

Projection of Required Resources from Core Funds: Detail

Context

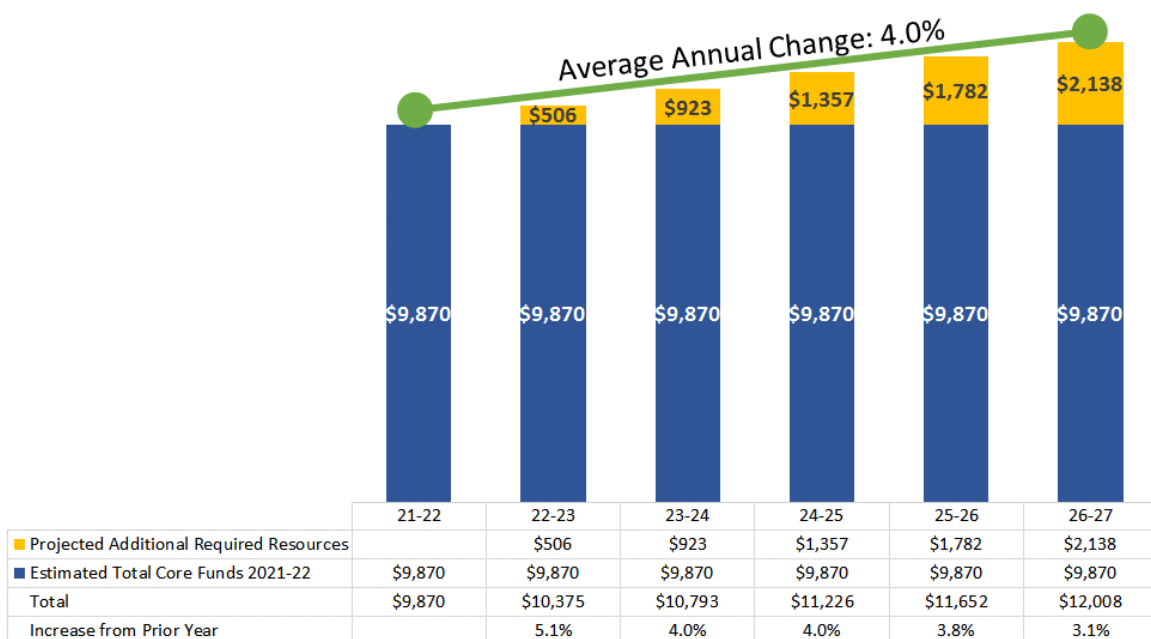
In November 2020, the Regents approved the University of California’s 2021-22 budget plan for current operations. The plan focuses on revenues and expenditures associated with the University’s core funds: State General Funds, UC General Funds, and student tuition and fees. Collectively, these funds provide permanent funding for the University’s core mission and support activities, including instruction, academic and administrative support, student services, operation and maintenance of plant, and student financial aid.

Although the budget plan was focused on the 2021-22 fiscal year, most proposed expenditures in the plan are ongoing, and annual changes to those expenditures can be projected over a multi-year period. This document describes projected changes in those costs for the period 2022-23 through 2026-27, along with the primary drivers and assumptions behind those projections.

Projected Increases in Required Resources

Display 1 depicts estimated core fund resources in 2021-22 (shown in blue) along with projected increases in the resources required for the period 2022-23 through 2026-27 (shown in gold). Figures exclude costs associated with future enrollment growth, which are assumed to be funded separately based on agreed-upon targets with the Legislature.

DISPLAY 1: Projected Required Resources from Core Funds, 2019-20 to 2024-25 (Figures in Millions)



