

May 8, 2013

RALPH HEXTER

Provost and Executive Vice Chancellor
Office of the Provost

RE: Davis Division Response to the Working Paper – Carry Forward Balances

The document was provided to all Davis Division of the Academic Senate standing committees and Faculty Executive Committees within the schools and colleges for comment. Detailed responses were received from Graduate Council, Committees on Planning and Budget and Research, as well as the School of Education, School of Veterinary Medicine, College of Biological Sciences, and College of Letters and Sciences Faculty Executive Committees.

The responses we received are very critical without exception. The Committee on Planning and Budget agrees that the carry forward balances deserve to be analyzed and there is no objection against developing policies regarding the treatment of carry forward balances in the annual budget process. I would go further and say that it is increasingly clear that we need to create or update our policies regarding carry forward balances. The campus would be well served by a transparent system that allows us to report, when asked, the intended uses of any given fund. None of the committees responding, however, found the proposed policies acceptable and ample specific criticism was provided in the many comments received. Some of those comments assume an interpretation of the working paper that may be quite different from its intent. In some cases, the responses themselves indicate that the paper is vague or ambiguous. I have enclosed a complete set of responses to inform the next version of the paper.

I realize that by now you must have received feedback from many corners of the campus and that your office is already working on a revised policy proposal. The comments I have attached will likely repeat many objections you have heard before. Similarly, I do not imagine that the four points below are new, but I provide them as a succinct statement of the Academic Senate's response:

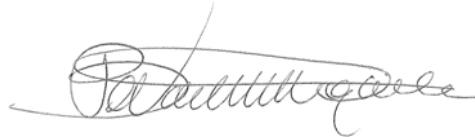
1. Financial uncertainties increase the desire to create back-stop funds that carry forward from year to year. A good policy, therefore, will include transparent mechanisms to create financial security for activities that warrant it.
2. The seemingly arbitrary determination that the safe window for the size of carry-forwards should be 10-15%, in my view, discredits all the good work your office has done to prepare for the working paper. Upon reflection, one immediately realizes that the average of reasonable estimates of the size of a prudent reserve

for different circumstances, as a percentage of annual expenditures, is nothing more than a meaningless number.

3. A good policy should encourage sound decision making at all levels. It should, therefore, clearly explain the rationale behind it. It should motivate people to act responsibly within the realm of their authority and, ideally, provide a clear incentive to do so. Penalties may not then be needed at all or only as a last resort.
4. Finally, linking the proposal of new policies regarding carry forwards with the announcement of the mid-year budget cut should be regarded as a serious blunder. For many people the implication that enforcement of the new carry forward policy would occur through annual taxation of excess balances was 'obvious', or at least 'pretty clear.' I suggested before that you align a new, effective, carry-forward policy with the principles of an incentive-based budget process and that a simple incentive could be created by offering to return the funds taken in the mid-year budget cut to units found in compliance with such a policy, say, two years from now. That would make a statement! Please consider it.

In conclusion, the Davis Division understands the need to adopt a rational approach to carry forward funds by policy but does not support adopting the policy proposed in the working paper.

Sincerely,



Bruno Nachtergaele, Chair
Davis Division of the Academic Senate
Professor: Mathematics



Davis Division Academic Senate

Request for Consultation Responses

Working Paper - Carry Forward Balances

April 19, 2013

The Provost's 2012-13 annual budget meetings included discussion of the rationale and planned uses for the carry forward funds within the schools, colleges, divisions, academic support and administrative units. In response, the Provost's Office has generated a new whitepaper discussing the need for a carry forward balances policy.

Council of School & College Faculty Chairs (BIOLOGICAL SCIENCES)

April 18, 2013 5:02 PM

The faculty of the College of Biological Sciences have serious concerns regarding the policy to move toward limitation of untaxed carry-forward balances to 10 – 15%. Such limitations impact planning for future activities and thus are short-sighted. It is important to be able to accumulate ICR for college and department portions of the ever-growing startup funds necessary for new hires, and also for major equipment purchases. Indirect cost returns also serve important functions as the base of financial commitments to multi-year funding for graduate students and post-docs, and may need to be carried for multiple years. Unrestricted gifts should remain unrestricted to be utilized based on the judgment of the unit to which they are provided.

