February 10, 2011

TO: Ameae M. Walker (Biomedical Sciences), Vice Chair
    Daniel Ozer (Psychology), Secretary/Parliamentarian
    Rise B. Axelrod (English), Academic Personnel (CAP)
    Paulo Chagas (Music), Academic Computing & Information Technology
    Peter Chung (AGSM), Planning and Budget (P&B)
    Steven Clark (Psychology), Undergraduate Admissions
    Jay Farrell (Electrical Engineering), BCOE Executive Committee
    Christine Gailey (Women’s Studies), Committee on Committees (COC)
    John Ganim (English), Physical Resources Planning (PRP)
    Gerhard Gierz (Mathematics), Preparatory Education
    J. Daniel Hare (Entomology), Faculty Welfare (FW)
    David Herzberger (Hispanic Studies), CHASS Executive Committee
    Morris Maduro (Biology), Graduate Council/CCGA Representative
    Manuela Martins-Green (Cell Biology), Diversity & Equal Opportunity (CODEO)
    Thomas Morton (Chemistry), Junior Assembly Representative
    David R. Parker (Environmental Sciences) CNAS Executive Committee
    David S. Pion-Berlin (Political Science), Committee on Research (COR)
    Richard L. Smith (SoBA), SoBA Executive Committee
    Melanie Sperling (GSOE), GSOE Executive Committee
    Daniel S. Straus (Biomedical Sciences), Biomed Executive Committee
    Albert Wang (Electrical Engineering), Senior Assembly Representative
    Jose Wudka (Physics), Educational Policy (CEP)

FR: Mary Gauvain, Chair
    Riverside Division

RE: Executive Council Agenda, February 14, 2011

This is to confirm the meeting of the Executive Council on Monday, February 14, 2011 at
1:10 p.m. to 3:00 p.m. in 220 University Office Building.
<table>
<thead>
<tr>
<th>Item</th>
<th>Enclosures</th>
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<tbody>
<tr>
<td><strong>Action/Information</strong></td>
<td><strong>1</strong> (pp. 1 - 5)</td>
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<tr>
<td>1:10 – 1:15</td>
<td>Approval of the February 14, 2011 Agenda and January 24, 2011 minutes.</td>
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<tr>
<td><strong>Information</strong></td>
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<td>1:10 – 1:15</td>
<td><em>Issues under review – Items currently under review</em></td>
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<td>1:15 – 1:25</td>
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<td><strong>ANNOUNCEMENTS BY THE CHAIR</strong></td>
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<td><strong>Action/Discussion</strong></td>
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<td>1:25 – 1:45</td>
<td><em>DISESTABLISHMENT OF THE BIOLOGICAL SCIENCES</em></td>
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<td><em>INTERDEPARTMENTAL UNDERGRADUATE MAJOR</em></td>
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<td>Review and Discussion</td>
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<td><strong>Action/Discussion</strong></td>
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<td>1:45 – 2:15</td>
<td><em>BUDGET DISCUSSIONS</em></td>
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<td>Continue discussions of the budget</td>
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<td><strong>Action/Discussion</strong></td>
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<td>2:15 – 2:30</td>
<td><strong>REQUEST FOR SYSTEMWIDE REVIEW OF</strong></td>
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<td></td>
<td><strong>FUNDING STREAMS PROPOSAL</strong></td>
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<td>Review the Committee responses and finalize a response for systemwide</td>
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<td><strong>Discussion</strong></td>
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<td>2:30 – 3:00</td>
<td><strong>OTHER EXECUTIVE COUNCIL &amp; COMMITTEE BUSINESS</strong></td>
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EXECUTIVE COUNCIL MEETING
MINUTES
JANUARY 24, 2011

PRESENT:
Mary Gauvain (Psychology), Chair
Ameae M. Walker (Biomedical Sciences), Vice Chair
Daniel Ozer (Psychology), Secretary/Parliamentarian
Peter Chung (AGSM), Planning and Budget (P&B)
Steven Clark (Psychology), Undergraduate Admissions
Jay Farrell (Electrical Engineering), BCOE Executive Committee
John Ganim (English), Physical Resources Planning (PRP)
Gerhard Gierz (Mathematics), Preparatory Education
J. Daniel Hare (Entomology), Faculty Welfare
David Herzberger (Hispanic Studies), CHASS Executive Committee
Morris Maduro (Biology), Graduate Council/CCGA Representative
Manuela Martins-Green (Cell Biology), CODEO
David R. Parker (Environmental Sciences), CNAS Executive Committee
David S. Pion-Berlin (Political Science), Committee on Research (COR)
Richard L. Smith (SoBA), SoBA Executive Committee
Melanie Sperling (GSOE), GSOE Executive Committee

