



# **Budget Update and Long-Term Budget Model**

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# Outline of Today's Presentation

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- 2012-13 State Budget
- UC's 2012-13 State Budget
- Long-Term Budget Model
  - Cost Drivers
  - Solutions
- Challenges to Reinvesting in Excellence



## 2012-13 State Budget

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- 2012-13 State General Fund      \$91.3 billion
  - \$11.6 billion below FY 2007-08, a reduction of 11.3%
  - \$1 billion budget reserve
- 2012-13 Budget Gap      \$15.7 billion
  - Expenditure Reductions      \$8.1 billion
  - Anticipated Revenues      \$6.0 billion
  - Other Solutions      \$2.5 billion



# 2012-13 State Budget

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## Expenditure Reductions

(dollars in millions)

• Redevelopment Assets	\$1,479.0
• Medi-Cal	\$1,234.0
• State Mandates	\$ 828.3
• Judiciary	\$ 544.0
• State Employee Compensation	\$ 528.6
• CalWORKS	\$ 469.1
• Child Care	\$ 294.3
• Cal Grant Program	\$ 133.5
• In-Home Supportive Services	\$ 52.2



# 2012-13 State Budget

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## Revenue and Other Solutions

(dollars in millions)

- November Tax Initiative \$5,600.0
- Loan Repayment Extensions \$1,200.0
- Special Funds, Transfers/Loans \$ 612.2
- Other Revenues \$ 453.5
- Additional Weight Fee Revenues \$ 385.2
- Unemployment Ins. Interest Payment \$ 312.6



## UC's 2012-13 State Budget

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- UC Budget \$2.378 billion
  - \$89.1 million for UCRP
  - + \$11.6 million for LRB debt service
  - + \$5.2 million for annuitant health
  - \$105.9 million (or 4.7%) increase over 2011-12 budget**
- \$125.4 million tuition buy-out starting in FY 2013-14
- Tuition buy-out contingent on success of November Tax Initiative



## UC's 2012-13 State Budget

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- Unable to secure debt restructuring proposal
- No State funding for new capital facility projects
- Secured statutory authority to move forward with \$134.1 million in previously approved State capital facility projects
- Minimal reductions in Cal Grant awards
  - Cal Grant B awards reduced 5%, from \$1,551 to \$1,473, representing an impact of \$1.8 million for UC students



## Revisiting the Long-Term Budget Model

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- UC's long-term budget model projects a budget gap in 2016-17 of over \$2.9 billion, assuming no new revenues
- This budget shortfall is due to a combination of cuts in State support and growing mandatory costs
- Revisiting original modeling assumptions is needed given evolving budget situation





