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*Chair of the Assembly and the Academic Council
Faculty Representative to the Board of Regents
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200*

March 3, 2011

**LAWRENCE PITTS, PROVOST AND EVP
UNIVERSITY OF CALIFORNIA**

Re: Funding Streams Proposal

Dear Larry:

Following review by the divisions and standing committees of the Academic Senate, the Academic Council discussed the funding streams proposal at its meeting on February 23, 2011. Nine divisions and six committees (BOARS, CCGA, UCEP, UCOLASC, UCORP, UCPB) provided written comments in advance of the Council discussion.

The funding streams model will allow campuses to retain campus-generated funds, including student tuition. The model assesses a fee that is a uniform percentage of campus "operating expenses from all campus fund sources" to fund the activities of the Office of the President. The Academic Council generally supports the principles of the funding streams model, which aims to "simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue." Senate agencies welcome the explication of OP budgets that will be necessary to compute the campus assessments. Council also applauds the autonomy provided to campuses to retain campus generated revenue and allocate these resources. As described below, however, we note several serious concerns, the most important of which are that the redirection of revenue sources is contemplated without reallocation of state general fund revenue (rebenching), and that the funding streams model could provide incentives to over-enroll students without implementing effective controls at the campus level.

Rebenching. The funding streams proposal is intended initially to be revenue-neutral to the campuses. Thus, it initially extends historically-determined base budgets that treat campuses differently. While it provides incentives for campuses to generate additional revenue, it does not address the challenge of aligning state funding to the current situations and needs of each campus. Rebenching of state general funds is required to align campus budgets with current circumstances. Council does not approach rebenching as a simple exercise in redistribution; rather, the rebenching phase of budgetary reform requires the development of a rational financial model. Council believes that it is necessary to complete the rebenching process as soon as possible in order to provide each campus with a clear basis for financial planning. We consider rebenching as inseparable from the funding streams project, and welcome President Yudof's comment that the rebenching task force

should begin to identify principles for allocating state general funds among the campuses as soon as possible.

Enrollment management. Council believes that enforceable central enrollment targets are essential to sustain a UC quality education at all campuses. Council is concerned that, in the absence of clear mechanisms for enforcement of enrollment targets for undergraduate California residents, allowing each campus to retain the entirety of tuition revenues on the campus will create incentives that undermine central enrollment planning. First, a campus may calculate that it will net additional revenue from tuition by increasing the number of resident students above target levels, relying on increased class sizes to absorb the marginal cost of instruction. Such a strategy may be viable in the short term but it will inevitably compromise the quality of students' educational experience. It particularly risks a situation in which adequate seats are not available in required classes so that students must prolong time to degree while enrolling in alternative courses simply because they have room. While faculty will try to mitigate enrollment problems, we fear that increased enrollment without increased teaching resources will overwhelm our capacity to meet student need. Second, although non-resident tuition has the potential to generate revenue that can enhance the quality of education for all students, a heightened focus on non-resident enrollment may cause serious imbalances between campuses. Differential ability to attract non-resident students may lead to situations in which resident students who would previously have enrolled on one campus are shifted to another to make room for additional non-residents on the first campus. If such patterns develop, we anticipate equity concerns related to control of and access to the revenues generated by non-resident tuition, which could lead to substantially different levels of educational resources on different campuses and dilute the concept of "UC quality."

Allocation of future cuts and augmentations. The funding streams model allocates future cuts in state funds on a different basis from the allocation of future augmentations. Augmentations in State funds are to be allocated on the basis of the distribution of State general funds and education fees (resident tuition) without reference to campus generated revenue from professional degree fees and non-resident tuition. We understand that this formula was adopted to allocate 2010-2011 budget augmentations. Reductions in State funds are to be allocated by purporting to account for "campus capacity to cope with State funding reductions" by including professional fees and non-resident tuition in the allocation formula. We understand that this formula is being used to allocate budget reductions proposed for the 2011-2012 budget. While most Council members support these formulae as an interim step, some members are concerned that the dichotomy continues the present model of allocating state funds based on historic events and circumstances, and that it is inherently contradictory. These differential allocations would be unnecessary if rebenching had been carried out. The funding streams proposal should be treated as an interim policy that will be revised subject to the results of the rebenching discussions; we urge that this process be expedited.

Graduate Student Funding. The impact of the proposal on graduate student funding is unclear and the Council can neither endorse nor reject the proposed changes. Instead, Council requests that staff from UCOP's budget office meet immediately with CCGA, UCORP and UCPB to clarify the implications of the new policy on graduate students and graduate education. The lack of clarity is highlighted by the fact that none of the representatives of the Graduate Councils to CCGA understood the impact of the funding streams proposal for their campuses. Questions raised include: Is all support for graduate students considered financial aid? To what extent would funds be set aside for aid to professional school students? Would campuses be able to absorb tuition remission for out of state GSIs? How would UCOP ensure that allocations for graduate student aid are spent for this purpose? Finally, we note that preserving graduate education is tantamount to preserving the ability

for all campuses to be successful as research universities and should be a systemwide priority facilitated by central policies.

Assessment to support central operations. Many respondents questioned how the assessment to support central operations will be determined, who has the authority to set it, and how often it will be reviewed. Council recommends an annual review of the assessment rate with Senate and campus representation. Lastly, some Senate agencies suggested that the dollar amount of the UCOP budget should be determined annually with the assessment determined as the percentage levy on campus revenues necessary to raise the agreed-upon amount. They note that increasing revenues or expenditures on the campuses does not justify proportional growth at UCOP, particularly in programs that are centrally funded but not part of core administration.

Campus consultation. Several respondents urged that campus budget decision making should be consultative and transparent, in a fashion that follows the implementation of the funding streams proposal for the Office of the President. Council urges inclusion of language to promote campus consultation with the Senate on budgetary decisions. UCPB advises “There must also be a clearly articulated shared governance consultation process at both the systemwide and division levels.”

UC’s strength as a system. Finally, Council cautions that the funding streams initiative, if implemented without central direction, could have unintended negative consequences for the UC system. While campuses value the opportunity to build on their strengths and determine their own priorities, the funding streams model provides incentives to pursue parochial interests and dilute the interdependence of our campuses, since every campus depends on the strength and reputation of the overall system. For instance, Council echoes UCOLASC’s concern about maintaining support for existing central services for the libraries and for the California Digital Library. We recommend that the impact of funding streams, in conjunction with rebenching, be reviewed within three years of implementation and revised as needed.

Thank you for considering the views of the Senate. We look forward to working with you to move forward on the rebenching effort.

Sincerely,

A handwritten signature in cursive script that reads "Daniel L. Simmons".

Daniel L. Simmons, Chair
Academic Council

Copy: Mark Yudof, President
Nathan Brostrom, EVP-Business Operations
Peter Taylor, CFO
Patrick Lenz, VP-Budget and Capital Resources
Debora Obley, AVP-Budget and Capital Resources
Academic Council
Martha Winnacker, Academic Senate Executive Director

Encl.



320 STEPHENS HALL
UNIVERSITY OF CALIFORNIA

February 17, 2011

DANIEL SIMMONS
Chair, Academic Council

Subject: University of California funding streams proposal

Dear Dan,

On February 7, 2011, the Divisional Council of the Berkeley Division discussed the funding streams proposal, informed by the comments of the divisional committees on Academic Planning and Resource Allocation (CAPRA), and Educational Policy (CEP). DIVCO supports the concept that campus-generated funds would be retained on, or returned to, the source campus, and acknowledges that the proposal represents an improvement in transparency over the current system. However, it noted that the proposal lacked sufficient quantitative data to understand the true fiscal impact of the proposed changes.

The discussion focused on the following issues and concerns.

Undergraduate financial aid

I note an inherent ambiguity in the goal (p. 21) to “use fee funds to equalize the expected student contribution level from employment and/or loans across the system, such that each individual student would face the same net costs regardless of which campus the student chooses to attend.” Equalizing “the expected student contribution level from employment and/or loans across the system” appears to refer to what is called the “self-help” level at Berkeley. However, this certainly does not fix the net costs that each individual student would face. A large number of students do not qualify for full (or any) financial aid (which of course is why the return-to-aid model embedded in fees/tuition works). The net costs facing these students would continue to differ for different campuses. We would expect much more precise the language in the final policy.

DIVCO discussed the proposed reallocation of fee-generated revenue. Focusing on the net cost to *each individual student* (rather than just those on full financial aid) we considered at length the impact of cost of living, in all of its dimensions, on educational costs. The discussion echoed CEP:

The desire to keep the “net” cost of attending any of the UC campuses comparable is understandable and laudable. We recommend that the computation of net cost specifically include the cost of living at the various campus locations.

The goal of equity in net costs for UC students is impossible to achieve unless cost of living is taken into consideration.

Graduate student financial aid

DIVCO supports eliminating the disaggregation of USAP funds into discrete “buckets”, which have been created historically to offset increased costs in particular categories. Disaggregation will provide campuses with the flexibility and autonomy needed to address graduate student needs at the local level. Our experience at Berkeley has been that directing a large portion of graduate student USAP funds towards fellowships has enabled us to continue attracting the brightest graduate students. Our future as a top-ranked research university will depend upon us being able to continue recruiting excellent graduate students, and the proposed local autonomy will be helpful.

Assessment for UCOP

DIVCO considered the assessment to each campus for the Office of the President. We agreed with CEP:

No assessment estimates are provided, for example, in terms of percentage of the budget. The document cites “ability to pay” as a criterion for the amount of assessment. The meaning of “ability to pay” is at best ambiguous. A more appropriate criterion is assessment based on the level of service provided.

Implications of Display 5

DIVCO was deeply concerned about the implications of Display 5 for our campus. We found the proposed allocation of cuts and augmentations to state funding worrisome, yet lacked sufficient data to model its impact. As noted by CEP:


We question why cuts (or increases) in state general funds should be distributed on the basis of anything other than current levels of state funds. Including tuition and fees in the base penalizes larger campuses and campuses that are more successful at raising their own revenue.

We feel that the assumptions underlying this display should be made explicit, so that campuses can weigh the potential effects. At face value, it appears that the proposed model will lead to a steady erosion of State funding to those campuses that generate non-resident tuition and professional degree fees. Funding reductions will consider these revenues (which is likely to drive the affected campuses to try and bring in more non-resident tuition and professional degree fees), but then part of these cuts will never be restored should there be any augmentations of state funding. While Display 5 shows a 1% difference in the

percentage of overall augmentations and reductions apportioned to Berkeley, the articulated principle behind this difference suggests that it will increase with time.