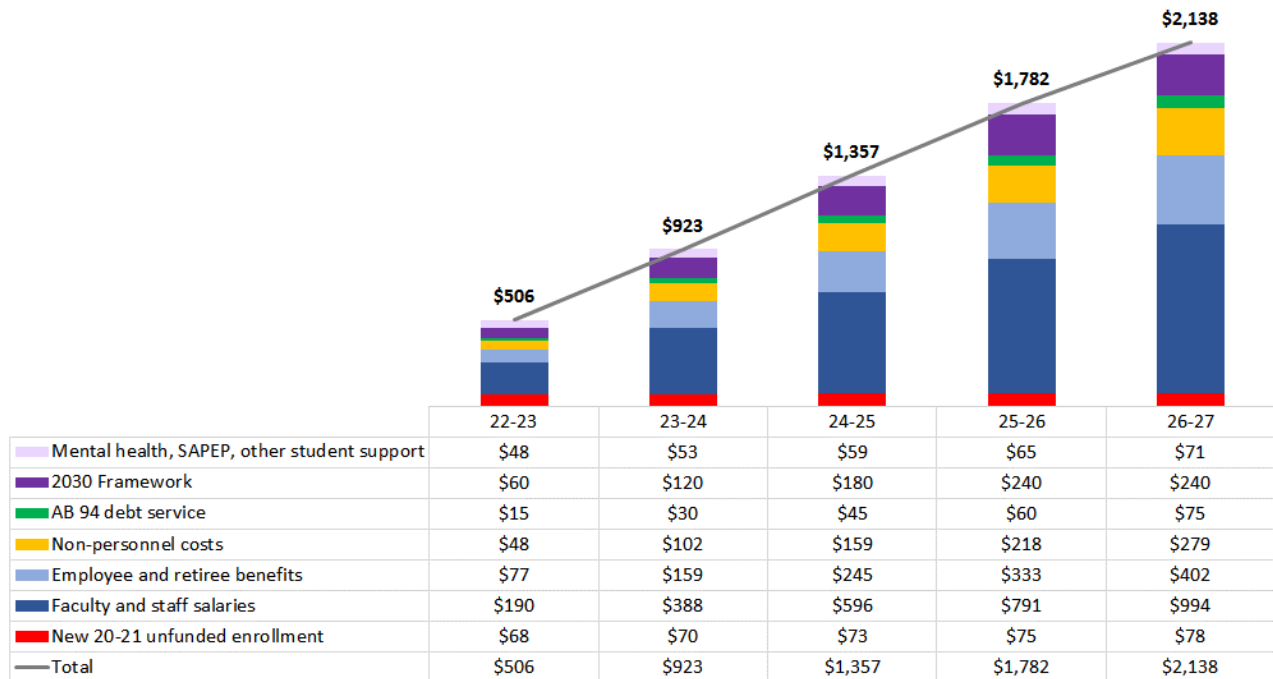
As shown in Display 1, investments to be funded by the University’s core funds are expected to increase by \$2.1 billion between 2021-22 and 2026-27, excluding expenditures associated with enrollment growth. Overall, the projected increase reflects an average annual growth rate of 4.0%. (The higher initial growth in 2022-23 includes funding to address the growth in California resident enrollment that occurred in 2020-21 beyond the level of enrollment growth funded by the State in the Budget Act of 2019.)

The total projected increase of \$2.1 billion is composed of multiple cost drivers that represent a mix of mandatory cost increases and high-priority investments previously endorsed by the Regents. For the years 2021-22 through 2024-25, some of those investments are held flat for purposes of these projections while others are adjusted annually based upon known or anticipated cost increases during those years—for example:

- annual adjustments to represented and nonrepresented wages;
- inflationary adjustments for instructional equipment purchases, supplies, utilities, and other non-personnel costs;
- previously approved adjustments to the employer contribution rate to the University of California Retirement Plan, which is scheduled to increase from 14% in 2019-20 to 17% by 2025-26;
- gradually increasing the number of student mental health professionals across the system to partly address previously identified gaps in staffing levels; and
- increased debt service associated with State-approved capital projects that the University is financing pursuant to AB 94.

Display 2, below, disaggregates the total projected increase of \$2.1 billion into its component parts by year.

DISPLAY 2: Projected Increases in Ongoing Annual Expenditures by Category



Each category of investment is described in greater detail on the following pages.

