Budget Manual
UC Santa Barbara

Finance and Resource Management
Office of Budget and Planning
May 2017

This *Budget Manual* is a summary of policies, guidelines, and general information used by UC Santa Barbara in the development and ongoing administration of the campus budget, particularly as it applies to core funds. The *Manual* was developed to ensure that policies, guidelines, practices, uses, and programs, both system wide and on campus, are well understood and consistently applied. The *Manual* summarizes, by primary fund source, some of the fundamental agreements, processes and practices associated with the acquisition, use, and allocation of these funds.

The *Manual* complements University policies, guidelines, and related documents, including but not limited to:

- The Policies and Standing Orders of the University of California Board of Regents (available at regents.universityofcalifornia.edu)

- Presidential Policies (available at policy.ucop.edu)

- The Accounting Manual (available at policy.ucop.edu/manuals/accounting-manual.html)

- Business and Finance Bulletins (available at http://policy.ucop.edu/manuals/business-and- finance-bulletins.html)

- Periodic guidance issued by the Office of the President on related topics, including but not limited to guidance provided in annual campus budget allocation letters; and

- Policies and guidelines developed, as needed, by the campus.

It should be remembered that the budget processes are complex and depend on annual priorities, consultation, negotiations, commitments, and agreements that a generalized presentation of this nature cannot fully describe. Questions about the *Manual* should be directed to the UC Santa Barbara Office of Budget and Planning.

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Chapter 1

Budget Plan Development- Context for the Future

UC Santa Barbara is a large and complex organization with annual expenses exceeding $1 billion. The expenses are funded from many different sources (state, student fees, federal grants, etc.) and over 4,400 different funds with more than 22,000 account-fund combinations. Almost one-third of the annual expenses are funded from "non-budgeted" or "extramural funds" meaning that they are not included in the campus permanent budget. Most of these funds are restricted and support research, financial aid, or donor directed projects and programs. The remaining two-thirds are "budgeted funds" and the focus of this document. These are funds that are expected to continue from year to year, supporting the ongoing activities of the campus.

For each funding source there are agreements and practices associated with the acquisition, distribution and use of the funds. Some are codified into law, others represent agreements that have been made and modified over time, and others are guided by University policy. All agreements carry an obligation to make good on the trust placed in the University and to carry out certain agreed-upon activities for the public good. For example, even though the University has constitutional autonomy, giving it flexibility in the ways it can use State funds to support its programs, the University needs to sustain its credibility with those who allocate State monies to UC, and must therefore live up to agreements made during budget negotiations and be accountable both for the proper use of funds and for expected outcomes.

Strategic Academic Plan

In 2007 the Santa Barbara campus published the *Strategic Academic Plan* to update its vision for the academic program and guide campus trajectory for the coming decades. The *Strategic Academic Plan* focused on resource allocation and managed growth. In particular, the plan identified the following two principles to guide the campus direction forward:

- A framework for resource allocation that includes decision making strategies around:
    - Balanced Commitments and Selected Investments
    - Building Outstanding Departments
    - Professional Schools
    - Diversity
    - Interdisciplinary Themes
    - Criteria for Thoughtful Choices
- A managed enrollment growth plan to assure optimum academic and intellectual dimensions of the university. The plan identifies a future enrollment of 25,000 on-campus students during the traditional academic year (fall, winter, and spring quarters). The plan outlines growth goals with consideration of both the state/community context and the academic context

- The managed growth plan identified goals for faculty growth and renewal
- Staff growth and renewal
- Housing for faculty, staff, and students
- Student support to increase graduate enrollment to 17% of total enrollment
- Minimize impact on community resources with modest (1%) annual enrollment growth
- Resource management by means of a new Long Range Development Plan

Long Range Development Plan

Following the publication of the *Strategic Academic Plan*, the *2010 Long Range Development Plan* (LRDP) was developed to provide the physical planning parameters to meet the goals put forward in the *Strategic Academic Plan.* Key elements of the LRDP include the following:

- An enrollment growth target of an additional 5,000 students by the year 2025 equating to a total enrollment of 25,000
- Identification of campus building sites providing 1.8M new ASF capacity for Instruction, Research, and Support Space
- 5,000 new student housing bed spaces
- 1,874 additional faculty and staff housing units
- 5-8 acres of additional recreation space
- 3,650 additional parking spaces resulting in a total parking capacity of 14,230 spaces

2010 University of California, Santa Barbara Long Range Development Plan Mitigation Implementation and Settlement Agreement.

As a result of the LRDP planning process, the campus identified a goal to provide housing to 50% of the planned enrollment. Subsequent negotiations between the University and the County of Santa Barbara and the City of Goleta resulted in the *2010 University of California, Santa Barbara Long Range Development Plan Mitigation Implementation and Settlement Agreement*. The agreement identified campus growth-related commitments to the community in the areas of Enrollment Management, Housing, Traffic Impacts, and Public Safety Impacts.

- Most notably, the agreement stipulates increased inventory of student housing in direct connection with enrollment growth. As the Agreement further mandates that new housing can only be provided through construction of new student housing on University land, the “capital” option is the only possible option to consider. The campus cannot solve the problem through lease or purchase of off-site housing. Thus, construction of new student housing on campus land is necessary to meet current enrollment levels and to address planned new growth.

University of California Santa Barbara Coordinating Committee on Budget Strategy (CCBS)

The CCBS is an advisory committee to the Chancellor on budget issues and was originally established in February 2004. It was reactivated in March 2008 in response to another round of state budget cuts and now continues as an ongoing advisory committee. Membership (21) includes senior administrators (5), academic senate (3), faculty (4), deans (3), students (3), and staff (3).

The Coordinating Committee on Budget Strategy (CCBS) guides the campus budget planning process. The charge of the committee is to "*develop strategies to protect academic quality, as well as student access, that we have strived so hard to achieve*".

The general responsibilities of the CCBS are as follows:

- Help guide the campus budget planning process
- Insure an open and informative process to share information relevant to the budget process and provide opportunity for feedback
- Develop principles and guidelines to help face the challenge of budget reductions in the near term and to accomplish fiscal stability in the long term
- Review and analyze funding options for campus implementation
- Recommend annual funding plan based on available revenues and campus priorities

Examples of recommendations that have been implemented and/or approved:

- Budget planning principles used to guide the budget development process
- Budget reduction targets by control point (higher targets for administrative units and much lower targets for instructional units)
- Increases in assessments to non-state funded units to generate additional funds to help offset cuts to core funded units – NSFAS, ICR rate, gift tax
- Annual funding plan based on available resources and campus program needs
- Framework for distribution of new resources
- Implementation of Technology Infrastructure Fee (TIF) to help fund increased ongoing investment in technology
- Distribution methodology to ensure that all campus units participate in the funding of the UCOP support assessment

Budget Planning Principles

The following planning principles were used as general statements to help guide the UCSB campus through the budget planning process associated with the many years of reductions in State funding:

(I) Strategic Solutions - Budget reductions should be implemented strategically, not across the

board, in a manner that will maintain the focus on the campus academic mission.

(2) Priorities **-** The campus should make changes to the budget to reflect priorities, on both the spending and revenue side. The campus should attempt to determine which programs are most important and strive to minimize the budget's impact on higher priority programs and services.

(3) Revenue Considerations - Decisions about cost reductions need to consider the impact on revenue generation, as well as long-term capital and operating cost impacts.

(4) Recruitment and Retention - During a time of contraction, budget reduction strategies should strive to achieve a diverse and high quality student body commensurate with state funding, and to retain a diverse and high quality faculty and staff workforce commensurate with the size of the student body.

(5) Strategic Investments - At a minimum, strategic investments will continue to be made. These investments may require slightly larger budget cuts in other areas, but are necessary to respond to clear, existing needs and to strategically position the campus for the future.

(6) Efficiencies - Current processes and procedures should be streamlined to eliminate any duplicated or unnecessary services to help reduce expenditures and mitigate staff workload impacts.

(7) Staffing Layoffs - Every effort should be made to minimize layoffs by taking advantage of normal attrition, planned retirements, and voluntary reductions.

(8) Self-Supporting Departments - Recharge units are not exempt from the budget reduction process. Only in *very* limited and exceptional circumstances should rate increases be approved. In addition, recharge units may be asked to implement rate reductions that are comparable to the reductions that may be required of state and or student fee funded activities.

The Planning Principles are continually under review and are modified periodically to provide general guidance as the funding environment changes.

Chapter 2

<u>Budget Overview – The Big Budget Picture</u>

This section provides in outline form an overview of the key budget concepts and planning parameters used during the development of the campus budget.

1) Revenue

a. Primary core revenue sources are State Funds, UC General Funds, and Mandatory Student Fees (tuition and student services fee)
b. UC Regents set the fee level for tuition, student services, and supplement non-resident tuition.
c. State funds for the University of California are approved as part of the State budget process.
d. The UC Office of the President makes allocations of state funds to each campus. Allocations primarily take into account funding formulas agreed on as part of the rebenching process first implemented in FY 2012-13. In addition, the UC President does make some direct allocations to an individual campus for specific programs.

2) Enrollment

a. Much of campus budget planning is driven by enrollment
b. Enrollment to increase to 25,000 per LRDP over the next decade (plus or minus)
c. Future Planning Decisions:
    i. Annual Enrollment Growth
    ii. Distribution of Growth
        1. Undergraduate Residents
        2. Undergraduate Non-Residents
        3. Graduate Residents
        4. Graduate Non-Residents
        5. Graduate Professionals
    iii. Decisions impact future fee revenue and expenditure projections
    iv. Decisions impact future state enrollment growth funding

3) Faculty FTE

a. Driven by enrollment growth.
b. 1 new faculty FTE per increase of 18.7 students (FTE)
c. Budget planning process identifies the number of new positions and the funding for salary and benefits that will need to be set-aside.
d. Budget planning process does not identify how the positions will be allocated. The allocation of the positions is handled through the EVC's Office.
e. For FY 2015-16, 2016-17, and 2017-18 <u>at least</u> 25 new faculty FTE positions will be allocated during each year. This does not include those positions to be filled due to retirements, etc.

4) Teaching Assistant Positions

a. Driven by enrollment growth
b. 1 new T.A. per increase of 44.0 undergraduate students.

c. Budget planning process identifies the number of new positions and the necessary funding for salary and benefits that will need to be set-aside.
d. Budget planning process does not identify how the positions will be distributed. The allocation of positions is handled through the EVC's Office.

5) Financial Aid

a. Driven by enrollment and subsequent revenue estimates.
b. Per policy 33% of net new tuition and student service fee increase goes to undergraduate student financial aid. This amounts to approximately 28.2% of the total fee revenue generated by undergraduate fees.
c. Per policy 50% of net new tuition and student service fee increase goes to graduate student financial aid. This amounts to approximately 48% of the total fee revenue generated by graduate fees.
d. Per policy 33% of professional school fees (PDST) goes towards financial aid for graduate professional students. It is the responsibility of the specific program to set-aside this amount and distribute the funds to the students.

6) Operations and Maintenance of Plant Associated with New Space

a. As new space is added funding is provided per maintained gross square foot to fund utilities and maintenance associated with the new space. This is based on a historical state allocation formula for new space. The actual amount per MGSF to be funded is adjusted annually by the campus budget office.
b. Funding is provided to Facility Management as an augmentation to their overall budget and is not restricted to use on a specific building.
c. Funding provided for utilities is restricted to utility usage. Should there be a surplus at year-end the funding can be used for approved energy related projects. The use of these funds must be approved by the campus budget office *before* funds are committed and spent.

7) Salary and Benefit Cost Increases

a. Salaries and Benefit Cost Increases are primarily the result of the programs approved by the Regents and/or the Office of the President and implemented at the campus. Examples include:
   i. Faculty Salary Program
   ii. Negotiations with Represented Employees
   iii. Salary program for non-represented employees
   iv. Benefits (retirement, medical, etc.)

8) Other

a. Approximately 75 to 80% of new revenues are normally required to cover the increased costs of the items previously listed. The allocation of any remaining funds is based on campus decisions on items such as:
   i. Faculty recruitment and retention
   ii. Graduate student support
   iii. Deferred maintenance
   iv. Staff support
   v. Equipment replacement
   vi. Classroom renovation and renewal

vii. Cost increases (Utilities, Library periodicals)
viii. Identified workload needs

b. *This is the area of the budget development process that typically requires the most discussion, review, and consultation.*

Chapter 3

Cost Drivers

Among the responsibilities of the UC Santa Barbara Office of Budget and Planning is the development of the annual Budget Plan for core-funded activities. The Budget Plan is developed in consultation with the Coordinating Committee on Budget Strategy (CCBS) and is in alignment with the campus priorities for the upcoming fiscal year and in full consideration of anticipated cost drivers, operational efficiencies, and revenue sources.

After campus consultation, review, and approval the Budget Plan is implemented and funding is transferred to campus control points and departments for those projects/programs identified in the plan.

Primary cost drivers included in the Budget Plan are:

I. **Enrollment Changes** - The Budget Plan reflects anticipated changes in campus enrollment plans for undergraduate and graduate resident and non-resident students, as well as the anticipated changes in costs (instruction, student services, financial aid, etc.).

II. **Mandatory Cost Increases** - Annually the campus faces a variety of mandatory cost increases that need to be reflected in the Budget Plan. These include, but are not limited to, the following:

   A. *Contractually committed compensation increases* - Collective bargaining agreements between the University and labor unions include stipulated annual compensation increases for covered employees. The increases vary by collective bargaining agreement and by employee classification. The Budget Plan includes an estimate of the aggregate campus impact of these increases for the fiscal year.

