BUDGET REVIEW WORK GROUP
FINAL REPORT

April 26, 2012
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I. EXECUTIVE SUMMARY

In the last four years, the university has experienced the most severe divestment by the State of California. At the same time, the university has had the need to restart contributions to the retirement program. Adding to these budgetary challenges, the university is implementing the President’s Funding Streams Initiative (FSI) which effectively changes how campuses are resourced by the Office of the President (OP).

In light of these significant changes and ongoing fiscal uncertainty, Chancellor Fox requested that a campus work group be appointed and serve in an advisory role to her in preparation for the 2012/13 budget planning process. In October 2011, this campus Budget Review Work Group (BRWG) was charged with reviewing the current budget process, allocation policies and practices, assessing impacts of the FSI and making recommendations that maximize resource flexibility and accountability for the campus.

Over a period of six months, the workgroup reviewed existing processes and allocation methodologies that drive the annual allocation of core funds, reviewed guiding principles, discussed allocation issues and debated alternative models. In general, the BRWG reaffirmed the budget allocations process guiding principles and reiterated the importance of a flexible and predictable allocation model that effectively facilitates the Vice Chancellors’ (VCs) own annual budget planning processes.

As reflected in the broad BRWG membership, each VC area was represented, as were faculty and students. Members were to communicate with their respective areas and share their constituency’s ideas, concerns and suggestions. The next section summarizes the BRWG’s recommendations. Unless otherwise noted, proposed changes are to be effective in the 2012/13 budget year.

Budget Allocations and Process

The following are the BRWG’s recommendations for a new budget allocations model and the budget planning process:

- Incentivize VC units to generate additional revenues by allocating a larger proportion of revenues they generate in support of their activity.
- Leverage campus flexibility in the use of Core funds by treating all Core funds as one common pool of campus funds to be used first and foremost for ‘mandatory costs’ on existing programs. Funds are then provided for workload growth and strategic investments.
- Decentralize the general-funded compensation program, including existing central budget for employee benefits, such that existing department budgets better reflect size of operation and better align budget with actual costs incurred.
- Recommend that the Student Service Fee (SSF) be treated as a non-core fund, or a campus based fee, and provided to VC Student Affairs to directly support Student Services programs.
- Propose that a standing Strategic Planning and Budget Council (SPBC) be appointed to serve as a financial and policy advisory body to the campus Budget Committee.
Recommend that the new allocation model and process be re-evaluated after a 2-3 year period, via the SPBC work, to assess impact of these proposed changes, among other expected changes not addressed in this report, i.e. Re-benching, UCPath, HRIS, etc.

Funding Streams Initiative

Effective July 1, 2011, the OP implemented a series of comprehensive changes in the way funds flow within the University and in the way the OP central administrations and other UC-wide programs are funded. These changes were made via the implementation of the OP Funding Streams Initiative (FSI). Two major components associated with the FSI which promote transparency and incentivizes campuses to maximize revenues are:

- All campus-generated funds will be retained by the source campus.
- OP will issue an assessment to the campuses to replace this funding to support the OP budget.

As part of this implementation, the campus is proceeding with decoupling the “bundled” General Fund (GF) into their original fund sources. This will clarify fund flows and improve the ability to track revenue source and use of funds across the campus.

The following are BRWG’s recommendations associated with the FSI process:

- The VC Distribution of the OP assessment be based on the expenditure distributions from all fund sources, similar to the methodology used by OP in developing their assessment to campuses.
- The VC Units will manage their overall share of the OP Assessment as determined each year in the annual budget process.
- The campus will provide Core funds to VC Units to cover the OP assessment cost related to core funded expenses, inclusive of research programs.
II. INTRODUCTION AND REPORT ORGANIZATION

Since the last budget review workgroup in 2006/07, much has changed in the financial context of the university. One of the most significant and largest of which is the state’s divestment and deep reduction in state funding to the university in the past four years, 2008/09 – 2011/12. This is compounded by the university’s need to restart contributions to its retirement program. Adding to these budgetary changes, the campus must also implement local changes in response to the President’s Funding Streams Initiative (FSI) which changes how campuses are resourced by the Office of the President (OP), and went into effect this 2011/12 fiscal year. The FSI stipulates that all campus-generated funds currently retained by the OP, to cover the costs associated with central administration and various systemwide initiatives, will be returned to the source campus. In turn, the OP will establish a broad-based assessment on campus resources that will provide funding for OP central operations. Consequently, the campus will see large budgetary shifts in its fund sources. This new funding model went into effect July 1, 2011 as described in President Yudof’s letter to Chancellors dated September 12, 2011 and provided at end of this report Appendix A.

In light of these significant changes, Chancellor Fox requested that a campus work group be established and serve in an advisory role to the 2012/13 budget planning process. In October 2011, this campus Budget Review Work Group (BRWG) was charged with reviewing current budget process including guiding principles, allocation policies and practices, assessing impacts of Funding Streams and making subsequent recommendations for change.

More specifically, the charge of the BRWG was to:

- Review current Budget Process and allocation policies, with goal of:
  - Enhancing budget transparency and
  - Better aligning incentives and accountability
- Review and recommend alternate allocation model, specifically for major funding components:
  - Indirect Cost Recovery – Research and ASSA
  - Enrollment Funds – Student Instruction workload
  - Compensation Program
- Assess and Implement Funding Streams Initiative, including:
  - Assess impact, and consider options for adjustments to budgets and allocations
  - Develop and recommend options for distribution of annual OP Assessment across UCSD’s broad funds base.

The workgroup, which met for six months, was co-chaired by Assistant Vice Chancellor Debbie McGraw and Assistant Vice Chancellor Sylvia Lepe-Askari. To support the effort of the BRWG, two subgroups were created that focused on technical elements of the work group’s charge: (1) Research Indirect Cost Recovery with focus on reviewing existing allocation policies and practices, and (2) Decoupling of General Funds, as a component of the Funding Streams Initiative, with its focus on reviewing the intent of the OP Funding Streams and recommending options for an equitable approach to decouple General Funds into the actual fund sources that were comingled to establish the 19900 General Funds.
This report is intended to provide detail to those areas of review to include a summary description and/or focus of the review, key discussion of issues or concerns raised, any alternatives considered, and the work group recommendations.

III. CAMPUS BUDGET PLANNING PROCESS

The current campus Executive Budget Committee advises the Chancellor on the annual allocation of ‘Core’ funds. This is accomplished through the annual budget process which includes an annual overview of the campus budgetary and financial position, and general outlook of VC units and various campus programs. New initiatives or topics with significant financial impact may also be brought to the Committee. Some examples have included: fundraising campaign, instructional technology, next generation network, research cyber-infrastructure and deferred maintenance, among others. Below is an outline of the current budget process.

Current Budget Process

- **Executive Budget Committee (EBC)** advises the Chancellor on the annual allocation of “Core funds”. Its membership includes: Chancellor, Executive Vice Chancellor, Vice Chancellors, Chair & Vice-Chair of Academic Senate, three general faculty senate representatives, a graduate and an undergraduate student and a staff member.

- **Budget Allocation Guiding Principles**
  - Priority funding is given to academic programs, and support is provided to administrative functions to effectively manage the enterprise.
  - Vice Chancellors are delegated maximum flexibility in resource allocation decisions for their units, along with the accountability to follow all applicable policies.
  - Allocation methodologies should:
    - Be clear, logical and consistent to facilitate long-term planning.
    - Provide for permanent strategic solutions to permanent problems, whenever possible.
    - Mitigate significant resource fluctuations and be cautious of unintended consequences.
    - Consider performance incentives and accountability, where appropriate.
  - The budget review process should be open and resulting resource allocations, transparent.
  - Every effort should be made to reach allocation decisions by consensus.

- **Budget Process and Allocations**
  - Annual budget decisions focused on allocation of net new ‘Core funds’ income available for allocation to VCs to address growth in instruction or research related activity.
  - Allocations made at the highest level of the organization, at the Vice Chancellors level.
  - Allocations are based on agreed-upon standard methodologies, by major component, which are intended to provide funding based on where cost is incurred.
  - Comprises of regular consultation with VC Financial Officers, campus leadership and other ad hoc groups.
  - Special program reviews, initiatives and/or priority requests may be put forward for special funding consideration. As noted above, some examples might include, a campus fundraising campaign, funding for deferred maintenance, etc.