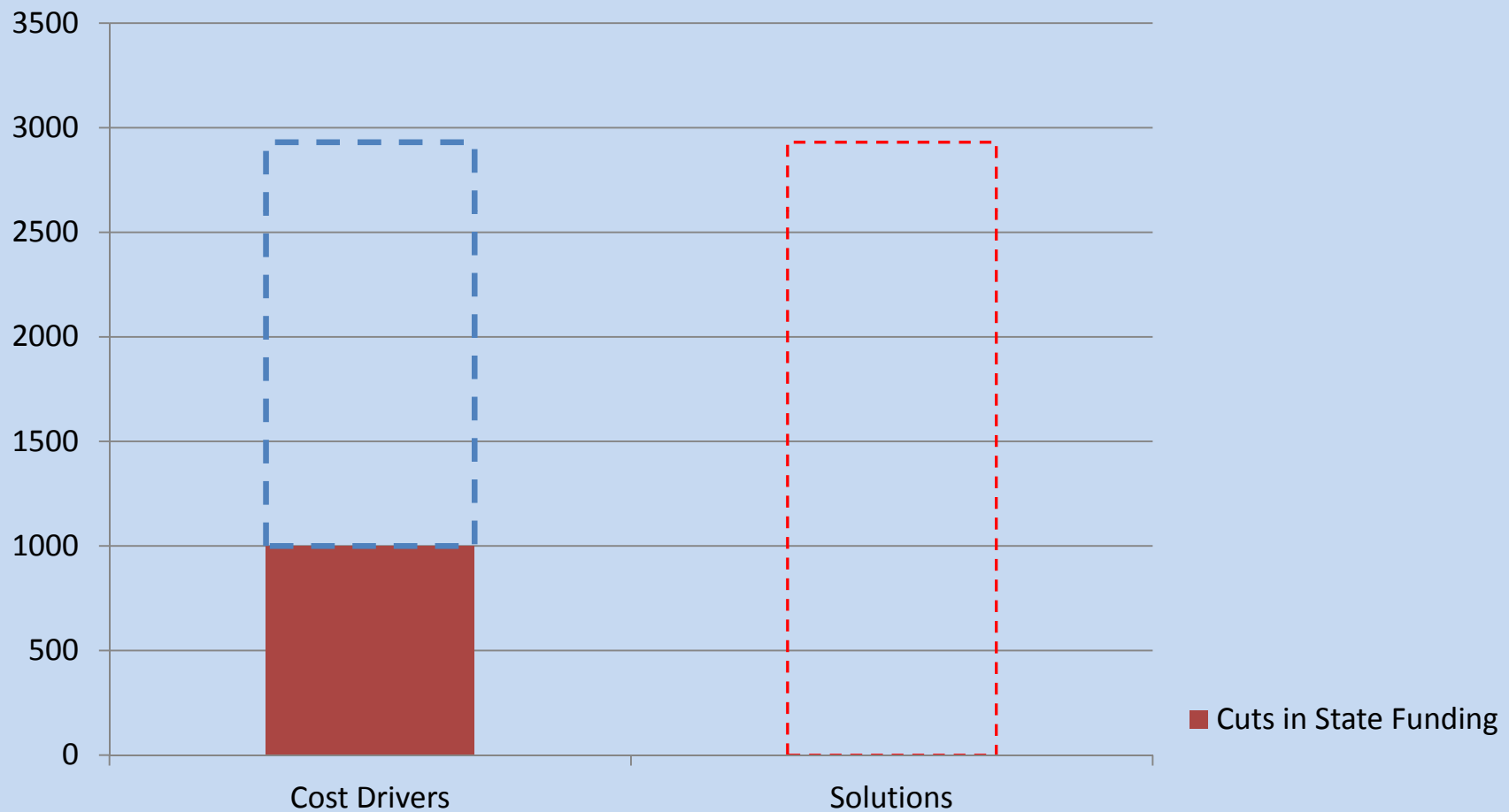
## Revisiting the Long-Term Budget Model

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- Long-term budget modeling of UC's major cost drivers and funding solutions demonstrates that there are no “magic bullets”
- Long-term model requires successful execution of all four elements of UC's budget plan:
  - (1) Stable and predictable funding from the State
  - (2) Leveraging of alternative revenue
  - (3) Achievement of administrative efficiencies
  - (4) Moderate and stable tuition plan