   B. *UCRP Employer Contributions* - The University of California Retirement Plan (UCRP) provides pension benefits to eligible retirees and survivors. Unlike the California State University, the California Community Colleges, or every other State agency, the University of California currently receives no regular annual State General Fund appropriation to cover increases in employer contributions to its retirement plan; provisions to cover those increases must be covered from the University's operating budget.

   Effective July 1, 2014, the University's employer contribution to UCRP is 14% of covered payroll. Consequently, any projected increase in core-funded covered payroll expenditures should be expected to generate an additional 14% in mandatory employer contributions to UCRP, which must be acknowledged in the Budget Plan. The impact of benefit plan changes should be taken into account if they are expected to affect the required employer contribution during the Budget Plan year.

C. *Employee Health Benefits* - The Budget Plan takes into account the most recent available projections regarding increases in University of California employee health benefit expenditures. The Budget Plan reflects the projected impact of any measures taken by the University to control the growth in health benefit expenditures along with factors that contribute to cost increases (e.g., changes in the coverage provided by the University's plans or general market-driven changes in the cost of health care).

D. *Retiree (Annuitant) Benefits (OPEB)* - More than 50,000 University of California retirees and beneficiaries are eligible to receive, or are receiving, health benefits that are subsidized by the University. Accumulated future retiree health benefit costs for University retirees are not prefunded. As a result, annual expenditures for retiree health benefits are accounted for in the University's Budget Plan just as they are for active employees, and similar factors are used to estimate year-to-year changes in those costs.

E. *Faculty Merit Program* - The Faculty Merit Program is a merit-based program of faculty salary adjustments designed to retain the most talented and productive faculty members. The program has a rigorous peer review process before a merit salary increase is awarded and reinforces a pay-for-performance philosophy by providing a reward mechanism to recognize expansion of both teaching and research skills.

At the University of California – as at any major research university – maintaining a faculty merit program is a mandatory cost. Moreover, since faculty are eligible for review under the program only once every three years, temporarily interrupting the program in a given year would levy an undue penalty on the cohort up for review that year. (Indeed, the University lost two class-action lawsuits in 1994 that were filed on behalf of faculty members who did not receive 1991-92 merit increases due to budget constraints that year.)

F. *Non-salary price increases* - To maintain the quality of the instructional program and all support activities, the University must regularly replace, upgrade, or purchase new instructional equipment, library materials, and other non-salary items. The University must also purchase utilities, insurance, and other goods and services necessary to sustain its operations.

III. **High-Priority Costs** - In addition to changes in mandatory costs, the Budget Plan should acknowledge other anticipated cost changes for the upcoming fiscal year. These include but are not limited to the following:

A. *Compensation for faculty and non-represented staff* - To ensure that the University is able to recruit and retain faculty and staff, the University must regularly evaluate the need for appropriate and predictable compensation increases. Estimated increases in compensation expenditures included in the Budget plan take into consideration, at a minimum, the following factors:

1. Anticipated changes in the number of faculty and staff employees;

2. Inflationary pressures (i.e., changes in the cost of living) that, if left unaddressed, would erode the purchasing power of employees' earnings;

3. The most recent available survey data regarding how compensation for University faculty and staff compare with that of other employers in the relevant labor market(s); and

4. Any projected change in the required employee contribution to UCRP, which affects an employee's net pay.

B. *Deferred Maintenance* - The Budget Plan includes funding to help address the University's deferred maintenance backlog, which has grown as the electrical, heating and ventilation, elevator, plumbing, other building systems, and campus infrastructure reach and surpass their useful life.

C. *Debt Service* - Under a process established with the State, beginning in 2013-14, a portion of the University's State funding can be used to fund or finance State-eligible capital projects. The University's annual

Budget for State Capital Improvements includes funding for the preliminary plans, working drawings, construction, and/or equipment associated with major capital projects. The Budget Plan includes reasonable estimates of any cost increases related to debt service for approved and completed projects that are expected to come on-line during the budget year.

IV. **Systemwide Initiatives** - The Budget Plan may also acknowledge significant new or ongoing systemwide initiatives and their associated costs. The initiatives should be aligned with strategic systemwide priorities that are established by the President and approved by the Regents. Examples from past budgets include:

A. Efforts to improve academic quality throughout the system (e.g., by improving the systemwide student-faculty ratio);

B. Improving graduate student support; and

C. Providing enhanced student mental health services.

V. **Student Financial Aid** - The University of California Financial Aid Policy, established by the Regents, describes the goals of the University's financial aid programs for undergraduate students, graduate academic students, and graduate students in professional degree programs. The Budget Plan includes funding for the University's aid programs that is consistent with those goals. For more information, see Chapter 15, Financial Aid Funding and Allocations.

VI. Operational Efficiencies and Associated Impact on the Budget Plan

A. The Budget Plan may include, as an offset to expenses, any estimated savings from systemwide or campus initiatives intended to reduce costs and/or increase efficiency.

B. Savings are incorporated into the Budget Plan as either:

1. Distinct line items (e.g., an expected dollar amount associated with one or more cost-savings initiatives), or

2. A reduction in the cost increases that would have otherwise been applied to a particular expense category (e.g., by assuming slower growth in non-salaries expenses or staff growth than would have otherwise occurred).

Chapter 4

Revenue Changes & Projections

Included in the Budget Plan are revenue estimates showing increases or decreases associated with the primary operating budget funding sources. These sources are as follows:

1) State Funds

a. The Budget Plan should include a projected level of State funding for the budget year.

b. Projected increases to the campus budget are based on the November Regents' budget proposal then adjusted based on the Governor's January Budget Plan, and then once again after the May revise. Adjustments to the campus plan are also made during the spring of each year as the State political process unfolds and additional budget information becomes known. The process is reflected in changes to both ongoing and one-time funding.

c. State Special Funds – In addition to State General Fund support the campus receives funding from the California State Lottery Education Fund, which is used to support educational activities such as the instructional use of computing program. Other earmarked (restricted) state support comes to the University through the annual State Budget Act appropriations for specific programs.

2) Student Fees

a. *Student Tuition and Fees* - The Campus Budget Plan includes material changes in student tuition and fee revenue associated with (a) any planned enrollment growth and (b) any proposed change to those tuition and fee levels.

b. Increases to mandatory systemwide charges (Tuition and the Student Services Fee) and Professional Degree Supplemental Tuition (PDST) should be accompanied by additional funding for student financial aid consistent with the Regental policy. (See Chapter 5, Financial Aid Funding and Allocations.)

3) Additional Revenue Sources

a. *Nonresident Supplemental Tuition* - The Budget Plan should reflect Nonresident Supplemental Tuition (NRST) revenue resulting from any anticipated change in nonresident student enrollment reflected in the Budget Plan, along with any proposed change to NRST fees.

b. *Indirect cost recovery* - The Budget Plan should reflect anticipated changes to indirect cost recovery (ICR) revenue based upon projected changes in the volume of the University's research-related activities and/or changes in the ICR rate assessed on extramural research grants.

c. *Philanthropy* - The Budget Plan may include anticipated changes in philanthropic giving to the University that may be used to fund core operations. To be included in the plan, gifts must either be unrestricted or have terms that permit the use of such funds for core operations.

d. *Asset management* - Newly available permanent or one-time funds, if any, resulting from improved asset management strategies (e.g., improved liquidity management that results in a higher expected future return on the University's current balances) may be included in the Plan.

e. *Other funds* - Significant projected changes in other revenue sources among the University's core funds should be included in the Budget Plan. One-time funding should be associated with one-time expenditures in the Budget Plan; permanent funding should be associated with permanent expenditures.

Chapter 5

UC Santa Barbara Allocation Framework

The UCSB Coordinating Committee on Budget Strategy (CCBS) has identified the following categories in order to help guide the discussions on allocation of new core resources:

1) **Required Cost Increases** – Implementation of System-wide Programs including:
    a. Salary Changes
    b. Benefit Cost Increases (Retirement, Health, etc.)
    c. UCOP Assessment

2) **Formula Allocations based on Enrollment Growth**
    a. Increase in Faculty FTE – 1 faculty FTE per 18.7 student FTE increase
    b. Increase in Teaching Assistant FTE – 1 T.A. FTE per 44 undergraduate student FTE increase
    c. Increase in OMP for New Space – New increase in Maintained Gross Square Feet of State eligible space
    d. Long Range Development Plan (public safety, traffic, etc.) – per mitigation agreements
    e. Financial Aid – set-asides per UC policy

3) **Funding for Ongoing Commitments –** *examples not in priority order*
    a. Faculty Recruitment
    b. Graduate Student Support
    c. Research Support
    d. Deferred Maintenance
    e. Sustainability

4) **Workload and Cost Increases**
    a. Purchased Utilities
    b. Common Good Fee (Technology Infrastructure Fee)
    c. Enrollment Driven (OISS, Admissions, etc.)
    d. Administrative Support (Compliance and Process Driven)
    e. Changing Student Population (non-resident vs. resident students, graduate students vs. undergraduate students)

5) **Program Improvements**
    a. Technology (Infrastructure, Equipment, & Development)
    b. Deferred Maintenance

c. Classroom Renovation
d. Equipment Replacement

6) Other

a. Department Support Budgets
b. Staffing Improvements
c. Capital Program (New Space, Major Renovation, Life Safety, etc.)
d. Debt Capacity

The above list is essentially an allocation hierarchy which guides the budget development process and results in the identification of amounts needed to be set-aside for “required” allocations (categories 1 to 3) and helps identify the funding available in any one year for those more discretionary allocations (categories 4 to 6).

Chapter 6

UCOP Allocation Process

Distribution of State General Funds

Beginning in 2008, the University of California Office of the President initiated a comprehensive review of how the University budgets and allocates its various fund sources. As part of that initiative, the University examined the rationale for distributing State General Funds and developed a strategy for readjusting those distributions in order to address disparities among campuses in funding per student.

The University began implementing this new strategy – commonly referred to as "Rebenching" – in 2012-13 with the goal of achieving equivalent per-student funding from eligible State General Funds within six years (i.e., by 2017-18 or sooner if possible). Per the Office of the President the goal was achieved with the FY 2016-17 allocations.

The University's strategy for allocating eligible State General Funds is built around the following four core principles:

I. Unrestricted State General Funds provided to the University should be allocated to the campuses for the purpose of furthering the University's core missions based on the numbers and types of students they enroll.

II. UC has a common standard of excellence across its campuses. The State subsidy per student should not depend on the campus that a student attends. Consistent with this principle, the amount of State General Funds per student allocated to a campus should be the same for each type of student across all of the campuses.

III. Rather than reduce State funding provided to any campus, rebenching should be implemented in a way that seeks to bring all campuses up to the then-current highest level of per-student funding. A portion of new State General Funds received by the University each year will be allocated to achieve this goal by 2017-18 or sooner if possible.

IV. Graduate education is an integral part of UC's mission and excellence and must be recognized in any allocation model.

UCOP Allocation of State General Funds

Under rebenching, with the exception of the Merced and San Francisco, each campus's permanent base budget of State General Funds will reflect a combination of at least two components:

A. Funds to enable campuses to support specified programs or initiatives and to cover a common level of fixed costs at each campus (“set-asides”). Set-asides represent those elements of a campus’s State General Fund allocation that are intended for, or restricted to, specific purposes, either by State law or University policy. Examples include Student Financial Aid, and Student Academic Preparation and Educational Partnership (SAPEP). In addition, the $15 million allocated to each campus to address fixed costs that are independent of a campus’s enrollment level is included in this category.

B. Funds allocated to achieve and to maintain a common level of State General Fund support at each campus, based upon a campus’s weighted enrollment for allocation purposes as described below in Section D.

C. Due to the unique needs of the Merced and the San Francisco campuses, permanent State General Funds allocated to these campuses will be determined outside of the methodology used to allocate funds to the other campuses.

D. Annual allocations of new State General Funds generally reflect:

1. Any portion of incremental permanent State General Funds that are designated in the Budget Act to augment support for a particular program or programs at a campus or campuses;

2. Cost adjustments, as appropriate, for identified set-asides at each campus; and

3. At campuses other than Merced and San Francisco, funds intended to eliminate, over time, campus discrepancies in State funding per student (“rebenching annual increments”), and

4. Funds intended to raise each campus’s State funding per student by an equivalent amount across the system (“per-student distribution funds”), where a campus’s funding per student is based upon its weighted enrollment for allocation purposes as described in G.1 below.

E. Any portion of incremental permanent State General Funds that is designated in statute for a particular program (or programs) should be allocated to the campus responsible for the operation of the program(s). These funds are generally designated in the State Budget Act.

F. Funding for cost adjustments to set-asides that are deemed eligible for annual cost adjustments should be allocated to the campus(es) responsible for those set-asides.

1. In general, cost adjustments are proportionate to the systemwide increase in permanent State General Funds appropriations from the prior year.

2. A portion of incremental State General Funds should be used to narrow identified gaps in State General Fund support per student on each campus. The funding allocated in a given year for this purpose should be sufficient to allow the University to meet its goal of achieving equal per-student funding across campuses by 2017-18 (or sooner) based upon each campus's weighted enrollment for allocations (WEFA).

3. Increases in permanent State General Funds not committed to other purposes should be distributed to campuses in direct proportion to each campus's share of the systemwide WEFA.

4. The President may allocate any portion of new State General Funds to campuses as needed to address identified funding needs and/or to address additional goals beyond those described above.

