Regents’ Retreat

President Mark Yudof
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 Jack Stobo
Vice President Patrick J. Lenz

September 12, 2012
Outline of Today’s Discussion

• Discussion of additional potential strategies for addressing UC’s budget shortfall
• Discussion of quality
• Next steps
  – 2012-13 budget
  – Development of 2013-14 budget
Discussion of “Out-of-the-Box” Ideas
Several Metrics Were Used to Evaluate Potential Strategies

• The following metrics were used to determine which “out-of-the-box” ideas to bring to the Board
  – Magnitude of potential savings
  – Length of time needed to realize benefits
  – Ease of implementation
  – Accrual of benefits
    • To all campuses or only a few?
    • Split between core funds and other funds
  – Impact on academic quality and student success
  – Permanent vs. one-time savings
  – Up-front investment required
A Variety of Potential Strategies Were Explored

- Scores of potential strategies were suggested by UCOP, campus, and student leadership
- Senior leadership is presenting – though not necessarily recommending – several for discussion today
- Strategies are grouped into four primary categories:
  - Balance Sheet Strategies
  - Business and Finance Strategies
  - Enrollment, Tuition, and Financial Aid Strategies
  - Academic Strategies
Balance Sheet Strategies
Balance Sheet Strategies: Extraordinary Payout on UC FFEs

- Distribute 3-5% on a one-time basis year-end balances for eligible funds functioning as endowments (FFEs)
- Most UC endowments are highly restricted, both in terms of payouts and purpose, though some are merely functioning as endowments (purpose restricted, but not payout restricted)
- Strategy could produce $20M of one-time funds, all of which could be used to help with the core funds budget gap
- **Considerations:**
  - Already implementing extraordinary payout to partially mitigate deferral of 2012-13 tuition buy-out funding
  - Accrues primarily to those campuses with large endowments; however, the President’s endowment could be used to help those campuses with smaller or fewer endowments
Balance Sheet Strategies: Debt Restructuring Alternatives

- Refunding/restructuring (1) existing general revenue bonds and/or (2) State Public Works Board Bonds (SPWB) for cash flow savings
- Alternatives include upfront or principal and interest restructuring
- Cash flow savings for 2012-13 estimated at $50M+, all of which could be used to help with the core funds budget gap
- Considerations:
  - Cash flow savings could be central or campus-specific
  - May be giving up other refunding opportunities in the future
  - Restructuring SPWB bonds would require legislative approval
Balance Sheet Strategies: Asset Management Opportunities

- Restructure working capital from 70%/30% for STIP/TRIP (Short-term Investment Pool/Total Return Investment Pool) to 50%/50%
- Maintain sufficient balances for short-term liquidity needs while increasing the potential for higher investment returns
- Additional earnings of $40M per year could be used to help with UC’s core funds budget gap
- **Considerations:**
  - Detailed data on STIP account funds needed from campuses before making final determination
  - Benefit accrues primarily to those campuses with large balances
Balance Sheet Strategies: Parking Securitization

- Concession lease in which the University receives an up front monetization or over-time payment for the University’s parking assets
- Funds could be used to improve UCRP funded status (thereby reducing budget cost for employer contribution) or for operational needs
- Ohio State successfully monetized parking operations and received $483M up front for its 37,000 spaces (UC has ~121,000 spaces)
- Considerations:
  - Users (visitors, patients, employees, and students) would bear fixed rate increases
  - Needs full analysis, due diligence, and internal valuation to bid out the transaction
  - Could be evaluated for other income-generating assets

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Questions/Discussion

Balance Sheet Strategies
Business and Finance Strategies

• *Working Smarter* on track to save $500M

• Initiatives presented here are in addition to *Working Smarter*
Business and Finance Strategies:
Consolidation of Medical Center Infrastructure and Clinical Services