- **Core Funds Sources & Uses**
  - Sources – The fund sources included in the annual process are those sources that are for general support and most flexible fund sources at Leadership’s discretion for allocation to
core instruction and research mission (both direct and indirect program needs). These sources include:

- State and UC General Funds
- Mandatory System-wide Student Tuition and Fee Funds
- Research Indirect Cost Recovery Funds
- Auxiliary & Self Supporting Activity - Administrative and Differential Overhead Cost Recovery Funds

- Uses – major cost drivers:
  - Compensation, mandatory personnel fixed costs
  - Instructional Program growth
  - Research Support
  - Campus Infrastructure Support

• Incentives and Transparency
  - Campus incentives are in place now and flow the majority of instructional funds to the academic VC where instruction is conducted, and research support funds to the VCs on the basis of research growth.
  - Net new available sources of Core funds are in annual allocations package along with all proposed uses; using campus approved and agreed-upon allocation methodologies.
  - Options for budget reductions and funding new initiatives are vetted.

Key Discussion

In the current budgetary climate of declining state support; coupled with FSI changes, retirement contributions and the need to address infrastructure costs related to a maturing campus, the BRWG identified some opportunities for creating a more deliberate and strategic budget process. The BRWG agreed to the following objectives:

- Expand resource incentives to the academic enterprise by allocating a larger proportion of growth funds related to instruction and research, thereby reinvesting in core academic mission as well as in strategic areas of strength and with higher revenue-producing potential.
- Improve planning and collaborative decision making processes by better informing annual process through which the campus reviews and aligns its expenditures and investments with the campus’ highest priorities and academic strengths.
- Provide campus flexibility for a structured call process to a ‘pool of funds’ for investments - that help address severely underfunded infrastructure needs and revenue generating endeavors like Development, Facilities Maintenance and Deferred Maintenance, new business development endeavors, etc.

Recommendations

- In general, the BRWG reaffirmed the guiding principles that drive the budget allocations process and reiterated the importance of a flexible and predictable allocation model that more effectively facilitates VC planning.
- The BRWG recommends increased academic incentives by allocating a larger proportion of growth revenue each VC generates.
• The annual budget planning process should begin in January, in parallel with the Governor’s proposed budget and with the goal of issuing annual resource allocations in June. This will ensure the most informed result based on the State and University’s budget actions. This timeline will be modified for 2012/13 given that we are already mid-way through process.
• The BRWG recommends a new advisory group, the Strategic Planning and Budget Council, advise the Executive Budget Committee and the Chancellor on resource allocation decisions.

Below is an outline of the proposed objectives and responsibilities of the advisory panels:

**Strategic Planning & Budget Council (SPBC)**
- **Objective:** Review financial activity of the campus; make recommendations on resource allocations to the Executive Budget Committee.
- **Membership:** AVC Campus Budget Office (Co-chair), Financial Officers (rotating co-chair from Academic Financial Officers), Chair and Vice Chair of Planning and Budget Committee of the Academic Senate, Graduate Student (GSA VP-Finance, or designee), Undergraduate Student (AS VP-Finance & Resources, or designee).
- **Responsibilities:** Specifically, the Council shall:
  - Serve as counsel to the Executive Budget Committee.
  - Review financial activity of the campus.
  - Recommend focused areas for investment opportunities, financial reviews, efficiency and/or risk reviews of business processes, etc.
  - Recommend resource allocation priorities to include operating spending, capital projects, strategic investments, etc.
  - Review funding requests submitted via annual “Budget Call” process.
  - Submit summary of assessments and recommendations to the Executive Budget Committee.
- **Timeline:**
  - January - May. SPBC meetings held. Focus on campus’ financial activity to include specific units’ or programs’ multi-year financial review, budget planning assumptions, new campus investment opportunities or other priorities, and requests submitted via budget call.
  - May. Review draft Resource Allocations.
  - June – December. SPBC meetings held as needed to address campus resource issues.

**Executive Budget Committee**
- **Objective:** Advise the Chancellor on allocation of resources consistent with Leadership’s academic vision and strategic goals.
- **Membership:** Chancellor (Chair), Executive Vice Chancellor, Vice Chancellors, Chair Academic Senate, Vice-Chair Academic Senate, Co-chairs Strategic Planning & Budget Council (SPBC), President Associated Students, President Graduate Student Association.
- **Role:** Specifically, the committee will:
  - Review the campus’ overall financial health, with focus on new investment opportunities consistent with Leadership’s academic vision and strategic direction.
  - Review VC unit financial activity and affect on operations.
  - Advice on recommendations brought forth by the SPBC.
- **Timeline:**
  - January. A Strategic Planning and Budget Conference will focus on campus’ strategic objectives, campus financial activity, budget and capital outlook, and campus opportunities to include development and investment objectives. This meeting begins the budget
planning process for the next fiscal year and includes members from the Budget Committee and the Strategic Planning & Budget Council.

- April - May. Executive Budget Committee meetings; approximately six, with focus on Campus strategic planning and budgeting, VC financial and budget overviews.
- June. Review and make recommendations on proposed resource allocations.

### 2013/14 Budget Process Timeline

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<th>Year</th>
<th>January</th>
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#### Strategic Planning and Budget Council Meetings
- Review, with recommendations forwarded to EBC:
  - Campus Financial Activity to include specific units' or programs
  - 2013/14 Budget Planning Assumptions
  - New campus investment opportunities or other priorities
  - Budget Call Requests

#### Executive Budget Committee Meetings
- Review:
  - Campus’ overall financial health
  - Focus on new investment opportunities; campus risk
  - Review VC unit financial activity, effect on operations
  - Recommendations of SPBC

### IV. CORE FUNDS ALLOCATION FRAMEWORK

#### A. Major Allocation Components

The workgroup reviewed the major allocation components of Core funds included in the annual campus budget process. This includes the annual compensation program, student instruction, and research support. The primary sources used to fund these components include income from the Tuition and Fees, Indirect Cost Recovery funds, and State General Funds (GF). While the General Funds support received from the State is included in the review, in the last four years, the State has not provided funding for UC mandatory cost increases. In addition, the State has substantially reduced the UC base budgets. The income from the campus overhead Assessment of Auxiliary and other Self-Supporting Activities (ASSA) is another core resource but was not reviewed by the workgroup. The ASSA process was developed recently by another similar workgroup, thus it was excluded from the BRWG review.

The Core funds are used to support the campus ‘core’ programs: instructional enterprise, research support, compensation program, institutional support, operational and maintenance of facilities and other related campus priorities. Major components of allocations process are discussed below.
1. General Funded Compensation Program

**Current Methodology:** The General Fund Compensation Program includes salary increases as well as total employee benefits and retirement contributions cost. The program has been managed centrally by the Campus Budget Office with funding provided primarily by the State and other UC general funds, and more recently with tuition and fee income.

Employee salary budgets for academics and staff are budgeted at the department level; however, there is no corresponding benefits budget as it is currently budgeted in centrally managed accounts (similar to utilities budget). As department budgets incur benefit costs, central benefits accounts fully fund the cost automatically.

Base salary savings generated by employee turnover are available to the VC units. Benefits savings generated in one department help offset cost increases in others. Benefits are funded for all employees regardless of whether position is budgeted or not, thus some departments benefit from temporary or causal employee appointments. Because of the variability of cost month over month, employee to employee, and lack of departmental ability to control this cost (again, similar to utilities consumption) there is campus value in managing this source at the campus level.

**Key Discussion:** A BRWG subgroup reviewing aspects of the OP Funding Streams Initiative (FSI) implementation and the de-coupling of the General Funds, reviewed the current administration of the general funds Employee Benefits Program budget. The FSI de-coupling of the General funds has the immediate effect of removing those budgets from participation in the central employee benefits pool. The impact is significant as over 90% of the current permanent general funds budgeted in VC units is budgeted for salary.

Four options were considered in response to whether the campus should continue to centrally manage the Employee Benefits budget:

- **Current Model:** Add new funds (19933/19941/20095) for reimbursement from the benefits pool.
- **Expand current model to all core funds:** transfer funds into the benefits budget, and in relation to salary budgets.
- **Partially Decentralize:** Transfer some portion of the benefits pool with exchanged budgets.
- **Decentralize:** Transfer the entire benefits pool and shift funding responsibility to departments.

The last two decentralization options are inclusive of a methodology that requires (1) the need to determine the level of funding to transfer initially and (2) how to resource these needs going forward.

Some pros and cons of decentralizing the central benefits pool:

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<th>Cons</th>
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<td>Consistent with the way departments currently manage benefits costs on all other fund sources.</td>
<td>Additional and immediate workload for each department and VC unit.</td>
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<tr>
<td>Increases incentive for improved charging of personnel costs to where effort is allocated.</td>
<td>Departments would assume the risk for any excess costs.</td>
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Increases the transparency of how all resources are budgeted and expended

May disproportionately impact smaller units and administrative units with higher inflationary benefit rates and less budget flexibility.

Removes current incentives for manipulating the system in order to benefit from the central pool.

Shifts a possible source of funding for campuswide investments that is now available to the Chancellor.

Eliminates need for non-budgeted benefits calculation and recovery.

Shifts potential annual savings to departments.