G. Allocation of one-time State General Funds to campuses

1. State General Funds provided on a one-time basis should be allocated to campuses in a manner that is generally aligned with the intended use of those funds. For example, in determining campus allocations of funds designated for deferred maintenance, factors that might be considered include square footage, current replacement value, mix of supporting infrastructure, and percentage of campus space that is state funded.

2. In cases where unrestricted one-time funding is provided, allocations may be based on the rebenching methodology or on an alternative methodology that is aligned with objectives

identified by the President.

H. Other adjustments to campus base budgets of State General Funds

1. Allocations may include other adjustments to campus base budgets of State General Funds to achieve systemwide goals. Examples include but are not limited to:

    a. Adjustments to the State General Fund portion of the University Student Aid Program; and

    b. Adjustments needed to achieve appropriate campus funding levels for programs such as the Faculty Hiring Incentive Program or other new and/or ongoing Presidential initiatives.

I. Calculation of enrollment for allocation purposes

    a. In consultation with campuses, the Office of the President will establish enrollment levels for State-supported programs at each campus for purposes of allocating State funds. Undergraduate students subject to Nonresident Supplemental Tuition are excluded from these enrollment levels.

2. The calculation of per-student funding is based on campuses' weighted enrollment for allocation purposes (WEFA) of students in State-supported programs. The assigned weights by student levels are as follows:

    a. Undergraduate, post baccalaureate, graduate professional, and graduate academic master's students are weighted at 1.

    b. Academic doctoral students are weighted at 2.5.

    c. Health science students are weighted at 5 (with the exception of undergraduates and graduate academic students, who are weighted at 1 and 2.5, respectively).

3. If the enrollment level referenced reflects a ratio of academic doctoral students to undergraduates that is less than 12 percent at a

campus, the campus's WEFA will be adjusted to include additional academic doctoral student enrollment to bring its ratio to 12 percent. This adjustment is intended to provide funding to such campuses so that they may take steps to increase the numbers of academic doctoral students to reach 12 percent of undergraduate enrollment. Campuses' progress in growing graduate enrollment will be reviewed periodically.

J. Formulas for determining campus allocations under rebenching are as follows:

1. With the exception of Merced and San Francisco, upon completion of rebenching (i.e., for 2017-18 and subsequent years), a campus's permanent allocation of State General Funds will be calculated as follows:
    a. *Total Campus Permanent Allocation* = Allocations for Campus Set-Asides + Allocation for Equitable Per-Student Funding
    b. *Allocation for Campus Set-Asides* = Newly designated campus set-asides (if any) + Prior-Year Allocation for Campus Set-Asides + Cost Adjustment for Eligible Set-Asides
    c. *Cost Adjustment for Eligible Set-Asides* = Prior-Year Eligible Set-Asides * Increase in Undesignated Permanent State General Funds - New Merced and San Francisco Corridor Funds / Total Prior Year Campus Base Budgets
    d. *Allocation for Equitable Per-Student Funding* = Total UC State General Fund Appropriations – Total Set-Asides * Campus Weighted Enrollment for Allocation Purposes / Total UC Weighted Enrollment for Allocation Purposes

K. Communicating campus allocations

1. Each year, the Office of the President issues allocation letters to campuses that provide campus-specific allocations of State General Funds and, as appropriate, State Special Funds.

2. The letters and accompanying materials describe changes in State support from the prior year, along with a description of the methodology used to determine those changes.

3. Allocation letters may also provide guidance and expectations for addressing priorities that are of critical importance to the system.

4. Prior to adopting any material change to the underlying goals, policies, or practices regarding State General Fund allocations described in this section the Office of the President will consult with campus representatives.

Campus Generated Funds

In September 2011, following extensive consultation with both internal and external University stakeholders, the President of the University of California approved the Funding Streams Initiative. The Initiative addressed several issues, including the distribution of campus-generated revenues, funding for the budget of the Office of the President, and funding for undergraduate and student financial aid. Together with other University policies, the Initiative addresses the extent to which revenue attributable to a campus is retained by that campus.

The distribution of campus-generated revenues under the Funding Streams Initiative reflects three goals:

A. Simplifying University financial activity;

B. Improving transparency; and

C. Providing campuses with incentives to identify and to maximize revenue opportunities.

The Initiative also reflects an activity-based allocation methodology for campus-generated funds, in which revenues associated with campus-based functions (instruction, research, etc.) are retained by the campus that incurred costs associated with those functions. Beginning in 2011-12, each campus will retain:

A. All tuition and fee funds generated from its own students, subject to provisions of the University Student Aid Program allocations.

B. Each location will retain all indirect cost recovery funds generated from its own contract and grant activity.

C. All patent revenues, net of payments to joint holders and inventors, will be allocated to source locations.

D. All Short-Term Investment Pool (STIP) earnings and Total Return Investment Pool (TRIP) earnings, regardless of fund source, will be transferred to source locations.

E. Each campus will retain its own graduate application fee revenue; net undergraduate application fee revenue will be distributed proportionately to the number of applications received by each campus.

F. Prior assessments on medical center expenditures, auxiliary enterprise expenditures, and medical compensation plans that support UCOP administration through the Office of the President Common Fund will be eliminated, but replaced with another wider ranging assessment to help fund operating expenses associated with the Office of the President.

Campus allocations of the revenues described above are in addition to applicable University policies and practices regarding other types of campus-generated revenues – such as gifts and endowments designated for, or administered by, a particular campus, and revenue generated by campus auxiliary enterprises.

Chapter 7
State Funds

The University was created by the State of California as its state-supported land-grant institution, and as such is a recipient of State funds. The State annually appropriates funds to UC from it General Funds (funds collected for the State's general use). The process of acquiring State funds is led by the UC Office of the President and takes place in a political context of negotiation and compromise that establishes the general conditions of use.

State General Funds are used to help support all aspects of the University, except for self-supporting activities such as housing and parking. These funds are provided, generally, as a single line item in the State Budget. However, the State Budget can and does include explicit instructions in the form of budget language if the State wants to direct some funds toward a specific program (e.g., SAPEP).

While General Fund allocations represent the vast majority of funds received from the State the University also receives:

- *Special State Funds* – These funds comprise a small portion (less than 2.5%) of the State's appropriation to the University. They are earmarked for specific use through legislative and/or voter actions. Like general funds, they come to the University through an annual State Budget Act appropriation. Examples include:
    - State Lottery Funds
    - Cigarettes and Tobacco Products Surtax Fund
    - Breast Cancer Research Account

  Special State Funds are restricted and must be used according to the terms of the legislation that authorized the collection and use of these revenues, and any other terms established in the Budget Act.

- *State Contracts and Grants* –The campus also receives contracts and grants from State agencies for the provision of research and public services. Some indirect cost reimbursement (overhead) for the administration of these contracts and grants is also received and becomes part of the UC General Fund income. The funds from this source are restricted for used according to the terms and conditions of the individual award. These funds are not part of the campus permanent budget as they a considered "extramural funds".

State funds represent a critical component of the UC Santa Barbara core-funding base. State funding for the campus has fluctuated substantially over time. Funding increases and reductions have largely coincided with changes in the State's economy.

State Budget Schedule

The State budget process for UC takes between 12 and 15 months from the initial planning by UCOP until the campus receives final allocation instructions after the State budget is approved. The normal timetable is as follows:

- *July through September* – Campus completes and submits required “budget tables” to UCOP. UCOP develops draft Regents Budget and begins systemwide consultation on budget plan.

- *October through December* – Regents adopt UC Budget Plan and submits it to the State for review and consideration.

- *January through March* – Governor’s Budget Proposal for fiscal year beginning July 1 is released. Comparison to UC Budget Plan is made at that time to determine differences and develop plans to reduce funding differences, if any. Legislature holds hearings on the budget proposal.

- *April through June* - Legislative hearings continue. Governor submits “May Revise Budget” which updates the plan based on new revenue and expense information. Assembly and Senate work together to reconcile difference and approve State Budget Plan for Governor signature.

- *July through September* – UCOP reviews approved State Budget and makes final allocations to each campus.

Chapter 8

UC General Funds

In addition to State General Fund support, certain other fund sources are unrestricted and provide general support for the University's core mission activities, based on long-standing agreements with the State of California. Collectively referred to as UC General Funds, these sources include:

- A portion (44.055% - 55% of 80.1%) of indirect cost recovery on federal contracts and grants (*see Indirect Cost Recovery Section of this manual for additional information*)
- Indirect cost associated with State Contracts and Grants
- Non-Resident Supplemental Tuition (*See section on Student Fees for additional information*)
- Fees for application for admissions
- Other miscellaneous fees
- A portion of patent royalty income
- Interest on General Fund balances

By far the largest source of UC General Funds is Non-Resident Supplemental Tuition and indirect cost recovery on federal contract and grants is the second largest source. Together these two sources generate approximately 95% of campus UC General Funds.

Chapter 9

Student Fees

Revenue from student tuition and fees has become the single largest source of funding for the campus in recent years. The campus reliance on tuition and fee revenue to support operations has grown over time in response to large cuts in State funding. Students at UC Santa Barbara may pay a variety of fees that fall under this category. These include both mandatory fees as well as other fees paid only by a portion of the students.

Mandatory Student Fees

1) *Tuition*, a mandatory system-wide charge assessed to all registered students used to provide general support for the campus budget.

2) *Student Services Fee*, another mandatory system-wide charge assessed to all registered students that support services benefiting students.

Other Student Fees

3) *Non-Residential Supplemental Tuition (NRST),* charged to nonresident students in addition to mandatory system-wide charges and any applicable PDST charges, in lieu of State support for the cost of education.

4) *Profession Degree Supplemental Tuition (PDST),* paid by students enrolled in a number of professional degree programs to support instruction and specifically to sustain and enhance program quality.

5) *Campus Based Fees* approved by a student vote and used to support a variety of student-related expenses not completely or adequately supported by other fees. Prior to implementation the student approved fee must be approved at the campus and by the President of the University of California.

6) *Course Material Fees* to fund materials, supplies, tools, or equipment which are consumed, retained, or used by the student, or other materials or services necessary to provide a special supplemental educational experience of direct benefit to the student.

7) *Summer Session Fees* are based on the approved Tuition and Student Services Fee but charged on a per-unit basis. At least one-third of the revenue from the mandatory summer fees paid by UC students are used for financial aid and rolled into the University Student Aid Program (USAP). As an incentive to encourage summer enrollment campuses, on a temporary basis, may charge fees lower than the calculated per-unit fee level.

8) *Extension Fees* are charged based to cover the full costs of the course and program offerings provided through this self-supporting program.

9) *Other Service Fees* include those charged for fee for service programs and various events.

Each of the student fees is described in more detail in the sections that follow. In addition, the UCOP website (see http://www.ucop.edu/operating-budget/index.html) contains information on current and historical fee levels and related fee policies.

Tuition

Tuition, formerly called the Educational Fee, and is identified by fund #20095. Tuition is charged to all registered students and provides general support for the campus-operating budget, including instruction, academic support, student services, institutional support, operation and maintenance of plants, and student financial aid. In recent years tuition increases have been needed primarily to offset reductions in state funds.

Tuition levels are the same at all UC campuses and are set annually by The Regents based on recommendations from the President. Per the 1994 Student Tuition and Fee Policy, Tuition is limited to the general support of the UC's operating budget and cannot be used for capital expenditures. *For additional information see Policy 3101: The University of California Student Tuition and Fee Policy.*

Student Services Fee

The Student Services Fee (SSF), formerly called the Registration Fee (Fund # 20000 primarily), is charged to all registered students. Like tuition, the Student Services Fee is determined annually by The Regents. Revenue from this fee funds services and programs that are important to students, but are not part of the University's programs of instruction, research, and public service. The majority of these funds are spent on student services such as counseling and career guidance, cultural and social activities, and student health services.

Beginning in 2007-08, portions of the Student Services Fee were specifically designed for Student Mental Health Services (Fund #20005) and financial aid. In addition, Student Services Fee revenue can be used for capital improvements that provide extracurricular benefits for students. *For additional information see Policy 3102: Principles Underlying the Determination of Registration Fees.*

The allocation of Student Services Fee income is determined by the campus consistent with applicable University policies and guidelines. Each campus has a Student Fee Advisory

Committee, the membership of which is at least 50% students, to advise the Chancellor on the use of this fund source.

Non-Resident Supplemental Tuition

In addition to all other applicable tuition and fees, UC students who do not qualify as California residents are required to pay Non-Resident Supplemental Tuition (NRST), consistent with the State's policy not to provide support for non-resident students. The California Education Code provides direction to UC about setting NRST fee levels. Revenues derived from this source are considered UC General and thus are part of the 199XX general fund budget. Unlike Tuition and Student Services fees, differential fees are charged and graduate students currently pay substantially lower annual fee than undergraduate students. In recent years, revenue generated from NRST fees has played an increasingly important role in helping backfill a portion of the shortfall in State funding.

NRST does not have a mandatory financial aid set-aside requirement so all of the revenue generated through this fee becomes part of the UC General Funds budget and helps fund 19900 expenditures. At year-end 19900 expenditures are transferred to the fund via year-end proration financial journals.

Undergraduates who enroll as non-residents typically pay NRST fees every term that they attend UC, unless a student's parents move to California or the student is deemed financially independent – a very high standard that is difficult to meet – the student is unlikely to satisfy the University's undergraduate residency requirements. Domestic graduate students are generally presumed to be financially independent and typically establish residency after one year. International students cannot establish residency and hence pay NRST fees every term (although graduate academic students are exempt from this charge for up to three years once they advance to candidacy).

