

UCSC Budget Handbook

An Overview of Funds Supporting UCSC

University of California, Santa Cruz
Campus Provost and EVC
January 2014

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PROLOGUE

Various campus constituencies – senior administrators, faculty, students, and staff – participate in discussions that require an understanding of the University’s budget and budgeting processes. To ensure well informed contributions, the UCSC Planning & Budget staff prepared this handbook to provide an overview of the UCSC budget and the process by which funds are acquired, allocated, and utilized. P&B staff are deeply appreciative to the Academic Senate for their active participation in preparing this handbook.

This handbook began as a joint effort between the Administration and the Academic Senate to refine and clarify the campus’s budget process and principles by which resources are allocated. This effort was undertaken with the multiple goals of improving coordination; providing predictability to allow units to plan effectively and with confidence; and minimizing the need for the Chancellor and the EVC to respond on an ad hoc basis to funding requests.

The result is a more transparent description of the revenues that comprise the campus’s budget. The focus of this handbook is on the operating budget, not the capital budget.

This handbook outlines how the campus is funded and articulates resource management principles and an allocation strategy that supports the campus’s academic as well as institutional support objectives. We have included sections on: Resource Management Principles, The Budget Process, The Planning Calendar, Divisional and Departmental Budgets, an Overview of the Resources Available to the Campus, and the Systemwide Assessment.

This handbook is updated periodically to incorporate changes in the budget process – either system wide or on the campus -- as well as feedback from readers. Those familiar with previous editions of the handbook will see a number of changes. Due to fiscal challenges at the State and new allocation methods used by the UC Office of the President, some of the formulas and sources of incremental revenue described in previous editions of the handbook have changed and are noted as such. One significant change was due to implementation of the Funding Streams Initiative. This UC Initiative changed the way funds flow within the University and in the way the UC Office of the President is funded. Another significant change is due to “Rebenching.” “Rebenching” guides the distribution of new State General Funds to the campuses. Changes in campus allocation formulas or policies that resulted from the Funding Streams Initiative or “Rebenching” are reflected in this updated handbook.

This handbook is available to all campus personnel on the Planning and Budget website at: <http://planning.ucsc.edu/>.

Chapter I INTRODUCTION

This Chapter is intended for the reader who is interested in the broadest overview of the major fund sources supporting the University’s budget and the major categories of expenditures.

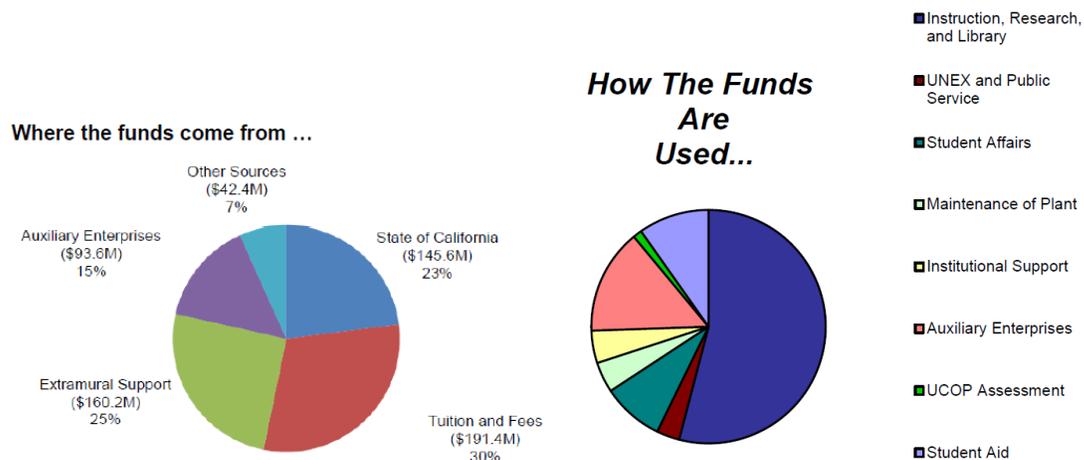
UCSC is one of ten University of California campuses and has a 2013-14 operating budget of approximately \$633 million. These funds come from many sources that will be described in this handbook.

Of this – approximately \$316 million are considered general (or core) funds. These funds are derived primarily from the state, tuition and nonresident supplemental tuition paid by students, and a portion of the campus’s overhead receipts. They are used to support instruction, research, the library, admission, registration, and financial aid offices, maintenance of state-funded facilities, and an array of administrative and protective services. These are funds that are expected to continue from year to year to support the ongoing activities of the campus. They are permanently budgeted funds and they are the primary source of funding for our faculty positions, staff salaries, and core operations.

One-fourth of the campus’s operating budget are extramural funds, meaning that they are not permanently budgeted, and they are derived primarily from federal and private agencies for specific purposes such as student aid or faculty research. These funds are often provided in response to a grant proposal and are awarded to principal investigators for a specific use that is consistent with the terms of the award.

Another \$94 million is derived from auxiliary operations, such as housing, parking and the bookstore. These operations are considered “self supporting” and operate like small businesses. The revenue from auxiliary operations is generally restricted.

UC SANTA CRUZ’S OPERATING BUDGET FOR 2013-14 \$633.2 Million



THE PRIMARY 2013-14 EXPENSE CATEGORIES ...
(in millions)

Academic Salaries (Faculty, Teaching Assistants, and Librarians)	\$102.9
Staff Salaries—Includes budget for career & temporary staff, as well as student employees.	\$134.3
Employee Benefits	\$62.0
Non-salary items	\$188.6
Special Outlays (Financial Aid, Library Books, Utilities, Extramural Research)	\$179.7
UCOP Assessment	\$7.5
Less recharges	<u>-\$41.8</u>
	\$633.2

For a more detailed look at the UCSC budget, the reader is encouraged to peruse – *A Bird's Eye View*. This report is updated annually and is available on the Planning and Budget web site at <http://planning.ucsc.edu/budget/reports/birdseye>.

Chapter II RESOURCE MANAGEMENT AND BUDGET REDUCTION PRINCIPLES

Resource Management Principles

In that budget policy influences financial behavior, the campus articulated and adopted a set of resource management principles to guide the budget process. They are:

- ***Academic Priorities Guide Resource Decisions.*** The academic program structure defines the identity of UCSC. Resource planning and allocation must enhance programmatic quality and innovation, while also maintaining a balance among campus units. Plans for the distribution of resources must be built into academic planning at the campus level, as well as at the level of the academic units.
- ***Measurable outcomes and goals are factored into resource allocations.*** While resources are intended to be predictable, they are not an entitlement. The annual budget review incorporates accountability and progress toward goals.
- ***Internal reallocation is an important part of effective resource management.*** Sometimes practices or programs become obsolete and need to change. By engaging in a periodic process of reassessment and review, the campus will identify opportunities for renewal and internal reallocation.
- ***Institutional support services and auxiliary activities are aligned with academic goals and optimized for cost-effectiveness.*** The annual budget process provides an opportunity to look comprehensively at all activities across the campus to foster better understanding of the goals and priorities in non-academic units.
- ***To promote maximum predictability and flexibility, resource plans should be multi-year.*** Although allocations will be made on an annual basis, the goal is to produce multi-year plans to provide predictability and flexibility needed to plan and manage effectively.
- ***Resource policies encourage the creation of new revenue sources and the strategic use of existing funds.*** This must be consistent with State and/or UCOP requirements.
- ***Campus resource strategies will preserve flexibility to make one-time investments in essential infrastructure.*** In the short term, the campus will balance permanent commitments with the need to reserve resources for one-time infrastructure investments that provide the foundation for future growth.
- ***The campus will provide services to support the health and safety of its students, faculty, and staff and will maintain the control environment needed to meet its fiduciary responsibility.***

Budget Reduction Principles

From 2008-09 to 2013-14 the campus grappled with successive rounds of permanent budget reductions due to a downturn in the national economy and severe fiscal challenges in the State of California.