ABSENT:
Rise B. Axelrod (English), Academic Personnel (CAP)
Paulo Chagas (Music), Academic Computing & Information Technology
Christine Gailey (Women's Studies), Committee on Committees (COC)
Thomas Morton (Chemistry), Junior Assembly Representative
Daniel S. Straus (Biomedical Sciences), Biomed Executive Committee
Albert Wang (Electrical Engineering), Senior Assembly Representative
Jose Wudka (Physics), Educational Policy (CEP)

AGENDA:
The agenda for January 24, 2011 and the minutes from the January 10, 2011 meeting were unanimously approved as written.

Chair Gauvain introduced the Chair for the Executive Committee of SoBA, Prof. Richard L. Smith, who was the recently elected member and replaced Prof. Erik Rolland.

ANNOUNCEMENTS BY THE CHAIR:
Research Specialization database:
Chair Mary Gauvain indicated that she had sent out an email to the faculty requesting information from them to create a research specialization database for use by faculty. The database will be keyword based and it will assist faculty who are interested in cross-discipline research.
Chancellor’s Cabinet Meeting:
Chair Gauvain also indicated that she had attended the Chancellor’s Cabinet meeting earlier that morning and the bulk of the discussion was about the huge budget cut that the UC will be facing. All the units are being asked to produce information that will be helpful in coming up with a solution to the budget deficit. In this regard, she stated that it is important to think about and discuss the role of the Senate in this process. She indicated that the Senate needs to be looking at proactive ways to present their views and while doing this, determine how to do business differently, what needs to change, and what can be tolerated. Chair Gauvain indicated that the Chairs should encourage their colleagues to think about their role in shared governance in the unit’s decision-making processes. Chair Gauvain indicated that she will be sending a short email to all the Senate Chairs asking for ideas for budget cut priorities.

Amrik Singh Poonian Endowed Term Chair Naming Opportunity
The proposed naming was reviewed by the EC and it was agreed that it should be sent out to the appropriate committees to review.

Replenishing Lost Funds
This was an executive session discussion and no notes were taken nor was the Senate Director present.

Undergraduate Admissions Proposal:
Undergraduate Admissions Committee Chair Steve Clark gave a brief update on the work that his committee has been doing with regards to the revision of the comprehensive review of freshman applicants for fall 2012 review cycle. The proposal was being revised for two reasons, one, because the UC has changed its eligibility construct, and two, because UCR wants to be more selective as they recruit students who are capable and more likely to succeed and graduate. Chair Clark said the Committee conducted a series of regression analyses and these analyses were used to determine the best predictors for accepting students who will succeed on the campus. He indicated that the factors and their weights for the current and proposed calculation of the Academic Index Scores are as follows:

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<tr>
<td>Number of AP/IB courses</td>
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In addition, the Undergraduate Admissions committee also approved proposals from CNAS and BCOE to form committees within their respective colleges that would review freshman applications for evidence of mathematics and science proficiency, based on the AP Calculus Exam, the Mathematics portion of the SAT Reasoning test, the SAT subject exams for Mathematics, Physics and Chemistry, and the ACT Scientific Reasoning test. In response to a question as to why
the weights for first generation and low family income were lowered, Chair Clark indicated that those two variables were negatively associated with student academic success. The more weight they put on them, the more they were selecting students who were not likely to succeed on campus.

The proposal will be voted on at the February 15, 2011 Division meeting.

**OTHER EXECUTIVE COUNCIL & COMMITTEE BUSINESS:**

Prof. Dave Parker, Chair of the CNAS Executive Committee, indicated that the faculty in CNAS feel very strongly that in terms of budget cuts, it is important to examine expenses in the Development Office, the Research Office, and the Office of the Vice Provost for Undergraduate Education.

Prof. Dan Hare, Chair of Faculty Welfare indicated that there needs to be a review of the compliance issues on the campus. There are 4 compliance issues mandated at the systemwide level, all the rest at UCR are required locally. There was also a strong belief that the Research Office is a barrier to faculty and there is a need for the office to rethink who their clientele is.