Overall, we approve of the principle of moving to a more transparent and explicit funding model. We urge clarification of details and resolution of some of the ambiguities in the current draft. Furthermore, we expect the bases for the assessment for UCOP and allocations to campuses to be transparent and explicit as well.

Sincerely,

A handwritten signature in black ink that reads "Fiona M. Doyle". The signature is written in a cursive, flowing style. The first name "Fiona" is written in a larger, more prominent script, followed by "M." and "Doyle". The signature is set against a light gray rectangular background.

Fiona M. Doyle
Chair, Berkeley Division of the Academic Senate
Professor of Materials Science and Engineering

Cc: Elizabeth Deakin, Chair, Committee on Academic Planning and Resource Allocation
Thomas Goldstein, Chair, Committee on Educational Policy
Diane Sprouse, Senate Analyst, Committee on Academic Planning and Resource Allocation
Elizabeth Wiley, Senate Analyst, Committee on Educational Policy



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February 16, 2011

Daniel Simmons, Chair, Academic Council
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RE: Senate Review of the Funding Streams Proposal

At its meeting of February 15, 2011, the Irvine Division Academic Senate reviewed the Funding Streams proposal. We received reports by the Council for Planning and Budget and Graduate Council. The Cabinet discussed these and entertained other comments from members. In general, the Senate Cabinet was supportive of the proposed changes that serve to keep funds generated by a campus on that campus and that call for funding of the Office of President's activities through an assessment on each campus. The Cabinet recognized that the proposal not only simplifies funding streams but also does this with greater transparency than heretofore occurred. The following comments are suggestions to provide clarification.

The proposal could be clearer with regard to implementation and the policy for the handling of undergraduate financial aid. The proposal deals circuitously with cross-campus subsidies, using both increments and decrements to the state general funds to achieve the cross-subsidies.

The issue of the role of past UC distributions to different campuses in shaping the funding streams to individual campuses going into the future was discussed. In the case of patent revenues, some campuses have more greatly benefited than others. If all campuses are to be more-or-less equal players in this revenue-neutral proposal, how will the legacy of patent revenues that obviously are attributable to one campus be dealt with? The proposal could deal with this point in greater detail.

The Irvine Division appreciates the opportunity to comment.

A handwritten signature in blue ink, appearing to read "Alan Barbour", is written over a faint, larger signature.

Alan Barbour, Senate Chair

C: Martha Kendall Winnacker, Executive Director, Academic Senate



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February 16, 2011

Daniel Simmons
Chair, Academic Council

In Re: UCLA Response to the UC Funding Streams Proposal

Dear Dan,

Thank you for the opportunity to review and opine on the proposal pertaining to a new method of fund allocation for UC campuses via the Funding Streams proposal. Upon receipt of the proposal, I asked that the UCLA Council on Planning and Budget, Undergraduate Council, and Graduate Council opine on the issue. All other committees were welcome to opine as well, and the Faculty Executive Committee of the UCLA School of Arts and Architecture (SOAA) provided a very thoughtful analysis. The Executive Board, which speaks for the Division on such matters, considered all responses in its deliberations. Responses of various UCLA Senate bodies are attached for your review; this memo outlines the deliberations on the Executive Board and its conclusions. For reasons I shall outline, although the UCLA Academic Senate is generally supportive of the goals and general elements for implementation of the new Funding Streams model, we have strong concerns about some of the key features of the proposal.

The UCLA Senate and its Executive Board are supportive of many of the features of a proposal to simplify the mechanisms by which the University conducts its financial activities, with the ability for UC campuses to retain funds generated by the campus and to support UC Office of the President operations and programs through a flat assessment "tax" levied on each of the campuses. This process will clearly be an improvement over current highly complex formulas and mechanisms, and will enhance campuswide funding transparency. The UCLA Senate is in agreement with the overarching principles articulated in the proposal, namely, to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue:

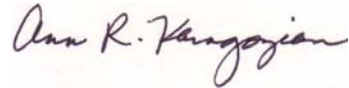
There are a few features of the Funding Streams proposal, however, that are incongruous with the third overarching principle, "incentivizing campuses to maximize revenue". As clearly articulated in the proposal and in Display 4, when allocating future undesignated state funding augmentations, the allocation WILL NOT be computed by taking into account non-state revenue sources such as Nonresident Tuition and Professional Degree Fees. On the other hand, when determining the tax and thus allocating reductions in state funding to the campuses, the proposal states that non-state revenue sources such as Nonresident Tuition and Professional School Fee

revenues WILL be taken into account. This inconsistent pair of policies does not make sense; it is imbalanced with respect to UCOP's treatment of campuses that have been working hard to maximize revenue via the NRT and Professional School Fees. We recognize that these are very difficult times for the University, and can understand the desire to attempt to tax whatever could possibly be justified in taxing, and in the future to give back as little as is necessary. But this inconsistent policy is illogical, unfair, and completely contradicts the assertion that the Funding Streams model is designed to "incentivize campuses to maximize revenue". **The UCLA Executive Board and Senate vigorously oppose this aspect of the proposal. Taxes and augmentations should be based on the same funding sources.**

Beyond the obvious inconsistency in the treatment of NRT and Professional School Fees, we would like to draw attention to a point that several UCLA Senate groups have identified. While the assessment (tax) to campuses is proposed to be "determined by the UCOP budget and the need for funding of systemwide initiatives", having the assessment level "evaluated every two or three years to determine the appropriate rate" is inappropriately vague. It does not account for the fact that some campuses that are particularly successful at increasing revenues such as NRT in a given year potentially will be providing UCOP with more funding than is actually needed. It seems far more logical to reassess the tax or assessment rate every year, to make sure that there is no unneeded growth in the budget to UCOP; that growth should be based on real need, and not the funds that are available from the tax.

Thank you again for your inviting us to review and opine upon this matter. UCLA would welcome the opportunity to review the proposal again, after significant revisions have been made.

Sincerely,

A handwritten signature in dark ink, reading "Ann R. Karagozian". The signature is fluid and cursive, with the first name "Ann" and last name "Karagozian" clearly legible.

Ann Karagozian
Chair, UCLA Academic Senate

Cc: Martha Kendall Winnacker, Executive Director Systemwide Senate
Jaime R. Balboa, Chief Administrative Officer, UCLA Academic Senate

February 2, 2011

To: Professor Ann Karagozian, Chair
UCLA Academic Senate

From: Professor Joseph B. Watson, Chair
UCLA Undergraduate Council



Re: Undergraduate Council Response to the Senate Item for Review: Proposal for the Redesign of the Allocation of Funding Streams Systemwide

On behalf of the Undergraduate Council, I would like to thank you for the opportunity to review and opine on the proposal for the redesign of the allocation of funding streams across campuses. The Council reviewed and discussed the proposal at its January 21, 2011 meeting after Associate Vice Chancellor for Academic Planning and Budget Glyn Davies had provided the Council with an overview of the proposal and key points of discussion.

The Council appreciated the proposal's efforts to support the systemwide goals of the Education Financing Model for undergraduate student financial aid by allowing an exception to the overarching principle that source campuses will retain all funds generated by the campus and agreed that the proposal is laudable in principle as a significant step toward achieving simplicity and transparency. However, the Council was concerned about how each campus will be taxed to support the Office of President's budget as the proposal leaves open the question of how tax rate will be assessed. Consequently, the Council concurred that the proposal requires a clear articulation of means by which tax rate will be assessed and voted to endorse the proposal contingent upon such an articulation. The Council voted 13 in favor, with 0 opposed, and 0 abstentions. The student vote was 1 in favor, 0 opposed, and 1 abstention.

The Undergraduate Council would appreciate an invitation to review future drafts of the proposal in response to the concern raised in this letter. If you have any questions, please feel free to contact me (x57587; jwatson@mednet.ucla.edu) or Academic Senate Principal Policy Analyst Jisoo Kim (x51194; jkim@senate.ucla.edu).

Cc: Jaime Balboa, Chief Administrative Officer, Academic Senate
Linda Mohr, Assistant Chief Administrative Officer, Academic Senate
Jisoo Kim, Principal Policy Analyst, Academic Senate
Dorothy Ayer, Executive Assistant to the Senate Leadership, Academic Senate

January 31, 2011

To: Ann Karagozian, Chair, UCLA Academic Senate
From: David Lopez, Chair, UCLA Council on Planning & Budget
Re: CPB Statement on Funding Streams Proposal

Summary

The UCLA Council on Planning and Budget broadly supports the Funding Streams Proposal submitted by Provost Pitts for Senate review last month. We endorse the “overarching principle” that beginning FY 2011/12 all campus-generated funds be retained by campuses, as well as the key elements for implementation:

- Office of the President operations and programs are to be supported by a mutually-agreed upon flat assessment (tax) levied on all campus expenditures;
- Undergraduate financial aid will follow the current principle of equal aid levels across the system;
- Graduate financial support will be managed at the campus level, subject to systemwide guidelines; and
- State funding will initially be distributed so as to minimize the immediate impact on overall campus core budgets; after designated program funding has been set aside, a “rebenching” process will develop the formula for allocation of undesignated State funding in future years.

Background and Rationale

CPB has followed with interest the development of the idea to de-centralize funding to the campus level since last winter, when, to our knowledge, it was first introduced to system-wide and campus Senate budget committees. We now realize that, purposefully or not, the first concrete step in this direction was the decision in 2007/8 that henceforth all nonresident tuition would be retained by campuses. That specific step has taken on greater importance than anyone could have imagined at the time, and the ongoing crisis initiated by the Great Recession has profoundly shaken the financial foundations of the University of California. Throughout the controversies that have beset the University community over the past three years a persistent theme has been greater

transparency. As Sections II and III of the Funding Streams Proposal demonstrate, our current "system" is the result of decades of separate decisions by the State and the University, one overlaid upon another. Each individual decision may have made sense at the time, but the Rube Goldberg contraption that is the result is hard to describe and even harder to defend. The shift to campus-based budgeting is abundantly justified on the basis of increased clarity alone.

But we believe that, beyond the benefits of clarity, the change will be good for UCLA and other campus as well. Decentralization of economic decision-making, costs and benefits, can stimulate both entrepreneurial spirit and greater sensitivity to costs. While some are concerned that academic principles might be compromised in the process, we believe the contrary is more likely: locating more budgeting authority at the campus level brings it closer to the faculty, enhancing the academic wisdom of decisions and the role of campus Academic Senates.

There are some aspects of the Funding Streams Proposal that concern us. Above all, the Proposal describes only the first of three equally important and inter-related changes. The other two, which we believe need to be pursued rapidly and simultaneously, are the re-benching process alluded to in the Proposal, and a detailed assessment of Office of the President operations and programs that is hardly mentioned at all. Both will involve a delicate ballet of cooperation and competition among campuses, and probably require compromises along the way that will produce howls from one group or another. But they are essential, or else the decentralization will fail.