Professional Degree Supplemental Tuition (PDST)

Professional Degree Supplemental Tuition was established in 1994-95 to allow UC's professional schools to offset reductions in State support and maintain program quality. UC Santa Barbara first charged the PDST fee in 2015-16 for the new Technology Management Program (TMP) in the College of Engineering. Revenue generated by the fee stays within the program to cover eligible operating costs. Expenses associated with the fee are subject to all campus taxes and assessments including Non-State Funding Administrative Support, Common Good Fee for Technology Services, and the UCOP Administrative Assessment. In addition, at least one-third of the fee revenue is set-aside for financial aid for TMP students. While part of "core revenues", PDST revenue stays within the specific program and in addition to general support and salary costs, related benefit expenses are also funded from program revenue (i.e., no central funding provided for benefits). *For additional information see Policy 3103: Policy on Professional Degree Supplemental Tuition and Policy 3104: Principles Underlying the*

Determination of Fees for Students of Professional Degree Programs.

Campus Based Fees

Campus based fees vary widely across campuses and by student level and fund a variety of student-related expenses not funded by other sources. Each of the fees is approved by a student vote and for a particular purpose. Use of the fee revenue is restricted to the use identified in the ballot language voted on by the students. Depending on the ballot language the fees can pay for program operations, debt, or in some cases both operating and capital expenses. The approved fees help fund programs such a student government, public transit, childcare, recreation facilities, student health, and Campus Learning Assistance Services (CLAS). All new campus based fees also include a financial aid component. Historically UC Santa Barbara campus based fees have been among the highest in the UC system.

Course Material and Services Fees

“Course materials and services” are defined as materials, supplies, tools, or equipment which are consumed, retained, or used by the student, or other materials or services necessary to provide a special supplemental educational benefit to the student.
Fees may be charged to students to participate in the instructional activities of a course, including:

1) The cost of providing course materials to be consumed, retained or used by the student;
2) The special costs associated with use of University-owned tools, musical instruments, or other equipment; or
3) The cost of other materials or services necessary to provide a special supplemental educational experience of direct benefit to the student.

Proposals for a new Course Material and Services Fees go through a rigorous campus review that includes the Academic Senate College Executive Committees, Student Fee Advisory Committee, Income and Recharge Committee, and the Executive Vice Chancellor before a recommendation is made to the Chancellor for consideration. The Income and Recharge Committee and the Executive Vice Chancellor review proposed changes in existing fees and then a final recommendation is made to the Chancellor for consideration.

For additional information regarding Course Material Fees see http://www.ucop.edu/operating-budget/_files/fees/da2559.pdf.

Summer Session Fees

Summer Session Fees are based on the approved Tuition and Student Services Fee and are charged on a per unit basis. At least one-third of the revenue from the mandatory summer fees paid by UC students is used for financial aid and rolled into the University Student Aid Program (USAP). As an incentive to encourage summer enrollment campuses, on a temporary basis, may charge fees lower than the calculated per-unit fee level. Unit fees are calculated as follows:

1) Undergraduate Summer Session Unit Fee = Sum of Tuition and Student Services Fee Divided by 45 (number of units associated with full-time undergraduate student)

2) Graduate Summer Session Unit Fee = Sum of Tuition and Student Services Fee Divided by 36 (number of units associated with full-time graduate student)

In addition to the unit fee, Summer Session students also are assessed a fee associated with Campus Based Fees. The same restrictions on capital usage associated with Tuition and the Student Services Fee apply to the Summer Session fee revenue.

See http://policy.ucop.edu/doc/3100154/SummerFees for additional information regarding summer session fees.

University Extension

In addition to the tuition and fees charged for regular degree programs, the campus also generates fee income from enrollment in University Extension courses that offer a wide range of courses, programs, and certificates. See http://extension.ucsb.edu/index.jsp for additional information on the Extension program and fees. The Extension program is entirely self-supporting, as they receive no State funding. The fees are charged to cover the full costs of offering the course and programs. The programs and classes offered are dependent upon user demand. The fee levels for individual classes are established at the campus and do not require approval by the University Office of the President.

Other

Separate fees are also charged student-related services not supported by mandatory tuition and fees. Examples of these fees include student health insurance fees, application fees, and fees for specific services. In addition, income from sales and services of education and support activities fall under this category. This includes income from ticket sales (Arts and Lectures, Athletic, and other events). Similar to auxiliary enterprises, these revenues are generally dedicated to support the activity operations.

Chapter 10

Indirect Cost Recovery

Contract and grant activity generates costs into two basic categories – direct and indirect. *Direct costs* are those expenditures that can be identified as directly benefiting and directly charged to a specific contract or grant. *Indirect costs* are those expenses which cannot be specifically identified as solely benefiting one specific contract or grant, but instead are incurred for the common good many contracts or grants. Because these costs are not charged to a specific award, indirect costs must be financed by University funds, with reimbursement based on the negotiated rates provided by the granting agency. In general terms, the reimbursement amount is calculated by multiplying the approved indirect cost rate times the eligible direct costs. With the implementation of the Funding Streams Initiative in 2011-12 the campus retains all the indirect cost recovery funding generated by the campus.

A Facilities and Administration (F&A or Indirect Cost) Rate is established on the basis of costs incurred by the university in an identified base year and by negotiations between the university and the designated federal government agency (DHHS – Department of Health and Human Services for UC). Basically, the rate is the indirect cost of a specific function (i.e., research) divided by the modified direct costs incurred in support of that function during the base year.

The F&A rate is applied on the same basis on which it is calculated, namely, on what is called modified total direct costs (MTDC), consisting of salaries, benefits, material and supplies, travel and subgrants or subcontracts up to the first $25,000 of each subgrant or subcontract associated with sponsored projects. Equipment costing $5,000 or more, capital expenditures, charges for tuition remission, rental costs, scholarships, and fellowships as well as the portion of each subgrant or subcontract in excess of $25,000 are excluded from the MTDC base.

Federal Indirect Cost Recovery

In 1990, The State approved legislation (SB 1308 Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities and related infrastructure. Under the provision of the legislation, the University is authorized to use the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintained the facility. These eligible costs of these research facilities represent the first use of federal indirect cost recovery. As of 2016 UCSB has 5 eligible research facilities either fully or partially financed under the Garamendi program: KITP, MSRB, MRL, CNSI, and Bioengineering.

In addition, the University has an agreement with the State regarding the disbursement of federal reimbursement funding. Pursuant to this agreement, the first 19.9% (after funding of Garamendi project related expenses) of the reimbursement accrues directly to the University for costs of contract and grant administration in campus-sponsored projects offices, administrative offices, academic departments, and research units. This is the source of the

University’s Contract and Grant Overhead or Off-the-Top Fund (69750).

The remaining 80.1% of the federal reimbursement is split into two funds. The first 55% is budgeted as UC General Funds as fund number 19933. It is used, along with State General Funds and student tuition and fee revenue, to help fund the University’s basic budget including instruction, operations and maintenance of plant, and administration.

The remaining 45% is the source of the University’s Opportunity Fund (07427). This is used to make strategic investments in campus priorities, such as enhancing faculty recruitment packages through lab renovations/alterations, equipment purchases, support for graduate student researchers; funding for capital outlay and debt payments; and as needed for general operating expenses.

Other Contracts and Grants (Non-Federal)

Like federal contracts and grants, other non-federal awards are also charged for indirect costs using the federal rate. Examples of non-federal sources include private corporations, private foundations, and for-profit organizations. The reimbursement from these awards is the source of the Educational Fund (05397). As part of the 2011-12 Funding Streams Initiative the campus retains all the indirect cost recovery funding generated by the campus. These funds are used in the same manner as opportunity funds to support faculty recruitment, the capital program, and other campus priorities.

Indirect Cost Rate Proposals

Every four to five years the campus develops a new Facilities and Administrative (F&A) cost proposal that is submitted to the Department of Health and Human Services (DHHS) for review, negotiation, and approval. The entire process takes approximately one year to complete and the end result is an approved rate that is used to recovery indirect costs associated with contract and grant activity. The key components and steps of this process are summarized as follows:

1) The campus working with the Office of the President prepares an indirect cost proposal based on actual costs for the base year. The base year is typically the year before the existing (current) rate agreement is scheduled to end.

2) The cost proposal is prepared in accordance with cost principles established by the Federal Office of Management and Budget (OMB) Circular and Guidance. See http://www.bfs.ucsb.edu/omb/omb-uniform-guidance **for additional information.**

3) Costs included in the proposal consists of:
    a. Current fund expenditures recorded in the campus financial system examined by external auditors as part of the annual audit.
    b. Expenses recorded in non-current funds such as depreciation, interest, and non-

capitalized plant funds are added as adjustments.

c. Allocated cost of UCOP expenses are added as an adjustment to campus costs.
d. Cost and impact of new research facilities completed in the base year are also presented to support the rate negotiations.

4) Based on a detailed review at the account, subaccount, and object code level costs are allocated to the identified direct and indirect cost pools. The "Costing Policy and Analysis" unit at the UC Office of the President manages this work. The Campus Budget Office completes the detailed review of this work.

5) F&A (indirect cost) rates are then calculated for each of the direct cost pools (research, instruction, and other institutional activities).

6) UCSB F&A rate proposal is submitted to the designated federal agency (DHHS for UC).

7) Campus rate negotiation strategy developed through campus consultation. The strategy includes desired rate outcome and term (number of years) of the agreement.

8) UCOP and UCSB respond to questions regarding the rate proposal from federal indirect cost negotiators.

9) Site visit by federal negotiators is scheduled and includes an entrance conference, departmental visits, building tours, rate negotiations, and exit conference. The site visit may or may not result in agreement on new rates.

10) Typically the new rate is implemented 24 months after the base year (i.e., base year of FY 2015-16 with new rate starting in FY 2017-18).

Rate Components

The campus Facilities and Administration (F&A/indirect cost) rate includes the following rate components:

1) Facilities Rate Components

a. *Building Use Allowance* – In general this cost pool consists of the depreciation expense of campus owned buildings. Depreciation is calculated on capitalized costs, excluding the cost of land and federal contributions, using straight-line depreciation based on the estimated economic life of the asset. Useful lives assigned to buildings range between 26 and 33 years.

b. *Equipment* – This cost pool contains depreciation expense for equipment recorded in UCSB's equipment inventory. Equipment is defined as property having a useful life of one year and an acquisition cost of $5,000 or more per unit. Depreciation is calculated on a straight-line basis with no salvage value.

c. *Interest* – This cost pool includes interest paid by the University on third party debt used to finance the purchase, construction, and renovation of buildings.

d. *Operations and Maintenance* – Cost pools contains expenses associated with the operation and maintenance of campus physical plant net of recharges. In addition, in includes cost associated with Environmental Health and Safety, Utilities, and department paid maintenance.

e. *Library* – Contains expenses incurred for the operation of the Library both at the campus and the Office of the President.

2) *Administrative Rate Components*

a. *General Administration* – Consists of expenses associated with the general administrative services provided to substantially all units on campus. Examples include the offices of the Chancellor, Executive Vice Chancellor, Budget and Planning, Accounting and Financial Services, and Human Resources.

b. *Department Administration* – Cost pools include expenses associated with central administration and support of the academic program, including instructional departments.

c. *Sponsored Project Administration* – Includes cost incurred by the Office of Research and campus administrative units responsible for the administration of sponsored projects.

d. *Student Administration and Services* - Contains expenses associated with the administration of student affairs and student services including the offices of the Vice Chancellor, Dean of Students, Financial Aid, Counseling and Career Services and other units dedicated to the support and administration of students.

Each component has a calculated rate and the total of the administrative component is capped at 26% even if the calculated amount exceeds the capped figure.

Go to: http://www.ucop.edu/financial-accounting/_files/rates/rates_hist.pdf for a table that shows the historical rates for UCSB and the other UC campuses.

Distribution of Indirect Cost Recovery Reimbursements

Annually allocations of ICR funding are made to research control points based on ICR generated by individual units within each organization. Separate allocations are calculated for overhead resulting from federal and non-federal contracts and grants. Research control points are defined as those Vice Chancellor and Dean's with departments that generate substantial indirect cost recovery on an annual basis. Currently these included the Executive Vice Chancellor, Vice Chancellor Research, Dean of Engineering, and Dean of Math, Life, and Physical Sciences. Units reporting to this group generate more than 98% of the campus indirect cost recovery on an annual basis. This group, along with the Assistant Chancellor Finance and Resource Management meet multiple times each year to review and discuss allocations of indirect cost recovery funds.

The following steps are followed annually to determine the allocations to individual control points:

1) Identify total ICR receipt base for both federal and non-federal contracts and grants.
2) Reduce base by off-the-top Garamendi (research building) expenses that include debt, maintenance, and utilities.
3) Distribute net allocations to appropriate fund groups – general funds, opportunity fund, C&G overhead, and educational fee. The base for further distribution is net of the general fund allocation.
4) Reduce base by approved campus distributions supporting research. This represents the base used to determine allocations to research control points.
5) Determine the percentage contribution of each control point to the fund using a three-year rolling average to minimize annual "blips" in distribution.
6) Based on the departmental administration component (36.70%) of the indirect cost rate determine the amount to be allocated to research control points. Calculation is 36.70% times the allocation base (see #4 above).
7) Allocations are determined using the amount to be allocated (#6) times the percentage contributions (#5) by control points.
8) Research control points agree on the distribution and allocations are then made.
9) Each research control point determines how to use the funding transferred to their individual area.

State of California Indirect Cost Recovery

The University of California (UC), California State University System and State of California Department of General Services have signed a memorandum of understanding implementing standard award agreement terms and conditions, as well as standard proposal components. Commonly referred to as "AB20" or "Model Agreement", the standard terms took effect January 1, 2016.