Prof. Morris Maduro, Chair, Graduate Council indicated that the Economics Graduate Program is in the process of being reviewed. He also indicated that Graduate Council is dealing with pending budget cuts especially as they relate to graduate programs. The Council had discussed the issue of asking the Administration to do its best to preserve what funding exists for graduate programs. So far the biggest challenge is the funding for TAs. CNAS will be cutting its TAs by 30%, which is due to the large deficit that the College currently has. Graduate Council is wrestling with these issues and it is trying to determine what the priorities should be in this budget climate. Chair Maduro indicated that the Dean of the Graduate Division and the Graduate Council are trying to encourage departments to consider designing self-supporting graduate programs that will generate a revenue stream for them that can be used to fund Ph.D. students. BCOE is in the process of finalizing an online professional Masters Degree program. Chair Gauvain indicated that these proposals should be very clear in noting that they will be revenue generators and they will have no monetary impact on the campus because the Academic Council is very clear on its concerns regarding the creation of new programs.

Meeting adjourned at 2:50 PM.

Respectfully submitted,

*Selwyn Ehlers*

*Executive Director*

*Office of the Academic Senate*
<table>
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<tr>
<th>Submission Date</th>
<th>Subject</th>
<th>Committees</th>
<th>Executive Council - (A/I or I)</th>
<th>Division Due Date</th>
<th>Systemwide Due Date</th>
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*updated 02-8-2011*
TO: Jose Wudka  
Chair, Educational Policy

FROM: David R. Parker  
Chair, CNAS Executive Committee

DATE: January 7, 2011

RE: Modified Request Concerning the Biological Sciences Major

Having reviewed the relevant Senate procedures, CNAS would like to modify its prior request to disestablish the Biological Sciences major at this time. Rather, it would seem much more appropriate to place a moratorium on entry into the major, starting with the Fall, 2012, freshman cohort. We understand that, in keeping with UC policy, students who enroll prior to that quarter would retain their "catalog rights" to enroll in the Biological Sciences major if they should so desire.

We believe that this will allow for much more careful deliberation about any ultimate decision to disestablish the Biological Sciences major. Included will be an opportunity to evaluate the ability of the new majors that are now coming on line (e.g., Cellular, Developmental, and Molecular Biology; Microbiology) to accommodate the needs of students who previously opted for the corresponding tracks in Biological Sciences.

I also would like to reiterate the near-unanimous desire of the CNAS life sciences faculty to move in this direction. As detailed in Tim Paine’s memo of 31 May, 2010, there should soon be an array of stand-alone majors that largely supersede the need for the (often redundant) tracks previously contained within Biological Sciences. Administratively, these will range from truly interdepartmental majors, to departmentally anchored joint ventures, to (rarely) more traditional departmentally-based majors. This outcome is at least philosophically aligned with the recommendations found on pp. 12-14 of the external review by Alberts et al. (misidentified as the "Atkinson review" in Prof. Paine’s memo). Moreover, the disciplinary content of the collective majors is quite consonant with that enumerated on p. 14, although the organizational details are somewhat different.

Please do not hesitate to contact me if any further clarification is required.

c: T. Paine  
R. Cardullo  
M. McKibben  
T. Baldwin  
S. Gonzalez
DATE: 10 June 2010

TO: Prof. Marylynn Yates, Chair
College of Natural and Agricultural Sciences Executive Committee

FROM: Prof. Timothy D. Paine, Director
Biological Sciences Interdepartmental Undergraduate Major

SUBJECT: Disestablishment of the Biological Sciences Interdepartmental Undergraduate Major

_________________________________________________________________________

Summary: The faculty of the interdisciplinary Biological Sciences met in a faculty meeting to
discuss the duplication of tracks and majors among the life sciences in the College and the
resulting confusion to both students and faculty. The consensus of the meeting was to submit a
proposal to the faculty of the participating departments for a vote to disestablish the major. The
faculty voted overwhelmingly to initiates a process to disestablish the major. We request that the
Executive Committee of the College approve this decision and initiate the process through the
appropriate Academic Senate committees to eliminate the major. Students who are currently
enrolled in the program will continue to receive faculty advising.

Background:
The Biological Sciences major is an interdepartmental major comprised of faculty from seven
life science departments (Biology, Botany & Plant Sciences, Cell Biology & Neuroscience,
Entomology, Environmental Sciences, Nematology, and Plant Pathology & Microbiology). In
their junior and senior years, students can select from nine specialized tracks (Bioinformatics and
Genomics, Biology, Cell and Developmental Biology, Conservation Biology, Ecology and
Evolution, Environmental Toxicology, Medical Biology, Microbiology, and Plant Biology).
Table 1 provides the enrollment figures for the last five years. A large number of students are in
the undeclared category and this reflects the number of first and second year students. The
graduation rates in the various tracks for the last five years are shown in Table 2.

