UNIVERSITY OF CALIFORNIA, ACADEMIC SENATE

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*Executive Director*
*Universitywide Academic Senate*
*University of California*
*1111 Franklin Street, 12th Floor*
*Oakland, California 94607-5200*

January 3, 2011

**DIVISIONAL CHAIRS**
**SYSTEMWIDE COMMITTEE CHAIRS**
**UNIVERSITY OF CALIFORNIA**

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

Dear Division and Committee Chairs:

Provost Pitts has invited the Academic Senate to opine on the attached proposal to change the way funds are allocated across the campuses. As you may know, the current methodology for allocating funds is complex and not transparent, and the Office of the President has undertaken a two-stage restructuring project that first addresses funding streams other than State General Funds and will subsequently address the allocation formula for State General Funds. The attached proposal represents the first stage of the project.

The Office of the President proposes as a basic principle that all funds generated on a given campus be retained by that campus with a flat assessment on all funding sources to support central functions, including UCOP, centrally administered academic and research programs, and non-campus expenditures by the Division of Agriculture and Natural Resources. Although funds for undergraduate financial aid would continue to be distributed as needed in order to maintain the same level of loan/work expectation for students across the system, funds for graduate financial aid would not. The proposal also includes changes in methodologies for distributing undesignated State funding augmentations and cuts.

The second stage of the project will begin later this month when a task force begins to meet to discuss principles for distributing State General Funds. That proposal will be sent for systemwide review when it is completed.

In order to allow the Academic Council to review your comments in time to meet the response deadline of March 1 requested in Provost Pitts' letter, please submit your comments to SenateReview@ucop.edu by **Thursday, February 17**. As always, you may choose not to opine if you feel that the subject is not in your committee's purview.

Sincerely,

Martha Kendall Winnacker, J.D.
Executive Director, Academic Senate

Encl (2)

UNIVERSITY OF CALIFORNIA

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OFFICE OF THE PROVOST AND EXECUTIVE VICE PRESIDENT –
ACADEMIC AFFAIRS

OFFICE OF THE PRESIDENT
1111 Franklin Street, 12th Floor
Oakland, California 94607-5200

December 22, 2010

ACADEMIC COUNCIL
VICE CHANCELLORS – RESEARCH
VICE CHANCELLORS – STUDENT AFFAIRS
GRADUATE DEANS

Dear Colleagues:

After lengthy consultation with a wide range of campus administrative and faculty leadership groups, attached for review and comment is a proposal to change the University's policies and practices related to the distribution of funds across the system. The intention is to implement these changes for 2011-12. The document provides information about current funding policies and practices and describes the principles and recommendations for going forward. The primary principles we have discussed over the last several months haven't changed. These include:

- Allowing all revenues to remain at source campuses;
- Implementation of a new assessment on campuses to support central operations;
- Maintenance of systemwide goals for undergraduate financial aid through modest redistribution of campus funds;
- Elimination of redistribution of graduate financial aid across campuses;
- Changes to methodologies for distributing undesignated State funding augmentations or cuts. (The "rebenching" process will begin in early 2011 and may supercede portions of the attached report.)

We appreciate your consultative role in moving this project forward and now ask for your official response to the proposal no later than March 1, 2011.

Sincerely,

Lawrence H. Pitts
Provost and Executive Vice President
Academic Affairs

Cc: President Yudof
Executive Vice President Brostrom
Vice President Lenz
Vice President Beckwith
Vice President Sakaki
Vice Provost Greenstein
Vice Provost Carlson
Vice Provost Rumberger
Associate Vice President Kelman
Associate Vice President Obley
Associate Vice President Reese
Director Clune
Executive Director Winnacker
Chief of Staff Corlett

# UNIVERSITY OF CALIFORNIA
# FUNDING STREAMS PROPOSAL

**December 21, 2010**

**Prepared by:**
**Budget and Capital Resources**
**Student Affairs**

## EXECUTIVE SUMMARY

Over the past two years, the Office of the President, in consultation with campus leadership, has been engaged in a comprehensive review of current fund allocation methodologies, with the goal of developing recommendations for the future. Recommendations:

1. **Overarching Principle:** Beginning in 2011-12, all campus-generated funds will be retained or returned to the source campus. Current policies and practices that distribute a share of fee funds, indirect cost recovery funds, patent revenues, Short-Term Investment Pool earnings, and application fee revenues to the systemwide budget and/or other campuses will be eliminated. Implementation of this principle will require "un-pooling" of General Funds revenues, which will be conducted in a manner that is largely revenue-neutral to campuses upon implementation.
2. **Systemwide Assessment:** UC will establish a broad-based assessment on campuses that will provide funding for central operations, including UCOP administration, UCOP-managed academic programs, systemwide initiatives and ongoing commitments, multi-campus research programs and institutes, and the non-campus operations of the Division of Agriculture and Natural Resources. Existing assessments on hospital expenditures, auxiliary enterprise expenditures, and the medical compensation plan will be eliminated. Operating expenditures from all campus fund sources will be included in the base for calculation of the assessment, which will be based on a single rate applied to all fund sources. Campuses will provide a specified share of the assessment as State General Funds, but may use any other fund sources (allowable by law) to pay the remainder of the assessment. The transition will be close to revenue neutral during the first year, but going forward, the distribution of the assessment across campuses will depend on variation in the growth of expenditures. Operating budgets for assessment-funded activities will be reviewed annually, and the assessment rate will be reviewed every few years.
3. **Undergraduate Financial Aid:** Funding of the undergraduate University Student Aid Program (USAP) will be handled separately and will be an exception to the overarching principle. Each year, campuses will be directed to allocate a specified share of fee revenues to USAP. As needed, campuses may be assessed a specific amount for redistribution to other campuses in order to achieve the Education Financing Model goal of equal loan/work levels across the system. Only the delta between the share of funds dedicated to USAP and the amount needed by each campus to achieve the systemwide goal will be redirected.
4. **Graduate Financial Aid:** Under the new model, cross-campus support for graduate USAP will be eliminated. Each year, campuses will be directed to allocate a specific share of fee revenues to graduate student support and fee remissions. Separate shares will be calculated for graduate academic and graduate professional students, but shares within those categories will be equal across campuses. Campuses will retain the flexibility to dedicate additional revenue to graduate student financial support as desired.
5. **Future State Funding Augmentations:** Any future undesignated State funding augmentations will be allocated on the basis of budgets for State General Funds and Educational Fee[1] revenue (net of financial aid). Registration Fee, Nonresident Tuition, professional degree fee, federal indirect cost

[1] During 2010, the Regents acted to rename various tuition and fee charges. At the May 2010 meeting, the Regents changed the name of the Registration Fee to the Student Services Fee. At their November 2010 meeting, the Regents changed the name of the Educational Fee to Tuition, the name of Nonresident Tuition to Nonresident Supplemental Tuition, and the name of professional degree fees to Professional Degree Supplemental Tuition. Changes are effective for the 2011-12 academic year. Due to the historical nature of this document, these charges will be referred to by the old nomenclature.

recovery, and other UC General Fund revenue will be excluded from the base for calculating the distribution.

6. **Future State Funding Reductions:** Any future undesignated reductions in State funding will be allocated on the basis of budgets for State General Funds, Educational Fee, Nonresident Tuition, and professional degree fees (all net of financial aid).