- Consolidate infrastructure (e.g., billing, clinical lab services, radiology) and rationalize the delivery of clinical services (e.g., some transplants, complex neurosurgery) at UC Medical Centers
- Could save $50M, which could be used to provide programmatic support for UC’s Health Professional Schools
- **Considerations:**
  - Financial success of the Medical Centers is inextricably linked to the programmatic success of research and educational missions of UC’s Health Professional Schools

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Business and Finance Strategies: Systemwide Contract Utilization

- Current practice is optional contract utilization
  - Opt-in/opt-out decisions rest at departmental or campus level
- Wide-spread adherence to certain umbrella contracts could save ~$50M overall
  - Employee travel, office supplies & equipment, IT hardware and software, life sciences, facilities, office furniture, dining and housing supplies and services
- Considerations:
  - Major change in policy to direct participation from the center
  - About one-half of estimated savings would likely accrue to core funds and help with the budget gap
Business and Finance Strategies: Reduce or Eliminate Previously State-Mandated Programs

- The Legislature continues to support a number of previously mandated research and public service programs and in some instances has not provided the funding to support them.
- Funding for these programs could be proportionally reduced or in some cases eliminated and savings redirected to academic programs.
- **Considerations:**
  - Clearly will have political ramifications
  - UC will want to preserve essential programs – e.g., outreach

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Business and Finance Strategies: Changes in Health/Welfare Benefits

• Options being reviewed:
  – Introduce self-insured health plan option through UC medical centers
  – Reduce employer contribution for spouses/domestic partners and/or part-time employees
  – Reduce employer contribution to health premiums
  – Together, these strategies could generate over $100M once fully implemented; ~one-third of these savings accrue to core funds
  – Revisit UCRP and annuitant health reforms to further reduce employer contribution costs

• Considerations:
  – Self-insured health plan option is undergoing close review
  – Other strategies could reduce UC’s market competitiveness for faculty and staff
  – Significant changes require collective bargaining

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Questions/Discussion

Business and Finance Strategies
Enrollment, Tuition, and Financial Aid Strategies
Enrollment Strategies: Further Increase in Nonresidents

- Raise cap on nonresident enrollment from 10% to 15-20% systemwide
- Each 1,000 FTE increase in nonresident enrollment generates about $23M at current tuition levels (2011-12 undergraduate nonresidents total ~12,200)
- Could link nonresident enrollment more directly to level of State funding
- Considerations:
  - Should not displace *State-funded* California residents
  - Other major research universities have much higher proportions of nonresidents
  - Nonresident tuition revenue helps maintain quality, access, and affordability for California residents

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Financial Aid Strategies: Changes to Financial Aid Model

• Use philanthropy and fund sources other than return-to-aid from tuition to help maintain net cost for students with financial need
• Evaluate opportunities to provide more support for middle class students
• Could provide greater flexibility in how tuition revenue is used or lower future tuition increases
• Considerations:
  – UC provides far more in return-to-aid than any other public research institution
  – University of Iowa recently voted to eliminate return-to-aid from tuition over next 5 years and replace with funding from foundations

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Tuition Strategies: Differential Tuition

- By campus – allow each campus to rise to its market level
- By discipline – charge more for high-cost disciplines
- Considerations:
  - COTF felt all campuses still have headroom for moderate tuition increases – but differential tuition should remain on the table for future years
  - Benefits of differential tuition would accrue to only a few campuses unless policy change is implemented to redistribute revenue across the system
  - Some have expressed deep concern about “tiering” campuses
  - Very difficult to administer
  - Financial aid implications may mitigate the benefits derived (i.e., if Cal Grants aren’t fully funded to acknowledge the differential levels)

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Questions/Discussion

Enrollment, Tuition, and Financial Aid Strategies
Academic Strategies
Academic Strategies Require Longer-Term Implementation and Yield Less Financial Benefit

- The only academic strategy with high financial value, short timeframe, and easy implementation is implementing further unallocated cuts