Some of these tracks have had significant enrollment, while others have suffered from chronic
low enrollment. In addition, the duplication of tracks and majors has created confusion for many
new and continuing undergraduate students. The status of the tracks and of newly proposed
majors has changed since the Biological Sciences major was created. The current status of tracks
and majors can be briefly summarized. The Biology track duplicates the Biology major. The
Plant Biology track duplicates the interdisciplinary Plant Biology major and a vote supporting
elimination of track has been taken. The Entomology track has been eliminated because of
duplication with the Entomology major. A proposal to eliminate the Ecology and Evolution
track was approved by participating faculty last year. Proposals for new majors in both
Microbiology and Cell & Developmental Biology are being formulated or have been submitted
to the CNAS Executive Committee and are in the approval process. These two new majors
would duplicate existing tracks. The Conservation Biology, Bioinformatics & Genomics, and
Environmental Toxicology tracks have had low enrollment and only a few students graduate each year. The remaining track Medical Biology, has graduated an average of 45 students each year.

A meeting of the faculty of the Biological Sciences major was convened on 9 March 2010 to discuss the options to implement the recommendations of the outside Atkinson review to eliminate duplication between majors and tracks. The discussion also included an evaluation of the future of tracks with multiple years of low enrollment and how best to serve the students in the major. The faculty in attendance reached a consensus agreement on three issues. First, students in the life sciences could be fully accommodated within existing departmental or interdepartmental majors outside of Biological Science or in proposed majors currently in the process of formal approval. Second, if all duplicative or low enrollment tracks were eliminated, there would be only a single track (Medical Biology) remaining in the major. Third, rather than have a single track major, the faculty recommended that the Biological Sciences major be disestablished.

A vote was conducted using the iLearn site between 16 April and 30 April 2010. Background information and the ballot question were posted in separate files on a Biological Sciences site on iLearn. Faculty in the participating departments were notified by e-mail and sent reminders twice. A total of 57 ballots responses were recorded out of 153 possible. Of the faculty voting, 96.5% voted in favor of disestablishing the major.

After deliberations and a vote, I request, as Director of the Biological Sciences interdepartmental undergraduate major, that the CNAS Executive Committee recommend that the major be disestablished and the recommendation be forwarded to the appropriate campus Academic Senate committees for consideration and approval. There are administrative and academic processes that must be followed and this will take time. If the recommendation is approved, we recommend that enrolment in the major would be suspended for the class of students entering UC Riverside in AY 2011-2012. The listing for the Biological Sciences major would be completely eliminated from the General Catalog for 2011-2012 and thereafter. Students currently enrolled would be allowed to graduate in the major under the current track structure. These students will also continue to receive faculty advising. All future students would be accommodated either in existing majors or in proposed majors currently under consideration.

As outlined previously, all of the students who might be interested in pursuing any specific track can be accommodated within existing department-based or interdepartmental majors. The educational goals and objectives of the students continue to be held as the highest priority. The primary concern has been with entering students interested in Medical Biology. The Medical Biology track does not have any course requirements that are specific only to that track; some classes have a MCBL course number, but all are cross listed with other department courses (i.e., BIOL or PLPA). Consequently, all students can be advised to take a course sequence that includes the options currently available within the Medical Biology track and earn a degree in Biology. Alternatively, the students may be accommodated within the Medical Sciences Emphasis in Biochemistry.
The Medical Biology has been very popular and more than 60% of the students graduating with a degree in Biological Sciences have participated in that track. There is some reason to believe, although data are difficult to obtain, that the existence of the track has been an important recruiting highlight for the College in attracting high caliber students. However, elimination of the major does not eliminate the opportunities for specialization in that area and this can be emphasized in recruiting events and through student advising. In addition, if there is a sufficient core of faculty who share a commitment to Medical Biology as a field of undergraduate student, then they are both encouraged and supported to develop an independent interdepartmental Medical Biology major.
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<td>103</td>
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January 11, 2011

TO: PETER CHUNG, CHAIR, PLANNING AND BUDGET  
DAVID PION–BERLIN, CHAIR, COMMITTEE ON RESEARCH  
JOSE WUDKA, CHAIR, EDUCATIONAL POLICY  
MORRIS MADURO, CHAIR, GRADUATE COUNCIL  
DAN HARE, FACULTY WELFARE

FM: MARY GAUVAIN, CHAIR  
RIVERSIDE DIVISION

RE: REQUEST FOR SYSTEMWIDE REVIEW OF FUNDING STREAMS PROPOSAL

On behalf of Academic Council Chair Simmons, I enclose a request for systemwide review of a proposal to change the way funds are allocated across the campuses.

