COMMENTS TO THE UCLA UNDERGRADUATE COUNCIL REGARDING REBENCHING

Vice Chancellor and CFO Steven A. Olsen
October 19, 2012

Let me begin by expressing my gratitude to Andy Leuchter, with whom I served on the UC Rebenching Task Force last year. Notwithstanding his diligent efforts, and perhaps because of my failings, the final task force report is deeply flawed. It is bad for the University of California, and manifestly unfair to UCLA and the other health sciences campuses. It is not too late to address these issues, and I enlist your support in urging UC policy makers to reconsider their current direction.

Putting rebenching into context, it is important to understand that its immediate fiscal impact on UCLA is much smaller than other pressing threats. In 2012-13, the rebenching model reduces our share of new state funds by $3.9 million. Compare that to the following: (1) UCLA’s state funding has been reduced by $243 million since 2007-08, (2) the failure of Proposition 30 would result in the loss of an additional $55 million, (3) tuition paid by our students has increased 84 percent in four years (4) UCLA pays a new $65 million tax to support the Office of the President, and (5) UCLA’s pension contributions will double in the next three years, ultimately exceeding $300 million. If fully implemented, Rebenching’s impact would grow over time, however, adding to our challenges. But its inherent weaknesses may make it difficult to implement, as suggested by the President’s early decisions on the task force recommendations.

Rebenching arose from concerns about the distribution of state General Funds among the campuses. The UC Commission on the Future recommended that the University develop a proposal for “an equitable and transparent readjustment of base funding formulas,” pointing to “considerable disparities” among the campuses in per-student funding and the “complexity and opaqueness of the current model.” The proponents of rebenching argue that each student admitted to the University should be assured that the same amount of state funding attaches to the campus in which they enroll. Specifically, the proponents state that “the state subsidy per student should not depend on the campus the student attends; this recommendation follows from our core value that UC is one university with one standard of excellence at its ten campuses. The cost of a UC-quality education is the same on every campus, and the campuses should be funded accordingly.”

The proposed policy, however, would fail to achieve this aim and instead would replace one set of funding disparities with another. Rebenching is also fundamentally opaque. Finally, the policy presents significant institutional risks to the University of California as a whole.

The methodological shortcomings of the proposed allocation formulas are many, but a critical conceptual flaw stands out. Rebenching allocates state funds on the basis of teaching workloads. While funding for certain research programs, such as the Semel Institute, is allocated separately, the remaining portion of state support for health sciences programs and associated general campus infrastructure would be redistributed on a per student basis. It was widely agreed at the outset that UC Merced required separate treatment. The exclusion of UCSF from these redistributions, however, is prima facie evidence that allocations based solely on student enrollments, even weighted enrollments, are wholly inadequate to support a modern health sciences campus, especially its research infrastructure. Beyond the funding needs of the various health sciences professional schools and research institutes, the fixed infrastructure to support a health sciences campus like UCLA or UCSF includes scaled up physical plants, police, and research administration, compliance, accounting, purchasing, and payroll units. While UCSF receives a separately calculated allocation under the so-called “corridor” mechanism, no other health
sciences campus would be afforded such treatment. Rebenching would effectively require the four remaining health sciences campuses to subsidize their health sciences programs from state and tuition funds currently generated by their general campus student enrollments. As a result, each student attending campuses with health sciences programs would effectively have access to fewer state dollars than those attending the other campuses, controlling for all other factors that affect the calculations.

Rebenching relies on three possible funding sources to increase state allocations to “underfunded” campuses. This method is known as the “waterfall”. The first, and preferred option, is to use new state money, whereby OP would “level up” campuses to the per student funding level of the “highest funded” campus (i.e. UCLA, which is actually the third highest, after UCSF and Merced). To achieve this aim, over $1 billion in new state funds would have to be provided to the UC system over the next six years, with 20 percent of this increment going to rebenching. Under this scenario, the impact on UCLA would be that UCLA would forgo 20 percent of its share of new state funds, or about $40 million, until all campuses were “leveled up” to UCLA funding level. Under the far more likely scenario – no increased state funds – OP would turn first to a reduction in systemwide offices and programs. Funding rebenching from this source would require OP’s unrestricted funds budget to be reduced by 75 percent. Recent history provides little hope this could occur. The third step of the “waterfall” is to reallocate existing funds between campuses. Each would be brought to the current median funding level. Even a cursory examination of these three scenarios reveals another of rebenching’s fundamental weakness. It success requires (1) an unrealistic state funding scenario, or (2) eliminate of most systemwide operations, or (3) severe cuts to “overfunded” campuses, primarily UCLA and Davis. The risk to UCLA is that (3) is the likeliest scenario. A fourth possible scenario is that rebenching will never be fully implemented.

