BUDGET CONTEXT AND UPDATE ON NEW BUDGET MODEL

UCLA Senate Executive Board Meeting
December 5, 2019

UCLA BUDGET CONTEXT

Challenges

Enrollment growth with reduced state funding:

- 24% reduction in state funds
- 7 out of prior 8 years with no tuition increase
- Re-benching initiative by Office of the President
- Enrollment growth without matching resources:
  - Worsening student / faculty ratios
  - Shift in teaching load from ladder faculty to lecturers
  - Growing deferred maintenance

Recent trends that are likely to repeat:

- Nonresidents cap for UCLA, Berkeley, & UCSD
- Low general funds revenue growth in FY19 & FY20
  - (FY19) tuition buyout as one-time funding even though expenses are recurring
  - (FY20) 1% year-over-year increase in general funds
- New assumptions for pension plan driving increased employer contributions over next 6-years

Strategies/Opportunities

Prior strategies - less available now:

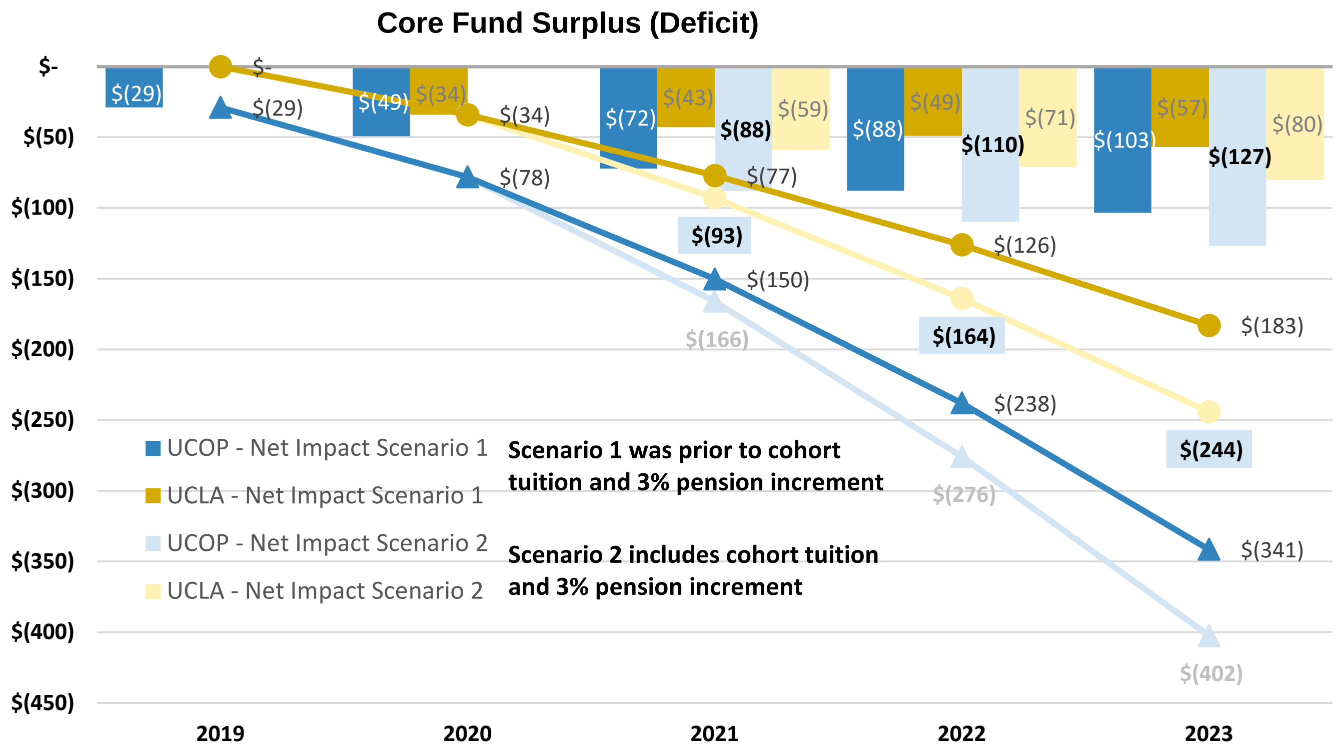
- Continuous enrollment growth
- Consistent tuition increases
- Grow ratio of nonresident students

New and emerging strategies:

- **Running a budget savings and reallocation initiative to both keep us in balance and to bring funds back to the center to reinvest in strategic priorities. This includes:**
  - $25M in permanent reductions to administrative units;
  - $25M in a recapture of central unit reserves;
  - $25M in accelerated gift funds utilization; and
  - $25M in other budget-strengthening actions such as:
    - improving on our campus indirect cost rate recovery
    - capitalizing on OP’s new investment strategies
- On-line and hybrid degrees and certificates
- Summer Session
- Major philanthropic initiatives
- IP commercialization
- Business transformation
- **Launching a new budget model to improve on resource allocation and provide incentives**

As forecasted in both UCOP's systemwide model and UCLA's internal forecast, challenging, but manageable, years are directly ahead