Council of School & College Faculty Chairs (EDUCATION)

April 19, 2013 4:30 PM

SOE response is attached as pdf.

Response continued on next page.

Council of School & College Faculty Chairs.

School of Education April 19, 2013.

Consultation from the Faculty Executive Committee, School of Education

Re: Report on Carry Forward Balances.

(Consultation on April 12, 2013, at FEC Meeting; on April 15th, at scheduled Meeting of the Faculty).

The report raised multiple concerns about the impact of such a radical change on established policy, especially since this will impact the SOE, its faculty and programs in substantive ways.

First, we note that in implementing this policy this year, the SOE had to adjust for a substantive cut mid-year at a higher % rate than most other units. This approach penalizes conservative management of funds and potentially gives an incentive to spend funds unwisely to avert such cuts in the future. It is not prudent to mandate cuts set at an arbitrary cut-off of 10 to 15%, without allowing for encumbrances that may be more relevant to some units but not others - state accreditation of teacher education programs, for example.

Second, we feel that our context is unique as a unit with special responsibilities to our land grant mission in serving the diverse population of the schools of California. Through CRESS especially but also through many individual faculty grants, and informal arrangements in teacher education, the SOE has developed partnerships with school districts for professional development and program evaluation. Some of these involve co-sponsorships through national grants. Often these arrangements can shift because of budget changes at the local or state level. Nonetheless, commitments to graduate students, to local agencies and to external funders require that projects go forward and carry forward funds function as a reasonable source of reserve. Moreover, many of these partnerships foster the development of faculty scholarship.

Third, unrestricted funds provided by donors usually have an implied understanding that these will be expended to further the mission of the SOE. We fear that donors may be more hesitant to give such support in the future, if this policy were to be implemented.

Fourth, some carry forward funds in individual faculty accounts have been accrued through assuming extra service or teaching duties to cover professional costs such as attendance at conferences.

Finally, we understand the need for reviewing carry-forward policy, but find that this proposal needs to offer greater latitude to units to respond as appropriate to their needs for prudent systems of reserves.

Council of School & College Faculty Chairs (LS: HACCS)

March 11, 2013 5:49 PM

College of Letters and Science

Faculty Executive Committee

Consultation Report on Carry-forward balances: long-term strategy

The L&S Faculty Executive Committee (FEC) has some concerns about the proposed long-term strategy on carry-forward balances.

First, we are concerned about the abrupt and unprepared change of culture that the new policy represents for many units on campus—both those who have been particularly parsimonious with resources and those who have engaged in deficit spending.

Second, we are concerned about the necessity for allowing encumbrances for future hires, particularly in fields where start-up costs are considerable. According to the proposal, encumbrances for faculty start-ups will only be allowed for approved recruitments. However, many fields require start-ups that exceed the new 10-15% of annual budget being imposed. In short, this new policy will not allow for “saving up” for a start-up for a future hire. We would propose allowing encumbrances beyond the approved recruitments. Alternatively, a central pool for start-ups could be supplied to address this need.

Third, we note the huge variation in departments and units across the campus in terms of resource needs. Many, many units will have specific encumbrances beyond the 10-15% that should be allowed, with proper contextualization and justification.

Fourth, we want to be certain that extra-mural funds (that are restricted) are not added to a unit’s budget. Sponsors of grants determine the possibilities for carry-forward. We would not want to see a unit penalized for carry-forward in restricted funds.

Finally, while we see the need for reviewing carry-forward—both in order to prevent situations of insufficient funds and to redirect funds that are accumulating in various accounts—we recommend that the 10-15% of annual budget figure be reviewed periodically for appropriateness to the university context.