Faculty and Staff Salaries

		Est.					
		21-22	22-23	23-24	24-25	25-26	26-27
Academic and Staff Salaries	Total - Core Funds Only	4,611	4,801	5,000	5,207	5,403	5,605
	Annual Change		190	199	208	196	203
	Increase from Prior Year		4.1%	4.1%	4.2%	3.8%	3.7%
	Total Change from 2021-22		190	388	596	791	994
<i>Represented Employees</i>	Total - Core Funds Only	1,046	1,078	1,111	1,146	1,181	1,218
	Annual Change		32	33	34	35	37
	Total Change from 2021-22		32	66	100	136	172
<i>Staff - Nonrepresented</i>	Total - Core Funds Only	1,569	1,616	1,664	1,714	1,766	1,819
	Annual Change		47	48	50	51	53
	Total Change from 2021-22		47	96	145	197	250
<i>Academic - Nonrepresented</i>	Total - Core Funds Only	1,997	2,107	2,224	2,347	2,456	2,569
	Annual Change		110	117	123	109	113
	Faculty Merit Program		35	36	37	38	39
	Base Adjustment		60	63	67	70	74
	Closing Competitive Gap		16	17	19	0	0
	Total Change from 2021-22		110	227	350	459	572

Creating and transmitting knowledge in a safe and supportive environment is inherently a people-intensive mission. As a result, faculty and staff salaries represent a significant portion of the University's expenditures from core funds, as they do at other colleges and universities. Moreover, research universities such as UC are especially reliant on employees with a college degree and, in the case of faculty members and many staff, an advanced degree. As shown in the display below, research and development along with education—industry sectors that, taken together, represent the crux of the University's mission—rely on highly skilled workers to a much greater degree than other industries. These employees are in high demand in the labor market.

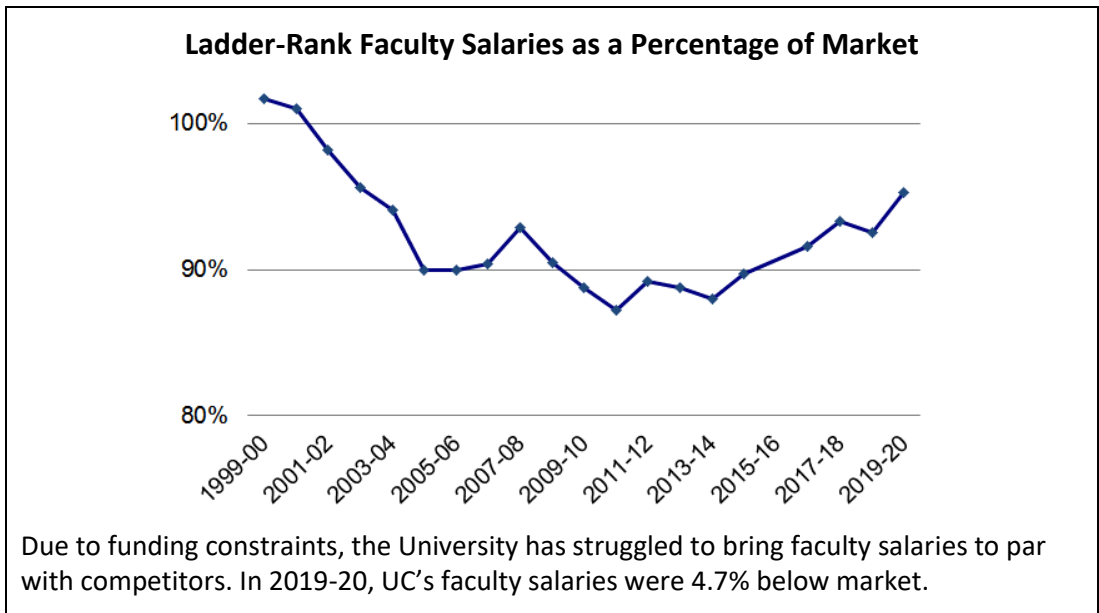
Percentage of Employees with College Degree or Higher by Industry	
Industry	% Highly Skilled
Research & Development	72.0
Education	68.3
Computer & Related Activities	65.7
Publishing	49.3
Electrical & Optical Equipment	42.8
Telecommunications and Post	38.2
Motor Vehicles	22.1
Transport and Storage	18.1
Construction	11.2

Source: Archibald, Robert B, and David H. Feldman (2011). Why Does College Cost so Much? (Oxford: Oxford University Press).

Within this context, the University’s budget plan must address cost projections for both represented and nonrepresented faculty and staff.

