Revised
Additions shown by underscoring; deletions shown by strikethrough

B4

Office of the President

TO MEMBERS OF THE BOARD OF REGENTS:

ACTION ITEM

For Meeting of November 14, 2019

APPROVAL OF THE UNIVERSITY OF CALIFORNIA'S 2020-21 BUDGET FOR CURRENT OPERATIONS

EXECUTIVE SUMMARY

The Regents are asked to approve the proposed budget plan shown in Attachment 1, *University of California 2020-21 Budget Plan for Current Operations.* The proposed plan represents a statement of the University's funding priorities in advance of the Governor's January State budget proposal for the next fiscal year.

The budget plan includes new instructional expenditures associated with enrollment growth, particularly growth in California undergraduates; required debt service for State-approved capital projects; investments to support the University's multi-year framework for increasing degree attainment, closing achievement gaps between student populations, and investing in the next generation of faculty and research; investments in current faculty and staff; projected increases in retirement-related expenses; and other high-priority investments, including funding for the School of Medicine at the Riverside campus and student mental health services. The plan also requests one-time State funds for (1) a proposed Deferred Maintenance Plus program to address critical deferred maintenance needs while also achieving long-term benefits related to energy efficiency, reduced greenhouse gas emissions, and lower energy and maintenance costs; and (2) expanding innovation and entrepreneurship programs, including activities on the campuses that create opportunities for women, underrepresented groups, and underserved communities, similar to what the legislature approved in 2016 in AB 2664.

The plan includes a balanced funding strategy that includes support from the University's own efforts to operate more efficiently, increase unrestricted philanthropic support, and optimize the investment of working capital to support the operating budget; additional permanent and one-time State support; and revenue from student tuition and fees resulting from enrollment growth.

The 2020-21 budget cycle presents an opportunity for the University to partner with the State to advance shared goals of access, academic excellence, and affordability.

RECOMMENDATION

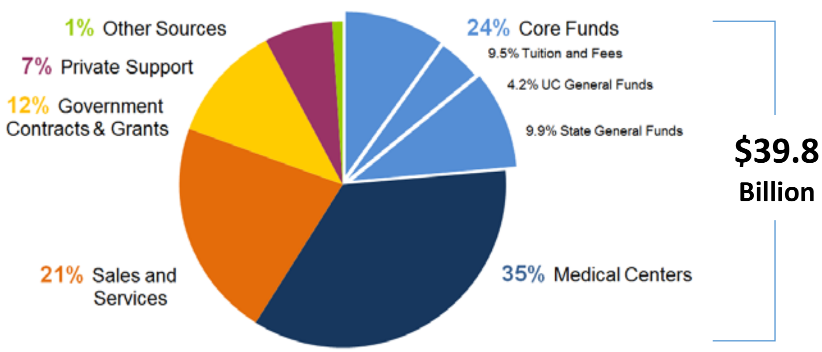
The President of the University recommends that the Regents approve the proposed budget plan shown in Attachment 1, *University of California 2020-21 Budget Plan for Current Operations*.

BACKGROUND

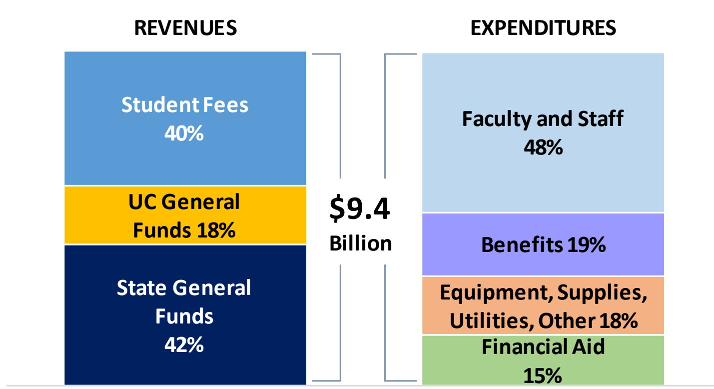
The size and composition of the University's operating budget reflects the University's broad and diverse impact on Californians. The University's operating revenue, estimated at $39.8 billion in 2019-20, funds essential programs related to teaching, research, and public service, as well as a wide range of other activities, including teaching hospitals, University Extension, housing and dining services, and sponsored research.

The University's "core funds," which include revenues from State General Funds, UC General Funds, and student tuition and fees, provide permanent funding for the University's core missions, as well as the administrative and support services needed to perform them. Totaling an estimated $9.4 billion in 2019-20, these funds represent 24 percent of UC's total operations. While all fund sources are critical to the success of the University, much of the focus of UC's strategic University-wide budget process and interaction with the State is dedicated to the sources and uses of these core fund sources.