- Chart shows the results of a 4-year forecast for UCLA core funds prepared by the Office of the President compared to our internal forecast
- Both show significant funding shortfalls even if Oakland's forecasted revenue projections for state and student fees is accurate
- More recently, the model has been updated to include:
- The phasing in of cohort tuition – using OPs get to CPI like adjustment in 5 years; and
- The impact of a 3% pension increase, phased in over the next 6-years
- UCLA's projected shortfall by 2023, prior to actions to close the gap, would be $127M which is 8% of core funds revenue



Key Budget Prior Model Assumptions and Comparison

Category	**UCOP Systemwide Model – UCLA campus** UCOP model to assess budget policy implications	**UCLA Revenue Model – Middle Case Scenario** Internal model to help manage budget scenarios
Enrollment plan	UCLA 4-year enrollment plan of <1% annual growth	UCLA 4-year enrollment plan of <1% annual growth
State funding	Annual increases of ~3%	Annual increases of ~3.5%
Tuition increases	Annual increases of ~2.5%	Annual increases of ~2.5%
FTE staff added	60 academic, 80 non-academic linked to enrollment	No new FTEs – other than already committed
Pension increases	Increasing surcharge (above 14%) to reach +3%	No new surcharge

NEW BUDGET MODEL UPDATE

RECAP

Why a new model?

1. Dramatic reduction in core funds revenue growth
2. Incremental model a poor fit for budget context
3. New model can outperform legacy model

What can it do better?

1. Match activities with funding
2. Add transparency and provide incentives
3. Restore and maintain funds in the center
4. Eliminate wasteful administrative recharges

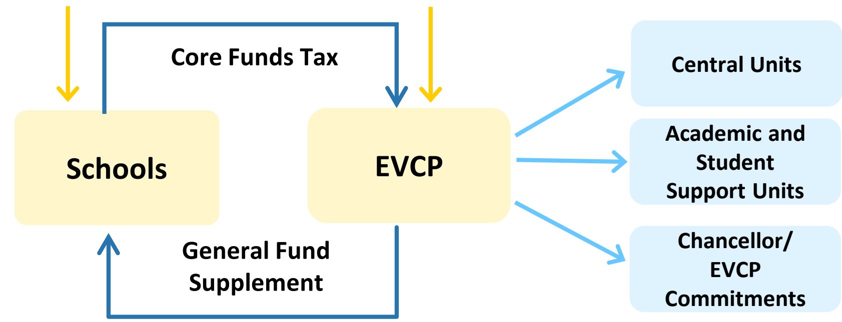
4 Year Process to Develop a New Model

2017-18	2018-19	2019-20	2020-21 & July 1, 2021
• Peer research • Internal advising Committee	• UM engagement • Built prototype	• Dean's sessions • Senate CPB review • Model distributed	• Fine tuning – based on feedback • Prepare campus • Go live

KEY ASPECTS & WHAT WE HAVE HEARD

Distribution of Core Funds Revenue

1 Activity-based	2 Centralized
Tuition, ICR, Summer, PDST, SSDP	State, Investment income



Each School receives:

- Activity-based funding
- Supplemental funding, initially set to get to current baseline
- Other support (commitments)

What we have heard so far

- Model as benchmarking tool
- Winners and losers
- 80% weight on teaching
- Faculty merits
- Interdisciplinary activities
- Self-supporting degree programs and tax rates

APPENDIX SLIDES – MORE ON NEW BUDGET MODEL FROM SPRING 2019

Introduction: A new budget model for UCLA

Core funds revenue growth has dramatically slowed at UCLA – and that is likely to continue:

+ 5.4% = 5-year core funds[1] compound annual revenue growth rate (CAGR) from 2012 to 2017

+ 1.8% = 3-year core funds compound annual revenue growth rate (CAGR) from 2017 to 2020

[1] Core funds support UCLA's educational mission and primarily include and include state, tuition and fees, and indirect cost recovery on sponsored research

Main reasons why lower core-funds revenue growth is expected:

State Funding:
- ❶ FY08 to FY17, state funding declined by <u>**24%**</u>
- ❷ In FY20, under a new Governor, general funds increased by <u>**1%**</u> year-over-year

Enrollment and Tuition:
- ❸ FY08 to FY19, UG FTE increased by <u>**+22%**</u>; our latest long range enrollment plan shows <u>**< 1%**</u> annual growth
- ❹ Tuition has been frozen in <u>**7**</u> out of past <u>**8**</u> years

NRST:
- ❺ FY08 to FY19 nonresident undergraduates increased from <u>**6%**</u> to <u>**23%**</u>
- ❻ In FY18, Regents adopted a nonresident cap

Limitations of Incremental Budgeting:

- **Does not incentivize unit revenue growth or cost control**
- **Difficult to maintain in periods of stagnant growth**

A new budget model fit for UCLA:
Under the sponsorship of our Chancellor, EVC, and CFO, UCLA's Office of Academic Planning and Budget has been leading a consultative process to design a new budget model - it has included:

