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October 3, 2012

The Honorable Mark Leno
Chair, Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, California 95814

Dear Senator Leno:

Pursuant to Item 6440-001-0001 of the Supplemental Report of the 2012 Budget Act, enclosed is the University of California's report to the Legislature on *State Audit 2010-105 Follow-up*.

If you have any questions regarding this report, Associate Vice President Debora Obley would be pleased to speak with you. She can be reached by telephone at (510) 987-9112, or by email at Debora.Obley@ucop.edu.

With best wishes, I am,

Sincerely yours,

A handwritten signature in cursive script that reads "Mark G. Yudof".

Mark G. Yudof
President

Enclosure

cc: Ms. Peggy Collins, Joint Legislative Budget Committee
Mr. Gregory Schmidt, Secretary of the Senate
Ms. Tina McGree, Legislative Analyst's Office
Ms. Amy Leach, Office of the Chief Clerk of the Assembly
Mr. Jim Lasky, Legislative Counsel Bureau
Provost and Executive Vice President Aimée Dorr
Executive Vice President Nathan Brostrom
Chief Financial Officer Peter Taylor
Vice President Patrick Lenz
Associate Vice President and Director Steve Juarez
Associate Vice President Debora Obley
Executive Director Jenny Kao

State Audit 2010-105 Follow-up

October 2012

Legislative Report



UNIVERSITY *of* CALIFORNIA

UNIVERSITY OF CALIFORNIA

State Audit 2010-105 Follow-up

Pursuant to Item 6440-001-0001 of the Supplemental Report of the 2012 Budget Act, which states:

“1. Audit Report. It is the intent of the Legislature, and in follow-up to State Audit Report 2010-105, that by July 31, 2012, UC provide to the appropriate legislative budget subcommittees and LAO the recommendations of the systemwide working group established to examine variation in funding across the system.

Further, it is the intent of the Legislature that UC identify the amount of revenues from the general funds and tuition budget that each campus received in 2012-13 for specific types of students (such as undergraduate, graduate, and health sciences) and explain any differences in the amount provided per student among the campuses to the appropriate legislative budget subcommittees and LAO by January 1, 2014.”

enclosed is the University of California’s report to the Legislature on rebenching recommendations.

Review of Distribution of Funding Sources Among UC Campuses

Beginning in 2008, the University of California Office of the President (UCOP) initiated a comprehensive review of how the University budgets and allocates its various fund sources. This became particularly urgent in the intervening years as the State dramatically reduced its support for the University and non-State fund sources became an ever-increasing share of the University’s total budget. A number of discussions centered on the need to address the distribution (or redistribution) of the State General Funds that comprised the campus base budgets. One such body, the UC Commission on the Future (COTF), recommended that the University examine the rationale for distributing State General Funds and design a proposal for “an equitable and transparent readjustment of base funding formulas.” The need for such a change included concerns about the “considerable disparities” among campuses in per-student funding and “the complexity and opaqueness of the current model.” This “readjustment” or reallocation of core State General Funds came to be known as Rebenching.

Provost Pitts and Executive Vice President Brostrom appointed the Rebenching Budget Committee which held its first meeting in April 2011 and deliberated for the better part of year. At its meeting of March 7, 2012, the committee agreed to the following principles and recommendations for the rebenching of State General Funds.

Core principles:

- Unrestricted State General Funds provided to University shall be allocated to the campuses for the purposes of UC’s core missions based on the number and type of students they educate.
- UC has a common standard of excellence across its 10 campuses. The State subsidy per student should not depend on the campus a student attends. Thus, the amount of State General Funds allocated per student should be the same for each type of student across all of the campuses.

- Rather than reducing the State funding provided to any campus, if possible, rebenching should be implemented in a way that seeks to bring all campuses to up to current highest level of per-student funding, requiring additional State funding.
- Graduate education is such an integral part of UC's mission and excellence that it needs to be recognized in any allocation model.

