

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

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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



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

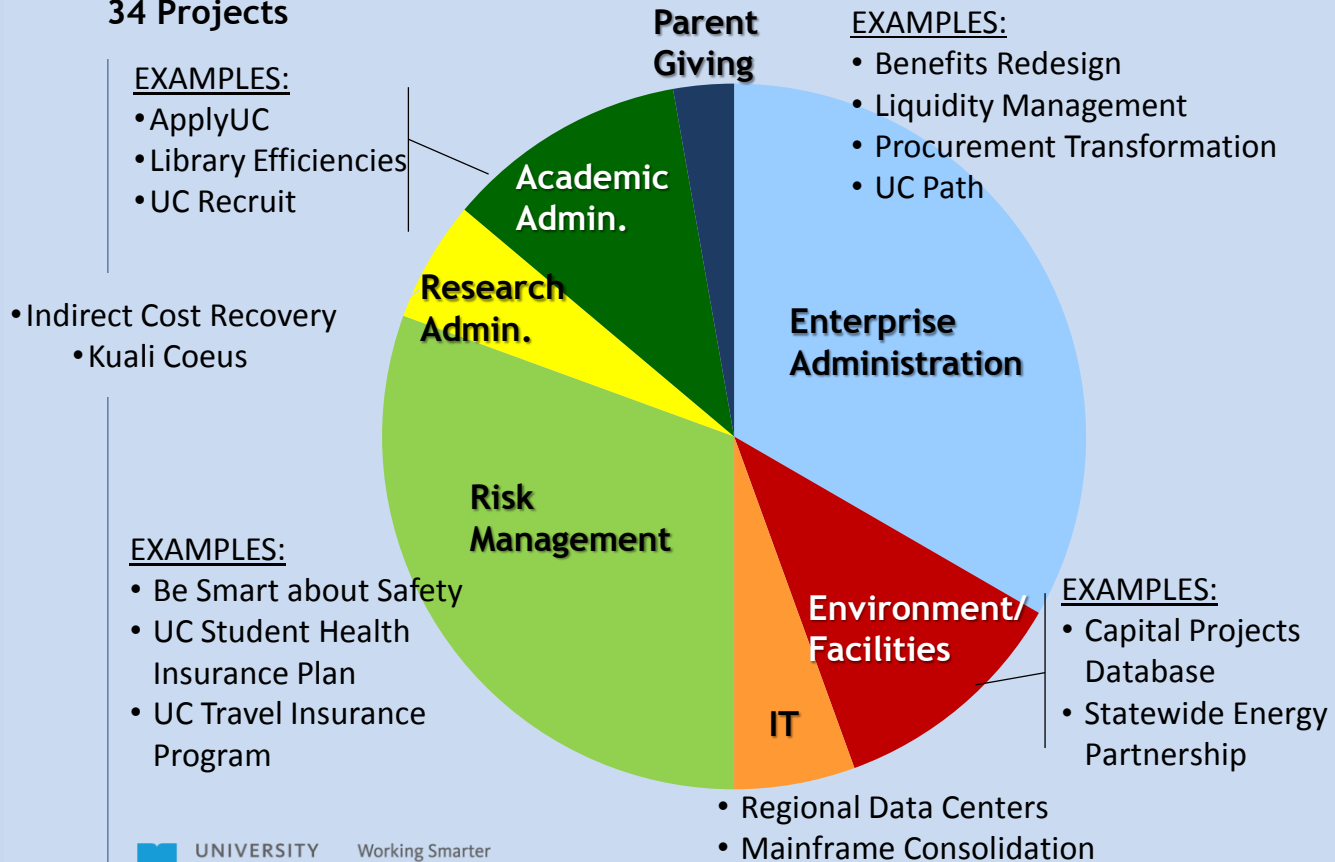
- Existing efficiency initiatives are on track to save \$500M over 5 years – of which two-thirds are expected to accrue to UC's core-funded programs
- Savings and other positive impacts have been achieved from a wide range of aggressive strategies across the University's enterprise
- The \$500M of positive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



Efficiency Initiatives Underway (34 projects)