At the same time, UC Office of the President (UCOP) established an indirect cost rate (UC Rate) for contracts and grants funding by the State of California. The UC on-campus rate for the period through June 30, 2017 is 25%. On July 1, 2017 the rate increases to 30%, then to 35% on July 1, 2018, and to 40% on July 1, 2019. The off-campus rate for all periods is 25%. The off-campus UC Rate for all periods is 25%. The UC Rate in effect for the first year of a multi-year project will be the IDC rate used for the entire project unless additional funds, not previously appropriated or budgeted) are awarded. Questions regarding the "UC Rate" should be directed to the Sponsored Project Office (SPO). All indirect cost recovery associated with State contracts and grants become part of the campus general funds (19900).

Chapter 11

Campus Assessments and Taxes

UC Santa Barbara has the following campus-wide assessment (taxes) in place to help fund the following programs:

1) Non-State Funded Administrative Support
2) UCOP Support Assessment
3) Technology Infrastructure Fee
4) Gift Assessment (See Section on Gifts and Endowments for Details)

Each of these assessments is described in detail in the sections that follow. In addition, the rate history associated with these assessments can be found on the Budget and Planning website at: http://bap.ucsb.edu/budget/.

Non-State Funded Administrative Support (NSFAS) Assessment

NSFAS is essentially an administrative overhead charge against non-core funds within three primary fund groups – non-mandatory student fees, sales and services, and other sources (miscellaneous income). The fee is not assessed against general funds, mandatory student fees, contracts and grants, and gifts as these sources fund administrative costs directly or through separate overhead assessment programs.

The Non-State Funded Administrative Support (NSFAS) has been in place since the mid 1980's. In FY 2010-11 the NSFAS assessment was transitioned from an assessment of non-state revenues to an assessment based on non-state expenditures. The stated assessment rate for FY 2010-11 was 6%. This rate was increased to 7% effective July 1, 2011. Per long-standing agreements some funds, primarily campus-based fees, have a much lower assessment rate.

Three departments, the University Center (UCEN), Associated Students (ASTD), and the Faculty Club (FACL) continue with the revenue based NSFAS assessment given that their expenditures are not directly recorded to the UCSB G/L. The NSFAS charges for these departments are recorded at year-end.

In brief, under the expenditure based assessment approach the NSFAS assessment rate is applied to expenditures in all accounts and sub-accounts linked to the non-state fund being assessed. The assessment rate used as of FY 2016-17 is 7.0% (1.0% for certain student fee funds based on an agreement approved by the Executive Vice Chancellor). However, the following expenditures are "tax exempt" and excluded from the expenditure assessment base:

- Expenditures for long term debt servicing, regardless of fund source.

- Expenditures in the 78 (Financial Aid) functional area, regardless of fund source.

- Prior NSFAS and other campus administrative support assessments (identified by object code 3740). This avoids double taxing a fund that is created by a tax. For example, the worker's compensation fund which is funded by a payroll assessment.

- Expenditures on student fee remission and GSHIP (identified by object codes 8570, 8590, and 8970).

- Equipment expenditures (object codes 9xxx).

In reviewing the fund detail some account-funds show NSFAS credits. These are to be expected particularly in the instance of recharge funds. Over time, recharge funds operating on the no-gain no-loss principal should see NSFAS charges/credits balance out to zero ($0). However, a process takes place after the close of the fiscal year, to review and possibly reverse any NSFAS credits that have been inappropriately extended to recharge funds. Under no circumstances should departments budget the NSFAS for recovery from campus sub 9 recharges; however, recovery of NSFAS from off-campus revenue sources may be allowable subject to other policies governing such external rates and fees.

For a variety of reasons a number of funds within current NSFAS fund ranges are not now being assessed. This could be because these are new funds that have been recently established or when NSFAS was first established in the mid-1980's the revenue generated by the fund was less than the assessment threshold at that time. *Over time the assessment will be extended to all non-state funds*. The rational for extending the assessment to all funds is that all transactions result in overhead expenses and therefore should be charged. Absent an assessment the overhead for these funds is essentially being subsidized by core funds, which have been cut dramatically in recent years.

UCOP Support Assessment – Campus Implementation

As part of the implementation of the "funding streams proposal" the Office of the President has distributed funding previously used to support their operations to campuses. They have then assessed (taxed) each of the campuses a flat rate to support UCOP provided services. The assessment is based on total campus expenditures, number of students, and faculty/staff at each campus.

I. Effective with the 2014-15 fiscal year, the cost of the total systemwide assessment is distributed across campuses based on three equally weighted factors:

   A. Current expenditures from the campus. A campus's total expenditures will be used as a general indicator of the financial resources available at the campus.

B. Total number of employees at the campus. The consideration of a campus's share of total University employees is intended to generally reflect a campus's share of services provided by the Office of the President that are aligned with employment-related functions.

C. Total number of students. A campus's total student enrollment represents a proxy for the campus's share of student- and instruction-related services and resources provided by the Office of the President.

Campuses are permitted to use any fund source or combination of fund sources not otherwise legally restricted to cover their share of the annual assessment.

The tax rate for FY 2016-17 is 2.97% of eligible operating expenses (excludes financial aid and certain campus based fees) and the funding is used to cover the UC Santa Barbara share of UCOP operating expenses, UCPath implementation, and legal expenses. The total amount collected for 2016-17 is 22,375,834

Principles for Implementing the UCOP Support Assessment

- The assessment is based on expenditures not fund source.

- Since all funds make up the base used to calculate the assessment, all funds should contribute towards the assessment.

- Any assessment associated with contract and grant expenditures will be funded from indirect cost recovery funds. This is possible given that UCOP no longer retains any of these funds. Also, given that a portion of UCOP costs are already included in the current 51.5% overhead charged against grants this new assessment would be considered double taxing for the same purpose.

- The assessment associated with core funds (general funds and mandatory student fees) will be paid centrally using funds already allocated and set-aside for that purpose.

- To the extent possible charges should not be passed on to, or between, other campus departments through higher rates (i.e., recharges, MOU's, fee agreements). All proposed rate increases will be subject to normal campus review and consultation.

Implementation of the Assessment

- Assessment amounts are provided to each Vice Chancellor control point that reflects their areas total assessment, credits, and the net assessment. The assessment is based on expenditures, not fund source.

- Each control point is responsible for paying their expenditure assessment and have broad discretion in identifying the fund sources from which the assessment will be paid, except the assessment may not be funded using campus based student fees, financial aid funds, contract and grant funds, or recharge funds.

- In collecting the assessment Control Points need to be mindful of any agreements and commitments that may restrict or limit the use of any specific fund. Given this, Control Points have the discretion to include or exclude individual funds as the collect the assessment. Should they be required or decide to exclude a fund they will then have to make up the excluded amount from other resources under their control.

- Control Points are typically notified of their assessment amount in the late fall of each year with the assessment "due and payable" in the following spring. Only one transfer of funds from each control point is accepted for payment of the assessment. It is the responsibility of the Control Point to determine how to implement the assessment, the amount to be paid individual units, and consolidate the return of assessment into one transfer of funds.

Assessment Calculation

- *Step 1 – Expenditure Base* – This represents year-end expenditures by control point less financial aid as the basis for the expenditure assessment. The result will be referred to as "net expenditures".

- *Step 2 – Assessment* - UCOP provides campus with the total assessment amount (i.e., UCOP Assessment).

- *Step 3 – Assessment Percentage* - Calculated by dividing the "UCOP assessment" by "net expenditures".

- *Step 4 – Gross Assessment* - Gross control point assessments are calculated by multiplying the assessment percentage (Step 3) times the control point total expenses (Step 1).

- *Step 5 - Credits* – Represents assessment credits by expenditure fund source. Credits provided for expenditures associated with general funds, indirect cost recovery, and mandatory student fees as campus received additional allocations of these funds through the funding streams process.

- *Step 6 – Net Assessment* – Equals "gross assessment" less "credits". This is the amount that each control is required to return to a central account in order to fully fund the UCOP assessment. See section on "Implementation of the Assessment" for additional details.

Enterprise Technology Services (ETS) Fee

The ETS Support Assessment after discussion with and endorsement by the Information Technology Board (ITB) and the Coordinating Committee on Budget Strategy (CCBS) was implement beginning FY 2014-15. The fee provides financial support for Enterprise Technology Services and represents a “common good assessment” with revenues used to cover ongoing services benefiting the campus as a whole, as well as providing a funding stream needed to implement enterprise system improvements.

As part of the implementation of the ETS Assessment, core funding that was formerly used to support ETS operations was returned to a central account and a number of recharge arrangements – such as the campus Technology Infrastructure Fee (TIF) – have been discontinued. The new ETS Assessment has replaced these funding streams.

The distribution (allocation) of the assessment to control points is consistent to the method employed with the UCOP support assessment. Like the UCOP assessment, the ETS assessment cannot be funded from financial aid funds, and per campus decision the tax is not to be funded from campus based fees.

Principles for Implementing the ETS Support Assessment

- The assessment is based on expenditures, not fund source.

- All funds may contribute towards the assessment, except the assessment may not be funded using campus based student fees, financial aid funds, contract and grant funds, or recharge funds. Within the identified restrictions individual Control Points determine what fund sources to use to fund their portion of the assessment.

- Any assessment associated with contract and grant expenditures will be funded from indirect cost recovery funds. Also, given that a portion of UCOP costs are already included in the current charged against grants this new assessment would be considered double taxing for the same purpose.

- In collecting the assessment Control Points need to be mindful of any agreements and commitments that may restrict or limit the use of a specific fund. Given this, Control Points have the discretion to include or exclude individual funds as they collect the assessment. Should they be required or decide to exclude a fund they will then have to make up the excluded amount from other resources used their control/management.

- The assessment associated with core funds (general funds and mandatory student fees) will be paid centrally using funds already allocated and set-aside for that purpose.

- To the extent possible charges should not be passed on to, or between, other campus departments through higher rates (i.e., recharges, MOU’s, fee agreements). All proposed rate increases will be subject to normal campus review and consultation.

Implementation of the Assessment

- Assessment amounts are provided to each Vice Chancellor control point that reflects their areas total assessment, credits, and the net assessment. The assessment is based on expenditures, not fund source.

- Each control point is responsible for paying their expenditure assessment and have broad discretion in identifying the fund sources from which the assessment will be paid, except the assessment may not be funded using campus based student fees, financial aid funds, contract and grant funds, or recharge funds.

- In collecting the assessment Control Points need to be mindful of any agreements and commitments that may restrict or limit the use of any specific fund. Given this, Control Points have the discretion to include or exclude individual funds as the collect the assessment. Should they be required or decide to exclude a fund they will then have to make up the excluded amount from other resources under their control.

- Control Points are typically notified of their assessment amount in the late fall of each year with the assessment "due and payable" in the following spring. Only one transfer of funds from each control point will be accepted for payment of the assessment.

Assessment Calculation

- *Step 1 – Expenditure Base* – This represents year-end expenditures by control point less financial aid and campus based student fees as the basis for the expenditure assessment. The result will be referred to as "net expenditures".

- *Step 2 – Assessment* – The current rate is 1.95%. Any changes to the assessment rate will be the Information Technology Board, reviewed by the Coordinating Committee on Budget Strategy, and approved by the Executive Vice Chancellor and/or the Chancellor.

- *Step 3 – Assessment Amount* - Calculated by multiplying the assessment rate times the campus net operating expenditures.

- *Step 4 – Gross Assessment* - Gross control point assessments are calculated by multiplying the assessment percentage (Step 3) times the control point total expenses (Step 1).

- *Step 5 - Credits* – Represents assessment credits by expenditure fund source. Credits provided for expenditures associated with general funds, indirect cost recovery, and mandatory student fees as campus received additional allocations of these funds through the funding streams process.

- *Step 6 – Net Assessment* – Equals “gross assessment” less “credits”. This is the amount that each control is required to return to a central account in order to fully fund the UCOP assessment.   See section on “Implementation of the Assessment” for additional details.

Chapter 12

Gifts and Endowments (Philanthropy)

There are two legal entities that UC policy allows to accept gifts in support of our campus - The UC Regents and the UC Santa Barbara Foundation. Philanthropy annually provides support for a wide range of activities including student financial aid, faculty chairs, research, capital improvements, and program support. Funds in this category include current year gifts, as well as annual payouts from endowments and funds functioning as endowments (FFE). Gifts are received from alumni, friends of the University, corporations, private foundations, and other non-profit entities.

Endowments are created when a donor specifies that the gift funds are to be retained and invested in perpetuity for income producing purposes. Income from endowments can either be restricted or unrestricted based on donor designation. Payouts from the Regents' endowments are permanently budgeted while payouts from the campus foundation are handled through fund transfers to the campus and the appropriate implementing department/organization. While supporting a wide range of activities, expenditures from Gift and Endowment Funds tend to be highly restricted due to conditions placed on usage by the donor.

Beginning July 1, 2012 an administrative fee of 6% is assessed on receipt of new gifts and pledge payments. Gifts are subject to 6% gift fee assessment with a maximum fee of $180,000 on any one gift. In cases where a gift is a tangible asset (i.e., property) and is later sold they give administrative fee is paid at the time of sale. On "gifts-in-kind" no administrative fee is charged as no cash is involved in this transaction.