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It should be noted that the central benefits pool was funded, in part, by permanent staff and ladder-rank faculty (LRF) positions that are currently unfilled. However, there is not enough funding available in the pool to return to units to support the historical contributions made by these now vacant positions. A good proportion of those vacant positions are filled with temporary Lecturers, TAs, casual appointments and other personnel for whom benefits are funded centrally. However, it is reasonable to believe that some proportion of the existing LRF vacancies will be filled at a later date. This is a concern to the Academic areas given their plans to grow faculty numbers over the next few years.

**Recommendations:** The consensus of the BRWG is to decentralize the central benefits pool beginning in 2012/13 on the following basis:

- Increase transparency of how all resources are budgeted and expended; not apparent with the current decentralized benefits pool.
- Provide consistency in funding and managing all benefit costs.
- Increase incentives for improving the alignment of personnel efforts and costs.

It is also recommended that benefit costs on some reasonable level of existing LRF vacancies, for which related salary is not currently reflected in payroll costs (i.e. Lecturers, TAs), be funded as part of the future Compensation Inflationary block allocations. The existing central benefits pool budget will be distributed based on year-end projected actual costs for the 2011/12 year.

It is further recommended that annual mandatory compensation cost increases, both salary and benefit costs, on all Core funds be funded from additional Core funds available and distributed as a block of funds to each VC to manage. This will incentivize better cost controls, more prudent spending and management of personnel budgets within resources provided.

### 2. Student Instruction: State General, Tuition and Fee Funds

The instructional enterprise is funded by two major sources of revenues, State General Funds and income from Tuition and Fee income generated by student enrollment. The educational spending related to instruction includes direct instruction and instructional related costs, academic support, institutional support, and student services. The sources of Tuition and Fee funds include income from the mandatory Tuition (Tuition) and Student Services Fee (SS Fee) established by The UC Regents and paid by all enrolled UC matriculated students. It also includes Non-resident Supplemental Tuition (NRST) and Professional Degree Supplemental Tuition (PDST) funds.

**Current Methodology:** There are currently two separate allocation models for allocation of enrollment funding. For many years, the campus has allocated enrollment funds based on the agreed-upon
Enrollment Workload Allocation Model (EWAM) focused primarily on resident student enrollment. Beginning with 2010/11, we began a multi-year enrollment growth of Non-resident students, thus subsequently developed a different allocation model for the distribution of enrollment funds associated with the growth of NR students to partially recognize the need for added infrastructure in recruiting and servicing non-resident domestic and international students.

- **EWAM – Funding derived from growth of Resident Students.**
  - Sources of funding include:
    - State-supported Marginal Cost of Instruction (MCI) per student
    - Student Tuition and SS Fee income, net of financial aid
    - Summer Fee income \(^1\), net of financial aid
  - The EWAM allocation methodology is reflected in Appendix B and is based on estimates of general per student instructional and related institutional costs.
  - Combine the State General Funds (GF) allocation with the additional income from Tuition and Fees\(^2\) generated from enrollment growth, net of student financial aid.
  - Allocate 15% to Campus Reserves for Chancellor’s investment priorities.
  - Allocate 70% of the remaining funds for instructional workload to Academic Affairs, and 30% for institutional support to other Vice Chancellors impacted by student enrollment growth. Distribution of the 30% is as follows:
    1) The highest priority is given to Student Affairs as this unit is more directly impacted by student growth. For each additional student, Student Affairs receives a funding average based on the prior three-years\(^3\).
    2) The remaining funds are distributed on a pro-rata basis to other VC units based on shares of their core permanent budget base, exclusive of Student Affairs.\(^4\)

- **Funding Distribution – Income Derived from Growth of Non-resident (NR) Students.**
  - The State does not provide funding support for nonresident (NR) students’ instruction; therefore, NR students pay NRST in addition to Tuition and SS Fee.
  - The **NRST level is well above the State-funded MCI level thus enable the campuses to self-fund** the educational costs associated with providing the instructions to NR students, as well as to support the under-funded State instructional program. There is no required financial aid set aside, thus 100% of NRT income can be used towards campus operational expenses.
  - Compared to what was the “state-funded” MCI level of approximately $10k per resident undergraduate student, NRST levels are currently almost $23k for undergraduate students, just over $15k for graduate students and $12k for professional students.
  - The current distribution model for NR enrollment funds is reflected in Appendix B.
    - Combine NRST, Tuition\(^5\) and Student Services Fee\(^6\) generated from NR enrollment growth.
    - The following reflects the distribution based on the agreed upon priorities:
      1) 68% of the total Tuition and NRST is provided to Academic Affairs.
      2) Of the remaining, an agreed-upon amount to Student Affairs to support their efforts in the recruitment and retention of NR domestic and international students.

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1 Summer Fee income related to state-supported students only. This income is equivalent to Tuition and Student Services Fee charges during the regular academic year.
2 Tuition income includes Tuition (Educational Fee) and Student Services Fee (Registration Fee).
3 Three-year average funding includes General Funds and Student Services Fee.
4 The pro-rata is based on the core permanent base budget. The core permanent base budget includes General, Opportunity, Off-the-Top, Educational funds and Professional Degree Fee and Summer Fee funds. The pro-rata excludes Student Financial Aid and O&M.
5 Tuition and student services fees are net of student financial aid.
3) Approximately $1,150 per student for O&MP, based on MCI methodology (11.5% of $10k).
4) Approximately 5% of total NRST is set aside for the campus Inflationary Block Funds (I-Block) to help support annual mandatory cost increases.
5) Allocate remaining income to VC units based on the last 3-year average share of resident enrollment funds via the EWAM model, exclusive of Academic Affairs.

**Key Discussion:** The BRWG discussed an allocation model that is simplified and does not differentiate the instructional costs associated with resident and NR students. The following are items included in the review and discussion:

- Consider the campus actual per-student spending relative to a calculated Average Educational Spending per reasonable methodology, and compare to the per-student funding now provided by way of the current Enrollment workload funding methodology, by major spending categories.
- Increase the investments for graduate student support addressing concerns regarding graduate student recruitment, impact on teaching and research quality, etc.
- Consider allocating a portion of instructional funds for instructional related capital needs, including building and equipment replacement.
- Consider setting aside a higher level of support from instructional funds for mandatory compensation cost increases.
- Provide adequate funding for administrative institutional functions including campus infrastructure.

**Recommendations:** The BRWG endorsed the following recommendations for changing how Student Instruction funds are allocated:

- Core funds, including State General, Tuition and Fee funds, are first pooled and allocated within one funding model.
- Recommend the removal of Student Services Fee out of the Core funds, and treat it as a self-supporting campus based fee given UC policy intended use of this fee income. Allow funds to pass through to VC Student Affairs in support of direct and indirect costs associated with Student Services Programs.
- Available funding is used to first pay for mandatory costs which include compensation cost increases on core funded personnel, OP Funding Streams Assessment on core funds, and any State budget reductions.
- The Net Tuition and Fee funds generated are split 70%/30% with 70% allocated to the Academic VC where the activity takes place and incurs the instructional workload. This level of funding provides a larger proportion of revenues to the Academic VC, thus providing more on a per student basis than the current allocation model. This is consistent with priority of increasing faculty recruitments and related support costs. The remaining 30% is proposed for support of Non-Academic needs as follows:
  - VC/Student Affairs to receive approximately 6% of this net instructional income to support Core budgets most directly impacted by campus enrollment plans.
  - The Administrative VCs will receive a 5% budget adjustment to their non-compensation core permanent budget to provide some support for workload impacts from program growth.
  - The remaining funds will be available to fund other non-academic needs as part of an annual budget call process with priority in funding campus facilities infrastructure and other campus investment opportunities.
3. Research Support, Indirect Cost Recovery (ICR)
Research support across the campus is funded partially from Indirect Cost Recovery Funds (ICR). The current campus ICR allocation methodology includes overhead recovery from Federal, Private and Local recovery generated by the campus.

**Current Methodology:** Major components of the current allocation model include:

- **Off-the-top adjustments:**
  - The current allocation model gives priority to Garamendi and Campus arrangements, determined to be investments in the long term interest of the campus, prior to allocating remaining discretionary funds amongst VC units.
  - Utility costs are funded at 6.9% of the ICR funding available (based on 3.8 points of the current 54.5% negotiated ICR rate).

- **UCSD Allocation to Campus Units:** Campus distribution of funds is split 60%/40% to Academic/Administrative VC units.
  - The Academic share (60% net recovery) allocates 5.3% to libraries, 3% to Academic Senate, and the remaining share is allocated to VC units based on a two-year average of gross recovery, less the “off-top-adjustments” for Garamendi and Campus Arrangements.
  - The Administrative share (40% of net recovery) allocates 8% to Campus Reserve with remaining funds allocated to VC units on the relative share of the prior year’s Core Funds budget, exclusive of Purchased Utilities.