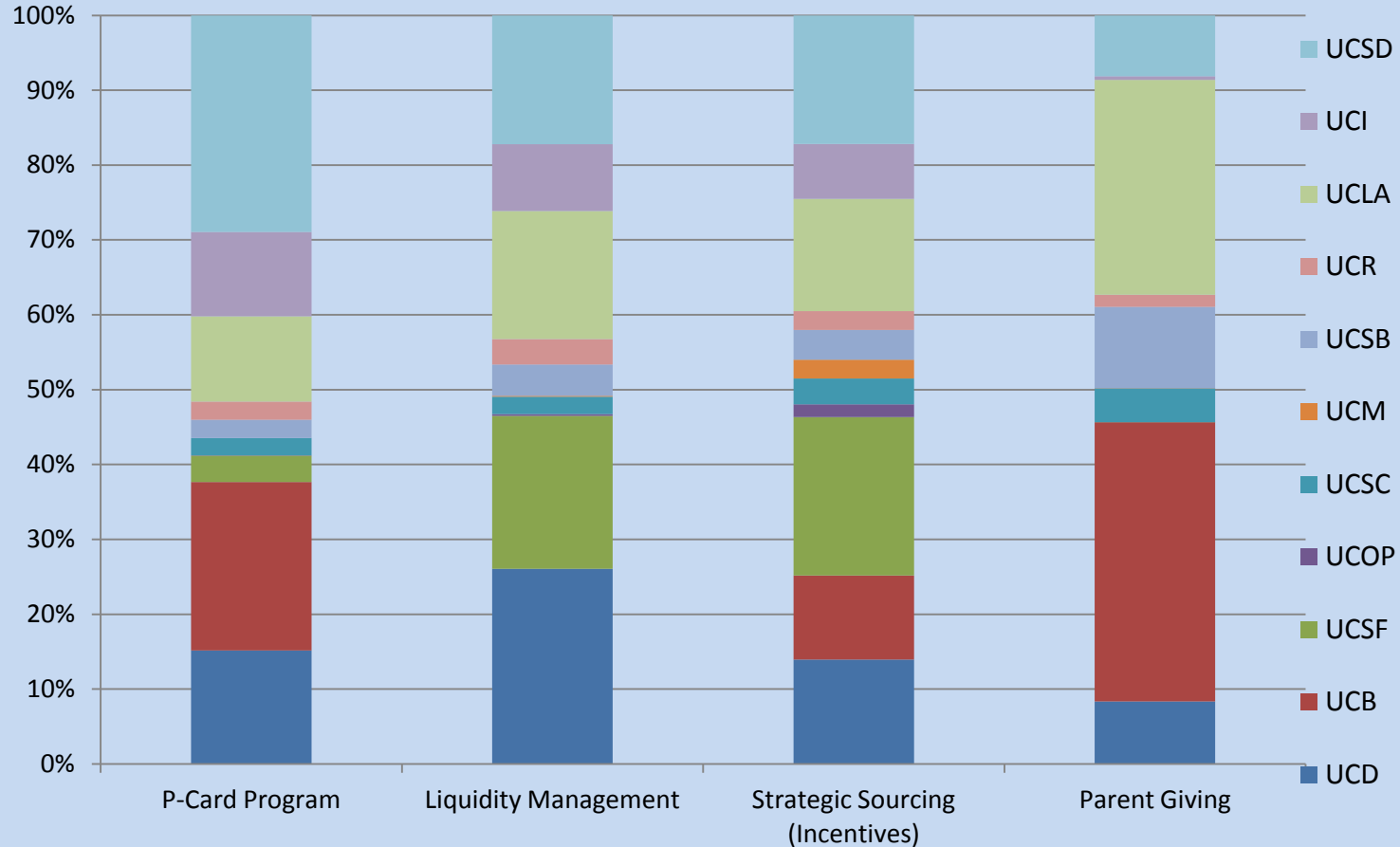
PORTFOLIO COMPOSITION

34 Projects





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.



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) \$20M in 2013-14, with an additional \$20M in subsequent years
- Expanded utilization of systemwide contracts \$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
- Reducing costs in health and welfare benefits (many options being reviewed)
 - Reduced cost increases by 50% in 2013, including over \$11M in core funds; most opportunities in 2014-15 and after



Strategies Being Implemented in 2013-14

- Increase nonresident enrollment
- Financial aid strategies including changes in financial aid model

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

Opportunities to minimize future return-to-aid costs



Other Potential Strategies Requiring Longer Time to Implement

- Consolidation of medical center infrastructure and clinical services
Could save \$50M, which could be used to provide programmatic support for health professional schools; possible implementation not likely until 2014-15
- Self-insured health plan
Savings TBD; if pursued, implementation not likely until 2014-15 or after
- Reconsider UCRP and annuitant health reforms
Savings TBD; if pursued, implementation not likely until 2014-15 or after

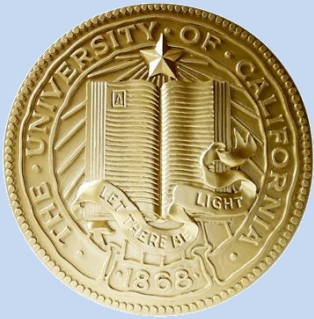


Other Potential Strategies Requiring Longer Time to Implement

- Improve technology transfer
Requires significant upfront investment; payoff would only be realized after many years
- Parking asset transfer
Under full evaluation but faces considerable obstacles
- Cohort-based tuition
No savings but greater predictability in tuition levels
- Online education
Upfront investment with uncertain savings and revenue opportunities in the future



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)

Enrollment Growth and Instructional Programs

• 1% Enrollment Costs	\$22.4
• Professional School Programs*	13.3
• UC Riverside Medical School	<u>15.0</u>
Subtotal	\$50.7

* Programs subject to Professional Degree Supplemental Tuition.



2013-14 UC Budget Plan: Proposed Increases in Expenditures

(Millions of Dollars)

Compensation and Non-Salary Items

• Retirement Contributions	\$77.2
• Employee Health Benefits	11.4
• Annuitant Health Benefits	6.4
• Academic Merits	30.0
• Compensation	100.2
• Continuation Costs of 2012-13 Mid-Year Compensation Increase	37.2
• Non-salary Items	23.7
• Deferred Maintenance	<u>25.0</u>
Subtotal	\$311.1



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	<u>20.0</u>
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)

State General Funds

• 2012-13 Tuition and Fee Buy-out	\$125.4
• 6% Base Budget Adjustment	150.2
• UC Riverside Medical School	<u>15.0</u>
Subtotal	\$290.6

Additional State General Funds or Net Revenue from Tuition and Fee Increase	\$126.5
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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



2013-14 UC Budget Plan: Proposed Increases in Revenues

(Millions of Dollars)

Alternative Revenues

- Debt Restructuring \$80.0
- Asset Management (STIP to TRIP) 20.0
- Systemwide Contracts 20.0

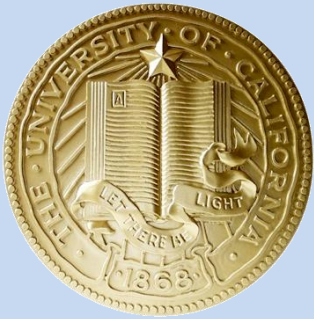
Subtotal \$120.0

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