- While most academic strategies do not yield much financial benefit for the current financial crisis, they may be wise to consider for programmatic and efficiency reasons
Academic Strategies: Decrease Time To Degree

- Provide incentives for early completion
- Provide disincentives for delayed completion
- Establish maximum possible credits / time at UC
- Establish upper limit for major requirements
- Offer more credit for learning out of classroom (e.g., internships)
- Adjust course units so that fewer courses needed for full-time load
- Make better use of credit earned before matriculation
- Improve articulation between prior institution and UC
- Increase options for course-taking (e.g., non-standard times)

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Academic Strategies: Miscellaneous

- Implement cross-campus award of course credits
- Offer more multi-campus degree programs
- Reduce duplication of specializations across campuses
- Increase targeted use of teaching faculty
- Use technology more to offer high demand courses, multi-campus courses/programs, online education
- Use physical plant to fullest extent
Questions/Discussion

Academic Strategies
Other Potential Strategies

Ideas Involving Longer Implementation Time, Minimal Savings, or Major Change to UC Policy
Other Strategies: Longer Implementation Time

• Reduce enrollment
  – Reducing enrollment by itself does not save money – most costs associated with enrollment are faculty-related
  – Reducing tenured faculty only occurs as vacancies remain unfilled

• Improve technology transfer
  – Campuses and UCOP are working on this, but could take several years to see results
Other Strategies: Minimal Savings/Major Implementation Challenges

• Cohort-based tuition
  – Does not generate savings to help with core funds shortfall (although will save money for some students/families)
  – Complicated and expensive to administer

• Furloughs/salary reductions and/or freezes
  – Last furlough program was difficult to implement, achieved only one-time savings, and equity issues arose because certain employees were exempt due to funding sources
  – Would raise faculty retention issues
Other Strategies: Requires Major Change to UC Policy

- Eliminate some or all State funding for a few campuses and socialize savings to others, resulting in no restrictions on tuition or nonresident enrollment for campuses with reduced State funding – raises questions of privatization, impact on diversity, etc.
Quality of the University Questions and Considerations
UC: A World-Class Research Public University

- For UC to continue to be the university California has taken pride in and benefited from, it needs sufficient resources to:
  - employ outstanding faculty and staff,
  - recruit and educate well outstanding undergraduate and academic/professional graduate students,
  - engage in robust programs of research, scholarship, and creative activity,
  - share its expertise and resources with the people of California, and
  - provide the infrastructure necessary to support all this
State Funds Provide Core Support for the Academic Program

- UC’s status as a world-class research public university is in jeopardy because of the State’s steady disinvestment in higher education
- State funds are now about 11% of UC’s total budget
- State funds, along with tuition and fees (core funds), provide the resources essential to UC’s academic program
- Fully 97% of ladder-rank and equivalent faculty are paid on core funds (salary, benefits, and retirement)
- Cuts in State funding and absorption of unfunded cost increases are taking their toll on UC quality
Funds Lost and Found

- State funds have been reduced by $880M since the recent crisis began – from $3.26B to $2.38B – a reduction of 27%
- This shortfall is exacerbated by the fact that the State has also not provided funding for $1.2B in mandatory cost increases during that time
- Tuition and fee increases have only mitigated about 39% of the budget gap in recent years – campuses have absorbed the remaining shortfall
- Solutions to funding the budget gap must ultimately help address the projected shortfall in core funds if the academic program – and UC quality – are to be protected
Loss of Core Funds Matters: Examples

- Over 180 academic and administrative programs have been eliminated or consolidated
- Cuts to academic and administrative units have reached as high as 35% in some instances
- The proportion of graduate students to undergraduates lags our competitors
  - In Fall 2010, UC’s proportion was 21.8% vs. 27.2% at other AAU public and 52.8% at AAU private institutions
- Undergraduate student satisfaction indicators, while still high (83% of graduating seniors are at least somewhat satisfied), are lower than they used to be
Loss of Core Funds Matters: Fewer Faculty and More Workload

Faculty Hires and Separations

- Enrollment
- Faculty Hires
- Faculty Separations

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Loss of Core Funds Matters: Fewer Faculty and More Workload

Student-Faculty Ratio
Beyond Salary: What Attracts and Retains Outstanding Faculty?