Council of School & College Faculty Chairs (VETERINARY MEDICINE)

April 19, 2013 4:20 PM

Response continued on next 2 pages.

April 18, 2013

School of Veterinary Medicine

Consultation Report on Carryforward Balances – Long Term Strategy

The following feedback and comments are being submitted on behalf of the faculty of the School of Veterinary Medicine. The faculty of the School of Veterinary Medicine wishes to express their concern and strong opposition to the new carry-forward policy.

The working paper entitled, “Carryforward Balances – Long Term Strategy” was distributed to all department chairs, who then disseminated it to their faculty for review and comment.

As pointed out in one of the comments in the appendix, carryforward funds are used for many purposes, but have one thing in common, the maintenance of vigorous and superior teaching, research and service programs. The faculty strongly concluded that any limitations imposed on university carryforward funds will be a strong disincentive for continuing or augmenting faculty productivity and the quality of teaching, research and service.

Below is a short summary of the most common concerns and anticipated consequences regarding institutional limitations on self-generated, carryforward funds:

With funding from most federal, state and private agencies uncertain, carryforward funds are the only means remaining to bridge research programs to ensure continued productivity and retention of skill professional and technical staff. These concerns are currently compounded by the uncertainties of sequestration and how it will impact budgets.

There are no alternatives other than indirect cost return, strict full time and unrestricted gifts to maintain excellent teaching and research programs as UCD bridging funds are virtually nonexistent.

There are no longer university funds available for updating obsolete equipment so most faculty rely on carryforward funds to make these improvements. This is critical to maintaining our faculty’s competitiveness, especially in the face of declining federal budgets for new equipment and diminishing matching funds at UCD.

Graduate education, professional and undergraduate summer research stipends are often supported by carryforward funds and will be reduced or eliminated under this new policy.

This proposal paradoxically and directly opposes the new budget model for the campus and the School of Veterinary Medicine which is based on the entrepreneurial, self-supporting approach this campus and administration is trying to encourage.

Please find attached the specific comments and opinions from various department chairs and individuals generated by the call for feedback on this proposal.

In summary, we respectfully argue that this proposal is unacceptable and it will have significant, deleterious consequences on the university’s and School of Veterinary Medicine’s teaching, research and service missions.

Thank you for the opportunity to comment.

Respectfully submitted on behalf of the faculty of the School of Veterinary Medicine,

Andrea J. Fascetti
Chair of the Faculty

It is scarcely obvious what the problem is that is in search of a solution. Units (e.g., departments) operate their accounts with complete transparency, so surely there can be no implication of wrongdoing along the lines of what happened with the California Department of Parks and Recreation. The ability to carry forward deliberately unexpended funds represents a prescient and judicious attempt to hope for the best, but plan for the worst. We have weathered difficult economic times before at the University of California; our recent budgetary problems harken back to the early 1990s when faculty salaries were cut for several years. Now that the state is back to fiscal solvency – at least for the time being – we are potentially being deprived of a preventive strategy that helped us weather the latest storm. Surely, there will be others, and failure to allow us to plan for such an inevitable future of economic cyclicality will create far worse hardship next time.

Carryover funds are used for many purposes, but all have one thing in common: the sustenance of a vigorous and superior educational and research environment. Depriving units of their ability to do this imperils us from seizing opportunities when they arise. Such funds are used for bridging funding shortfalls between grants; they are used for equipment replacement when failures unpredictably occur; they are used for graduate student support when a superior candidate emerges; they allow departments to maintain dedicated staff in the event of a short-term budget shortfall; and they are needed when emergencies arise and departments are called up on to solve immediate problems. All such uses enhance productivity and the ability to fulfill our teaching, research, and service missions. A carryover allowance of one to two months is simply inadequate to allow units to do such responsible planning. Indeed, it could be easily argued that such a misguided policy will lead to unwise and unnecessary spending prior to fiscal year close. Were this to occur, it is all but inevitable that such imprudence with state funds would come to the attention of the press and the legislature. This would in turn lead to political pressure to further reduce state support.

