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I. EXECUTIVE SUMMARY

In light of significant changes in the context within which campus budgetary decisions are made, Chancellor Fox requested that a campus work group be established and serve in an advisory role to the 2006/07 Campus Budget Committee. The campus Budget Review Work Group (BRWG) included key financial officers and/or their designee, from each major campus unit and constituency as reflected in Appendix A, and was charged with reviewing current allocation methodologies and presenting recommendations for the Committee’s consideration.

Over a period of five months, the work group reviewed, discussed, and evaluated key funding components that are under the purview of the Campus Budget Committee, related campus allocation methodologies, issues and possible options for change. Additionally, the work group reviewed other financial information and major revenue sources pertinent to the overall campus financial perspective, but not typically a part of the Committee’s allocation process.

In summary, the BRWG reconfirmed its support for the principles that guide the budget deliberations. It has reaffirmed most current allocation methodologies and proposes no changes for the 2006/07 budget year. Furthermore, it recommends that it continues discussion on three of the allocation components and report on them later this Fall. These items are:

- Indirect cost recovery funds,
- Deferred maintenance budget, and possibly
- Enrollment workload funds.

Lastly, the BRWG recommends that a comprehensive review be conducted every 5-7 years, and that ad-hoc reviews be conducted of specific components as deemed necessary.

Other Considerations

The BRWG further recommends the following for consideration by the Budget Committee:

A. That the campus continues to work with the Office of the President (OP) to raise the level of awareness and importance of adequately funding the State utilities budget.

B. That some one-time funds be provided to the Academic Senate to help fund recent increase in research grant funding requests. Additionally, in its continued discussions, the BRWG will consider the Academic Senate’s ongoing funding needs from the Indirect Cost Recovery (ICR) funding source. Any approved changes formulated by the work group would be recommended for implementation beginning 2007/08.
C. That a long-term plan be developed to address the growing campus day care needs with the goal to reduce the wait-list for the children of UCSD staff, students and faculty. This plan could re-evaluate the current ECEC assessment amount and methodology.

D. That the ongoing campus capital fundraising budget be re-evaluated after 2006/07 which is the final year of the 7-year capital campaign.

E. That campus contributions for NGN2 be reviewed with the objective of reducing the ICR subsidy. The objective should be that each Vice Chancellor’s financial support be more reflective of usage.

F. That the Vice Chancellor-Resource Management & Planning and the new Vice Chancellor-Research work together to review the potential of Intellectual Property Income to assist with campus funding needs, and to advise the Chancellor and the Campus Budget Committee annually. Although Intellectual Property Income is not now part of the Budget Committee’s purview, the work group views this source of income, net of program operating costs and appropriate legal reserves, as a means to assist with Campus funding needs, particularly the need to reinvest in the research enterprise.

An overview of the main discussion points and final work group recommendations for each allocation component is summarized in Appendix B.
II. INTRODUCTION AND REPORT ORGANIZATION

The environmental context in which budget decisions are made has changed significantly. State general support has declined and been partially replaced by tuition and fee revenue generated from student fee increases. Student enrollment growth is expected to continue, but at lower growth rates than experienced in the last seven years. Additionally, growth on federal research funding is slowing and expected to remain low over the next few years. In light of these changes, Chancellor Fox requested that a campus work group be established and serve in an advisory role to the 2006/07 Campus Budget Committee. The work group included key financial officers and/or their designee, from each major campus unit and constituency as reflected in Appendix A, and was charged to:

- Review current methodologies used for distributing core campus resources; and
- Present any recommendations for change to the Campus Budget Committee.

The work group was chaired by Assistant Vice Chancellor Sylvia Lepe-Askari and met over a period of five months. Given the challenges confronting the University for maintaining quality and access with limited resources and growing student enrollment demand, the underlying premise of the review was that campus allocations should be evaluated in total and not as individual components. Additionally, programmatic funding requirements should be addressed in an equitable and consistent manner. Below is a summary of funding principles used by the work group to guide their deliberations:

- Priority is given to Academic Programs.
- Administrative functions must receive sufficient support to meet organizational goals of accountability, efficiency, and effective stewardship.
- Vice Chancellors are delegated maximum discretion to allocate funds within their areas, along with the accountability to follow all applicable policies.
- Allocation methodologies should:
  - Be clear, logical and consistent from year-to-year to facilitate long term planning by the Vice Chancellors.
  - Consider performance incentives where appropriate.
  - Consider mitigation of significant negative fluctuations on a single-unit and avoid unintended consequences.
  - Provide for permanent solutions to permanent problems.
- The budget review process and resulting resource allocations should be open.
- Every effort should be made to reach allocation decisions by consensus.

This report is intended to provide a general description of how campus core resources are allocated. Each allocation component contains a summary description of the current methodology used by the campus for allocation of those resources, key discussion of issues or concerns raised during the review, any alternatives considered, and the work group recommendations.
III. KEY COMPONENTS OF CAMPUS ALLOCATIONS

The work group began the process by reviewing existing allocation methodologies for each allocation component followed by detailed discussion of any issues, concerns and possible alternatives.

A. Enrollment Workload for Student Growth

The general campus budgeted student enrollment in 1997/98 was 16,000 FTE. Consistent with Tidal Wave II projections and UC’s enrollment growth plan, budgeted student enrollment at UCSD has increased to 25,295 student FTE by 2006/07, a total increase of 9,295 FTE, or 58% over the 9-year period. According to UC agreement with the State, State funding for this enrollment growth has been provided on a per-student basis based on an agreed-upon marginal cost of instruction (MCI) formula and an average student-faculty ratio of 18.7 to 1. The MCI funding is intended to provide basic levels of support for faculty and teaching assistant salary and benefits, and funds for instructional equipment, general instructional and institutional support, libraries and student services.

