UCLA Budget Overview and Outlook

Presentation to the
UCLA Academic Senate

Seminar # 3: Systemwide Resource Management Issues
November 25, 2013
This Talk

- Funding Streams
- Rebenching
- Debt Restructuring
- Enrollment Planning
Funding Streams

Topics:
- How non-state funds are allocated to campuses.
- How the Office of the President and systemwide programs are funded.

History:
- Campuses have long retained and managed non-core revenues, such as research funds, medical center revenue, auxiliaries, gifts, etc.
- The majority of state funds, tuition and miscellaneous revenues were retained by OP in the UC General Fund. Campuses received allocations of General Funds from OP, based on annual price adjustments to their permanent budgets.
- The UCGF included a portion of ICR generated from federally sponsored research.
- 2000-01: OP capped the amount of federal ICR allocated to the UCGF. OP continued to tax federal ICR at a 6% rate, but retained ~25% of private ICR.
- 2007-08: OP returned all nonresident tuition to campuses, and reduced their GF budgets by the estimated amount of revenue from those sources.
- 2009-10: OP and campuses begin planning for the return of all remaining non-state revenues, principally tuition and remaining ICR, in exchange for a campus tax to support OP and systemwide programs.
- 2011-12: Funding streams is implemented.
How Funding Streams Works

- What campuses get:
  - All non-state revenues (e.g. tuition, overhead) are now retained by the campus that generates them. However:
    - Undergraduate financial aid continues to be centrally directed. While campuses retain all tuition revenue paid by their students, OP continues to operate the EFM model under which campuses are required to set aside minimum amounts of tuition revenue for financial aid.
  - All state funds previously budgeted to UCOP are allocated instead to campuses.
  - Taxes previously paid by Medical Centers, Medical Compensation Plans, and auxiliaries to OP are repealed.

- In exchange:
  - Campuses pay a tax (this year $299 million) to support the unrestricted funds budget of OP & systemwide programs. An additional charge supports the Office of General Counsel.

- Funding streams was originally designed to be revenue neutral. However:
  - State funds returned to campuses were reduced, leaving campuses $50 million short.
  - In the year of implementation, campus’ state funds were reduced by $750 million, so campuses used the “new” state funds instead to prop up their campus GF budgets.
  - As a consequence, the impact of funding streams is essentially the gross amount of the tax, with little offsetting revenue.
Funding Streams FAQs

- Q: How big is the OP budget?
  - For 2013-14 the approved budget is $587 million.

- Q: Where does the money come from?
  - $263 million in restricted sources.
  - $324 in unrestricted sources, of which $299 million is the campus assessment.

- Q: What is the unrestricted money spent on?
  - General Administration: $100 million.
  - Central Services: $89 million.
  - Systemwide Initiatives: $135 million

- Q: How is each campus’ tax calculated?
  - For 2013-14, each campuses’ share of the tax is based on its expenditures from all operating fund sources, from the last audited financial statement.
  - Beginning 2014-15, each campus’ share will be based on 3 equally weighted factors: (1) expenditures (2) student enrollment (3) employee headcount.

- Q: If a campus has a relatively large share of restricted funds, like research or gifts, is the tax reduced accordingly?
  - A: No.

- Q: Does OP have a “blank check”, allowing it to spend whatever revenue is generated from the tax rate?
  - A: Based on two year’s experience, no. For both 2012-13 and 2013-14, the tax rate was based on an approved budget, and the tax rates was reduced compared to the previous years.
  - Nonetheless, the amount of the tax has increased each year.
UCLA Implementation of the OP Tax Assessment

- Q: Is any portion of the tax retained or allocated by the Chancellor?
  - A: No. 100% of the assessment is used to support UCOP and systemwide programs.
- Q: How has UCLA allocated the tax burden?
  - In 2011-12, the Chancellor paid the tax from central reserves.
  - In 2012-13, the full amount of the gross tax ($65 million) was allocated to campus units using the same methodology that OP used to calculate UCLA total tax bill – i.e., based on total prior year expenditures from all funds. For many units, this gross tax was partially offset by increased ICR distributions and repeal of other taxes.
  - For 2013-14, UCLA’s tax bill increased to $60 million. The Chancellor has allocated $37 million in state General Funds to partially offset the gross tax paid by each unit. The full amount of the original offsets (state funds, ICR, tax repeals) has now been returned to the schools and administrative departments.
  - For 2014-15, UCLA must now review the allocation methodology in light of the proposed change in the systemwide distribution.
Rebenching

- **Topic:**
  - How OP allocates State General Funds to the campuses.