I would therefore respectfully argue that these changes are a bad idea. However well intentioned, they could paradoxically have the opposite effect of encouraging irresponsible use of local funds through profligate end-of-year spending and inhibiting conservative fiscal planning to maintain research programs and graduate student support. If there are funds being misused, then the university would certainly be within its right and responsibility to immediately correct this. But creating a solution to a problem that does not exist through a misguided top-down mandate is very ill-advised.

Best wishes,
Phil



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To: Michael Lairmore
Dean, School of Veterinary Medicine
Andrea Fascetti
Faculty Chair, School of Veterinary Medicine
Patricia Conrad
Chair, Department of Pathology, Microbiology and Immunology

From: Stephen W. Barthold
Distinguished Professor of Pathology, Microbiology and Immunology
Director, Center for Comparative Medicine

Re: Working Paper, Version 1, dated February 2013
"Carryforward Balances – Long Term Strategy"
How Should UC Davis manage its carryforward balances?

During this time of financial austerity and uncertainty, I am alarmed at the content of this "working paper." Within a few short years, state funding has been reduced, graduate student (and other student) tuition has risen, and (predictably) bureaucracy is increasing, as exemplified by the very intent of this white paper. Federal research and other grant funding have become increasingly competitive, and when awarded, reduced in duration and diminished in amount. These forces have placed significant burdens upon University faculty, who must obtain and sustain financial support for their individual and collective research and training programs, including graduate students, postdoctoral fellows, and staff. Faculty have generally risen to this challenge, but there has never been a greater need to build reserve accounts to support students, staff, and programs. The new budget model for the campus and the School of Veterinary Medicine is based upon a self-supporting, entrepreneurial approach to maintain the excellence that this University strives to maintain. The life-blood of the University is NOT the administration, but rather the faculty.

The white paper outlines different approaches on page 3 of the document, including "Approach A" in which units accumulate and use carry forwards/reserves at their discretion." Considering the highly diverse and eclectic mix of Schools, Colleges, Departments, Centers, Units, and Programs, "Approach A" accurately addresses this diversity and the current climate of financial uncertainty. Altering the approach to "Approach B" may feed the coffers of the upper administration, but is highly deleterious to the survival and excellence of faculty research, teaching and service programs that are already under duress. The justification for this change is entirely based on selfish central campus needs, with blatant dismissal of the highly insecure faculty financial climate.

Aside from the overt grab for money, the white paper outlines alarming new requirements for reporting spending plans and providing justification thereof. How can campus even consider such, when our Schools, Colleges, Departments, Centers, Units and Programs have endured nearly lethal cutbacks in administrative support? Will the funds generated be returned to the units to administer these onerous requirements? I think not.

In summary, this is an unequivocally unacceptable proposal that can only do further harm to an already fragile academic infrastructure.

Unrestricted funds and donations have been critical to the Regenerative Medicine program at UC Davis SVM. This program grew out of large donations that promoted true collaborations with industry, encouraged submission of federal grants, guaranteed support of graduate students for up to 4 years and, importantly, provided time for faculty, staff and students to engage fully in this arena. These monies gave us a seat at the table with industry, CIRM and the SOM. Carryover was and is necessary to sustain long term funding of these organically grown programs.

Concern for staff and student welfare drives faculty need to know they have at least a year of additional funding prior to committing to these hires. With 15% carryover, I can guarantee that I would be unwilling to "trust" that monies will always be there from one year to the next. In times of sequestration and even more restricted NIH funds, having bridge monies is critical.

This policy would serve as a disincentive for those faculty that are thoughtful and responsible about spending. We don't have a credit card to pay staff and students.

