UCLA Academic Senate
Council on Planning and Budget
Budget Model Working Group

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From: CPB's Budget Model Working Group (BMWG)
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To: Council on Planning and Budget (CPB)

Re: Bruin Budget Model Treatment of SSGPDP Revenue and Accounting for Indirect Costs

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This memo follows up on the 2021-22 BMWG's concern (in its May 2, 2022 "High Level Report") that the proposed Bruin Budget Model (BBM) "tax" structure for Self-Supporting Graduate Professional Degree Programs (SSGPDPs) may favor SSGPDPs in a way that could tend to encourage them over state-supported programs for reasons above and beyond SSGPDPs' ability to levy higher student charges. These budget model issues relate to the concerns expressed in a 2021 systemwide Senate report about whether SSGPDPs are incurring unpaid-for "hidden costs" that undermine the premise of self-support. The significance of these issues may grow as SSGPDPs form the majority of new degree program proposals UC-wide. UCLA utilizes SSGPDPs more than any other UC campus. Because SSGPDPs implicate many areas of Senate authority and expertise and have been addressed by many bodies over the years, we direct this to Executive Board for consideration of any further action, including potential collaborations between CPB and Graduate Council. Resolution of the budget policy questions is also likely to influence how CPB reviews individual SSGPDP proposals in the future.

The currently proposed BBM's tax structure for SSGPDPs interacts with accounting for indirect costs. The BBM would tax SSGPDP expenditures at 5%, in lieu of comparably-sized current recharges. Because UCLA currently does not charge SSGPDPs for their indirect costs, this expenditure tax applies only to direct costs. The result is, in effect, a 5% tax on income allocated to direct expenses and a 0% tax on the remaining income, which is then divided between the sponsoring department and its school/division (hereinafter "school") by prior agreement.[1] The BBM would treat other revenue as follows:

- **Research grants** also (mostly) bear a 5% expenditure tax but, in addition, pay Indirect Cost Recovery (ICR). ICR is then returned to the sponsoring school as income, after central campus retains a base amount. This school income is then taxed at 25%. In contrast, the SSGPDP system is equivalent to paying indirect costs and then returning them 100% to the sponsoring school, untaxed.
- **Summer session revenue** would be taxed 25% from the first dollar.
- In the one already implemented BBM component, tuition revenue from **state-supported enrollment growth** (in new or existing programs) is (in effect) taxed at 50%. This increase from the original 25% corresponds in part to central campus now retaining responsibility for faculty salary merits and adjustments, which return a significant component of tax revenues to cover schools' direct costs.

Not charging SSGPDPs for indirect costs seems to be in tension with the 2020 UCOP SSGPDP policy. That policy defines the costs of SSGPDPs to include "both direct and indirect costs," and it defines indirect

[1] Graduate Council's 2019 SSGPDP proposal Guidelines do not address indirect costs in detail, but the revenue distribution provision (¶ 15) "anticipates" sponsoring departments will retain at least 25% of gross revenue.

costs in the conventional way associated with ICR: “a program’s share of academic and administrative support, libraries, building use, and operation and maintenance of physical facilities.” The policy requires that “All SSGPDPs shall be fully self-supporting within three years of inception” (III.I), that is, “Student charges for SSGPDPs will cover all program costs [defined to include indirects]” (III.P).

UCOP’s application for annual approval of SSGPDP student charges likewise includes indirect costs, with a 26% rate for UCLA. Existing UCLA SSGPDP budget templates incorporate these indirects for UCOP reporting but not for campus purposes, explaining that SSGPDPs need only to have revenues sufficient to cover indirects, regardless of whether the campus actually charges them. The 26% UCOP figure’s origins are unclear. It equals the current 26% rate for off-campus instruction or research in UCLA’s federal rate agreements, corresponding to the “administrative” but not the “facilities” (including libraries) F&A components. The on-campus instructional rate in those agreements is 40%, and UC’s biennial report on expenditures on instruction utilizes a UCLA indirect cost schedule that amounts to 54% of direct costs.

With no indirects charged, UCLA’s internal accounting treats all SSGPDP revenue above direct costs as “net revenue.” This leaves no separate identification of net revenue above <u>total</u> costs. This could matter for budget model purposes because the arguments for or against allowing sponsoring schools to retain 100% of net revenue above total costs differ from those about returning 100% of indirect cost payments to the sponsoring school untaxed.

We recommend further Senate attention to these matters. Important policy questions include

1) Would it be more transparent to show an ICR charge applied to SSGPDPs, and then separately show however much is returned to sponsoring schools as income, as BBM does for research ICR?[2]
2) For the component of SSGPDP revenue necessary to cover indirect costs, is 0% the appropriate effective tax rate? If so, does this create appropriate or inappropriate relative incentives to pursue SSGPDPs relative to state-supported summer revenues (taxed at 25%) and state-supported enrollment growth (tuition taxed at 50%), including via new state-supported graduate programs?[3]
3) Would it be more transparent, by applying an ICR charge to SSGPDPs, to differentiate ICR charges returned to the school as income versus net revenue above total program costs retained as income by the school? Relatedly, might different tax rates apply to ICR returned as income versus a lower rate on revenue net of total costs retained by the school?

Information needed to fully consider these questions includes

A) How much have SSGPDPs been paying for recharges, and how do these compare to (a) recharges paid by state-supported programs and (b) costs included in standard indirect cost accounting?

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[2] A September 2021 APB report on “Self-Supporting Graduate Professional Degree Program Growth at UC” indicated that under the BBM “UCLA’s Executive Vice Chancellor and Provost (EVC/P) will collect SSGPDP overhead in an amount equal to that calculated by UCOP, and distribute it to support campus needs (similar to how indirect cost recovery is currently collected and distributed).” This approach, however, was not incorporated into any of the APB “white paper” statements of the BBM from September 2021 to the present.

[3] The comparison is complicated by directly appropriated state General Funds that support many central services, and by the related absence of any expectation that state-supported programs cover all their costs from tuition. This bears on whether new state-supported vs. self-supporting programs should be analyzed similarly in terms of their share of average indirect costs or only their marginal increase in indirect costs. In 2019-20, UCLA’s general funds derived 46% from state general fund appropriations (vs. tuition/fees in state-supported programs), more than the roughly one-third of general funds allocated to non-instructional central costs.

B) If the UCOP annual student charge application 26% indirect cost rate had been used internally in recent years, what percentage of total SSGPDP revenue above direct costs would have gone to indirect costs versus to net revenue above total costs?

C) What is the basis for UCOP's 26% UCLA SSGPDP indirect cost rate? If indirect costs were to be charged, would standard indirect cost accounting principles justify a different internal rate?[4]

[4] If SSGPDPs differ systematically from state-supported programs in their expenditures and not only their charges, a related question is whether a per-student rather than per-expenditure measure could be more appropriate.