



## **Regents' Retreat**

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**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

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- Discussion of additional potential strategies for addressing UC's budget shortfall
- Discussion of quality
- Next steps
  - 2012-13 budget
  - Development of 2013-14 budget

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## Discussion of “Out-of-the-Box” Ideas

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## Several Metrics Were Used to Evaluate Potential Strategies

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- 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

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## A Variety of Potential Strategies Were Explored

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- 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

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# Balance Sheet Strategies

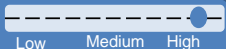
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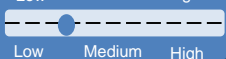
## Balance Sheet Strategies: Extraordinary Payout on UC FFEs

- 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

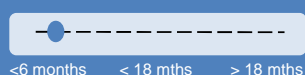
Potential Financial Value



Difficulty of Implementation



Timeframe



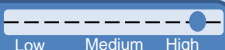
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## Balance Sheet Strategies: Debt Restructuring Alternatives

- 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

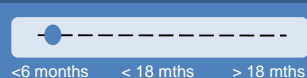
Potential Financial Value



Difficulty of Implementation



Timeframe



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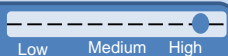




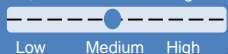
## Balance Sheet Strategies: Asset Management Opportunities

- 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

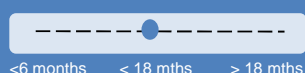
Potential Financial Value



Difficulty of Implementation



Timeframe



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## 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

Potential Financial Value

Low Medium High

Difficulty of  
Implementation

Low Medium High

Timeframe

<6 months < 18 mths > 18 mths

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# Questions/Discussion

## Balance Sheet Strategies

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## 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

Potential Financial Value



Difficulty of  
Implementation



Timeframe



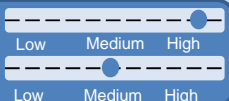
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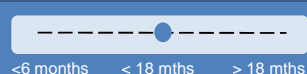
## Business and Finance Strategies: Systemwide Contract Utilization

- 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

Potential Financial Value  
Difficulty of  
Implementation



Timeframe



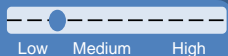
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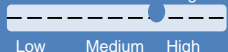
## Business and Finance Strategies: Reduce or Eliminate Previously State- Mandated Programs

- 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

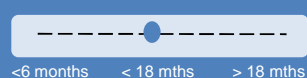
Potential Financial Value



Difficulty of  
Implementation



Timeframe



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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

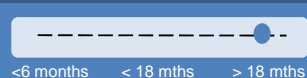
Potential Financial Value



Difficulty of  
Implementation



Timeframe



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# Questions/Discussion

## Business and Finance Strategies

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# Enrollment, Tuition, and Financial Aid Strategies

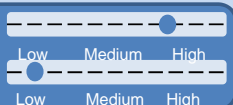
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## Enrollment Strategies: Further Increase in Nonresidents

- 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

Potential Financial Value  
Difficulty of  
Implementation



Timeframe



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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

Potential Financial Value



Difficulty of  
Implementation



Timeframe



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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)

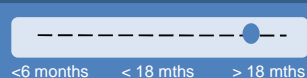
Potential Financial Value



Difficulty of  
Implementation



Timeframe



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# Questions/Discussion

Enrollment, Tuition, and  
Financial Aid Strategies

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# Academic Strategies

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## Academic Strategies Require Longer-Term Implementation and Yield Less Financial Benefit

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- 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

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## 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)

Potential Financial Value



Difficulty of Implementation



Timeframe



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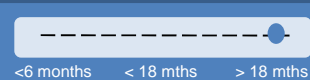
## Academic Strategies: Miscellaneous

- 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, on line education
- Use physical plant to fullest extent

Potential Financial Value  
Difficulty of  
Implementation



Timeframe



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# Questions/Discussion

## Academic Strategies

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## Other Potential Strategies

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

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## Other Strategies: Longer Implementation Time

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- 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

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## Other Strategies: Minimal Savings/Major Implementation Challenges

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- 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

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## Other Strategies: Requires Major Change to UC Policy

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- 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.