**Key Discussion:** The workgroup’s efforts at revising the current allocation model focused on an incentive based model that addressed the objectives of increasing transparency and reducing complexity. Several key points were developed that were used to recognize the intent of how ICR is generated and how that intent should be recognized in changing the allocation model.

- ICR model should be transparent, simple, and strategic and should incentivize growth in the research enterprise.
- ICR funding is generated for facility and administrative costs of the research enterprise and the campus as a whole, including the growing cost of facility operations, maintenance, renewal, and deferred maintenance. The cost of replacing retiring faculty with significant research funding, and incentivizing faculty to seek additional research grants, will need attention and investment over the next five to ten years.
- Garamendi facilities allocations have been an enabler for expanding campus research capacity and pursuing new and innovative research programs. However, the use of Garamendi “off-the-top” allocations in the current model, with capital projects already approved and moving forward will substantially change the allocation and availability of ICR funds in time.
- Still, costs typically associated with Garamendi buildings (debt, OMP, utilities) are a mandatory cost that should be recognized and funded.
- There is concern that the current model may provide more funding than necessary to administrative and institutional support areas (by use of the current “60-40” split of available funding rather than by a more robust examination of essential functions for these areas and a factor for growth and/or mandatory cost increases). Still, growth in research does impact these areas, most specifically in utilities and OMP due to the intensity of energy consumption and complexity of maintaining space.
Recommendations: After much discussion with the ICR subgroup appointed by the BRWG and the larger workgroup, the following reflects the BRWG’s recommendations for changes to the current allocation of ICR funds:

- Core funds, including ICR, are first pooled and allocated within one funding model.
- Available Core funds are first used to fund anticipated mandatory costs which include compensation cost increases on core funded personnel, OP Funding Streams Assessment on core funds, and any State budget reduction.
- Net ICR funds are allocated to Academic VC where the research activity takes place, first and foremost to provide for Garamendi costs. After Garamendi costs are funded by each Vice Chancellor, funds are allocated 75%/25% with 75% reallocated to the Academic VC and 25% to Non-Academic units. This allocation of funds allocates a larger proportion of additional ICR funds to Academic VC relative to the current 60%/40% distribution.
- Increasing to 75%/25% aligns with the BRWG’s objective to expand academic incentives by allocating a larger proportion of growth funds, thereby reinvesting in academic areas with higher potential to generate additional revenues.
  - Consistent with prior practice of providing support to the senate and libraries, of the Academic share, 4.2% is allocated to libraries and 2.4% is allocated to the Academic Senate (same allocation value as current model). Remaining share of ICR funds are apportioned to academic units based on research recovery income each generated.
- Of the 25% share to Non-academics (less Student Affairs), a 5% budget adjustment is provided to non-compensation core permanent budgets to provide some support for workload impacts from program growth. The remaining funds will be available to fund other non-academic needs as part of an annual budget call process with priority in funding campus facilities infrastructure and other campus investment opportunities.

B. Allocations Model

Current Allocations Model: The current allocations model provides the campus with increased core funding as available within the context of existing total funds. The major components of the current model described above in Section A are reflected in the campus funds flow visual presented on the following page.
Key Discussions: There was extensive discussion and consideration of varying allocation models. All with the objective of increasing academic incentives as well as including a ‘budget call’ process to identify, assess and fund high priority needs and new strategic investments. The following provides highlights of some key group discussions.

• Primary Elements of Allocation Methodology:
  o Address mandatory costs before allocating new resources to the campus. Mandatory costs include compensation cost increases, any further state budget reductions and the OP Assessment. Utility and some level of OM&P costs were discussed as an option but not included in final model being recommended.
  o Incentive revenue generators should be reinvested into academic programs as well as used to generate additional revenues. Allocation amounts recognize historical funding levels.
  o Research ICR should be allocated to appropriately fund Garamendi and like costs within the academic areas where cost is borne.
  o Provide some level of growth funding to Non-academic units to support program growth impacts. Because Student Affairs is more directly impacted by student enrollment than Administrative areas, maintain a higher level of funding from instructional allocations.
  o Create a more structured and transparent process in funding campus priorities and/or new investment opportunities. Process should address justifying need (ROI for investments), unit’s own ability to fund, and accountability of how resources will be spent.
  o Allocations informed by all-funds review of campus to identify funding/service gaps, areas subject to risk increases, potential business process improvement, etc.

Recommendation: As described in Section A - Major Component Allocations, the BRWG’s recommended allocation model attempts to increase academic VC incentives by allocating a larger proportion of new revenues to generating VC, and leverages campus flexibility in the use of Core funds by pooling funds for purpose of funding ‘mandatory costs’ on core budget first, then providing for...
workload growth and strategic investments. The model also recommends treating the Student Services Fee as non-core fund, thus recognizing it as a self-supporting campus based fee, and provide to VC Student Affairs to directly support Student Services programs.

The major components of the proposed model as described in Section A are reflected in the campus funds flow visual below. This visual is also provided at the end of this report in its original full size.

Funds flow through recommended methodology:

- All core funds available would be pooled and made available for allocation. This gives campus greatest flexibility in paying mandatory costs and perhaps growth related expenses.
- Mandatory ‘needs’ would first be funded in order of the available following resources:
  - Student Tuition/Fee increase revenue (or State funding from a fee buyout); and
  - Pro-rata share of available core funding.
- Block Allocation is funded on the following methodology using available resources after funding mandatory costs with the intent that Academics self-address their highest priorities from block of
funds provided and that campus address highest campus administrative/infrastructure priorities from
the non-academic block of funds.
  o Auxiliary and Self-Supporting Activity (ASSA) overhead recovery is directly allocated to
    Administrative units.
  o Research ICR: Available ICR is aligned with generating unit, with an allocation made for the
    additional costs associated with Garamendi (or “like” arrangements). 75% is allocated to
    generating unit to be reinvested into research programs.
  o Tuition/Fee Revenue from Enrollment Growth: 70% is allocated to generating Academic Units
    and 10% to Student Affairs to support growth.
  o Of available funding, a 5% budget adjustment is made to non-academic units (excluding Student
    Affairs).
  o Any remaining funding is available for strategic investments and priorities and should be
    determined through a “call process”.

• **“Budget Call”**: It is expected that the majority of programs and initiatives would be funded from
  VC allocated funds; however, the budget process will include a “call” provision for funding requests
  that are of significant importance to the campus and which exceed the capacity of a VC to cover
  such as infrastructure costs or investment opportunities. Requests will be vetted and deliberated
  among the SPBC prior to submitting recommendations to the Executive Budget Committee.
  Discussions and recommendations of this advisory group to include:
  o Prioritized list and justification *(ROI, Cost/Benefit)* of initiatives submitted via the call
  o Funding levels with schedule of funding outlays
  o Specified funding sources (available from growth, ICR, and other VC and campus resources)

**Further Review**: The allocation model should be reviewed after 2-3 years, with a new Chancellor and
after retirement contributions stabilize, UCPath is implemented, and after agreements on OP re-benching
and potential state compact is reached.

### V. FUNDING STREAMS INITIATIVE

The President’s Funding Streams Initiative (FSI) changes how campuses are resourced by the Office of
the President (OP) and was effective this past July 1, 2011. The FSI stipulates that all campus-generated
funds currently retained by the OP, to cover the costs associated with central administration and various
systemwide initiatives, will be returned to the source campus. In turn, the OP will establish a broad-
based assessment on campus resources that will provide funding for UC central operations. This new
funding model is described in President Yudof’s letter to Chancellors included at the end of this report
Appendix A.

This initiative realigns the way funds flow within the University and the way the OP and systemwide
programs are funded. Historically, the OP central operations and systemwide programs\(^7\) budget was
primarily funded with a variety of funds retained from campus Core Funds\(^7\) and Common Fund

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\(^7\) The OP budget includes Administration, UC Programs, MRUs, ANR, and other UC wide initiatives such as UCPath. It excludes
directly recharged services for Benefits Administration, Asset Management, Risk Management, etc.

\(^8\) Core Funds consist primarily of State General Funds, other State Appropriations, Indirect Cost Recovery / Overhead Funds,
systemwide mandatory Student Fees, and other misc UC General Funds.
assessments on Medical Center, Auxiliary, & Health Sciences Compensation Plan (HSCP) expenditures. More specifically under FSI:

- The source campus retains all revenue it generates, and all former Common Fund assessments by OP are eliminated. Funds will no longer flow to OP for subsequent redistribution.
- The OP central operations and various systemwide programs are now funded through a broad-based flat assessment charged to each campus, which began this 2011/12 fiscal year. This OP Assessment is calculated as a percentage of over-all campus expenditures.

FSI was originally intended to be financially neutral in year one of its implementation; it is not. The final FSI calculations include a “non-neutrality” provision to recognize that the funds returned to the campuses are less than the cost of the new assessment.