The rebenching process could result in a net loss to UCLA of State general fund revenue relative to some other campuses, but this may well be the price of the increased transparency and flexibility that we see as the major advantages of this entire undertaking. Rebenching needs to be based on academically sound principles of continued excellence, consistent with minimal disruption of core current programs and the pursuit of agreed upon principles of fairness, consistent with service to the State of California. It is essential that rebenching begin with a clear distinction between undesignated state funds and designated funds for programs mandated by the State for specific programs -- including programs initiated with designated State funding that may have subsequently been absorbed into general allocations. Only after these designated amounts have been set aside can a formula be applied for allocating the remaining, undesignated State funds. We hope that formula will respect the general principle that the State benefits massively from the University's graduate research and professional excellence, and therefore the State should pay more per capita for graduate and at least some professional students than for undergraduates.

The shift to supporting centralized activities by a tax or assessment on all campus budgets needs to be accompanied by greater campus and Senate control over the OP budget. We appreciate that the Office of the President has already begun to reduce its operating budget, and that the search for greater

economies continues. It is also our understanding that the President's Office has recently initiated a comprehensive review of the programs fully or partially supported by OP funds. Campus administrations and the Senate need to be full participants in both assessments. Otherwise the tax to support the OP budget will not be seen as legitimate and it will be an unending source of discontent.

Finally, we are not convinced that future state funding augmentations and reductions should be distributed differently across campuses, with proportions based on different funding streams as detailed in the last pages of the Proposal. We do understand, and can agree with the argument that augmentations should not be based on fund sources under the control of campuses, such as nonresident tuition, professional fees and indirect cost recovery. But the argument that cuts should be calculated on a broader base, including nonresident tuition and professional fees because it recognizes "campus capacity to cope with State funding reductions" is ad hoc, if not fatuous. We are not dealing with a hypothetical here: UC will have a reduction in State funding next year of 500 million and possibly up to one billion dollars... 17 to 33 percent. No matter how distributed, this is going to hurt; disproportional distribution of the pain from campus to campus will only exacerbate tensions in the System. Cuts and augmentations should be based on the same formula.

In conclusion, we understand that some fear the middle of a seemingly unending era of fiscal crisis and uncertainty is not the time to make such momentous changes. But we stand with those who argue that this is precisely the time to institute these long-delayed reforms. The continued excellence of UCLA and the University of California depend on enhanced flexibility and transparency. The old system is broke, in both senses of the word.

cc: Jaime Balboa, Academic Senate CAO
Linda Mohr, Academic Senate Assistant CAO
Carolynne Hogg, Academic Senate Principal Policy Analyst
Dottie Ayer, Academic Senate Administrative Assistant

February 3, 2011

Ann Karagozian, Chair
UCLA Academic Senate

Dear Ann,

At its meeting on January 28, 2011, the Graduate Council discussed the Funding Streams Proposal from the Office of the President that changes the way funds are allocated across the UC System. The Council invited Associate Vice Chancellor for Academic Planning and Budget, Glyn Davies, to provide an overview of the proposal and address any questions from the membership.

Much of the Council's discussion was devoted to interpreting the primary principles of the proposal and their overall impact on graduate student financial aid. Generally speaking, the notion of retaining revenues at the campus level is desirable, but there remains much confusion and skepticism about the proposed flat assessment on all campus funding sources. Members noted that the proposal lacked concrete information about the actual rate of that assessment, which prompted obvious concerns about the extent to which the Senate will be asked to opine on updated drafts that will presumably include more specific information. Members compared the proposal to Summer Session revenues and departments' expectation that their contributions to summer sessions' instruction would reap profits for them over the long-term, which did not turn out to be the case when the Administration was faced with previous State budget crises. Members questioned if the proposed funding proposal would be subject to sporadic changes wherein an initial approval of the proposal would lead to widespread regret due to unexpected increases in the flat rate assessed to each campus. At the very least the Council feels that the rate should be set for multiple years and the policy should be explicit about how the rate will be calculated.

With respect to the proposed change to graduate student financial aid and eliminating the need-based component of it, members were generally supportive since the provision allows for more flexibility at the campus level in allocating and administering graduate student support.

As a whole, the Graduate Council felt that there needs to be total transparency in the proposed funding model, at both the statewide and campus levels, and that it should be based upon a set of principles that provide clear rationale for the proposal. We assert that there are too many unknowns within the document to endorse it and request that the Executive Board take a firm stance with Provost Pitts that the document requires more concrete information and additional Senate input on future iterations.

Regards,



Steven Nelson, Chair
UCLA Graduate Council

cc: Jaime Balboa, Chief Administrative Officer, Academic Senate
Dorothy Ayer, Executive Assistant, Academic Senate
Kyle Cunningham, Sr. Policy Analyst, Graduate Council

February 3, 2011

To: Professor Ann Karagozian, Chair
UCLA Academic Senate

From: Professor Darnell Hunt, Chair
UCLA Committee on Undergraduate Admissions and Relations with Schools

Re: Committee on Undergraduate Admissions and Relations with Schools Response to the Senate Item for Review: Proposal for the Redesign of the Allocation of Funding Streams Systemwide

On behalf of the Committee on Undergraduate Admissions and Relations with Schools, I am writing with regard to the proposal to change the way funds are allocated across campuses. The Committee discussed the proposal on its January 14, 2011 meeting and conducted an electronic vote on February 1-2, 2011 to endorse the comments of this letter.

Although the Committee found the proposal meritorious in principle, it was concerned about the potential negative impact of the proposal on the UCLA Office of Undergraduate Admissions and Relations with Schools (UARS). That is, to the degree that the proposed policy redistributes to local campuses revenues that would have remained in the Office of the President and earmarked for supporting local admissions operations, the committee was concerned that UARS could potentially be left with fewer resources to consider a growing number of applicants – particularly in light of the jump in the number of applications system-wide expected from the 2012 eligibility reform. Given the complexity and glaring impact of the duties UARS is charged with, the Committee felt strongly that an articulation is warranted of the degree to which application fee revenue redistributed to source campuses will be allocated directly to these campuses' admissions processes. Provided that such an articulation ensures that UARS will be furnished with sufficient resources to maintain the integrity of its holistic review process, the Committee endorses the proposal by the following vote: 6 in favor, 0 opposed, and 0 abstentions.

The Committee thanks you for the opportunity to opine on the proposal and welcomes an invitation to review future drafts that respond to the concern voiced in this letter. If you have any questions, please do not hesitate to contact me (x74304; dhunt@soc.ucla.edu) or Academic Senate Principal Policy Analyst Jisoo Kim (x51194; jkim@senate.ucla.edu).

cc: Jaime Balboa, Chief Administrative Officer, Academic Senate
Linda Mohr, Assistant Chief Administrative Officer, Academic Senate
Jisoo Kim, Principal Policy Analyst, Academic Senate
Dorothy Ayer, Executive Assistant to the Senate Leadership, Academic Senate

MEMO

Date: February 3, 2011

From: Andrea Fraser
Chair, Faculty Executive Committee
School of the Arts and Architecture

To: UCLA Academic Senate
Jaime Balboa, CAO

Re: **SOAA FEC Review of Funding Streams Proposal**

The FEC of the School of the Arts and Architecture reviewed the Funding Streams Proposal forwarded by the Chair of the Academic Senate. At our January 21 meeting, we voted that we cannot endorse the proposal without further clarification, as detailed below.

First of all, our committee wondered why the FECs were not specifically requested to opine on the proposal, given its potential for far-reaching impact on the nature and structure of the UC system. It seems to us that this proposal, in its substance as well as the manner of its distribution, is another example of the way in which the fragmentation of the UC system is now being initiated, not through a broad discussion of institutional aims and values, but through piecemeal policy revisions presented and reviewed in a piecemeal fashion.

Our committee found many aspects of the proposal to be sensible and necessary. The mind-numbing complexity of current formulae for allocating ICR's outlined in the proposal provides an eminently persuasive argument for their simplification. We are also in full agreement with the recommendation that funding streams to USAP achieve the goal of equal loan/work levels for undergraduates across the system, through redirection as needed. However, with regard to the Overarching Principle and other aspects of its recommended implementation, we find it problematic to endorse the proposal without a more explicit discussion of its implications. In the absence of a general statement of policy, we are concerned with how contradictions between the stated aims and the likely consequences of the proposal will be resolved.

The proposal's Overarching Principle is that all campus-generated funds be retained by or returned to the source campus. The stated aims of this principle are "to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue" [18]. However, when it comes to future undesignated State funding augmentations, the proposal specifies that campuses "should not be rewarded with additional State funding as a result of increasing...non-State revenue sources," although this revenue will be taken into account when allocating reductions in State funding, to "recognize campus capacity to cope with State funding reductions" [22]. This aspect of

the proposal contradicts its stated aim of “incentivizing campuses to maximize revenue.” Under this policy, campuses successful in generating non-State revenues, in effect, will be penalized when it comes to the allocation of State funds.

As this proposal comes to us on the heels of a series of proposals geared toward encouraging the development and expansion of non-State revenue sources, the disincentive built into its recommendations is troubling. All of our units have felt pressure to generate revenues. Some of our departments have responded by implementing professional degree fees. We agreed to implement PDFs at the expense of our graduate students on the principle that the revenues generated will allow us to invest in our programs to the benefit of those students. If State funding is reduced relative to the income generated through PDFs, this rationale collapses and PDFs become no more than a loop-hole through which privatization can be pursued and more revenues extracted from students.

More broadly, it seems likely that these recommendations will further the bifurcation of the UC system in largely privatized and largely public campuses. Under the proposal, the more non-State revenues a campus generates, the less State funding it is likely to receive, and visa-versa. Campuses that attract more nonresident and professional students and grants will thus be pushed in the direction of privatization. It is likely that such a trend will also increase the bifurcation of individual campuses between more and less self-supporting units, particularly between professional versus academic programs, and the large-grant-generating sciences versus the arts and humanities. It is also likely that this trend will fracture UC’s tripartite mission of teaching, research and service between campuses.

Our committee does not advocate that the contradiction between incentives and disincentives to generating revenue be resolved in favor of the former. We see the contradiction between the stated aims of the proposal and its specific recommendations, as well as the lack of discussion of its implications, to be indicative of a lack of leadership with regard to fundamental principles and a lack of forthrightness with regard to the direction in which the system is being pushed by piecemeal policies. While we endorse the proposal’s aims of transparency and clarity, as well as most of the means suggested to achieve these aims, we cannot endorse the proposal as a whole without a more explicit discussion of its implications.