The following principles were used to guide the implementation of budget reductions:

- As a public research university, we are committed to providing an avenue for qualified students to study with a faculty whose research mission vastly enriches the overall educational experience.
- The campus instructional mission is to provide a quality curriculum that enables students to achieve their educational objectives in a timely manner.
- We must provide a stable financial climate in which the university is less reliant on state support and increasingly reliant on student tuition and fees and other funding sources.
- Cuts should be targeted away from academic programs to the extent possible. Our aim is to provide students with the classes they need in order to complete their degrees in a timely manner. Academic programs will be examined to ensure that core offerings are available and that each course provides an essential component of the overall degree.
- Research is a core activity on this campus and is central to our academic mission. Like instruction, our research activities must be retained as much as possible.
- We must generate additional revenues through fundraising and other sources, such as grants, indirect cost generation, and professional degree fees.
- Cuts should be viewed as permanent reductions to the budget and not short-term adjustments that will be restored.
- Our ability to perform our fiduciary responsibilities, ensure the safety of our community, and meet our legal obligations are high priorities.
- In response to widespread concern about the cumulative impact of cuts on critical support services that are needed for the instruction and research enterprise, the faculty and TA budget and very small “stand-alone” units were exempt from the permanent reductions assigned in 2013-14.

Chapter III
THE PROCESS OF ALLOCATING RESOURCES

Historically, the core funds allocated in the annual budget process are *incremental* State General Funds, Opportunity Funds, Student Tuition (net of financial aid), and Student Services Fees. These incremental funds have traditionally accounted for approximately 2% to 3% of the campus’s core operating budget and were the focus of allocation decisions for new faculty, instruction and research support, institutional support, and new programs. The process followed an annual cycle and resource allocation decisions were based on a combination of programmatic and formulaic considerations. Between 2008-09 and 2013-14 the campus implemented substantial budget cuts due to a combination of decreased state funding and unfunded mandated cost increases. UCSC “kept pace” with each new round of cuts through the assignment of reduction targets. Thus, while this section describes the process for allocating resources, the process was refocused in recent years to address the budget challenges precipitated by a faltering economy.

Planning Calendar

The campus has relied on a process that begins in the fall with early discussions concerning the campus’s enrollment target for the following year, and ends late spring or early summer with decisions on faculty recruitments, the allocation of funding for teaching assistants and the curriculum, and the assignment of budget reductions (when required).

The campus’s process and planning calendar was developed to enhance greater predictability and understanding of the resources that will likely be available. In light of the new fiscal environment, the Campus Provost/EVC is working with principal officers on longer-term budgeting strategies.

Highlights

- Predictability
- Faculty recruitment plans and curricular reform.
- Comprehensive resource planning.
- Efficiency improvements and cost reductions
- Accountability and Qualitative Review of Outcomes
- An Advisory Structure

The campus’s resource allocation decisions must be made within the bounds of our resource envelope, which is tied to the outcome of decisions made by UCOP and the Regents on tuition and student fee increases and campus enrollments, as well as any funding or reductions that are in the final state budget. These external decisions are often made late in the planning process, presenting challenges as we may need to adjust our plans based on these decisions. Our process is designed to provide information and clarity at key intervals that will lead ultimately to more informed planning and consultations along the way.

Fall will focus on:

- Providing information that Deans will need in order to refine priorities, evaluate faculty FTE recruitment plans, and mount the curriculum in the coming year;

- Providing Principal Officers (Deans, Vice Chancellors, Vice Provosts, Librarian) with information needed to develop divisional budget plans;
- Providing the Committee on Planning and Budget with information needed to ultimately review divisional budget plans;
- Sending out “call letter” for faculty recruitment.

Winter will focus on:

- Updating the campus on the status of the campus budget;
- Projecting new resources, required obligations, and the estimated balance available for priorities or the shortfall that will have to be made up with cost reductions in other parts of the budget;
- Reviewing anticipated campus wide funding needs for activities, such as moving costs or other “big ticket” items that would not normally be considered part of a division’s ongoing budget.
- Allocating funds for teaching assistants and the curriculum for the coming year.
- Consulting with CPB, the Dean’s Advisory Committee (DAC), and the Vice Provosts on faculty recruitments and budgetary priorities.
- Providing principal officers with projections of funding (increases or decreases) based on established formulas. Until recently, this included the assignment of reduction targets and a request for information on the actions that will be taken to implement those cuts.

Spring will focus on:

- Updating resource projections
- Budget consultation between the CP/EVC and Principal Officers, and with CPB.
- Providing principal officers with preliminary resource decisions
- Finalizing resource decisions

		<u>Provided by</u>
Fall	Faculty Roster for current year	P&B
	Year-End Reports	P&B
	Consultation regarding plans, progress, and faculty recruitment outcomes	Deans/VCS
	Call for faculty recruitments	CP/EVC
	Budget consultation	CP/EVC
Winter	Resource Projections	P&B
	Faculty Recruitment Proposals Submitted	Deans
	Consultation on Faculty Recruitments	CP/EVC/CPB
	Deans/VCS submit materials for spring budget consultation	Deans/VCS
Spring	Updated Resource Projections	P&B
	Faculty Recruitments Approved	CP/EVC
	Budget Consultation	CP/EVC, P&B, CPB, Principal Officers
	Finalize Resource Decisions for New Year	CP/EVC

Accountability and Qualitative Review

The campus has long sought to have in place both the tools and the process needed to measure progress towards stated goals and to assess whether it is effectively utilizing its resources. The consultation process provides an opportunity for discussing campus priorities and for evaluating how the campus is doing. To preserve the campus's ongoing commitment to its students, the Campus Provost has asked principal officers to work collaboratively toward five key student-focused goals. The effort, called "Five for 2015" in recognition of the upcoming 50th anniversary of the campus, includes the following goals:

- ***Four years or less:*** In collaboration with the Academic Senate, examine and streamline major requirements to ensure students can have a challenging educational experience and can earn a degree in four years or less.
- ***Increased retention:*** Improve UCSC's current student retention rate.
- ***Increase nonresident student enrollment:*** An increase in the number of nonresident students will diversify the student body and provide additional resources.
- ***Hispanic-Serving Institution (HIS) Status:*** HIS status will increase the campus's visibility for all students from underrepresented groups.
- ***Financial Stability:*** Develop a multi-year plan that provides greater resource predictability, enabling better curricular planning to ensure course availability.

The Campus Provost intends, during the budget process, to engage Principal Officers in a discussion about his or her unit's progress towards meeting campus goals. To facilitate the conversation, divisions may be asked for information on year-end balances and resource commitments; divisional investments, reductions and resulting impacts; and a progress report on specific goals that are included in the divisions' long-and near-term plan. Our goal is to take a broader look at outcomes and accomplishments, and whether our constituents were well served. The focus is on effective utilization of resources and should go beyond quantitative benchmarks or benchmarks comparing UCSC to other UC campuses.