7. **General Fund Cost Increases:** Because campuses will retain all funds generated from Educational Fee and UC General Fund revenue increases, UCOP will no longer provide allocations of funds for General Fund cost increases, except for new State General Funds as described above.

## I. PROJECT OVERVIEW

The University of California is a large, complex organization, and the revenue generated to support more than $20 billion in annual operating expenditures is derived from numerous sources. These sources vary with respect to levels of legal, market, and/or historical restrictions on spending and practices related to distribution within the University.

Over the years, various requests to change allocation policies have been submitted to UCOP leadership. A particularly significant issue has been the treatment of Educational Fee revenue, which under current practice is used to offset inadequate State funding across the system and is not necessarily retained by the source campus. Other issues raised in recent years include:

- Decentralizing student aid funding
- Simplifying the accounting for federal indirect cost recovery (ICR)
- Eliminating disincentives resulting from systemwide redistribution of state ICR
- Simplifying the methodology for distributing private ICR;
- Returning interest income to source campuses
- Abolishing the General Fund contribution from patent income
- Tying the use of funds to their source

Following various requests for changes in the way certain funds are distributed across the University system, in 2008, the Office of the President initiated a comprehensive review of the treatment of all University fund sources.

Initially, the project involved research and documentation of historical and recent practices, and a series of presentations to campus and UCOP leadership describing the current funding allocation model.

Subsequently, the UCOP Budget and Capital Resources unit engaged in a series of meetings with campus vice chancellors for planning and budget to discuss and develop proposals for new models. Additional consultation occurred with chancellors, executive vice chancellors, other systemwide leadership groups, working groups of the Commission on the Future, and the Planning and Budget Committee of the Academic Council. This proposal represents the outcome of this consultative process.

The next section provides a brief overview of several contextual issues that have guided funding allocations historically. Section III provides a review of historical and current allocation policies and practices for most fund sources. Not included in this review are funds supporting direct contract and grant expenditures, campus foundation gifts and grants, and other fund sources that are retained by campuses. Discussions of current practices related to student financial aid are included at the end of this section.

Section IV provides a more detailed description of the proposed changes to existing policies and practices, including a description of a proposed new systemwide assessment to support central operations.

## II. HISTORICAL CONTEXT

Several historical factors have shaped the context that led to the current state of UC funding allocation policies and practices.

*Centralized Budget Control for Certain Revenue Streams*

In the past, certain revenues have been collected by UCOP and redistributed to promote systemwide priorities. These included all State General Funds; Educational Fee funds; indirect cost recovery of federal, state, and private research contracts and grants; application fee revenue; and a share of patent revenue. The funds were used to the benefit of the campuses (e.g., to assist growth campuses, new schools or new programs with either operating funds or loans for building projects); for systemwide projects (e.g., Keck Telescope, EAP, UCDC); and to support activities not funded by the State or inadequately funded by the State.

Other funds, such as hospital and auxiliary revenues, Registration Fee and campus-based fee funds, and others were retained by source campuses.

Over time, policies have changed so that some of these revenues have been retained by or returned to source campuses. These changes are described in more detail later in this document, but the University is now in a position such that similar fund sources may be treated inconsistently and the rationales for ongoing processes are no longer clear.

*The State's Interest in UC Funds*

Historically, the State paid greater attention to UC's non-State sources of revenues. The view of the State was that, to some degree, revenues UC generated from student fee and tuition charges, indirect cost recovery on research contracts and grants, and intellectual property licensing should reimburse the State for its past investments in UC. This philosophy is the reasoning behind the various contributions to the UC General Fund from such fund sources. For many years, State funding for UC was offset by any increases in funding from these other non-State sources. During the 1990s, with the advent of compact agreements that included base budget adjustments calculated as a percentage of the State's contribution to UC, the offset practice was eliminated.

*Bifurcation of Fund Sources*

Some original fund sources are divided into multiple funds before expenditure. For example, federal indirect cost recovery funds are divided into four different funds, including a General Fund contribution. Patent revenue is broken up to create a General Fund contribution separate from campus discretionary funds. This complicates efforts to track funds and to explain how funds are spent, but historically these bifurcations served the University well in budget negotiations with the State; only the UC General Fund portion of these sources was included in calculating the offset of the State's contribution, while the non-General Fund share was UC's alone.

*Incremental Budgeting*

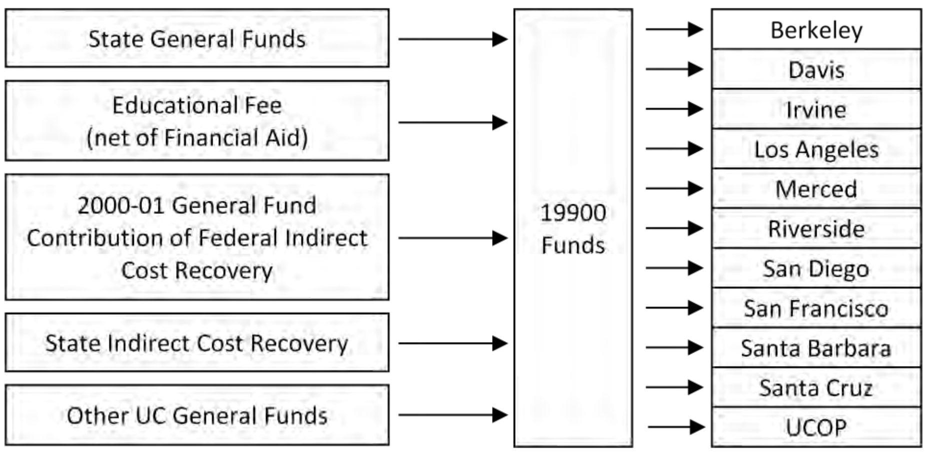
Under incremental budgeting, the University annually distributes only new funding increments or decrements, according to current principles and priorities. Typically, base budgets are not redistributed across the system; only new funds or budget cuts are distributed. Levels of campus funding vary for a wide range of reasons, including enrollments, disciplinary mix, research intensity, decisions of campus chancellors, historical changes in State funding, and decisions of past presidents with respect to allocation models.

*Pooling of Funds*

In the past, for budgeting purposes, the University has pooled revenue from State General Funds, Educational Fees, Nonresident Tuition, state indirect cost recovery, a portion of federal indirect cost recovery, and other sources into a single fund number (19900) for General Funds.  One reason was to simplify the expenditure of these funds.  In accounting reports, expenditures are pro-rated to their original fund sources.

This pooling of funds complicates matters because the accumulated decisions of past Presidents and the incremental allocation of new funding for University priorities means that the original source of budgeted funding for a particular program or campus may be difficult to identify.

**Display 1:  Pooling and Distribution of General Funds**




*Cross-Subsidization*
The practices of centralization of revenues, bifurcation, and pooling of fund sources, as well as the multiple and intricately linked missions of the University's faculty and many University employees, means that funding sources ultimately cross-subsidize different aspects of the University's operations. For example, fee increases ultimately help support the University's research arm by providing funds to increase faculty salaries.  State funding for graduate student enrollment similarly helps support the research enterprise.  The high tuition charged to nonresident undergraduates may help fund fellowships for graduate students.  Student fee revenue derived from lower-cost disciplines may subsidize instructional equipment purchases in other areas.  Student fees for general campus instruction may subsidize the health sciences, while indirect cost recovery on health science research provides a complementary subsidy for general campus activities.  This cross-subsidization occurs both at the campus level and at the systemwide level.