- For some represented employees, wage growth is already built into existing collective bargaining agreements. Projections must be used for employees covered by collective bargaining agreements that will come up for negotiation during the timeframe covered by the budget plan. The University’s 2021-22 budget plan includes \$31.4 million for wage growth among represented employees supported by core funds, which represents an increase of approximately 3.1 percent over estimated 2020-21 levels. Similar annual increases are assumed in subsequent years.
- For nonrepresented staff, the projections reflect a merit increase budget of three percent per year. The proposal would keep overall staff salaries nearly flat in constant dollars while allowing individual employees to receive adjustments based upon their performance.
- For nonrepresented faculty, the budget plan must accommodate cost increases associated with the faculty merit program, a cornerstone of the University’s strategy for retaining and supporting faculty members as they grow in experience and productivity and progress through the ranks through a rigorous peer-reviewed process. The budget plan includes \$33.9 million for this purpose in 2022-23 and generally comparable increases in future years. (This cost is effectively mandatory; UC lost two class-action lawsuits in 1994 filed on behalf of faculty members who were eligible for review in 1991-92 but who did not receive merit increases due to budget constraints that year.)

Additional investment will be required to further close the competitive gap that exists between faculty salaries at UC and at the University’s “comparison eight” public and private universities. The University’s competitive position relative to this benchmark has improved slightly in recent years after years of decline, as shown in the display below. The recent improvement is partly attributable to a deliberate multi-year effort, beginning in 2018-19, to address the University’s competitive disadvantage through both a general range adjustment and a special salary plan for ladder-rank faculty.



As of 2019-20, UC's faculty salaries remained 4.7% below market, which represents an estimated aggregate shortfall of approximately \$52 million. For purposes of illustration, the multi-year projections shown below reflect the resources required to close this gap over three years (2022-23 through 2024-25). This investment would be in addition to projected annual scale adjustments of three percent to prevent further erosion of the University's competitive position, plus the annual investments in the University's faculty merit program described above.

Employee and Retiree Benefits

		Est.					
		21-22	22-23	23-24	24-25	25-26	26-27
Employee and Retiree Benefits	Total	1,289	1,366	1,448	1,534	1,622	1,691
	Annual Change		77	82	86	88	69
	Total Change from 2021-22		77	159	245	333	402
<i>UCRP Contributions</i>	Total - Core Funds Only	594	639	687	738	789	818
	Annual Change		45	48	51	51	30
	Total Change from 2021-22		45	93	144	195	224
<i>Employee Health</i>	Total - Core Funds Only	592	616	641	666	693	721
	Annual Change		24	25	26	27	28
	Total Change from 2021-22		24	48	74	101	128
<i>Retiree Health</i>	Total - Core Funds Only	103	111	120	130	140	152
	Annual Change		8	9	10	11	11
	Total Change from 2021-22		8	17	27	38	49

- *Employer Contributions to the University of California Retirement Plan (UCRP).* Updated actuarial projections indicate that the current employer contribution rate to UCRP of 14 percent (including an employer contribution of six percent for Savings Choice participants in the Defined Contribution Plan), combined with the current employee contribution rate, will not be sufficient to adequately fund the plan. As a result, in September 2019, the Regents approved a plan to phase in a three percent increase in the employer contribution rate over six years, resulting in annual increases of 0.5 percent beginning in 2020-21. Projected increases for 2022-23 through 2026-27 include both further increases in the employer contribution rate (through 2025-26) and projected increases in covered compensation resulting from the faculty and staff salary adjustments described above.
- *Employee and Retiree Health Benefits.* Projections reflect annual increases of 4.0 percent in the unit cost of employee and retiree health benefits. These rates are less than the average annual increase projected by the National Business Group on Health annual survey (five percent), but they should be achievable given the University's ongoing efforts to control costs in this area. For retiree health benefits, the overall cost of retiree health is projected to increase by an additional 3.9 percent annually due to projected increases in the number of UC retirees.