1. Current Methodology: The current campus allocation methodology was approved by the Budget Committee in 2001/02. The methodology combines State General Funds along with systemwide mandatory Educational and Registration Fee income, net of the required return-to-aid amount, and distributes these resources on the following basis:
   - 70% of the State General and Educational Fee funds to Academic Affairs.
   - The remaining 30% combined with Registration Fee funds are allocated as follows:
     - Allocate funding to Student Affairs based on a per-student funding guarantee.
     - Of the remaining funds:
       - 25% is set aside for campuswide reserves to address campuswide priority needs, and
       - 75% is distributed to VC units impacted by enrollment growth, based on their proportionate share of the budget, exclusive of Student Affairs.

2. Key Discussion: The campus allocation of these funds is consistent with giving priority to funding the academic programs as well as those student services most directly impacted by enrollment growth. Key areas of discussion included:
   - Funding per additional student FTE: The current campus allocation model provides more per student than the State allocation model. This is due to the University’s policy of allocating all additional Educational Fee income derived from enrollment growth, net of the required student financial aid, to support enrollment and the campus policy of giving funding priority to the academic programs.
   - Changes in State allocation methodology: The Governor’s January 2006 budget proposal proposed funding of $10,100 per additional student, based on a revised method which included funding for O&MP and a higher faculty salary level. The 2006/07 State Budget Act, signed by the Governor on June 30, 2006, approved a funding amount of $9,900 per student; however, the methodology was vetoed by the Governor. Consequently, there will be continued State negotiations over the MCI calculation in the coming year.
• **Future student enrollment growth:** The campus is approaching steady state enrollment with the majority of the growth expected to occur within the more expensive graduate student population.

3. **Recommendations:** The work group recommends that the allocation methodology for enrollment workload not change for 2006/07. This is consistent with the campus goal of giving priority to the academic programs. In addition, the work group recommends that discussion continue regarding this allocation along with indirect cost and deferred maintenance, in the context of ‘total funding impact’ to all campus units.

**B. Indirect Cost Recovery (ICR)**

1. **Current Methodology:** The ICR Model allocates the *net available recovery* from Federal and Private/Local ICR after predetermined deductions and distributions are made per mandated University policies and campus agreements which give ‘off-the-top’ funding priority to Garamendi, and Garamendi-type arrangements. The *net available recovery* is the level of discretionary funds remaining, after the ‘off-the-top’ adjustments, allocated amongst VC units by the campus ICR allocation model as follows:
   - 100% of NET UCGF allocation to Academics (*net of OP retained amount*)
   - Budget Committee Deductions are then drawn from the remaining OTT, UOF, and Ed funds
   - Segment allocation – historical split ~ 54.5% Academic / 45.5% Administrative
     - ICR components are assigned between “Academic” and “Administrative”
       - Academic Segment:
         - Designated unit allocations
           - Library
           - Academic Senate
         - Academic Units – pro rata per ICR generated (net of predetermined distributions)
       - Administrative Segment:
         - Designated unit allocations
           - Chancellor
           - Campus Reserve
         - Academic Administrative Units – pro rata per budgeted core funds

2. **Key Discussion:** The campus ICR model attempts to allocate net available recovery funds, subject to a variety of mandated policies and campus agreements. The key areas of discussion included:
   - **Impact of off-the-top adjustments:** As noted above, current allocation method gives priority to Garamendi, and Garamendi type arrangements, prior to allocating remaining discretionary funds amongst VC units.
• Review of specific allocation elements:
  o The Library’s allocation is funded at its ‘grandfathered full-rate’ of 3.0 points, or 5.5% of
    the campus ICR average rate, and entirely from the academic component of the allocation.
  o The Academic Senate allocation has been fixed since 1995/96, while Senate membership is
    estimated to have increased by 30%.
    - Academic Senate requests increased funding from $900,000 per year, to a total of $2
      million per year, with either a permanent increase of $1.1 million in 2006/07, or that
      increase spread over two years. An additional one-time allocation of $500,000 is
      requested for 2005/06 year. And lastly, they request that future funding be adjusted
      relative to ICR growth.
  o Allocation adjustment associated with the transfer of two administrative functions
    (TechTIPS & OCGA) from VCRMP to SVCAA/VCR.

3. Alternatives Considered: A number of possible alternatives were reviewed by considering
   adjustments to several components of the current allocation model. Among those considered are:
   • Pro-rata allocations between the Academic VC’s:
     o The 2-year averaging pro-rata % has a negative impact on units that are growing at
       consistently higher growth rates, and offers protection to units growing at slower rates.
     o Combining Federal & Private/Local recovery impacts allocation % between Academic VC’s.
     o Disproportionate “Garamendi and Campus Arrangements” costs compared to pro-rata
       recovery. This impacts the distribution of cost burdens covered by individual VC units for
       fixed cost components.
   • Academic / Administrative percentage split: The use of ICR rate components for allocation
     between Academic and Administrative segments may not have sufficient logic as it once did
     and therefore is no longer valid for future allocations.

4. Recommendations: The work group recommends no change to the allocation methodology for
   the 2006/07 year. Because of the complexity of the model and budgetary consequences across
   campus units, the work group recommends that this model be evaluated further. Specifically, the
   BRWG should address long-term allocation solutions in response to the expected decline of ICR
   funds growth and increasing off-the-top deductions. Additionally, the work group recommends
   further consideration of the Academic Senate’s ongoing funding need. Any changes formulated by
   the work group will be implemented beginning 2007/08.

