Budget Update and Long-Term Budget Model

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Outline of Today’s Presentation

• 2012-13 State Budget
• UC’s 2012-13 State Budget
• Long-Term Budget Model
  – Cost Drivers
  – Solutions
• Challenges to Reinvesting in Excellence
2012-13 State Budget

• 2012-13 State General Fund $91.3 billion
  • $11.6 billion below FY 2007-08, a reduction of 11.3%
  • $1 billion budget reserve

• 2012-13 Budget Gap $15.7 billion
  • Expenditure Reductions $8.1 billion
  • Anticipated Revenues $6.0 billion
  • Other Solutions $2.5 billion
2012-13 State Budget

Expenditure Reductions
(dollars in millions)

- Redevelopment Assets $1,479.0
- Medi-Cal $1,234.0
- State Mandates $828.3
- Judiciary $544.0
- State Employee Compensation $528.6
- CalWORKS $469.1
- Child Care $294.3
- Cal Grant Program $133.5
- In-Home Supportive Services $52.2
# 2012-13 State Budget

## Revenue and Other Solutions
(dollars in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>November Tax Initiative</td>
<td>$5,600.0</td>
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<tr>
<td>Loan Repayment Extensions</td>
<td>$1,200.0</td>
</tr>
<tr>
<td>Special Funds, Transfers/Loans</td>
<td>$   612.2</td>
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<tr>
<td>Other Revenues</td>
<td>$   453.5</td>
</tr>
<tr>
<td>Additional Weight Fee Revenues</td>
<td>$   385.2</td>
</tr>
<tr>
<td>Unemployment Ins. Interest Payment</td>
<td>$   312.6</td>
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</tbody>
</table>
UC’s 2012-13 State Budget

• UC Budget

$2.378 billion

- $89.1 million for UCRP
- $11.6 million for LRB debt service
- $5.2 million for annuitant health

$105.9 million (or 4.7%) increase over 2011-12 budget

• $125.4 million tuition buy-out starting in FY 2013-14
• Tuition buy-out contingent on success of November Tax Initiative
UC’s 2012-13 State Budget

• Unable to secure debt restructuring proposal
• No State funding for new capital facility projects
• Secured statutory authority to move forward with $134.1 million in previously approved State capital facility projects
• Minimal reductions in Cal Grant awards
  – Cal Grant B awards reduced 5%, from $1,551 to $1,473, representing an impact of $1.8 million for UC students
Revisiting the Long-Term Budget Model

- UC’s long-term budget model projects a budget gap in 2016-17 of over $2.9 billion, assuming no new revenues.
- This budget shortfall is due to a combination of cuts in State support and growing mandatory costs.
- Revisiting original modeling assumptions is needed given evolving budget situation.
Revisiting the Long-Term Budget Model

- Long-term budget modeling of UC’s major cost drivers and funding solutions demonstrates that there are no “magic bullets”
- Long-term model requires successful execution of all four elements of UC’s budget plan:
  1. Stable and predictable funding from the State
  2. Leveraging of alternative revenue
  3. Achievement of administrative efficiencies
  4. Moderate and stable tuition plan
Cost Drivers: Cuts in State Support
Since 2007-08, nearly $1 billion

Display 10
Cost Drivers: UC Retirement Plan Costs, $591.8 million
Cost Drivers: Employee and Retiree Health Benefits, $174.4 million

Cost Drivers Solutions

- Employee and Retiree Health Benefits
- UCRP Costs
- Cuts in State Funding

Display 12
Cost Drivers: Academic Merits, $150 million
Cost Drivers: Other Compensation, $535 million

Cost Drivers Solutions

- Compensation
- Academic Merits
- Employee and Retiree Health Benefits
- UCRP Costs
- Cuts in State Funding

Display 14
Cost Drivers: Non-salary Price Increases, $129.1 million

Cost Drivers:
- Non-salary Price Increases
- Compensation
- Academic Merits
- Employee and Retiree Health Benefits
- UCRP Costs
- Cuts in State Funding
Cost Drivers: Deferred Maintenance/Capital Renewal, $125 million

Deferred Maintenance: $125 million
Non-salary Price Increases
Compensation
Academic Merits
Employee and Retiree Health Benefits
UCRP Costs
Cuts in State Funding
Cost Drivers: Enrollment Growth, $130.5 million

![Graph showing cost drivers and solutions with bars for different categories: Enrollment Growth, Deferred Maintenance, Non-salary Price Increases, Compensation, Academic Merits, Employee and Retiree Health Benefits, UCRP Costs, and Cuts in State Funding.](display_17)
Cost Drivers: Cap and Trade Charges, $95 million

