoni Schools.^[1] Some distributions from the Powell gift will also be temporarily directed to the SIF: The University is currently engaged in a matching campaign to double the part of the Powell endowment targeted for academic programs. Until all those academic funds are matched, the distributions from unmatched funds will be added to the SIF (likely five to seven years).

The Strategic Investment Fund is estimated to have more than \$10 million in base funds available as of July 1, 2014. After academic reallocations are completed on July 1, 2015, the SIF will have accumulated more than \$13 million in base funds. Each year, base funds that are not allocated to

strategic programs will carry forward as one-time contributions to the SIF. We have been setting aside \$500K per year from the annual budget to the SIF since 2013, so one-time contributions of funds will have accrued to a total of \$2 million by July 1, 2015.[2]

There will be three types of SIF investments:

1. Academic Programs: new/existing academic programs support

Approximately seven million dollars (\$7M) of the SIF will be targeted to support new or existing degree programs that can attract new students, enhance University of the Pacific's reputation for excellence, and increase net tuition revenues. SIF will cover part or all of the base costs (salaries, operations) or one-time costs (such as space renovation or equipment purchases) for strategic new programs or existing programs for up to three years. **The SIF investments will end after three years because the increased tuition or other revenues generated by the program are expected to cover costs plus administrative overhead associated with the program. This allows the fund to be a rolling academic investment fund into the future.**

2. Capacity Area Investments: strategic institutional capacity building

Less than half of the SIF's base funds is intended to be used for institutional capacity building -- targeted at six million dollars (\$6M). Without significant improvements in some of Pacific's capabilities, our faculty and staff will be hampered in their strategic efforts. For example, the success of **Pacific 2020** hinges on offering academic programs and effectively serving students at multiple sites, improving our students' academic and career success, building our University's reputation, having a robust technology infrastructure, and launching a strong campaign. While these areas (IT, marketing, etc.) are strategically important and support our academic programs and students, they represent "cost centers" of the University - i.e., they will not directly generate new operational revenues. Hence, once base funds from the SIF are allocated to these projects, they will not be replenished. There may also be one-time capacity building investments that will not permanently reduce the base SIF pool, but are important for capacity building (e.g., a piece of equipment, software package, etc.).

3. Strategic Excellence in Emerging Directions (SEED) Grants

SEED grants of up to \$50K (or \$100K if interdisciplinary) will be available through an annual competitive process with a total of \$500K of one-time funds allocated annually. Each year, the Strategic Planning Committee will release a request for proposals that focuses on a limited number of important strategic areas that would benefit from engagement by units across the University. Any unit, academic or administrative, can apply for the grant funds. The funds can be spent over a two-year period.

Reporting

The Board, and the University, will be kept informed of the status and impact of the Strategic Investment Fund. The Finance/Facilities Committee of the Board will receive a summary for the Strategic Investment Fund account at each full Board meeting for the indefinite future. In addition, an annual SIF impact report released each October (starting 2015) will provide the Board and the

University community a summary of the activities and impact resulting from SIF investments.

Decision-making on SIF Investments

While the Strategic Investment Fund seems to be a major source of funds, it can only support a limited set of important strategic initiatives. Hence, an initiative's centrality to achieving ***Pacific 2020*** and the significance of its impact on expanding new revenues (by attracting new students, retaining more continuing students, or expanding donations) will have the highest priority for SIF allocations.

To be sure that the University uses its best thinking in this area, multiple groups will be engaged in allocation decisions: the Strategic Planning Committee, the Institutional Priorities Committee (IPC, aka the budget committee), the Cabinet and the Board of Regents.

Academic Programs

New degree programs seeking strategic investment funds can emanate from an existing school or college, or be the result of leadership's commitment to launch a new degree program that will require new faculty and possibly an associated academic unit. In exceptional situations, an existing academic degree program may seek strategic investment funds to allow it to significantly enhance its student enrollments. In all cases, new or existing academic programs seeking SIF investments must obtain dean and Provost approval in order to apply for SIF investments.