Revenue generated from the gift fee assessment is used to help cover the operating costs of the campus fund raising program. The gift fee is used to reduce the use of core funding and unrestricted gifts in covering the costs of fund raising activities and allow the reallocation of such funds to other core programs of the campus. In the future, should all core and unrestricted gift funding for fund raising activities be replaced any additional gift fee revenue will be used to enhance and expand fundraising efforts of the campus. The gift fee is disclosed to donors in gift documents, pledge letters, proposals, solicitations and other related documents to ensure donors are very aware of the assessment.

The annual campus Budget Plan does not include anticipated changes in philanthropic giving to the University that may be used to fund core operations. To be included in the plan, gifts must either be unrestricted or have terms that permit the use of such funds for core operations. Experience indicates the vast majority (upwards of 98%) of gifts tend to be restricted for specific uses and as such the funds generated from this source typically are not included as part of the Budget Plan for core operations. The plan does, however, include an estimate of gift fee revenue to be collected as it helps fund the operating costs of a core operational unit (Development).

Each gift has an associated "Fund Record Sheet" which provides detailed information about the gift including fund number, fund name, donor identification, purpose, fund administrator, fund type, and relevant background.

Commonly used terms associated with gifts include the following:

- Current Year Gifts – A current use fund is composed of a gift or gifts donated with the express intent that they be fully expended. A current use gift may be designated unrestricted (A funds) or restricted (B funds).
- Fund Functioning as Endowments (C Funds) – An FFE is not designated by the donor for endowment, but are treated as endowments by administrative action. The income generated from a FFE is distributed annually to appropriate campus department. With adequate notice the principle of the fund can also be allocated and used in accordance with the initial gift agreement.
- Endowments (D Fund) – Funds specified by donors that are to be retained and invested in perpetuity for income producing purposes. Income from endowments can either be restricted or unrestricted based on donor designation.
- Pledge – A signed commitment to make a gift over a specified period, payable according to terms set forth by the donor, not to exceed a five-year period, with scheduled payments.
- Restricted Gift – A gift given with a specified purpose clearly stated by the donor.
- Unrestricted Gift – A gift given without any restrictions on its use.

Current Use Gifts (Processing)

If the gift is made to the UC Regents, it is deposited with the UCSB Cashier's Office and The Accounting Office posts it to the campus general ledger once the gift has been formally accepted and processed by the Gift Administration Unit within the Development Office.

If the gift is made to the UC Santa Barbara Foundation the check is delivered to the Gift Administration Unit in the Development Office and then deposited by the Foundation into their external clearing account. Once the gift has been formally accepted and processed by Gift Administration, the Foundation reconciles the daily deposit data with a download of the month from Gift Administration and then closes the monthly accounting cycle. After the close the Foundation cuts checks to the campus for deposit and these are deposited with the UCSB Cashier's Office. Then the Accounting Office distributes the funds to the Campus General Ledger.

NOTE: Because the timeframe to process UC Regents current use gifts typically takes less time, and all current use gifts are encouraged to flow to the UC Regents.

Endowment Gifts

If the gift is made to the UC Regents, it is deposited with the UCSB Cashier's Office and The Accounting Office journals the funds up to UCOP for investment by the Office of the President CIO. The gift itself does not post onto the campus general ledger, instead it is recorded on UCOP General Ledger. When payouts from endowed funds occur, they are processed by journal down and the Campus Accounting Office posts them into the campus general ledger in coordination with the Budget Office.

If the gift is made to the UC Santa Barbara Foundation the check is delivered to the Gift Administration Unit in the Development Office and then deposited by the Foundation into their external clearing account. On the gift has been formally accepted and processed by Gift Administration, the Foundation reconciles the daily deposit data with a download of the month from Gift Administration and then closes the monthly accounting cycle. The Foundation then invests the funds in the Foundation's Long Term Investment Pool. When payouts occur, the Foundation cuts checks to the campus for deposit and these are deposited with the UCSB Cashier's Office. Then the Accounting Office distributes the funds to the Campus General Ledger.

For additional information on philanthropy go to: https://giving.ucsb.edu/ucsb-foundation. From this link, you can access policies and guidance related financial management of gift funds.

Chapter 13

Interest on Investments

Cash balances are invested in STIP or TRIP to generate interest income to support campus operating and capital needs. The Chief Investment Officer of the Regents manages the investments associated with the STIP and TRIP programs. The campus works with the Office of the President to determine what percentage of cash balances, in total and not by individual funds, should be invested in each vehicle based on anticipated cash needs.

The Short-Term Investment Pool (STIP) was established in FY 1975-76 as a cash investment pool available to all UC fund groups. STIP allows fund participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool. STIP consists primarily of current funds slated for payroll and operating/construction expenses for all UC campuses and medical center. In addition, funds awaiting permanent investment in one of the long-term pools are invested in STIP to earn maximum daily interest until transferred.

The Total Return Investment Pool (TRIP) is an investment pool established in 2008 by the Regents' and is available to UC campuses and the UC Office of the President. The TRIP allows campuses to maximize return on their intermediate-term working capital, subject to an acceptable level of risk, by taking advantage of the economies of scale of investing in a larger pool and investing across a broad range of asset classes.

Given the volatile nature of investments, the interest income from this source is only used as one-time funding and not permanently budgeted. To further minimize risks STIP and TRIP income is not allocated until the actual receipt of the funds as opposed to using a revenue estimate based on interest rates at a point in time. Essentially the income is budgeted and allocated the fiscal year after it is earned. For example, interest income associated with FY 2014-15 investments would be used in FY 2015-16. Interest income typically amounts to less than 1% of total annual revenues and primarily used for campus contributions to capital improvements such as lab improvements associated with faculty recruitment.

Chapter 14

<u>Income & Recharge</u>

Rates charged for services are subject to review and approval by entities outside the implementing departments. All campus rates are subject to review. Charges for goods or services can only be implemented after rates have been *approved*. The Income and Recharge Committee reviews all rates except those set by regulatory bodies such as the Regents or the Office of the President. Rates subject to control through other specific University policies are also not subject to review by the Income and Recharge Committee. Examples of these would be parking and student housing. The vast majority of rates are reviewed by the Income and Recharge Committee and approved by the Executive Vice Chancellor and/or Chancellor. Per policy rates are to be reviewed on an annual basis.

The term "recharge" refers to the assessment (charge) by one campus account for goods or services to another campus account. The assessment is based on an identifiable unit of measure. Examples include website design services, use of research of equipment, and automobile rentals.

The term "income" refers to revenue generated by campus departments or units from sales to non-university clientele (i.e., non-departmental sales). Examples include the charging of a private sector company for the use of specialized equipment, charging of students for transcripts, and the charging faculty, staff, or students for parking.

Rate Proposal Expense Outline

As a department begins to develop a rate proposal associated with providing a service to campus and off-campus users the expense categories listed below should be used to help the preparer determine the expenses to be considered. See the object code listing found on the General Accounting portion of the Business and Financial Services web-site for a more detailed listing of potential operating expenses that should be considered when developing a program budget and rate proposal.

1) Salaries
    a. Career Employees (Subs 0 and 1)
    b. Casual Employees (Sub 2)
    c. Note that when employees are identified as part of a recharge/income account their payroll distribution should reflect that assignment and their payroll and benefit expenses should be funded from the recharge/income account.

2) Benefits (Sub 6)
    a. Benefit expenses for each employee identified in #1 above.
    b. Note benefit expenses vary from employee to employee so each employee cost needs to be reviewed as part of the budgeting process.

3) Supplies & Expenses (Sub 3) Include:
    a. Materials (Examples: General Office Supplies, Specialized Forms)
    b. Communications (Telephone)
    c. Mail (postage, fed ex, etc.)
    d. Travel
    e. Training
    f. Rental (Space and Equipment)
    g. Copying Expenses
    h. Subscriptions
    i. Membership
    j. Maintenance Agreements (Equipment & Software)
    k. Computer Software Purchases (Word, Excel, Other Software)

4) Depreciation of Equipment (Reserve)
    a. Initial equipment necessary to implement program typically funded from core support, gifts, or contracts and grants. Equipment depreciation is then charged as part of a rate to create a replacement reserve.

5) Taxes/Assessments (See Chapter 11 for additional information. For current assessment rates go to http://bap.ucsb.edu/budget/ and select "Assessments" from the menu tab.
    a. Non-State Funded Administrative Support (NSFAS) is charged against all expenses associated with an income account.
    b. UCOP Tax charged as a % of expenses.
    c. Enterprise Technology Services "Common Good Fee".

6) Financial Aid (Rare)
    a. In cases where services are charged to individuals a department may want to ensure that the fee doesn't impact access. In these circumstances a component of the fee that everyone pays could be designated for "financial aid". The department would then charge the "financial aid fund" in cases of financial need. A policy needs to be in place that clearly defines how the financial aid funds would be accessed and what approvals would be necessary. A similar program could also be funded from the NUD assessment (See #8 below).

7) Department Overhead
    a. At times, central control point staff provides services in support of an income/recharge account. This can take many forms but is often in the form of financial management, purchasing support, and/or personnel administration. These are real workload impacts and the can be covered through an overhead assessment on rates.
    b. These expenses need to be identified and can be recovered by adding a percentage increase to the rates. The percentage is calculated by taking the total indirect support services charges divided by the total direct charges of the

services. The resulting percentage is then applied to each of the rates. This approach is typically used in operations like a storehouse where consumables are involved.

c. Any revenue derived from this approach has to be used to offset the expenditures of the area/department providing the service.
d. An option to recover these "support" costs is also to include them as part of the total program costs and then allocate a fair share to each of the services to be provided. The net impact on the overall expenses and revenue generated would be zero under either option.

8) Non-University Differential (NUD)
    a. When services are provided to non-university (off-campus) users charging of a Non-University Differential (NUD) is strongly recommended.
    b. The department has the flexibility in determining the NUD amount but the starting point is the approved campus indirect cost rate used for research. The department can make a case for going up or down from that amount.
    c. The revenue generated by the NUD can be used by the department and/or control point as a discretionary fund source and does not have to be used to cover program related costs. The potential uses of NUD revenue include:
        i. Reserve for operations – Given that these are self-supporting programs it is prudent to have a reserve large enough to cover any costs on an annual basis that may be in excess of revenues generated.
        ii. Purchase of new equipment – These funds could be used to supplement the funding available in the depreciation reserve at any one time or purchase additional equipment in support of the program.
        iii. Rate Reduction – Decision can be made to fund the campus assessments from the NUD rather than as part of the rate. This has the effect of lowering the overall rate which may be a reasonable use of these funds to maintain the rates near market levels.
        iv. Financial Aid – Rather than include financial aid within the rates a decision could be made to set-aside a portion of the NUD for this purpose.
        v. Graduate Student Support – Given that this is a discretionary source a decision can be made to use the funds to supplement existing programs within the department/control points such as graduate student support.
        vi. Department Overhead – A portion of the NUD could be designated/returned to the control point (Dean's Office) to cover support services. In this case, a separate overhead adjustment should not be included in the rate to recover similar costs.

9) General Rate Calculation Information
    a. Expenses should be determined for each potential rate
    b. Rates are calculated by dividing total costs by total units of service (hours, uses, etc.)

c. See Income and Recharge Guidelines for examples of rate calculations
d. Each rate must be accompanied by a rate calculation worksheet
e. The rate calculation worksheets then can be used to summarize the total revenue and expense budgets for the entire program.
f. Rates should be updated annual to ensure that they will result in a fully funded budget.

Additional information on the Income and Recharge Program and campus guidelines can be found at http://bap.ucsb.edu/budget/. The campus guidelines are based on UC and campus policy, Federal OMB guidelines, the recommendations of a Faculty/Administration Committee appointed to review the recharge process, internal audits, comments from both providers and users of recharge services, and input from members of the Income and Recharge Committee. The referenced guidelines were developed to supplement existing policies and procedures, as well as to better define the responsibilities of service providers and the Income and Recharge Committee.

Chapter 15

Financial Aid

The University's student financial aid programs, guided by policy adopted by the Regents in 1994, are closely linked to the University's goals of student accessibility and meeting the state's workforce needs. To mitigate the impact of tuition and fee increases, as well as increases in other educational expenses, the University uses a portion of the new revenue derived from tuition and fee increases to support financial aid. Other sources of funds, including State funding for Cal Grants and federal and private funds, help UC meet its financial aid goals.

Policies

1) The University Student Aid Program (USAP), the University's primary systemwide institutional aid program, is designed to achieve the goals articulated by the Regents in *Regents Policy 3201: The University of California Financial Aid Policy*.

2) Institutional financial aid for students in professional degree programs that assess Professional Degree Supplemental Tuition is addressed in *Regents Policy 3103: Policy on Professional Degree Supplemental Tuition and Regents* and *Regents Policy 3104: Principles Underlying the Determination of Fees for Students of Professional Degree Programs*.

See http://www.ucop.edu/student-affairs/policies/index.html for additional information on UC financial aid policies, guidelines, and programs.

Undergraduate Financial Aid

At the Undergraduate level, the primary goal of the University's financial aid program is to maintain affordability for all students admitted regardless of their financial resources. Stated another way, UC's goal is to remain financially accessible to all academically eligible students so that financial considerations are not an obstacle to a student's decision to enroll at the University of California.

The University's systemwide undergraduate financial aid strategy includes two core components:

1) *The Education Financing Model (EFM)* - The EFM is an integrated framework that is used to assess the University's role in funding its financial aid programs, to determine how financial aid is allocated across campuses, and to guide campuses in awarding aid to individual students and families. Under EFM, a student's UC grant eligibility is based upon the difference between (a) a student's in-state total cost of attendance (including tuition and fees, room and board, books and supplies, etc.) and (b) the

combination of a reasonable contribution from parents, grants from Federal and State programs, and a manageable student self-help contribution from work and/or borrowing.