DISPLAY 1: Overview of the University of California Budget, 2019-20 (Estimated)



DISPLAY 2: Revenue and Expenditures from Core Funds, 2019-20 (Estimated)



COMPONENTS OF THE UNIVERSITY'S 2020-21 BUDGET PLAN

The proposed 2020-21 budget plan is organized around two broad categories of investments—sustaining core operations and additional high-priority investments—both of which are needed to maintain and improve upon the University's strong track record of providing high-quality instruction to a socioeconomically diverse student body, conducting groundbreaking research that advances the frontiers of knowledge, and enhancing the vitality of the California economy. In addition, the plan proposes a Deferred Maintenance Plus program to address critical deferred maintenance needs while also achieving long-term benefits related to energy efficiency, reduced greenhouse gas emissions, and lower energy and maintenance costs. Lastly, the plan requests renewed State support to foster innovation and entrepreneurship, building upon successes enabled by AB 2664 (2016) and creating new opportunities for women, underrepresented groups, and underserved communities. Details about these and other components of the plan are described below. Information about the University's entire operating budget may be found at ucop.edu/operating-budget/budgets-and-reports/current-operations-budgets/.

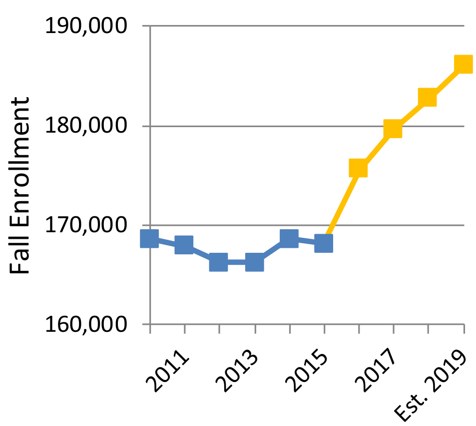
Sustaining Core Operations

Sustaining core operations related to the University's three-part mission of instruction, research, and public service is a prerequisite to achieving the ambitious goals of the University's multi-year framework to increase degree production, eliminate achievement gaps, and invest in faculty and research. These operations have been challenged in recent years due to a combination of factors, including but not limited to the following:

- **Enrollment growth not fully supported by new State funds.** Display 3, below, shows the trend in fall enrollment of California resident undergraduates since 2010. The growth in recent years is especially noteworthy: in fall 2019, UC campuses expect to enroll more than 17,000 additional California undergraduates than they did in fall 2014. Display 3 also shows that between 2014-15 and 2018-19, growth in California undergraduate enrollment exceeded the levels stipulated by State Budget Acts by nearly 5,500 full-time equivalent students.

DISPLAY 3: Trends in California Resident Undergraduate Enrollment and Funding

Fall Enrollment



Actual Growth vs. Growth Expected in Budget Acts

Year	*Total Enrollment*	*Change from Prior Year*	*Growth Expected in Budget Act*	*Actual Growth Above Expected Level*
14-15	174,681			
15-16	173,642	(1,039)	-	(1,039)
16-17	180,389	6,747	5,000	1,747
17-18	185,059	4,670	2,500	2,170
18-19	189,133	4,074	1,500	2,574
Total Since 2014-15	**14,452**		**9,000**	**5,452**

(Full-time-equivalent enrollment, including summer.)

Moreover, in several years, a portion of the growth stipulated by State Budget Acts was to be supported from the University's own resources rather than by additional State support. For example:

- The 2015-16 Budget Act provided only 50 percent ($25 million) of the State's traditional share of the marginal cost for enrollment growth of 5,000 students between 2014-15 and 2016-17.
- The 2016-17 Budget Act provided only 74 percent ($18.5 million) of the State's traditional share of the marginal cost for enrollment growth of 2,500 students between 2016-17 and 2017-18.
- The 2017-18 Budget Act provided no State support for enrollment growth of 1,500 students in 2018-19; the University was expected to identify funding to support these students from its own resources.

Without the critical support that the State has historically provided to cover its share of enrollment growth, campuses must use limited resources to serve an ever-growing student population. The result is often a long-term degradation in the quality and scope of the programs and services relied upon by UC students.

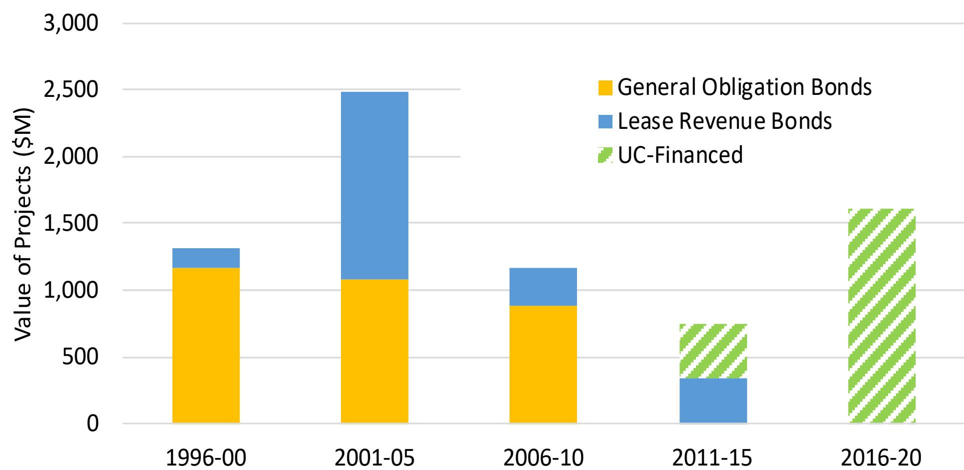
- **Net loss of $95 million in one-time State support in 2019-20.** The University received $145 million of one-time funds in 2018-19, including $70 million to avoid the need for a tuition increase that year; $25 million for past California resident enrollment growth above the growth previously funded by the State; $10 million for 2018-19 enrollment growth; and $40 million to temporarily reverse a previous cut in State General Fund support related to graduate medical education. One-time funding is not an equivalent substitute for tuition revenue—a permanent fund source—or a viable funding strategy for sustaining student enrollment, since instructing and supporting students requires ongoing resources. The 2019-20 Budget Act discontinued most of this funding, providing instead $10 million for ongoing support of 2018-19 enrollment growth and permanently restoring the $40 million provided for graduate medical education. The result is an ongoing net shortfall of $95 million in core funds.