## III. HISTORICAL AND CURRENT POLICIES AND PRACTICES

This section provides an overview of historical and current policies and practices related to major fund sources.

### State General Funds

The use of State General Funds is driven by the annual State budget act. Funds are provided to the University largely without strict designations, but must be used consistently with both recent and long-standing agreements with the State administration and the legislature. The budget act typically designates some funds for specific activities, often termed “line items” or “earmarks.”

In recent years, under various compacts and partnership agreements, significant State funding augmentations have been provided as undesignated base budget adjustments. While some of this funding has been set aside for special initiatives, the bulk of this funding has been pooled with other new General Fund and fee revenues and allocated to campuses and allocated proportionately to adjusted General Fund and Educational Fee base budgets. Similarly, when the State makes undesignated reductions to funding for UC, such cuts are passed on to campuses proportionately to campus base budgets.

In recent years, new State funding has been provided for enrollment growth, including funding for growth in health sciences programs. New State General Funds for enrollment growth, based on an agreed-upon marginal cost of instruction calculation, is typically allocated to the campuses according to existing enrollment growth plans. In 2006-07, an increase to the marginal cost was provided for operation and maintenance of plant. During 2005-06 through 2007-08, these funds were set aside and distributed to campuses with new State-supportable facilities being placed in use. Any new funds for special initiatives (such as funding for the Science and Math Initiative provided in 2005-06 and 2006-07) have been allocated for those purposes.

### Student Tuition and Fee Revenue

The University generates revenue from students through a variety of different tuition and fee charges. These charges have been treated in different ways over the University’s history.

*Educational Fee*

The Educational Fee was established by the Regents in 1970 for general support of the University. The UC Student Fee Policy, established by the Regents, includes a statement that fee levels should be established based on consideration for maintaining access under the Master Plan, sustaining academic quality, and achieving the University's overall mission.

New Educational Fee revenue is derived in two ways: through student enrollment growth and through increases in the level of the Educational Fee. Revenue from these two sources is treated differently.

Each year, a portion of new revenue generated from both sources is set aside for student financial aid. In recent years, the University has set aside an Educational Fee amount equivalent to 33% of the combined amount of new (fall/winter/spring) Educational Fee and Registration Fee revenue from undergraduate and professional students. For graduate academic students, the amount set aside is equivalent to 50% of combined new fee revenue. These funds are then allocated to campuses for student financial aid according to principles associated with the University’s undergraduate and graduate financial aid programs. These allocations are discussed later in this document.

After deducting the financial aid set-aside, remaining new Educational Fee revenue derived from enrollment growth is allocated to the source campuses – that is, the campuses experiencing enrollment growth in proportion to the number of new full-time equivalent students enrolled at the campus.

The remaining amount of new Educational Fee revenue derived from increases in the fee level is allocated according to the priorities approved by the Regents in the annual budget. Since the early 1990s, the Regents have approved increases in the Educational Fee to offset the cumulative impacts of budget cuts and cost increases. Based on these priorities, new revenue from Educational Fee increases has been pooled with other new General Fund revenue (when available) and distributed to campuses as an augmentation to adjusted General Funds base budgets rather than on the basis of where the revenue was generated. In some years, fee increases have also provided funding for special initiatives.

The result of this longstanding practice is that new Educational Fee revenue generated by a campus does not necessarily remain at that campus. For various reasons, the distribution of student enrollments does not match the distribution of General Funds base budgets. When student fees were modest, this consequence was not a major concern. Over the last decade, with student fees rising to levels approaching the level of per-student support from the State, concern has been expressed about the fairness and appropriateness of using student fees derived at one campus to fund increases in faculty salaries and other costs at another campus.

During summer terms, the University charges per-unit fees equivalent to the Educational Fee (and the Registration Fee). This fee revenue is entirely retained by the source campuses for support of summer instruction and support activities.

*Registration Fee*
Revenue from the Registration Fee is fully retained by the source campus. Over the last 20 years, no Registration Fee revenue was used to fund student financial aid; instead, the Registration Fee share of return-to-aid funding was funded from Educational Fee revenues. In May 2010, the policy governing the Registration Fee was changed to require a return-to-aid component from increases in the fee. This requirement will be implemented beginning in 2011-12.

*Professional Degree Fees*
Professional degree fees were first established by the University in 1990-91 with the creation of the $376 Special Fee for Law and Medicine, but were expanded significantly during 1994-95 and subsequent years to allow UC's professional schools to offset reductions in State support and maintain quality. During the mid-2000s, the Regents' policy governing professional degree fees has since been revised to require that revenues not be used to offset reductions in State support. According to the policy, revenue generated from professional school fees is retained by source campuses.

*Nonresident Tuition*
In lieu of State support, the University charges Nonresident Tuition, in addition to mandatory and other student fees, to nonresident students. Before 2007-08, campuses were not assigned nonresident enrollment or revenue targets. Nonresident Tuition revenues were collected by UCOP, pooled with other General Funds, and used to support systemwide budget priorities.

In the mid-2000s, several events occurred. First, various factors led to declines in the number of nonresident students paying Nonresident Tuition, particularly the implementation of AB540, which allowed Nonresident Tuition to be waived for students who were not legal California residents but had attended a California high school. Shortfalls in budgeted revenue were running at $20 million annually during the middle of the decade. Second, faculty leadership expressed a desire for greater transparency in the use of Nonresident Tuition revenues. Third, the State focused its attention on the enrollment of State-supported students rather than on total enrollment.

In 2007-08, based on a systemwide revenue target and the distribution of nonresident enrollments by campus, campuses were assigned Nonresident Tuition revenue targets. These revenue targets were budgeted by each campus in a separate fund number for Nonresident Tuition (19942), and equivalent amounts of unspecified General Funds (19900) were withdrawn. From that point forward, each campus retained all Nonresident Tuition revenue it generated. Similarly, each campus became responsible for addressing its own revenue shortfall if one occurred. The implication at the time was that each campus either needed to increase its enrollment of nonresident students in order to meet the budgeted revenue target or determine how the campus would address the revenue shortfall that resulted from under-enrollment of nonresident students. This change also meant that campuses were assigned a specific target for enrollment of State-supported students for the first time.

*Application Fee Revenue*
Based on a long-standing agreement with the State, most application fee revenue is treated as UC General Funds. UC practice has been to count all undergraduate application fee revenue and two-thirds of graduate application fee revenue as General Funds. One-third of the undergraduate application fee revenue is used to support systemwide application processing or distributed to campuses. The remaining UC General Fund revenue is pooled with other General Funds and used to support systemwide priorities. The remaining one-third of graduate application fee revenue not counted as UC General Funds is retained by the source campus.

*Self-supporting Program Fees*
Self-supporting graduate programs, such as executive MBA programs, receive no State support and are typically funded entirely from student fee revenue. Revenue is fully retained by sources campuses and used to support program costs. Any excess revenue is allocated at the discretion of the chancellor.

*Other Fees*
In addition to the fees described above, the University generates revenue from fees established to cover the costs of specific programs and activities or to fund debt service on facilities. Some campus-based fees are established by student referendum, with subsequent approval by the President. Others are established by chancellors, such as course materials and services fees, which provide for materials consumed by students during the course of instruction or for highly specialized instructional activities. Chancellors may also establish administrative and user fees, such as library fines, etc. Except for a small annual contribution to UC General Funds, all of these fees are retained by campuses.