- <u>**Forming an advisory committee**</u> staffed with 3 Assistant Deans, 2 members of the Academic Senate's Council on Planning and Budget, 2 senior faculty members, and a senior central unit leader

- <u>**Conducting interviews with each of our Academic Deans**</u> where conversations focused on experiences prior to UCLA for newer Deans, and historical perspectives for longer-tenured Deans

- <u>**Engaging in deep dive discussions with several peer institutions**</u> that have implemented new budget models (University of Michigan, UNC, UW, Temple, and Florida)

- <u>**Reviewing published research**</u> on university budget models and engaged EAB's top senior advisor for business affairs

We have developed a new model for UCLA that we believe will perform better than the legacy model in 4 areas:

1. Better aligning resources with activity cost drivers;
2. Creating incentives and support for units to be entrepreneurial (where there is opportunity) that could help drive non-traditional revenue growth;
3. Restoring and establishing a stronger central investment fund for the EVC to make strategic investments in academic and research programs; and
4. Replacing the costly internal recharge program that creates poor incentives for campus units to utilize centrally provided services.

UCLA has been working on a significant change to its budget model – the first time in many years

The main reason to proactively change our incremental budget model is because our current model will not perform well in the current and future budget context.

	Current / Future Context	Main Factors	Why Not Status Quo / Incremental Budgeting?
1	**Low revenue growth rate in general funds**	• At physical campus enrollment capacity • Nonresident cap per Regents' policy • Strong political opposition to fee increases • Likely disappointing state funding outcomes	EAB Business Affairs Forum 2016: Common Limitations of Incremental Budgeting: • Does not incent unit revenue growth or cost control • Difficult to maintain in periods of stagnant growth
2	**Underfunded Chancellor and EVC discretionary funds**	• Chancellor's discretionary funds fully committed over next 3-years • General funds revenue fully allocated to unit permanent budgets – no longer a Chancellor's share	The campus permanent budget exceeds current and projected general funds revenue. In order to restore discretionary funding to the Chancellor and EVC, incremental budgeting would require annual budget cutting exercises
3	**Increased pressure to find new efficiencies and optimize resource allocation**	• Revenue strategies will take time and actions to generate savings will be required to maintain balance • New ventures and strategic priorities will have to be funded through reallocation	Under the current incremental model: • Unit ending balances have grown by 50% over the prior 10-yrs (resource allocation is not optimized) • Even with flat general funds, Central units can increase spending through internal recharges
4	**Defined set of revenue growth opportunities**	Areas with high future growth potential: • SSDPs; online; and summer • Research/ICR • Intellectual property monetization • Private philanthropy	Historically-set (less transparent) permanent budgets are a poor incentive for revenue growth at a time where we are asking for a significant faculty effort to realize new opportunities
5	**Uneven campus distribution of revenue growth opportunities**	• Revenue growth opportunities are not equally accessible by all Schools	Units that rely disproportionately on general funds will be highly constrained and will require a large central discretionary fund that the Chancellor and EVC can use to provide additional support

The process has been informed by several internal and external consultations, including significant engagement with the University of Michigan

1 As part of this process, APB connected with several peers who run different hybrid models and also with EAB's lead expert

University of Michigan · UF University of Florida · Temple University · University of Washington · The University of North Carolina at Chapel Hill · EAB

2 We selected Michigan to engage more deeply because: (1) their academic quality and positive trends; and (2) their version is closer to what we believe could be successful at UCLA – an alternative to pure RCM with a significant central fund for the EVC to invest in strategic priorities

University of Michigan

USNWR Program Rankings 2019

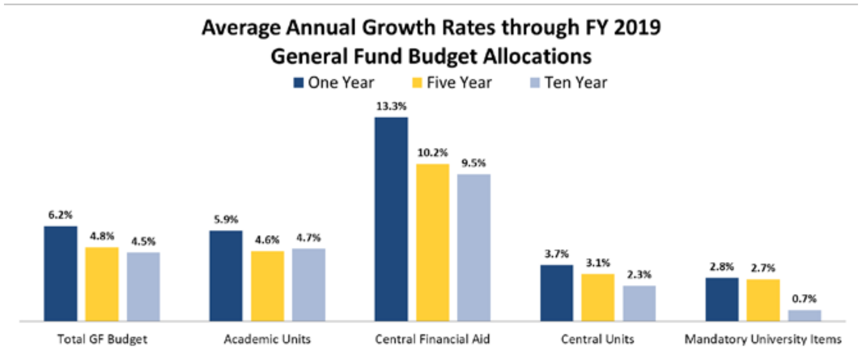
	Michigan Rank	UCLA Rank
Law	8	16
Business	7	16
Engineering	4	16
Education	14	1
Public Affairs	5	14
Nursing	8	20
Public Health	4	10

Rankings by R&D Expenditures 2017

Institution	Rank	Total R&D Expenditures ($000)
John Hopkins	1	2,562,307
Michigan	**2**	**1,530,139 (+29% past 7 years)**
UCSF	3	1,409,398
Washington, Seattle	5	1,348,220
Wisconsin, Madison	6	1,193,413
UCSD	7	1,133,454
UCLA	**12**	**1,076,917 (+15% past 7 years)**

