UCLA Budget Overview and Outlook

Presentation to the
UCLA Academic Senate

Seminar # 4: Systemwide Resource Management Issues
November 2, 2012
This Talk

- Funding Streams
- Rebenching
- 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, ICR, 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.
  - 2000-01: OP capped the amount of ICR allocated to the UC General Fund. OP continued to tax federal ICR at a 6% rate, and retained substantial portions 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 began to plan 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 were allocated instead to campuses.
  - Three previous taxes paid by Medical Centers, Medical Compensation Plans, and auxiliaries to OP were repealed.

- In exchange:
  - Campuses pay a tax (this year $277 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.
  - Campus’ state funds were simultaneously 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?
  - A: The approved budget is $557 million, of which $302 million is unrestricted.

- Q: What is the unrestricted money spent on?
  - General Administration: $74 million.
  - Systemwide Services: $109 million.
  - Systemwide Initiatives: $119 million

- Q: How is each campus’ tax calculated?
  - A: Each campuses’ share of the tax is based on its expenditures from all operating fund sources, from the last audited financial statement.

- 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 one year’s experience, no. For 2012-13, the tax rate was based on an approved budget, and the tax rate was reduced from that of 2011-12.

- Q: How has UCLA allocated the tax?
  - A: In 2011-12, the Chancellor paid most of the tax from central reserves. In 2012-13, the full amount of the tax ($65 million) is being 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 2013-14, the Chancellor has committed to review the methodology.
Rebenching

- **Topic:**
  - How OP allocates state funds to the campuses.

- **History:**
  - **Pre-2010-11:**
    - OP allocates General Funds to campuses as annual price and enrollment adjustments to base budgets.
  - **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:**
    - OP begins to “deconstruct” the UC General Fund.
    - Developed baseline estimates of all non-state revenue sources.
    - Calculated an imputed amount of state funds left in the GF budget of each campus.
    - Task Force report and recommendations drafted, submitted to the President.
  - **2012-13:**
    - President partially implements rebenching recommendations.
How Rebenching Works

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

- **Methodology:**
  - State funds support a range of programs not related to the instructional mission, so certain state funds supporting those programs were excluded from the per student calculations.
  - Instructional needs vary by discipline, so student counts were weighted.
  - Health sciences are fundamentally different, but only UCSF was singled out for separate treatment (the so-called corridor).
  - Merced is unique, and was excluded.
  - Each campus receives a fixed $15 million allocation without regard to enrollment.
  - UCLA’s per student state funding, third highest after UCSF and UCM, is established as the “target” for remaining campuses.
  - To bring seven campuses up to UCLA’s level, $200 million in new state money is needed.
  - Task Force recommended a phase in, under which 20% of new state money would be allocated to “underfunded” campuses until all (except UCSF and UCM) are equalized.
More On Rebenching

- The “Waterfall”: options for funding rebenching.
  - Preferred option: rebenching is funded only from new state funds.
  - 2nd option: rebenching allocations are funded from reductions in systemwide programs.
  - 3rd option. Reallocate existing funds to fund each campus at the median.

- Future allocations will be based on the budgeted level of student enrollment by campus, level, and resident status. No such enrollment plan exists, and would have to be created.

- UCLA has argued that rebenching’s primary methodological flaw is that allocations based on student counts cannot adequately account for the funding needs of the health sciences campuses, as noted in the following chart.
State Funding Change by Campus
Full implementation, no change in state funding

millions
- $10
$0
$10
$20
$30
$40

Berkeley
Davis
Irvine
Los Angeles
Merced
Riverside
San Diego
San Francisco
Santa Barbara
Santa Cruz

Rebenching
Exclude HS
Rebenching Impact on UCLA

2012-13 Implementation:
- The rebenching methodology was not used to implement the permanent $100 million state budget cut from 2011-12.
- “New” state funds provided in 2012-13 ($94 million) are allocated:
  - UC Merced: $3.3M
  - UC San Francisco: $3.374
  - “Set-asides” (research programs): $6.9M
  - Rebenching (5 campuses): $15.7M
  - Remaining distributions to 8 campuses: $65.0M
- Loss to UCLA: $3.9 million.

Long-Term Implementation:
- If UC receives no new State Funds:
  - Eight campuses would be funded at the median level
  - UCLA would lose $44 million in state funds.
- If UC receives $1 billion in new funds:
  - $200 million would be allocated to rebenching, UCLA would receive none of it.
  - Prospective loss of $40 million.
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?