- **Restart of employer contributions to the University of California Retirement Plan (UCRP).** In the early 1990s, the Regents suspended University and employee contributions to UCRP after actuaries determined that UCRP was adequately funded to provide benefits for many years into the future. The University estimates that in the nearly 20 years during which contributions were not required, the State saved more than $2 billion in contributions for those UCRP members whose salaries were State-funded. The University restarted contributions in April 2010. The employer contribution from core funds now exceeds $400 million annually, resulting in less funding available for other parts of the University's operating budget.

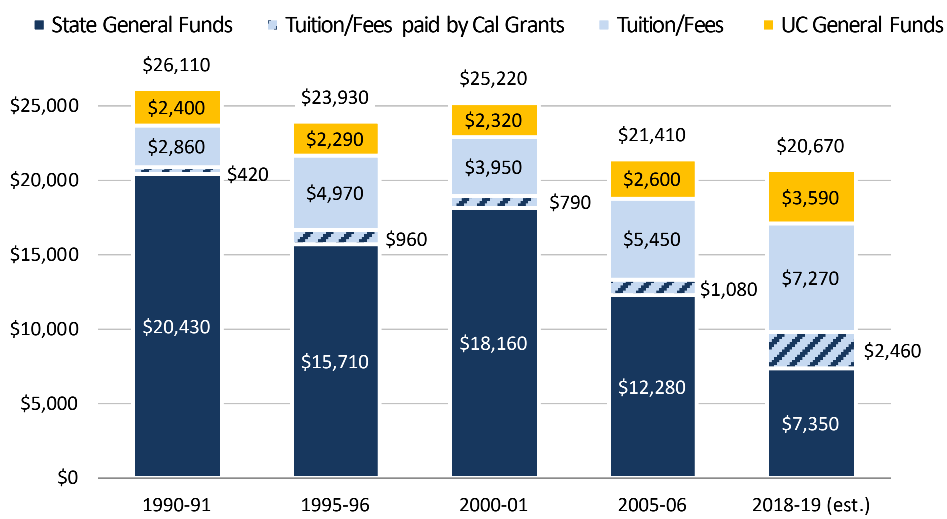
- **Increased need to divert operating funds for capital needs.** For many decades, the University relied extensively on State-issued bonds to meet capital needs associated with a growing student population and an aging infrastructure. The last State general obligation bond that provided funding for UC capital outlay projects was passed in 2006, however, and the State has not issued lease revenue bonds for the University since 2012. More recently, the University has used alternative fund sources—including a growing portion of its State General Fund appropriation—to finance critical capital projects. The ability to use State funds for debt service and related payments for State-approved projects was established by AB 94 (2013). Display 4, below, illustrates the resulting shift from capital projects funded by State-issued bonds to projects financed under AB 94. Over $80 million of the University's 2020-21 State General Fund appropriation will be used for debt service on AB 94 projects instead of supporting campus operating budgets.

These and other challenges have contributed to an overall decline in the resources available to the University to carry out its instructional mission. As shown in Display 5, on a per-student basis, estimated average expenditures for instruction in 2018-19 were substantially lower than they were less than two decades ago.

DISPLAY 4: Approved Funding for Capital Needs from State Bonds and UC-Financed AB 94 Debt



DISPLAY 5: Average Expenditures for Instruction per Student from Core Funds



The University continues to enroll and graduate thousands of students each year even as instructional expenditures per student have declined. Achieving positive outcomes at a lower cost can be interpreted as a sign of increased efficiency and the effective use of limited resources. Yet signs have emerged that despite improvements in some measures of institutional performance, the quality of instruction, the adequacy of student services, and students' overall satisfaction with their educational experience have declined over time.