3 We have had an opportunity to learn from Michigan's 25 years of model experience – and they have been very willing to share

At Michigan in the past 10 years, General Fund allocations for academic units have grown 2X faster than central units:



Certain key findings from most recent Michigan internal budget model review process

- External colleagues view U-M as a leader in budgeting
- U-M model incentivizes revenue growth and management of costs
- Units are encouraged to consider costs and margins on activities when evaluating changes to curriculum and programs
- Deans and directors have wide latitude to make strategic decisions appropriate to their units
- The system provides timely feedback to the EVC when spending and revenues are out of balance
- EVC has sufficient resources to bridge units through budget challenges
- University can support excellence & strategic innovation in units, even when a unit's revenues are constrained
- EVC has sufficient funds to support central initiatives

UCLA Proposed New Budget Model

Today's Model: Mostly permanent budgets + incremental funding

New Model: Designed as a hybrid system of activity-linked, incremental, and centralized/initiative-based budgeting

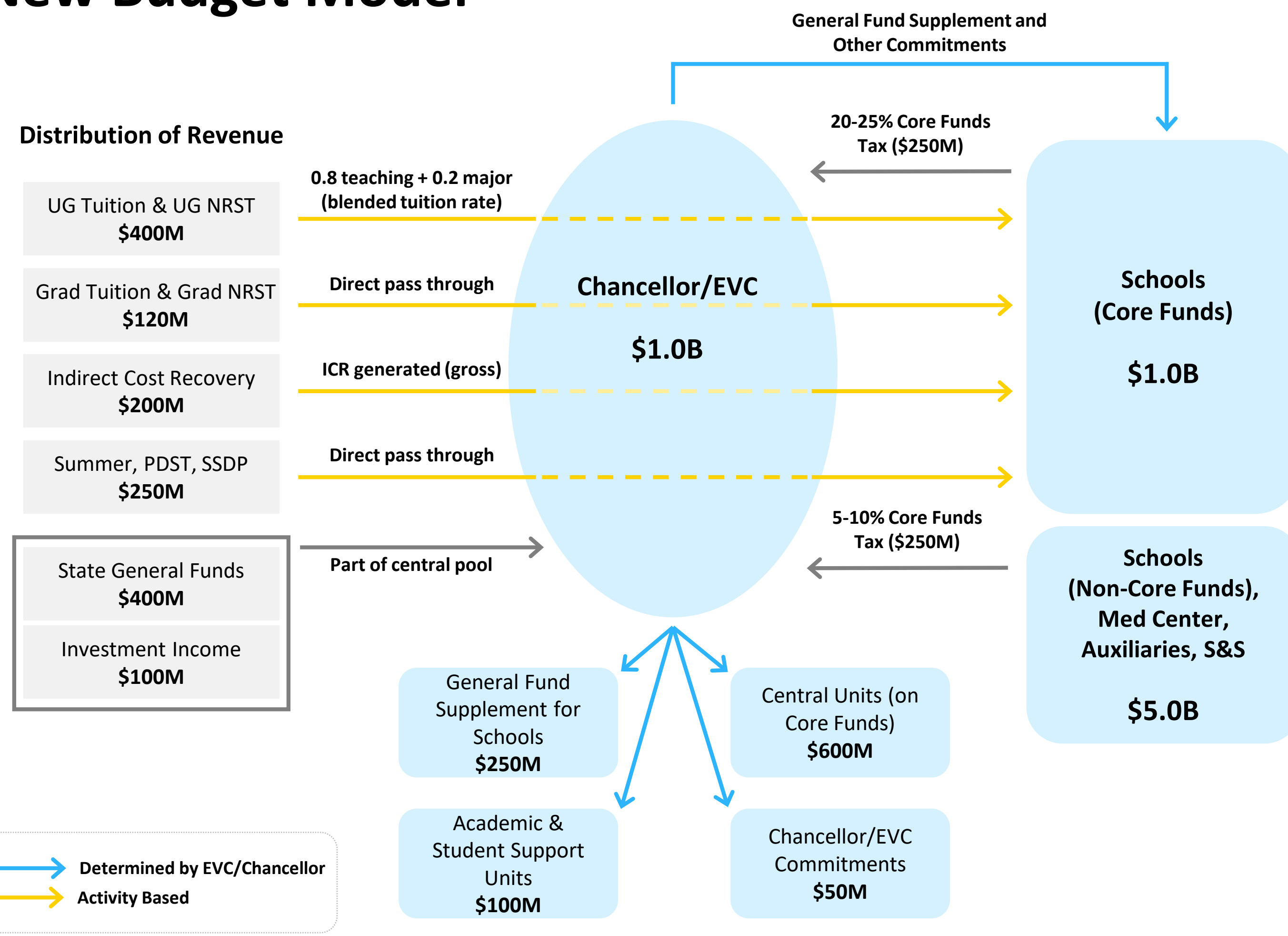
We believe this system will perform better than the legacy model in 4 areas:

