Communication from the Committee on Academic Planning & Budget

Steven Cheung, MD, Chair

February 2, 2011

Elena Fuentes-Afflick, MD
Chair, UCSF Academic Senate
500 Parnassus Avenue, Box 0764

Re: Review of the System-wide University of California Funding Streams Proposal, dated December 21, 2010

Dear Chair Fuentes-Afflick,

At its January 20, 2011 meeting, the Committee on Academic Planning and Budget reviewed and discussed the University of California Funding Streams Proposal. During the discussion, committee members endorsed the overarching principle of a more decentralized administrative structure wherein all campus-generated funds will be retained or returned to the source campus and UCOP operations will be funded through an assessment on campus funds. With this, APB strongly urges the University to protect and preserve access to campuses and their core missions, and to streamline administrative units to serve only essential functions. The primary concerns with the proposal are undefined Senate consultation structure to determine funding requirements of UCOP administration and related operations, intended and unintended consequences of a 1.67% tax on operating expenses on campuses, and undefined allocation methodology to distribute undesignated State Funds beyond the first year of implementation.

UCOP Operations Funding Requirements ($305.7M FY 10-11)

1. In the spirit of shared governance and financial transparency, UCOP funding requirements for operations are reviewed by UCPB no less than every three years for approval.

2. Changes to UCOP budget in excess of 5% require approval by UCPB or designate prior to implementation.

3. UCOP operations funding requirements are projected over a minimum of four years to permit campuses to develop their own budgets accordingly.

4. In the event of decrements in State funds, UCOP takes the same pro rata share of budget cuts as campuses.

1.67% Tax Assessment on All Operating Expenses with Rebates

1. As UCOP funding needs for operations may be projected, an alternative to the proposed 1.67% tax with rebate proposal is to assess each campus using current pro rata methodology.
2. If the current proposal is adopted, the overarching principle that the effective tax obligation (1.67% tax less return of State funds) will be largely revenue-neutral to campuses upon implementation should be carried forward *ad infinitum*.

3. The proposed 1.67% tax rate on operating expenses with State funds rebates should be viewed as an administrative tool. UCOP can project the effective tax liability for all campuses and issue bills, giving campuses complete autonomy on methodology to settle charges.

4. Funding UCOP operations at agreed levels should be the binding agreement with the campuses, not adherence to the proposed 1.67% tax on operating expenses. In this regard, the assessment tax concept with State funds rebates is tantamount to a cash swap vehicle that may not serve all campuses equally well.

**Intended and Unintended Consequences**

1. Beyond implementation, campuses that experience incrementally higher operating expenses without commensurate consumption of UCOP resources should not be required to pay additional tax.

2. The current proposal fails to address higher operating expenses that come in the face of diminishing or negative margins. This scenario is a critical concern for campuses with Medical Centers, which are operating in a climate of high unemployment and economic duress.

3. Beyond implementation, campuses that experience incrementally lower operating expenses commensurate with lower revenues should face incentives to improve their financial health. A System-wide policy should be adopted to mitigate UCOP tax burden obligations on those financially challenged campuses.

4. **A Methodology to Help Campuses with Operating Expense Shortfalls**
   a. Develop metrics to ensure that the campus’ incrementally lower operating expenses are not the product of strategic shrinkage to improve profitability.
   b. Working on the assumption that each campus will have a certain UCOP tax obligation, the proportional decrement in operating expenses can be used to calculate the campus’ shortfall. For example, a 10% drop in operating expenses translates to identification of other financial resources to fund 10% of the campus’ UCOP Operations tax obligation.
   c. Funding the shortfall should be shared among campuses. One arbitrary methodology is to allocate 30% to the campus with the shortfall and the remainder equally across all other campuses. The goal is to hold financially challenged campuses responsible and provide a measure of System-wide support to promote University harmony.

**Undesignated State Funds Allocation Beyond the First Year of Implementation**

1. In today’s uncertain and difficult economic times, it is of paramount importance that base budget allocations to campuses remain unchanged and increments or decrements are allocated in a proportional manner until a new methodology is approved.
2. Whereas the Rebenching Initiative is a work-in-progress, any new methodology to allocate State funds to campuses should be LIMITED to increments or decrements to longstanding base budgets.

The Committee appreciates this opportunity to review and comment on the University of California Funding Streams Proposal.

Sincerely,

The Committee on Academic Planning and Budget

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