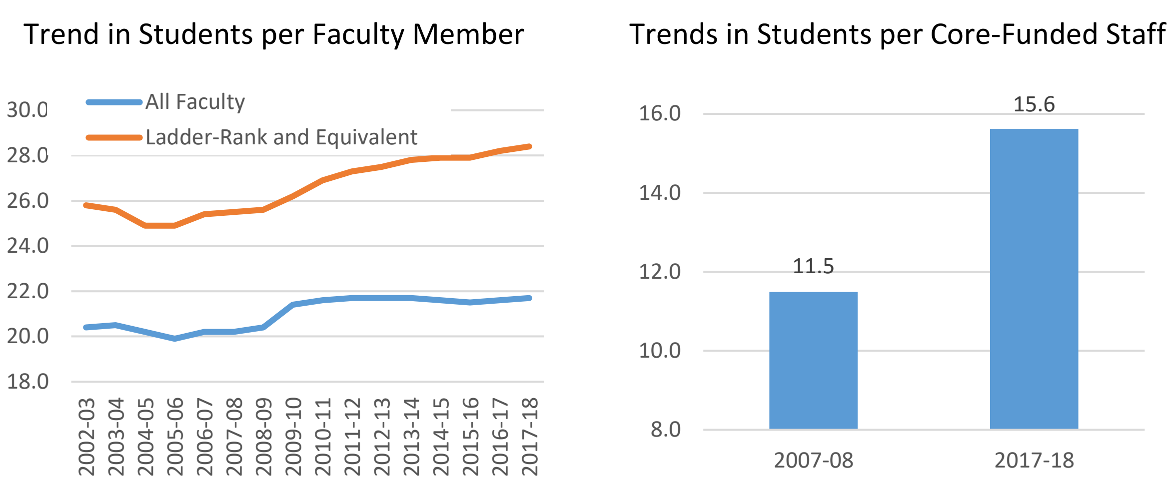
Indicators of this trend are shown in Display 6 below. The number of students per faculty member (including lecturers) has increased by more than 1.0 since 2002–03. More striking, however, is the larger increase in the number of students per ladder-rank and equivalent faculty member, which has grown from fewer than 25 in 2004–05 to more than 28 in 2017–18.

The number of students per University staff member has grown even faster. University staff provide essential support services such as student advising, mental health counseling, financial aid administration, and registrar services. They also provide critical support to faculty members, graduate student researchers, and other members of the UC community. The number of staff supported by core University funds—State support, tuition and fees, and UC general funds—has not kept pace with student enrollment: core funds supported one staff member for every 11.5 students in 2007–08 compared to one for every 15.6 students in 2017-18.

These trends are consistent with several troubling findings from the University of California Undergraduate Experience Survey (UCUES). Compared to 2006,

- students are much less likely to strongly agree with the statement, "Knowing what I know now, I would still choose to enroll at my UC campus";
- a declining percentage of students are able to get into their first-choice major; and
- students are less likely to know at least one professor well enough to ask for a letter of recommendation.

DISPLAY 6: Trends in Students per Faculty Member and Students per Core-Funded Staff



Responses like these suggest that further reductions in the resources available to support students—either in terms of faculty members or University staff—would work against the improvements in student outcomes that the University wants to achieve. Adequate investment in both personnel and non-personnel resources that define the UC experience for students are an essential part of the University's multi-year budget plan.

Support for Core Operations in the Budget Act of 2019-20

The 2019-20 Budget Act was a positive development for the University in many respects. It increased the University's permanent State support by 7.1 percent over 2018-19 levels, for example, and provided the University with $143.5 million in one-time funds to help the University address a portion of its most critical deferred maintenance needs.

Much of the increase in new permanent funding, however, was associated with the expectation that the University initiate or expand programs and services above current levels in order to address State and University priorities such as enrollment growth, support for student basic needs, and other purposes. Other new permanent funds were provided to replace $50 million in one-time funding provided in 2018-19 and hence represented no additional net revenue to UC campuses. The remaining increase to the University's permanent budget—$119.8 million—was further offset by the discontinuation of the $95 million in one-time funding described above.

Display 7, below, depicts the impact of 2019-20 Budget Act on the net amount of new permanent revenue available to address other costs associated with sustaining core operations in 2019-20. Despite a 7.1 percent increase in permanent State support for the University, the incremental State support available to address cost increases associated with the University's core academic mission represented a 0.7 percent increase over 2018-19 levels, or barely one fifth of the rate of inflation that year (3.5 percent). Combined with the University's decision to hold in-state tuition and the Student Services Fee flat in 2019-20, the percentage increase to the University's entire core funds budget was even less.

DISPLAY 7: Net Increase in State Funding to Sustain Core Operations, 2019-20

Total 2019-20 Increase in Permanent Funding		**$247.5**
New Workload	Enrollment growth 19-20 & 20-21	($49.9)
	Basic needs/rapid rehousing	($18.5)
	Student mental health	($5.3)
	Summer financial aid	($4.0)
Replace One-Time Funds	Undo graduate medical education cut	($40.0)
	Fund prior-year enrollment	($10.0)
Remaining for 2019-20 cost increases		**$119.8**
Discontinued Funds	CA undergraduate enrollment	($25.0)
	Buy out 18-19 tuition increase	($70.0)
Net available for sustaining core operations		**$24.8**
	As % of 2018-19 permanent base	***0.7%***

(All figures in millions)

Proposed Investments for Sustaining Core Operations in 2020-21

The budget plan includes the proposed investments shown below to sustain core operations.