Proposed Changes:

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 always, if you feel it is not in your committee’s purview, you may elect not to opine. I would appreciate it if you would inform me should you choose not to opine.
Please submit your response by **February 8, 2011** to give the Executive Council and myself an opportunity to review and write a response that incorporates all your recommendations.

Attachment (1)
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,

[Signature]

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

Encl (2)
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

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\(^1\) 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 longstanding 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.


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.  

**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.
<table>
<thead>
<tr>
<th>Fund Sources</th>
<th>Distribution</th>
<th>Assessment</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Funds</td>
<td>Incrementally</td>
<td>n/a</td>
<td>• Distributed per allocation principles laid out by President Atkinson in 1996 and Regental expenditure priorities</td>
</tr>
<tr>
<td>Tuition and Fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational Fee - FWS</td>
<td>Redistributed</td>
<td>varies</td>
<td>• Portion set aside for return-to-aid</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Enrollment growth share returned to campuses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Fee increases pooled with other General Funds and allocated per Regental priorities</td>
</tr>
<tr>
<td>Educational Fee - Summer</td>
<td>Retained by Source</td>
<td>0%</td>
<td>• Campuses responsible for setting aside financial aid;</td>
</tr>
<tr>
<td>Registration Fee</td>
<td>Retained by Source</td>
<td>0%</td>
<td>• Uses generally restricted to student services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• No set-aside for financial aid</td>
</tr>
<tr>
<td>Professional Degree Fees</td>
<td>Retained by Source</td>
<td>0%</td>
<td>• Campuses responsible for setting aside financial aid</td>
</tr>
<tr>
<td>Nonresident Tuition</td>
<td>Retained by Source</td>
<td>0%</td>
<td>• Prior to 2007-08, all NRT was swept by UCOP and pooled with other UC General Funds</td>
</tr>
<tr>
<td>Campus-based Fees</td>
<td>Retained by Source</td>
<td>0%</td>
<td>• Uses are restricted and vary by fee</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Some fees have set-asides for financial aid</td>
</tr>
<tr>
<td>Self-supporting Program Fees</td>
<td>Retained by Source</td>
<td>0%</td>
<td>• Fees generated by executive MBA and other non-State graduate professional programs</td>
</tr>
<tr>
<td>Summer Fees (non-UC)</td>
<td>Retained by Source</td>
<td>0%</td>
<td>• Fees generated by enrollment of non-UC students during summer</td>
</tr>
<tr>
<td>Application Fees</td>
<td>Redistributed</td>
<td>67%</td>
<td>• Portion set aside for admissions processing activities; remainder pooled with other General Funds</td>
</tr>
<tr>
<td>Indirect Cost Recovery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>Taxed</td>
<td>~6%</td>
<td>• Garamendi debt service taken off the top</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• 19.9% designated for contract and grant administration</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• 45% of remainder set aside for Opportunity Funds to support Regental priorities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• 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</td>
</tr>
<tr>
<td>Fund Sources</td>
<td>Distribution</td>
<td>Assessment</td>
<td>Key Points</td>
</tr>
<tr>
<td>-----------------------</td>
<td>--------------</td>
<td>------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>State – CIRM</td>
<td>Retained by</td>
<td>0%</td>
<td>• Exception to original policy in order to avoid conflict of interest and</td>
</tr>
<tr>
<td></td>
<td>Source</td>
<td></td>
<td>to track actual costs of CIRM projects</td>
</tr>
<tr>
<td>– Other</td>
<td>Redistributed</td>
<td>100%</td>
<td>• Pooled with other General Funds and allocated per Regental priorities</td>
</tr>
<tr>
<td>Federal Flow-Thru</td>
<td>Redistributed</td>
<td>100%</td>
<td>• Allocated to funds per federal ICR policy, but not allocated to source</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>campuses</td>
</tr>
<tr>
<td>Private – Clinical</td>
<td>Retained by</td>
<td>0%</td>
<td>• Due to high costs and risks associated with clinical trials, campuses</td>
</tr>
<tr>
<td>Trials</td>
<td>Source</td>
<td></td>
<td>were authorized to retain revenue</td>
</tr>
<tr>
<td>– Other</td>
<td>Mixed</td>
<td>~24%</td>
<td>• Net tax rates vary by campus; ~24% supports designated campus allocations,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>systemwide programs, and UCOP</td>
</tr>
<tr>
<td>Endowment Earnings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Campus Foundations</td>
<td>Retained by</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Source</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systemwide Endowments</td>
<td>Redistributed</td>
<td>n/a</td>
<td>• Allocated per Presidential priorities</td>
</tr>
<tr>
<td>Other Sources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teaching Hospitals</td>
<td>Taxed</td>
<td>0.26%</td>
<td>• Applied to UCOP Common Fund</td>
</tr>
<tr>
<td>Auxiliary Enterprises</td>
<td>Taxed</td>
<td>0.20%</td>
<td>• Applied to UCOP Common Fund</td>
</tr>
<tr>
<td>University Extension</td>
<td>Retained by</td>
<td>0%</td>
<td>• Continuing Education of the Bar contribution to UCOP Common Fund</td>
</tr>
<tr>
<td></td>
<td>Source</td>
<td></td>
<td>was eliminated in 2008-09</td>
</tr>
<tr>
<td>Medical Compensation</td>
<td>Fixed</td>
<td>$108K</td>
<td>• Applied to UCOP Common Fund</td>
</tr>
<tr>
<td>Plans</td>
<td>Contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patent Revenue</td>
<td>Redistributed</td>
<td>25%</td>
<td>• 25% of net UC funding allocated to General Fund</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Remainder allocated to campuses and inventor research departments</td>
</tr>
<tr>
<td>STIP Earnings</td>
<td>Redistributed</td>
<td>100%</td>
<td>• Earnings on General Funds, Opportunity Funds, Off-the-Top Funds,</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Educational Funds, and other UCOP-held funds</td>
</tr>
<tr>
<td></td>
<td>Retained by</td>
<td>0%</td>
<td>• All other funds</td>
</tr>
<tr>
<td></td>
<td>Source</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lab Management &amp;</td>
<td>Managed by</td>
<td>n/a</td>
<td>• Supports research activity through a UCOP-managed, peer-reviewed award</td>
</tr>
<tr>
<td>Overhead</td>
<td>UCOP</td>
<td></td>
<td>process</td>
</tr>
<tr>
<td>Lab Management &amp;</td>
<td>Managed by</td>
<td>n/a</td>
<td>• Supports research activity through a UCOP-managed, peer-reviewed award</td>
</tr>
<tr>
<td>Overhead</td>
<td>UCOP</td>
<td></td>
<td>process</td>
</tr>
</tbody>
</table>