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February 17, 2011

Dear Dan,

The Merced Division has reviewed the Funding Streams Proposal. Our Committee on Academic Planning and Resource Allocation (CAPRA), Graduate and Research Council (GRC), and Undergraduate Council (UGC) have provided incisive comments, which are appended. The proposal has also been reviewed by our Divisional Council (DivCo).

The consensus is that we appreciate the principle of transparency, but have serious concerns about what Funding Streams will do to budgets of smaller UC campuses. The proposal does not include any quantitative analysis, but it was stated by AVP Obley at the January 2011 Academic Council meeting that this plan would put smaller campuses at a disadvantage. Likewise, according to a July 2010 draft document from UCOP Student Affairs, graduate student support (USAP) would eventually show a net decrease at smaller campuses.

Therefore, we strongly recommend that implementation of this proposal is delayed until rebenching is in place. Rebenching is intended to improve fairness of campus funding models. Although it is in much the same spirit as Funding Streams, it is expected to counteract the effects of Funding Streams by rebalancing enrollment support that is now allocated differentially across campuses. Rebenching has already been much delayed. One reason given has been staff shortages in UCOP, but one must keep in mind that disparities in campus funding models have had a large and cumulative effect across the system for many years. Another reason given for delays is that it will be difficult to come up with a fair system for allocating enrollment support. We suggest the following starting point: A University of California student should be allocated the same amount of state-derived General Funds for instruction regardless of his or her home campus.

We also recommend that further discussion of graduate education is needed. We see it as an important principle that the University of California is a system of 10 research universities. Aggregating, and shrinking, graduate student support (USAP) puts the status of smaller UC campuses as research universities at risk. When these funds are mixed with all other funds at the campus level, campuses may invest less in graduate education as they struggle to meet other financial obligations.

Finally, we pose the following questions.

- How will the size and roles of UCOP be determined? How will the set of systemwide initiatives, and their size, be determined?
- How can the principle of transparency underlying Funding Streams be pushed down to budgeting at the campus level?
- How can this proposal and rebenching be linked to the issue of non-resident tuition? Until recently, non-resident tuition was partly shared around the UC system. What are the implications of some campuses having a higher proportion of non-resident students while others play a larger role in providing access for eligible California students with decreasing state appropriations?
- Would it be possible to mitigate the effects of Funding Streams on smaller campuses in other ways, e.g., a progressive tax rate?
- Does it make sense that pass-through funds (e.g., funds that are sent to subcontractors or other outside agencies) are taxed?

Thank you for the opportunity to opine on this important issue.

Sincerely,

A handwritten signature in dark ink, appearing to read "Evan Heit", with a stylized flourish at the end.

Evan Heit, Chair

cc: Senate Director Susan Sims



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SHAWN KANTOR, CAPRA CHAIR
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February 7, 2011

TO: EVAN HEIT, CHAIR, DIVISIONAL COUNCIL

FROM: SHAWN KANTOR, CAPRA CHAIR

RE: CAPRA COMMENTS ON THE FUNDING STREAMS PROPOSAL

CAPRA has considered the so-called Funding Streams Proposal that is currently under review throughout the Academic Senate. The Committee strongly endorses the notion of providing greater transparency and accountability to the manner in which the UC Office of the President is funded. Indeed, one of the benefits of the document that was distributed is to highlight the dizzying non-transparency of the university's overall funding and financial allocations to the campuses.

While CAPRA generally supports the effort embodied in the Funding Streams Proposal, the committee wishes to raise the following points:

First, the effort to inject an element of fairness into the funding of the central UCOP administration has oddly missed the important question of the income each campus would have available to contribute toward the center. In other words, the "rebenching" idea that has been preliminarily proposed seems to be an essential part of the entire exercise of achieving budget transparency within the University of California. Thus, CAPRA strongly supports the idea of delaying the adoption of the Funding Streams plan until a complementary "rebenching" proposal can be implemented at the same time. While some campuses will benefit from Funding Streams, others will benefit from "rebenching." Building a coalition in favor of the entire exercise would seemingly be much easier with both pieces of the process in place simultaneously.

Second, the decentralization implicit in the Funding Streams Proposal shines important light on the question of the size and role of the central Office of the President. As campuses are taxed to support a central higher-level administration, they are increasingly going to ask what services they are receiving for their money. While some central services certainly capture economies of scale and should be provided by a single unit, instead of 10 separate ones, other UCOP expenditures seemingly benefit a specific constituency. What has become increasingly apparent in a review of the Funding Streams Proposal is that many centrally-funded initiatives are not being adequately reviewed and justified by an over-arching

review body consisting of the various campuses' interests. As campuses are taxed to support initiatives that have questionable support across the system, the credibility and legitimacy of the central administration will erode.

Third, related to the aforementioned point, what is or should be the proper size of the Office of the President? Funding UCOP as a flat tax will necessarily cause it to expand as income across the campuses expands. If UCOP is providing services that capture economies of scale, it might not be necessary for such services to grow proportional to income. Thus, establishing expectations for the role and baseline cost of UCOP will contribute to the setting of a tax rate that all campuses will deem reasonable. Blindly allowing the central administration to grow proportional to the campuses' collective income will lead to bureaucratic bloat.

Thank you for the opportunity to comment on the Proposal.

cc: Divisional Council
CAPRA
Senate Office

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February 4, 2011

To: Evan Heit, Chair, Divisional Council

From: Chris Kello, Chair, Graduate and Research Council

Re: Funding Streams Proposal

GRC has opined on the funding streams proposal prepared by the Student Affairs Committee and Budget and Capital Resources Committee, dated Dec 21, 2010. GRC agrees with the guiding principle of transparency and recognizes the need to move in this direction. However, the following concerns were raised:

- The proposal is aimed at bringing transparency to system level accounting, and may prove successful in this regard, but there appears to be no provision to push the principle further to the campus level. Concern was expressed that faculty may not experience the benefits of systemwide transparency if the principle is not also pushed to the campus level.
- The new model favors older campuses, which may be an acceptable consequence of bringing transparency to systemwide accounting. However, there appears to be no provision to balance this consequence. Without balance, this proposal may be a force of further disparity among campuses. A potentially unifying and counteracting force is the campus rebasing effort, because current basing also favors older campuses. GRC opined the benefits of rebasing in tandem with the funding streams proposal, given their inter-relations and system-level effects, and GRC recognized some of the barriers to rebasing. This discussion led GRC to urge that rebasing efforts be made in earnest, while the funding streams proposal is still being freshly implemented.
- The new model leaves little room for systemwide directives and initiatives. The unparalleled success of the UC system is presumably due partly to its ability to function as a system. For instance, CCGA and the VCRs have always been able to enforce some directive for supporting graduate education. GRC expressed concern that under severe budgetary constraints, graduate

student education at UC Merced may be more vulnerable to neglect without some kind of explicit systemwide support.

- The new model allocates future graduate support on the basis of current graduate enrollments. This formula appears to be a force to maintain the status quo, rather than grow graduate support. This force may make it more difficult for UC Merced (and possibly other campuses) to grow its graduate programs.

- The new model is estimated to cause a 29% drop in USAP funding for graduate students. While there may be provisions to offset this drop in the near term, the UC Merced campus budget will eventually need to absorb this drop in order to continue growing graduate programs. It will be critical for the new Chancellor to ensure sustained support for graduate education at UC Merced.

Cc: Graduate and Research Council
Divisional Council Members
Senate Office

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February 4, 2011

To: Evan Heit, Chair, Divisional Council

From: Susan Amussen, Chair, Undergraduate Council

Re: Funding Streams Proposal

UGC has reviewed the [Funding Streams Proposal](#). We would like to recommend the following:

- a) Implementing the funding streams proposal without rebenching is the worst of all possible worlds. The funding streams proposal should be combined with the rebenching proposal so that the entire economic impact is made clear.
- b) The taxation policy should be transparent, and we suggest that it should be progressive.
- c) It makes no sense to treat all sources of income the same way. For instance, only the part of a collaborative grant that is actually used by the UC, rather than shared with another entity, should be taxed.

Our gravest concern is that the proposal would enable other campuses to bring in out of state and foreign students in far greater numbers and reap the benefit, while we are being asked to provide for eligible California students with the decreasing state appropriations. This becomes, then, a back door path to a tiered system.

Cc: Undergraduate Council
Divisional Council Members
Senate Office



CHAIR, ACADEMIC SENATE
RIVERSIDE DIVISION
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February 16, 2011

Daniel Simmons
Professor of Law Chair,
UC Systemwide Academic Senate
1111 Franklin Street, 12th Floor
Oakland, CA 94607

Dear Dan,

Re: **Systemwide Review of Funding Streams Proposal**

The Riverside Division has reviewed the Funding Streams Proposal. It was reviewed by our committees on Planning and Budget (P&B), Research (COR), Faculty Welfare (FW), and Educational Policy (CEP), and by the Graduate Council. It was also discussed at the meetings of our Executive Council and of the Division.

Overall, we are encouraged by efforts at the Office of the President to make fiscal matters more transparent and to allow the campuses to retain a larger share of their own revenue and, thereby, utilize their own resources as they see fit. We are also pleased that funds for undergraduate financial aid will continue to be distributed as needed. However, there are several matters that concern us.

1. **Potential to undermine the system as a whole.** Aspects of the Funding Streams Proposal appear to be contrary to the spirit of the "Power of Ten" for which the UC system stands. We are especially concerned that the proposal will undermine the efforts of smaller and growth campuses. Our Division strongly believes that each of the 10 UC campuses should have similar opportunities to succeed. The coincident timing of the recent financial calamities of the State of California and the efforts by smaller and growth campuses, such as UCR, to achieve prominence should not be used opportunistically to undermine campus development. Each campus contributes to the UC in meaningful ways and it is important that these contributions are recognized, protected, and preserved. UCR has been the most successful UC campus in attracting and supporting underrepresented minority students who are substantially more likely to come from low-income families and to be the first in their families to secure a college degree. Students from these backgrounds will make up a large portion of the State's future workforce and it is vital that the UC be involved in their postsecondary education. In the current UCR strategic plan we have committed the campus to meeting the profile of an AAU university with all of the comprehensiveness and quality that implies. These characteristics

make us acutely sensitive to the potential for budget changes to impede the ability of our campus to serve underrepresented minority students while maintaining our desired trajectory toward AAU status.

