
**20-21 Council on Planning and Budget (CPB)
Budget Model Working Group (BMWG)
Report on Action Item 4**

Action Item 4:

BMWG, CPB, Senate Leaders, and Academic Senate Executive Board work with EVC/ Provost (and Chancellor), APB, and any other relevant senior administrators to create transparency, predictability, and accountability in the central administration's setting of campus priorities and allocation of funds across the campus in accordance with our mission and priorities. Early in 2021 BMWG will work to articulate key principles underlying the allocation of the general fund supplement and its role in the new budget model.

Background

In developing UCLA's new budget model, UCLA had significant engagement with the University of Michigan. In budget model recommendations drafted by the BMWG last year, committee members noted that a "recurrent concern on campuses that have emulated the University of Michigan Model is the level of transparency and accountability in the center's allocation of funds."¹ The recommendation concluded with the following statement: "it is less than obvious what accountability mechanisms (if any) there are on the center's use of the strategic funds. In particular, the Deans and Academic Senate have no oversight role in these matters."

Building on that document, earlier this year CPB's BMWG prepared a document titled "Discussion of New Budget Model, along with Recommendations." Recommendation 5 of that document urged public documentation and academic justification for the use of strategic funds and the adoption of accountability mechanisms on the central administration's use of these funds. It is the basis for Action Item 4.

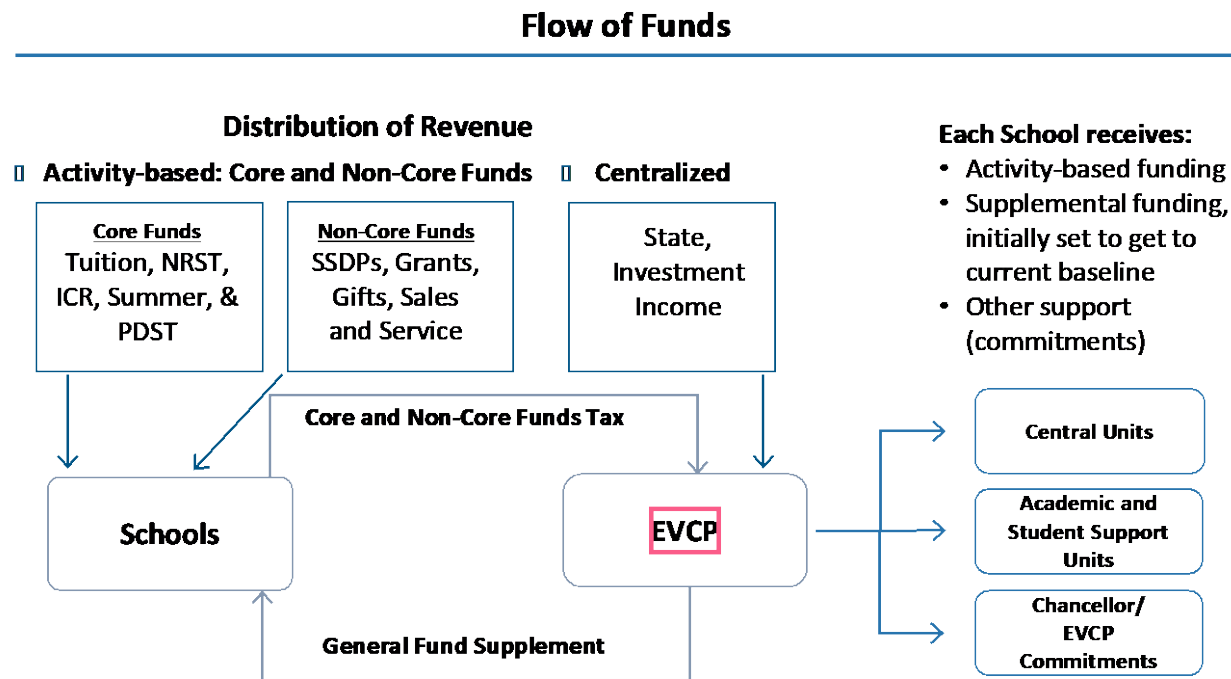
BMWG's work in 2020-21 further addresses these concerns. We are working to better understand the role of central funds in the new budget model and to make recommendations to ensure that the implementation of the model's deployment reflects core values of transparency, predictability, and accountability. We also have used the "simulated" layered budget process this year to better understand the practical implications of the new model. In December, these efforts were accelerated by

¹ See page 21 of the June 16, 2020 letter sent from the BMWG to Senate Leadership. Citing <https://ucdavis.box.com/s/3x837zyjmrme3i57d6f57dpugzkqe8qi>, the letter noted that at UC Davis, "University leaders do not understand the decision making logic behind the Provost incremental allocations, roughly 46% of the core funds, leading to a trust gap." Similarly, despite greater transparency on requests received by the center at the University of Washington, "Deans and faculty expressed concern with regard to administrative funding levels and a lack of transparency with regard to how tax money was deployed to fund administration." The report also noted the University of Minnesota's "Compact System," in which "agreements (termed "compacts") between the provost and each of the constituent colleges on strategic plans and goals, programs, all-fund budgets, and evaluation procedures" were negotiated and monitored.

strong concerns about this aspect of the new budget model reported by various chairs, deans, and other figures in campus leadership.²

Flow of Funds in New Budget Model

In his public presentation of the model to various campus groups, including CPB, deans, and department chairs, AVC Jeff Roth has presented the model's flow of funds using the following figure:



In it, activity-based core and non-core funds are shown flowing to the schools and college (with a tax returned to the EVCP), while so-called centralized funds (state funds and investment income) flow directly to the EVCP.³ The EVCP uses these funds to support central units, academic and student support units, and Chancellor/EVCP commitments. Although the former functions (particularly funds going to central units) are certainly important and worthy of further discussion, the most salient category of these funds is clearly the General Fund Supplement to schools and the College, which we discuss in more depth below.