**Indirect Cost Recovery on Research Contracts and Grants**
Indirect costs are those expenses that cannot be charged specifically as direct costs to one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Indirect costs are real costs incurred by the institution to acquire and maintain its buildings and equipment, and to provide operational support. These support services include maintenance and operations (utilities, janitorial services, police services, etc.), library operations, and administrative services, among others. All of these costs are real, and without these activities, the institution could not function. For example, accounting and payroll services are administrative functions that are not directly identifiable to a specific project or activity; however these services are necessary to conduct the business of the University, including research.

Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, including State General Funds, with reimbursement later provided by the granting agency.

When the University receives indirect cost reimbursements, the funds can be used to repay the original funding source, such as General Funds. In the period between the 1960s and 1980s, the State maintained that it was entitled to a major portion of the funds recovered by the University as indirect costs since these costs, when they were incurred, were being paid from State General Fund appropriations. The University argued for the right to retain a major portion of the indirect cost receipts for its own use. Central to this debate was the tacit acknowledgement by both parties that the funds were to be budgeted as additional income *in the year after they are received*, since at least some of the costs that they were intended to cover were incurred and paid in prior years, and current indirect costs were being paid by currently budgeted funds. This treatment is analogous to the actions of someone who pays for a business expense out of a personal bank account and uses the reimbursement received for that expense for other purposes, rather than simply depositing it in the bank account which originally bore the expense. On a much larger scale, this is the premise underlying discussions over treatment of indirect cost receipts, whether the discussions take place between the State and the University, between the campus and the Office of the President, or between a dean and the Chancellor's Office.

The distribution of federal, state, private, and other indirect cost recovery funds is guided by several agreements between the University and the State and between the systemwide administration and the campuses, as well as by State law. These agreements and the evolution of practices over the years have both provided the University system, and later the individual campuses, with greater flexibility in budgeting and expending of ICR funds.

*Federal Indirect Cost Recovery*

Allocation of federal indirect cost recovery revenue is based on historical agreements with the State dating to 1958. Originally, only the indirect costs from federal contracts were retained by the University and the State's contribution to UC's budget was offset by the indirect cost fund revenue. In 1967, the arrangement was expanded to include federal grants. The 1967 agreement also allowed the University to deduct some of the receipts as "Off-the-Top" to fund the costs of contract and grant administration, with the balance to be split equally between the State General Fund and the University. In 1979-80, the agreement was modified to allow the University to set aside 19.9% for contract and grant administration with 55% of the remainder to be returned to the University's General Fund and 45% to be retained by the University as "Opportunity Funds."

In 1990, the State approved legislation authored by Senator John Garamendi authorizing the use of indirect cost reimbursements for the construction and maintenance of certain research facilities. Under the provisions of the legislation, the University is authorized to use 100% of the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility.

Historically, any amount of federal indirect cost recovery above the amount projected in the General Fund budget was treated as an offset to State support. In other words, UC did not benefit from the General Fund share of any additional federal ICR revenue. During the 1990s, with the onset of "compact" agreements with the Governor, UC negotiated and reached an agreement with the State Department of Finance that allowed UC to keep all excess indirect cost recovery.

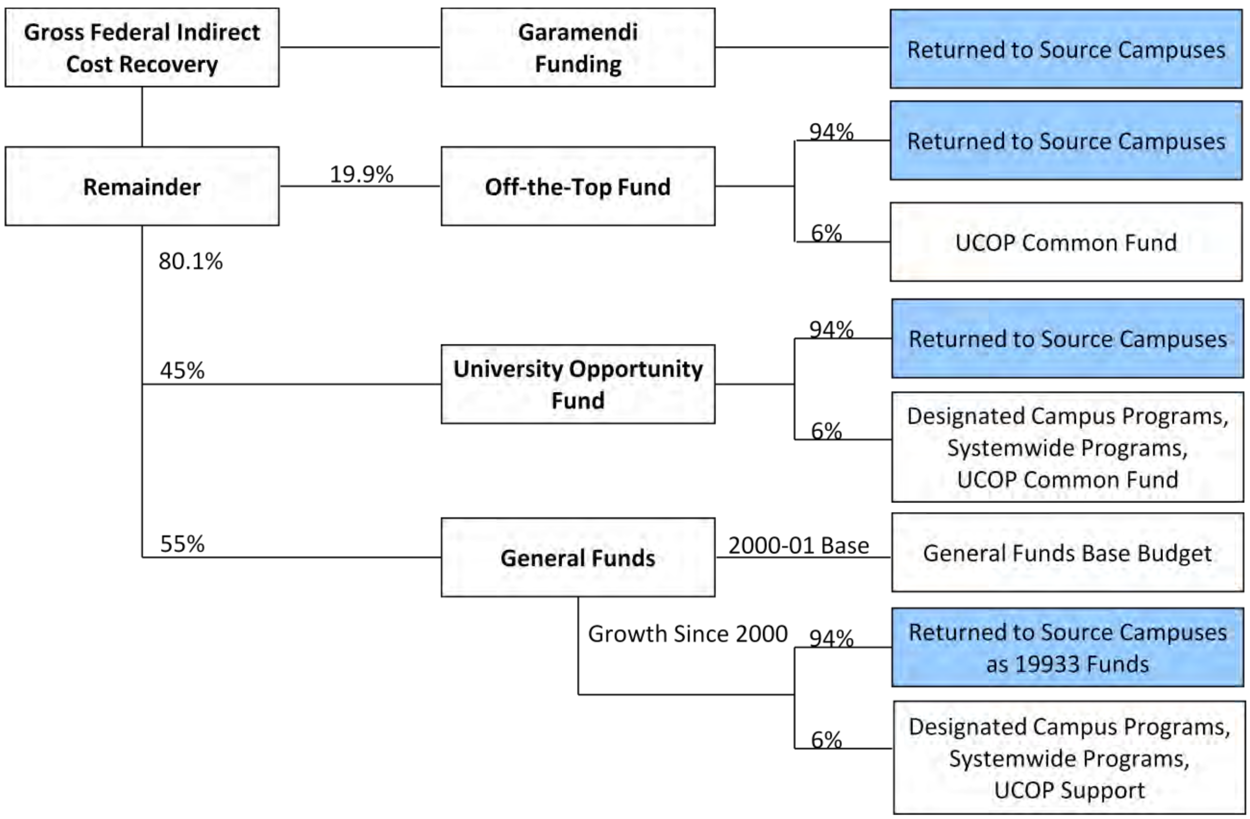
Internally, the history of allocations of federal indirect costs at UC has been one of increasing decentralization. Over the past few decades, the Office of the President has returned more and more control of these funds to the source campuses.

Prior to July 1982, Off-the-Top Funds were returned to the campuses roughly in proportion to the amount of indirect cost recovery generated by each campus. In accordance with the State agreement, these funds were to be used for research administration expenses. Opportunity Funds, on the other hand, were allocated to campuses on an *ad hoc* basis for "urgent needs" without regard to the amount generated by each campus.

In 1982, internal allocation policy was changed by President Saxon so that both the "off-the-top" and Opportunity Funds portions would be returned to the campuses in proportion to the amounts generated, to the degree considered feasible by the president (with a small amount retained for the funding of systemwide programs). Since the late 1990s, source campuses have retained 94% of Off-the-Top Funds and Opportunity Funds, net of revenue returned for Garamendi facilities costs. The remaining 6% of funds is used to support UCOP administration and various systemwide programs such as the Education Abroad Program and the California Institutes for Science and Innovation.