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# Quality of the University Questions and Considerations

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## UC: A World-Class Research Public University

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- 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

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## State Funds Provide Core Support for the Academic Program

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- 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

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## Funds Lost and Found

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- 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

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## Loss of Core Funds Matters: Examples

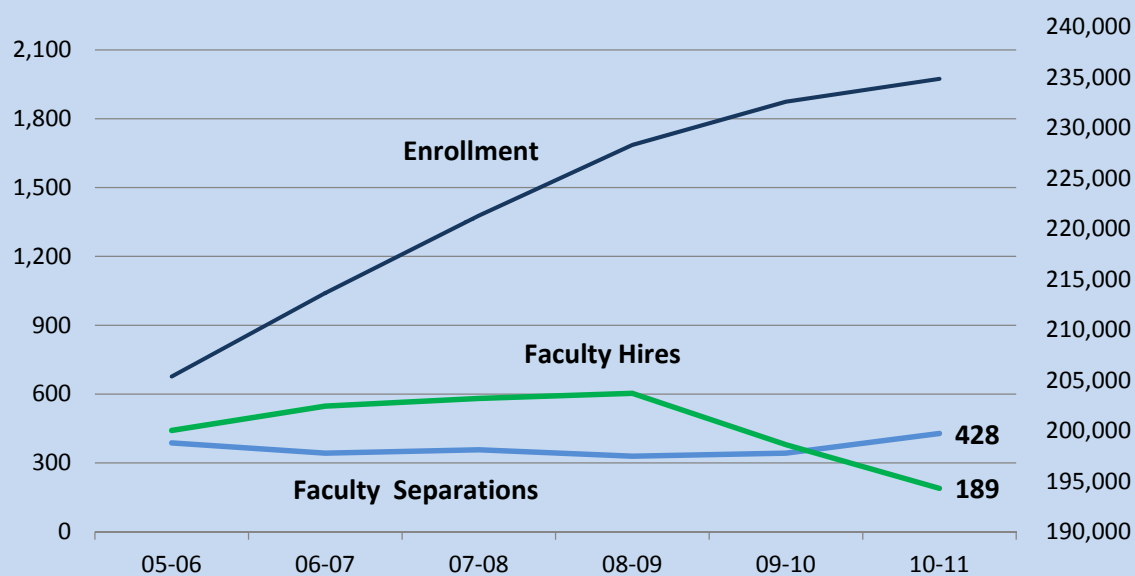
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- Over 180 academic and administrative programs have been eliminated or consolidated
- Cuts to academic and administrative units have reached as high as 35% in some instances
- The proportion of graduate students to undergraduates lags our competitors
  - 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

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## Loss of Core Funds Matters: Fewer Faculty and More Workload

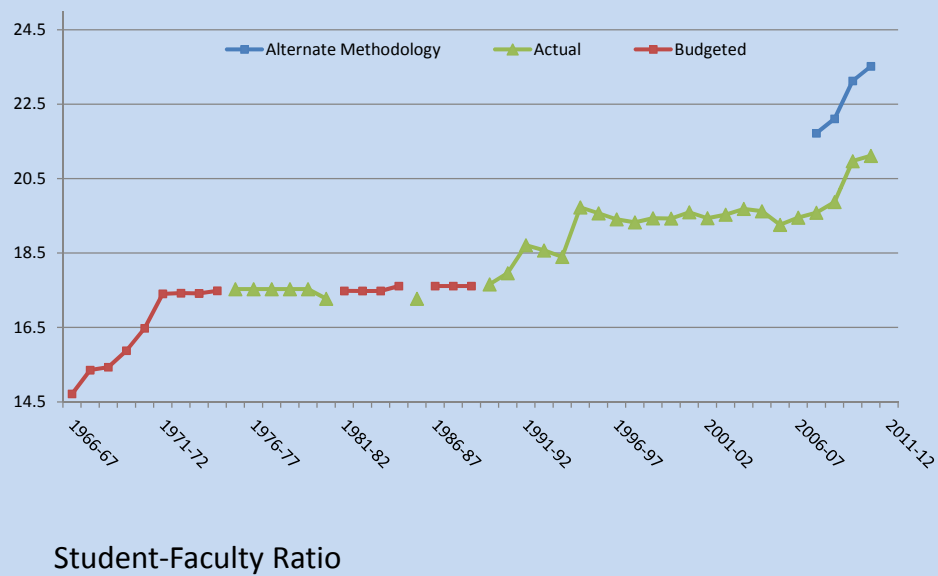


Faculty Hires and Separations

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## Loss of Core Funds Matters: Fewer Faculty and More Workload



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## Beyond Salary: What Attracts and Retains Outstanding Faculty?

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- 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

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## UC Quality: A Mixed Picture

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- 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

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## The Financial Crisis Requires Hard Choices in Order to Protect Quality

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- 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

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## The Financial Crisis Requires Hard Choices in Order to Protect Quality

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What we choose to do  
matters for the future of UC

What we choose not to do  
also matters for the future of UC

The choices are ours to make

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# Questions/Discussion

Quality of the University  
Questions and Considerations

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## Next Steps

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## Funding Challenges: If Initiative Passes

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- 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

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## Funding Challenges: If Initiative Fails

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- 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?

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## Next Steps: Development of 2013-14 Budget

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- 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

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## Next Steps: Development of 2013-14 Budget

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- 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

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# Conclusion

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## Closing Comments

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- President Yudof
- Chair Lansing

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