The General Fund Supplement (GFS)

In the roll-out period of the new budget model, the GFS is relatively simple in its form and function. Currently set at two years (2020-21 and 2021-22), the transition period to the new model's implementation holds academic units harmless. During that transition, the GFS simply represents the difference between the funding the schools and College would have received under the old vs. new

² See, for example, the December 6 "Letter from Social Science Chairs on plans for administrative centralization at UCLA" which states "The [new budget] model appears to leave all Divisions in deficit after a 25% tax that goes to the office of the EVC/Provost that then has the discretion to reallocate those funds to both administrative and academic units in ways that lack transparency and accountability. In addition, a tax on academic unit budgets may backfire if it destroys incentives for entrepreneurial activities."

³ Separately in the document, it notes that of the \$1.7 billion of core funds revenue in the FY 2017-18 budget, 25% were state funds.

model. Based on discussions we have had with those knowledgeable as to a simulation of the new model compared to the current budget model, nearly all schools and the divisions of the College have discovered that they require sizable GFS allocations to arrive at funding levels equivalent to those in the old budget model.⁴ We believe it is vital that the GFS be applied with transparency, predictability, and accountability.

Transparency

Although transparency is important at any public university (where the confidence and trust of taxpayers and the legislature are a vital imperative), we believe the transparency of the new budgetary process is particularly important. The new budget model is complex and distinctively different from UCLA's longstanding model. Transparency will greatly help all parties to understand the new model and operate effectively within it. It will permit them to evaluate the new model's fairness and reasonableness, thereby increasing the model's legitimacy, and make it easier to identify any unintended negative consequences or perverse incentives of the new model. Finally, it will help the campus recognize central mandates to academic units and ensure they are appropriately identified and funded and not used as leverage to force units to implement undesired initiatives.

Predictability

The new budget model is intended to empower academic leaders to develop new and/or increased income to be used to support an academic unit's activities. The new model as currently presented seems to create the possibility of very significant year-to-year changes in an academic unit's funding. Many have expressed concern that the model's lack of predictability might fundamentally undermine the new model's viability by, for example, failing to reward precisely the sort of activity that the activity-based model is intended to encourage.⁵ In brief, without some predictability and bounds on the EVCP's discretion in setting the GFS each year, academic units might view the effort and expense of undertaking new activities in the model as being too risky. For example, if an academic unit is trying to decide whether to invest time and money in building a new self-supporting program, they might choose to forgo that effort if they observe or believe the EVCP would reduce their GFS in part or whole once the program was operational because other programs needed the money more.⁶ Furthermore, new or expanded enterprises typically require long-term support for people, space, equipment, and/or other resources, and those undertaking the enterprise need some assurance that it can be supported long-term. To ensure the success of the new budget model, we believe the EVCP should make the GFS an academic unit receives as clear and predictable as possible. To that end, we would specifically recommend limiting the amount the GFS could change from year to year and setting multi-year targets.

Accountability

⁴ According to correspondence with AVC Roth, while one academic unit is actually receiving more funding under the new budget allocation's activity-based distribution, all others require GFS to achieve parity with the old model, and some units require a GFS representing nearly half their current budget. Some have argued that these vast disparities between activity-based and present funding represent differences in activity-related costs across academic units (i.e., academic units where instruction does not scale to large classes as readily as others because of high lab infrastructure costs or pedagogy premised on extensive individualized feedback), while others have argued that a portion represents historical inequities and/or accident.

⁵ Note that these concerns are in addition to more general concerns about how the GFS might address the competing imperatives of appropriately rewarding units that have greater ability to generate funding through their own activities while still maintaining some redistributive consideration for units that lack such opportunities. We feel that this balance is a less fundamental problem and requires finding an appropriate balance between these two considerations.

⁶ See North and Weingast (1989).

As was noted above, a consistent criticism of Michigan-type budget models has been a "trust gap" in the allocation of central funds. Although some of these concerns might be addressed over time as stakeholders observe many years of allocations by the center, absent a time machine such strategies are not helpful in building trust at the *start* of the new model's implementation. UCLA will benefit from a robust and informative accounting of the funding that goes to the center and how it is then distributed. There are already budget systems in place: These need to be scrutinized to ensure that they provide all the routine (presumably annual) information that faculty, staff, and administrators would want in order to understand how the new budget model is working. In addition, a review of the new model's performance should be carried out routinely, perhaps every five years, and any time there is the suspicion that the model needs adjustment.

A New Budget Model in a Strong System of Shared Governance

The UC system has a strong system of shared governance. The Standing Orders of the UC Board of Regents established the organization of the Academic Senate (Standing Order 105.1) and its duties, powers, and privileges of the Academic Senate (105.2). Among them is the following "The Academic Senate is authorized to select a committee or committees to advise a Chancellor concerning a campus budget..." (105.2.d). Although there are detractors, UC's strong system of shared governance is generally regarded to be a UC strength. There has been considerable consultation as UCLA created and is implementing a new and different budget model. This needs to continue and to grow in several areas, including a strong and consistent faculty voice regarding GFS and other major initiatives funding from the center—particularly when those new initiatives might have a major impact on faculty or the research/teaching/service mission of UCLA.