Prior to 1999-00, the entire General Fund share of federal indirect cost recovery was pooled with other General Funds and was allocated according to systemwide priorities of the time. Funding was not returned directly to the campus where it was generated. Funds were permanently allocated to campuses to fund faculty salary increases, staff salary increases, other cost increases, and new programs and initiatives. These funds are not annually withdrawn and remain part of the base budget at each location. Therefore, each year a share of federal indirect cost recovery must continue to be pooled with other General Funds to pay for the earlier permanent allocations.

**Display 2: Distribution of Federal Indirect Cost Recovery (2000-2010)**




In the late 1990s, during a period of significant growth in federal grant funding, campuses expressed concerns about the distribution of the General Funds share, and President Atkinson established a new policy for distribution. In 2000-01, a unique fund number (19933) was created to track the indirect cost recovery in the General Fund. The 1999-00 fiscal year was established as the base year and the General Fund contribution from each campus was benchmarked based on revenue from that year. Each year since, any indirect cost recovery up to that base amount is designated as 19900 funds. For any amount of indirect cost recovery over this base amount, 94% is allocated to the source campus and recorded in fund number 19933. The remaining 6% of any new funding is designated as 19900 funds along with the base for campus block allocations, UCOP administration, systemwide programs, and initiatives. As a result, source campuses have retained 94% of the General Fund share of any growth in federal indirect cost recovery generated since 2000 (after setting aside Garamendi financing funds).

As a result of State policy on UC's federal ICR and UC's own internal allocation policies, the budgeting of federal ICR funds is complicated and difficult to explain. The bottom line, however, is that under present policies for every new federal ICR dollar a campus has generated beyond the based that existed in 2000, the campus has retained at least 94 cents.

*Indirect Cost Recovery on State Contracts and Grants*
UC has a long standing agreement (a 1970 memorandum) with the State that overhead recovery from State agency agreements, contracts, and grants helps support the UC General Fund budget and is returned to the campuses as support for State-funded programs.

Internal UC policy has been to pool state indirect cost recovery funds with other UC General Funds, which are then used to support the University budget through normal block allocations to campuses and funding for specific systemwide and campus initiatives. Campuses have argued that this policy results in a disincentive for increasing the amount of state contracts and grants and state ICR rates. In 2000, a proposal was made to treat state ICR funds in a manner similar to federal indirect cost recovery, with the establishment of a separate fund number for tracking allocations, but this proposal was never implemented.

Since 2007, the indirect cost recovery associated with grants from the California Institute for Regenerative Medicine (CIRM) has been treated differently from other state ICR revenue for two reasons. First, campuses expressed concern that source campuses would not receive their fair share of revenue generated. Second, concerns were expressed about conflict of interest for UC campus representatives on the CIRM governing board. All indirect cost recovery on CIRM grants is returned directly to campuses if they can provide evidence that the funds are actually used to offset costs incurred by CIRM grant activity.

*Private Indirect Cost Recovery*
With the exception of ICR on clinical trials, all indirect cost recovery on private contracts and grants is recorded in the Educational Fund, which was established in 1964 and designated to be used for the special needs of the University's educational programs. Since a 1967 agreement (restated in the 1979 memorandum) with the State, it has been agreed that overhead revenue from private contracts and grants is to remain with the University without any compensatory adjustment in the State's contribution to UC.

Prior to 1996, allocations from the Educational Fund were made on an ad hoc basis, representing the systemwide priorities at the time, and over the years a number of permanent funding commitments were made. In addition, an Educational Fund reserve was established as a fund functioning as an endowment to provide annual income for support of some activities.

In 1996, existing permanent Educational Fund allocations were benchmarked and, from that point forward, growth in private indirect cost recovery has been returned to generating campuses, net of a share to address inflationary cost increases for UCOP administration, systemwide programs, and initiatives funded from the Educational Fund. In addition, campuses were allowed to retain 100% of indirect cost recovery earned on clinical drug trials, without any systemwide contribution.

Just as the distribution of federal ICR is complicated, the methodology used to calculate the inflationary amount of private ICR retained by UCOP is also complicated and difficult to understand. Essentially, in any given year an inflationary factor is applied to the total private ICR revenue generated by a campus in the prior year. That inflationary amount is set aside for designated allocations by the President and any remaining growth in funding over the prior year (or a net reduction if growth is less than the inflation factor) is distributed to the source campus as an undesignated allocation.

Because of this methodology, in order to increase its return a campus must generate revenue growth that exceeds the inflationary contribution every year. The proportion of new revenue retained by the campus rises as revenue growth increases beyond the inflationary contribution. The methodology makes campus shares somewhat unpredictable from year to year but also makes it imperative that a campus generate new revenue, lest its share of existing revenue decline over time. In fact, in order to maintain a 75% share of revenue, a campus must generate growth equivalent to four times the inflationary contribution retained for systemwide allocations.

At the time the distribution policy was changed in 1996, campuses retained approximately 34% of revenue (net of STIP interest and ICR on clinical trials) as undesignated allocations. By 2007-08, that share had grown to 76%. Campuses have been allocated nearly 90% of growth in private ICR since 1995-96. Due to the variation in revenue growth by campus, undesignated allocations of revenue generated by the mature campuses ranged from 67.5% at Riverside to 83.8% at Santa Cruz during 2007-08. Merced received 96.2% due to its rapid growth in private ICR.

**Intellectual Property Royalty Income**

Patent revenue appears in the University budget in two categories: as a component of UC General Funds and under Special Funds Income—Other. Income derived from royalties and fees, less the sum of payments to joint holders and less net legal and direct expenses, is distributed in various shares as required under University and campus policies.

First, the University Patent Policy grants inventors the right to receive 35% of net income accruing to individual inventors. Second, the 1997 revision to the patent policy established that 15% of net income from each invention licensed since 1997 be designated for research-related purposes at the inventor's campus or National Laboratory. Third, based on a long-standing agreement with the State, 25% of the patent revenue remaining after deducting payments to joint holders, net expenses, and inventor share payments is allocated to the General Fund. This General Fund share is pooled with other General Funds and allocated for systemwide priorities. Finally, all income remaining after deductions and other distributions is allocated to the campuses. Campuses expend these funds at the chancellor's discretion.

**Short Term Investment Pool Earnings**

The University earns income from funds held temporarily in the Short Term Investment Pool (STIP). The handling of these earnings parallels the way UC's fund sources have been treated historically. For funds historically collected and redistributed by UCOP, STIP income has similarly been retained by UCOP and reallocated for systemwide priorities. For example, all STIP income accrued from General Fund, Off-the-Top Fund, Opportunity Fund, and Educational Fund balances are retained and reallocated by UCOP, even if the balance amount is held by a campus. For funds historically managed by campuses without involvement by UCOP, STIP income accrues to the source campus. Thus, STIP income on Registration Fee, professional school fee, and hospital and auxiliary revenue balances is returned to the source campus.