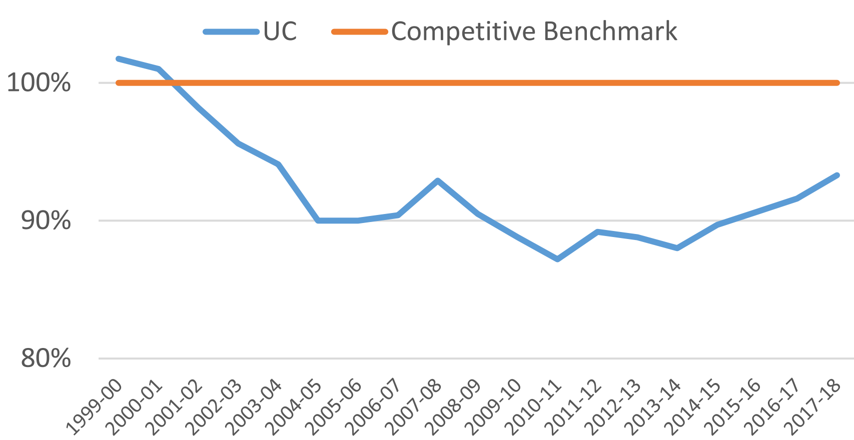
- *Restoring Support for Current Enrollment.* The budget plan includes $35 million for a portion of the ongoing expenditures that were originally supported by $95 million in one-time funds provided to the University in 2018-19. Absent an increase in tuition or the Student Services Fee in 2018-19, campuses relied on these one-time funds to cover cost increases identified in the University's 2018-19 budget plan, including expanding student mental health services ($4.8 million) and addressing funding shortfalls resulting from the enrollment of over 2,500 California resident undergraduates between 2014-15 and 2017-18 above the enrollment growth supported in past Budget Acts. These are permanent cost increases that can only be addressed by permanent funds. The University proposes the restoration of the full $95 million over a three-year period beginning 2020-21.

- *Faculty and Staff Support.* 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. The University's budget plan must address cost projections for both represented and nonrepresented faculty and staff.

  For nonrepresented faculty, the budget plan must accommodate what are essentially mandatory 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.

  The University must also make strategic investments in order to further close the competitive gap that exists between faculty salaries at UC and at the University's "comparison eight" public and private universities. As shown in Display 8, below, the

DISPLAY 8: Ladder Rank Faculty Salaries as a Percentage of Market



University's competitive position relative to this benchmark has improved slightly in recent years after years of decline. In 2019-20, the University initiated a multi-year salary strategy to address this competitive disadvantage through both a general range adjustment and a special salary plan for ladder-rank faculty. The budget plan for 2020-21 includes $65.6 million of new salary expenditures for nonrepresented faculty, which includes $14.5 million for the special salary plan.

For nonrepresented staff, the University proposes a merit increase budget of three percent. The proposal would keep overall staff salaries nearly flat in constant dollars while allowing individual employees to receive adjustments based upon their performance. The budget plan includes $44.8 million for this purpose.

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 2020-21 budget plan includes $34.2 million for wage growth among represented employees supported by core funds, which represents an increase of approximately 3.6 percent over estimated 2019-20 levels.

- *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. The 2020-21 budget plan incorporates the first year of this increase. Nearly half ($19.3 million) of the budgeted increase of $40.7 million in employer contributions to UCRP for employees supported by core funds is due to the increase in the employer contribution rate.

- *Employee and Retiree Health Benefits.* The University currently projects an increase of 3.4 percent in the unit cost of employee and retiree health benefits next year. This rate is less than the annual increase projected by the National Business Group on Health annual survey (five percent), but it 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 3.6 percent annually due to projected increases in the number of UC retirees. The budget plan includes $18.1 million to address the projected increase in employee health benefits and $7.6 million to address higher retiree health benefit costs.

- *Instructional Equipment, Supplies, and Other Non-Salary Price Increases.* 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 $43.8 million to address increased expenditures in this area, representing a projected increase of 2.9 percent consistent with the 2020-21 implicit price deflator for state and local governments (the institutional equivalent of the Consumer Price Index, which applies to household expenses).

- *Debt Service for AB 94 Capital Projects.* As noted earlier, 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 budget proposal for 2020-21 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.

  The University's total capital needs, however, 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.

  A new State General Obligation Bond would provide much-needed resources to help close the gap between the University's projected capital needs and currently available resources. Until such funding is available, however, the University will continue to use the AB 94 funding mechanism to help address its most critical capital needs.

Additional High-Priority Investments

Funding the Multi-Year Framework

The additional resources needed to achieve the goals laid out in the University's multi-year framework can be grouped into two broad categories: (1) funding for projected increases in enrollment growth, and (2) funding to support other elements of the framework, including enhancing degree attainment, eliminating achievement gaps between different student populations, and investing in faculty above and beyond what would normally be expected from enrollment growth alone. Both categories of investment, along with the proposed level of investment for 2020-21, is described below.