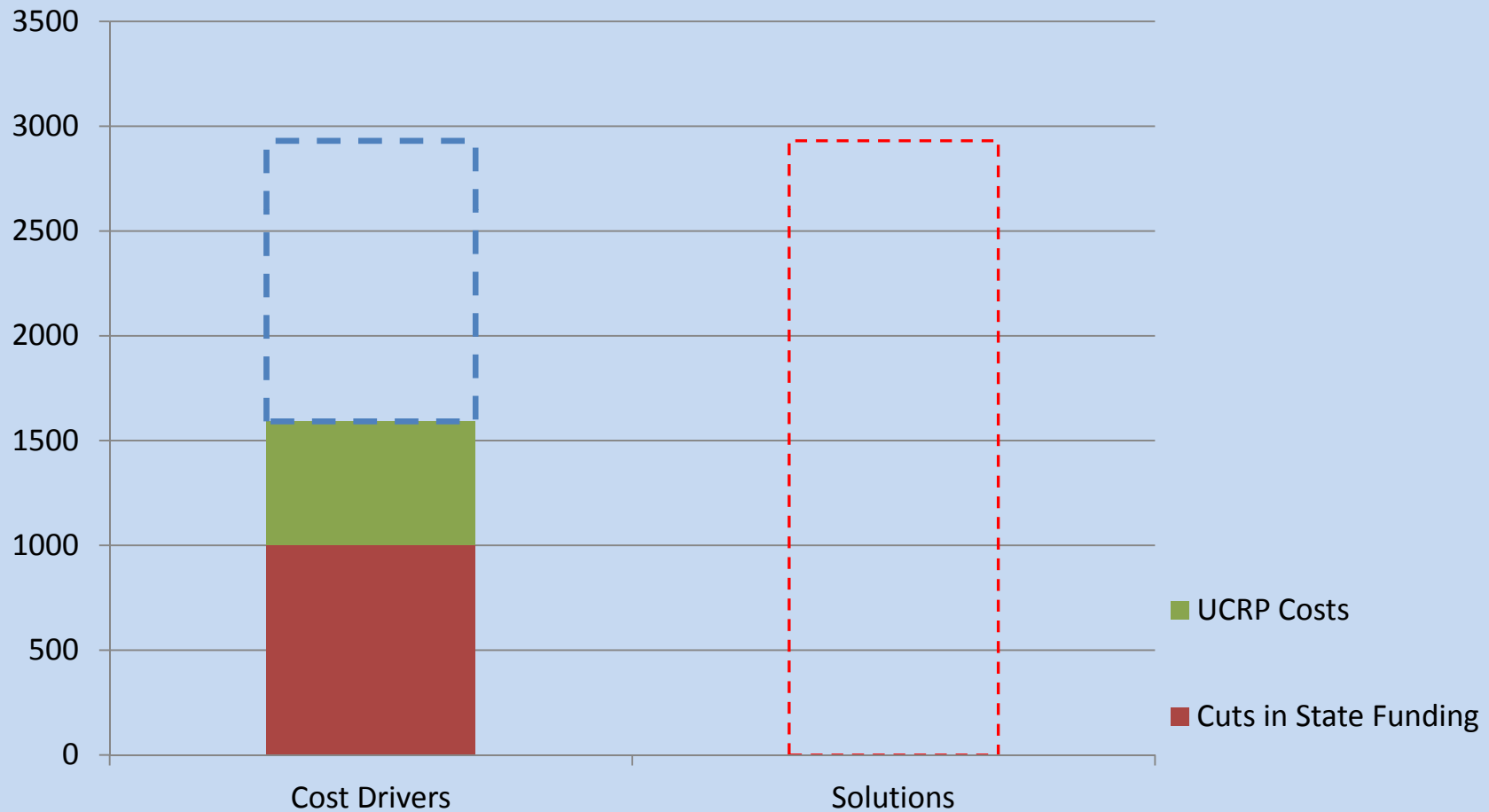


## Cost Drivers: Cuts in State Support Since 2007-08, nearly \$1 