(1) Better aligning resources with activity cost drivers;

(2) Creating incentives and support for units to be entrepreneurial where there is opportunity and providing strong central support for where there is less opportunity;

(3) Establishing a stronger central investment fund for the EVC to make strategic investments in academic and research programs; and

(4) Replacing the costly internal recharge program that creates poor incentives for campus units to utilize centrally provided services



	2018-19	2019-20	2020-21 – Anticipated	2020-21 - Anticipated
Next Steps	Model developed through consultations – presented at 3/1/2019 leadership retreat	Prototype of model built and shared with each Dean; Retreat(s) to focus on readiness to adopt	Budget preparation to commence in January 2021 using the new model (and new multi-year Ascend tool)	Model goes live with start of fiscal year (7/2/2021)

+ / - of Proposed Changes (activity-linked budget allocation)

FROM

Permanent general funds budgets that re-appropriate each year

→ **TO**

Academic all-funds budget with 3 components:

1. **Direct/earned revenue**
2. **Activity-based allocation**
3. **Supplemental allocation**

Academic Units:

All-Funds Budget = **Direct/ Earned Revenue** + **Activity-Based Allocation** + **General Fund Supplement (Chancellor)** − **Simplified Tax**

Direct/ Earned Revenue:
- Gifts, grants, sales & service, royalties
- 100% or based on policy

Activity-Based Allocation:
- Core funds: Tuition, SSDP, PDST, Summer, ICR
- Based on activity driver

General Fund Supplement (Chancellor):
- Additional funds required to get to funding baseline
- Chancellor's priorities

Simplified Tax:
- Replaces recharges
- Core funds tax ~20-25%
- Non-core funds tax ~5-10%

Other Units (Auxiliaries, Medical Center, Athletic):

All-Funds Budget = **Direct/ Earned Revenue** − **Simplified Tax**

Direct/ Earned Revenue:
- 100% or based on policy

Simplified Tax:
- ~5-10% of expenditures
- Replaces recharges

Central Units:

All-Funds Budget | **Direct/ Earned Revenue** | **Chancellor Allocation**

Direct/ Earned Revenue:
- External or premium service internal only

Chancellor Allocation:
- Set annually during budget process

Advantages

- The activity-based allocation aligns revenues and costs
- Empowers the academic units
  - Positions EVC's Office as partner rather than parent
  - Enables entrepreneurial approach to teaching/research
  - Promotes culture of fiscal responsibility
- Establishes simplicity and transparency in UCLA budgeting

Challenges

- Necessary to have skilled unit leaders with strong financial management support
- Facilitating cross-unit collaboration may require adjustments to budget model

* informed by U-M shared takeaways from their model review

+ / - of Proposed Changes (tax replaces administrative recharges)

FROM

Multiple taxes (UCOP, UCPath, TIF) and central services recharges

TO

Two simple (reasonable) tax rates to cover nearly all central costs

Taxes align with unit activity:

- Units are taxed according to their activity levels
- Expenditures are used as the proxy for unit activity – expenditures are assumed to reflect activity levels
- Some expenditures are tax exempt:
  - To encourage particular uses (e.g., financial aid)
  - Because they are assumed to be a poor proxy for activity levels (e.g., capital)

- Replaces recharges (CAFs and CARs) and current taxes (TIF, UCOP)
- For non-core funds, is roughly equivalent to total taxes and recharges funded today
- Tax model establishes funding for central services and Chancellor/EVC priorities

Core Funds Tax: Estimate 20 – 25%

Tax Rate × Adjusted Expenditures = Tax Assessment

Non-Core Funds Tax: Estimate 5-10%

Tax Rate × Adjusted Expenditures = Tax Assessment

Advantages

- Simplifies UCLA tax system (currently there are multiple taxes combined with recharges)
- Eliminates administrative effort around internal recharges (millions of transactions to move dollars across the campus)
- Allows central service leaders to manage their funds more strategically
- Shifts the conversation with academic leaders from transactional costs to service needs and service levels
- Establishes a constraint for how fast central service budgets can grow in aggregate (no faster than academic or auxiliary resources)

Challenges

- There is likely to be an opening gap between desired service levels and funded service levels
- Will still need some recharge model for “premium services” but those should be minimized

* informed by U-M shared takeaways from their model review

+ / - of Proposed Changes (co-managed faculty funding account)

FROM

All faculty funding on 19900 funds flows through **a single central-account**

TO

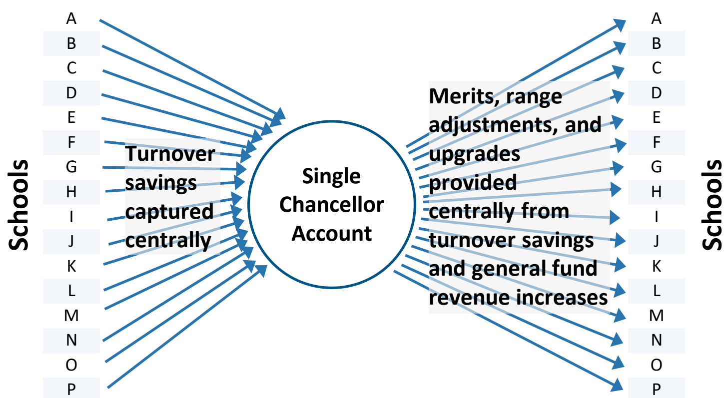
16 separate co-managed faculty funding accounts