Academic Units – Specific areas to consider include academic program rankings, undergraduate and graduate enrollments, status of proposed new programs, research accomplishments, external reviews, and faculty recruitment results.

Academic Support Units -- Specific areas to consider include enrollment management and retention, research infrastructure, and initiatives in Silicon Valley.

Academic Units:

- Arts Division
- Graduate Division
- Humanities Division
- Physical & Biological Sciences
- Social Sciences
- School of Engineering

Academic Support Units:

- Library
- Office of Research
- UARC & Silicon Valley Initiatives
- Undergraduate Education
- UNEX

Institutional Support Units:

- Business & Administrative Services
- Campus Life
- Chancellor/Campus Provost Units
- Information Technology Services
- University Relations

Institutional Support Units – Specific areas to consider will vary between divisions, but may include student support services and campus life, business and IT support, private fundraising, maintenance of facilities, and campus fiduciary responsibilities.

Other Resource Processes

The management of the campus’s other revenues– extramural funds, miscellaneous revenues, auxiliaries – is not part of the budget process that focuses on the allocation of core funds that support instructional and institutional support functions. The budgets supported by these other revenues are reviewed to ensure fiscal health and consistency with the campus’s goals. Principal Officers are expected to provide budget plans for major self-supporting units as part of their comprehensive divisional budget plan.

Auxiliaries – Auxiliaries are self-supporting and must establish user rates to cover annual operating costs, debt service on facilities, and to build reserves for capital improvement projects or future buildings. In addition to covering their costs, the rates charged by auxiliaries are subject to market pressures and must be competitive.

The annual room and board rate budget for campus student housing is developed over a period of time through the Rates, Recharges and Fees Committee, a representative group of the Colleges and University Housing Services including an undergraduate and graduate student. Room and Board rates are recommended to the Vice Chancellor of Business and Administrative Services and the Campus Provost prior to being provided to the Chancellor for approval. Similarly, the Parking Office has a transportation advisory committee that advises on services and parking rates before they are presented to the Chancellor for approval.

Recharge Rates – A recharge is the cost charged to a University department for specific goods or services provided by another University department. While recharges move funding from one department to another, without increasing the total funding for the campus, they do provide a mechanism for those units that operate like small businesses to provide their services to all campus units, regardless of funding source.

UCSC has over 350 approved recharge rates. Services offered on a recharge basis include a wide range of activities--everything from the rate a unit pays to have a document copied to the monthly charges for mail services. Recharges fall into two categories: (1) Use of the services is optional (e.g. copy services) and (2) There is a single provider of the service (e.g. mail services or physical plant). Recharge units are required to establish rates in accordance with applicable University and federal policies.

Because recharge rates can have a significant impact on the budgets of other campus units, the campus has strived to set rates that reflect comparisons with market rates. For those recharge services that affect the entire campus, UCSC has developed advisory structures to provide advice on the types and level of services. Such advice must also take into consideration the anticipated cost of services.

Roles and Responsibilities

The roles and responsibilities of principal officers and each major organization, as they participate in the budget process:

The Chancellor – Along with the Campus Provost/Executive Vice Chancellor, and in consultation with the Academic Senate, is responsible for setting the strategic direction and priorities for the campus. These priorities guide resource decisions.

Campus Provost/Executive Vice Chancellor – Responsible for directing the campus resource planning process, for making and communicating resource decisions to the principal officers, and for supporting the goals and principles outlined in this document. Through the annual budget process, the Campus Provost/EVC is able to identify issues that affect more than one division and require a coordinated solution. The resources managed by the Campus Provost/Executive Vice Chancellor include incremental tuition and fees from enrollment growth or as a result of a fee increase, incremental state funds allocated by the Office of the President for rebenching and/or general cost increases, and the permanent resources that are held centrally. The resources in the latter category provide funding for specific investments in campus infrastructure, new facilities, and other costs that support the general campus and are outside the scope of what should be covered by a specific division. In recent years, these funds have also been used to offset a portion of the campus's budget reductions.

Deans – Responsible for formulating and communicating divisional long-term plans and faculty recruitment proposals, fostering quality academic programs, and for managing the divisional budget. Departmental budgets fall within the purview of the dean and are addressed in the *divisional* budget process, not the campus budget process. The dean makes and communicates allocation decisions to divisional departments.

Vice Chancellors and Vice Provosts – Responsible for formulating and communicating the long-term divisional plan, for ensuring unit goals are informed by and consistent with the campus's academic mission, for delivering cost-effective services, and for ensuring the general financial health of the units they oversee. Unit budgets fall within the purview of the vice chancellor or Vice Provost and are addressed in the *divisional* budget process, not the campus budget process. The vice chancellor/vice provost makes and communicates allocation decisions to units.

Academic Senate – The Senate Committee on Planning and Budget plays a consultative role during the budget process in the areas of allocation and recruitment of faculty FTE, and the principles used to guide resource decisions that are made through the budget process. The Committee on Planning and Budget is also asked to advise the CP/EVC on budgetary priorities, identification of longer-term issues, and to review, in cooperation with principal officers, the fiscal health of the campus. Members of the Academic Senate also participate on advisory committees established by the Campus Provost.

Chapter IV **THE ALLOCATION FORMULAS**

The campus's budget process focuses on "core funds". Core funds are comprised primarily of State general funds, tuition (net of financial aid), nonresident supplemental tuition, Opportunity Funds, and the Student Services Fee. Other revenues that contribute include the auxiliary assessment, STIP (short term investment pool), endowment income, and Off-The-Top funds. Chapter VI describes each revenue source. This chapter addresses the campus's methodology used in allocating core funds. The basic formulas described here will be re-evaluated and adjusted over time as appropriate. Our starting point is the prior year base.

The annual budget process focuses on incremental changes in the resources available to the campus, recognizing the need to undertake a closer review of base budgets over time with an eye towards understanding the adequacy of the base. This would be developed within the context of a broader qualitative review that must bring budgetary reality to the process, while furthering the campus's understanding of the choices it is making.

When dealing with incremental changes it is not the intent of the process or the Campus Provost/EVC to water down existing programs or to merely "blow up the balloon." Among the primary goals of the campus is to ensure that our core academic programs and our core administrative services can, over time, become sufficiently robust. A balanced approach that considers current and new programs must be considered.

Although the campus has formulas in place, they are not considered as entitlements. Deans, Vice Chancellors, and Vice Provosts will be asked to account for increased (or decreased) resources by providing an overview of how the funds were used or the service changes that were made as a result of budget reductions. This would not be simply an accounting of what transpired, but an opportunity to articulate their priorities and goals for the next year and whatever else is on the horizon.

New State and Tuition Income

The campus receives income from student tuition and fees as a result of enrollment growth and/or tuition and fee increases. Another significant resource is the nonresident supplemental tuition paid by nonresident domestic and foreign students. In the past, state support for the university was provided for enrollment growth based on the marginal cost of instruction. As a result of the State's fiscal difficulties, the state moved away from this approach several years ago. State funding is now based on a 4 year plan that provides a 5 percent increase to UC's base budget in 2013-14 and 4 percent in 2015-16 and 2017-18, contingent on the University not increasing tuition over the four year period. The UC Office of the President distributes incremental state funds to campuses consistent with the principles of rebenching for cost-increases and to improve the per-student funding on campuses, such as Santa Cruz, that are funded below the highest-funded campuses.