A. OP Assessment

**OP Assessment Funding for 2011/12:** The first year of the FSI implementation is 2011/12. San Diego’s share of the OP Assessment is the equivalent to 1.6% of total 2009/10 current fund expenditures, or $40.9 million. The campus also received $34.1 million in OP returned funds – funds that had been previously retained or assessed by OP to fund UC central operations.

As previously agreed, the campus is taking an interim, centralized approach to addressing its Funding Streams liability for 2011/12. For the current year only, the $34.1 million of the OP Assessment is funded by the funds returned and now retained by the campus. The remaining $6.8 million of the liability – the non-neutrality portion of the assessment – is being funded largely by the additional revenues available in the current year.

**OP Assessment for 2012/13 and Beyond:** Moving forward past the first year of FSI, VC Units are expected to manage their overall share of OP Assessment as determined each year in the overall budget process. As previously noted, the OP Assessment to the campus and the subsequent shares to VC Units will shift with local changes in annual expenditures across units. It is also understood that the assessment rate charged by OP may vary to some degree from year-to-year dependent on the total OP budgetary need and the level of total expenditure base of all ten UC campuses. OP budget is now being reviewed by a UC wide Executive Budget Committee prior to it going before Regents for approval, likely at May meeting. However, because the assessment methodology is simple and transparent in its use of public financial statement expenditures from two years prior to assessment, units will be able to estimate their share of liability in advance of each year and thus facilitate their own internal budget planning.

For 2012/13 planning purposes, the OP assessment is estimated at ~$43.7 million, based on a steady 1.6% of San Diego’s $2.73 billion in 2010/11 operating expenditures. As a campus, we will make some local adjustments to the expenditure totals used by OP that result in a slightly higher assessment recharge rate of 1.62%. These adjustments include the standard exclusions for non-VC operating expenditures related to student financial aid and purchased utilities.

**Discussion:**
- The BRWG’s lengthy discussions on how the assessment could be distributed included two Assessment perspectives:
  - Distribute assessment based on all-funds expenditure base, similar to how OP assesses campuses. This method is based on relative share for contribute to OP budget.
Use returned OP returned funds to offset the tax bill with the remaining $6.8 million liability assessed to non-core activities. All activities would contribute to annual incremental growth of the assessment based on expenditure growth. This option disadvantages Instructional and Research activities that have historically paid for OP operations and are the generators of most of the OP returned funds and thus not pursued by the workgroup.

Specific considerations that were discussed regarding the OP Assessment included:
- Methodology should be clear, simple to replicate and consistent from year-to-year to facilitate long term planning by the VCs.
- Methodology should minimize exemptions.
- Medical Center representatives noted the large financial burden of this increased assessment, potentially shifting from the current ~$2 million to over $12 million next year. Medical Center representatives recognize that the OP assessment creates a financial burden to the campus since that assessment is based, unfairly they argued, on all expenditures and that Medical Center financial activity will grow at a faster rate than much of the campus.

• The BRWG considered the below options, among a few others, for distributing these funds, with assessment amounts and distribution models reflected in summary at the end of this report Appendix C.
  1) Allocate the entire OP returned General and Research ICR funds to VC Units in accordance with existing allocation methodologies.
     a) Alternative proposal: Distribute ICR 100% to Academics based on generation; distribute General funds 70/30 percent to Academic/Non-academic.
  2) Allocate sufficient amount of returned General and Research ICR funds to VC Units, enough to fully offset their actual 2012/13 share of liability stemming from Core Instruction & Research Expenditures. About 2/3 of returned funds are needed.
     (b-c) Allocate the remaining funds (about 1/3) to VC unit based on the permanent Core Base Budget as net new funds to be used by VCs to mitigate cuts, or use to fund priorities or new initiatives. This model allows for some campus flexibility to more strategically address campus needs; including the opportunity to allow for some temporary bridging of the OP assessment on non-core funding operating activities.
  3) During the review of a new campus budget allocation model, another option was discussed that proposed to use part of the returned general funds to support the OP Assessment on core funds, and to use additional ICR funds to support part of core mandatory compensation costs. Any funds remaining as available would be distributed with 75% returned to the Academic units (generator of fund source) and the remaining 25% be used for non-academic priorities.

Recommendations:
- All models recommend that the OP Common Fund assessments (~$2 million) on Medical Center, Auxiliary, & Health Sciences Compensation Plan be eliminated and replaced by their campus share of the annual liability.
- Implement the OP assessment across the campus based on an all-funds expenditure base.
- VC Units will be responsible for covering their share of the OP Assessment liability and will have wide discretion on the funding sources they ultimately use to cover their share of these expenditures.
- Starting with 2012/13, VCs will also receive additional funding, from the funds returned by OP to the campus, to cover their share of liability related to core funds. This amount is estimated to be $21 million of the total $32 million in OP returned funds. Any remaining funds would be allocated based on new allocation model, therefore used to help fund part of mandatory costs, with the balance.
distributed to VCs, 75% to the Academic units and the remaining 25% to non-academic priority needs.

B. Decoupling of General Funds

1. **Issue:** Historically, the OP central operations budget was primarily funded with a variety of funds retained from campus Core Funds and Common Fund taxes on Med Centers, Auxiliaries, and Med Group (HSCP). The Core Funds partially retained were re-designated as General Funds (GF) and included State General Funds, Educational Fee, Research ICR, Application Fees, Patent revenue, and certain STIP earnings. Funding streams will enable the campus to disentangle $193 million in GF into primary fund sources, for increase funding transparency.

2. **Key Discussion:** The guiding principle recommended is to decouple GF into primary fund source within those activities where the specific fund source is generated, recognizing that both Educational Fee and Research ICR support the non-academic budgets and could be swapped within those activities as well. Options reviewed included one scenario for ICR and four scenarios for tuition:
   - ICR: Revenue returned is distributed via the existing ICR allocation model and swapped with GF.
   - Education Tuition: Revenue returned is swapped with GF via one of the following options:
     - Swap all VCSA GF and prorate the balance Education Tuition to remaining VCs.
     - Swap all VCSA GF, fund all administrative units with GF only, and maintain faculty salary 50% GF/50% tuition, fund academic areas 50/50.
     - Swap all VCSA GF, fund all administrative units with tuition only, maintain faculty salary 50% GF/50% tuition, and retain GF in utilities and academic areas.
   - Distribute tuition funds based on generation.

3. **Recommendation:** The BRWG recommended funds be swapped via the following:
   - ICR: distribute to Academic budgets where research is conducted, recognizing VC-Research on this fund source.
   - Education Tuition: Administrative budgets with GF swapped at a 50/50 rate of State Appropriation and Tuition; Student Affairs GF fully swapped with Tuition and Application Fees; and the remaining Tuition to Academic budgets based on distribution of student instruction.
   - Application Fee: Revenue is distributed to Admissions Offices: OGS, Medical Education, and Pharmacy.
   - STIP and Patent Revenue: Swap revenues with other central provisions until allocation decisions are made on handling of funding shortfall from these resources (approximately $2 million) due largely to a decline in patent income and operating general fund deficits in some VC accounts.
ASSISTANT VICE CHANCELLOR SYLVIA LEPE-ASKARI
ASSISTANT VICE CHANCELLOR DEBBIE MCGRAW
ASSISTANT VICE CHANCELLOR DOUG BENNETT
ASSISTANT VICE CHANCELLOR RON ESPRITU
DIRECTOR ARTIE EVERTZ
ASSISTANT VICE CHANCELLOR MARIANNE GENERALES
ASSISTANT VICE CHANCELLOR BRIAN GREGORY
PROFESSOR EMERITUS THEODORE GROVES
DIRECTOR DIANE HAMANN
KEVIN HOANG
CHIEF OF STAFF JUDY JOHNSON
RAHUL KAPADIA
PROFESSOR GUY MASTERS
BRIAN MCEUEN
PROFESSOR JOEL SOBEL
ASSISTANT VICE CHANCELLOR EDWARD SPRIGGS

SUBJECT: Budget Review Work Group

I am writing to request your service on a Budget Review Work Group (BRWG) that will provide advice to the campus Leadership regarding the campus budget. Much has changed since the last budget review workgroup in 2006/07; including deep budget reductions by the state, the need to restart retirement contributions and the President’s Funding Streams Initiative which fundamentally changes how funds flow to campuses. The workgroup will review the current Budget Process including guiding principles, allocation policies and practices, assess impacts of Funding Streams and make subsequent recommendations for change.

As we all know, the severity of the national and state economy is having a significant impact on the University as whole, with deep consecutive reductions four years straight. In the current 2011/12 budget year alone, the University’s state budget was cut by $650 million, equating to a 21.3% reduction. The University’s budget gap grows to over $1 billion when other unfunded mandatory costs are considered. A weak outlook remains, as does the risk of an additional $100 million mid-year cut ‘trigger’ if the state does not reach anticipated revenues.