C. Faculty Recruitment and Retention

1. Current Methodology: The OP provides some one-time State General funds to campuses to help
   recruit and retain faculty. In 1998/99, the Campus Budget Committee approved an allocation
   methodology that distributes 60% of the funding according to an historical ratio of 60% to General
   Campus, 30% to Health Sciences and 10% to Marine Sciences. The remaining 40% are allocated
   based on prior year actual expenditures for faculty recruitment and retention as a percentage of
   each unit’s total permanent budget base.
2. **Key Discussion:** The historical one-time OP allocation of $1.8 million covers a very small fraction of the actual expenditures. Faculty recruitment and retention funding shortfalls remain a major campus concern.

3. **Recommendation:** The work group recommends no change to the current allocation methodology because the amount of funding involved is inconsequential.

**D. Restoration of Undesignated Cuts**

The 2003/04 and 2004/05 Governor’s Budget cut $70 million from the UC’s budget with the intent of increasing student faculty ratio from 18.7 to 20.7. The UC Board of Regents asked the President not to erode that ratio further and instead distribute “undesignated” budget reductions to campuses. UCSD’s share of that was $7.6 million. Beginning in 2005/06, UC began to restore that budget reduction.

1. **Current Methodology:** The campus allocation of these restoration funds uses the same percent share as was used in allocating the $7.6 million in undesignated cuts to campus VC units. Since certain units were protected when the undesignated reductions were distributed, they are similarly excluded from receiving restoration funds. Specifically:
   - Marine Sciences, Student Affairs and the Library’s books budget were exempted from the undesignated cuts in 2003/04, and
   - Marine Sciences and the Library books budget were again excluded from the cuts in 2004/05.

2. **Possible Alternatives:** There was minimal discussion on this item. Alternatives for centrally retaining and redirecting these funds to other campuswide concerns were offered including:
   - Supplement campus utilities budget to relieve ongoing multimillion dollar deficits.
   - Establish a base level of campus funding to address growing deferred maintenance needs.
   - Supplement ongoing O&MP budgets to help restore some campus service levels.

3. **Recommendation:** The work group recommends maintaining the current process of allocating restoration funds in the same proportion that undesignated reductions were assigned to VC units.

**E. Operation & Maintenance of Plant (O&MP) Workload for New Space**

Each year campuses request O&MP funding from OP, inclusive of utilities, for State-eligible space that is expected to come on-line in the subsequent budget planning year. After review of campus requests and consideration relative to other University competing priorities, OP submits a single O&MP funding amount in The Regents Budget request to the State. If approved, OP allocates funds to campuses based on approved State eligible campus projects and the level of funding available.

1. **Current Methodology:** Each campus must manage within their State funded permanent allocation for O&MP. The Campus Budget Committee has historically made directed allocations to the campus O&MP program, and attempted to mitigate impact during severe budget periods.
2. **Key Discussion:** The campus O&MP permanent budget is under-funded by approximately $2.5 million. As a result of the recent fiscal crisis, the State did not provide O&MP funding for new eligible space in 2003/04 and 2004/05. The University responded by providing one-time funding support to campuses to help mitigate this problem.

In 2005/06, the OP provided permanent O&MP funding for core academic space, or about 60% of what the campus requested. Partial funding for new 2006/07 space is also expected. In the interim, actual on-line dates for new building are closely monitored to better assess minimum program funding requirements.

3. **Recommendations:** While the BRWG recognizes the level of under-funding in O&MP budget, in consideration of multiple competing funding priorities, no additional campus support is recommended at this time for the O&MP budget. The work group also recommended that consideration be given to the development of a comprehensive long-term plan for O&MP, deferred maintenance, purchased utilities, and energy conservation.

**F. General Price Increase**

General Price increase funds are provided by the State to help the University maintain the purchasing power of non-salary State budgets at the current program levels.

1. **Current Methodology:** The campus current methodology for allocating general price increase funds is as follows:
   - The price increase amount is calculated using the State funds, Registration Fee, and Ed Fee budgets with some exclusions.
   - The campus Purchased Utilities (PU) budget is inflation-adjusted at the full state rate. In 2005/06 the increase amounted to 2.25% of the campus State-funded Utilities budget.
   - The remaining funds are distributed to VC units based on their percent share of total State and Student Fee1 base salary and non-salary budgets. The decision to use total budget rather than only non-salary budget was made several years back to give funding priority to academic units.

2. **Key Discussion:** The use of total budget base rather than non-salary budget base disadvantages units with large non-salary budgets such as the Libraries and O&MP. Additionally, inflationary costs are anticipated to be significantly greater than 2.25% for several major commodities, including energy and fuel, as well as library subscriptions and serial services.
   - On the other hand, the current methodology primarily benefits the academic units which typically have much larger salary budgets and negative (deficit) non-salary budgets. These units benefit from two allocations: 1) price increase allocation, and 2) salary increase provision. Essentially, the current method inadvertently creates disincentives for campus departments to appropriately realign their budgets.

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1 The base budget used for the 2005/06 allocation excluded the Registration Fee budget because additional income from the Registration Fee increase was to be used to support related inflationary costs.
3. **Recommendation**: The work group recommends no change be made to the price increase funding allocation methodology. This is consistent with the campus goal of giving priority to the academic programs.

**G. Information Systems**

In 2002, Administrative Computing and Telecommunications (ACT) requested a comprehensive $10.4 million, 8-year funding plan (2000/01 - 2007/08) for computing upgrades. The upgrades primarily improve system capacity for the three components of campus computing: Payroll Personnel System (PPS), Integrated Financial Information System (IFIS), and Integrated Student Information System (ISIS).

