2013-14 UC Budget and Update on Cost Savings and Alternative Revenue Strategies

Provost and Executive Vice President Aimée Dorr
Executive Vice President Nathan Brostrom
Executive Vice President Peter Taylor
Senior Vice President Dan Dooley
Senior Vice President John Stobo
Vice President Patrick J. Lenz

November 14, 2012
Today’s Presentation

• Update on alternative strategies discussed at September Regents’ retreat
  – Many strategies are incorporated into UC’s 2013-14 budget plan
  – Others will be implemented over the longer term

• Presentation of UC’s 2013-14 budget plan
  – Passage of Proposition 30 provides an opportunity for a multi-year funding path to fiscal stability
  – Regents are being asked to approve the budget plan
  – No tuition increase is proposed at today’s meeting
November Election Results Are Very Positive for the State and UC

• Passage of Proposition 30:
  – Provides State with revenue to help address ongoing structural deficit as economy recovers
  – Creates an opportunity for UC to move forward with stability and greater certainty
  – Holds the promise of support for a multi-year funding plan for UC

• UC is extremely grateful to all those who supported the Governor’s initiative
What Proposition 30 Does and Does Not Do

- UC’s budget will not be cut further
- State revenue from the 2012-13 tuition increase deferral will be built into the 2013-14 budget
- While the proposition does not provide funding specifically to UC, it does provide resources for the State to reinvest in higher education
- It does not make up for past base budget cuts, but it does hold the promise of funding stability through a multi-year agreement with the State
Where we are today

• Passage of Proposition 30 provides a path forward for UC that involves successful execution of four essential elements of a long-term funding plan:
  – Stable and predictable funding from the State
  – Leveraging of alternative revenue
  – Achieving administrative efficiencies
  – Moderate and stable tuition and fee plan

• UC has already made significant progress in reducing costs and securing alternative revenues

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Where we are today

- UC’s long-term planning must address budget challenges associated with:
  - Nearly $900M of State funding cuts since 2007-08
  - Significant ongoing cost increases, averaging $300M or more each year
  - The need to reinvest in the quality of core academic programs (such as enhancing undergraduate student support, increasing graduate student support, reducing the student-faculty ratio, and reducing the faculty salary gap)
Update on Alternative Strategies
Current Efforts to Reduce Costs and Increase Alternative Revenues

- Existing efficiency initiatives are on track to save $500M over 5 years – of which two-thirds are expected to accrue to UC’s core-funded programs
- Savings and other positive impacts have been achieved from a wide range of aggressive strategies across the University’s enterprise
- The $500M of positive fiscal impacts are built into the longer-term planning to meet UC’s funding needs
Efficiency Initiatives Underway (34 projects)

PORTFOLIO COMPOSITION
34 Projects

- Academic Admin.
  EXAMPLES:
  - ApplyUC
  - Library Efficiencies
  - UC Recruit

- Research Admin.
  • Indirect Cost Recovery
    - Kuali Coeus

- Enterprise Administration
  EXAMPLES:
  - Benefits Redesign
  - Liquidity Management
  - Procurement Transformation
  - UC Path

- Risk Management
  • Be Smart about Safety
    - UC Student Health Insurance Plan
    - UC Travel Insurance Program

- Environment/Facilities
  EXAMPLES:
  - Capital Projects Database
  - Statewide Energy Partnership
    - Regional Data Centers
    - Mainframe Consolidation

- IT

- Parent Giving
Efficiency Initiatives (Year 2): Revenue-Contributing Projects by Campus

NOTE: Liquidity Management (STIP/TRIP) operations preceded new Working Smarter project efforts begun in 2010. Working Smarter captures only the incremental benefit from new efforts within project scope.

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A Number of Potential Strategies Assumed in 2013-14 Budget Plan

- Strategies fall into three primary categories:
  - Balance Sheet Strategies
  - Business and Finance Strategies
  - Enrollment, Tuition, and Financial Aid Strategies
- Strategies likely to generate fiscal impacts in short term are being implemented in 2013-14
- Other strategies will generate fiscal impacts in future years
- Academic strategies may be pursued but aren’t expected to generate significant revenues
Strategies Being Implemented in 2013-14

- Asset management opportunities
  (restructuring working capital from 70%/30% for STIP/TRIP)

- Expanded utilization of systemwide contracts

- $20M in 2013-14, with an additional $20M in subsequent years

- $20M in 2013-14, with up to a total of $50M possible over several years
Strategies Being Implemented in 2013-14

- Renewed efforts to secure approval of restructuring State lease revenue bond debt
  - An estimated $80M in 2013-14 and in subsequent years for operating budget
  - Reduced cost increases by 50% in 2013, including over $11M in core funds; most opportunities in 2014-15 and after

- Reducing costs in health and welfare benefits (many options being reviewed)
Strategies Being Implemented in 2013-14

• Increase nonresident enrollment

At least $23M additional revenue from NRST in 2013-14; more possible in subsequent years

• Financial aid strategies including changes in financial aid model

Opportunities to minimize future return-to-aid costs
### Other Potential Strategies Requiring Longer Time to Implement

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Difficulty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidation of medical center infrastructure and clinical services</td>
<td>Could save $50M, which could be used to provide programmatic support for health professional schools; possible implementation not likely until 2014-15</td>
</tr>
<tr>
<td>Self-insured health plan</td>
<td>Savings TBD; if pursued, implementation not likely until 2014-15 or after</td>
</tr>
<tr>
<td>Reconsider UCRP and annuitant health reforms</td>
<td>Savings TBD; if pursued, implementation not likely until 2014-15 or after</td>
</tr>
</tbody>
</table>
Other Potential Strategies Requiring Longer Time to Implement

