Dear Mark:

I hope this letter finds you well and rapidly recovering.

The Academic Council met yesterday and discussed issues surrounding the allocation of State fund reductions to the campuses. I enclose a copy of the formal resolution adopted by Council. The resolution as a whole was adopted by a vote of 14 in favor, 3 opposed, and 1 abstention at the Academic Council meeting on July 27. In essence, Council advises that the full $650 million reduction in State funds in the 2011-2012 budget year be allocated among the campuses under the methodology applicable to State fund reductions developed in the Funding Streams Proposal of December 21, 2010.

As you are aware, the Funding Streams Proposal circulated within the University and reviewed by the Academic Council provided that funds generated on a campus will stay on the campus and set forth a bifurcated methodology for allocation augmentations and reductions in State funding. The allocation of budget reductions was based in part on a principle that the proportionate allocations to campuses reflect each campus’s relative ability to offset reductions by raising nonresident tuition (NRT) and Professional Degree Supplemental Tuition (PDST). In its letter to you of March 3, 2011, Council indicated that most of its members supported the allocation formulae as interim measures, and we stressed the need to pursue rebenching of State funds in order to resolve the allocation of State funds among the ten campuses. While a few Council members recall comments by senior administrators that the administration was still considering the methodology for allocating cuts and augmentations, we were surprised to learn only last Friday, July 22, that allocations were likely to be based on the proportions derived from the Funding Streams Proposal provisions for allocating augmentations rather than reductions. In addition, we have recognized all along that the recent tuition increase, enacted as an offset to $150 million of budget cuts as part of the final State budget, would be retained on the campuses under Funding Streams. As a consequence, the $150 million...
State fund reduction and the replacement tuition increases will not be allocated to the campuses in the same proportion.

Council was convinced by the original Funding Streams Proposal that allocations of budget cuts to campuses should reflect the campus’ true budget status by incorporating the campus’ ability to generate funds from NRT and PDST. While one might assert that factoring in local revenue into reductions in State funds is contrary to the principle that funds generated on a campus should stay on the campus, Council was convinced by the advocates of the Funding Streams Proposal that the overall health of the University system required some mitigation of the allocation of State fund reductions. I note in that context that the campuses that are better positioned to derive NRT and PDST are generally campuses that receive historically favorable allocations of State general funds. More importantly, an overwhelming majority of the Council membership is troubled by the change in direction from what was represented to Council, and accepted by Council, as the funding streams principles advocated by the administration as part of the funding streams model. The sense of Council is that the University should maintain a principled consistency between budget principles that are described to the community and those that are ultimately implemented.

Council appreciates what was described as your desire to base allocation of both State fund reductions and augmentations on the same methodology. Indeed, I recall that during Council’s original discussions of the Funding Streams Proposal, members recognized that the differential allocation scheme would create permanent budget differentials as cuts would be allocated in different proportions than subsequent offsetting augmentations. Most members of Council believe that the solution to that problem, particularly given the fact that we do not realistically anticipate augmentations, is to utilize the Funding Streams Proposal methodology for reductions that adjusts for a campus ability to absorb cuts, rather than the methodology for augmentations, which does not.

Council also discussed allocation of the $150 million of cuts added in the State budget as enacted. Council advises that these reductions should be allocated to the campuses under whichever methodology that is used to allocate the first $500 million of cuts. Council recognizes that the effect of the Funding Streams Proposal is to separate allocations of student fee revenue from the allocation of State funds. Indeed, Council further advises that allocating the $150 million state fund reduction proportionally to fee income alone, ignoring state funds, would be inconsistent with the methodology for allocating the $500 million cut. If cuts offset by tuition increases are allocated based on tuition alone, then tuition should be excluded from the basis used to allocate funds that are not offset by tuition increases.