- Compensation is a critical element in recruiting and retaining top faculty, but there are many other critical elements as well:
  - Quality of their colleagues
  - Ability to bring in outstanding new colleagues
  - Opportunities to build programs of research, teaching, and/or service
  - Quality of students, especially academic graduate students
  - Institutional reputation
  - Anticipation of positive future
UC Quality: A Mixed Picture

• Many traditional indicators of quality show that UC is continuing to do a very good job; for example:
  – Graduation rates continue to be among the highest in the nation among public institutions
  – Time to degree for undergraduates has not declined and remains at very competitive averages for freshman and transfer admits
  – Number of degrees awarded per faculty member is rising
  – Proportion of undergraduates reporting having a research experience has grown over the past six years
  – Research funding continues to rise
• But UC is also seeing clear indications of deterioration – understandable, given the magnitude of the funding we have lost and not replaced in the last several years
• And reputation lags reality
The Financial Crisis Requires Hard Choices in Order to Protect Quality

• Several of the strategies presented today can help UC continue to cope with the current crisis, but many are not achievable or do not save money in the short run
• More importantly, they do not close the $1.5B gap in core funding that UC will face in five years
• A top research university requires a commitment to excellence
• Excellence requires support
  – Decades of investment can be undone in a few short years
  – Once lost, quality is not easily regained
The Financial Crisis Requires Hard Choices in Order to Protect Quality

What we choose to do matters for the future of UC

What we choose \textbf{not} to do also matters for the future of UC

The choices are ours to make
Questions/Discussion

Quality of the University
Questions and Considerations
Next Steps
Funding Challenges: If Initiative Passes

- UC must address funding shortfalls that remain in 2012-13 due to deferral of tuition buy-out funding, unfunded mandatory cost increases, and prior year cuts
  - Of the $411M expenditure plan approved for 2012-13, about $189M represents mandatory costs that must be funded
  - UC received $94.3M from the State (excluding lease revenue bond funding)
  - $95M of temporary balance sheet strategies will be implemented to help mitigate shortfall in the current year
  - Campuses are still addressing prior year cuts ($750M in 2011-12 alone) and unfunded cost increases
Funding Challenges: If Initiative Fails

• Short-term challenge (2012-13)
  – Immediate additional shortfall of $375M ($250M trigger cut plus no $125M in tuition buy-out funding)
  – Replacement of this shortfall would equate to a mid-year tuition increase of 20.3%

• Medium-term challenge (next 18 months)
  – Unlikelihood of State funding increases over next several years
  – Continuing unfunded mandatory cost increases of $350M per year
  – Potential for double-digit tuition increases for several years
  – Possible additional budget cuts

• Long-term challenge (next five years)
  – How do we fund mandatory cost increases and adopt a sustainable funding model?
  – What is the significance for a State-funded research university of no increased State funding for multiple years?
Next Steps: Development of 2013-14 Budget

• Parameters for 2013-14 need to be established

• Published budget plan will assume best-case scenario and indicate proposed funding levels for:
  – Enrollment
  – Compensation increases, including general salary and faculty merit increases
  – Health benefits
  – UCRP employer contributions
  – Cap and trade costs
  – Non-salary price increases
  – Financial aid

• Revenue assumptions will also assume best-case scenario and include modest tuition and fee increase and assumptions about State funding
Next Steps: Development of 2013-14 Budget

- Budget discussion in November
  - Regents will be asked to approve revenue and expenditure plan for 2013-14
  - If initiative fails, a revised budget plan will be submitted for the November meeting following the election
Conclusion
Closing Comments

• President Yudof
• Chair Lansing