For UC San Diego, this has resulted in a state funding gap of over $189 million. Of this total, $110.5 million is due to base state budget reductions and the remaining is attributed to $78.2 million in unfunded state mandatory costs. In response, the campus has and will continue to take a multi-pronged and multi-year approach, including the aggressive pursuit of additional revenues, expanded efficiencies and streamlining of operations to include restructuring and consolidations where prudent. The campus has also leveraged short term bridging strategies and internal campus funds to mitigate impacts on campus units, and allow time to implement permanent changes needed to fully address this gap.
BUDGET REVIEW WORKGROUP (BRWG)
October 5, 2011
Page 2

In addition to these external budgetary challenges, the campus must also prepare to operate within a context of the President’s Funding Streams Initiative, which stipulates that all campus-generated funds currently used to fund OP will be retained by the source campus. In return, OP will establish a broad-based Assessment on campus resources that will provide funding for UC central operations. Consequently, the campus will see large budgetary shifts in the fund sources. This new funding model is in effect this fiscal year as described in the attached President Yudof’s letter to Chancellors.

The BRWG is one of several workgroups being appointed by campus Leadership to aid in our planning efforts. Specifically, and in light of the budgetary context described above, your charge is two-fold:
1) Review existing Budget Process and Allocation policies and practices, consider alternatives and make necessary recommendations for change.
   • Consider improvements that enhance budget transparency, better align incentives and accountability
   • Review and recommend alternate allocations models as appropriate, specifically in areas of:
     ✓ Research and Indirect Cost Recovery
     ✓ State Compensation Program
     ✓ Instruction and Enrollment Workload
   • Identify impact of Funding Streams on existing Budgets and Allocations
   • Develop and recommend options for Funding Streams allocation of OP “Returned Funds” as it relates to OP Assessment in item 2) below
2) Assess alternatives and make recommendations for an equitable re-distribution of the OP Assessment across a broader funds base.

The BRWG will be co-chaired by Assistant Vice Chancellor Debbie McGraw and Assistant Vice-Chancellor Sylvia Lepe-Askari. This workgroup will replace the existing Funding Streams Budget and Tax Workgroup (FSBT) and include any remaining work within its scope. The BRWG will commence work this Fall 2011 and be able to make initial recommendations to campus leadership in March 2012 so as to inform the Campus Resource Allocation process for 2012/13 budget. I will make every effort to attend the first meeting of the workgroup to deliver the charge and expectations. The efforts of the BRWG are critical to an equitable, effective, and strategic budget planning process. I thank you in advance for agreeing to serve as a member of this workgroup.

Sincerely,

Marye Anne Fox
Chancellor

Attachment

cc: Executive Vice Chancellor
    Vice Chancellors
    Associate Chancellor and Chief of Staff
September 12, 2011

CHANCELLORS

Dear Colleagues:

Following lengthy consultation with campus leadership, in December, the Office of the President (UCOP) distributed a proposal, known as the Funding Streams Initiative, to make comprehensive changes in the way funds flow within the University and in the way UCOP is funded. We have received and reviewed comments from campuses, student organizations, and the Academic Senate, and the proposal has been discussed with The Regents. The proposal has been met largely with favorable responses.

At this time, I am writing to tell you that the Funding Streams Initiative is approved, albeit with some changes from the original proposal. I know that your campus budget and accounting staffs have been working closely with my office on implementation for 2011-12, and I want to thank you for their cooperation and patience during a difficult transition.

The major components of the new Funding Streams Initiative are:

_Retaining Funds at Source Campuses_

In order to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue, beginning in 2011-12, all campus-generated funds will be retained by or returned to the source campus. The following current policies and practices that redistribute funds to the Office of the President and/or other campuses are eliminated or changed as follows:

- Each location will retain all tuition and fee funds generated from its own students, when necessary to maintain a common loan/work expectation for undergraduates across the system.
- Each location will retain all indirect cost recovery funds generated from its own contract and grant activity.
- All patent revenues, net of payments to joint holders and inventors, will be allocated to source locations.
- All Short-Term Investment Pool earnings, regardless of fund source, will be transferred to source locations.
- Each campus will retain its own graduate application fee revenue. Undergraduate application fee revenue will be distributed proportionately to the number of applications received by each campus.
Chancellors  
September 12, 2011  
Page 2

- Existing assessments on medical center expenditures, auxiliary enterprise expenditures, and medical compensation plans that support UCOP administration through the Office of the President Common Fund will be eliminated.

**Systemwide Assessment**

In order to support central operations (defined as UCOP administration and central services, UCOP-managed academic programs, systemwide initiatives and ongoing commitments, multi-campus research programs and initiatives, and the Division of Agriculture and Natural Resources Cooperative Extension), the University will establish a broad-based flat assessment on campus funds. The assessment will replace the funding for central operations previously provided by General Funds, Opportunity Funds, Off-the-Top Funds, Educational Funds, and the Common Fund taxes on medical center, health sciences compensation plan, and auxiliary enterprise expenditures. The assessment will not replace funding for central operations and programs derived from State Specific Funds, State Special Funds, contracts and grants, and systemwide endowments.

The total amount of the assessment will be based on a regular review of the budget for central operations. The campus distribution will be based on total current operating expenditures from all fund sources during the most recently completed year.

I am authorizing broad discretion to campuses in identifying the fund sources from which the systemwide assessment will be paid. While certain federal, State and private contract and grant funds will likely not be available to cover assessment charges, campuses may use student tuition and fees, research indirect cost recovery, sales and service revenues, and other sources. While decisions will be made locally, I encourage Chancellors to consult with students about the use of tuition and fee funds, particularly campus-based fees voted on by students. We will ask The Regents in November to make all such tuition and fee funds eligible for payment of the systemwide assessment, but decisions to do so must be carefully considered.

**Undergraduate Financial Aid**

As an exception to the overarching principle that source campuses will retain all funds generated by the campus, redistribution of some funds will continue as a means to support the systemwide goals of the Education Financing Model (EFM) for undergraduate student financial aid. A key feature of the EFM, which I heartily endorse, is the goal to use fee funds to equalize the expected student contribution level from employment and/or loans across the system, such that each individual undergraduate student would face the same net costs regardless of which campus the student chooses to attend. Maintenance of the EFM goal will be managed through the use of State Specific Funds and, if necessary, tuition or other funds.
Graduate Financial Aid

Because the distribution of graduate University Student Aid Program (USAP) funds has been based on the systemwide goal of offsetting campus cost increases rather than addressing student need, the cross-subsidization of financial aid at the graduate level is eliminated going forward. Instead, each campus will retain the total amount of tuition and fee revenue generated by its graduate students and, each year, campuses will be directed to allocate a specific share of tuition and fee revenues to graduate student support and fee remissions.

General Fund Cost Increases and Future State Funding Augmentations and Reductions

As described, for many years it has been the University's policy to pool State General Funds, UC General Funds, and Tuition (formerly Educational Fee) increase revenues available to support cost increases for salaries, benefits, and non-salary items and to allocate funds to campuses on the basis of General Funds budgets. During many years, the University has been assigned undesignated cuts in State funding, and student fees have been increased to help the University address these cuts as well as unavoidable cost increases, with both cuts and new fee revenue distributed on the same General Funds budget basis. Due to variation in the size of General Funds budgets relative to student populations, some tuition revenue was transferred among campuses. Under the new model, because campuses will retain tuition revenues, this transfer will no longer occur and campuses with high budgets relative to the number of students will need to identify other solutions to inadequate State support. The problem is particularly acute for the San Francisco campus, which has no undergraduate population and, therefore, generates a relatively low amount of tuition and fee revenue relative to its total budget.

The Funding Streams Initiative proposal distributed in December suggested that any future undesignated State funding augmentations be allocated on the basis of State General Funds and Tuition (net of financial aid). Nonresident Supplemental Tuition, Professional Degree Supplemental Tuition, federal indirect cost recovery, and other UC General Funds would be excluded from the distribution, based on the view that campuses should generate cost increase revenues from these fund sources and should not be rewarded with additional State funding as a result of increasing these non-State revenue sources.

The proposal further suggested that any future undesignated reductions in State funding be allocated on the basis of State General Funds, Tuition, Nonresident Supplemental Tuition, and Professional Degree Supplemental Tuition (net of financial aid). Increases in Nonresident Supplemental Tuition and Professional Degree Supplemental Tuition revenue would be included in order to more appropriately recognize campus capacity to cope with State funding reductions. I have concluded that this discrepancy between the proposed distribution of undesignated augmentations and the proposed distribution of undesignated reductions would inappropriately penalize campuses that are successful in realizing new revenues from nonresident supplemental tuition and professional degree supplemental tuition.
As you know, as a follow-up to the Funding Streams Initiative, a working group of UCOP and campus leadership is reviewing the level of resources available to each campus on a per student basis. The outcome of this work will likely mean that there will be further changes in the way future undesignated augmentations and reductions are distributed.