12/21/2010
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.

12/21/2010
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 on 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

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

*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

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

* 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

<table>
<thead>
<tr>
<th>Campus</th>
<th>Current Method: Cuts and Augmentations</th>
<th>New Method: Augmentations</th>
<th>New Method: Cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berkeley</td>
<td>14.9%</td>
<td>15.2%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Davis</td>
<td>14.6%</td>
<td>15.0%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Irvine</td>
<td>10.5%</td>
<td>10.7%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>18.8%</td>
<td>18.4%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Merced</td>
<td>1.5%</td>
<td>1.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Riverside</td>
<td>7.4%</td>
<td>7.8%</td>
<td>7.3%</td>
</tr>
<tr>
<td>San Diego</td>
<td>12.3%</td>
<td>11.8%</td>
<td>11.7%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>6.4%</td>
<td>5.6%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Santa Barbara</td>
<td>7.6%</td>
<td>7.8%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Santa Cruz</td>
<td>6.2%</td>
<td>6.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Memo: February 4, 2011

To: Mary Gauvain
   Chair, Academic Senate

From: David Pion-Berlin
   Chair, Committee on Research

CC: Sellyna Ehlers
   Executive Director, Academic Senate

Re: Comments on the Review of Funding Streams

The Committee on Research discussed the Review of Funding Streams Proposal submitted by the Office of the President. There are aspects of the proposal that we find worthy. For example, we applaud the effort to make fiscal matters more transparent, by un-pooling funds, allowing the University to identify the original sources of money and tracking them item by item to their destinations. We also believe that local control has its obvious advantages, allowing UCR to determine how best to utilize its own resources.