- **History:**
  - **Pre-2010-11:**
    - State General Funds were allocated incrementally, as increases or decreases in UC General Fund allocations to campuses.
  - **2010-11:**
    - Funding Streams is implemented, returning all non-state funds to campuses.
    - Rebenching Task Force appointed, co-chaired by Provost Larry Pitts and EVP Nathan Brostrom.
  - **2011-12:**
    - Task Force report and recommendations drafted, submitted to the President.
    - OP “deconstructs” the UC General Fund,
      - All campus UCGF budgets reduced by the amount of estimate non-state revenue
      - Imputed State General Funds the only remaining component.
  - **2012-13:**
    - President begins phased implementation of rebenching recommendations.
How Rebenching Works

- **Objective:**
  - Over time, to equalize the amount of State General Funds allocated to each campus on a per student basis.

- **Methodology:**
  - Some State General Funds support non-instructional programs, and therefore are excluded from the per student calculations.
  - Instructional needs vary by discipline, so student counts were weighted.
  - Each campus receives a fixed $15 million allocation without regard to enrollment.
  - UCSF and UCM are excluded, so UCLA’s per student state funding is the “target” for the remaining seven campuses.
  - $200 million in new state money is needed to bring seven campuses up to UCLA’s level.
    - Each year, 20% of new state money is allocated to “underfunded” campuses until all (except UCSF and UCM) are equalized.
    - Therefore, about $1 billion in new state money is needed to fully phase in rebenching.
  - Remaining funds are distributed on the basis of weighted enrollment.

- **New special exclusions from rebenching:**
  - $15 million for the UCR School of Medicine.
  - $10 million for UCOP online education.
  - $3.6 million for UCM capital debt service.
Impact of Rebenching on UCLA, 2013-14

<table>
<thead>
<tr>
<th>New State General Funds available for distribution to campuses</th>
<th>2012-13 Tuition</th>
<th>2013-14 5% Base Adjustment</th>
<th>Total Available for Rebenching</th>
<th>UCLA Share</th>
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</thead>
<tbody>
<tr>
<td><strong>New State Funds</strong></td>
<td>$125.0</td>
<td>$125.1</td>
<td>$250.1</td>
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<tr>
<td>Annuitant Health Benefits</td>
<td>-</td>
<td>6.4</td>
<td>6.4</td>
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<td>Less funding for Off-Campus Programs</td>
<td>(0.3)</td>
<td>-</td>
<td>(0.3)</td>
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<tr>
<td>Less $10M for Online Initiative</td>
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<td>(10.0)</td>
<td>(10.0)</td>
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<tr>
<td>Less $15M for UCR School of Medicine</td>
<td>-</td>
<td>(15.0)</td>
<td>(15.0)</td>
<td></td>
</tr>
<tr>
<td>Less $3.6M for CAOB Debt Service at Merced</td>
<td>-</td>
<td>(3.6)</td>
<td>(3.6)</td>
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<tr>
<td><strong>Net available for distribution</strong></td>
<td>$124.7</td>
<td>$102.9</td>
<td>$227.7</td>
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<tr>
<td><strong>Distribution</strong></td>
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<tr>
<td>Merced Enrollment Growth</td>
<td>$6.8</td>
<td>$6.8</td>
<td>$13.5</td>
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<tr>
<td>UCSF Corridor</td>
<td>4.6</td>
<td>4.0</td>
<td>8.6</td>
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<tr>
<td>Merced Cost Adjustments</td>
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<td>3.8</td>
<td>8.5</td>
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<td>Set Asides for Cost Adjustments</td>
<td>9.3</td>
<td>7.7</td>
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<td>Year 1 Rebenching make up</td>
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<td>Year 2 annual rebenching increment</td>
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<td>37.0</td>
<td>37.0</td>
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<td>Remaining per student distribution</td>
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<td>43.6</td>
<td>121.7</td>
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<tr>
<td><strong>Total Distribution</strong></td>
<td>$124.7</td>
<td>$102.9</td>
<td>$227.7</td>
<td>$27.5</td>
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<td>UCLA Share -- Percent</td>
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<td>12.1%</td>
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<td>UCLA Percent of UCGF Permanent Budget</td>
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<td>22.8%</td>
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<td>UCLA Percent of Weighted Students</td>
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<td>19.9%</td>
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<td>Allocation Based on UCGF and Weighted Students</td>
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<td>$48.3</td>
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<td>Revenue Loss attributable to rebenching</td>
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<td>$(20.8)</td>
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Enrollment Management

- **Topics:**
  - How campuses are assigned enrollment targets.
  - How those targets affect allocation of state funds.
- **OP’s current focus on enrollment planning appears to be shaped primarily by rebenching (i.e. fiscal) considerations, not academic priorities.**
- **Issues as defined by OP:**
  - What is the appropriate enrollment base for rebenching?
  - What should be the penalties for underenrollment of undergraduates?
  - Will campuses be allowed to shift enrollment from one student category to another?
  - How should future state-funded enrollment growth be allocated?
  - How will campuses with “aspirational” funding for Ph.D. Programs be treated?
  - Should campuses be provided incentives to increase transfer enrollments?
  - How will targets for UCSF and UCM be set?