Chart 1 summarizes the impacts of Scenario (2) – “no new state funds, no cuts to OP” – on the campuses. Reallocation state funds to the mean would reduce Berkeley’s funding by $6 million, Davis’ by
$21 million, and UCLA’s by $44 million. If the rebenching model were adjusted, however, to exclude health sciences programs and associated general campus infrastructure, UCLA and Berkeley have virtually identical levels of “overfunding” – about $22 million – and Davis’ “overfunding is reduced to $6 million. In other words, the entire amount of variance in per student funding between Berkeley and UCLA is explained by the differences in their health sciences programs. But the rebenching committee failed to uncover any evidence of funding disparities within the health sciences.

I believe that this flaw convinced President Yudof to modify his implementation of the task force recommendations. Of the $94 million in new state money this year, $15.7 million will be allocated for rebenching, but only to five campuses – Irvine, Riverside, San Diego, Santa Barbara, and Santa Cruz. Berkeley and Davis will receive no rebenching funds, even though those campuses currently receive fewer state funds per student than does UCLA. Rather than relying on a single methodology to allocate state money, rebenching in practice now has four methodologies – one for Merced, a second for UCSF, a third for Berkeley, Davis, and UCLA, and a fourth methodology for Irvine, Riverside, San Diego, Santa Barbara, and Santa Cruz. It is more complex, but also more defensible.

Much has been made of rebenching’s supposed transparency. In fact, the new policy is highly opaque. While the model is well document, all of the key policy inputs into the model are unknowns or easily changed. Enrollment targets are the key driver of the allocations. However, there are fundamental disagreements within the task force, within OP, between campuses, and within the Academic Senate about the nature of future enrollment planning. Questions about how, or even whether, the “waterfall” will work are completely unresolved because the key input – future state funds – is unknowable. The model is also unstable because its outputs are highly sensitive to its inputs. For example, the model provides a fixed allocation of $15 million to each campus. This figure is entirely ad hoc. It can easily be changed by future decisions makers, and even modest changes have major impacts on the allocations. The unsettled nature of these issues means that the model continues to evolve. It is unclear whether there really is a policy, or simply the latest version of the spreadsheet.

Fortunately, the President has treated rebenching as part of the annual management practice of allocating resources. He has not adopted the task force recommendations as a UC policy. Doing so would expose the University to significant institutional risks, not considered by the task force in its zeal to equalize funding amongst the campuses. In the midst of the most serious fiscal crisis ever faced by the University of California, rebenching provides the university with no new revenue, no cost savings, and no operational efficiencies. It is not mandatory. No state law or Regents policy has ever been enacted respecting the allocation of state monies to the campuses. UC has defined its accountability to the state in terms of access, affordability, and academic quality provided for students at all campuses. Rebenching, on the other hand, attempts to establish intercampus differences as the core issue in UC budget planning. It would inevitably become an issue with the Legislature, the Governor, the Department of Finance, and the Legislative Analyst’s Office. The consequences of such entanglements are unknown, and rebenching could prove to a grave strategic error.

Since implementation of the funding streams model, state funds are the only significant academic resources controlled by the President, and allocation of those funds to the campuses are made at the President’s sole discretion. The authority to allocate resources is the President’s preeminent power, and defines what it means for UC to be a system of higher education, not just the sum of ten campuses. Rebenching, followed to its logical conclusion, would strip the President of his or her power to exercise judgment, or to make decisions on the basis of any factors not considered by the rebenching model. There is no question that the needs of historically underfunded campuses are legitimate. But the
President already has the authority to balance the needs of these campuses against other competing priorities, taking into consideration all relevant data, including available resources. Rebenching, on the other hand, makes this need an absolute priority. It requires that these needs be addressed, without regard to any competing priorities for state, systemwide or campus needs. By design, rebenching reallocates funds whether state funds increase, decrease, or stay the same. The report acknowledges that the President retains final authority over state resources, but the “waterfall” could be used to allocate funds to achieve its goals, whether new funds are available or not. Rebenching, as advanced by its most ardent proponents, introduces dangerous budgetary inflexibility to UC’s budgetary environment. Fortunately, the President appears to be proceeding cautiously.

The Regents, the Office of the President, the Academic Senate, and the campuses need to focus on the university’s mission – teaching, research, public service, patient care. To accomplish these, we need to work together to increase revenue, preserve and enhance academic quality, and become operationally more efficient. Rebenching serves none of these aims, and has become a huge distraction from critical issues. With your help, perhaps the business of the university can be put back on track.

I greatly appreciate your attention to this critical issue, and look forward to our continued discussions.