2. **Rebenching.** Rebenching of base budgeting for the campuses remains the highest priority for UCR. Only with rebenching will basic equity in funding across the campuses be established. To this end, it is imperative that rebenching occurs in tandem with or promptly after the implementation of the Funding Streams Plan.
3. **Longer-term consequences.** The Plan pledges to be revenue neutral, not affecting the campuses positively or negatively. It is difficult to verify this claim in the absence of actual data and reference to how this conclusion was reached. For example, we do not know how the analysts came up with the data in Table 5, alleging that UCR's augmentation would be slightly greater than the projected cuts (p.23). In addition, the proposal states that UCOP will tax each campus and that each campus's operating expenditures will be included in the base for calculation. If the assessment is greater than the revenue gained via the return of opportunity and educational fee funds (among others), then purportedly some State General Funds will be distributed to the campus to make up the difference. Yet the document also states "While these adjustments are intended to be revenue-neutral, campuses will experience budget increases if revenues rise," and "Likewise, campuses will be responsible for addressing budget shortfalls if revenues decline." (18). Thus, we might expect that in certain years, the plan will not be revenue neutral for us and we would like to know if this is true.
4. **Graduate enrollment.** When it comes to undergraduate enrollment, UCR remains a growth campus, unlike many of the other UCs. Retaining the educational fees generated by our undergraduate students should work to our advantage. On the other hand, our graduate enrollment has been relatively flat over recent years, and under this plan we would lose the benefits that have come with the pooling of resources into a general fund. In the past, there was, in effect, a subsidy to our campus from the general pool because UCR did not collect as much in graduate fees as other campuses. We will lose that support and we will have to fund TAs, fee remissions, and GSHIPS on our own. Doing so will reduce our ability to compete with other UCs for graduate students because we may not be able to offer competitive, multi-year financial aid packages.
5. **Non-resident tuition.** According to the proposal, non-resident tuition (NRT) will also remain on campuses and will not be cross subsidized. We anticipate this may have a negative effect on our campus because we are at a competitive disadvantage in attracting out-of-state students, compared to UCLA, Berkeley, or UCSD. Our Division recommends that the Council investigate ways to share the revenue from NRT in some equitable fashion that recognizes the consequences (including the public perception) that some campuses are expanding greatly in this area while others are teaching more in-state eligible students.
6. **Revenue generation.** The goal to "incentivize the campuses to maximize revenue" (p. 18) has the potential for campuses to take different paths to maximize such revenues, including the possibility that some campuses would expand their more lucrative professional schools at the expense of their undergraduate education missions. Our Division would hope to continue to see close monitoring of the campuses by UCOP to minimize the impact of decisions by

Chancellors and Deans on the individual campuses that could lead to "tiering" of the campuses within the system.

7. **Indirect costs.** Currently, 94% of indirect costs is returned to source campuses and 6% is retained by UCOP. It is proposed that 100% of indirect costs be retained by campuses, which should be a good thing. But because UCR is at the low end in terms of grant revenue, there is no way to judge whether the change will impact us negatively or positively. UCR faculty competes well for extramural funds. However, as we have fewer faculty than many other UC campuses, our overall revenue from ICR will be less than for some other campuses. In this regard, it will be essential to grow our faculty, which will be difficult to do in these austere times.
8. **The UCOP tax.** We are concerned about the lack of specificity in the Plan regarding the amount of the proposed Systemwide Assessment, as well as the process through which this rate is to be determined in the future. We think it is critical that the individual campuses and the Senate have representation when any taxation decisions are made. We also believe that it is important to establish a policy on how the assessment rate is to be set and adjusted, as well as identify who has authority to set the rate. Finally, it will be critical that the assessment charged to the campuses to cover UCOP operations be fair and that there is transparency at the Office of the President as to how these tax dollars are used.
9. **Review of the Funding Streams plan.** This approach is brand new and there are few controls and details built into the plan. Although there are hints of possible correction after the impacts become better known over time, it would be valuable to have a complete review of the impacts within three years of implementation to determine how well the plan is working.

Sincerely yours,

Mary Gauvain
Professor of Psychology and Chair of the Riverside Division

CC: Martha Kendall Winnacker, Executive Director of the Academic Senate
Sellyna Ehlers, Director of UCR Academic Senate office



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Henning Bohn, Chair
Deborah Karoff, Executive Director

February 16, 2011

Daniel Simmons, Chair
Academic Council

Re: Systemwide Review of Funding Streams Proposal

Dear Dan,

Several groups in the Santa Barbara Division have reviewed the systemwide Funding Streams Proposal including: Council on Planning and Budget (CPB), Council on Research and Instructional Resources (CRIR), Undergraduate Council (UgC), Graduate Council (GC), and the Faculty Executive Committees from the Divisions of Letters and Science, Engineering, Education and Creative Studies. All reviewing groups were in general agreement with the proposal based on their understanding that the outcome will create greater transparency and more equitable funding across all campuses.

Both CPB and CRIR found the proposal strong in several areas such as greater transparency and the autonomy of campuses to manage the resources that they generate. Of greatest concern to both groups is the methodology used to develop the UCOP budget as the outcome of that process will determine the amount of taxes required. For example, reviewing groups think the proposal needs to define which UCOP programs would be included, how determinations about UCOP's budget would be made, who participates in that process, and periodic review and adjustment. CPB suggests that the budget review process occur bi-annually, CRIR believes an annual review is appropriate. In either case, the proposal needs to clearly define the elements and the procedures by which the UCOP budget will be developed, reviewed and adjusted.

In regards to the tax imposed on campuses, "CPB believes that a "flat tax" would help create a simpler system that is harder to politicize by special interests." They argue that "Procedures that would involve differential tax rates for different income streams may be appropriate within each campus, at the discretion of that campus, but would be untenable in determining the overall tax for each campus for a variety of reasons, including the potential for internal manipulation of accounting to minimize the tax. Taxes based on other criteria such as student head count would also be disconnected from the ability of a campus to pay, and would put an unfair burden on any campus with relatively large undergraduate to graduate student ratios and/or those few campuses without medical schools."

CPB notes that the medical schools should not be exempt from a flat tax. They state that "the medical schools strongly benefit from being part of a system with strong science, engineering, ethics, public policy, etc. To allow them to marginalize the importance of a greater academic community by arguing they are islands defies the historical success of the UC system. Rather than argue they should pay

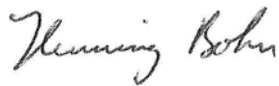
less, they should argue for compensatory or additional service from the OP, perhaps in terms of outreach, development, etc.”

There is general uneasiness on the part of both CPB and CRIR that there are unknown consequences of the shift in the funding sources given the Funding Streams Proposal. For example, resources for graduate student support, library, faculty research grants (funded by Opportunity funds), instructional resources, etc. will shift to campuses and while this is considered a positive outcome, both groups expect that the campuses will continue to support or possibly increase available funding for these critical endeavors. At a minimum, the Senate must be consulted on each campus as these funding shifts are clarified and re-allocated locally.

Finally, CPB notes that discussions about re-benching are underway and they see both initiatives as dynamically intertwined. They request that discussions about the Re-Benching Proposal move along as quickly as possible to allow for better alignment in the overall system of fund allocations.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in cursive script that reads "Henning Bohn".

Henning Bohn, Chair
UCSB Division



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February 14, 2011

Dan Simmons, Chair
Academic Council

RE: UCSC response to Funding Streams Proposal

Dear Dan:

The Santa Cruz Division of the Academic Senate has reviewed the Funding Streams Proposal (12/21/10) forwarded by Provost and Executive Vice President Larry Pitts. On balance and in principle, we support the proposal as the first step in a two-stage process of funding-streams reform followed by “rebenching.” The goal of the completed process is to bring our systemwide budgetary model into alignment with the identity of the UC as a single system of ten distinctive research campuses. The work done on the Funding Streams proposal has already enabled UCOP to generate a list of its current spending, which has increased budget transparency and led to valuable debate on what activities should be core funded vs. decentralized to campuses.

We have identified one specific element in the proposal that needs further refinement. The responses from Santa Cruz Senate committees (Committee on Research, Committee on Planning and Budget, Graduate Council) stress the need to protect graduate funding in a comprehensive way not currently built into the proposal for the use of graduate USAP funding. The four-sentence section on Graduate Financial Aid lacks the detail necessary to ensure that this critical arena of the UC mission--graduate education as a key component of the research enterprise—is optimally built into the new model. This section needs to be retooled to describe what is actually planned for graduate financial aid in this model.

Given the above caveat, the Santa Cruz Division supports proceeding with the funding streams reform. As our Committee on Planning and Budget comments, we particularly endorse the concept of a single, across-the-board, all-unit, system-wide assessment. The value of the single assessment is its clarity, simplicity, and recognition that UC is a single system. Further, allowing Chancellors to decide how to assess units on their own campus provides the necessary budget flexibility to align this expense with campus budget priorities.

We close by reaffirming that our support of the funding streams proposal is predicated on the subsequent stage of rebenching. Reform of systemwide funding streams will produce the critical transition between budget clarification and transparency, on the one hand, and equitable allocation, on the other, that is the larger goal of this two-stage process. Completing the first

stage will put us in a position to do the truly essential work of rebenching the base budgets of the campuses, both existing allocations and future changes in state funding. The current allocation of state funds is based on historical allocations, augmented when additional state funds are allocated and decremented when state funds are cut. The cumulative effect over time has resulted in a higher amount of state funding per student for some campuses than for others. The momentum in rebenching is clearly in the direction of some formula linking systemwide allocation of core funds to current student numbers, possibly with funding tiers for different classifications of students. Closing the per-student funding gap will bring the UC budgetary model in line with the longheld value, reaffirmed both by the Gould Commission on the Future and the Academic Senate, of a single public university with ten distinctive locations across California.

Our divisional Senate support for the proposal is therefore conditional, resting on the immediate start of the rebenching phase in accordance with the current timeline. We would have much preferred that the two phases proceed simultaneously, in parallel, but short of that option, the funding streams alone do little or nothing toward redefining the future relations of the ten campuses to one another and the system as a whole. Only rebenching will complete the long-overdue fundamental restructuring of our systemwide budget model. Without it, we would not endorse the funding streams proposal.

Sincerely,



Susan Gillman, Chair
Academic Senate
Santa Cruz Division

cc: CEP Chair John Tamkun
CPB Chair Brent Haddad
GC Chair Sue Carter
COR Chair Quentin Williams



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February 16, 2011

Professor Daniel Simmons
Chair, Academic Council
University of California
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

Subject: University of California Budget Restructuring: Systemwide Review of "Funding Streams" Proposal

Dear Dan,

In response to your request of January 3, the San Diego Division sought and received comment from the appropriate Divisional committees on the systemwide "Funding Streams" Proposal. The Senate Council discussed the proposal at its meeting on February 7, and the Senate-Administration Council discussed the proposal at its meeting on February 14.