Committee recommendations:

- Initially, UC Merced and UC San Francisco are not included in the rebenching model and adjustments to their State General Fund allocations will occur through different means. The intention is that, as it grows, UC Merced will transition to the funding allocation method recommended here for the other campuses. A determination will need to be made as to when UC Merced begins to be part of the normal rebenching formula. For UCSF, there is a proposal for a corridor for increases and decreases, the specifics of which were negotiated by UCSF and the Office of the President. Under the proposed corridor, UCSF would get 100 percent of its share of augmentations for the first two percent increase in State General Funds and then 50 percent of its share for any further increases. UCSF would take 100 percent of its share of any cuts for the first one percent decrease in State General Funds and 25 percent of any decreases beyond the one percent cut.
- Rebenching will be implemented starting with allocations for the 2012-13 fiscal year.
- The transition to a fully-rebenched State General Fund allocation at each campus will occur over six years.
- Per-student funding is to be distributed on a weighted basis in which undergraduate, postbaccalaureate, graduate professional, and graduate academic master's students are weighted at 1, doctoral students at 2.5, and health sciences students at 5 (except health sciences undergraduate students are at 1 and health sciences academic doctoral students are at 2.5). It should be noted that this weighting does not bear any connection to the cost of providing education to each level of student, but rather a judgment about the relative weight that should be applied to each level of student. As explained later in this report, the University is unable to calculate cost of education by level of student.
- At full implementation, all campuses are to receive per-student funding equal to the highest campus' per-student average by level.
- At the undergraduate level, only California resident students will enter into the formula for determining the allocation of State funding in the model. At the graduate level, all students are included.
- Only enrolled students up to a targeted number established in a systemwide enrollment planning process will be included. Students above targets will not be included in the weighting formula.
- For 2012-13, current budgeted enrollment targets will be the basis for rebenching. A new long-range enrollment plan will be developed over the next year and this plan will be the basis for rebenching enrollment targets in future years.
- There will be a penalty if a campus falls below its undergraduate California resident targets by more than a particular percentage over a particular time frame. For each student below the target, a campus will lose its per-student funding times a multiplier. The tolerance, time frame, and multiplier for assessing the penalty will be determined in implementation.

- Campuses with academic doctoral student proportions below 12 percent will be provided funding to increase the numbers of such students up to the 12 percent level.
- Campuses are assigned a set-aside of \$15 million in State General Funds prior to application of the weighting formula to recognize fixed costs that every campus has to cover unrelated to the number of students served.
- State General Funds allocated for specific State purposes and restricted to those purposes are funded “off-the top” – that is, these funds are allocated to campus or systemwide budgets prior to application of the weighting formula. These include the Agricultural Experiment Stations, the Neuropsychiatric Institutes, Mental Health Teaching Support, the Scripps Institute, SAPEP, and MIND.

While the Office of the President would work out the exact funding scenario through the allocations process, the committee recommended a “waterfall” of funding sources, in which new State funding would be the first source of rebenching funds, followed by savings generated from cuts to central programs, and, in a worst-case scenario in which no new funds are available for rebenching and cuts to campus budgets are necessary, distributing cuts in alignment with the goals of rebenching. However, the group acknowledged the President’s authority to alter this recommended solution in any given year in which circumstances warranted different action.

These are the recommendations of the Rebenching Task Force. The President has the authority to take some, all, or none of these recommendations.

Funding for Specific Levels of Students

The University is unable to provide information on funding provided for specific levels of students. Funding from the State is neither received nor allocated to the campuses by level of student. Funding for enrollment has been received from the State for more than 15 years on the basis of a marginal cost calculation that does not distinguish among levels of students. Nor have allocations to the campuses been made on that basis. The University has consistently stated that information on cost of education by level of student – or expenditures by level of student – are impossible to determine, given the myriad way in which funds provided from the State and other core funds are used. For example, the largest cost driver in a cost of education calculation is faculty salaries. When faculty are paid for their work at UC, they are being compensated for teaching, research, and public service. They are not paid for these activities separately, and the degree to which each faculty member participates in each activity varies by term and by year. Moreover, it is virtually impossible to separate out research costs from teaching costs at the graduate level – so much of teaching in graduate programs occurs through the research program. Therefore, the University is unable to comply with the second half of the request for this report.

Contact information:

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