Multi-year resource projections are updated annually to reflect anticipated incremental revenue from tuition and fees, nonresident supplemental tuition, funding due to growth in summer session enrollments, and new state funds. Expense projections are updated to take into account required obligations for mandatory cost increases for bargained increases, faculty and staff merits, employer contributions to the retirement system, and other employee benefit increases. After funding required obligations, new core resources may be used to support academic, academic support, and institutional support divisions as well as for strategic investments, budget cuts, unforeseen expenses, campus infrastructure and other one-time purposes.

The Campus Provost's decision about how to utilize these funds is informed by a consultative process that involves the identification and setting of priorities. The campus is currently engaged in a collaborative planning process called "Envision UCSC" to identify strategic themes to guide near-term planning and future investments. Many of the campus's recent investments have been designed to:

- Ensure students have timely access to courses needed to complete their degree,
- Increase enrollments at the masters and doctoral levels,
- Diversify resources with growth in nonresident and summer enrollments,
- Build private fund raising through the comprehensive campaign, and
- Achieve additional operational efficiencies.

A high priority is the allocation of faculty FTE, teaching assistants and I&R support costs for academic units. In the past, new faculty FTE were tied to increases in the campus's budgeted enrollment target, and were added at the incremental rate of 18.7/1 (1 new faculty position for 18.7 additional budgeted students). In recent years, funding received as a result of rebenching has been used to restore funds for faculty positions that were previously "hollowed" as a result of budget cuts and to improve the student/teaching assistant ratio.

The distribution of faculty FTE is based on programmatic considerations and campus priorities. The I&R support allocation builds from the historical model that reflects differences in costs among academic units. I&R support provides support funding for new faculty FTE, and is therefore tied to the allocation of new faculty FTE. Teaching assistants are allocated for increases in the number of undergraduate students. The formula provides new teaching assistant FTE at the marginal rate of 44/1 (1 new teaching assistant FTE for growth of 44 undergraduate students).

With respect to academic support and institutional support activities, the CP/EVC does not anticipate investing in new or expanded services without a full understanding of (1) how this fits within campus and divisional priorities -- this is particularly true as it relates to ensuring that core operations and needs are met; (2) what new resources (if any) will be available to the campus; and (3) how units could reallocate funds internally or achieve savings as a result of the investment.

Policies and allocations related to academic resources. The campus has in place several academic resource policies and practices that are intended to provide the academic divisions with flexibility to handle resource issues as well as to closely align resource allocations with campus priorities to support undergraduate instruction, refill faculty positions, increase graduate enrollments, and encourage greater use of Summer Session. Details are available at: <http://planning.ucsc.edu/budget/facdata/recruit/recruit-policy.pdf>. These policies are reviewed and updated periodically.

Faculty FTE and Turnover Savings – Divisions keep vacated faculty FTE, plus all turnover savings up to the salary level of Professor, step I. While the open position remains with the division, it is up to the division to determine whether the vacated FTE remains with the department. This provides divisions with the ability to realign vacant faculty FTE to address priorities. The turnover savings is intended to enable divisions to fund 100% of their own upgrades, and provides greater flexibility to address start-up, instructional workload, and other needs. New faculty lines are allocated for significant recruitments. The current recruiting emphasis is on positions that enhance growth of graduate programs and the research profile of the campus, address curricular capacity, and build quality across disciplines through cluster hires.

Faculty start up – In that many of the resources typically used for faculty start-up (faculty turnover savings, curriculum and leave balances, opportunity funds, and temporary academic staffing dollars) have been decentralized to the divisions, divisions are expected to cover the first \$50K per recruitment (averaged across all recruitments in a given year). Given the differing start-up costs and opportunities for external funding among the divisions, the campus will contribute up to 80% of the start-up cost in excess of \$50,000 and the division will be responsible for the remaining 20%.

Undergraduate Instruction Overenrollment Supplemental Funding - One-time funds are provided to address curricular pressures from enrollment growth to ensure student have access to courses.

Teaching Assistants – Additional teaching assistants are provided to improve student/TA ratios for undergraduate quality as well as graduate support. Allocations to academic areas are based on growth in undergraduate enrollment with additional TAs to incentivize graduate and summer session growth.

Master's Program Incentive - This initiative went into effect in 2013-14 to provide academic areas with additional funding for growth in masters students with an added financial incentive for nonresident masters students.

State and Core-funded cost increases – The UC Office of the President establishes the UC policy on salary adjustments and health benefits. In the past, the State provided an adjustment to the general fund budget to help pay for these costs. In recent years, campuses have had to budget funds to cover any agreed-upon salary adjustments -- such as faculty and staff merits, range adjustments, and health benefit cost increases. Consistent with current campus practice, a block allocation is provided to principal officers for staff salary actions. Funding for merits and/or range adjustments for faculty and continuing lecturers that are permanently budgeted is held centrally and provided to cover actual costs. Staff turnover savings have been decentralized to the deans and vice chancellors and are available to support staff salary adjustments within the division.

Indirect Cost Receipts (ICR). The overhead generated by research awards (primarily federal contracts and grants) is used to promote research, provide flexibility, and to cover research-related costs. The campus has adopted formulas for managing and distributing its overhead receipts from federal and private contracts and grants. These allocations are not part of the campus's allocation process per se. That portion of the overhead accruing to the CP/EVC is used for strategic investments or to cover campus infrastructure and capital costs. The portion that goes to the Deans and Vice Chancellors is not managed at a campus wide level, and carries with it the expectation that the funds will be utilized to promote research opportunities and to support research infrastructure. Deans may use these funds for start-up costs or matching funds for grants. The VCR can also provide matching funds for grants.

The following summarizes the formulas used for each of the indirect cost receipt categories:

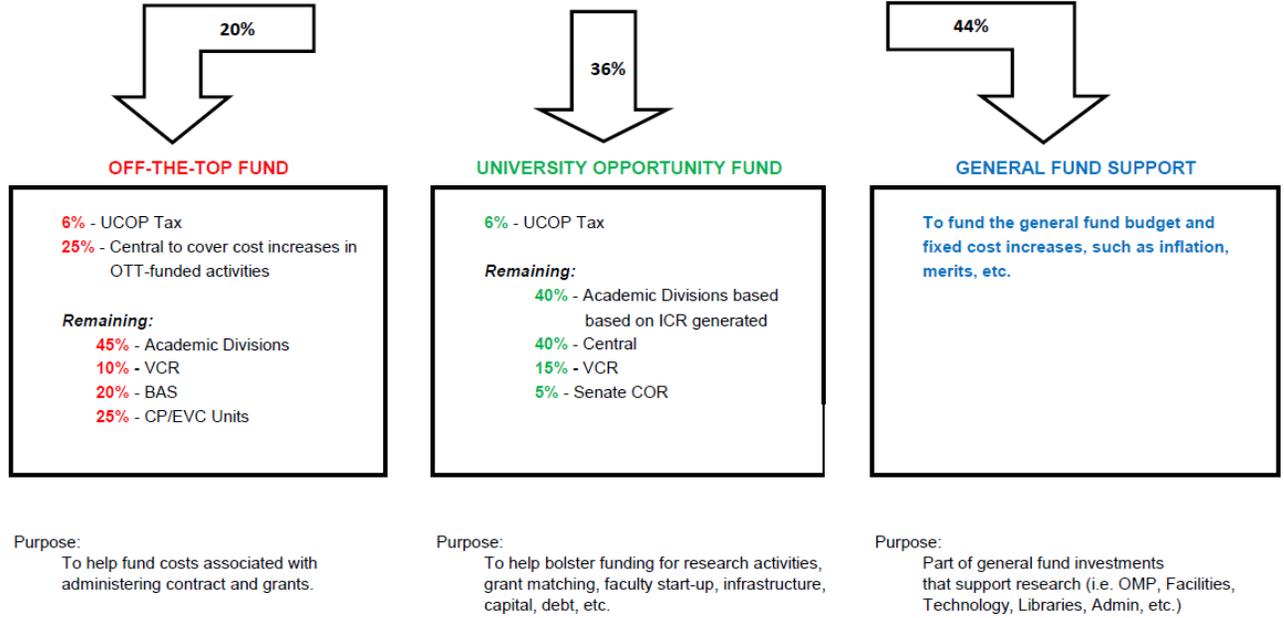
Opportunity Funds – New opportunity funds are distributed using the “40/40/15/5” formula. After retaining 6% for UCOP assessments, 40% is provided to the Provost/EVC for building infrastructure costs, faculty start-up, and other funding needs; the Academic Divisions receive 40%, based on changes in indirect costs in the division; the VCR receives 15% to seed further research, and to support matching fund requests; and the Senate Committee on Research receives 5% for faculty COR grants. By returning a significant portion of new opportunity funds to the divisions and the VCR, it is expected that these funds will address the need for research matching funds. In addition to these opportunity funds, the VCR has available a limited pool of research seed funding that was provided by the Office of the President. These funds are managed by the VCR help to seed-fund research and to provide matching funds for grants.