We also have some concerns. The Plan alleges that the process will be revenue neutral, not affecting the campuses positively or negatively. It is difficult to know that in the absence of actual data and reference to how that conclusion was reached. For example, we do not know how the analysts came up with the data on Table 5, alleging that UCR’s augmentation would be slightly greater than the projected cuts. (p. 23). The proposal states that UCOP will tax each campus as opposed to the current model where all funds are filtered through UCOP. Each campus’ operating expenditures will be included in the base for calculation. If the assessment is greater than the revenue gained via the return to us of opportunity and educational fee funds (among others) then purportedly some State General Funds will be distributed to the campus to make up the difference. Yet the document also says that “While these adjustments are intended to be revenue-neutral, campuses will experience budget increases if revenues rise,” and “Likewise, campuses will be responsible for addressing budget shortfalls if revenues decline.” (18). Thus, we might expect that in certain years, the plan will not be revenue neutral for us.

We would expect that the new plan will impact us differentially depending on the item. For example, when it comes to undergraduate enrollment, UCR remains a growth campus, unlike many of the other UCs. Retaining the educational fees generated by our undergraduate students should work to our advantage. On the other hand, graduate enrollment has been relatively flat over recent years, and under this plan we would lose the benefits that had come with the pooling of resources into a general fund. In the past, there was, in effect, a subsidy to our campus from the general pool because UCR did not collect as much in graduate fees as other campuses. We will lose that support and will
have to fund TAships, fee remissions and GSHIPS on our own. Once we do, that will reduce our ability to compete with other UCs for graduate students, because we may not be able to offer as attractive, multi-year financial aid packages.

According to the proposal, non-resident tuition (NRT) will also remain on campuses and will not be cross-subsidized. We anticipate this may have a negative effect on our campus, because we are at a competitive disadvantage in attracting large numbers of out of state students, compared to UCLA, Berkeley, or UCSD. Some departments on this campus are discouraging international students from even applying, for lack of support. The question was raised if UCOP could, in the future, withdraw support for graduate students that were admitted with the expectation (and a commitment letter) that they would be funded for multiple (4 or 5) years.

The committee discussed indirect costs. Currently, 94% of indirect costs are returned to source campuses and 6% is retained by UCOP. It is proposed that 100% of indirect costs be retained by campuses which should be a good thing. But since UCR is at the low end in terms of grant revenue and since the amount of the campus tax to cover UCOP administration is unknown, there is no way to judge whether the change will impact us negatively or positively.

Finally, and going forward, we have a procedural concern. It will be critical to our financial wellbeing that the assessment charged to our campus to cover UCOP operations be fair. We don’t know exactly who will be in charge of determining the tax rate for each campus, and we want to insure that UCR be well represented. That means the Committee in charge of drawing up the campus assessments must have representation from Senate faculty—not just administrators--and that UCR personnel in particular be on that Committee.
JANUARY 25, 2011

TO: MARY GAUVAIN, CHAIR
RIVERSIDE DIVISION

FROM: MORRIS MADURO, CHAIR
GRADUATE COUNCIL

RE: REQUEST FOR SYSTEMWIDE REVIEW OF FUNDING STREAMS PROPOSAL

At its meeting on January 14, 2011, the Graduate Council reviewed the request for systemwide review of the proposed changes to the Funding Streams for UC campuses. UCR does lose some funding as a result of the changes (according to the last table in the document), however we have been assured by the Graduate Dean that such small changes can be absorbed to have minimal impact.

As a larger concern, the Council viewed the move toward individuality to be contrary to the spirit of the ‘Power of Ten’ that the UC System stands for.
February 8, 2011

TO: MARY GAUVAIN, CHAIR
RIVERSIDE DIVISION

FM: Y. PETER CHUNG, CHAIR
PLANNING AND BUDGET

RE: Systemwide review of funding streams proposal

Planning and Budget members discussed the funding streams proposal submitted by Academic Council. In this proposal (phase I), campuses will retain all revenues they generate, and UCOP will assess a flat assessment of approximately 1.67% calculated on all fund sources to provide support for OP administration and systemwide programs. We find this approach to simplifying, rendering more transparent, and equalizing funding is a very positive approach and applaud the broad outlines of the plan.

The UCR Planning and Budget Committee assessed the changes proposed in this document with four important characteristics of the UCR campus in mind. First, UCR is among the newer campuses and is challenged by having newer facilities needing resourcing and support. It is also significantly disadvantaged by the historical benching of campus budgets. Second, UCR recent years of expansion have created imbalances in academic programs and student services. Third, UCR has been the most successful UC campus in attracting and supporting underrepresented minority students who are substantially more likely to come from low income families and to be the first in their families to secure a college degree. And fourth, in our current strategic plan we have committed the campus to meeting the profile of an AAU university with all of the comprehensiveness and quality programs that implies. These characteristics make us acutely sensitive to the potential for budget changes to limit the ability of the campus to serve underrepresented minority students while maintaining our desired trajectory toward AAU status.