1. **Current Methodology**: The assessment matrix allocates costs in two steps designed to measure campus unit utilization of the computing system:
   - First, Campus unit utilization of each component is measured based on:
     - PPS – payroll personnel system;
     - IFIS – integrated financial information system; and
     - ISIS – integrated student information system.
   - Second, the pro-rata component percentages of the above are then weighted based on the relative utilization of the entire information system’s capacity by the individual PPS, IFIS, and ISIS components. Combining these two measures results in weighted campus unit distribution percentages that are used to allocate the net annual funding assessment to each Campus Unit.

2. **Recommendations**: The work group recommends no change to the current campus assessment allocation methodology for 2006/07. However, future assessment levels should be set at the minimum funding required.

**H. Next Generation Network (NGN)**

The NGN implemented in July 2001, provides enhanced communication services and technology. NGN2, the current phase (2006/07 - 2010/11), includes data connections and internet bandwidth, expanded network security services, voice lines, email, active directory, and other network services.

1. **Current Methodology**: The funding for NGN2 is generated from user fees, permanent and temporary campus funding, and campus unit assessments as described below.
   - Communication User (CU) fees:
     - New rates have been published for implementation starting July 2006.
     - Rates include a factor for unlimited domestic long-distance service, eliminating the separate monthly recharges.
     - New rates are intended to eliminate the need for campus unit subsidy by the end of NGN2.
• Permanent and temporary funding sources are projected at $1.6 million per year, including $1 million in permanent campus support from ICR funds.
• Campus unit assessments:
  o The current NGN2 plan projects unit subsidies over the five years totaling $2.7 million.
  o Unit assessments are distributed based on total per-unit CU fee charges in the prior year.

2. **Recommendations:** The work group recommends no change to the current methodology for 2006/07. In addition, the group recommends that campus contributions of NGN2 be reviewed with the objective of reducing the ICR subsidy. The objective should be that each Vice Chancellor's financial support be more reflective of usage. Lastly, the work group recommends that any future unit assessments be set at the minimum funding required following consultation with the NGN advisory committee.

I. **Early Childhood Education Center (ECEC)**

The ECEC houses a full-time child care center that is open to the children of UCSD faculty, students and staff, as well as a limited number of affiliates. Current capacity is 210 children. The ECEC assessment was approved by the Budget Committee in 1989/90 to help defray the debt costs associated with facility, as well as an infant referral service and provide for a small operating subsidy.

1. **Current Methodology:** The current cost allocation methodology prorates the cost of the three components among the campus VC units, except for Student Affairs. The pro-ration is based on each unit’s proportional utilization of the facility as measured by an annual census conducted by the Campus Budget Office (CBO) and ECEC personnel, and confirmed by VC units. In addition, the following subsidies are provided:
   • Student Affairs subsidy which supports the salaries and employee benefits for the ECEC Director and Assistant Director. Until such time as Student Affairs’ pro-rata share, based on census calculation, exceeds their subsidy, the Budget Committee has exempted Student Affairs from an assessment related to the three cost components.
   • Business Affairs subsidy which provides additional annual funds to help defray operating costs.

2. **Key Discussion:** Campus Day Care needs are growing as supported by ECEC’s waiting list of 270 children and are anticipated to grow with increases in the number of students, faculty and staff. Some of the concerns discussed include:
   • ECEC costs to maintain Day Care are rising. Tuition rates are approaching levels that prohibit middle-income parents from participating. Recent increases caused several families to de-enroll. Numerous factors, including current high construction costs resulted in re-evaluation of facility expansion project, financial viability as well as mix of age groups to be served.
   • Student Affairs expressed the need to change their share of the assessment based on proportional utilization of the facility as soon as possible as their current share is several folds over the actual utilization.
It was discussed to consider decentralizing assessment management to Business Affairs, with periodic reviews (every 5 years) by the CBO and updates to the Budget Committee.

3. **Recommendations:** The work group recommends no change to the current campus assessment allocation methodology for 2006/07. The work group also recommends that a long-term strategic plan be developed to address the growing campus day care needs with the goal to reduce the wait-list for the children of UCSD staff, students, and faculty. This plan could reevaluate the current ECEC assessment amount and methodology.

J. General and Excess Liability Insurance Programs

1. **Current Methodology:** The current campus methodology for funding costs associated with these liability programs is based on the following:
   - Costs that can be assigned to a specific department are directly charged by Risk Management. For example, owners of UC vessels and automobiles are directly charged for their portion of Marine and Automobile liability. The Medical Center is directly charged for their portion of all liability costs.
   - Costs that cannot be directly charged to a department are funded with a campuswide payroll assessment (excluding Federal funds and the Medical Center).
   - Because Federal funds cannot be assessed for this type of cost, each campus unit funds their portion of the liabilities costs relative to their share of federal payroll.
   - Costs associated with General Funds are automatically reimbursed for their payroll assessments from a central pool funded by the University and campus units.

   As a result of improved claims experience, overall costs have recently decreased and the campus has been able to lower the payroll assessment rate for the fourth year in a row. In addition, funding budgeted in central pool for General and Federal funds has been more than sufficient to cover annual cost, thus campus units have been reimbursed annually for two consecutive years.

2. **Recommendation:** The work group recommends no change to the current campus assessment allocation methodology for 2006/07.

K. Capital Campaign

In 2000/01, the Campus embarked on a seven year, $1 billion fundraising campaign. The capital campaign enters its final year in 2006/07 having already raised over $891 million. The campaign budget is separate from External Relations’ existing base budget.