Overall, reviewers and Council members thought that changes to the University's funding allocation process could help make the system's finances more transparent. Important concerns were expressed, however, about some fundamental aspects of the proposal.

Reviewers had not seen a definitive list of programs and units that would be covered by the currently proposed budget of \$305M and were uncomfortable with a number that could not be clearly explained. They urged that this be clarified as soon as possible so that campuses can have a voice in determining which services and programs are necessary or even desirable at UCOP for support by this assessment.

Council members and reviewers were especially critical of the form of the assessment, unanimously agreeing that the assessment should be a set amount, rather than a percentage. A percentage assessment will increase funding to OP whenever a campus's expenditures increase, providing budget expansion at the systemwide level. The fact that a campus may have a "good" year does not increase operating costs for OP, however.

The proposal states that "the assessment level would be evaluated every two to three years to determine the appropriate rate", or "every few years" in the Executive Summary. This time frame needs be set to a specific period, with a firm commitment from the Office of the President to revisit the amount of the assessment. If the amount to be assessed is revised annually, then the rate should be reviewed regularly, too.

Other comments and concerns included the following:

- The Committee on Planning and Budget expressed dismay that the development of this proposal did not include Senate involvement, contrasting this with the process used for the post-employment benefits proposal.
- Graduate Council saw a possibility that graduate education at UCSD and other research-intensive campuses might benefit from this proposal. However, the Council also expressed concerns that the new paradigm of decentralization may impact the ability of the University to support graduate education across the system as a whole and decrease participation in multi-campus graduate programs. Because the amount of available graduate student support could fluctuate depending on individual campus revenues, the ability of campuses with smaller research enterprises to recruit top students could be compromised.
- The Committee on Educational Policy had no doubt that any budget restructuring proposal would have an impact on educational policy and on undergraduate education. What those impacts might be were difficult to speculate on given the lack of clarity in the proposal and may well turn out to be trivial when compared to the impacts of the 2011-12 budget reduction.
- Some reviewers also took issue with the idea that the assessment would include the medical centers, which place very different demands on UCOP.

Lastly, the second stage of the restructuring project that will address the allocation formula for State General Funds, commonly called “rebenching”, was seen as a necessary and important part of the restructuring. The Academic Senate should continue to insist that this process take place.

Sincerely,

A handwritten signature in blue ink, appearing to read "Frank L. Powell".

Frank L. Powell, Chair
Academic Senate, San Diego Division

cc: Divisional Vice Chair Sobel
Executive Director Winnacker



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Elena Fuentes-Afflick, MD, MPH, Chair
Robert Newcomer, PhD, Vice Chair
Peter Loomer, DDS, PhD, Secretary
Anne Slavotinek, MD, Parliamentarian

February 16, 2011

Daniel Simmons, JD
Chair, Academic Council
Academic Senate, University of California
1111 Franklin St., 12th Floor
Oakland, CA 94607-5200

Re: Division Response to the *University of California Funding Streams Proposal*, dated December 21, 2010

Dear Chair Simmons:

On behalf of the San Francisco Division, our Committee on Academic Planning and Budget carefully reviewed the *University of California Funding Streams Proposal* (December 21, 2010) and provided the attached detailed response.

I concur with their call for increased transparency and to define Senate consultation as this proposal is refined and implemented.

Sincerely,

A handwritten signature in cursive script, reading "Elena Fuentes-Afflick, MD, MPH".

Elena Fuentes-Afflick, MD, MPH
Chair, UCSF Academic Senate

Attachment

CC: Martha Winnacker, JD, Executive Director, UC Systemwide
Academic Senate

Communication from the Committee on Academic Planning & Budget
Steven Cheung, MD, Chair

February 2, 2011

Elena Fuentes-Afflick, MD
Chair, UCSF Academic Senate
500 Parnassus Avenue, Box 0764

Re: Review of the System-wide *University of California Funding Streams Proposal*, dated December 21, 2010

Dear Chair Fuentes-Afflick,

At its January 20, 2011 meeting, the Committee on Academic Planning and Budget reviewed and discussed the *University of California Funding Streams Proposal*. During the discussion, committee members endorsed the overarching principle of a more decentralized administrative structure wherein all campus-generated funds will be retained or returned to the source campus and UCOP operations will be funded through an assessment on campus funds. With this, APB strongly urges the University to protect and preserve access to campuses and their core missions, and to streamline administrative units to serve only essential functions. **The primary concerns with the proposal are undefined Senate consultation structure to determine funding requirements of UCOP administration and related operations, intended and unintended consequences of a 1.67% tax on operating expenses on campuses, and undefined allocation methodology to distribute undesignated State Funds beyond the first year of implementation.**

UCOP Operations Funding Requirements (\$305.7M FY 10-11)

1. In the spirit of shared governance and financial transparency, UCOP funding requirements for operations are reviewed by UCPB no less than every three years for approval.
2. Changes to UCOP budget in excess of 5% require approval by UCPB or designate prior to implementation.
3. UCOP operations funding requirements are projected over a minimum of four years to permit campuses to develop their own budgets accordingly.
4. In the event of decrements in State funds, UCOP takes the same pro rata share of budget cuts as campuses.

1.67% Tax Assessment on All Operating Expenses with Rebates

1. As UCOP funding needs for operations may be projected, an alternative to the proposed 1.67% tax with rebate proposal is to assess each campus using current pro rata methodology.

2. If the current proposal is adopted, the overarching principle that the effective tax obligation (1.67% tax less return of State funds) will be largely revenue-neutral to campuses upon implementation should be carried forward *ad infinitum*.
3. The proposed 1.67% tax rate on operating expenses with State funds rebates should be viewed as an administrative tool. UCOP can project the effective tax liability for all campuses and issue bills, giving campuses complete autonomy on methodology to settle charges.
4. Funding UCOP operations at agreed levels should be the binding agreement with the campuses, not adherence to the proposed 1.67% tax on operating expenses. In this regard, the assessment tax concept with State funds rebates is tantamount to a cash swap vehicle that may not serve all campuses equally well.

Intended and Unintended Consequences

1. Beyond implementation, campuses that experience incrementally higher operating expenses without commensurate consumption of UCOP resources should not be required to pay additional tax.
2. The current proposal fails to address higher operating expenses that come in the face of diminishing or negative margins. This scenario is a critical concern for campuses with Medical Centers, which are operating in a climate of high unemployment and economic duress.
3. Beyond implementation, campuses that experience incrementally lower operating expenses commensurate with lower revenues should face incentives to improve their financial health. A System-wide policy should be adopted to mitigate UCOP tax burden obligations on those financially challenged campuses.
4. A Methodology to Help Campuses with Operating Expense Shortfalls
 - a. Develop metrics to ensure that the campus' incrementally lower operating expenses are not the product of strategic shrinkage to improve profitability.
 - b. Working on the assumption that each campus will have a certain UCOP tax obligation, the proportional decrement in operating expenses can be used to calculate the campus' shortfall. For example, a 10% drop in operating expenses translates to identification of other financial resources to fund 10% of the campus' UCOP Operations tax obligation.
 - c. Funding the shortfall should be shared among campuses. One arbitrary methodology is to allocate 30% to the campus with the shortfall and the remainder equally across all other campuses. The goal is to hold financially challenged campuses responsible and provide a measure of System-wide support to promote University harmony.

Undesignated State Funds Allocation Beyond the First Year of Implementation

1. In today's uncertain and difficult economic times, it is of paramount importance that base budget allocations to campuses remain unchanged and increments or decrements are allocated in a proportional manner until a new methodology is approved.

2. Whereas the Rebenching Initiative is a work-in-progress, any new methodology to allocate State funds to campuses should be LIMITED to increments or decrements to longstanding base budgets.

The Committee appreciates this opportunity to review and comment on the University of California Funding Streams Proposal.

Sincerely,

The Committee on Academic Planning and Budget

Steven Cheung, MD, Chair
Mary Gray, MD, Vice Chair
Frances Brodsky, PhD
Mary Engler, PhD, RN, MS, FAHA
Barbara Gerbert, PhD
Ruth Greenblatt, MD
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BOARD OF ADMISSIONS AND RELATIONS WITH SCHOOLS (BOARS)

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February 17, 2011

DANIEL SIMMONS, CHAIR

ACADEMIC COUNCIL

Re: “Funding Streams” Proposal

Dear Dan,

The Board of Admissions and Relations with Schools (BOARS) has reviewed UCOP’s “Funding Streams” proposal. BOARS’ most direct area of concern is how Funding Streams could impact admissions processing functions, including recruitment, selection and yield. However, BOARS is equally concerned that decentralization of enrollment planning could fail to protect the campuses’ collective interests and the systemwide character of the University.

UCOP has already addressed one of BOARS’ concerns about Funding Streams. Last year, BOARS noted that because some UC campuses are more likely to receive applications from students who qualify for an application fee waiver, the new funding model could create an inequitable allocation of fee revenue across campuses. We are pleased that UCOP has agreed to continue distributing fee revenue to campuses based on number of applications received, regardless of the number of fee waivers granted to students applying to a particular campus.

As you know, campuses will begin implementing the 2012 admissions reform policy at the same time that more campuses are expected to complete an individualized review for each application. Both of these transitions will require adequate resources at each campus – money, personnel, and person hours – to be successful.

Currently, UCOP treats the \$60 application fee as part of the UC general fund rather than as restricted money that must be used for admissions processing and outreach. UCOP collects the fee and distributes it to campuses and other entities across the system. It retains \$5 for systemwide application processing and reports only \$15 as a fee revenue line item to the Executive Vice Chancellors, an amount that can appear as low as \$9.50 per application on some campuses when fee waivers are taken into account. I surveyed campus admissions directors about their budgets earlier this year and found wide funding variations across the system, both in levels of support and how revenue is reported. Moreover, since some admissions offices carry out projects not directly related to application processing, it is nearly impossible to discern completely how this funding is used. I also participated in a conference call with campus EVCs,

where I communicated BOARS' intent to establish a metric for adequate resources of comprehensive review functions. I learned that some EVCs expect admissions costs to be funded by the amount reported to campuses. However, some were not aware that much more of the application fee does go to the campuses, but as part of the general fund, not as a line item.