billion



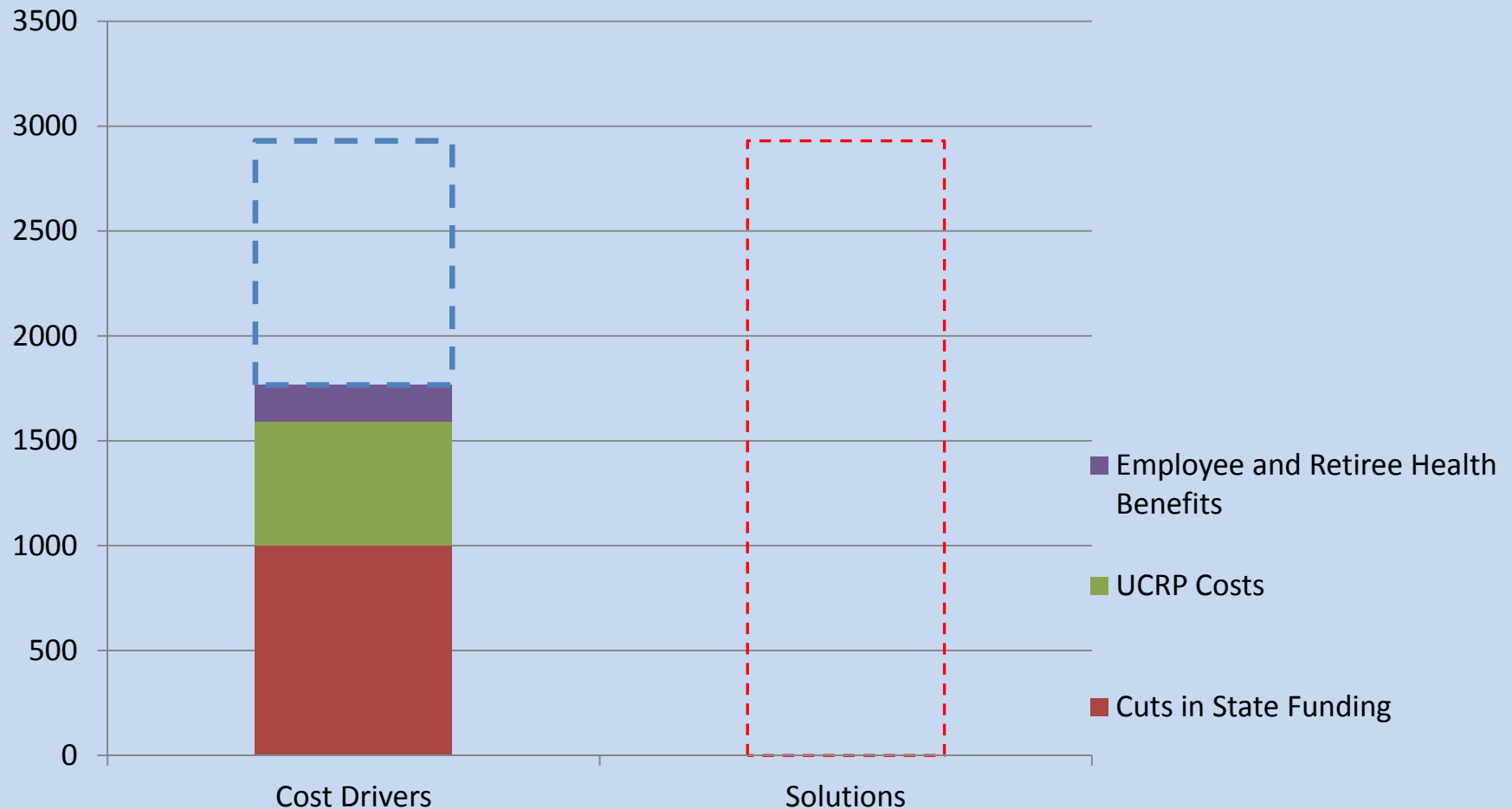


## Cost Drivers: UC Retirement Plan Costs, \$591.8 