1. **Current Methodology:** The multi-million dollar funding plan approved by the Budget Committee for the fundraising campaign is made up of multiple funding sources:
   - Campaign Gift Fee Income - 4% on all gifts received.
Short Term Investment Pool earnings from all private gifts and grant funds. The first 2% of interest goes to the VC of the area that benefits from the fund, with balance to External Relations.

Endowment Cost Recovery – the assessment rate is 15-basis points and will increase to 25-basis points beginning in 2006/07.

Permanent institutional support allocated at $1.25 million.

2. Key Discussion:
   - Based on prior years’ actual expenditure rates and other related factors, no additional funding sources are being identified at this time.
   - A vision and emerging priorities must be defined after the Campaign concludes in 2006/07. To support that vision, a funding plan must be created to support the out year’s steady state.

3. Recommendations: The work group does not recommend any changes to the Capital Campaign funding plan for 2006/07. In addition, it is recommended that a revised budget plan be created and adopted for ongoing funding requirements after the Capital Campaign concludes in 2006/07.

L. Energy Assessment

1. Current Methodology: The Campus Budget Committee began funding the utilities deficit, one year in arrears, by allocating deficit among the VC units in 2002/03. The distribution is calculated by multiplying each unit's total Assignable Square Feet (ASF) with a weighting factor based on type of space (research, offices, classrooms, etc.) to determine each unit's share of deficit.

2. Funding Alternatives: The 2005/06 Energy deficit is approximately $5.8 million. Funding alternatives discussed include:
   - Similar to fiscal 2002/03, the campus might consider redirecting funding for General Price Increase, and possibly Restoration of Undesignated Cuts to support the Utilities budget.
   - Distribute the net result to VC units based upon first, allocating a share of budget based on average funding levels received (by ASF); and second, allocating the estimated actual cost based on ASF factored for type of space.
   - Possible one-time assistance from Chancellor’s discretionary sources.
   - Collaborate with other campuses to aggressively pursue a state funding initiative.

3. Recommendations: The work group recommends no change to the current cost allocation methodology for 2006/07. It further recommends that the campus continue to work with OP to raise the level of awareness and importance of adequately funding the State utilities budget. Finally, it recommends that a comprehensive long-term plan for O&MP, deferred maintenance, and utilities be developed.

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2 ASF data is from the facilities database maintained by Capital Planning's Planning and Data Systems department. ASF includes all space that is occupied by State-eligible departments, excluding Garamendi buildings and various conference rooms that are not assigned to a Vice Chancellor area.

3 The weighting factors are from the Utilities Allocation Study for the University of California, San Diego, prepared by Marton Associates Consulting Engineers, and have been reviewed and validated by UCSD's Energy Manager.
IV. OTHER CONSIDERATIONS

A. Deferred Maintenance (DM)

1. **Current Methodology:** Currently, the Campus does not have an ongoing budget for DM. The DM backlog is now estimated by Facilities Management to be at least $245 million. Of this amount, approximately $30 million are identified as top priority projects.

2. **Key Discussion:** No State or University funding has been provided since 2001/02. The situation is worsened by the under-funding of O&MP budget and the lack of funding for new research space coming on-line.

3. **Possible Funding Alternatives:**
   - Borrow $20 million (5.75% over 15 years, $2,025,000 annual debt service).
   - Establish baseline DM budget $5 million over a four year period.
   - Blending of above options – borrow $10 million (5.75% over 10 years, $1,012,875 annual debt service) and establish $2.5 million permanent baseline budget to pay back debt service and fund additional DM projects.
   - Significant campus DM funding levels would require VC unit assessments. With campus support, the allocation basis might be based on share of the total State-supportable space.
   - Future funding possibilities based on the Compact with the Governor:
     - Additional 1% of base budget for “Core Needs” to begin in 2008/09, including ongoing building maintenance, libraries, and instructional equipment.
     - “As the State's fiscal situation permits, and one-time funds become available, the State may provide one-time funds to address high priority infrastructure needs, such as capital renewal of facilities and deferred maintenance needed to maintain the segments’ capital assets.”
     - As enrollment growth decreases, there might be shifts in the State’s capital program focus from new buildings to “modernization of out-of-date facilities and renewal or expansion of infrastructure and other facility systems that cannot accommodate ongoing needs”.

3. **Recommendations:** Currently, there is no campus assessment to address the DM backlog. However, the BRWG will continue discussions on funding options for those deferred maintenance issues considered most critical. In addition, the work group recommends that the campus develop a comprehensive long-term plan to address the DM backlog, the Energy deficits and the O&MP under-funding issues.
B. Intellectual Property Income

Intellectual property income is not now part of the Budget Committee’s purview; however, the work group views this source of income as one with great promise for augmenting discretionary resources at the VC level. Highlights of the establishment and purpose of the office of Technology Transfer and Intellectual Property Services (TechTIPS) include:

- In 1993/94, the Budget Committee agreed to invest in the establishment of TechTIPS to ensure that the campus effectively moved promising discoveries and inventions from the University to the private sector for the development of products and therapies that benefit the public.
- The expectation was that investment would eventually yield financial dividends to the campus.
- In 1999, TechTIPS was granted permanent delegated authority to manage the campus' new inventions, patents, and related intellectual property and associated accounting and financial operations.
- In 2005/06, all case management activity previously shared by the system-wide Office of Technology Transfer (OTT) was transferred to the campus.