For the time being, I am modifying the Funding Streams Initiative such that both undesignated augmentations and undesignated reductions will be distributed on the basis of State General Fund and Tuition budgets (net of financial aid). This decision will influence the methodology used to distribute the reductions in State funding for 2011-12.

**Implementation**

Implementation is being handled by UCOP Budget and Capital Resources and Financial Management units. Representatives from these offices have been working with the appropriate staff on your campuses to achieve the goals of the initiative.

I very much appreciate your patience on this project. I believe the outcome of the Funding Streams Initiative will enhance transparency and will help set the ten campuses on a path toward continued excellence in the coming years.

With best wishes, I am,

Sincerely yours,

[Signature]

Mark G. Yudof
President

cc: Provost Pitts  
Executive Vice President Brostrom  
Executive Vice President Taylor  
Senior Vice President Stobo  
Vice President Lenz  
Vice President Beckwith  
Vice President Sakaki  
Vice Provost Carlson  
Vice Provost Greenstein  
Vice Provost Rumberger  
Associate Vice President Obley  
Executive Vice Chancellors  
Vice Chancellors for Planning and Budget  
Campus Budget Directors
Current Enrollment Workload Allocation Model - Resident

Sources of Funding

I. State General Funds (1)
II. Student Tuition Income (Educational Fee) (2)
III. Student Services Fee Income (Registration Fee) (2)

Distribution of Funding

Campus Reserves: 15%
Instruction and Institutional Support: 85%

Instruction: 70%
(General Campus & Libraries)

* Institutional Support: 30%
* First Priority – Student Affairs (3)
* Remaining funds are distributed to VC units impacted by enrollment based on share of Core Permanent Budget, excluding Student Affairs

(1) State General Fund allocation provided via the per-student Marginal Cost of Instruction (MCI) funding formula. No State General Fund revenue for enrollment growth was provided in 2011/12. MCI is net of O&M.
(2) Student Tuition Income and Student Services Fee Income are net of student financial aid.
(3) Student Affairs is guaranteed an amount of General Funds necessary to maintain 100% of the per-student funding level provided to the unit in the prior three years, inclusive of Student Services Fee (Registration Fee) Income.

Current Enrollment Workload Allocation Model - Nonresident

Sources of Funding

I. Nonresident Supplemental Tuition (1)
II. Student Tuition Income (Educational Fee) (2)
III. Student Services Fee Income (Registration Fee) (2)

Distribution of Funding

Priority Funding

1. VCAA – 68% (2) of Nonresident Fee and Nonresident Tuition (General Campus)
2. VCSA – Costs to market/recruit and retain NR students per VCSA’s request
3. O&M – 11.5% of average MCI at $10k per student ($1,150/student)
4. Mandatory Cost Increases (If/Block) – 5% of Nonresident Supplemental Tuition

Remaining Income

Distributed to Campus Reserves and VC’s based on last 3 year average from standard EWAM, not including VCAA

(1) Nonresident Supplemental Tuition are net of AB340 exceptions and net of graduate students advanced to candidacy
(2) Student Tuition Income and Student Services Fee Income are net of student financial aid and net of CalFer waivers.
(3) VCAA allocation is slightly different to 68.7% when Student Services Fee Income is included in the total sources of funding.
SUMMARY: Net Impact of OP Assessment & Distribution of New Funding
(amounts in thousands)

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<th>Non-Core Assessment</th>
<th>OP Assessment</th>
<th>New Funding Allocation</th>
<th>New Core Impact</th>
<th>Total Net Impact</th>
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<td>(1,332)</td>
<td>(2,114)</td>
<td>2,738</td>
<td>1,816</td>
<td>625</td>
</tr>
<tr>
<td>Resource Mgt &amp; Planning</td>
<td>(848)</td>
<td>(707)</td>
<td>(1,555)</td>
<td>3,773</td>
<td>2,859</td>
<td>2,218</td>
</tr>
<tr>
<td>Chancellor's Orgs</td>
<td>(107)</td>
<td>(5)</td>
<td>(112)</td>
<td>584</td>
<td>478</td>
<td>473</td>
</tr>
<tr>
<td>Campus Reserve/Priorities</td>
<td></td>
<td></td>
<td></td>
<td>357</td>
<td>357</td>
<td>357</td>
</tr>
<tr>
<td>Total</td>
<td>(20,589)</td>
<td>(23,111)</td>
<td>(43,700)</td>
<td>34,051</td>
<td>11,341</td>
<td>(9,649)</td>
</tr>
</tbody>
</table>

OP Assessment:
Consistent with OP methodology, all annual VC operating expenditures (adjusted for non-VC operating costs like SFA and Utilities) share in OP assessment liability. The % of expenditures will fluctuate annually. Est. for 2012/13 = 1.62% of 2010/11 or 2-prior year expenditures.

Funding Scenarios: (see next page for detail calculations)

Option 1
The $32 million of General Funds & ICR funds returned by OP July 1, 2011 is allocated in accordance with existing methodologies. The specific OP Common Fund taxes on Self-Supporting Units are eliminated, returning ~$2 million to the Medical Center, Health Sciences Compensation Plan, and Auxiliary units.

Option 1a
Allocate 70% of the returned General Funds to Academic Units and 30% to non-Academic Units. Distribute per prorata share of the June 2011 1a Budget Base. Allocate 100% of returned ICR to Academic Units, per Academic distribution in the 2011/12 ICR Model which distributes 2010/11 Recovery.

Option 2
A portion (~$21 million) of General Funds & ICR funds returned by OP is allocated to fully fund the initial OP Assessment levied on Core Funds. The specific OP Common Fund tax on Self-Supporting Units is eliminated, returning ~$2 million to the Medical Center, Health Sciences Compensation Plan, and Auxiliary units.

Option 2a
The remaining ~$11 million of Returned Funds is allocated to VCs per the Permanent Core Base Budget, net of standard exclusions.

Option 2b
The remaining ~$11 million of Returned Funds is held centrally & used to offset the 2012/13 permanent budget gap.

Option 2c
The remaining ~$11 million of Returned Funds is held centrally & used to fund strategic needs, priorities, new initiatives as determined annually.

(1) Core Funds Assessment is charged on all Core Instructional & Research expenditures - includes spending of State Funds; Mandatory Student Fee funds; Contract & Grant sources (Federal/State/Private/Local) - both direct expenditures & ICR funds; and ASSA Overhead funds (Admin Overhead, Differential Income)
**APPENDIX C**

**March 19, 2011 - BRWG Meeting**

**FUNDING OPTIONS - Distribution of New Funding**

(estimated in thousands)

**Distribution Option 1**

<table>
<thead>
<tr>
<th>Category</th>
<th>Allocate Returned General Funds (1)</th>
<th>Allocate Returned ICR Funds (2)</th>
<th>Elim Comm</th>
<th>Total New Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td>63.8% 13,246</td>
<td>23.7% 2,640</td>
<td></td>
<td>15,886</td>
</tr>
<tr>
<td>Health Sciences</td>
<td>11.0% 2,278</td>
<td>29.6% 3,303</td>
<td>22</td>
<td>5,682</td>
</tr>
<tr>
<td>Marine Sciences</td>
<td>6.3% 1,304</td>
<td>7.6% 786</td>
<td>2</td>
<td>2,092</td>
</tr>
<tr>
<td>Medical Center</td>
<td>1.7% 350</td>
<td>0.0% -</td>
<td>1,890</td>
<td>2,239</td>
</tr>
<tr>
<td>Academic Senate</td>
<td>0.2% 38</td>
<td>1.8% 201</td>
<td></td>
<td>239</td>
</tr>
<tr>
<td>Student Affairs</td>
<td>2.6% 540</td>
<td>0.0% -</td>
<td>1</td>
<td>540</td>
</tr>
<tr>
<td>External &amp; Bus Affairs</td>
<td>5.0% 1,034</td>
<td>14.0% 1,563</td>
<td>142</td>
<td>2,738</td>
</tr>
<tr>
<td>Resource Mgt &amp; Planning</td>
<td>8.3% 1,721</td>
<td>17.8% 1,986</td>
<td>66</td>
<td>3,773</td>
</tr>
<tr>
<td>Chancellor's Orgs</td>
<td>1.3% 262</td>
<td>2.9% 323</td>
<td></td>
<td>584</td>
</tr>
<tr>
<td>Campus Reserve</td>
<td></td>
<td>3.2% 357</td>
<td></td>
<td>357</td>
</tr>
<tr>
<td><strong>New Funds Distribution</strong></td>
<td>100% 20,771</td>
<td>100% 11,159</td>
<td>2,121</td>
<td>34,051</td>
</tr>
</tbody>
</table>