The retention of STIP income for certain fund sources by UCOP creates incentives for campuses not to maintain balances in those fund sources. For General Funds, this may be considered a good outcome, since State funds and student fees should be expended largely in the current year. However, the policy creates an unfair playing field for campuses. Campuses with hospitals and significant sources of other funds have a greater ability to maintain balances in funds from which UCOP does not sweep STIP income. Other campuses with fewer resources have limited ability to maintain reserves outside of the UCOP-swept funds.

In November 2010, UCOP took action to change current practice and to return all STIP earnings to source campuses, beginning with earnings generated during the first quarter of 2010-11.

**Self-supporting Enterprises and Other University Activities**

Under current practice, certain self-supporting enterprises pay assessments to support UCOP administration through the UCOP Common Fund.[2]

*Medical Centers and Auxiliary Enterprises*

Prior to 1991, UC's medical center and auxiliary enterprises supported UCOP administrative activities through recharges. In 1991-92, the University established a tax on medical center and auxiliary expenditures that contributed to the Common Fund. At that time, the tax was established at 0.2% of expenditures. Tax rates fluctuated during that decade, and the medical center tax rate was raised to 0.26% in the early 2000s. The auxiliary tax rate remains at 0.2%.

*Health Sciences Compensation Plans*

Campuses contribute a fixed dollar amount from health sciences compensation plan revenues to the UCOP Common Fund that is adjusted annually. In 2007-08, the plans contributed $108,000.

*University Extension*

Campuses retain all revenues from University Extension and make no contribution to systemwide administration from this revenue source.

**Undergraduate Financial Aid**

In 1995, UC adopted a common systemwide strategy to implement the financial aid policy adopted by the Regents in 1994. That strategy – known as the Education Financing Model (EFM) – drives all aspects of UC's undergraduate financial aid program: how UC determines its overall funding commitment, how University Student Aid Program (USAP) funds are allocated to campuses, and how campuses award funds to students. The strategy reflects a simple principle: "Put the money where the student need is." Operationally, this principle results in approximately the same student self-help level (the amount that UC expects students to work and borrow) at every campus.

To date, the strategy has served UC and its students well:

- The strategy allows the President to describe UC systemwide priorities when speaking to the Regents, the legislature, and the public about UC affordability and the impact of fees on UC students.
- Having a coherent systemwide approach to student aid that is focused on total cost (fees, room and board, books, etc.) has helped UC defeat repeated proposals from the Legislative Analyst's Office to cut UC's undergraduate financial aid budget and to redirect those funds to the Cal Grant program, which is focused solely on fees.
- By allocating funds based on student need, the strategy ensures that students are not penalized for attending a campus that enrolls a high proportion of low-income students or is located in a high-cost area. Similarly, campuses are not penalized for enrolling low-income students.
- The strategy translates into campus allocations that are formula-driven, which has reduced the debate and *ad hoc* decision-making that characterized prior annual allocations.

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[2] In addition to other fund sources, the UCOP Common Fund supports administrative activity at UCOP. The Common Fund is derived by pooling revenue from a variety of fund sources (17 in 2008-09), including indirect cost recovery on federal and private contracts and grants, earnings from funds functioning as endowments, and assessments on various University activities.

- The strategy enjoys broad support among campus constituents, who generally agree that financial access is a systemwide goal and that the current approach is a fair way to achieve it.
- Since campuses are funded at the same self-help level, the strategy prevents campuses from using financial aid funds from systemwide fee revenue to compete against each other for students. Each campus is similarly accessible to every student.
- Despite rising costs, UC has maintained a remarkable track record with respect to affordability – systemwide and at each campus – as measured by the economic diversity of its students, debt at graduation, graduation rates for low-income students, and other measures.

The current strategy results in some campus cross-subsidization of systemwide fee revenue, the primary USAP fund source. Fee revenue is redistributed from campuses with relatively lower-need students to those with relatively higher-need students. To date, this has generally been viewed as a worthwhile practice in light of the systemwide nature of UC's commitment to financial accessibility.

The current methodology is sensitive to changes in campus need over time; campuses have evolved from high-need to low-need campuses or vice versa, as their student populations and costs have changed.

**Graduate Financial Aid**

The distribution of graduate USAP funds has been based on the systemwide goal of offsetting campus cost increases rather than addressing student need. Graduate USAP funding is currently disaggregated into various categories ("buckets"), each of which has its own intended use, revenue source, permitted use, and allocation basis. For example, funding for teaching assistant fee remissions is distributed based on undergraduate enrollment, while funding for professional degree student financial aid is distributed based on professional degree student enrollments.

Issues with the current methodology include the following:

- *Complexity:* The multiple buckets prevent transparency and hinder campus planning.
- *Lack of flexibility:* The separate restrictions on the use of individual buckets limit campuses' ability to address their own most pressing graduate student support needs.
- *False precision:* The current approach entails an extremely data-intensive process for determining campus "need" that relies on a host of questionable assumptions.
- *No clear principle:* Each USAP bucket and its associated allocation strategy emerged over time to meet a specific need in an ad hoc way.

In addition, each campus has a permanent base budget of graduate financial aid funds that were decentralized during the 1990s, and more recently, separate allocation methods have been established for ad hoc additions to systemwide graduate student support and in some cases have involved unfunded campus mandates.

**Summary of Current Assessment and Reallocation Policies by Fund Source – 2000-2010**

| Fund Sources | Distribution | Assessment | Key Points |
|---|---|---|---|
| State General Funds | Incrementally distributed | n/a | ▪ Distributed per allocation principles laid out by President Atkinson in 1996 and Regental expenditure priorities |
| **Tuition and Fees** | | | |
| Educational Fee - FWS | Redistributed | varies | ▪ Portion set aside for return-to-aid<br>▪ Enrollment growth share returned to campuses<br>▪ Fee increases pooled with other General Funds and allocated per Regental priorities |
| Educational Fee - Summer | Retained by Source | 0% | ▪ Campuses responsible for setting aside financial aid; |
| Registration Fee | Retained by Source | 0% | ▪ Uses generally restricted to student services<br>▪ No set-aside for financial aid |
| Professional Degree Fees | Retained by Source | 0% | ▪ Campuses responsible for setting aside financial aid |
| Nonresident Tuition | Retained by Source | 0% | ▪ Prior to 2007-08, all NRT was swept by UCOP and pooled with other UC General Funds |
| Campus-based Fees | Retained by Source | 0% | ▪ Uses are restricted and vary by fee<br>▪ Some fees have set-asides for financial aid |
| Self-supporting Program Fees | Retained by Source | 0% | ▪ Fees generated by executive MBA and other non-State graduate professional programs |
| Summer Fees (non-UC) | Retained by Source | 0% | ▪ Fees generated by enrollment of non-UC students during summer |
| Application Fees | Redistributed | 67% | ▪ Portion set aside for admissions processing activities; remainder pooled with other General Funds |
| **Indirect Cost Recovery** | | | |
| Federal | Taxed | ~6% | ▪ Garamendi debt service taken off the top<br>▪ 19.9% designated for contract and grant administration<br>▪ 45% of remainder set aside for Opportunity Funds to support Regental priorities<br>▪ 55% of remainder as UC General Funds growth since 2000 returned to source campuses; pre-2000 revenue level “lost” in the base budget; tax share pooled with other General Funds |