Dori Borjesson

To retain the continuity of well-trained staff and graduate students, it often is necessary to use carry-over or no cost extension funds to bridge the period between the acquisition of new extramural funds. Loss or taxing of these funds would limit their utility for this purpose. Frequently the grantors/donors establish guidelines for using these funds and it would seem this provides sufficient oversight.

bill

William K. Reisen

A personal example from Pat Conrad:

On December 18, 2008 I received a fax informing me that an indefinite hold was placed on all grants funded by CA bonds. This was the first that I knew that the state of California can stop or withdraw funding from grants that have already been awarded to UC Davis faculty. At that time 6-8 month salary for ALL of my staff (e.g. 2 full-time SRAs who had been with me for 10-15 years and 2 part-time lab assistants) were on CA funds. We were in the midst of submitting an NSF grant and had other proposals pending that we were relying on to fund staff after this 6-8 month period. However, without having reserves of carry-over funds I would have had to lay-off ALL of my staff and essentially would shut-down my laboratory. (Central 'bridge funds' were not available and if they had been, I'm sure I wasn't the only person in this situation.) Fortunately, because I did have gift money, carry-over funds and the committed efforts of my staff and students we were able to keep the lab going until the \$2.5 million NSF grant was awarded. I'm sure my situation is not entirely unique. Taking away the opportunity for faculty to retain carry-over funds for these kinds of unexpected emergencies puts our staff and students at risk in times of financial disasters and 'down turns'. Not only is this unfair to them, it is truly a **disincentive** to faculty who are trying to maintain an active research program.

Donors who provide unrestricted gifts still intend for that money to be used for specific education and research related to faculty member's interests, not administrative costs. Faculty who accumulate indirect and other funds use them for innovative new discovery and preliminary data that would otherwise not be viable for traditional extramural support.

Socializing these funds would unfairly penalize faculty who prepare for inevitable fluctuations in extramural support. These funds often act as bridge funds to keep programs stable and allow new grant applications to be made. Without them, viable programs with good chances for renewing extramural grants are disassembled and end.

These funds enable equipment purchases that cannot be realized by other means.

These funds enable travel that otherwise is unsupported by granting agencies. This travel enhances both faculty and campus national and international profiles and develops new collaborative relationships.

The ability to accumulate these types of funds is a strong faculty incentive for developing extramural support.

Dennis W. Wilson, Professor

I strongly disagree with the proposed 15% limit on carryforward balances. There is a component of fee-for-service work to my appointment at the School of Veterinary Medicine, and a portion of the generated funds are available for research support, diagnostic investigation, and professional development. The ability to accumulate these funds independent of a given year's expenses is key to my success (though it is not clear from the document to what level this restriction would be enforced), and allows my clinical research to continue during slower periods of income generation. Faculty operating larger research labs with a variety of funding sources are at greater risk; the availability of carryforward balances has enabled researchers to weather funding lapses, maintain staff positions, and directly enabled the success of subsequent grants. The rationale in the letter does not, in my opinion, make a strong or transparent case for the change in policy as described.

Thanks for bringing this to our attention.

Chris Reilly

These days it is very difficult to get and sustain grant funding. Many of us have trained staff that work on grant funds. It is imperative to the continuity of a research program to be able to continue to pay such staff if a grant expires and is not immediately renewed or replaced by a new one. If the "emergency" funds that some of us keep for this purpose are eliminated, we will be forced to lay off staff and then the likelihood of getting more research funding will be greatly reduced. Unless there is a strong program of "bridge funding" centrally removal of uncommitted funds from faculty accounts is essentially terminating their research programs.

Laurel J. Gershwin
Professor

Unrestricted funds / gifts are invaluable for us as they assist in small pilot studies, for example. Cases I see in diagnostic can potentially lay a foundation for a study and often require additional evaluations. We no longer have any TA money to assist us in these evaluations - it is very important to have these personal gifted funds available. Pilot studies are a crucial part of a grant application. For example: many resident projects have been started with such personal funds, the results of which have allowed them to apply for grants from CCAH or CEH.