- *Enrollment Growth.* Moderate levels of undergraduate and graduate enrollment growth will be required to achieve the University's goal, under the multi-year framework, of producing an additional 200,000 degrees between now and 2030 above the estimated one million degrees that the University already expects to produce during that period. The framework includes growth in California resident undergraduates, graduate students, and nonresident undergraduate students.

The 2019-20 Budget Act provides welcome support for California undergraduate enrollment growth in both 2019-20 and 2020-21, calling for an additional 4,890 students by 2020-21 over 2018–19 levels. Preliminary estimates suggest that the University will enroll approximately 3,500 more California undergraduates in 2019-20 than it did in 2018-19, allowing for additional enrollment growth of about 1,400 students in 2020-21.

Graduate students are critical for California's future workforce, conduct groundbreaking research themselves, and help instruct and mentor undergraduate students. The multi-year framework includes a proposed increase of 4,000 graduate students between 2018–19 and 2022–23, which would begin to reverse a long-term decline in the percentage of UC students who are enrolled in graduate programs. Consistent with framework, the budget plan includes funding for 1,000 additional graduate students in 2020-21.

The multi-year framework also includes nonresident undergraduate enrollment growth, primarily at campuses that currently enroll relatively few out-of-state students and consistent with Regents Policy 2109: Policy on Nonresident Student Enrollment. The 2020-21 budget plan reflects enrollment growth of 700 nonresident undergraduates.

The budget plan includes $60.9 million to reflect the estimated aggregate cost of enrollment growth in 2020-21. For California undergraduate students and for graduate students, this cost is expected to be covered through a combination of the tuition and fees paid by these students and State support consistent with the State's traditional share of marginal cost funding. For nonresident undergraduate students, the cost will be covered entirely by these students' tuition and fees, including Nonresident Supplemental Tuition.

The plan also includes $14.4 million in additional student financial aid resulting from this enrollment growth, generated from the University's practice of setting aside a portion of new tuition and fee revenue to fund its financial aid programs.

Lastly, the plan includes $22.5 million to support further anticipated enrollment growth of 1,000 California undergraduates and 1,000 graduate students in 2021-22, consistent with the State's recent practice of "pre-funding" enrollment growth in recognition of the fact that campuses begin to incur a portion of enrollment-related expenses during the preceding fiscal year.

- *Enhancing Degree Attainment, Eliminating Achievement Gaps, and Investing in Faculty.* Each UC campus has developed strategies for achieving ambitious goals for improving graduation rates and reducing achievement gaps by 2029–30. Display 9 illustrates the overall mix of strategies across the entire system based upon campuses' proposed levels of investment.

DISPLAY 9: Areas of Proposed Campus Investments

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

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. Between 2018–19 and 2022–23, 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. Faculty hiring above and beyond the level needed to keep pace with enrollment growth requires additional funding.

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. The 2020-21 budget plan includes $60 million as an initial investment towards achieving these longer-term goals.

UC Riverside School of Medicine

The School of Medicine at UC Riverside opened in 2013 as the first public MD-granting medical school to open in California in over 40 years. To help address the healthcare needs of Inland Southern California and the state, the School is training a culturally competent and diverse physician workforce. The School's mission directly addresses the needs of Inland Southern California, which has the greatest shortage of primary care and specialist physicians of any region in the state. Now enrolling approximately 250 medical students, the School has graduated three classes totaling 128 students and has placed 106 additional physicians in residency programs in California, with 40 of those residents remaining in Inland Southern California.

The 2013-14 Budget Act included $15 million in permanent State funding for the School, which was crucial to the first phase of the medical school's establishment. This amount, however, has not been sufficient to fully develop the School's operational infrastructure, address its capital needs, or expand class sizes and faculty, all of which are in service of the School's goal to address the region's physician shortage. To help cover this shortfall during the first five years of operation, the Riverside campus provided additional funding to support the School. Further campus subsidization is not sustainable without adversely affecting other programs at Riverside.

Additional ongoing operating revenues are needed to support existing programs and to expand enrollment. The 2020-21 budget plan includes $25 million of new ongoing support to enable the School to sustain current operations, increase total enrollment to an estimated 300 to 320 students, ensure sufficient space for teaching and learning, and replace depreciated equipment. The School would be positioned to hire an additional 40 faculty full-time-equivalent employees, including several within clinical academic units that would help support the educational experience of medical students. These hires would allow the School to reduce its reliance on voluntary and community based faculty, providing more stability in the training program. The School would also be able to hire additional staff to support the growth in student enrollment and faculty. The proposed new funding is essential to enabling the School to meet its long-term strategic needs and to more effectively tackle the physician shortage of Inland Southern California.

Student Mental Health

The University must continue to increase its investment in counselors and other student mental health professionals in order to improve student access to these critical resources. The 2019-20 Budget Act included $5.3 million in new permanent support for this purpose. Additional investments, however, will be required in 2020-21 and future years to make meaningful progress in meeting students' need for mental health services. The 2020-21 budget plan includes an additional investment of $5.3 million towards meeting this important need, which is equivalent to new funding that would otherwise be generated by an inflation-based adjustment to the Student Services Fee. Moreover, funding to permanently restore the $95 million of one-time support that the University received in 2018-19 would provide an additional $4.8 million for student mental health services, as described earlier in this item. (See *Restoring Support for Current Enrollment*, above.)