Off the top (OTT) funds – Based on a long-standing agreement between the State and the University, this funding is composed of 19.9% of actual federal indirect cost receipts and is used toward costs related to administering contracts and grants. Incremental off-the-top funds associated with a change in overhead generated from one year to the next are allocated as follows. The first 6% is retained for UCOP assessments and 25% is held centrally to cover cost increases in OTT-funded activities and central initiatives. The remainder is distributed: 45% to the academic divisions for administering contracts and grants; 10% to the Vice Chancellor for Research for sponsored project administration and related costs; 20% to Business and Administrative Services for workload in Extramural Accounting and Payroll, EH&S, Internal Audit, Materiel Management and Purchasing, Staff Human Resources, Police, and other related costs; and 25% to the Chancellor/CPEVC for other central office workload.

Overhead on private contracts and grants -- Overhead (educational funds) on private contracts and grants accrues directly to the Provost/EVC who uses these funds to invest strategically. They will continue to serve as a source of funds to address a wide range of campus needs. Overhead generated on private grants that originated fully from a federal funding sources is allocated using the “40/40/15/5” formula (the same formula that is used for Opportunity Funds) and the Off The Top formula described above.

Allocation Model for Federal Indirect Cost Receipts

INCREMENTAL FEDERAL INDIRECT COST RECEIPTS GENERATED

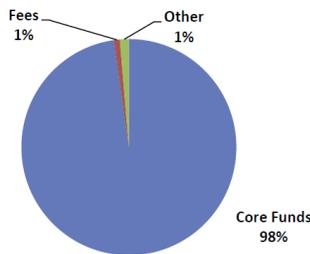


Chapter V
**UCSC –THE MAJOR DEPARTMENTS, THEIR RESPONSIBILITIES
 AND THE BASE BUDGET**

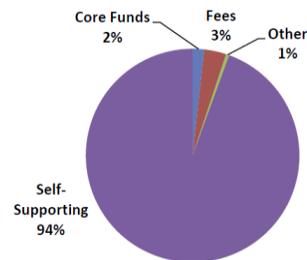
UCSC has five academic divisions (Arts, Humanities, Physical & Biological Sciences, Social Sciences, and the Baskin School of Engineering), Business and Administrative Services, Campus Life, academic and residential colleges, and other academic and institutional support activities such as the University Library, Undergraduate Education, University Relations, and Information Technology Services.

Some areas are funded primarily with core funds (state general funds, tuition, and overhead receipts). Others are supported with student fees (the Student Services fee, campus based fees, miscellaneous fees) and some are largely self-supporting or supported by recharge income. The following illustrates the funding patterns for some of our major units.

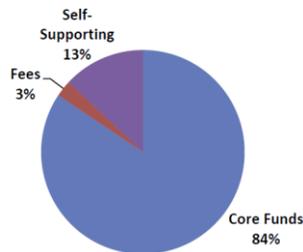
Academic Divisions
 (\$106 million, excluding C&G activity)



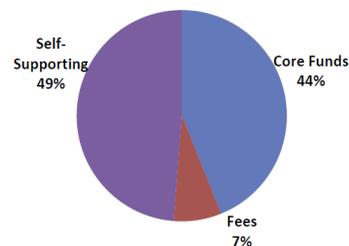
Academic and Residential Colleges
 (\$114 Million)



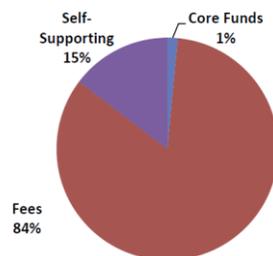
Information Technology Services
 (\$22 million)



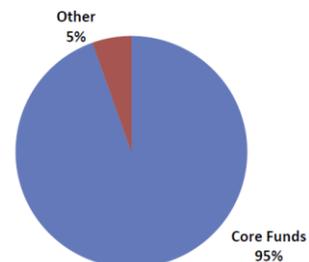
Business and Administrative Services
 (\$81 million)



Campus Life
 (\$33 million)



University Relations
 (\$10 million)



**2013-2014 Budget Summary by Major Fund Source
University of California, Santa Cruz Campus**

(Amounts Include Budgeted Recharge Income)