Verena Affolter

I do not support the policies suggested in the working paper regarding carryforward balances, particularly the suggestion that balances should not exceed 15% of prior year expenditures. My current funding is limited and I try to make it available for use to explore important research questions that arise directly from clinical material. By their nature, these projects are unpredictable and having flexible funding available to rapidly respond to characterization of emerging pathogens is essential to understand and protect California's animal resources. Without the availability of these funds, I would not be able to carry out these directly-applicable clinical studies. In addition, I utilize these funds to support summer research for veterinary students. Without them I would no longer be able to provide the opportunity for students to explore research careers. We have a growing national shortage of research veterinarians in academia and industry.

Barb Byrne

The inability to effectively roll unrestricted gift funds, or any "non-grant" funds without expiration would have disastrous consequences for my research program. I hold such funds for two specific reasons: i) treat them as "bridge funds" to temporarily cover staff and graduate student salaries during times of lost or expired funding and ii) to either repair or replace expensive equipment and that is central to my research; such costs can approach \$300,000. Competitive funding is becoming tougher to obtain, and thus the amount of money required to keep my lab "active" during increasingly potential periods with no funding is increasing. I could not do this under the proposed restrictions in carry over. The rainy day accounts need to increase in size, not be trimmed back every year. Graduate education (of which funding by the professor is a requirement) would be greatly compromised by such action. These restrictions would also undoubtedly lead to loss in personnel, many with unique and difficult to acquire skill sets, as individuals must either be paid on time or laid off.

Jeff Stott

A bit late on comments but today we lost a \$15,000 ultra low freezer. If no funds are available to replace items like this, then our research program is seriously impacted. So the point is our NON-STATE donor funds are saved to take care of things like this. They are important bridge funds when salary money dries up to fund technical personnel. You can't go around begging these days for help - you have to have your own "rainy day" fund.

Peter Moore

I was out of town yesterday and missed the PMI department meeting, so I am very much hoping that I have misinterpreted the proposal to essentially confiscate faculty "carry over" funds. Assuming that I am not mistaken in the intent of the proposal, I simply cannot imagine a more negative message to the faculty who have been good and productive citizens over their careers. My personal examples would be the following:

1. Funds donated by Merck to support educational activities in veterinary pathology. We have used these funds over the years to support activities of the student pathology club, mainly by bringing in speakers and by supporting research externship activities for individual students. Without these modest funds we would have minimal to no ability to stimulate exciting and creative opportunities to show case the discipline to our students, in which case I have no desire to serve as co-advisor of the club activity. Furthermore, all personal and collective (SVM) credibility with our friends in industry would be lost, which in turn would mean we could forget about future philanthropy from that quarter.
2. The Salick gift to support equine viral disease research. A portion of these funds were placed in permanent endowment. Although I have enjoyed continuous extramural support throughout my career (since 1980), the very modest annual return from this endowment along with my accumulated SFT return (I have consistently contributed to that fund) is the ONLY resource I have to support:
 - a. students/post-docs etc in times of funding shortfall
 - b. an anticipated sabbatical leave overseas in 2015
 - c. future creative activities that are not otherwise supported by dedicated grants
 - d. emergency purchases of equipment etc

Again, if my interpretation is correct, this is an incredibly negative, destructive and divisive course, one that will engender the utmost bitterness in the School's most loyal and altruistic faculty.

I truly hope that I am mistaken by the intent of this proposal.

Cheers, Jim Maclachlan

I've read through the carry forward balances document and find the campus proposal to switch from Approach A to Approach B to be very regressive. The new approach does not acknowledge spending decisions by units that might reduce costs and increase efficiencies leaving more disposable funds for the unit to use as it deems most appropriate. Although there is a clause to the effect that clearly defined "pre-encumbrances" would be excluded from the 15% carry forward limits, the proposed approach takes away funds that can be used by an adroit unit administrator to exploit an opportunity that may arise on short notice or to address an unexpected major expense efficiently. Thanks, ER Wisner

I have consulted with VMB faculty, through faculty meetings and private discussions, their view on the ramifications of limiting the amount of carry forward funds generated by individual investigators generated, including ICR, unrestricted gift grants, and strict-full time (SFT) returns. In response to the School Executive Committee's request for feedback about the Academic Senate's white paper on limiting carry forward funds, I am submitting this summary for your consideration.