2) *The Blue and Gold Opportunity Plan* - Introduced in 2009, it is intended to provide low-income students with a clear message regarding the availability of grants and scholarships to cover UC tuition and fees. Awards made under the Blue and Gold Opportunity Plan supplement, if needed, UC grants awarded under EFM to ensure that eligible California resident students whose parental income is below a specified threshold ($80,000 in 2015-16) receive grant and scholarships assistance that fully covers the student's in-state mandatory systemwide fees, subject to a student's financial need.

The University's funding goal for USAP is to ensure that funds are available to meet the University's obligations under the Blue and Gold Opportunity Plan and to keep students' self-help expectation – the amount that UC expects students to contribute towards the cost of their education through work and borrowing – at manageable levels across the system.

Funding available for USAP in a given year should take into consideration factors such as projected systemwide enrollment levels; projected in-state student expenses at each campus; students' projected resources from their parents and Federal and State grant programs; State appropriations to the University for financial aid; and the availability of funds from tuition, fees, and other sources in light of other critical needs for those funds.

The University's practice in recent years has been to set aside one-third of new mandatory systemwide fee revenue for financial aid, which has provided sufficient funds to achieve the University's funding goal. This practice is evaluated annually and may be adjusted as appropriate in response to any **material** changes to the factors described above.

Source and Allocation of funds

Undergraduate USAP is funded primarily from undergraduate Tuition and Student Services Fee revenue ("return-to-aid") and a portion of the University's base State General Fund budget. Campuses have the discretion to substitute or to augment this funding with alternative fund sources (e.g., private gifts).

Campus allocations of USAP are based upon the estimated USAP funding needed at each campus to (a) meet the University's commitment under the Blue and Gold Opportunity Plan and (b) provide sufficient funding to enable campuses to offer financial aid packages that reflect a similar baseline level of student self-help from work and borrowing across the system. Allocations reflect:

1) A common percentage of undergraduate Tuition and Student Services Fee revenue set aside at each campus to fund undergraduate USAP;

2) Allocations of the State General Fund portion of USAP across campuses based upon each campus's remaining need for USAP;

3) Reallocation of any Tuition revenue generated at a campus under #1 above that exceeds the campus's estimated USAP need, to be distributed to other campuses according to those campuses' estimated remaining USAP need; and

4) For planning purposes the annual increase in undergraduate USAP funding is equal to 33% of the revenue increase associated with student growth and any fee increase.

Graduate Student Financial Aid

At the graduate level, the Regents' financial aid policy calls upon the University to attract a diverse pool of highly qualified students by providing a competitive level of support relative to the cost of other institutions. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the state meet its academic and professional workforce needs.

Graduate students receive support in a wide variety of forms, including merit-based fellowships, need-based grants, teaching assistantships, and research assistantships, and from a wide variety of sources. Graduate USAP funding is used in conjunction with other sources of institutional and extramural funds to provide these diverse types of support, which will vary based upon factors such as a student's field of study and degree objective.

Graduate Financial Aid Funding Levels

Each year, campuses are expected to set aside a minimum percentage of Tuition and Student Services Fee revenue for graduate student support.

1) The percentage is higher for graduate academic students than it is for students in professional degree programs; consistent with the higher funding levels needed to support graduate academic students – particularly those in doctoral programs.

2) The percentage is determined by augmenting the prior year systemwide graduate USAP budgets for graduate academic and professional degree students by a percentage of any new mandatory systemwide fee revenue attributable to those students. The additional funding is intended to help offset the impact of enrollment growth and increases in mandatory systemwide charges on a campus's ability to

provide competitive offers of student financial support.

3) These new USAP budgets are then used to calculate updated *average* return-to-aid percentages for graduate academic and professional degree students for the following year. These updated average return-to-aid rates serve as the minimum percentage of Tuition and Student Services Fee revenue to be used for graduate student support.

Source and Allocation of Funds

Graduate USAP funds are derived from a portion of mandatory systemwide charges paid by graduate students, as described above.

Graduate USAP funds are not allocated across campuses. Rather, each campus is expected to use a specified minimum percentage of Tuition and Student Services Fee revenue attributable to its graduate academic and professional degree students for graduate student financial support. For planning purposes the annual increase is assumed to be 50% of the revenue increase associated with graduate student growth and changes in fee levels.

Professional Degree Supplemental Tuition (PDST)

Financial aid for students enrolled in programs that assess Professional Degree Supplemental Tuition (PDST) is intended (1) to ensure that the higher costs of these programs are not an insurmountable barrier to access for students, and (2) to minimize financial barriers to the pursuit of careers in public service.

Each professional degree program develops its own complement of financial aid awards, which may include elements such as need-based grants, merit-based fellowships, and/or loan repayment assistance for graduates of the program.

Source of Funds and Allocation

Pursuant to *Regents Policy 3103: Policy on Professional Degree Supplemental Tuition,* programs are expected to supplement their programs each year by an amount equivalent to at least 33 percent of new PDST revenue, or by an amount necessary to ensure that financial aid resources are equivalent to at least 33 percent of all PDST revenue for the program.

Programs are expected to supplement funding by an amount equivalent to a specified percentage of PDST revenue; programs may use PDST revenue or other available sources of funds (e.g., private gifts) to meet that funding expectation. Financial aid funds attributable to PDST revenue are not allocated across campuses. Rather, each program is expected to meet its own minimum funding requirement as described above.

Appendix 1

Common Campus Budget and Financial Terms

On a daily basis many terms are used during the discussion of financial transactions. The list below is intended to define those terms, in hopefully clear and concise language. For those interested in more detailed descriptions, a number of the terms also have a link to other available resources. It is anticipated that additional terms and definitions will be added on a regular basis.

Account - Account numbers are used to identify how funds are budgeted and expended and how income is collected. Account numbers are 6 digits long. The first two digits indicate the account function or major expenditure category.

Appropriation - An amount allocated for expenditure for a department, unit or activity to identify a limit on the amount that can be spent. An appropriation can include "permanently" budgeted funds, carry-forward funding, and/or one-time allocations.

Budgeted Funds - Typically refers to permanently budgeted activities and does not include temporary or one-time allocations or such things as extramural contracts or grant activity and current year gifts.

Campus Based Fees – These are fees initiated and approved by students for a specific purpose via a student referendum, and later approved by The Regents. The fees are mandatory as a condition of enrollment and cover a variety of student-related expenses. The revenues must be used consistent with the terms and language of the referendum.

Capital Project – A project involving the purchase, capital lease, or ground lease of real property; a construction project; or a capital equipment purchase. These include both minor ($35,000 to $750,000) and major capital improvements (greater than $750,000).

Chart of Accounts – A numbering scheme to assist in identifying how funds are received and how funds are used. It enables the University to report information to a variety of external and internal sources. This includes information on campus location, account, fund, subaccount, and object code and is often referred to as LAFSO.

Core Funds - Comprised of State General Funds, UC General Funds, mandatory student fees, and overhead funds, these funds provide permanent support for the core mission activities of the University: instruction, research, and public service, as well as the administrative and support services needed to carry out these activities.

Course Material Fees - These fees cover costs specific to an academic course, such as materials to be used in a studio arts class or travel costs for an archeological dig. 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, course material fees, lab use fees, etc.) The fees are set by the Chancellor but may not exceed the actual cost per student of the materials and services provided for the course in question. The revenue from these fees is used to support the service provided.

Debt – An amount owed for funds borrowed. Debt allows institutions to plan and execute major capital programs by providing a financing mechanism that spreads cash flow obligations over longer periods of time.

Debt Capacity - A measure of the amount of debt that can incur at a particular credit rating level; it serves as a measure of the capital markets' assessment of an institution's financial strength. The credit ratings of the University's bonds are relevant in that they directly impact the cost of funding: the higher the credit rating, the lower the cost of borrowing (i.e., the yield the University has to pay investors of its bonds) and vice versa.

Direct Costs – Refers to expenditures that can be directly charged to a specific contract, grant, or program.

Encumbrance - A firm commitment or obligation placed against funds of a department, in the form of purchase orders or agreements, to cover a later expenditure required when goods are delivered or services rendered. Encumbrances (or liens) are used to reflect those commitments in the accounting system and attempt to prevent overspending.

Expenditures - Refers to actual expenditures (spending) of all funds budgeted and non-budgeted.

Fiscal Year - For the University of California the fiscal year begins July 1 and ends the following June 30.

Full Accounting Unit (FAU) - Identifies the location, account, fund, sub-account, and object code of a specific transaction.

Functions - The University classifies its activities and appropriate funds according to major functions. The first two digits of the six-digit expenditure Account Code identify these functions. *See Appendix #2 for descriptions of individual functions.*

Funds - A fund is established to carry on specific activities or attain certain objectives in the operation of an institution, either at the discretion of the governing board or according to regulations, restrictions, or limitations imposed by sources outside the institution. Thus, the characteristics that distinguishes one fund from another is what it can be used for and its source.

Garamendi - California Government Code, Section 15820.21, also known as the "Garamendi" Bond Act, was signed into law by the Governor on July 10, 1990. This act allows financing for the acquisition of land, buildings, related infrastructure and equipment, and the construction, renovation, and equipping of scientific research facilities and related infrastructure on sites owned or leased for the University of California. The financing and all building maintenance (OMP) are to be funded from the increase in Federal indirect cost recovery due to the new research resulting from the project.

General Ledger -The Campus General Ledger is the official financial record for the campus, and from it all official campus accounting reports are created. It includes information on expenditures, appropriations, and liens.

Income - Revenue generated from sales to non-university (department) clientele. For example, a science department at UCSB has a laboratory that a local research company uses, thus generating income for the department. The largest generators of income are the University Center, student housing program, and parking services.

Indirect Costs - Costs that cannot be readily identified with or related to a specific enterprise. These costs are related to the services generally provided without charge by central campus units. This includes building and equipment use, maintenance and operation of plant, departmental administration, general administration, student services and library.

Lien - see Encumbrance.

Mandatory Student Fees – Fees approved by The Regents and charged to all UC students. See Student Services Fee and Tuition for more specifics. Non-resident tuition is also a mandatory fee for a subset of UC students.

Merit Increase – Salary increases for career employees on the basis of individual performance and improvement in performance.

Minor Capital Improvement Project - Capital improvements costing over $35,000 and not more than $750,000 from all sources. This threshold is set by the State and may be adjusted from time to time by UCOP after consultation with the State. The University historically has kept its definition of minor capital improvement projects in line with that of the State.

Major Capital Improvement Project - Major capital improvement projects are capital improvements costing over $750,000 from all sources. This threshold is set by the State and is adjusted from time to time. The University historically has kept its definition of major capital improvement projects in line with that of the State.

Nonresident Tuition – A mandatory fee charged to undergraduate and graduate students who are not residents of California with the fee level set by The Regents. Nonresident students pay this fee in addition to other mandatory student fees.

Non-State Funded Administrative Support (NSFAS) – Assessment (tax) of non-state-funded units for their fair share portions of campus infrastructure and "overhead" costs. Units assessed include: Extended Learning Services, Housing, Parking, etc.

Object Code – four-digit code used for the natural classification of expenditures by object, i.e., it "identifies that which is received in return for the expenditures." Used to accumulate expenditures for the annual financial report and for special studies of expenditures. Every financial entry to expenditure accounts must have an object code. Departments should avoid classifying costs as "miscellaneous expenses" and using object code 7200.

One-Time – Refers to the allocation of funds for a temporary or one-time expense.

Ongoing Requests - A request for an augmentation to the annual base budget of a given department for a specific ongoing expense. If approved, the expense will become a permanently budgeted item.

Open Provision - Refers to a budgeted unfilled position.

Operating Budget - The amount of funds allocated to a department, unit or area. These funds may either be permanently or temporarily budgeted. See Appropriation.

Overhead – An assessment on the direct costs incurred on contracts and grants to reimburse the University for related costs of: General Administration, and facility operations. Also known as "IDC," for indirect costs.

Permanent - Permanent funds are budgeted funds; they appear automatically as part of a department's allocation at the beginning of the fiscal year.

Provision Account - Holding account used until final allocation decisions are made. After decisions are made funds are allocated from a provision account into an expenditure account.

Range Adjustment – University salary ranges are periodically adjusted to reflect comparable pay for similar work and to maintain parity with comparable institutions. Funding for salary range adjustments is normally provided by the State of California for General Fund employees; non-General Funded activities are required to cover increases from within their fund sources.

Recharge - The assessment and collection by one campus account of a charge for goods and/or services, based on an identifiable unit of measure, furnished to another campus account. This includes facilities management, transportation, communications, etc.

Reclassification – Refers to an adjustment of the salary range for a position or related positions when there have been significant changes in the duties and responsibilities of such positions. Funding of reclassifications is the responsibility of the individual's department.

Student Services Fee (SSF) – This is a systemwide mandatory fee, and the fee level is set by The

Regents. The Student Services Fee is used to support a variety of student service activities such as counseling and career guidance, cultural and social activities, and student health services. The Student Fee Advisory Committee (comprised of students, faculty, and staff) provides advice to the VC Student Affairs and the Chancellor on the allocation of these funds.

Self-Supporting – Operations that are dependent upon user fees and the demand for those services.

Student Fees – Revenue from student fees is a major source of funding for the University's core educational program, providing funding to supplement State funding and other sources and help support basic operations. Students at the University of California pay mandatory, campus based, and course material fees. Each of these fees have different purposes and approval processes.