| Fund Sources | | Distribution | Assessment | Key Points |
|---|---|---|---|---|
| State | – CIRM | Retained by Source | 0% | ▪ Exception to original policy in order to avoid conflict of interest and to track actual costs of CIRM projects |
| | – Other | Redistributed | 100% | ▪ Pooled with other General Funds and allocated per Regental priorities |
| Federal Flow-Thru | | Redistributed | 100% | ▪ Allocated to funds per federal ICR policy, but not allocated to source campuses |
| Private | – Clinical Trials | Retained by Source | 0% | ▪ Due to high costs and risks associated with clinical trials, campuses were authorized to retain revenue |
| | – Other | Mixed | ~24% | ▪ Net tax rates vary by campus; ~24% supports designated campus allocations, systemwide programs, and UCOP |
| **Endowment Earnings** | | | | |
| Campus Foundations | | Retained by Source | 0% | |
| Systemwide Endowments | | Redistributed | n/a | ▪ Allocated per Presidential priorities |
| **Other Sources** | | | | |
| Teaching Hospitals | | Taxed | 0.26% | ▪ Applied to UCOP Common Fund |
| Auxiliary Enterprises | | Taxed | 0.20% | ▪ Applied to UCOP Common Fund |
| University Extension | | Retained by Source | 0% | ▪ Continuing Education of the Bar contribution to UCOP Common Fund was eliminated in 2008-09 |
| Medical Compensation Plans | | Fixed Contribution | $108K | ▪ Applied to UCOP Common Fund |
| Patent Revenue | | Redistributed | 25% | ▪ 25% of net UC funding allocated to General Fund<br>▪ Remainder allocated to campuses and inventor research departments |
| STIP Earnings | | Redistributed | 100% | ▪ Earnings on General Funds, Opportunity Funds, Off-the-Top Funds, Educational Funds, and other UCOP-held funds |
| | | Retained by Source | 0% | ▪ All other funds |
| Lab Management & Overhead | | Managed by UCOP | n/a | ▪ Supports research activity through a UCOP-managed, peer-reviewed award process |

## IV. PROPOSED CHANGES

### 1. Overarching Principle

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 UCOP and/or other campuses will be eliminated or changed as follows:

- Each location will retain all Educational Fee funds generated from its own students.
- 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.
- Existing assessments on medical center expenditures, auxiliary enterprise expenditures, and medical compensation plans that support UCOP administration through the UCOP Common Fund will be eliminated.

As described earlier, the various State and UC General Fund components and the non-financial aid portion of Educational Fee revenues are pooled and allocated to campuses simply as “General Funds.” In order to accomplish the changes described above, it will be necessary to “un-pool” these components. At the beginning of 2011-12, each campus will be assigned a revenue budget for Educational Fees and the individual General Fund components of federal and state indirect cost recovery, application fees, patent revenue, and STIP earnings, as well as an amount for State General Funds. These assigned budget amounts will be based on revenue projections for each campus. This “un-pooling” or “re-labeling” of revenue sources will be largely revenue-neutral to individual campuses upon implementation. In other words, while the individual components of the General Funds budget will be identified, the total amount of the General Funds budget will not change (notwithstanding new funds generated in 2011-12 over 2010-11 base budgets).

Two exceptions to the revenue-neutral adjustments will occur. For STIP earnings, campuses will be assigned revenue targets based on the distribution of existing General Funds budgets. Campus efforts to manage cash balances vary and recent earnings profiles are not a fair method for estimating future earnings capabilities. This change has been made effective with the first quarter of 2010-11, and campuses will retain all future STIP earnings from campus-held funds.

Patent revenue is another volatile revenue source, and again, recent earnings patterns are not an entirely fair method for estimating future earnings capabilities. In order to un-pool the General Fund share of patent revenue, campuses will be assigned permanent adjustments, half of which will be based on recent patent earnings and half of which will be calculated based on General Funds budgets.

While these adjustments are intended to be revenue-neutral upon implementation, campuses will experience budget increases if revenues rise. Likewise, campuses will be responsible for addressing budget shortfalls if revenues decline.

For several non-General Fund sources (i.e., Off-the-Top Fund, Opportunity Fund, and Educational Fund) campuses will experience budget increases resulting from the return of base funding amounts.

## 2. Assessment for Central Operations

With the elimination of various redirections, a new funding source for UCOP administration and other centrally managed or funded activities must be identified. To do so, UCOP proposes to establish a broad-based assessment on campus funds that will provide funding for central operations.

Central operations are defined as:

- UCOP Administration
- UCOP-managed Academic Programs
- Systemwide Initiatives and Ongoing Commitments
- Multi-campus Research Programs and Institutes
- Division of Agriculture and Natural Resources

The assessment will be large enough to cover the funding for central operations currently 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. [3] 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.

In addition, at present, the assessment will not replace a number of existing assessments and recharges, such as the Benefits Administration Fund, the Asset Management Fund, or user recharges for programs managed by UCOP Information Resources and Communications. Separate recharges and assessments will be maintained for UCOP-provided services where a direct link between costs and cost drivers can be identified and where campuses have the ability to meter their usage and therefore control costs. Recharges and assessments are also a means of releasing otherwise restricted funds. For the time being, it is the view of the Office of the President that these benefits associated with the maintenance of certain separate recharges and assessments outweigh the transparency and simplicity that could result from their incorporation in the systemwide assessment.

All campus operating expenditures will be included in the base for calculation of the campus distribution of the assessment. This recommendation is based on the view that all units benefit from being part of the UC system. For example, UC medical centers are served by central operations such as management of the retirement system and employee health benefits; in addition, they benefit through reduced costs of issuing debt and reduced need for maintenance of cash on hand.

Furthermore, while restrictions on the use of certain funds exist that limit the ability to use such funds to pay central support assessments, the full magnitude of fund sources reflects campus capacity to pay. Evidence for this may be found in both the faculty furlough exchange program and requests to use private funds to supplant return-to-aid funds – in both cases, restricted funds were proposed to supplant unrestricted funds. In addition, this inclusion of all fund sources reduces the opportunity for manipulation and simplifies the calculation of the assessment.

It should be acknowledged that the use of total operating expenditures for calculating the distribution of the assessment is not without imperfections. In some cases, financial reports may show expenditures of funds that actually occur outside the UC system, for example, through sub-grants to other higher education institutions. In addition, campuses that have outsourced bookstore and other auxiliary enterprises will benefit from the exclusion of those operations from University expenditure reports. In

[3] Costs of Office of General Counsel operations that are funded from the new recharge mechanism being developed will not be included in the assessment.

the future, the University will monitor these issues and attempt to determine whether there is an overall disproportionate impact on specific campuses.

In the interest of simplicity and transparency, the assessment will be calculated based a single systemwide rate that does not vary by fund source. While acknowledging that dollar amounts assessed to individual campuses do not necessarily correspond to the level of service provided by UCOP, this proposal also reflects the concept of ability to pay, avoids preferences for some funds over others (in the absence of principles for assigning different rates), and reduces the potential for manipulation of fund accounting.

The amount of the assessment will be determined by the UCOP budget and the need for funding of systemwide initiatives. The UCOP budget would grow as campus expenditures grow, but not necessarily at the same long-term rate. The assessment level would be evaluated every two or three years to determine the appropriate rate.

The distribution of the assessment will be based on prior year operating expenditures at fiscal close (as reported in annual audited financial statements). Shifts in the assessment burden will develop over time as total expenditures grow at different rates across campuses.