1. Key Discussion:
   - Income from invention activity frequently takes years to be realized, so the campus has seen only a modest income stream to date.
     - In 2004/05 net intellectual property (IP) income totaled $6.7 million.
     - In 2003/04 the campus recorded a $2.2 million loss.
   - IP activity holds the potential to generate substantial discretionary income but priority must be given to funding TechTIPS operational expenses including:
     - First-rate licensing officers, most of whom have PhD and/or MBA or JD degrees and therefore command high salaries.
     - An adequate patent budget. Although UCSD currently recovers 65% of patent expenses through licensing compared to 48% nationally, covering the shortfall can be a substantial annual expense.
     - Marketing inventions also create a sizeable expense.
     - A well-funded legal reserve to cover the costs of fighting potential legal challenges to patents and IP activity. (Over the past 10 years legal expenses associated with campus patents have exceeded $16 million.)

2. Recommendations: The upward trend line for IP income suggests that this fund source may indeed assist the campus with its resource constraints, particularly the need to reinvest in the research enterprise. Therefore, the work group recommends that the new Vice Chancellor Research and the Vice Chancellor Resource Management and Planning work together to review the potential income from this source and update the Chancellor and the Budget Committee annually.
V. IMPACT OF RECOMMENDATIONS

A. Implementation in 2006/07

There is no impact to the current campus allocation methodologies for the 2006/07 resource allocation process.

B. Implementation in 2007/08 and Future Years

Currently, no decisions have been made that directly impact the 2007/08 or future years’ budgets. However, some allocations being considered for further review or requiring long-term planning may impact future years’ funding as discussed below.

- Several allocation models have been recommended for further review and analysis which may impact future allocations and budgets. Specifically, the following models or methodologies are considered for further review this year by the BRWG which may affect budgets in the out-years beginning in 2007/08:
  - Indirect Cost Recovery (ICR)
  - Deferred Maintenance, and possibly
  - Enrollment Workload

- Although there is no change to the campus assessment model for Information Systems and Next Generation Network, future assessment levels should be set at the minimum funding required. For NGN2, minimum funding requirements should be established following consultation with the NGN advisory committee.

- Although there is no change to the campus assessment for the Childhood Education Center (ECEC), the work group recommends that a long-term strategic plan be developed to address the space issues with the goal to reduce the wait-list for the children of UCSD affiliated families. ECEC will consider, and probably propose rate increases in the very near future.

- To address recurring funding shortfalls in the forthcoming years, comprehensive long-term plans are needed for O&MP, Deferred Maintenance, and Energy.
February 14, 2006

ASSISTANT VICE CHANCELLOR ANN BRIGGS ADDO
ASSOCIATE VICE CHANCELLOR TOM COLLINS
DANA DAHLSTROM
PROFESSOR RICHARD FIRTEL
DIRECTOR DIANE HAMANN
KATHLEEN HAY
ASSOCIATE VICE CHANCELLOR TOM JACKIEWICZ
CHIEF OF STAFF JUDY JOHNSON
ASSOCIATE CHANCELLOR CLARE KRISTOFCO
ASSISTANT VICE CHANCELLOR SYLVIA LEPE-ASKARI, CHAIR
ASSISTANT VICE CHANCELLOR DEBBIE MCGRAW
ASSISTANT VICE CHANCELLOR MARLENE SHAVER
ASSISTANT VICE CHANCELLOR ED SPRIGGS
CHRISTOPHER SWEETEN

SUBJECT: 2006/07 Budget Process Review Work Group

Dear Colleagues:

As some of you might recall, the last comprehensive review of the campus resource allocation methodologies took place in 1997 in response to the President's Budget Initiative, which changed how campuses received allocations from the Office of the President. Since then, a few allocation methodologies have been reviewed and modified, and new campuswide efforts have been undertaken and funded by the Budget Committee.

The environmental context in which budget decisions are made has changed significantly. State general support has declined and been partially replaced by tuition and fee revenue generated from student fee increases. Student enrollment growth is expected to continue, but at lower growth rates than experienced in the last seven years. Additionally, growth on federal research funding is slowing and expected to remain low over the next few years. In light of these changes, the Chancellor has requested that a campus work group be established and serve in an advisory role to the 2006/07 Campus Budget Committee regarding possible changes to current allocation methodologies. You have been recommended for participation on this work group.
The work group will be chaired by Assistant Vice Chancellor Sylvia Lepe-Askari and staffed by the Campus Budget Office. Attached for your information are some background materials to be discussed at the initial meeting to be scheduled for late February 2006. Materials include:

- Work Group Charge
- Budget Handbook
- 2005/06 Resource Allocations Summary
- Higher Education Compact

The work group will meet approximately twice a month, starting in February and ending in July or when the review and recommendations are complete. Knowing that each of you may not be able to attend all of the meetings, we ask that you appoint someone to represent you during your absence so that your respective areas are represented and remain informed on the topics discussed.

If you have any questions concerning this information, you may contact Assistant Vice Chancellor Lepe-Askari at 4-5357. I thank you in advance for your efforts.

Sincerely,

John A. Woods
Vice Chancellor

Attachments

cc:  R. Attiyeh  
M. Chandler  
A. Dickson  
M. A. Fox  
E. Holmes  
C. Kennel  
J. Minster  
S. Relyea  
J. Watson
UNIVERSITY OF CALIFORNIA, SAN DIEGO
2006/07 Resource Allocations
Campus Budget Process Review Work Group

**Charge**

The work group will serve in an advisory role to the Campus Budget Committee. The work group will review current methodologies used for distributing campus resources and present any recommendations for change to the Campus Budget Committee.

Alternatives should be considered and a recommendation made on how to distribute all new permanent resources available to the campus, including but not limited to: workload related to campus enrollment growth, additional student fee income, indirect cost recovery funds, workload funds for new space and general price increases.