Student Financial Aid - Funding provided to students in the form of scholarship, fellowships, grants, loans, and work-study jobs to assist in meeting the cost of their education. Financial aid comes from the federal government, the state, the university and private agencies.

Sub-account - The expenditure accounts of Current Funds and Plant Funds are broken down on the ledger by sub account (or sub-budget), which represents the general object of the expenditures within a specific account such as salaries, benefits, and supplies. The sub account classification permits closer budgetary control and facilitates the preparation of budgetary and financial reports.

Temporary – Refers to an allocation of funds on a one-time basis or an expense that occurs in a single fiscal year (i.e. not permanent or ongoing).

Transfer of Expense – Allows for the transfer of non-payroll expenditures recorded in the general ledger. The expense must be a legitimate charge against the fund and sub to which the expense is transferred.

Transfer of Funds - Transfer of an appropriation from one account or sub-account to another.

Turnover Savings – Turnover savings result when a position becomes vacant. It represents the difference between the last salary paid to an employee and the new open provision budgeted amount. Open provisions for staff employees are budgeted at 25% into the range of the position.

Tuition (formerly Educational Fee) – This is a system wide mandatory fee. First established in 1970 and charged to all registered students, provides general support for the University's operating budget, including costs related to general campus and health sciences faculty and instructional support; libraries and other academic support; student services; institutional support; and operation and maintenance of plant. Tuition revenue is also used to provide student financial aid.

Appendix 2

Function Descriptions

The University classifies its activities and appropriate funds according to major functions. The first two digits of the six-digit expenditure Account Code identify these functions and corresponds to the first two digits of the UAS code. Function Codes are shown below:

40 Instruction & Research

The general campus instruction and research (I & R) budget includes most of the direct instructional resources associated with the schools and colleges located on the UC general campuses. The major items in this budget are faculty and teaching assistants, instructional support, and employee benefits.

41 Summer Sessions

University of California Summer Sessions are self-supporting programs offering courses both for degree credit and for selected specialized programs. The summer degree programs offer a range of instruction, with each campus determining its own course offerings.

43 Academic Support - Other

Included in the category Academic Support - Other are various support activities that are operated and administered in conjunction with schools and departments. These partially self-supporting activities provide basic clinical and other support essential to instructional programs, and contribute significantly to the quality and effectiveness of health sciences and general campus curricula. State support is an essential part of the income of the clinical activities. Examples of such activities at UCSB include Physics Stores, Vivarium, and Chemistry Stores.

44 Research

The University is designated in the 1960 California Master Plan for Higher Education as "the primary State-supported academic agency for research." As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students strive to expand fundamental knowledge of human nature, society, and the natural world.

60 Libraries

The University of California libraries are a vital academic resource. They provide books, documentary materials, and information required by students and faculty for effective study and research. In addition, the libraries provide services to students and faculty of other California colleges and universities and to citizens in the surrounding communities.

61 University Extension

University Extension is a self-supporting operation and its offerings are dependent upon user demand and ability to pay fees. Extension programs are offered by every campus except San Francisco. There are several statewide programs, including Continuing Education of the Bar, the Extension Media Center, and Independent Study, which provides correspondence courses throughout the world. Two-thirds of the Extension's offerings are designed to serve the continuing educational needs of professionals.

62 Public Service

Public service includes a broad range of activities organized by the University to serve local communities, students and teachers in the schools and community colleges, and the public in general. Cooperative Extension is the University's largest public service program. Campus public service, which is almost completely supported by user fees and other non-State funds sources, includes such activities as arts and lecture programs and community service projects. The UCSB Arts and Lectures Program is an example of an activity identified within this function.

64 Operation & Maintenance of Plant

This program provides for the operation and maintenance of 37.5 million gross square feet of State-supported buildings and more than 2,200 acres of improved grounds at UC campuses and the agricultural field stations. Program resources are dedicated to the maintenance of reasonable standards of repair, safety, productivity, utilities service, cleanliness, and appearance for University facilities with a current replacement value in excess of $5.1 billion.

68 Student Services

Student services programs and activities contribute to students' intellectual, cultural, and social development outside of the formal instructional process. Examples of student services include counseling and career guidance, student health services, social and cultural activities, admission and registrar operations, and financial aid and loan collection administration.

66 General Administration & 72 Institutional Support

Institutional Support includes campus and systemwide management and consists of five subprogram areas: Executive Management, Fiscal Operations, General Administrative Services, Logistical Services, and Community Relations. Each of the subprogram areas contains a number of activities, such as the offices of the Chancellors, Vice Chancellor, and planning and budget within Executive Management; accounting, audits, and contract and grant administration within Fiscal Operations; computer centers, information systems, and personnel within General Administrative Services; purchasing, mail distribution, and police within Logistical Services; and development and publications within Community Relations.

76 Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specific charges. Auxiliary enterprises generate sufficient revenues to cover all direct and indirect operating costs. Included within auxiliary enterprises are residence and dining halls, parking operations, and bookstores. No State funds are provided for auxiliary enterprises.

The annual budget is based upon income projections. Any budget increases are matched by corresponding increases in revenue.

78 Student Financial Aid

Students at the University of California receive scholarships, fellowships, grants, loans, and work-study jobs to assist them in meeting the cost of their education. Financial assistance comes from the Federal government, the University, the State, and private and outside agencies.

80 Provisions for Allocation

Provisions for allocation serve as a temporary repository for certain funds until final allocation decisions are made. Each year, funds received for salary range adjustment and merit increases, employee benefit increases, and price increases are held in provision accounts, either at the Office of the President or on the campuses, pending decisions regarding their allocation. Salary range adjustment funds, as an example, are held until the appropriate salary increases have been negotiated or determined for the various classes of employees. After decisions are made, funds are allocated, first, from an Office of the President provision account to campus provision campus accounts, and then to departments where the salaries of the positions to be range-adjusted are budgeted.

Appendix 3

Fund Information

Endowments - Funds derived from gifts and bequests that stipulate that the principal must remain intact and that only the income generated through investment may be expended. Endowment funds are further classified according to restrictions on the use of income, such as for student aid, libraries, or for specific departments.

Indirect Cost Recovery or Overhead – References funds (see below) associated with the charging of overhead primarily against contract and grants. These funds reimburse the campus for costs of facilities and administration associated with a research activity, but that cannot be identified as solely benefiting a particular contract or grant. This includes building and equipment use, maintenance and operation of plant, departmental administration, general administration, student services and library. This fund grouping includes:

1) *Garamendi* - California Government Code, Section 15820.21, also known as the “Garamendi” Bond Act, was signed into law by the Governor on July 10, 1990. This act allows financing for the acquisition of land, buildings, related infrastructure and equipment, and the construction, renovation, and equipping of scientific research facilities and related infrastructure on sites owned or leased for the University of California. The financing and all building maintenance (OMP) are to be funded from the increase in Federal indirect cost recovery due to the new research resulting from the project.

2) *Contract & Grant Overhead (Fund # 69750)* - Contract and Grant Overhead Funds are derived from the indirect costs charged to Federal contracts and grants. The first 19.9% of each campuses' indirect cost recovery is allocated to this program. These funds are typically distributed to departments and administrative units whose resources are used in obtaining and administering extramural funds. UCSB offices that have permanent allocations of these funds include Accounting, Organized Research, Environmental Health and Safety, Animal Resource Center, Purchasing, Internal Audit, Business and Financial Services, and Human Resources.

3) *Opportunity Funds (Fund # 07427)* - The University Opportunity Fund was established in March 1970 by the Regents. The fund consists of the University’s share (45%) of the indirect cost recovery receipts of Federal contracts and grants after deducting allocations for Contracts and Grants Administration and the Neuro-Psychiatric Institutes. The fund is used to support high priority programs for which State funding is not available, including instruction, research, institutional support, and deferred maintenance.

General Funds – The combination of State Funds and UC General Funds are commonly referred to as General Funds and used to support the general mission of the University.

1) *State Funds* – Part of General Funds, these are funds provided by the State and spent within the overall constraints of the approved State budget.

2) *UC General Funds* – In addition to State General Fund support, certain other fund sources are unrestricted and expected to provide general support for the University's core mission activities, based on long standing agreements with the State. Collectively referred to as UC General Funds these include a portion of indirect cost recovery on federal and State contracts and grants, nonresident supplemental tuition, fees for application for admission, and interest on General Fund balances.

Student Fees - The major source of funding for the University's core educational program, providing funding to supplement State funding and other sources and help support basic operations both academic and student support services. Students at the University of California pay mandatory, campus based, and course material fees. Each of these fees have different purposes and approval processes. In addition, University Extension and Summer Sessions charge fees to support their programs. This fund grouping includes:

1) *Tuition (formerly Educational Fee)* – This is a system wide mandatory fee. First established in 1970 and charged to all registered students, provides general support for the University's operating budget, including costs related to general campus and health sciences faculty and instructional support; libraries and other academic support; student services; institutional support; and operation and maintenance of plant. Tuition revenue is also used to provide student financial aid.

2) *Student Services Fee (SSF)* – This is a systemwide mandatory fee, and the fee level is set by The Regents. The Student Services Fee is used to support a variety of student service activities such as counseling and career guidance, cultural and social activities, and student health services.

3) *Nonresident Tuition* – A mandatory fee charged to undergraduate and graduate students who are not residents of California with the fee level set by The Regents. Nonresident students pay this fee in addition to other mandatory student fees.

4) *Campus Based Fees* – These are fees initiated and approved by students for a specific purpose via a student referendum, and later approved by The Regents. The fees are mandatory as a condition of enrollment and cover a variety of student-related expenses. The revenues must be used consistent with the terms of the referendum.

Income - Revenue generated from sales to non-university clientele. For example, a science department at UCSB has a laboratory that a local research company uses, thus generating income for the department. Auxiliary Enterprises (Student Housing, University Center, Parking, etc.) tend to be the largest generators of income on the campus. The revenue typically goes to support the operations and capital needs, including debt, of these programs.

Recharge - The assessment and collection by one campus account of a charge for goods and/or services, based on an identifiable unit of measure, furnished to another campus account. This includes facilities management, transportation, communications, etc. It is very common for a recharge account to also have an income component.

Appendix 4

<u>Sub-Account Descriptions</u>

The expenditure accounts of Current Funds are broken down on the ledger by sub- account (or sub-budget), which represents the general object of the expenditures within a specific account. The sub account classification permits closer budgetary control and facilitates the preparation of budgetary and financial reports.

The sub account classifications of Current Funds are:
Sub 0 - Academic Salaries
Sub 1 - Staff (Non-Academic) Salaries
Sub 2 - General Assistance
Sub 3 - Supplies and Expense
Sub 4 - Equipment and Facilities
Sub 5 - Special Items - in the Contract and Grant area, Sub 5 usually identifies Travel
Sub 6 - Employee Benefits, except in Function 78-Student Aid, where it identifies Tuition and Fees.
Sub 7 - Special Items
Sub 8 - Unallocated Funds
Sub 9 - Recharges to Other Departments
Sub Y - Overhead

Appendix 5

SALARY & BENEFIT RELATED TERMS

Benefits – As part of the total compensation package for faculty and staff, the University offers retirement, health and welfare benefits. The costs of these benefits are funded by the University and/or in conjunction with employee contributions. Included among these benefits are:

1) *Pension* – Contributions are paid by both the employer and the employee,

2) *Health and Welfare Benefits* – Paid by both the employer and employee. Rates are driven by negotiations with UC's health plan providers.

Contractual Wage Adjustments – These increases are established through collective bargaining agreements.

Equity Adjustments – These help bring individual salaries to a competitive market level for individual employees in jobs with significant external market gaps and/or internal equity issues, or address recruitment and retention challenges. These adjustments are not funded centrally and when implemented, are the funding responsibility of individual departments.

Merits – These increases for faculty and unrepresented staff provide a mechanism to recognize and reward relative levels of performance. Increases are granted to employees on the basis of individual performance and improvement in performance. Merit increases are never automatic and are based on demonstrated contributions.

Range Adjustments - University salary ranges are adjusted to reflect comparable pay for similar work in government and private industry or, as in the case for academic salaries, to maintain parity with comparable institutions. Funding for salary range adjustments is normally provided by the State of California for General Fund employees; non-General Funded activities are required to cover increases from within their fund sources.

Union-related wage increases represent changes to union-related wage scales and are generally related to industry-wide wage rates for these classes. Union-related wage increases for General Fund activities are financed from range funds when there is a general salary range adjustment for State employees. If there is no general salary range adjustment, the cost of negotiated wage rate increases if approved must be absorbed within the approved budgets.

Reclasses - Refers to an adjustment of the salary range for a position or related positions when there have been significant changes in the duties and responsibilities of such positions. Current policy provides that reclassifications may be granted at any point in the fiscal year when the duties and responsibilities of a particular position shall have been determined to meet established requirements and specifications of a classification in a higher or lower salary range.

Unlike merit increases for which the State provides specific funding, funds for reclassifications are wholly generated within the University. While the State recognizes the costs of position reclassifications, it does not allocate funds specifically for reclassifications in the annual budget process. Reclassifications of General Fund positions are primarily funded from staff salary turnover savings that are generated annually on July 1. These July 1 savings comprise merit funds awarded in prior years, which are released through reduction of vacated staff positions to minimum step and, to a lesser extent, from downward reclassifications.

Turnover Savings - Difference between the last salary paid employee and the new open provision amount on provisions funded from budgeted funds. Turnover savings result when a replacement is hired at a lower salary level than the previous incumbent. Beginning in FY 2014-15 staff turnover savings, both current year and ongoing, is retained at the department and does not need to be returned to a central campus provision account. These savings can be used to support other departmental needs.