REVENUE COMPONENTS OF THE BUDGET PLAN

The proposed funding strategy to support the 2020-21 budget plan includes the following sources of support:

- *Revenues and savings achieved from the University's own efforts to generate funds and reduce costs.* The University has made great strides over the past decade in identifying alternative revenue sources, reducing elements of its cost structure, and optimizing the use of existing resources. The budget plan expects further contributions from these efforts. Specifically:
  - Additional opportunities exist to shift a portion of the University's working capital into higher-yield investment vehicles, including the University's Total Return Investment Pool (TRIP) and a new Blue and Gold investment pool. The objective of the new pool is to provide a low-cost, liquid, diversified investment vehicle that campuses can utilize to earn a higher return than would otherwise be expected from short-term cash management vehicles. The University believes that such a

strategy could generate year-over-year increases of up to $30 million in new, fungible resources to address a portion of the University's overall budget needs.

- The budget plan also calls for sustained increases in philanthropic giving. Although unrestricted gifts represented only one percent of total private support in 2017–18, restricted gifts designated for certain purposes (e.g., financial aid or instruction) can help campuses make certain investments identified in the multi-year plan. The plan includes an increase of $22 million in fungible philanthropic support over current levels.
- The University continues to expand efforts to leverage its purchasing power in order to negotiate discounts and rebates from vendors and service providers. The budget plan anticipates additional year-over-year savings of $10.9 million from purchases attributable to the University's core funds operating budget, equivalent to 25 percent of the University's projected increase in non-salary expenditures from core funds.

- *State support.* The plan will include four categories of new ongoing State support:
  - *A ~~7.5~~ <u>7.1</u> percent adjustment (~~$278.3~~ <u>$264.3</u> million) to the University's current permanent base State appropriation.* In conjunction with the other revenues and cost-savings efforts included in the plan, this funding would allow the University to meet ongoing budget needs related to sustaining core operations as described and to avoid the need to increase tuition, the Student Services Fee, or Nonresident Supplemental Tuition in 2020-21.
  - *State funding for enrollment growth.* The State has been an essential partner in subsidizing enrollment growth for California resident undergraduates and graduate students throughout the University's 150-year history. By continuing and strengthening that partnership, the University and the State can ensure that future generations of UC students have access to the same or better quality of instruction, academic support, equipment, and other resources that were available to earlier generations of students. For planning purposes, the University has assumed a State marginal cost contribution of approximately $11,300 per student for 2020-21. Tuition and fees derived from enrollment growth, net of financial aid, would expected to cover the remaining portion of the marginal cost.

    The plan requests funding to increase California resident enrollment and graduate student enrollment as described earlier in this item ($27 million) less funding provided to the University in the current Budget Act for further enrollment growth ($14 million); the net amount of new funding requested for this purpose is $13 million. In addition, the University asks that the State continue its recent practice of providing funding for enrollment growth one year in advance of when the growth is slated to occur, which greatly facilitates campus planning efforts. The plan includes $22.5 million to "pre-fund" additional enrollment growth of 1,000 California undergraduates and 1,000 graduate students in 2021-22.

  - *Funding for the degree attainment and faculty growth elements of the multi-year framework*. The 2020-21 budget plan includes $60 million to support campus efforts to enhance degree attainment, eliminate student achievement gaps, and invest in faculty. This funding represents the first year of a multi-year investment as described above.
  - *UC Riverside School of Medicine*. The budget plan includes $25 million of new ongoing funds to support the UC Riverside School of Medicine (described above).
  - *Student mental health services*. The budget plan includes $5.3 million of new ongoing funds to support student mental health services across the system (described above).

- *Tuition, Student Services Fees, and UC General Funds (Nonresident Supplemental Tuition).* The 2020-21 budget plan includes new revenue from Tuition and the Student Services Fee ($39 million combined), along with new Nonresident Supplemental Tuition revenue ($20.8 million). All of the additional revenue is attributable to enrollment growth, not to any proposed increase to the rates themselves. Although past multi-year plans presented to the Regents have included rate increases generally pegged to increases in the California Consumer Price Index (CPI), the 2020-21 budget plan instead incorporates the net revenue that would result from CPI-based increases into the proposed 7.5 percent adjustment to the University's current base State appropriation.

ONE-TIME FUNDING REQUEST: DEFERRED MAINTENANCE PLUS (DM+)

The 2020-21 budget plan requests $450 million in one-time State General Fund support for a new program to address critical deferred maintenance needs while also increasing energy efficiency, reducing greenhouse gas emissions, and lowering future energy and maintenance costs. The program would build upon efforts such as the University's Carbon Neutrality Initiative and previous State commitments to help the University address its significant backlog of deferred maintenance projects and to be net carbon neutral by 2025.