With this in mind, we first note that rebenching of base budgeting for the campuses is the highest priority for UCR – only with rebenching will basic equity in funding across campuses be established.

Second, while we recognize that the 1.67% tax rate is calculated to maintain UCOP’s current funding level ($305M), we believe it is important to establish a policy on how the assessment rate is to be set and adjusted, as well as identifying who has authority to set the rate. The document refers to “campuses being responsible for
addressing budget shortfalls if revenue declines” and this caused concern among P&B members.

UCR P&B members were also concerned with the loss of funding that will come with elimination of system-wide pooling of resources supporting graduate education. Under this plan, newer campuses trying to expand graduate enrollments will lose the advantages that can be produced by University-wide graduate program development. This is worrisome because it will reduce the ability of growing campuses to offer the competitive financial packages needed to attract the most highly qualified graduate students. The current system reimburses campuses for per-student instruction costs at different rates as a consequence of growth in different eras. This inequality will be compounded by the campus responsibility for all graduate student support. Therefore, it is essential that this item be coupled with the “rebenching” (Phase 2) equalization of the state funding per student and not be implemented in Phase 1. P&B members are in strong agreement that undergraduate University Student Aid Program (USAP) funds be pooled system-wide. Some campuses have a larger proportion of students requiring student aid, and centralization of financial aid is essential to maintain access for all eligible California residents.

According to this proposal, non-resident tuition will also remain on campuses and will not be cross-subsidized. We anticipate this will cause a negative impact on newer and smaller campuses as they do not have a large cohort of international students. P&B members recommend that the campus investigate mechanisms by which UCR can increase our international student population. In addition to being an important revenue stream for the campus, an increase in our international student body would increase diversity and enhance the academic experience at UCR greatly.

Under the current system, about 94% of indirect costs are returned to campuses and 6% retained at systemwide. This proposal indicates that 100% of the indirect costs will be retained on each campus, which is a good thing. UCR faculty compete very well for extramural funds. However as we have fewer faculty than many other UC campuses, our overall revenue from ICR will be less than for some other campuses. In this regard, it is essential to grow our faculty.

Finally, Planning and Budget members also wish to reiterate the importance of addressing the current inequities of UC base funding distribution. We feel that “rebenching” (Phase 2) should be given top priority in order to create a permanent solution to the funding inequity.
February 7, 2011

TO: MARY GAUVAIN, CHAIR
RIVERSIDE DIVISION

FR: DAN HARE, CHAIR
COMMITTEE ON FACULTY WELFARE

RE: FUNDING STREAMS

The Committee on Faculty Welfare (CFW) reviewed the Funding Streams proposal by e-mail. We found this to be a complex document, and many members did not feel confident that they could fully review the document in the absence of more supporting data than were provided. CFW hopes that the Committee on Planning and Budget has received more extensive consultations on these complex issues.

CFW appreciates the historical narrative of how the current funding model came into being through what seems to be a series of ad hoc decisions with unanticipated consequences and understands the general dissatisfaction with this model. Although CFW found no reason to oppose the implementation of the proposal, one goal of returning to the campuses the income that they generate may be troubling.

The goal to "incentivize the campuses to maximize revenue" (p. 18) has the potential for campuses to take different paths to maximize such revenues, including the possibility that some campuses would expand their more lucrative professional schools at the expense of their undergraduate education missions. CFW would hope to continue to see close monitoring of the campuses by UCOP to preserve the" one-system-ten campus" model and to minimize the impact of decisions by Chancellors and Deans on the individual campuses that could lead to "tiering" of the campuses within the system.
February 9, 2011

TO: MARY GAUVAIN, CHAIR
   ACADEMIC SENATE

FR: JOSE WUDKA, CHAIR
    COMMITTEE ON EDUCATIONAL POLICY

RE: RESPONSE ON SYSTEMWIDE STREAMS TO FUNDING PROPOSAL

During its February 4 meeting, the Committee on Educational Policy reviewed the system wide Streams to Funding proposal. In general, the Committee found the proposal difficult to read and frustrating to follow. In the areas of undergraduate funding the Committee supports the proposed scheme and, in particular, maintaining USAP more or less in its present form. CEP was concerned about the lack of specificity in the amount of the proposed Systemwide Assessment, as well as the process through which this rate is to be determined in the future. What representation will the Campuses have when those taxation decisions are taken?