- Cap and Trade
- Enrollment Growth
- Deferred Maintenance
- Non-salary Price Increases
- Compensation
- Academic Merits
- Employee and Retiree Health Benefits
- UCRP Costs
- Cuts in State Funding
Cost Drivers: $2.938 billion through 2016-17

- Mandatory Costs: $1.938 billion
- State cuts: $1 billion

Cost Drivers Solutions

- Cap and Trade
- Enrollment Growth
- Deferred Maintenance
- Non-salary Price Increases
- Compensation
- Academic Merits
- Employee and Retiree Health Benefits
- UCRP Costs
- Cuts in State Funding
## Cost Drivers: Potential Cost Reductions, $474.2 million

<table>
<thead>
<tr>
<th>Cost Reductions</th>
<th>Savings</th>
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<tbody>
<tr>
<td>Limit UCRP employer costs to 14%</td>
<td>$131.5</td>
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<tr>
<td>Delay in DM/capital renewal funding</td>
<td>$125.0</td>
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<tr>
<td>Limit health benefit increases to 3.5%</td>
<td>$54.3</td>
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<tr>
<td>Limit enrollment growth to UC Merced only</td>
<td>$98.4</td>
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<tr>
<td>Delay in compensation increase in 2012-13</td>
<td>$65.0</td>
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Display 20
Cost Drivers: Potential Cost Reductions, $474.2 million

- Cap and Trade
- Enrollment Growth
- Deferred Maintenance
- Non-salary Price Increases
- Compensation
- Academic Merits
- Employee and Retiree Health Benefits
- UCRP Costs
- Cuts in State Funding

Remaining Gap: $2.464 billion
Solutions: Efficiencies and Alternative Revenues, $1 billion

- The budget model assumes $1 billion of the long-term funding gap will be addressed
  - Ongoing efforts at administrative efficiencies
  - Developing and leveraging alternative revenues throughout the system
Solutions: Efficiency Improvements, $500 million
Solutions: New Models of Private Giving, $200 million
New Models of Private Giving

• Private giving remains strong at UC as donors recognize outstanding return on their philanthropic investment

• $1.6 billion in 2010-11 – extraordinary increase of nearly 20% over the prior year

• Likely over $1.5 billion again for 2011-12

• Developing new models for corporate fund raising, endowments and cost recovery that support core budget needs
Solutions: Indirect Cost Recovery, $120 million
Solutions: Indirect Cost Recovery, $120 million

Rate increases over the next four years:
- Berkeley 3.5%*
- San Francisco 4.0%
- Santa Barbara 2.0%

Campuses that have submitted or will soon:
- Santa Cruz submitted
- Davis 2012
- Riverside 2012

* Pending
Solutions: Nonresident Tuition, $120 million
Solutions: Professional Degree Supplemental Tuition, $60 million

Cost Drivers

- Professional Degree Supplemental Tuition
- Nonresident tuition
- Increased ICR
- Philanthropy
- Efficiencies

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Solutions: State Augmentation, $94.3 million

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Remaining Budget Gap with 2012-13 State Augmentation: $1.4 billion

Over $1.5 billion in Potential Solutions

Nearly $1.4 billion Remaining Gap
Budget Gap: Five-Year Funding Scenarios

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<tbody>
<tr>
<td>Scenario A: Initiative Passes</td>
<td>1,200.0</td>
<td>1,400.0</td>
<td>800.0</td>
<td>600.0</td>
<td></td>
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<tr>
<td>Scenario B: Initiative Does Not Pass</td>
<td>1,000.0</td>
<td>900.0</td>
<td>700.0</td>
<td>500.0</td>
<td>300.0</td>
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In Millions of Dollars
Short-Term Budget Challenges

- Even if a multi-year agreement is secured with the Governor and the State Legislature, the University faces severe budget challenges in the short term.
Reinvestment in Excellence

• Model covers basic costs but does not address funding needed to restore quality

• Model uses 2007-08 as the baseline funding year; however, as early as 2005, Regents had concerns about quality and set goals for certain indicators to improve quality
Faculty New Hires and Separations and Enrollment Growth, 2005-06 to 2010-11
Average Faculty Salaries: General Campus Private/Public (Comparison 8) and UC

5-Year Intervals to 1999-00, and each year 1999-00 through 2011-12
Adjusted for Inflation in 2011 Dollars

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Conclusion

• UC fared well, relative to other State agencies, in the 2012-13 budget process
  – However, cuts are still required on campuses
  – No funding provided for capital projects that have been stalled for several years

• Budget package includes high level of risk for UC funding
  – Future UC funding and its stability rests on passage of the Governor’s tax initiative
  – If successful, initiative offers some degree of ongoing stability for UC’s campuses, students and families

• Budget forecasts meet basic campus needs but do not fully address quality imperatives
  – Increased faculty lines
  – Increased graduate student support
  – Salary gap for faculty