Because admissions offices carry out a myriad of tasks beyond application processing, we cannot predict whether Funding Streams will have a negative or positive impact on the amount of resources EVCs provide them. In any case, EVC's need to know how much of their general fund allocation comes from application fees. This will be easy to determine and communicate, because each campus will know the total number of applicants to their campus, and will receive the same amount per application. Successful implementation of the 2012 policy will require campuses to provide sufficient funding to support high quality individualized review processes and to use application fee revenue for recruitment, selection, and yield work. Funding Streams will ensure a clear correlation between the number of applications and the revenue campuses receive, which should ensure that Admissions offices receive the funds they need for recruitment, selection and yield, as long as the amounts received from application fees are transparent.

As part of the transparency envisioned by Funding Streams, BOARS asks Council to help ensure that campus administrations understand the extent of funding provided by Application fees, so they in turn provide sufficient funding to support a high-quality individualized review process. BOARS plans to establish a metric for proper funding of admissions processing functions and we are in the process of surveying admissions directors to find out what they believe is necessary in terms personnel and person hours to implement them. If the system and the campuses begin to look at the application fee as a source of additional revenue rather than supporting recruitment, selection, and yield functions, the pressures to reduce these efforts will continue. We also caution that a higher fee could negatively affect the character of the potential applicant pool. Currently, we have no reason to believe that a higher application fee is necessary to support a high quality individualized review.

BOARS believes UC needs to set enrollment targets for California residents that are aligned with state support to ensure that we maintain ongoing support from the legislature and public. Campuses need to meet these targets, and overall enrollment needs to be managed to ensure academic quality. But BOARS is concerned about the potential of Funding Streams to weaken the systemwide sense of the university, UC's ability to remain accountable to the general public, and UCOP's ability to advocate on behalf of UC. The future of UC as a system depends on its ability to convince the public and legislature that higher education is worth supporting. It is important for UCOP to manage advocacy, accountability, and transparency centrally, because it is not always in the best interest of individual campuses to think systemically or to disclose budget details.

Funding Streams gives campuses a financial incentive to over-enroll, and BOARS has learned that some campuses have decided to increase enrollment of unfunded California residents even though the financial gains are relatively small (each unfunded resident brings approximately \$8,000 in fee revenue, net of financial aid.). We caution that any increase of the number of enrolled unfunded students will have academic ramifications, including a continued decline in the student-faculty ratio, time to degree, and the overall educational experience, particularly if campuses do not have adequate resources and classes in place to serve the new populations. For

these reasons BOARS advocates that UCOP retain oversight of enrollment beyond state funded levels.

We recently learned that UCOP may step back this year from setting and/or enforcing targets for individual campuses. Year-to-year enrollment variations will confuse the public, and UC's ability to negotiate budgets with Sacramento will be weakened if individual campuses are given complete freedom to set enrollment targets. Last minute enrollment target changes may also significantly affect the functioning of campuses' waiting lists for admissions. The onset of the 2012 policy makes it even more important for campuses to have admissions targets and to work collectively to ensure that applicants who meet local context guarantees are offered admission to the system. UCOP should maintain a role in setting, coordinating, managing, and enforcing targets, and in overseeing non-resident enrollment. In the event that UCOP defers its enrollment management role to the campuses, it is more important than ever that the faculty, including BOARS members, get involved in local enrollment management decision-making to assure academic quality.

It may not be farfetched to imagine Funding Streams bringing about the dissolution of the UC system if the current push among programs for independence spreads to campuses. The Senate's role is to protect quality, and a multi-campus system is necessary to that quality.

Sincerely,

Bill Jacob
BOARS Chair

cc: BOARS
Martha Winnacker, Senate Executive Director

UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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SANTA BARBARA • SANTA CRUZ

COORDINATING COMMITTEE ON GRADUATE AFFAIRS (CCGA)
James Carmody, Chair
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ACADEMIC SENATE
University of California
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February 17, 2011

DANIEL SIMMONS
ACADEMIC COUNCIL CHAIR

Re: Senatwide Review: Funding Streams Proposal

Dear Dan:

At its February 1, 2011 meeting CCGA discussed the proposal to change the University's policies and practices related to the distribution of funds across the system. CCGA expressed overall support for the proposal and applauded the transparent nature in which it was prepared. A few cautionary notes were voiced by CCGA members about the opacity and fluidity connected with implementing the new principles and recommendations going forward. Some members felt that not enough is known at this point about how the overall budget picture and economic climate will play out in the near-term, making it tough to comment further in any specific way on the proposal, with one exception: CCGA members expressed unease with the wording of the recommendation:

4. **Graduate Financial Aid:** Under the new model, cross-campus support for graduate USAP will be eliminated. Each year, campuses will be directed to allocate a specific share of fee revenues to graduate student support and fee remissions. Separate shares will be calculated for graduate academic and graduate professional students, but shares within those categories will be equal across campuses. Campuses will retain the flexibility to dedicate additional revenue to graduate student financial support as desired.

CCGA's concern here had to with the uncertainty of "revenue neutrality" into the future that is central to the new model. The Committee also expressed concern with current system used for setting of Nonresident Tuition revenue targets and the distribution of nonresident enrollments by campus. A few members suggested campuses that fail to meet their nonresident student enrollment targets should have to shoulder more of the burden of addressing their own revenue shortfalls. Lastly, CCGA felt that the proposal should include a strong statement warning against the further erosion of support for graduate fellowships; as a matter of policy, campuses should be directed to do everything in their power to maintain competitive levels of graduate student support. CCGA believes that the future quality and prestige of the University depend almost as much on the quality of the graduate students it is able to recruit as they do on the quality of the faculty.

Sincerely,

A handwritten signature in black ink, reading "Jim Carmody".

Jim Carmody, Ph.D.
Chair, CCGA

cc: Martha Winnacker, Academic Senate Executive Director
CCGA Members



UNIVERSITY COMMITTEE ON EDUCATIONAL POLICY (UCEP)
David G. Kay, Chair
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February 17, 2011

Dan Simmons, CHAIR
ACADEMIC COUNCIL

Re: FUNDING STREAMS PROPOSAL

Dear Dan,

UCEP discussed the Funding Streams Proposal during its meeting on February 7, 2011. UCEP generally endorses the proposal. However, members expressed the following concerns:

- Information about the current allocation of funds is not widely available, making it difficult to assess this proposal's impact.
- The budgeting process on some campuses is not transparent now, giving no reason to expect greater transparency under the proposal.
- This proposal may result in campuses acting more autonomously, possibly at cross purposes.
- Some systemwide initiatives currently funded through UCOP are valuable, and the "tax" levied on campuses for UCOP should support the continuation of some systemwide initiatives.

Thank you for the opportunity to opine.

Sincerely,

A handwritten signature in black ink, appearing to read "DG Kay".

David G. Kay, Chair
UCEP



UNIVERSITY COMMITTEE ON LIBRARY AND SCHOLARLY COMMUNICATION
Richard Schneider, Chair
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February 17, 2011

DAN SIMMONS, CHAIR
ACADEMIC COUNCIL

Re: FUNDING STREAMS PROPOSAL

Dear Dan,

UCOLASAC has reviewed the Funding Streams proposal and is very much concerned about ensuring that the central functions of the library receive sufficient support via the new mechanism of a “flat assessment on all funding sources.” The libraries on each campus are highly reliant upon existing central services that demonstrate exceptional return on investment and that significantly offset campus costs. Maintaining consistent co-investment from each campus and the UCOP to the UC Library System as a whole, and especially the California Digital Library (CDL), is critical to fulfilling the UC mission. Changes to the funding model must not create new costs for the UC Libraries and must not eliminate vital services.

Central functions of the libraries encompass a range of existing services including:

- the Melvyl Catalog (and its current transition to a new model)
- resource sharing and interlibrary loan services
- linking between journal and book citations to the full content via UC-eLinks
- collective licensing of digital materials coordinated by CDL
- shared digital reference services (Ask a Librarian)
- eScholarship
- Merritt digital preservation service
- Regional Library Facilities managed by UCLA and UC Berkeley
- The digitization of books as well as special collections and other materials owned by libraries

Emerging services include:

- shared print initiatives such as the newly launched Western Regional Storage Trust (WEST)
- Web Archiving Service
- data management and curation services coordinated by the UC Curation Center to support new modes of research
- a range of activities aimed at streamlining and maximizing library processing efficiencies

Moreover, we want to emphasize that from a faculty perspective, CDL must be provided with the resources necessary to continue offering services that are essential to research, scholarship, and teaching. For example, the eScholarship and UC3 data repositories add indispensable institutional infrastructure, which is invaluable for faculty who need to create data management plans and securely store their data.

The Council of University Librarians has developed "[Priorities for Collective Initiatives, 2011-2014](#)", that endorses these initiatives as well as a systemwide view of collections that establishes principles to ensure the richest collections, to increase collection diversity, to expose hidden resources, and to develop transformative, sustainable publishing and open access models. The UC Libraries are also deeply committed to preserving the scholarly record and are actively participating in collaborative efforts with their peers to address this challenge. The Systemwide Library and Scholarly Information Advisory Committee (SLASIAC) Task Force on Library Planning is also recommending specific strategies to address budget exigencies while preserving the quality of UC library collections and services.

Many of these central functions are currently managed by the California Digital Library with various means of co-investment from the campus libraries, including both direct funding and contribution of staff resources and expertise. The California Digital Library was founded on the premise of achieving efficiencies through strategic collaboration and central funding combined with campus co-investment. The return on investment to the campuses has been demonstrated repeatedly both in terms of savings in licensing digital materials and in cost avoidance related to developing services. For example, one campus library reports paying an average of \$342 per title for locally licensed journal subscriptions, whereas that same campus's average cost per title is \$69 for journals licensed collectively via CDL. By this measure, every \$1.00 spent on shared journal collections produces \$4.00 in savings for the campus.

However, central license negotiation will not fully meet the needs created by unending price increases from publishers and by the new archival requirements of scholarly digital data. These factors make it imperative for the UC Libraries to invest in services that provide faculty with tools to manage their research output, whether in the form of publications or data and other associated materials. Continued support of central library services and infrastructure in support of library co-investment is integral to ensuring that the UC Libraries can collectively find sustainable solutions that meet the information needs of faculty and students.

The centralized and collective activities of the UC Libraries are highly efficient and effective. One measure can be seen in data for expenditure per student for library services:

- \$1,776 at seven UC-peer universities
- \$1,305 within the Association of Research Libraries
- \$1,067 within the University of California

Unfortunately, this information can be also seen as a significant gap in support. Thus, any change to the funding model must not result in a reduction of central services nor increase the local costs for the UC Libraries. We cannot afford to widen this gap.

Another issue raised by the funding streams model is related to indirect cost recovery. We believe that libraries need to be supported by more reliable sources of revenue other than state funds, and are hopeful that a mechanism will be developed to ensure that money generated through ICR is transparently and appropriately distributed to the library as specified by NIH policy.