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve technology transfer</td>
<td>Requires significant upfront investment; payoff would only be realized after many years</td>
</tr>
<tr>
<td>Parking asset transfer</td>
<td>Under full evaluation but faces considerable obstacles</td>
</tr>
<tr>
<td>Cohort-based tuition</td>
<td>No savings but greater predictability in tuition levels</td>
</tr>
<tr>
<td>Online education</td>
<td>Upfront investment with uncertain savings and revenue opportunities in the future</td>
</tr>
</tbody>
</table>
2013-14 UC Budget Plan
Overview of 2013-14 UC Budget Plan

• UC's budget plan is now possible due to the passage of Proposition 30

• Expenditures include:
  – Enrollment Growth
  – Compensation, Benefits and Non-salary Items
  – Reinvestment in Quality
  – Other Items

• Revenues include:
  – State General Funds
  – Professional Degree Supplemental Tuition and UC General Funds
  – Alternative Revenues
## 2013-14 UC Budget Plan: Proposed Increases in Expenditures

(Millions of Dollars)

<table>
<thead>
<tr>
<th>Enrollment Growth and Instructional Programs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• 1% Enrollment Costs</td>
<td>$22.4</td>
</tr>
<tr>
<td>• Professional School Programs*</td>
<td>13.3</td>
</tr>
<tr>
<td>• UC Riverside Medical School</td>
<td>15.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$50.7</td>
</tr>
</tbody>
</table>

* Programs subject to Professional Degree Supplemental Tuition.
### 2013-14 UC Budget Plan:
#### Proposed Increases in Expenditures

(Millions of Dollars)

<table>
<thead>
<tr>
<th>Compensation and Non-Salary Items</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Contributions</td>
<td>$77.2</td>
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<tr>
<td>Employee Health Benefits</td>
<td>11.4</td>
</tr>
<tr>
<td>Annuitant Health Benefits</td>
<td>6.4</td>
</tr>
<tr>
<td>Academic Merits</td>
<td>30.0</td>
</tr>
<tr>
<td>Compensation</td>
<td>100.2</td>
</tr>
<tr>
<td>Continuation Costs of 2012-13 Mid-Year Compensation Increase</td>
<td>37.2</td>
</tr>
<tr>
<td>Non-salary Items</td>
<td>23.7</td>
</tr>
<tr>
<td>Deferred Maintenance</td>
<td>25.0</td>
</tr>
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</table>

Subtotal $311.1

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2013-14 UC Budget Plan: Proposed Increases in Expenditures
(Millions of Dollars)

Reinvestment in Quality (first year of a multi-year plan)

- Enhance Undergraduate Instructional Support $35.0
- Increase Graduate Student Support 15.0
- Reduce Student-Faculty Ratio 40.0
- Support Start-up Costs for New Faculty 20.0
- Reduce Faculty Salary Gap 25.0
- Reduce Staff Salary Gap 20.0

Subtotal $155.0
2013-14 UC Budget Plan:
Proposed Increases in Expenditures
(Millions of Dollars)

- Repayment of STIP borrowing from 2012-13: $60.0
- Financial Aid - Professional Degree Supplemental Tuition: $7.5

Total Increase in Expenditures: $584.3
# 2013-14 UC Budget Plan: Proposed Increases in Revenues

(Millions of Dollars)

<table>
<thead>
<tr>
<th>State General Funds</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>• 2012-13 Tuition and Fee Buy-out</td>
<td>$125.4</td>
</tr>
<tr>
<td>• 6% Base Budget Adjustment</td>
<td>150.2</td>
</tr>
<tr>
<td>• UC Riverside Medical School</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$290.6</strong></td>
</tr>
</tbody>
</table>

**Additional State General Funds or Net Revenue from Tuition and Fee Increase**

$126.5
2013-14 UC Budget Plan:
Proposed Increases in Revenues
(Millions of Dollars)

Professional Degree Supplemental Tuition increases $20.8

UC General Funds
- Nonresident Supplemental Tuition $23.0
- Indirect Cost Recovery 3.4
Subtotal $26.4

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# 2013-14 UC Budget Plan:

## Proposed Increases in Revenues

(Millions of Dollars)

### Alternative Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Restructuring</td>
<td>$80.0</td>
</tr>
<tr>
<td>Asset Management (STIP to TRIP)</td>
<td>20.0</td>
</tr>
<tr>
<td>Systemwide Contracts</td>
<td>20.0</td>
</tr>
</tbody>
</table>

**Subtotal** $120.0

**Total Increase in Revenues** $584.3
2013-14 UC State-Funded Capital Outlay Program

- UC requests $788.5M in State capital outlay funds for 39 major capital projects
  - 12 new facilities ($432.7M)
  - 17 renovation and infrastructure improvement projects ($133.9M)
  - 1 project for equipment in a new building already under construction ($4.3M)
  - 9 seismic and life safety projects ($217.7M)
Next Steps

• Negotiate a multi-year funding agreement for inclusion in the 2013-14 Governor’s Budget and seek its endorsement by the Legislature
• Obtain legislative approval of lease revenue bond restructuring proposal
• Secure additional State General Funds or implement a tuition and fee increase to help fund the 2013-14 budget plan
• Introduce a new long-range budget plan in the context of stable State funding going forward
Proposition 30 and UC’s Future

- Proposition 30 makes it possible for UC to leverage its many-faceted efforts to secure alternative revenues and operational efficiencies to ensure UC’s future as a world-class public research university.

- Proposition 30 offers the promise of fiscal stability by setting a foundation for a multi-year funding plan and a path for recovering from the extraordinary funding losses of the last several years.