The faculty unanimously concluded that any limitations imposed on investigator carry forward funds would be a strong disincentive for continuing or augmenting faculty productivity in gaining grants. Furthermore it was noted that limitations of carry forward funds through taxation or other means would have an overall significant negative impact on the quality and quantity of research they perform. Any limitations were generally viewed as counter productive to, and at odds with, the incentive model currently being implemented at UC Davis (also known as the "Michigan Model").

Specific comments against instituting any limitation on the amount of self-generated carry forward funds include:

- With research funds from all federal and state sectors being uncertain, carry forward funds are the only means left to bridge research programs to assure continued productivity and retention of highly skilled professional and technical staff.
- Loss of carry forward will negatively impact research programs of faculty at all levels.
- Current success in obtaining funding from most federal agencies has dipped well below 10%, and rarely support the full cost of the proposed research due to major after-award cuts.
- Given the uncertainties of how sequestration and draconian budget cuts to federal agencies that support research, this is the worst time to consider limiting carry forward, especially for research oriented faculty that will undoubtedly depend on the carry forward funds they have generated through ICR on competitive grants, unrestricted gift grants, and SFT. There is no alternative as UCD bridge funds are virtually nonexistent
- The limit is directly counter to the incentive-based model just adopted by UCD and other campuses and will negatively impact motivation for obtaining new and continued grant support.
- There are no University funds available for updating obsolete equipment, which must be done periodically to maintain our faculty's competitiveness. Carry forward incentives are providing a principal source of funds for maintaining service contracts on expensive equipment already here and buying new cutting-edge instrumentation. This is especially important given the declining federal budgets for new instrumentation and the declining resources for matching funds at UCD.

Thank you for conveying our views to EC and the Academic Senate.

Isaac

Elections, Rules & Jurisdiction

April 10, 2013 3:39 PM

No response at this time.

Graduate Council

April 12, 2013 10:44 AM

Response continued on next page.

April 12, 2013

RFC: WORKING PAPER – CARRY FORWARD BALANCES

The Graduate Council reviewed and discussed the aforementioned RFC on Carry Forward Balances at its April 5, 2013 meeting.

The Council observed that funds related to student support, such as the Graduate Program Fellowship funds, should be provided more flexibility in their year-to-year management:

- i. Programs need to be able to expend the funds that they are allocated each year to support their graduate students. Hence, Graduate Council unanimously voted and approved that there should not be a 10% lower limit on funds related to student support (bottom of p. 5).
- ii. It also makes sense for graduate programs to have the flexibility to carry forward more than 15% of their allocated funds in the context of multiple year planning. It is therefore important that programs have the opportunity to elaborate these plans in support of a request to carry forward funds in excess of the 15% limit, as the first bullet at the bottom of p. 5 allows.

Accordingly, Graduate Council submits for your consideration the aforementioned recommendation(s).

Sincerely,



Rachael E. Goodhue, Chair
Graduate Council

/vm

c: Gina Anderson

Planning & Budget

April 10, 2013 4:11 PM

CPB discussed the current working paper on taxation of excess (>15%) carry forward fund balances. It seems reasonable for the campus to look at carryforward balances in times of tight budgets, and there may be several significant instances where the original purpose of an account (individual or broader) should have been spent on a particular purpose within a certain agreed to time frame. However, it is concerning when talk is directed at retroactively changing the expectations of discretionary funds that play an integral part in the complex strategies that faculty have in managing proper and prudent directions of their research and teaching activities. As much as faculty cannot undo complex decisions and priorities, the administration should not retroactively change the premise for those decisions. As is always the case, policies may change, but they should pertain to future agreements (in this case, future accounts) such that proper research and teaching priorities can be set with confidence and integrity.