Without sufficient funding, both from UCOP and from the campuses to support negotiating leverage managed centrally by CDL and to sustain concomitant services for delivering digital content, any savings gained through economies of scale would quickly disappear. If an individual library is not funded

adequately to pay for systemwide commitments, then such a disparity would affect the other libraries who must share a greater portion of the total. The success of the current model hinges on all libraries plus the CDL developing approaches that can smooth out differences in funding distribution based on campus size, program, and research profile. If the new funding model results in greater discrepancies among campus libraries, the ability of libraries to collaborate would be endangered.

As an aside, we note that libraries are only mentioned twice in the proposal, once in reference to collecting library fines and the other in the context of library “operations” and the ICR. This suggests that the vital role of central services and co-investment provided by the California Digital Library is not well understood. That the library is not overlooked in revisions to the funding process is crucial for the excellence of UC.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard A. Schneider". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Richard A. Schneider, Chair
UCOLASC



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February 16, 2011

**DAN SIMMONS, CHAIR
ACADEMIC COUNCIL**

RE: “Funding Streams” Proposal

Dear Dan,

The University Committee on Research Policy (UCORP) has met and discussed the proposed changes to the University’s “Funding Streams”. The committee did not vote on whether to endorse the proposal, but instead notes both potentially positive and potentially negative outcomes, all of which need to be considered moving forward.

While all members felt the transparency inherent in the proposal was laudable and long overdue, some warned of potential risks to UC's core mission from this change in fiscal incentives. For example, the accounting changes proposed will increase incentives for campuses to maximize revenue; while this might directly benefit some aspects of the research enterprise, it must not lead to a widespread commercialization of the UC research portfolio. We would encourage all campuses to be on guard against any erosion of the university's commitment to the highest standards of research and research-based teaching in the cause of revenue generation.

UCORP is particularly concerned about the proposed changes concerning aid to graduate students: the committee felt this section was unnecessarily vague and did not address the needs of a tier one research university, either one in a steady-state or one that seeks to grow. UCORP recommends that the implementation of the changes to graduate student aid be postponed until the rebenching recommendations are also implemented. Otherwise, this exercise might have an adverse effect on the graduate programs and the research enterprise of some campuses.

Finally, the committee is concerned about differential implementation of cuts. UCORP recognizes that the ten divisions are unique, but the specter of one campus that cannibalizes summer ninths while a sister campus lays off service workers to achieve the same cost savings would only further imperil UC in the press and the legislature, and, more importantly, jeopardize the coherence of the UC system.

Sincerely,

Phokion Kolaitis

Phokion Kolaitis, Chair UCORP

cc: UCORP
Martha Winnacker, Executive Director, Systemwide Academic Senate



UNIVERSITY COMMITTEE ON PLANNING AND BUDGET (UCPB)

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February 17, 2011

DAN SIMMONS, CHAIR
ACADEMIC COUNCIL

Re: Funding Streams

Dear Dan,

UCPB has discussed the new funding distribution model UCOP has proposed for itself, systemwide programs, and the campuses (informally dubbed “Funding Streams”) to be implemented beginning July 1, 2011.

Our understanding of the proposal is that campuses will begin to retain all revenues they generate, and UCOP will collect a flat assessment (currently estimated to be approximately 1.67%) calculated on all expenditures to provide support for UCOP administration and systemwide programs. This tax rate was calculated to maintain UCOP’s current funding level (\$305M), so initially UCOP will receive approximately the same level of support under Funding Streams that it does currently. UCOP intends to implement the new model so as to be close to “revenue neutral” to campuses in the first year, meaning that each campus will receive approximately the same level of funding they would have received under the current model. UCOP will base the distribution of its first assessment on 2009-10 expenditures. Funding Streams will not fix the UCOP budget at a specific level; UCOP’s budget will be approved by the Regents each year, and as such, the assessment rate may rise or fall accordingly over time.

Campuses will be able to pay their UCOP assessment with any available funds, thereby freeing up less restricted general funds potentially for other purposes. UCOP will begin by calculating \$305M as a percentage of total systemwide expenditures; that percentage will be the assessment on all campus expenditures. UCOP will return to campuses all funding streams it now retains (Educational fee, 6% of Indirect Cost Returns in the form of Opportunity Funds and off-the-top funds, private ICR, etc.) UCOP will also re-label campus sources of General Funds in a way that ensures campuses have the same current total budget.

UCPB is generally supportive of the proposal. It is an opportunity to simplify, clarify, and untangle UC’s budgeting process, and it will provide campuses with more authority and autonomy in the way they generate and distribute revenue. We also have a number of concerns, outlined below.

Setting and Reviewing the UCOP Assessment Rate

The document should be more explicit about the process by which campuses will reach agreement about the assessment rate, and who has authority to set it. Assuming the President will have the authority to set the rate, there must also be a clearly articulated shared governance consultation process at both the systemwide and division level. Although this principle should apply regardless of whether Funding Streams is adopted, it is increasingly clear to UCPB that the campuses want even greater transparency concerning the UCOP budget: exactly what the assessments will pay for, and how UCOP will determine the appropriate funding levels for its various functions and activities. UCPB does not conclude that UCOP is too large or too small, only that its budget needs to be better understood. We do not understand where the \$305M figure comes from, or how it relates to total spending at the center, which is considerably larger than \$305M.

We are also concerned that as campus revenues increase under Funding Streams, campuses will contribute larger amounts to the center, increasing the UCOP budget. To the extent that increased campus activity requires a larger core administration, a proportional expansion of that portion of the UCOP budget might be justified. But increased revenues from higher fees, for example, do not require additional UCOP administrative services, and would not justify proportional growth at the center. Moreover, increased revenues due to either additional campus productivity or higher fees for the same activity, should not automatically justify expanding the budgets of centrally funded research units such as the Division of Agriculture and Natural Resources, UC Press, and the California Institutes for Science and Innovation, however meritorious these programs.

In addition, UCPB does not support the plan to revisit the assessment rate every three years. A better approach would be to set the rate annually based on the Regentally approved budget for UCOP (both systemwide shared services and core administration), adding the approved budgets for the various research programs. The total funds required can be determined by calculating the necessary assessment rate from the proposed budget based on the prior year's expenditures. In other words, UCPB strongly prefers an initial determination of UCOP spending followed by a process of setting each year's assessment rate, rather than setting the rate *ex ante* and then spending at the center based on the revenues generated from the assessment. An explicit provision for accumulating excess revenues as reserves should be built in to Funding Streams; otherwise, this aspect of the proposal will remain deeply flawed. An analogy would be the State spending high tax revenues during the peak of the business cycle on permanent programs. Our approach keeps UCOP funded, but does not produce extra discretionary funds that lead to expansion of the center. It also ensures that UCOP receives adequate funding during times of declining revenues.

One could imagine viable alternative schemes, including differential campus and/or campus unit assessment rates based on the benefits received from UCOP, or a rate based on enrollment, payroll, or a combination of factors. While we recognize the principle of matching the assessment with benefits received, we also recognize that it would be difficult to make a defensible unit-by-unit calculation of those benefits. Therefore, the majority of the committee endorses the concept of a single, across-the-board, all-unit, Systemwide assessment. (Two members of UCPB oppose the flat tax and would prefer to see alternatives developed.) The value of the single assessment is its clarity, simplicity, and recognition of UC as a single system. Still, we anticipate that this could draw significant, ongoing resistance, particularly from units that perceive their assessments to be greater than the value of the services they receive. Allowing

chancellors to choose how they assess units on their own campus provides some budget flexibility to align this expense with campus budget priorities, but does not deal with the possibility of perceptions about a lack of fairness at the campus level.

Interaction of Funding Streams and “Re-benching”

Funding Streams is the first step in a process of budget clarification that will put campuses in a better position to express and act on research and teaching priorities. The next steps are a detailed assessment of Office of the President operations and programs, and a more equitable allocation of general funds to campuses. The latter process of “rebenching” the historical formulas that determine proportion of state general funds allocated to the campuses will be difficult but is essential to the decentralization effort. Rebenching must proceed as soon as possible. However, the committee would like to see further analysis of how choices made under the current Funding Streams proposal to tax all units equally will affect the options for re-benching, not to mention its acceptability to individual campuses.

Potential for Differential Impacts to Campuses

One of our members produced a rough analysis of what each campus would pay to UCOP under the current proposal for a flat tax on expenditures, and under an alternative plan based on a flat tax on enrollment. In this analysis, comparing the two schemes, Health Sciences campuses, notably UCSF and UCLA, would gain significantly from basing the assessments on enrollments, instead of expenditures. UCSB, UCR, UCB, and UCSC gain quite a bit from the current choice. This is not surprising, and follows arithmetically from comparing shares of total enrollment with shares of total revenue. Neither method can be said to be the “right” one, nor the one most closely linked to the services that flow from UCOP. However, this sort of analysis demonstrates that the campuses will fare differently under any alternative proposal, and thus that the current proposal constitutes an implicit decision affecting academic and budget priorities. We think this is inevitable, but that it should be noted.

It seems reasonable to speculate that all campuses will look for ways to hide revenues or expenditures; could a Health Sciences campus pay less in assessments by forming a partnership with a private hospital for one or more of its units, and moving some revenues “off the books”? We don’t know the answer, but the general point is worth making. To the extent that Funding Streams creates incentives to change behavior, expenditures will be less than anticipated, and campuses will make choices to avoid taxation, and not just for programmatic reasons.

Finally, UCPB requested data showing expenditures by revenue source across the campuses, as a means of understanding how each campus and each campus division and function would contribute to central functions under Funding Streams; for example, the medical centers compared to the general campus, and research grants compared to tuition. The Budget Office told us that UCOP would not project or assume how campuses will pay their assessment, but can provide 2009-10 expenditures by fund source and walk the committee through the various funding adjustments necessary to implement the proposal, and a list of UCOP-funded programs. We also requested that UCOP specify the different expenditures that are included in the \$305M. We appreciate having had the opportunity to review ‘The List’ of academic and other projects that are included, provided to us by Provost Pitts. However, no clear accounting of the budgets to be supported by the proposed tax, nor even a gross estimate of the amount that would support central administration versus ‘other projects,’ has been provided. This information was not yet finalized, for our meeting of February 1, 2011, but is crucial to evaluating the Funding Streams

proposal. We suggest that if the Academic Council also considers this information relevant, it should request additional time for reviewing the Funding Streams proposal.

Sincerely,

A handwritten signature in cursive script that reads "James A. Chalfant".

James A. Chalfant
UCPB Chair

cc: UCPB
Martha Winnacker, Senate Executive Director