In each case, the IPC will review the proposal for strategic investment funds and make a recommendation to Cabinet, considering the potential for strategic impact of the program, the likelihood of financial sustainability of the program, and the magnitude of investments that seem reasonable. After Cabinet review, the President will make a recommendation for academic program SIF investments to the Board.

Capacity Area Investments

After discussions with various sectors of the University, Cabinet will work with the Strategic Planning Committee and IPC to identify key areas for institutional capacity building that are aligned with ***Pacific 2020***, along with approximate upper limits of support. After Board of Regents endorsement, Cabinet will charge a team to develop an implementation plan for the effort, including clearly articulated goals, estimated costs, and measurable outcomes of the effort. Once Cabinet has approved the initiative's implementation plan, a proposal for SIF funds will be developed and submitted to the IPC for review and recommendation.

SEED Grants

Annually, the Strategic Planning Committee, with input from the Cabinet, will identify strategic focus areas for an open call for proposals from the University's administrative and academic units. The SPC will then review the submitted proposals and recommend to the IPC a list of projects for funding within the \$500K annual limit. The IPC will review the SPC's recommendations and seek clarifications from the SPC if it has concerns. The IPC will then forward the list, with comments, to the President for a final decision.

Next Steps

Development and announcement of proposal processes

The Strategic Planning Committee, the Institutional Priorities Committee, and the Cabinet are working throughout the summer to be ready to administer the SIF beginning in the fall. By mid-July 2014, the SIF proposal templates and processes for each type of funding will be developed and reviewed by all three groups. These proposal materials will then be released to the University community.

Proposal timelines

A few academic program and institutional capacity SIF proposals may be ready to come forward for Board approval as early as August 2014. These are the result of work accomplished over the last year toward a new audiology program, marketing the McGeorge School of Law, and some foundational IT needs. Other proposals will be accepted on a rolling basis each year until all funds are committed. Investments requiring Board approval will be considered at regular Board meetings in August, October, January or April/May. The SEED grant proposal cycle will begin mid-fall 2014. SEED grants will not require Board-level approval.

Our Future

Though the SIF could never stretch to accommodate all our big ideas, it is nonetheless a powerful resource for achieving excellence. **Ultimately, however, our success will depend on the talent and commitment of our people.** University of the Pacific is fortunate to have dedicated faculty and staff who care deeply about our students and our University. It's our people that got us to this exciting moment, when the University's resources and planning are aligned with our promise. To all our faculty and staff - thank you. Congratulations on making this moment possible.

[1] The rationale for the two exceptions is:

a) McGeorge School of Law - Due to the rapid drop in tuition revenue associated with the drop in legal education demand, McGeorge has endured a series of significant budget reductions over the past two years and more will be necessary in the years ahead. Hence, any contribution from McGeorge to the SIF was deemed unrealistic and counterproductive.

b) Arthur A. Dugoni School of Dentistry - The dental school was originally expected to contribute \$2.17 million to the SIF. However, to meet cash flow needs for the new dental facility and equipment as its capital campaign continues, the University's Board has approved a loan for \$35 million. Until payments on the campaign pledges retire that loan, the Dugoni School is assuming responsibility for the annual debt service for the loan. That debt service (approximately \$2.2 million annually) will be in lieu of the Dugoni School's contribution to the SIF.

c) McGeorge and the Dugoni School will be eligible to receive funding through the SIF.

[2] Definitions:

- Base funds are annually recurring budget funds, such as those used to pay salaries or provide annual operating budgets. Each year, the account is replenished with the same amount of funds as it had the prior year. At the end of each year, unspent funds are removed prior to replenishing the account.
- One-time funds are a fixed amount of funds that is not replenished with the next budget cycle. One-time funds may be spent over one year or multiple years.