There are some very serious concerns regarding the implications of taxing and otherwise interfering with carryforward funds. These concerns exist at all levels, but most pertinent to our discussions are the implications to individual faculty discretionary accounts. While formal policy on individual accounts does not seem to have been formulated, the language and direction of discussions are troubling. The concerns are many-fold and include:

- a) Discretionary accounts are, by definition, discretionary, and changing the rules that have been set is an administrative interference in the academic and scientific authority of faculty in making proper decisions regarding their funds. Proper decisions may be to not spend the funds at this time.
- b) Many discretionary funds have been gathered by conducting extra duties, such as summer teaching or special time-consuming service tasks for the university. These arrangements have been agreed to on the basis of the funds being discretionary and with no expiration. Thus, these funds have already served the campus well when they were spent the first time; and they continue to serve the university well in the hands of the faculty that earned them.
- c) The broader implication of a sudden change in policy regarding individual discretionary funds is the inevitability of the Law of Unforeseen Consequences. As the funds have been acquired and agreed to based on a clear understanding of the nature (and therefore value) of the resources, a retroactive and one-sided change in how these funds are viewed by the administration will inevitably result in a serious change in how faculty view similar future arrangements.

This proposal has the potential to become a contentious issue between the faculty and the administration. Concerns were also expressed by CPB that this new tax could create a strong disincentive for research faculty to maintain prudent reserves in individual faculty accounts to ensure the viability of research teams in times of decreased extramural funding of grants, contracts, and/or decreased availability of core funds. Faculty members pointed out that there are legitimate reasons to want to carry forward substantial sums of money to guarantee multi-year funding for graduate students and post-doctoral fellows as part of a recruitment offer and for replacement of fully depreciated equipment. The committee strongly recommends that BIA explore methods of encoding accounts and funds that would not be included in the taxable calculation of the 15% carry forward amount for the unit to allow for the tax-free accumulation of multi-year obligations in specific categories agreed to by the administration in furtherance of common UC Davis goals

such as growing the graduate student population. There should also be more discussion about whether 15% is the right number, or whether the appropriate percentages might differ between different categories of funding. The faculty is also very concerned about the problems of graduate student funding, especially in the face of the high costs of tuition and fees, especially for non-resident (of California) students. We hope that the administration is discussing and considering ideas to serve as a source of backup funding to supplement grants, contracts, and traditional TA-ships, especially if there are new policies like this one being suggested that might limit the opportunities for entrepreneurial savings for this purpose at the individual investigator, departmental, and unit levels.

Research

April 10, 2013 3:38 PM

The Committee on Research writes to express our dismay at the new carry-forward policy. We are deeply concerned that the policy hinders faculty research, undermines strategic research planning, and will ultimately decrease the amount of indirect cost monies available to the university.

The ability to carry forward funds is crucial to the success of individual faculty research success. Departments and individual faculty often husband their funds in order to accumulate enough money for large equipment purchases or for offering competitive start-up packages. If we are not able to save our money, we will not be able to attract stellar researchers.

We also worry that the policy will give perverse incentives to faculty members to spend their money on non-essential items in order to end the year with a zero balance. The policy will harm those departments and faculty with long-term, strategic plans, while helping those who spend their money thoughtlessly.

Furthermore, we do not understand the rationale for the policy, and we would like to hear an explicit cost-benefit justification for it. We also have questions about implementation. What is the process for requesting exceptions, what are the criteria for them, and who will grant them? Will exceptions be granted by committees with Senate representation, and will the process be transparent? Will the administration begin with a pilot program and a transitional period?

Ultimately, we worry that the perverse incentives inherent in the new policy will undermine the university's research program. The campus has enjoyed continuing growth in research grants; we believe the carry-forward policy will reverse that trend. We fear that the campus's indirect cost base will shrink, and the new policy will end up costing the campus precious research dollars.

We understand the university's need to monitor its limited resources in these uncertain budget times. We also understand the need for transparency and public accountability. However, we also believe that the university should provide rewards, not punishments, for good behavior and for responsible risk management.