million



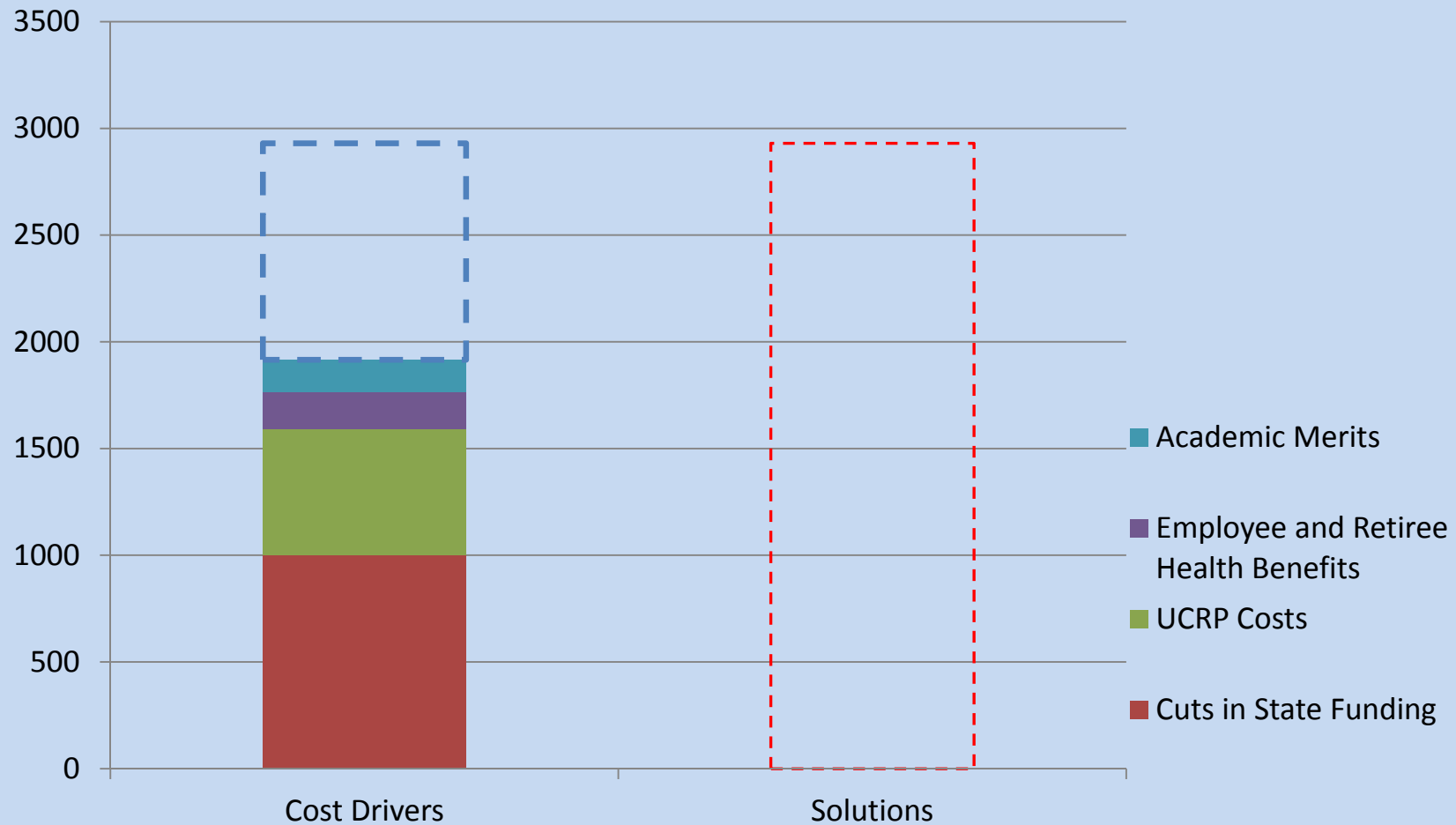


## Cost Drivers: Employee and Retiree Health