

Core Funds at the University of California

presentation to the Budget Committee of the California State Assembly
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My name is Charles Schwartz. I have been on the faculty at UC Berkeley since 1960, as a Professor of Physics. Since my retirement, I have taken to studying the University's financial system and found a number of issues on which to criticize how our executives go about handling the public monies entrusted to the Board of Regents.

I will talk today about the University's Core Funds. As described on page 25 of the UC Budget for Current Operations, approved by The Regents last November, these revenues, made up primarily of State Appropriations plus Student Tuition and Fees, amount to six or seven billion dollars per year, or about one-quarter of UC's total operating budget. Three-quarters of those Core Funds provide the salaries and benefits of the University faculty and their supporting staff, whose work is at the core of UC's mission.

But, as you know, the University of California has multiple missions, commonly described as: teaching, research and service. So, one might ask how the core funds are spent across those individual missions. The UC establishment has never addressed that question; indeed they have assiduously avoided it. This is an important issue not just at UC but at all research universities. I have been invited here because I have done such an analysis for UC, disaggregating the costs of those several missions; and here are the results from my last detailed calculations, issued 2/27/2013. See Table 1.

Table 1. Expenditure of Core Funds at UC 2011-12

22% for Undergraduate Education
37% for Un-sponsored Research and related Graduate Programs
17% for Student Financial Aid
12% for Health Sciences
7% for Business and Law Schools
5% for Sponsored Research and Public Service

A more recent paper summarizing that calculation, in the context of AB 94, is posted at <http://socrates.berkeley.edu/~schwartz/CostAcctUniv.pdf>. These percentage figures are translated into dollar amounts for the last fiscal year in Table 2.

Table 2. UC's Expenditure of Core Funds for 2013-14

\$1.45 Billion for Undergraduate Education (average expenditure = \$7,500 per student);
\$2.77 Billion for Research Activity and related Graduate Academic Programs;
\$1.25 Billion for Research and Graduate Programs in the Professional Schools (including the Health Sciences).

I will talk about the implications of this data later. First, let's understand how I come to these results.

The phrase “unsponsored research” is probably unfamiliar and I should explain what that means. Professors are hired to work on all aspects of the University’s missions and paid a salary covering all of that work throughout the academic year. Since UC is the state’s primary institution for research, the research work of faculty is recognized as the most important component of their performance. Yet, the established accounting system counts all of the academic year salary and benefits paid to professors as “Expenditure for Instruction.” There is a lot of research money from external sources (that’s what we call sponsored research) that is separately accounted as Expenditures for Research; but that money is not used to pay the professors during the academic year. Core Funds pay for all of the professors’ base salary and that covers the work I call “unsponsored” research.

The data shown in Tables 1 and 2 are exactly the sort of information requested by the Legislature in Assembly Bill 94, which was signed into law on July 1, 2013 – asking UC to report the separated “costs of undergraduate education, graduate academic education, graduate professional education, and research activities.”

Calculations of this type cannot be done exactly, since there are overlaps; but I follow a fair and conventional methodology called Activity-Based Costing (ABC). This relies upon data from a Faculty Time-Use Study conducted by UC some years ago, and also uses a variety of financial reports issued by the University. Table 3 shows that primary input data.

Table 3. Faculty Time-Use – average work pattern of UC Professors

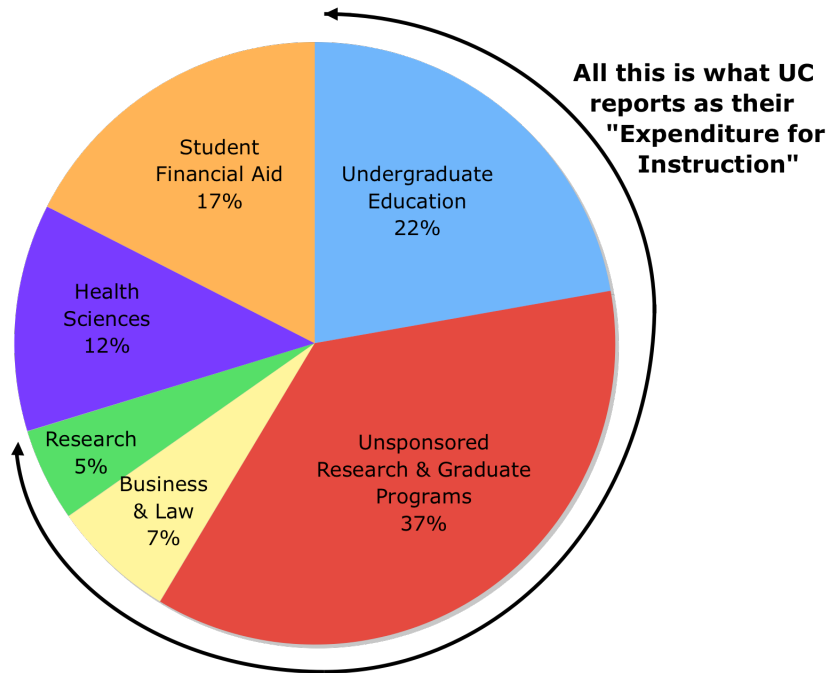
All University-related activities	61.3 hours/week
Instructional activities	26.0 hours/week (42%)
Research/creative activities	23.2 hours/week (38%)
University service	6.6 hours/week (11%)
Professional activities/public service	5.5 hours/week (9%)
Class time: 50% for undergraduate courses and 50% for graduate courses	

Some may worry that this data is 30 years old and may not be reliable today. However, I have collected additional data that shows very little or no change in professors’ teaching work over much of that period. I have also found two recent reports from UCOP (UC Office of the President) describing the outstanding performance of our faculty where they cite this same data on faculty time-use and say that they believe it is accurate today.

Yet, when it comes to AB 94, UCOP officials seem to have taken a very different path. Their Preliminary Report, issued October 31, makes no mention whatsoever of the standard methodology of Activity-Based Costing nor of the Faculty Time-Use data. They simply state that they are unable to disaggregate those costs, as required by AB 94; and they just repeat their earlier calculations of cost for that whole bundle of missions.

The following picture compares my results with what has been presented by UCOP.

UC's Expenditures of Core Funds - about \$6 Billion
State General Funds + UC General Funds + Student Tuition & Fees



The most striking result, seen in Table 2, is that the cost for UC to provide undergraduate education is an average of \$7,500 per student. We should compare this to the amount of mandatory Tuition and Fees that UC charges to Resident Undergraduate Students: it is \$13,222 -- nearly twice the actual cost.

By contrast, UC says that student Tuition and Fees cover less than half of the “Cost of Education”, because they take that whole bundle of expenditures, including all that research activity, and call that the “Cost of Education.” This is a serious conflict of concepts and of numbers that needs a thorough airing.

What we face here is not just a UC habit of bad accounting but a longstanding disease infecting all of the nation’s great research universities; this grossly distorts any rational discussion about undergraduate tuition.

I have written in more detail about this problem and suggested a number of specific policies to get UC into a better financial relationship with the state and with its students. See http://socrates.berkeley.edu/~schwartz/Reform_UC_Funding.pdf

However, the first step must be to resolve this conflict between what I say about UC’s cost structure and what UCOP says. You need to find out which one of us is to be believed. How would you suggest we go about that?

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This paper is posted at <http://socrates.berkeley.edu/~schwartz/AssmBudget.pdf>