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<thead>
<tr>
<th><strong>Campus Unit</strong></th>
<th><strong>Representative</strong></th>
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<tbody>
<tr>
<td>Campus Budget Office</td>
<td>Sylvia Lepe-Askari, Chair</td>
</tr>
<tr>
<td>General Campus</td>
<td>Debbie McGraw</td>
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<tr>
<td>Health Sciences</td>
<td>Tom Jackiewicz</td>
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<td>Marine Sciences</td>
<td>Tom Collins</td>
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<td>Academic Senate</td>
<td>Richard Firtel</td>
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<td>Academic Senate Office</td>
<td>Diane Hamann</td>
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<td>Business Affairs</td>
<td>Judy Johnson</td>
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<td>Chancellor's Office</td>
<td>Clare Kristofco</td>
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<td>External Relations</td>
<td>Marlene Shaver</td>
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<td>Resource Management &amp; Planning</td>
<td>Ann Briggs Addo</td>
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<td>Student Affairs</td>
<td>Ed Spriggs</td>
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<tr>
<td>Graduate Student</td>
<td>Lauren Friedman</td>
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<td>Undergraduate Student</td>
<td>Christopher Sweeten</td>
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<td>Staff Representative</td>
<td>Kathleen Hay</td>
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**Analytical Support**

Campus Budget Office

CBO
REVISED 7/27/06
### UNIVERSITY OF CALIFORNIA, SAN DIEGO
Budget Review Work Group Summary

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| **Allocation**                             | **Current Method:** Current allocation method gives priority to academic units most impacted by enrollment growth, then to Student Affairs.  
**Proposed Change in State MCI Formula:** The Governor’s 2006/07 budget proposal included a higher marginal cost (MCI) level of $10,100, primarily due to the addition of an amount for O&MP and use of average faculty salary instead of entry-level faculty salary.  
- 2006/07 State Budget Act approved $9,900/student via a compromised MCI formula. The calculation methodology was vetoed by the Governor. As a consequence, there will be continued negotiations over the MCI formula in the coming year.  
**Monitoring and Outlook:**  
- As the campus approaches steady state enrollment, a larger portion of the growth is expected within the more expensive graduate student population.  
- As the Offices of Contracts & Grants and Technology Transfer move from VCRMP to SVCAA/VCR, so will any associated enrollment funds.  
**Transfer of Units:** As the Offices of Contracts & Grants and Technology Transfer move from VCRMP to SVCAA/VCR, so will any associated overhead funds.  
**Other Options:**  
- Examine alternative pro-rata allocations between the Academic VC’s.  
- Base Academic/Administrative split on something other than ICR component assignment.  
- Consider grandfathering in all current allocations and moving to an incremental funds allocation based on some agreed upon distribution between Academic and Administrative VC units.  
- Review past Budget Committee deductions for more direct funding method. | **No change to current method for 2006/07.**  
**BRWG may evaluate this methodology, along with indirect cost and deferred maintenance in the context of ‘total funding impact’ to campus units and continuing discussion and negotiations at the State level regarding MCI funding methodology.** |
| **A. Enrollment Workload for Student Growth** |                                                                                                                                                    |                                                                                                                                                     |
| **B. Indirect Cost Recovery**              | **Current Method:** Current allocation method gives priority to Garamendi, and Garamendi type arrangements, prior to allocating remaining discretionary funds amongst VC units.  
**The Library’s** allocation is funded at its ‘grandfathered full-rate’ of 3.0 points, or 5.5% of the campus ICR average rate, and entirely from the academic component of the allocation.  
**The Academic Senate** allocation has been fixed since 1995/96 at $900k, while Senate membership is estimated to have increased by 30%.  
- Academic Senate proposes increasing funding from $900k per year, to a total of $2 million per year, with either a permanent increase of $1.1 million in 2006/07, or that increase spread over two years.  
- They further request one-time funding of $500k for 2005/06.  
- Lastly, they request that future funding be based on incremental growth.  
**Transfer of Units:** As the Offices of Contracts & Grants and Technology Transfer move from VCRMP to SVCAA/VCR, so will any associated overhead funds.  
**Other Options:**  
- Examine alternative pro-rata allocations between the Academic VC’s.  
- Base Academic/Administrative split on something other than ICR component assignment.  
- Consider grandfathering in all current allocations and moving to an incremental funds allocation based on some agreed upon distribution between Academic and Administrative VC units.  
- Review past Budget Committee deductions for more direct funding method. | **No change to current method for 2006/07.**  
**BRWG will further evaluate and discuss recommendations for changes to ICR model to be applied 2007/08.**  
**Expected time of completion is three to four months.**  
**Recommend consideration be given for one time support to Academic Senate through other resources.** |
### TOPIC POINTS OF DISCUSSION RECOMMENDATION(S)

#### Allocation

**C. Faculty Recruitment and Retention**
- **Under-Funding:** Allocation from the Office of the President (OP) for Faculty Recruitment and Retention has remained flat at just under $2 million/year. It is minimal relative to ongoing and growing need.
- **Current Methodology:** Seems reasonable.
- **Recommendation:** No change to current method.

**D. Restoration of Undesignated Cuts**
- **Alternatives Suggested:** Retain fund centrally and redirect current year funds to address other campuswide concerns such as ongoing energy budget deficits or deferred maintenance projects.
- **Current Methodology:** Seems reasonable.
- **Recommendation:** No change to current method.