The proposed program, referred to as Deferred Maintenance Plus (UC DM+), supplements funding needed for high-priority deferred maintenance projects with resources specifically designated to improve energy efficiency and reduce long-term operating costs. This approach provides a framework for strategic investments in California's future. The University's deferred maintenance programs generally replace existing equipment with more efficient, modern systems. When new equipment uses less energy or switches to cleaner energy sources, these projects can also reduce ongoing operational costs, lower greenhouse gas emissions, and also result in improved conditions for building occupants. Initial investments in traditional deferred maintenance projects can be leveraged and expanded to deliver projects that help UC meet its energy and climate neutrality goals.

The UC DM+ program uses a simple funding model: for every dollar spent on deferred maintenance projects, at least two dollars will be spent on targeted energy efficiency and building or infrastructure performance improvements. The approach provides a long-term benefit by allowing future utility savings to be directed back to support other critical campus needs. The UC DM+ program provides an opportunity for the University to serve as a "living laboratory" to demonstrate next-generation, energy-focused deferred maintenance programs for the rest of California.

Examples of projects implemented on UC campuses that both reduce greenhouse gas (GHG) emissions and lower future energy costs include the following:

- Installation of energy efficient lighting systems including interior and exterior lights;
- Heating, ventilation, and air conditioning equipment improvements;
- Enhanced energy management systems and equipment controls;
- Installation of energy efficient pumps and motors;
- Building insulation and other envelope improvements;
- Operational and process efficiency improvements; and
- Installation of new systems to replace existing natural gas equipment to run on clean electricity (e.g. “building electrification”).

Benefits can be readily quantified based on metrics such as the metric tons GHG reduction over projects’ lifetimes, kWh of electricity saved annually, therms of annual natural gas savings, and annual utility cost savings.

Additionally, many of the proposed projects will serve as highly visible demonstrations for state-of-the art energy conservation technologies (e.g., heat-pump water heaters and network-controlled LED lighting projects). As such, other facilities within the State will be encouraged to follow the University’s lead to reduce GHGs through the implementation of innovative solutions.

The University would leverage the framework already in place for reviewing, tracking and documenting energy projects as part of the decade-long UC/CSU Statewide Energy Partnership Program (Partnership). Building on this system, GHG reductions would be documented based on conversion of energy savings (kWh and therms), including renewable generation, to equivalent GHG emissions reductions based on an approved campus level emissions factor.

The 2020-21 budget plan includes a request for $450 million in one-time funding for UC DM+, including (1) $300 million to be used on projects that can demonstrate ongoing cost savings and which are directly related to energy efficiency and/or greenhouse gas reduction and (2) $150 million for other high-priority deferred maintenance projects.

ONE-TIME FUNDING REQUEST: INNOVATION AND ENTREPRENEURSHIP

The 2020-21 budget plan includes a request for $25 million in one-time State General Fund support to expand innovation and entrepreneurship activities on campuses. Funding would allow the University to expand upon the successes that were achieved using one-time funding provided by the State in 2016 to support similar efforts pursuant to AB 2664 (2016). The University has used those funds as a catalyst to bring together resources on campuses and within local communities to develop the skills of entrepreneurs and help commercialize new products and technologies. With the initial AB 2664 funding, campuses either launched, staffed, or expanded education, training, mentoring, funding, and events that support entrepreneurs (and entrepreneurs-to-be) through the company startup stages of discovery, validation, commercialization, and scaled growth. There are now more than 60 incubators, accelerators, entrepreneur boot camps, academies, and pitch competitions across UC. The UCOP Office of Innovation & Entrepreneurship published a report in 2018 highlighting the programs and people supported by AB 2664 funding. As a result of the funding, the campuses have reported the following impact (as of mid-2018):

- Over $17.5 million in matching cash funds and $6.3 million in matching in-kind services have been received to date (excludes funds provided by local, state, federal government).
- 560 startups and 417 products have been launched.
- $173 million in follow-on funding has been attracted by the launched startups.
- 8,251 people have participated or are participating in one or more of the 139 programs on entrepreneurship that are in operation.
- 15,655 people have attended innovation and entrepreneurship events on the campuses.
- Almost 20% (197) of all applicants received proof-of-concept funding.
- 1,507 mentors provided a total of 20,336 hours of mentorship to over 4,200 mentees.

As campuses continue to build infrastructure and services for entrepreneurs and startups from the previous AB 2664 funding, additional State and matching funds can be further deployed not only to sustain but to amplify the innovation and entrepreneurship ecosystem in ways that democratize innovation. To this end, the University intends to specifically include efforts to create opportunities for women, underrepresented groups, and underserved communities among the types of activities for which these funds are used.

The University’s efforts in this area are rooted in the principle that a greater, positive impact on society can be achieved through the proliferation of innovative technologies, products, and services. Programs created by this follow-on state funding will have the potential to generate long-term economic impact through the addition of entrepreneurs, products, companies, and jobs to the local and regional ecosystem. Helping more startups to scale, grow, and secure funding will increase the likelihood that more UC startups will create jobs and build an economy that benefits all Californians.