	Core Funds	Fees	Gifts & Endowments	Self Supporting	TOTAL	Acad FTE	Staff FTE
ARTS DIVISION	12,780,005	149,594	28,642	28,000	12,986,241	126.10	42.00
ENGINEERING	16,681,326	176,524	73,801	—	16,931,651	132.82	36.90
HUMANITIES DIVISION	18,169,932	8,964	21,887	—	18,200,783	107.28	39.03
LIBRARY	7,774,175	10,205	48,195	10,600	7,843,175	24.00	66.42
PHYSICAL & BIOLOGICAL SCIENCES	31,443,032	363,782	96,396	1,041,605	32,944,815	271.44	103.66
SOCIAL SCIENCES DIVISION	24,240,655	237,471	36,460	90,700	24,605,286	240.62	69.46
UNIVERSITY EXTENSION	2,259,243	7,524,475	—	—	9,783,718	4.00	43.36
ACADEMIC UNITS	113,348,368	8,471,015	305,381	1,170,905	123,295,669	985.22	380.77
ASST VC PHYSICAL PLANNING & CONSTR	658,920	193,321	—	3,065,800	3,918,041	—	27.01
BAS VC - SPECIAL PROJECTS	85,872	0	—	—	85,872	—	—
BAS VC VICE CHANCELLOR	980,926	—	—	—	980,926	—	9.34
BAYTREE BOOKSTORE & ANCILLARY SVCS	—	—	—	9,383,000	9,383,000	—	26.76
ENVIRONMENTAL HEALTH & SAFETY	957,461	—	—	15,556	973,017	—	10.00
FINANCIAL AFFAIRS	5,067,462	77,540	—	662,427	5,807,429	—	67.80
FIRE DEPARTMENT	1,764,148	—	—	53,775	1,817,923	—	17.00
INTERNAL AUDIT	491,555	—	—	—	491,555	—	6.00
MBEST CENTER	—	—	—	425,000	425,000	—	—
PHYSICAL PLANT SERVICES	17,658,524	113,582	—	20,038,016	37,810,122	—	269.97
REAL ESTATE OFFICE	310,106	—	—	—	310,106	—	3.62
RISK SERVICES	440,206	—	—	390,500	830,706	—	9.28
STAFF HUMAN RESOURCES	3,962,331	—	—	232,249	4,194,580	—	66.49
TRANSPORTATION & PARKING	29,225	5,533,475	—	4,559,950	10,122,650	—	66.60
UNIVERSITY POLICE	2,980,493	—	—	476,673	3,457,166	—	40.00
BUSINESS & ADMINISTRATIVE SERVICES	35,387,229	5,917,918	—	39,302,946	80,608,093	—	618.82
DEAN OF STUDENTS	0	936,999	—	21,000	957,999	—	6.60
OFFICE OF PHYS ED, REC & SPORTS	63,100	2,588,829	941	968,960	3,621,830	1.00	26.94
PROVISION EMPLOYEE BENS CAMPUS LIFE	—	448,117	—	—	448,117	—	—
RETENTION SERVICES	405,968	3,358,462	—	90,250	3,854,680	—	46.62
SOAR	41,000	2,202,175	—	195,000	2,438,175	—	16.02
STUDENT HEALTH SERVICES	—	18,456,137	—	3,618,469	22,074,606	—	66.94
CAMPUS LIFE	510,068	27,990,719	941	4,893,679	33,395,407	1.00	166.02
ACADEMIC AFFAIRS	209,025	—	—	—	209,025	1.00	0.60
ACADEMIC PERSONNEL OFFICE	662,366	—	—	—	662,366	—	7.76
ACADEMIC SENATE	863,000	—	7,891	—	870,891	—	7.00
ARBORETUM	318	—	6,019	—	6,337	—	—
CAMPUS LEGAL COUNSEL	494,938	—	—	—	494,938	—	3.66
CAMPUS PROVOST/EXEC OFFICE	1,063,239	100,407	—	—	1,163,646	—	11.60
CAPITAL PLANNING & SPACE MGMT	429,156	—	—	—	429,156	—	4.00
CHANCELLOR'S OFFICE	890,185	—	135,200	—	1,025,385	—	7.60
DIVISION OF GRADUATE STUDIES	648,993	316,425	—	44,000	1,009,418	1.00	7.66
PLANNING AND BUDGET	1,705,119	0	—	—	1,705,119	—	16.00
VICE CHANCELLOR RESEARCH	2,263,877	—	—	—	2,263,877	—	19.40
CHANCELLOR & CAMPUS PROVOST UNITS	9,230,216	416,832	149,110	44,000	9,840,158	2.00	84.85

NOTE: Figures include budgeted funds from the following sources: General Funds, Special State Appropriations, Student Fees, Endowment Income, UOF/OTT, and Recharge & Auxiliary Income. The budget figures do not include funds from extramural sources (e.g. gifts, grants and contracts), funds pending allocation and one-time funding sources, except selected on-going allocations.

Note:

(a) The budget for the Chancellor's Office includes funding for EEO and Campus Legal Counsel. The budget for the Campus Provost and Executive Vice Chancellor includes Administrative Records.

**2013-2014 Budget Summary by Major Fund Source
University of California, Santa Cruz Campus**

(Amounts Include Budgeted Recharge Income)

	Core Funds	Fees	Gifts & Endowments	Self Supporting	TOTAL	Acad FTE	Staff FTE
COLLEGE CORE COURSES	979,500	-	-	-	979,500	-	-
COLLEGE EIGHT	130,122	150,132	3,359	7,320,797	7,604,410	-	10.07
COLLEGE NINE	-	155,174	-	9,988,361	10,143,535	-	7.36
COLLEGES	16,722	116,056	-	-	132,778	-	-
COLLEGE TEN	-	156,936	-	4,697,431	4,854,367	-	7.47
COWELL COLLEGE	118,325	160,247	76,366	8,253,102	8,608,040	-	10.10
CROWN COLLEGE	123,727	161,769	35,567	9,811,808	10,132,871	-	9.76
HOUSING SERVICES	-	2,088,640	19,950	45,649,490	47,758,080	-	304.68
HOUSING SERVICES INTERNAL RECHARGES	-	-	-	(9,893,876)	(9,893,876)	-	-
KRESGE COLLEGE	120,433	164,527	3,638	3,256,508	3,545,106	-	9.76
MERRILL COLLEGE	128,234	166,953	11,494	4,733,255	5,039,936	-	9.00
OAKES COLLEGE	125,884	151,025	108,897	6,635,519	7,021,325	-	9.76
PORTER COLLEGE	138,360	161,337	293,680	11,653,261	12,246,638	-	10.07
STEVENSON COLLEGE	123,713	150,325	5,474	5,301,149	5,580,661	-	10.40
COLLEGES & UNIVERSITY HOUSING	2,005,020	3,783,121	558,425	107,406,805	113,753,371		400.35
ITS APPLICATIONS & PROJECT MGMT	5,998,329	583,291	-	424,024	7,005,644	-	61.00
ITS BUDGET AND RESOURCE MANAGEMENT	374,299	-	-	415,848	790,147	-	7.00
ITS CLIENT RELATIONSHIP MANAGEMENT	2,911,611	-	-	3,173	2,914,784	-	36.00
ITS CLIENT SERVICES & SECURITY	1,464,724	-	-	166,556	1,631,280	-	20.00
ITS CORE TECHNOLOGIES AND ENG	5,597,410	-	-	1,261,503	6,858,913	-	47.00
ITS INSTRUCTIONAL TECHNOLOGY GROUP	2,226,423	-	-	641,391	2,867,814	-	29.00
ITS VC INFORMATION TECHNOLOGY	340,510	0	-	-	340,510	-	2.00
INFORMATION TECHNOLOGY SERVICES	18,913,306	583,291	--	2,912,495	22,409,092		203.78
MULTI-CAMPUS RESEARCH UNITS	8,018,763	--	134,928	493,156	8,646,847	17.60	39.93
SILICON VALLEY INITIATIVES	1,198,503	--	--	--	1,198,503	--	5.85
STUDENT AID	77,327,543	2,655,241	1,025,300	--	81,008,084	--	--
EDUCATIONAL PARTNERSHIP CENTER	879,670	-	-	-	879,670	-	9.30
ENROLLMENT MANAGEMENT	4,295,080	1,575,688	-	527,875	6,398,643	-	61.07
SUMMER SESSION	2,062,594	150,000	-	-	2,212,594	36.23	2.00
UNDERGRADUATE EDUCATION	1,289,291	2,779	-	-	1,292,070	1.00	19.10
UNDERGRADUATE EDUCATION	8,526,635	1,728,467	--	527,875	10,782,977	37.23	112.07
UNIVERSITY RELATIONS	9,414,131	--	37,015	505,654	9,956,800	--	83.88
PROVISION FOR EMPLOYEE BENEFITS	60,842,505	3,879,029	--	--	64,721,534	--	--
PROVISION FOR DEBT SERVICE	1,487,000	3,459,188	--	--	4,946,188	--	--
PROVISION FOR UCOP ASSESSMENT	9,398,118	44,298	--	--	9,442,416	--	--
CAMPUS TOTAL	355,607,405	58,929,119	2,211,100	157,257,515	574,005,139	1043.05	2098.32

Note: The \$574 million shown above excludes extramural funding and includes recharge income.