In order to make the initiation of the new systemwide assessment largely cost-neutral to campuses upon implementation and provide campuses with additional flexibility, UCOP will distribute State General Funds currently supporting central operations to campuses. These funds will be distributed proportionately to campuses based on the difference between the projected 2011-12 assessment and the amount of funding gained by the campus through the return of Off-the-Top Funds, Opportunity Funds, and Educational Fee funds as well as the elimination of the three Common Fund assessments.[4]

State General Fund support for central operations should be roughly equal to State support for the system. As such, assessments for each campus will be divided into State General Fund and other fund portions. Otherwise, campuses will have discretion in the determination of fund sources for covering the non-State General Fund portion of the assessment. UCOP may need to provide guidelines for the allowable level of assessment that may be charged to any particular fund source; for example, UCOP may need to limit the amount of the assessment that can be paid from Registration Fee revenues to maintain consistency with Regental policy on the use of fee revenue.

[4] Per the request of the San Francisco campus, the amount of State General Funds that would be allocated to the campus will instead be held by UCOP as a credit toward the annual assessment on the San Francisco campus. This accommodation will have no impact on the amount of the assessment for other campuses or on growth in the assessment assigned to the San Francisco campus.

**Display 3: Current Funding Sources for Central Operations**

| Central Operations | Funds to be Replaced by Assessment | Selected Unaffected Fund Sources |
|---|---|---|
| ▪ UCOP Administration<br>▪ UCOP-managed Academic Programs<br>▪ Systemwide Initiatives and Ongoing Commitments<br>▪ Multi-campus Research Programs and Institutes<br>▪ Division of Agriculture and Natural Resources | ▪ General Funds<br>▪ Common Fund Assessments*<br>▪ Educational Fees<br>▪ Opportunity Funds<br>▪ Off-the-Top Funds<br>▪ Educational Funds | ▪ Asset Management Fund<br>▪ Benefits Administration Fund<br>▪ Risk Management Funds<br>▪ IR&C Recharges<br>▪ EAP Fee Revenue<br>▪ State Special Funds<br>▪ State Specific Funds<br>▪ State Agency Agreements<br>▪ Federal Appropriations<br>▪ University Press Income<br>▪ National Lab Research Allocation<br>▪ Systemwide Endowment/FFE Funds |

*Includes Common Fund contributions from medical centers, medical compensation plans, auxiliary enterprises, Educational Fees, Off-the-Top Funds, Opportunity Funds and Educational Funds. Other contributions to the Common Fund, such as from the Asset Management Fund, will continue.

### 3. 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 for undergraduate student financial aid. As mentioned earlier, a key feature of the EFM 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 student would face the same net costs regardless of which campus the student chooses to attend.

The systemwide goal of the EFM is viewed with near-consensus as a valuable and laudable approach to student financial aid. Therefore, it is proposed that the University maintain both the EFM goal and the practice of redistributing funds among campuses to support the goal. However, changes in implementation are proposed.

- First, since campuses will retain Educational Fee and Student Services Fee revenues, campuses will be directed to allocate a specified share of fee revenues to USAP.
- Second, a portion of undergraduate USAP currently funded from State General Funds ($41 million) will be withdrawn from campus budgets and held centrally on a permanent basis. Each year, UCOP will allocate these funds to help address the EFM goal. Campuses with a higher percentage of low-income students, for example, would receive a greater share of this funding.
- Third, to the extent necessary, additional campus reductions and reallocations of State General Funds will be distributed annually on a one-time basis to achieve the systemwide EFM goal. In this case, some campuses will be able to fund the common loan/work expectation from less than the designated percentage of their Educational Fee and Student Services Fee revenue, and the excess will be available to these campuses for operating expenses normally supported by General Funds. These campuses would be assigned one-time reductions in State General Funds. This funding would in turn be provided to campuses with a need for more than the designated percentage of Educational Fee and Student Services Fee revenue, as an offset to this need.

### 4. Graduate Financial Aid

Because the distribution of graduate USAP funds has been based on the systemwide goal of offsetting campus cost increases rather than addressing student need, it is proposed that cross-subsidization of financial aid at the graduate level be eliminated. 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 fee revenues to graduate student support and fee remissions. Separate shares will be calculated for graduate academic and graduate professional students, but these shares will be equal across campuses. Campuses will experience changes in the amounts of designated financial aid funding but will have the flexibility to use additional funds, if desired, from the total tuition and fee revenue retained by the campus.

### 5. General Fund Cost Increases and Future State Funding Augmentations and Reductions

As described earlier, for many years it has been the University's policy to pool State General Funds, UC General Funds, and 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 Educational Fee revenue is transferred among campuses. Under the new model, because campuses will retain Educational Fee 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 fee revenue relative to its total budget.

Any future undesignated State funding augmentations will be allocated on the basis of State General Funds and Educational Fee (net of financial aid). Nonresident Tuition, professional degree fees, federal indirect cost recovery, and other UC General Funds will 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.

Any future undesignated reductions in State funding will be allocated on the basis of State General Funds, Educational Fee revenues, Nonresident Tuition, and professional degree fees (net of financial aid). Increases in Nonresident Tuition and professional degree fee revenue are included in order to more appropriately recognize campus capacity to cope with State funding reductions.

Following the approval of the changes proposed in this document, another project will be conducted to measure the level of resources available to each campus on a per student basis. Once appropriate measurements for comparison are identified, plans may be developed to ameliorate differences across campuses. In that event, the policies related to State funding augmentations and reductions proposed here may be altered.

**Display 4: Funds Included for State Funding Augmentations and Cuts**

| Fund Source | Current Method: Cuts and Augmentations | New Method: Augmentations | New Method: Cuts |
|---|---|---|---|
| State General Funds | Yes (as 19900 base) | Yes | Yes |
| Educational Fee Revenue (net of aid) | Yes (as 19900 base) | Yes | Yes |
| Registration Fee Revenue | No | No | No |
| Professional School Fee Revenue | No | No | Yes* |
| Nonresident Tuition | No | No | Yes* |
| Application Fee Revenue | Yes (as 19900 base) | No | No |
| STIP Earnings | Yes (as 19900 base) | No | No |
| Patent Revenue | Yes (as 19900 base) | No | No |
| Pre-2000 Federal ICR Base | Yes (as 19900 base) | No | No |
| Post-2000 Federal ICR (19933) | No | No | No |
| State ICR | Yes (as 19900 base) | No | No |

* Assumes Regents will approve professional degree fee increases and that campuses will have authority to increase enrollment of nonresident students and professional degree students to help address budget shortfalls.

**Display 5: Estimated Distributions of Undesignated State Funds by Campus Based on 2009-10 Budgets**

| Campus | Current Method: Cuts and Augmentations | New Method: Augmentations | New Method: Cuts |
|---|---|---|---|
| Berkeley | 14.9% | 15.2% | 16.2% |
| Davis | 14.6% | 15.0% | 14.6% |
| Irvine | 10.5% | 10.7% | 10.4% |
| Los Angeles | 18.8% | 18.4% | 19.6% |
| Merced | 1.5% | 1.2% | 1.1% |
| Riverside | 7.4% | 7.8% | 7.3% |
| San Diego | 12.3% | 11.8% | 11.7% |
| San Francisco | 6.4% | 5.6% | 5.6% |
| Santa Barbara | 7.6% | 7.8% | 7.5% |
| Santa Cruz | 6.2% | 6.5% | 6.0% |
| Total | 100.0% | 100.0% | 100.0% |