Benefits, \$174.4 million



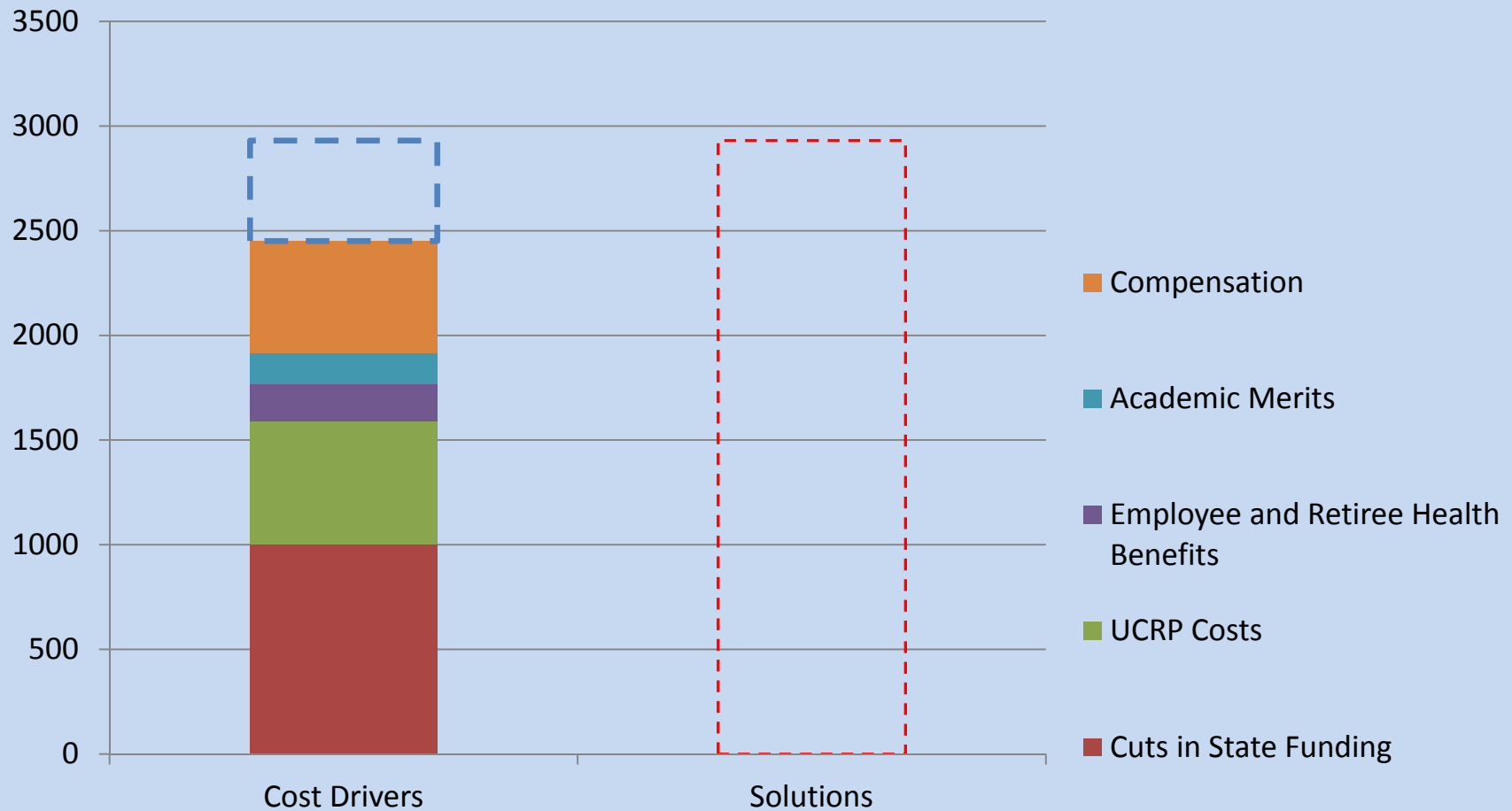


## Cost Drivers: Academic Merits, \$150 