Finally, Council acknowledges that the budgetary situations at both UC Merced and UC San Francisco present special cases. Council believes that the UC Merced budget should be protected from any portion of the State funding reductions, which must then be allocated across the other campuses. The San Francisco situation is far more complex. A new business model to support medical education in a time of diminished state funding is urgently needed. I note, however, that the relative scarcity of tuition income at UCSF means that UCSF’s share of the $500 million cut is a substantially smaller fraction of UCSF’s total state support. The relative scarcity of tuition at UCSF cannot also be used to justify shielding UCSF from the effect of the $150 million cut.
In summary, Council recommends that State fund reductions be allocated among the campuses using the model described in the Funding Streams Proposal considered and endorsed by the Council. I also note in conclusion that these issues become moot if State funds are rebenched among the campuses under some methodology that is removed from the historic, and unknowable, allocations that drive current campus budgets. Council, therefore, urges you to proceed with the rebenching effort as expeditiously as possible.

Sincerely,

Daniel L. Simmons

C: Provost and EVP Pitts
Executive Vice President Brostrom
Academic Council
Resolution of the Academic Council
Allocation of Budget Reductions
Among UC Campuses

July 27, 2011

RECITALS:

1. The Academic Senate’s delegated responsibilities under Regents Standing Orders include advice to the President and the Chancellors on budget matters. Formulating that advice requires consultation on budgetary matters.

2. At its meeting on February 23, 2011, the Academic Council reviewed the Funding Streams Proposal, dated December 21, 2010, and indicated its general support for the proposal but indicated several concerns.

3. The Funding Streams Proposal, as represented to Council contained alternative provisions for allocating State funding augmentations and undesignated reductions in State funding as follows:

   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.

4. Academic Council was led to believe that these differential allocation formulas were adopted to allocate 2010-2011 budget augmentations and 2011-2012 budget reductions. Council stated in its letter of March 3, 2011:

   While most Council members support these formulae as an interim step, some members are concerned that the dichotomy continues the present proposal of allocating state funds based on historic events and circumstances, and that it is inherently contradictory. These differential allocations would be unnecessary if rebenching had been carried out. The funding streams proposal should be treated as an interim policy that will be revised subject to the results of the rebenching discussions; we urge that this process be expedited.

5. Members of the Academic Council were informed on July 22 that the University, at the direction of the President, has been considering a departure from the differential
allocations of the Funding Streams Proposal for several weeks based on a determination that augmentations and reductions should be allocated on the basis of the same formula.

6. The Governor of the State of California proposed in his January budget a $500 million reduction in State funding to the University of California.

7. Council was advised that this $500 million reduction (less savings achieved in the budget of the Office of the President) was to be allocated among the campuses under the Funding Streams Proposal provision for allocating budget reductions.

8. The budget adopted by the State Legislature on June 28, 2011, reduces the State funding to the University by an additional $150 million, resulting in an overall reduction in State support to the University of $650 million, a 21.3 percent decrease in the State support from 2010-2011.

9. The Regents of the University of California adopted a 9.6 percent additional fee increase for the 2011-2012 academic year to offset the additional $150 million budget reduction. Under the Funding Streams Proposal, tuition is to remain at the campus where the student is enrolled. However, the Funding Streams allocation of budget reductions and the allocation of the tuition increase do not go to the campuses in the same amounts.

RESOLUTION

1. The Council protests the lack of formal consultation between UCOP and the Academic Senate on modifications to the Funding Streams Proposal in the allocation of the 2011-12 budget cuts.

2. The Council registers its concern that any ad hoc funding decisions at odds with Funding Streams principles will undermine the goals of the Funding Streams Proposal and rebenching as well as set problematic precedents for enacting these initiatives.

3. Council advises that UC Merced not be allocated budget reductions attributable to the $650 million reduction in State funding.

4. Council affirms its previous position and advises that $500 million of budget reductions (less savings achieved in the budget of the Office of the President) be allocated to campuses under the Funding Streams Proposal provisions allocating reductions in State funding.

5. Council advises that the second $150 million of budget reductions be allocated to the campuses under the Funding Streams Proposal provisions adopted to allocate the initial $500 million reduction.

6. If a decision is made to allocate state funding cuts that are accompanied by tuition increases on the basis of tuition only, then tuition should be excluded from the basis used for allocating funding cuts not accompanied by tuition increases.