- Co-managed by APB and Dean’s office
- Turnover savings retained and base funding increases as primary source of funding
- Additional support provided by EVC where needed

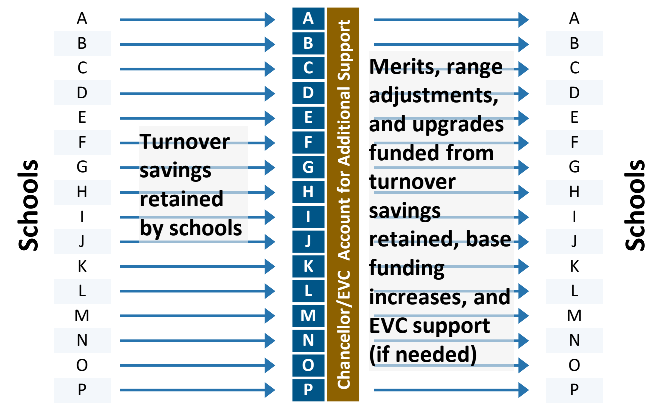
5-Year Average Faculty Funding Components:

3.5% Annual % Change in Faculty Comp **=** **2.5%** Annual % Change from Merits & Promotions **+** **2.3%** Annual % Change from Range Adjustments **+** **1.9%** Annual % Base Upgrades from Central Account **−** **3.2%** Annual % Turnover Savings into Central Account

Today: All faculty comp transactions flow through a single account



Future: Individual School faculty comp accounts – co-managed with APB



Advantages

- Preserves core aspects of the faculty funding model of today
- Let’s Schools keep their own turnover savings to reinvest in faculty
- Connects faculty costs to resources of schools – a more sustainable model
- Allows EVC to invest in faculty where needed – not evenly across the board

Challenges

- Deans’ offices will have to work closely with APB to determine necessary faculty funding set asides each year and sources
- Current and future model relies on patterned turnover which can be uneven over years and difficult to predict

Budget Tool Simulation

UCLA NEW BUDGET MODEL INTERACTIVE DASHBOARD

ALL ACADEMIC UNITS | **FY 2019 - 20**

Select one: ALL ACADEMIC UNITS

The School Funding Baseline is the amount of recurring core funds that the School receives and/or generates under the current model. It is used to determine the initial General Fund Supplement under the new model.

The UCLA budget model is designed as a hybrid system of activity-linked, incremental, and centralized/initiative-based budgeting. We believe this system will perform better than the legacy model in 4 areas:
(1) better aligning resources with activity cost drivers;
(2) creating incentives and support for units to be entrepreneurial (where there is opportunity) that could help drive non-traditional revenue growth;
(3) restoring and establishing a stronger central investment fund for the EVC to make strategic investments in academic and research programs; and
(4) replacing the costly internal recharge program that creates poor incentives for campus units to utilize centrally provided services.
The model attributes revenues related to tuition, student fees and indirect cost recovery to each School based on a set of defined rules. Additionally, each school receives a supplemental appropriation from the EVC/Provost initially set at an amount to equal the School Funding Baseline.The EVC/Provost has several sources of allocable revenue — state appropriations, tax assessments on core and non-core funds, investment income, and the net proceeds of the $100M savings and reallocation program.

All $ in millions

GLOBAL MODEL INPUTS

TAX RATE				
	25%			

UG DISTRIBUTION WEIGHTS	
Major SCH Weight	20%
Teaching SCH Weight	80%

FORECAST	Y1	Y2	Y3	Y4
Tuition Increase	3%	3%	3%	3%
General Fund Supplement	2%	2%	2%	2%
Baseline Growth Rate	2%	2%	2%	2%

FUNDING FORECAST OVERVIEW

	Base Year	Y1	Y2	Y3	Y4
Net UG Tuition Dollars	$415.87	$436.91	$459.02	$482.25	$506.65
Net Grad Tuition Dollars	$95.93	$98.73	$101.63	$104.63	$107.75
PDST	$66.50	$69.18	$71.97	$74.87	$77.89
SSDP	$137.14	$142.67	$148.42	$154.40	$160.62
Summer	$51.49	$52.52	$53.57	$54.64	$55.73
ICR	$154.18	$157.26	$160.41	$163.62	$166.89
Interest income	$0.00	$0.00	$0.00	$0.00	$0.00
Core Funds Expense Tax/Assessment	-$218.74	-$227.29	-$236.31	-$245.58	-$255.55
TOTAL REVENUE GENERATED LESS TAX	**$702.37**	**$729.98**	**$758.71**	**$788.83**	**$819.98**
General Fund Supplement	$219.43	$223.82	$228.29	$232.86	$237.52
TOTAL FUNDING	**$921.80**	**$953.80**	**$987.00**	**$1,021.69**	**$1,057.49**