million



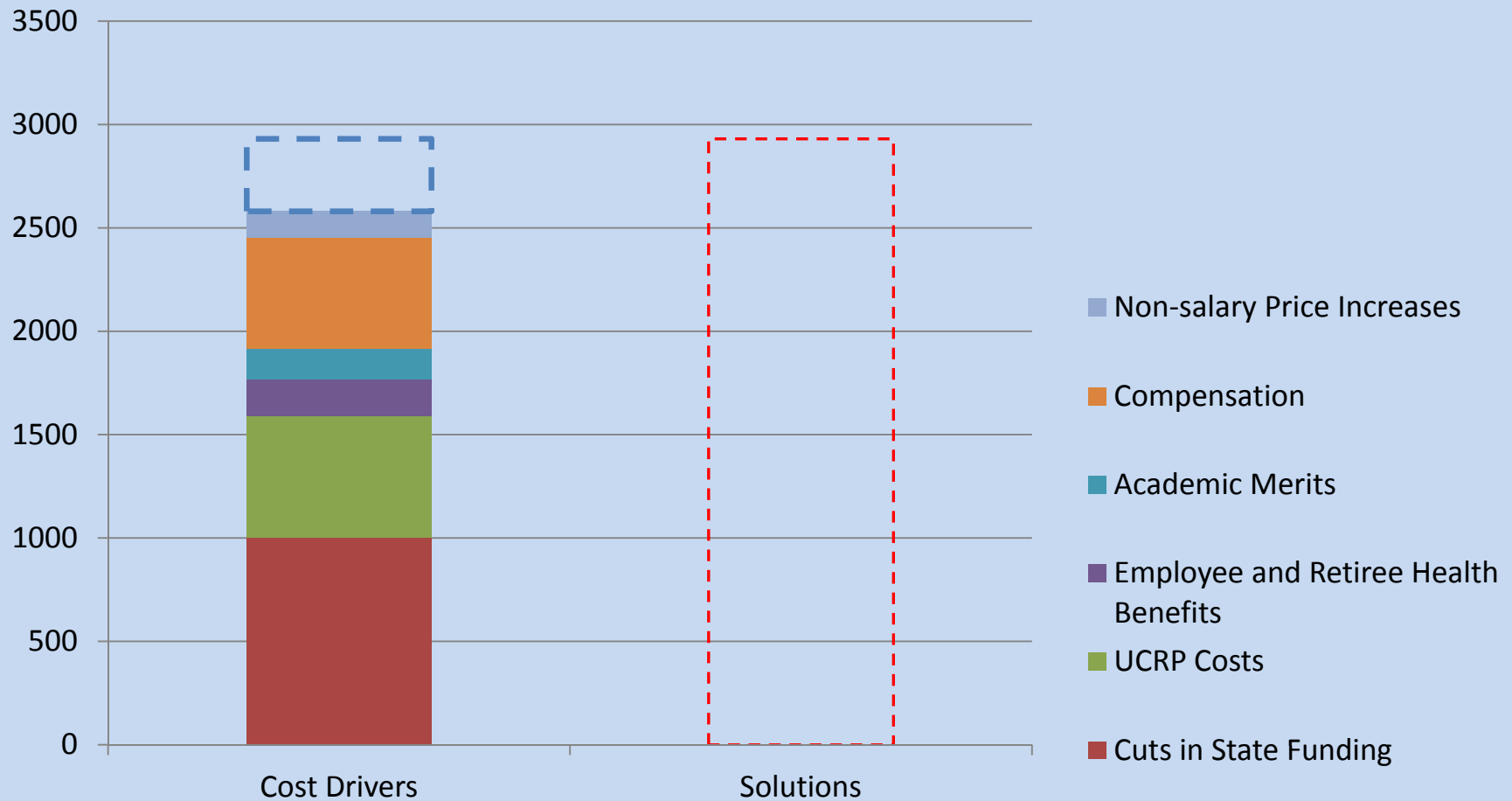


## Cost Drivers: Other Compensation, \$535 million