Non-personnel Costs

		Est.					
		21-22	22-23	23-24	24-25	25-26	26-27
Non-Personnel Costs	Total	1,473	1,521	1,576	1,632	1,691	1,752
	Annual Change		48	54	57	59	61
	Total Change from 2021-22		48	102	159	218	279

- Prices for items such as instructional equipment, laboratory supplies, computers, machinery, library materials, and purchased utilities tend to rise each year. The budget plan includes projected annual increases of between 3.2 percent and 3.6 percent for these items and services, consistent with projected changes in the implicit price deflator for state and local governments (the institutional equivalent of the Consumer Price Index, which applies to household expenses). For travel-related expenditures, however, projections include a permanent reduction equivalent to 33 percent of core-funded travel expenditures made possible by the increased use of internet-based tools for remote collaboration, conferences, etc. Projected savings are estimated to be \$20 million annually beginning in 2021-22.

AB 94 Debt Service

		Est.					
		21-22	22-23	23-24	24-25	25-26	26-27
AB 94 Debt Service	Total	104	119	134	149	164	179
	Annual Change		15	15	15	15	15
	Total Change from 2021-22		15	30	45	60	75

- The University has relied increasingly on the AB 94 funding mechanism to meet a portion of its immediate capital needs. This mechanism allows the University to use a portion of its State General Fund allocation, subject to certain conditions, to finance the design, construction, and equipment of academic facilities to address seismic and life safety needs, enrollment growth, modernization of out-of-date facilities, and renewal or expansion of infrastructure to serve academic programs. The University's 2021-22 budget includes an additional allocation of \$15 million to cover projected increases in debt service for State-approved projects that are scheduled to be completed that year. A similar increase is planned for each of following five years.
- The University's total capital needs far exceed the amount that can be realistically financed though AB 94 alone. As noted in the University's Capital Financial Plan, facilities that support the instructional and research mission of the University are aging, sustained enrollment growth will require additional space, and changes in pedagogy and technology require the modernization of existing space. In addition, the University's Seismic Safety Policy calls upon the University to provide an acceptable level of earthquake safety for students, employees, and the public who occupy University facilities, to the extent feasible by present earthquake engineering practice.

2030 Framework

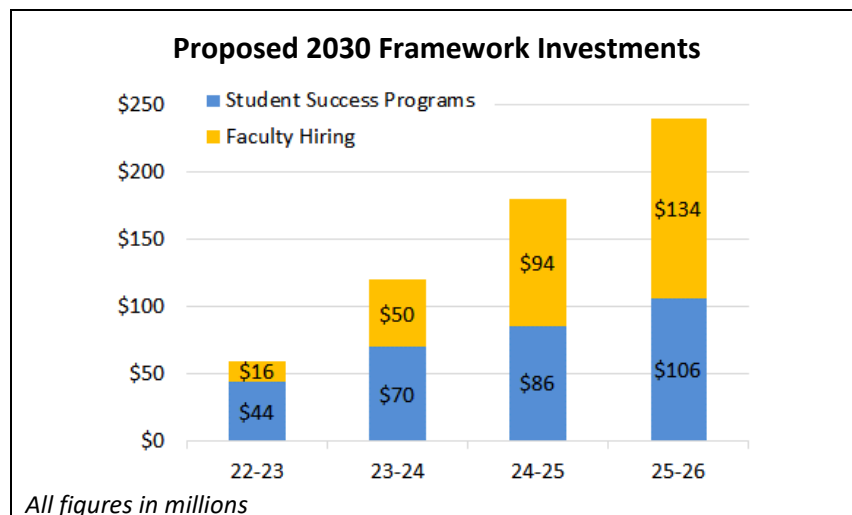
	22-23	23-24	24-25	25-26	26-27
2030 Framework					
Total	60	120	180	240	240
Annual Change	60	60	60	60	0
Total Change from 2021-22	60	120	180	240	240

- Each UC campus has developed strategies for achieving ambitious goals for improving graduation rates and reducing achievement gaps by 2029–30. Collectively, the University refers to these goals as the 2030 Framework. The display below illustrates the overall mix of strategies across the entire system based upon campuses’ proposed levels of investment.