SCHOOL FUNDING BASELINE

2017-18	
1. Net 7/1 General Fund Perm	$600.30
2. Summer Session Revenue	$26.65
3. Net ICR	$88.34
4. UAIF	$31.72
5. Prop 56	$0.00
6. Subtotal Revenue Distributed	$747.00
7. PDST	$66.50
8. SSDP	$137.14
9. Total Revenue Distributed	$950.64
10. EST Recharge Expenses	-$28.84
11. Net Revenue Distributed	**$921.80**

LOCAL MODEL INPUTS

A. UNDERGRADUATE	Y1	Y2	Y3	Y4
Select a scenario or enter by year:	2. Low Growth			
UG SCH Teaching Growth	2%	2%	2%	2%
UG Major Growth	2%	2%	2%	2%

B. GRADUATE	Y1	Y2	Y3	Y4
Select a scenario or enter by year:	2. Low Growth			
GA Resident Growth Rate	1%	1%	1%	1%
GA Non-Res Growth Rate	1%	1%	1%	1%
GP Resident Growth Rate	1%	1%	1%	1%
GP Non-Res Growth Rate	1%	1%	1%	1%
House Staff Growth Rate	1%	1%	1%	1%

C. OTHER	Y1	Y2	Y3	Y4
Select a scenario or enter by year:	2. Low Growth			
Research ICR Growth Rate	2%	2%	2%	2%
PDST Fee Increase	3%	3%	3%	3%
FTE Increase	1%	1%	1%	1%
Summer Growth Rate	2%	2%	2%	2%
SSDP Fee Increase	3%	3%	3%	3%
FTE Increase	1%	1%	1%	1%
Invested Balance Growth Rate	3%	3%	3%	3%

D. TAX ASSUMPTIONS	Y1	Y2	Y3	Y4
Exp as a % of Revenue	100%	100%	100%	100%
% of Exempt Expenditures	5%	5%	5%	5%

ACTIVITY-BASED REVENUE GENERATION

A. UNDERGRADUATE TUITION	Base Year	Y1	Y2	Y3	Y4
Enrolled SCH (base year * growth assumption)	1,343,460	1,370,329	1,397,736	1,425,690	1,454,204
Enrolled SCH (enter value for new major)	0	0	0	0	0
Teaching SCH (3yr avg)	1,288,627	1,314,399	1,340,687	1,367,501	1,394,851
Weighted Average	1,299,593	1,325,585	1,352,097	1,379,139	1,406,722
$ per UG SCH	$320	$330	$339	$350	$360
Net UG Tuition Dollars - $ in millions	**$415.87**	**$436.91**	**$459.02**	**$482.25**	**$506.65**

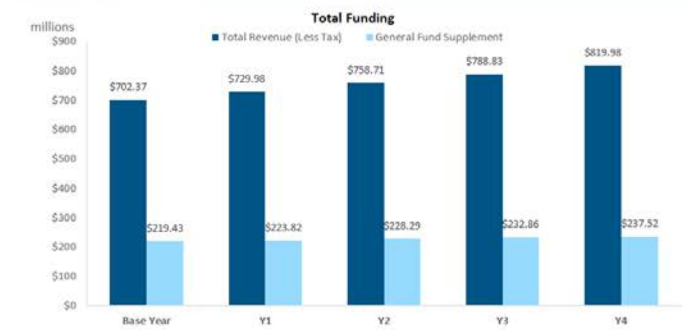
B. GRADUATE TUITION	Base Year	Y1	Y2	Y3	Y4
GA Resident Headcount	3,602	3,638	3,674	3,711	3,748
GA Non-Res Headcount (Excluding GCs)	1,778	1,796	1,814	1,832	1,850
GA Return to Aid	48%	48%	48%	48%	48%
GP Resident Headcount	2,863	2,892	2,921	2,950	2,980
GP Non-Res Headcount	683	689	696	703	710
GP Return to Aid	29%	29%	29%	29%	29%
Base Tuition	**$11,442**	**$11,785**	**$12,139**	**$12,503**	**$12,878**
NRST GA	$15,102	$15,102	$15,102	$15,102	$15,102
NRST GP	$12,245	$12,245	$12,245	$12,245	$12,245
Base Tuition Revenue (GA + GP)	**$102.13**	**$106.25**	**$110.53**	**$114.98**	**$119.62**
RTA - GA only	$29.61	$30.80	$32.04	$33.34	$34.68
RTA - GP only	$11.81	$12.28	$12.78	$13.29	$13.83
Net Grad Base Tuition Revenue	$60.71	$63.17	$65.71	$68.35	$71.11
NR Grad Tuition revenue	$35.21	$35.56	$35.92	$36.28	$36.64
Net Grad Tuition Dollars = $ in millions)	**$95.93**	**$98.73**	**$101.63**	**$104.63**	**$107.75**