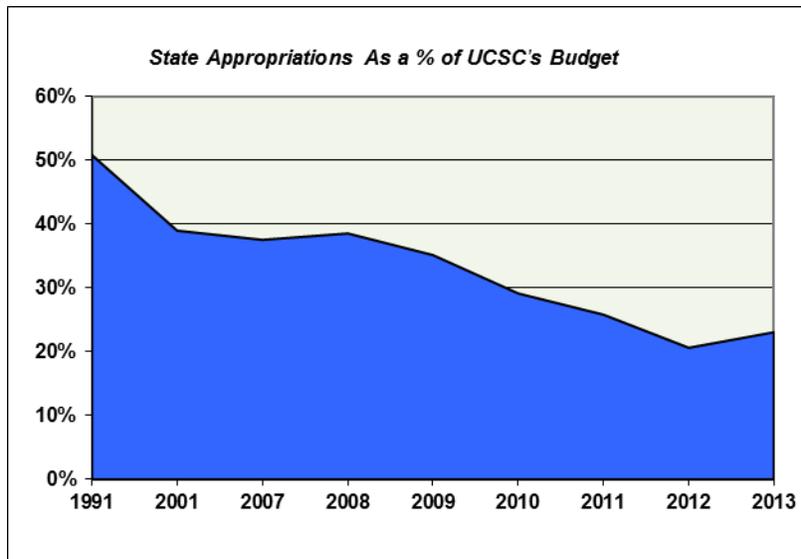
Chapter VI
RESOURCES COMING TO THE CAMPUS

Resources come to UCSC from many sources – referred to as revenue streams. The five main revenue streams that support the UCSC operating budget are derived from the following sources:

- State of California
- Student tuition and fees
- Federal government
- Private sources
- Auxiliary enterprises

State funds

State General Funds. Less than a quarter of UCSC’s budget comes from the state general budget. Funds are allocated (or reduced) on an incremental basis. Permanent funds are budgeted and are included in the base budget. Incremental changes are made by the campus through the budget process.



These funds do not flow directly from the State to UCSC, but are allocated by UCOP using either a programmatic or formulaic approach that is intended to direct funds consistent with the plan approved by The Regents and discussed with the State. The following describes the key funding categories from the state and their uses. It should be noted, however, that the State does *not* provide the university with funding increases in each of these categories every year. In recent years the university received a negative adjustment, better known as a “budget cut.”

Current year base budget – An accumulation of the incremental permanent funding provided over the years, assumed to be continued in the new budget year.

Adjustments to the base – This includes funds to maintain the value of the base budget and keep pace with inflation. These funds are intended to address a variety of fixed costs such as salary adjustments and non-salary price increases to help maintain the campus’s purchasing power for such things as library books and periodicals, changes in health care costs, and classroom supplies. In years when the state adjusts the base, UCSC receives a block of funds from the Office of the President with instructions about what needs to be covered.

Funds based on Rebenching Principles—Funds are allocated by UCOP based on weighted per-student enrollment, in which undergraduate, post baccalaureate, 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).

Other workload increases – Funds may be provided by the state to address “big-ticket” areas such Instruction Equipment Replacement (IER), Instructional Technology, Libraries, and Operation and Maintenance of Plant (OMP). These have not been received for several years.

Programmatic or Special Initiative funds – Funding provided for specific programs, such as new initiatives or expanding current programs. This can be one-time or permanent. These funds are tracked separately and used only for targeted programs such as state-supported research programs and specific public service programs.

State contracts and grants. These funds, awarded to faculty, must be used according to the terms and conditions of the individual award. These funds are not budgeted and are not part of the campus’s allocation process.

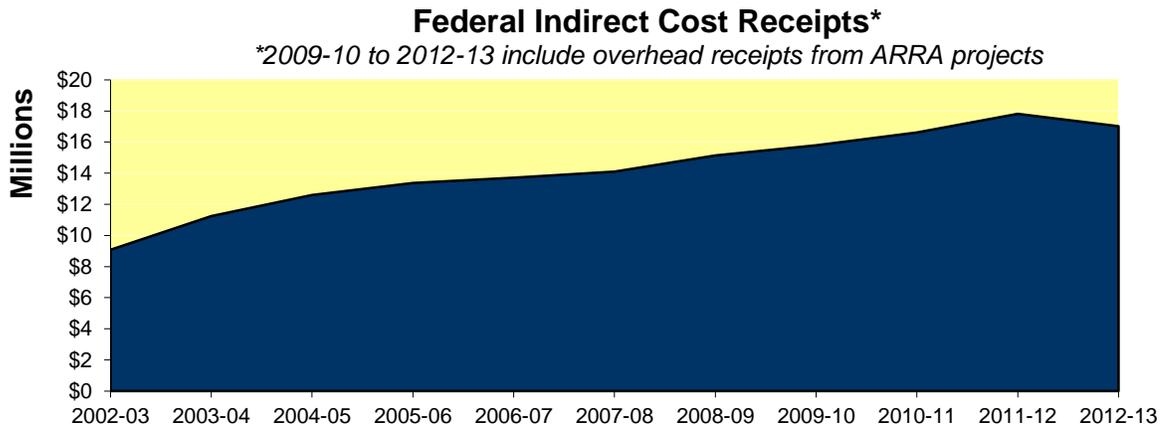
Special State Funds. Usually voter-approved and earmarked funds, i.e. Cigarette Tax, Breast Cancer Research Fund, State Lottery Funds, State Transportation funds. The use of these funds is restricted, and do not come directly to the campus.

Federal Funds

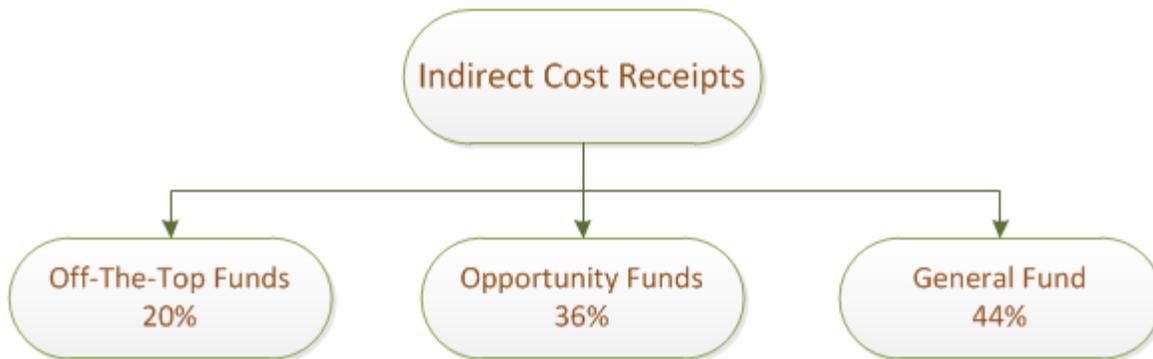
Federal funds are received for student financial aid (mostly work-study and loans) and the research activities of the faculty. Federal grants provide support for graduate students, post doctoral researchers, professional staff, as well as technical and administrative elements of the research infrastructure. Federal grants also generate indirect cost receipts.