Campuses have also developed multi-year goals related to faculty hiring and development—not simply to accommodate anticipated levels of enrollment growth, but also to enhance the quality of student instruction and engagement, increase faculty diversity, support graduate student growth, expand research opportunities and impact, and support California’s health care needs. To achieve these goals, campuses propose adding approximately 1,100 ladder-rank faculty members, 850 clinical faculty, and 400 non-ladder-rank faculty. Funding for the majority of the proposed growth in ladder-rank faculty is already incorporated into the estimated marginal cost of enrollment growth (and is hence excluded from the figures above). Faculty hiring above and beyond the level needed to keep pace with enrollment growth requires additional funding.

Student Success Strategy	Pct. of Total
Student Advising	27%
Academic Support	20%
Online Course Development	15%
New Degrees/Courses	15%
Scholarships and Work-Study	5%
Analytical Tools	5%
Degree Completion	5%
Summer Bridge	3%
Other	5%
Total	100%

Campus efforts related to degree attachment, eliminating achievement gaps, and investing in faculty are estimated to require annual funding of \$240 million once they are fully phased in, as shown in the display below. The 2020-21 budget plan includes \$60 million as an initial investment towards achieving these longer-term goals with similar augmentations through 2023-24.



Mental Health, SAPEP, and Other Student Support

	22-23	23-24	24-25	25-26	26-27	
New Investments	Student Mental Health	5	11	16	22	28
	SAPEP	23	23	23	23	23
	Undoc/Foster/Frm Incarcerated	20	20	20	20	20
	Total Change from 2021-22	48	53	59	65	71

- Student Mental Health.* The University must continue to increase its investment in student mental health professionals in order to improve student access to these critical resources. The 2021-22 Budget Act included \$15 million in new permanent support for this purpose – approximately equal to the revenue that would have been generated over three years if the University had increased the Student Services Fee by 5 percent annually and set aside one-half of the resulting net revenue for student mental health. Additional investments will be required over time to keep pace with enrollment growth and to make meaningful progress in meeting students’ need for mental health services. The multi-year projections include comparable annual increases of \$5 million to \$6 million in years 2022-23 through 2026-27.
- Student Academic Preparation and Educational Partnerships (SAPEP).* The University of California's portfolio of SAPEP programs prepares California students — including those who are first-generation college-goers or socioeconomically disadvantaged, and those for whom English is a second language — for postsecondary education and for graduate and professional school opportunities, as well as success in the workplace. SAPEP includes academic preparation programs; community college articulation support; school and community partnerships; undergraduate, graduate, and educator preparation programs; and online and technology-assisted services. The 2021-22 Budget Act provided one-time funding of \$22.5 million to support this portfolio of programs; the multi-year projections assume that this funding would be made permanent in 2022-23.
- Support for Undocumented Students, Former Foster Youth, and Carceral System Impacted Students.* The 2020-21 budget plan approved by the Regents in November 2019 includes expanding student services for three categories of UC students: undocumented students, foster youth, and carceral system-impacted students (including students who were formerly incarcerated themselves). The plan includes an ongoing investment of \$20 million for programs and services to support these students, who have already overcome tremendous obstacles in pursuing their educational goals but who still face unique and significant challenges.

New 2020-21 Unfunded Enrollment

	22-23	23-24	24-25	25-26	26-27	
New 2020-21 Unfunded Enrollment	Total	68	70	73	75	78
	Annual Change	68	2	3	3	3
	Total Change from 2021-22	68	70	73	75	78

- The 2019-20 Budget Act provided the University with \$49.9 million to cover the State’s share of the marginal cost of enrollment growth for 4,860 California resident undergraduates (on a full-time equivalent, or FTE, basis) between 2018-19 and 2020-21. This State support is equivalent to approximately \$10,300 per student. Actual California undergraduate enrollment grew by 4,303 FTE in

2019-20 and is estimated to have grown by an *additional* 6,954 FTE in 2020-21, for total estimated growth of 11,257 students—or 6,397 more than the 4,860 funded in the 2019-20 Budget Act. The resulting shortfall in State support of approximately \$66 million (\$10,300 per student for 6,397 students) is an ongoing, permanent cost that the University must cover in order to sustain 2020-21 enrollment levels.

- The 2021-22 Budget Act expresses the intent of the Legislature to provide additional enrollment growth funding in 2022-23. As a result, the multi-year plan includes permanent ongoing support for these students beginning in 2022-23, with the State’s share adjusted annually to reflect changes in the implicit price deflator for state and local governments.