C. OTHER CORE FUNDS	Base Year	Y1	Y2	Y3	Y4
PDST	$66.50	$69.18	$71.97	$74.87	$77.89
SSDP	$137.14	$142.67	$148.42	$154.40	$160.62
Summer	$51.49	$52.52	$53.57	$54.64	$55.73
ICR	$154.18	$157.26	$160.41	$163.62	$166.89
Interest Income	$0.00	$0.00	$0.00	$0.00	$0.00

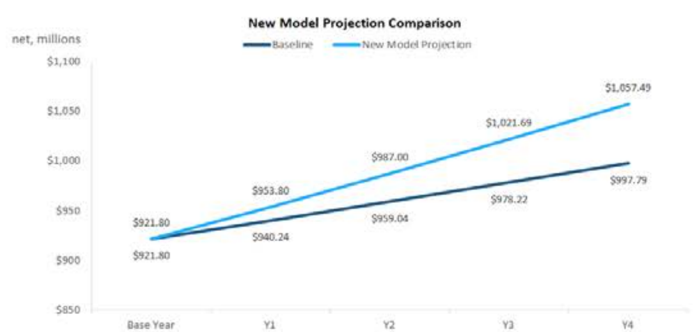
D. CORE FUNDS TAX	Base Year	Y1	Y2	Y3	Y4
Total Revenue Generated	$921.11	$957.27	$995.02	$1,034.41	$1,075.53
Expenditures as % of Revenue	100%	100%	100%	100%	100%
Total Expenditures	$921.00	$957.00	$995.00	$1,034.00	$1,076.00
% of Exempt Expenditures	5%	5%	5%	5%	5%
Modified Expenditures for Tax	$874.95	$909.15	$945.25	$982.30	$1,022.20
Tax Rate	25%	25%	25%	25%	25%
Expense Tax/Assessment	**$218.74**	**$227.29**	**$236.31**	**$245.58**	**$255.55**

E. GENERAL FUND SUPPLEMENT	Base Year	Y1	Y2	Y3	Y4
2017-18 Funding Baseline	$921.80	-	-	-	-
Revenue Generated	$921.11	-	-	-	-
Core funds tax	-$218.74	-	-	-	-
General Fund Supplement	**$219.43**	**$223.82**	**$228.29**	**$232.86**	**$237.52**

ALL ACADEMIC UNITS



ALL ACADEMIC UNITS



More on the New Model

Note: This is a preliminary summary of top feedback points that will be added to through the ongoing consultations

Early feedback from conversations with Senate Leadership, Deans and their management teams and points raised at prior Leadership Retreats

- The new model must support and create incentives for interdisciplinary work (cross-School collaboration)

  APB thoughts on topic:
  - ◊ Today, interdisciplinary work is substantially funded by the EVC and a stronger “central fund” for the EVC will enable deeper investment
  - ◊ Collaborative teaching and research activities will have a built in shared allocation of revenue that does not exist today
- The tuition allocation by student credit hour should not create the wrong incentives – for example a new program to create duplicative courses to keep all the credit hour funding

  APB thoughts on topic:
  - ◊ UCLA has exceptionally strong policies and layers of oversight (e.g. Senate, EVC) in place, which then creates proper boundaries and guidelines for the campus to adhere to
  - ◊ Under the new model, each School relies on EVC funding through the general fund supplement and new commitments – it should discourage bad behavior
- The model should not overly weight teaching in funding allocations and support for research-focused organizations should be as strong

  APB thoughts on topic:
  - ◊ At Michigan – with a similar model, research performance has been outstanding (#2 in expenditures with strong growth in the past decade)
  - ◊ Increasing ICR distributions for use as a research incentive and re-investment fund for Schools/Departments has been a changed asked for over many years
- The faculty merit process which runs without any financial considerations and constraints should be preserved to the extent possible

  APB thoughts on topic:
  - ◊ Today’s model is not sustainable and there is a need to make sure that all categories of expense commitments have a funding source
  - ◊ The new model uses the same funding mechanisms to fund faculty merits – and recognizes and sets aside funds for cases where the EVC needs to invest, particularly related to key retentions
- The new model should not be an incentive for academic units to hire more lecturers or more junior faculty

  APB thoughts on topic:
  - ◊ Under the current model, undergraduate teaching by lecturers has gone from 47% to 58% in the past decade and student/faculty ratios have deteriorated dramatically – it is time to try something new
  - ◊ Academic quality will always be a top priority and APB will work closely with units through the budget process to keep that as the focus
- Central services should be more accountable under the new model

  APB thoughts on topic:
  - ◊ At Michigan, academic budgets grew 2X the rate of central budgets in the past decade – this is not true at UCLA. The new model has dynamics that promote that.
  - ◊ The new model is an opportunity to create and communicate “service level” statements for key central services – budgets will also be more transparent
- How can we go live with a new model when we are still discussing options and the best rules to apply

  APB thoughts on topic:
  - ◊ It is expected we will be running reviews of the model post-live and we will be making adjustments to things that we didn’t get right. Michigan made several adjustments over a 25-year period and while we can learn from their experience, we also know that UCLA is unique and we should be continuously striving to make improvements to how resources are allocated to support our mission.