**Distribution Option 1a**

<table>
<thead>
<tr>
<th>Category</th>
<th>Allocate Returned General Funds (1)</th>
<th>Allocate Returned ICR Funds (2)</th>
<th>Elim Comm</th>
<th>Total New Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td>53.9% 11,187</td>
<td>35.9% 4,009</td>
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<td>15,197</td>
</tr>
<tr>
<td>Health Sciences</td>
<td>9.3% 1,924</td>
<td>49.3% 5,505</td>
<td>22</td>
<td>7,451</td>
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<tr>
<td>Marine Sciences</td>
<td>70% 1,102 100%</td>
<td>11.7% 1,310</td>
<td>2</td>
<td>2,413</td>
</tr>
<tr>
<td>Medical Center</td>
<td>1.4% 295</td>
<td>0.0% -</td>
<td>1,890</td>
<td>2,185</td>
</tr>
<tr>
<td>Academic Senate</td>
<td>0.2% 32</td>
<td>3.0% 335</td>
<td></td>
<td>367</td>
</tr>
<tr>
<td>Student Affairs</td>
<td>4.6% 946</td>
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<td>1</td>
<td>946</td>
</tr>
<tr>
<td>External &amp; Bus Affairs</td>
<td>8.7% 1,812</td>
<td>0.0% -</td>
<td>142</td>
<td>1,954</td>
</tr>
<tr>
<td>Resource Mgt &amp; Planning</td>
<td>14.5% 3,015 0%</td>
<td>0.0% -</td>
<td>66</td>
<td>3,081</td>
</tr>
<tr>
<td>Chancellor's Orgs</td>
<td>2.2% 459</td>
<td>0.0% -</td>
<td></td>
<td>459</td>
</tr>
<tr>
<td>Campus Reserve</td>
<td></td>
<td>0.0% -</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td><strong>New Funds Distribution</strong></td>
<td>100% 20,771</td>
<td>100% 11,159</td>
<td>2,121</td>
<td>34,051</td>
</tr>
</tbody>
</table>

**Distribution Option 2a**

<table>
<thead>
<tr>
<th>Category</th>
<th>Cover OP Assessment on Core Funds (1)</th>
<th>Balance of Returned Funds (2)</th>
<th>Elim Comm</th>
<th>Total New Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td>41.2% 8,476</td>
<td>54.7% 6,203</td>
<td>14,679</td>
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</tr>
<tr>
<td>Health Sciences</td>
<td>36.6% 7,538</td>
<td>15.0% 1,702</td>
<td>9,262</td>
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</tr>
<tr>
<td>Marine Sciences</td>
<td>9.9% 2,039</td>
<td>6.0% 677</td>
<td>2,718</td>
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</tr>
<tr>
<td>Medical Center</td>
<td>0.5% 100</td>
<td>1.2% 142</td>
<td>2,132</td>
<td></td>
</tr>
<tr>
<td>Academic Senate</td>
<td>0.1% 15</td>
<td>0.4% 50</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Student Affairs</td>
<td>3.3% 685</td>
<td>5.8% 654</td>
<td>1,340</td>
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</tr>
<tr>
<td>External &amp; Bus Affairs</td>
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<td>6.8% 775</td>
<td>1,698</td>
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</tr>
<tr>
<td>Resource Mgt &amp; Planning</td>
<td>4.1% 848</td>
<td>8.6% 978</td>
<td>1,892</td>
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<tr>
<td>Chancellor's Orgs</td>
<td>0.5% 107</td>
<td>1.4% 159</td>
<td>266</td>
<td></td>
</tr>
<tr>
<td><strong>New Funds Distribution</strong></td>
<td>100% 20,589</td>
<td>100% 11,341</td>
<td>2,121</td>
<td>34,051</td>
</tr>
</tbody>
</table>

**Distribution Option 2b/c**

<table>
<thead>
<tr>
<th>Category</th>
<th>Cover OP Assessment on Core Funds (1)</th>
<th>Balance of Returned Funds (2)</th>
<th>Elim Comm</th>
<th>Total New Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td>41.2% 8,476</td>
<td>-</td>
<td>8,476</td>
<td></td>
</tr>
<tr>
<td>Health Sciences</td>
<td>36.6% 7,538</td>
<td>-</td>
<td>7,568</td>
<td></td>
</tr>
<tr>
<td>Marine Sciences</td>
<td>9.9% 2,039</td>
<td>-</td>
<td>2,041</td>
<td></td>
</tr>
<tr>
<td>Medical Center</td>
<td>0.5% 100</td>
<td>-</td>
<td>1,990</td>
<td></td>
</tr>
<tr>
<td>Academic Senate</td>
<td>0.1% 15</td>
<td>-</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Student Affairs</td>
<td>3.3% 685</td>
<td>-</td>
<td>685</td>
<td></td>
</tr>
<tr>
<td>External &amp; Bus Affairs</td>
<td>3.8% 781</td>
<td>-</td>
<td>923</td>
<td></td>
</tr>
<tr>
<td>Resource Mgt &amp; Planning</td>
<td>4.1% 848</td>
<td>-</td>
<td>914</td>
<td></td>
</tr>
<tr>
<td>Chancellor's Orgs</td>
<td>0.5% 107</td>
<td>-</td>
<td>107</td>
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</tr>
<tr>
<td>Campus Priorities</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Funds Distribution</strong></td>
<td>100% 20,589</td>
<td>100% 11,341</td>
<td>2,121</td>
<td>34,051</td>
</tr>
</tbody>
</table>

* Core Perm Budget Base includes:
  - State Funds : 19XXX (except for 19933A & 19942A), Other State Funds: 18XXX
  - Tuition & Fees Funds : 20000A, 20093A, 20200A, 2022XA & 19942A
  - Overhead Funds : ICR - 035975A, 07427A, 19933A & 40760A; Admin-Overhead - 67531A; Differential Income (no Perm)
CURRENT ALLOCATION MODEL

CORE FUNDS - NET INCREASE

INSTRUCTION
(State, Tuition/Fees, UCGF)

Mandatory Compensation Costs
(State, Tuition/Fees, UCGF→)

VC Allocations
Academics - 70%
Non-Academics - 30%

Growth
Priorities

RESEARCH
(ICR)

Mandatory Costs
(←UCGF Camp, OP, Garomendi, Utilities)

VC Allocations
Academics - 60%
Non-Academics - 40%

Growth
Priorities

ASSA
(Admin Overhead, Differential Income)

Admin OH Allocation
Non-Acad. - 67%
Budget Reductions - 33%

Diff. Income Allocation
Academics - 65%
Non-Acad. - 35%

Priorities

Mandatory Compensation Costs

VCs

SOURCES

CAMPUS

USES
APPENDIX E

PROPOSED ALLOCATION MODEL

CORE FUNDS - NET INCREASE

- Mandatory Costs
  - Compensation
  - Share of OP Assessment
  - State Budget Reductions

- First use Student Tuition/Fee increase and as necessary, "Pool other Core Funds" to leverage campus flexibility for funding "Mandatory = must pay bills" for existing personnel, OP Contribution, State budget cuts; with priority in alignment of source with intended use and VC generated with related costs.

INSTRUCTION
(State, Tuition/Fee, UCGF)

- Maintain current Instruction & Research Incentives by providing 70%/75% of net available funding to the generating Academic VC to support growth and other priority needs.

- Student Affairs receives SSF, direct pass thru, and instruction dollars available to support enrollment growth needs; other non-academic areas are provided an annual budget adjustment of 5% for non-compensation core budget.

- Via Campus Call Process, identify, assess and determine annual funding priorities, to include items like: OMP/OM-Infrastructure underfunding, fundraising efforts, business development, etc.

RESEARCH
(ICR)

- First: Garavendi-like
  - Academics - 75%
  - Non-academics - 25%

- Institutional costs: OMP/OM - Facilities Infrastructure, admin growth burden, service levels etc.

ASSA
(Admin OH/Diff. Inc.)

VC Block Allocations
Academics - 70% Net Avail1
Non-Academics Budget Adjust - 5%2

- Academic VC to support growth and other priority needs.

- OMP/DM-Infrastructure underfunding, fundraising efforts, etc.

- Via Campus Call Process, recognize Academic VCs as incentive to invest into programs and activates that advance academic goals and also maximize further revenue generation.

- SSF and POF income are pass through to support Student Services and Professional schools respectively.

- Budget adjustment of 5% for Non-Academic budgets

1. Student Affairs receives SSF, direct pass thru, and instruction dollars available to support enrollment growth needs; other non-academic areas are provided an annual budget adjustment of 5% for non-compensation core budget.

2. Via Campus Call Process, identify, assess and determine annual funding priorities, to include items like: OMP/OM-Infrastructure underfunding, fundraising efforts, business development, etc.

3. OMP/DM-Infrastructure underfunding, fundraising efforts, service levels etc.