



Davis Division Academic Senate

Request for Consultation Responses

Carryforward and Reserve Funds Whitepapers

February 18, 2014

Provost Hexter has released version 2 of white papers on the subject of carryforward and reserve funds. There are two documents, one describing a long-term strategy and a second providing more detailed guidance about managing funds in the accounting system. The new version reflects changes that are intended to respond to feedback. Note: A combined PDF containing both documents is provided.

Council of School & College Faculty Chairs (ENGINEERING)

February 6, 2014 11:00 AM

Response continued on next page.

Date: January 30, 2014

From: College of Engineering Faculty Executive Committee

Re: Carryforwards and Reserve Funds Whitepapers

We have concerns regarding the proposed guidelines for the management of carryforwards in Campus accounts. We believe different guidelines should be applicable to general fund accounts (often referred to as 19900 accounts) and accounts containing funds generated by the activities of faculty members. Such funds can represent private or corporate gifts to support the research of a faculty member, unrestricted grants, or even funds generated by activities such as summer teaching, where the faculty member waives salary in exchange for unrestricted funds to be used for research purposes. In this respect it is also pointing out that even though certain funds may appear on paper as 19900 funds, they may have in effect "changed color." This occurs for example for the ICR program implemented by the College, whereby faculty members can use contracts or grants to pay part of their academic year salary, and in return the College deposits 75% of this salary in an unrestricted account to be used by the faculty member. Similarly, as mentioned above, when 19900 funds are deposited into an account in lieu of summer teaching salary, these funds have changed color and should be subject to different rules. From a faculty viewpoint, the recent UC budget crisis has been a stark reminder of the importance of rainy day funds to smooth research funding fluctuations. We are rather disheartened that the new proposed guidelines will make it more difficult to preserve such funds, at a time where their importance has never been clearer. For example as UC increased its tuition very rapidly after 2008, PIs on already funded 3-year grants discovered that their budgets would carry them for only 2 and 1/2 or 2 and 1/4 years. They used unrestricted funds to stretch their grants to their full duration. So we hope that the administration understands that rainy day funds are an important insurance component used by faculty members in the management of their research activities.

Our committee understands that when general funds are committed by the Campus for startup or retention packages, the Campus has the right to place some rules requiring the expenditure of these funds according to a certain timetable (the purpose of startup funds is to help the new faculty member set up his/her research programs). However, we firmly believe that when past agreements have been put in place, they need to be honored by the administration, and should not be changed retroactively.

Finally, some of the proposed guidelines do not take into account the large fluctuations that may occur in income to certain accounts such as patent income, or even ICR accounts. When such fluctuations are present, we would recommend basing spend-down of such accounts on a rolling average over several years instead of the current year balance.

Graduate Council

February 26, 2014 1:40 PM

Response continued on next page.

February 26, 2014

RFC: Carryforward and Reserve Funds Whitepapers

The Graduate Council accepted the recommendations of the Academic Planning and Development (APD) Committee at its February 21, 2014 meeting in consideration of the above-mentioned Academic Senate Request for Consultation (AS RFC).

The Academic Planning and Development Committee met on February 14, 2014 and considered the afore-mentioned Academic Senate Request for Consultation (AS RFC).

APD discussed the issue that the proposed carry forward limits could substantially affect the ability of graduate programs to offer multi-year support to graduate students (optimizing recruitment activities) and to expand. The current carry forward model allowed significant amount of funds to be available for such resource allocations when extramural funding is temporarily not available. There was a discussion of the advantages of modifying the carry forward system to separate individual faculty and unit graduate student support and endowments from other unit and college budget categories, with the proposed white paper carry forward policies applied solely to the other budget categories.

APD suggested that an encumbrance system be developed that allows individual faculty to plan future graduate support related costs, and faculty with endowments to have a similar ability to plan for near-future allocations of their endowed funds. This would differ from the current guidelines that require higher level administrative encumbrance approval, and would insulate graduate support from being negatively affected by the proposed carry forward limit procedures. If such an encumbrance system were to be developed, APD recommends that the associated application, approval, and verification procedures be straightforward and free of excessive bureaucracy.

APD discussed the possible political constraints on the campus and UC concerning the appearance of not needing more funds when significant amounts of carry forward were apparent to the legislature and public. APD noted a more flexible encumbrance system would allow a better understanding of what is being planned for spending based on prior commitments such as (but not limited to) multi-year support offers to graduate applicants, and what are completely unencumbered carry forward monies.

APD also discussed the possibility of developing reward strategies for faculty to encourage innovative methods of reducing carry forward while improving graduate student support and recruitment.

Council concluded there was significant concern that the proposed tax will not accomplish the intended purpose of reducing carry forward accounts. Rather, it may have the unintended effect of reduced spending on graduate students and their research. With the ongoing budget reductions at UC, the sources of discretionary funds

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have become scarce for most faculty and graduate groups. Faculty want to carry over monies to have a funding source for items not allowable in grants and no longer provided by indirect costs or flexible department funds. These items are often supportive of graduate student research, such as reagents for preliminary studies and travel for meetings or short-term training opportunities. Graduate groups may need to plan on a year with additional enrollments or for retreats or special speakers. In essence, this tax would penalize faculty for fiscal responsibility and encourage spending for spending's sake.

The Graduate Council submits the recommendations of the APD Committee as accepted by consensus at our meeting as the Council's assessment of the RFC: Carryforward and Reserve Funds Whitepapers.

Sincerely,



Rachael E. Goodhue, Chair
Graduate Council

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C: Gina Anderson, Academic Senate Executive Director

Planning & Budget

February 24, 2014 10:10 AM

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.