**E. O&MP Workload for New Space**
- **Under Funding:** O&MP permanent budget is under-funded.
  - After the two recent and consecutive years of no funding, permanent O&MP funding for core academic space, or about 60% of what is eligible for State funds, was finally funded in 2005/06.
  - Requested O&MP funding for new space coming on-line in 2006/07 could be at-risk.
- **Monitoring and Outlook:** Closely monitor dates new buildings come on-line to determine minimum funding required. Need longer term plan to maintain service level.
- **Recommendation:** No change to current method.

**F. Price Increase**
- **Allocation Intent:** Funds are to maintain purchasing power of non-salary budgets at present program levels.
- **Current Methodology:** Current allocation method uses “total” budget base rather than ‘non-salary’, giving priority to academic enterprise.
  - Method disadvantages units with large non-salary budgets like the Library & Utilities.
  - Units with non-salary budget deficits gain from current method by receiving both price increase and salary & benefits increases.
  - Method lacks incentive for departments to realign their budgets.
  - Inflationary costs for electricity & natural gas, and library subscriptions are anticipated be to greater than the price increase funds provided.
- **Alternative Suggested:** Redirect allocation to partially offset purchased utilities deficit.
- **Transfer of Units:** As the Offices of Contracts & Grants and Technology Transfer move from VCRMP to SVCAA/VCR, so will any associated price increase funds.
- **Recommendation:** No change to current method.
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| G. Information Systems                     | • **Monitoring and Outlook:** Ongoing maintenance fees for current systems are approximately $1 million. Need to continue annual updates and plan service/capacity needs beyond 2007/08.  
  • **Current Methodology:** Seems reasonable.                                                                                                           | • Method seems reasonable with assessment level amount set at the minimum funding required. |
| H. Next Generation Network                 | • **Monitoring and Outlook:** Annual update of NGN2 funding plan relative to actual costs to minimize VC assessments. Phase-out VC assessments by end of NGN2 or sooner.  
  • **Current Methodology:** Seems reasonable.  
  • **Alternative Suggested:** Consider reviewing campus contributions to offset ICR allocation in future years.                                                      | • Method seems reasonable with assessment level amount set at the minimum funding required. |
| I. Early Childhood Education Center (ECEC)  | • **Monitoring and Outlook:** Campus day care needs are growing as supported by ECEC’s ongoing waiting list of 270 children and campus student, faculty, and staff growth.  
  - ECEC is projecting an operating deficit in 2006/07 of $243k due primarily to increased staff requirements, inflationary costs, and limited ability to raise tuition rates.  
  - ECEC is proposing a tuition increase, above the typical 5% increase but not to exceed 10%, to help partially offset this projected deficits. Intent is to manage over few years.  
  - Tuition rates are approaching levels that prohibit middle-income parents from participating.  
  - Tuition increases do not impact currently subsidized families.  
  - The campus is working on a longer term plan to address day care needs.  
  - Consider expanding capacity need for UCSD-affiliated families by eliminating services for the non-affiliated.  
  - Student Affairs expressed the need to change their share of the assessment based on proportional utilization of the facility as soon as possible as their current share is several times their actual utilization.  
  • **Current Methodology:** Seems reasonable for 2006/07.                                                                                                    | • No change to current method.  
  • Re-evaluate assessment amount and method as part of the overall campus plan for day care needs.                                                        |
# UNIVERSITY OF CALIFORNIA, SAN DIEGO
## Budget Review Work Group Summary

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| J. Liability Insurance Programs | • **Improved Experience:** In recent years, overall program costs have decreased so campus has decreased the payroll assessment rate. Funds required from prior permanent VC assessment have decreased, consequently, VCs has been reimbursed for fund balances.  
• **Current Methodology:** Assessment methods seem reasonable, as does annual reimbursement of VC fund balances. | • No change to current methods. |
| K. Capital Campaign | • **Funding Plan Deficit:** Based on prior years’ expenditure rates and other related factors, no additional funding sources are being identified at this time.  
• **Monitoring and Outlook:** During 2006/07, the final year of the campaign, outlook for steady state need and plans for future campaigns will be reviewed. | • No change to current method.  
• Re-evaluate steady state funding requirements once needs for the next campaign are assessed. |
| L. Energy Budget Deficit | • **Funding Options:** The 2005/06 deficit is estimated at $5.8 million. Alternatives include:  
  - Re-evaluate current method - distribute the net deficit to VC units based upon: first, allocating a share of budget available based on average funding levels received (by ASF); second, allocate the estimated actual cost based on ASF factored for space type.  
  - Similar to 2002/03, consider redirecting 2006/07 campus Price Increase and Restoration of Undesignated Cuts funding centrally to support the PU budget.  
  - Possible one-time assistance from Campuswide for 2006/07.  
  - Aggressively pursue funding initiative from the State. | • No change to current method.  
• Continue to work with OP to raise level of awareness and importance of fully funding O&MP for new space.  
• Consider comprehensive long-term plan for O&MP, deferred maintenance and purchased utilities. |
| **Other Considerations** | | |
| A. Deferred Maintenance | • **Lack of Ongoing Funding:** The campus does not have an ongoing budget for Deferred Maintenance. No State or University funding has been provided since 2001/02.  
  - Situation is worsened by the under-funding of O&MP budget and lack of funding of new Research space coming on-line.  
  - Growing backlog currently estimated at a conservative $245 million.  
• **Possible Alternatives:** Consider establishing a modest campus ongoing budget to be supplemented if and when State or University funds are provided. Need longer term plan to address ongoing and growing need as facilities age. | • Consider some level of campus ongoing support for 2007/08.  
• Consider comprehensive long-term plan for O&MP, deferred maintenance and purchased utilities.  
• BRWG to consider funding options for most critical deferred maintenance issues. |