Contracts and grants –Are awarded to Principal Investigators to support direct costs of research (consistent with OMB Circular A21). These funds, which go to individual faculty rather than to the campus, are not budgeted and are not part of the campus’s annual budget process. These are restricted according to the terms and conditions of the grant.

Overhead reimbursement (indirect cost recovery) –Are tied to the expenditure of direct costs. The amount is based on the indirect cost rate, which includes the cost of facilities (such as equipment, research space, maintenance and utilities, and the library) as well as departmental administration and support. The campus has a six year rate agreement from 2011-12 to 2016-17 that allows a .5% rate increase annually. The current on-campus rate is 52.5%. The on-campus rate ramps up to 54% by the last year of the agreement. Rates at the other UC campuses – UCSB is 53%, UCM is 55%, UCR is 52%, UCD is 54.5%, UCI is 54%, UCB is 56.5%, UCLA is 54% and UCSD is 55%. The “effective” rate (the amount actually generated as a % of expenditures) is typically much less because not all federal contracts and grants generate the full overhead rate, i.e. equipment grants, grants for off-campus research use the “off-campus rate” and sometimes the overhead is waived or is reduced. Waivers of overhead require approval of the Vice Chancellor for Research. In general, waivers and reductions are not encouraged and are not common.



Federal overhead is split into three categories. Under the *funding streams* methodology, the campus retains all of its indirect cost receipts, although the UC Office of the President “taxes” a portion of these revenues to support multi-campus research organizations and the cost of operating UCOP. 6% of the revenue in each category of indirect costs is reserved to pay the UCOP assessment.



- a. **Off the Top Funds** -- About 20% of federal indirect cost receipts flow into the “Off-The-Top Fund” (OTT). OTT is used for administrative costs related to the accounting and administration of grant-related activities such as the Sponsored Projects Office and Extramural Accounting. OTT cannot be used for capital projects.
- b. **Opportunity Funds** -- 36% of federal indirect costs become known as Opportunity Funds. The campus opportunity funds are flexible dollars.
- c. **General Fund** -- The remaining 44% is used, along with state funds and education fee revenue, to support the University’s general fund budget.

Student Tuition and Fees

Tuition – This is a mandatory system wide charge assessed to all registered students to provide general support for the UC budget. UCSC retains the tuition generated by its students. *Up to* one-third of tuition and Student Services Fee revenue is directed to need-based financial aid. Although this is calculated on the income generated by both tuition and the Student Services fee, it is taken primarily from tuition. The amount returned to aid for undergraduate students is 33 percent and 50 percent for graduate students. The fee level is set by the Regents. Tuition in 2013-14 is \$11,220. After deducting funds for financial aid, the campus receives incremental tuition at the rate of about \$7,829 for each additional FTE undergraduate student.

Nonresident Supplemental Tuition - This is charged to nonresident students in addition to tuition and other mandatory student fees for the cost of education. The tuition level is set by the Regents. Nonresident supplemental tuition in 2013-14 is \$22,878 for undergraduates and \$15,102 for graduate academic students. The Office of the President provides campuses with enrollment targets for nonresident students. Campuses are responsible for nonresident enrollment and nonresident supplemental tuition revenues.

Student Services Fee – This is a system wide mandatory fee, and the fee level is set by The Regents. The Student Services Fee became subject to the University’s return-to-aid

practice beginning in 2010-11. The Student Services Fee is retained entirely by the campus and is used to support a variety of student service activities such as counseling and mental health services, cultural and recreation programs, and services related to campus life and campus community. The Student Fee Advisory Committee (comprised of students, faculty, and staff) provides advice to the Campus Provost/EVC and the Chancellor on the allocation of these funds. These funds can be used for a variety of purposes, including capital projects.

Professional Degree Supplemental Tuition – This is paid by students enrolled in professional degree programs to support instruction and enhance the program.

Campus-based Mandatory Fees – These are fees initiated and approved by students via a student referendum, and later approved by The Regents. They are mandatory, as a condition of enrollment. The list of campus-based mandatory fees differs between campuses. At UCSC, there are 32 distinct mandatory fees, including the college student government fee, the transit fee, the child care fee, various student facility fees, the student programs fee, and the seismic-life-safety fee. The type of fees and fee levels vary between UG and Graduate students, based on the terms of the student referendum. The revenues must be used consistent with the terms of the referendum.

Miscellaneous and Course Fees – These are user fees and service charges. They are not mandatory as a condition of enrollment and are only charged to students and others when they actually use the service (i.e. application fees, duplicate diplomas fee, course fees, lab use fees, etc.). The revenue from these fees is used to support the service provided.

Private gifts, contracts and grants

Gifts and private grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations, and other nonprofit entities. Private grants are received from for-profit and other organizations. This funding is generally for a specific purpose – such as a scholarship or an endowed chair – and is a restricted, nonrecurring funding source. Although restricted, private funds provide enhancements to the academic program beyond what would otherwise be possible.

Depending on the policies of the granting agency, some private grants include overhead. The amount may range from 1% to 9% of the grant. Overhead from private sources is retained by the campus as Educational Funds.

Auxiliary Enterprises

These are non-instructional support services that are provided primarily to students for a specified charge. While important to supporting the campus enterprise – they are not part of the campus's primary budget process. Revenues in this category – housing and dining services, parking, bookstore – are generated by user fees and are used to offset expenses

specific to the service, including debt service. Auxiliary Enterprises, because they are self-supporting, reimburse the campus for a full complement of administrative services, including internal audit, police and fire protection, business services, and central administration.

Other

STIP Interest -- Most funds earn interest through the Short Term Investment Pool, also known as STIP. The Funding Streams Initiative that was implemented by the UC Office of the President in 2011-12 allows campuses to retain the STIP earned on all funds managed by the campus, including State Funds, federal indirect cost receipts, tuition, gifts, self-generated income, student services fee and campus mandatory fees, endowment income, and all other funds.

Endowment income – Endowment income is based on the annual earnings of the endowment principal. This funding is usually designated for specific activities or programs and is not part of the campus’s annual budget process.

Miscellaneous – The income received from vending machines, late fees, parking fines, sales and services, and cell tower leases are all examples of miscellaneous income. Policies govern the use of these funds. These funds are included in divisional long-term plans, but they are not part of the annual allocation process.

Chapter VII **SYSTEMWIDE ASSESSMENT**

Following lengthy consultation with campus leadership, the UC Office of the President implemented the Funding Streams Initiative in 2011-12. This budget model made comprehensive changes in the way funds flow within the University and in the way the UC Office of the President (UCOP) is funded. Key provisions of the model: (1) Funds remain on the campus that generates them, and (2) The UCOP budget is transparent and developed with campus involvement.

To support UCOP administration and central UCOP services, UCOP-managed academic programs, systemwide initiatives and ongoing commitments, multi-campus research programs and initiatives, and the Division of Agriculture and Natural Resources Cooperative Extension, the University established a broad-based flat assessment on campus expenditures. The assessment replaced the General Funds, Opportunity Funds, Off-The-Top Funds, Educational Funds, and the Common Fund tax on medical center, health sciences compensation plan, and auxiliary enterprise expenditures that was previously used by the UCOP for these programs. The systemwide assessment or “tax” is based on campus expenditures from all fund sources during the most recently completed fiscal year. Campuses have broad discretion to identify the fund sources from which the assessment will be paid.

The 2013-14 systemwide assessment is 1.49% and totals \$294 million across the UC system. UCSC’s portion of the assessment is \$7,476,000.