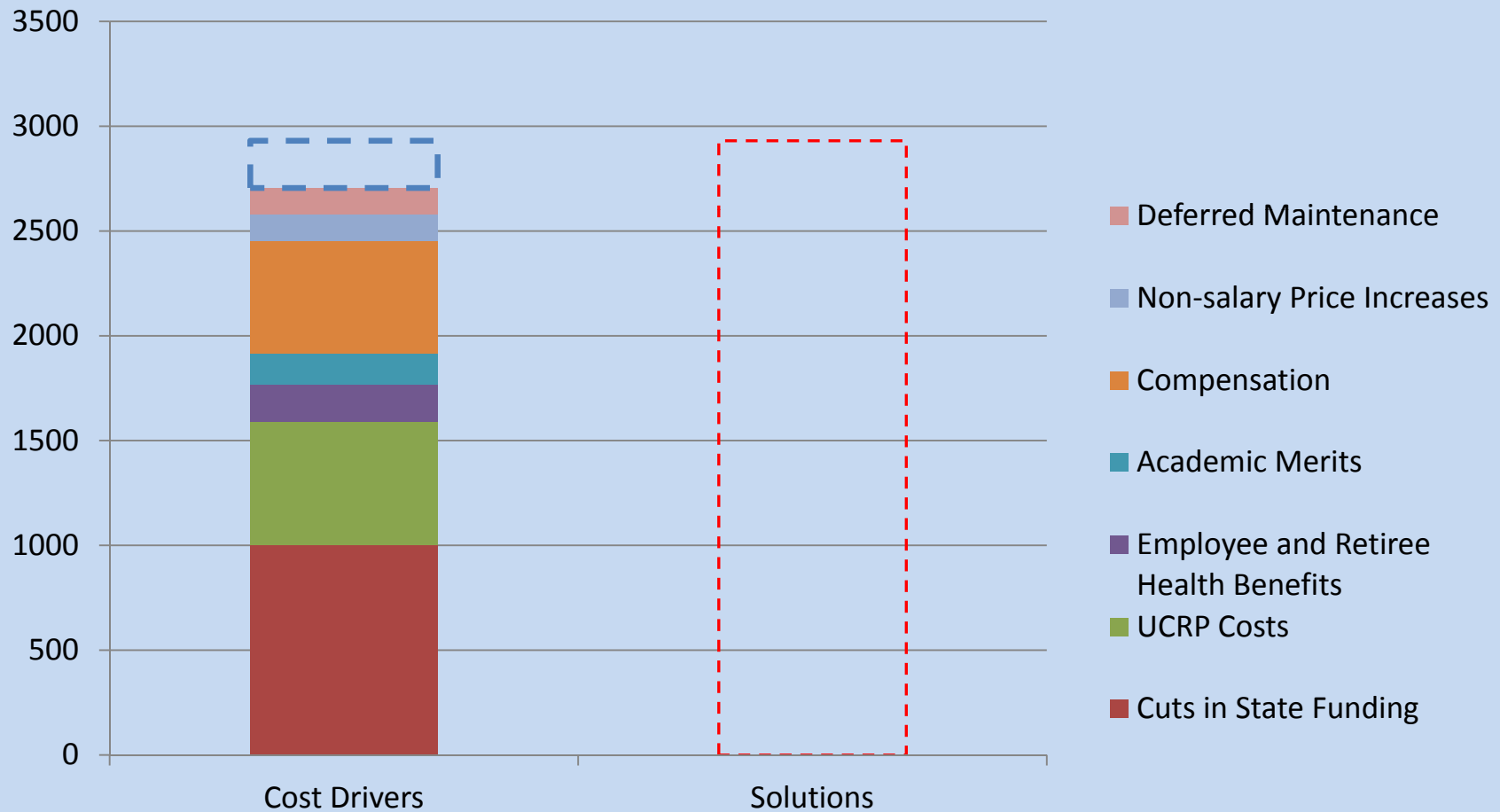


## Cost Drivers: Non-salary Price Increases, \$129.1 million





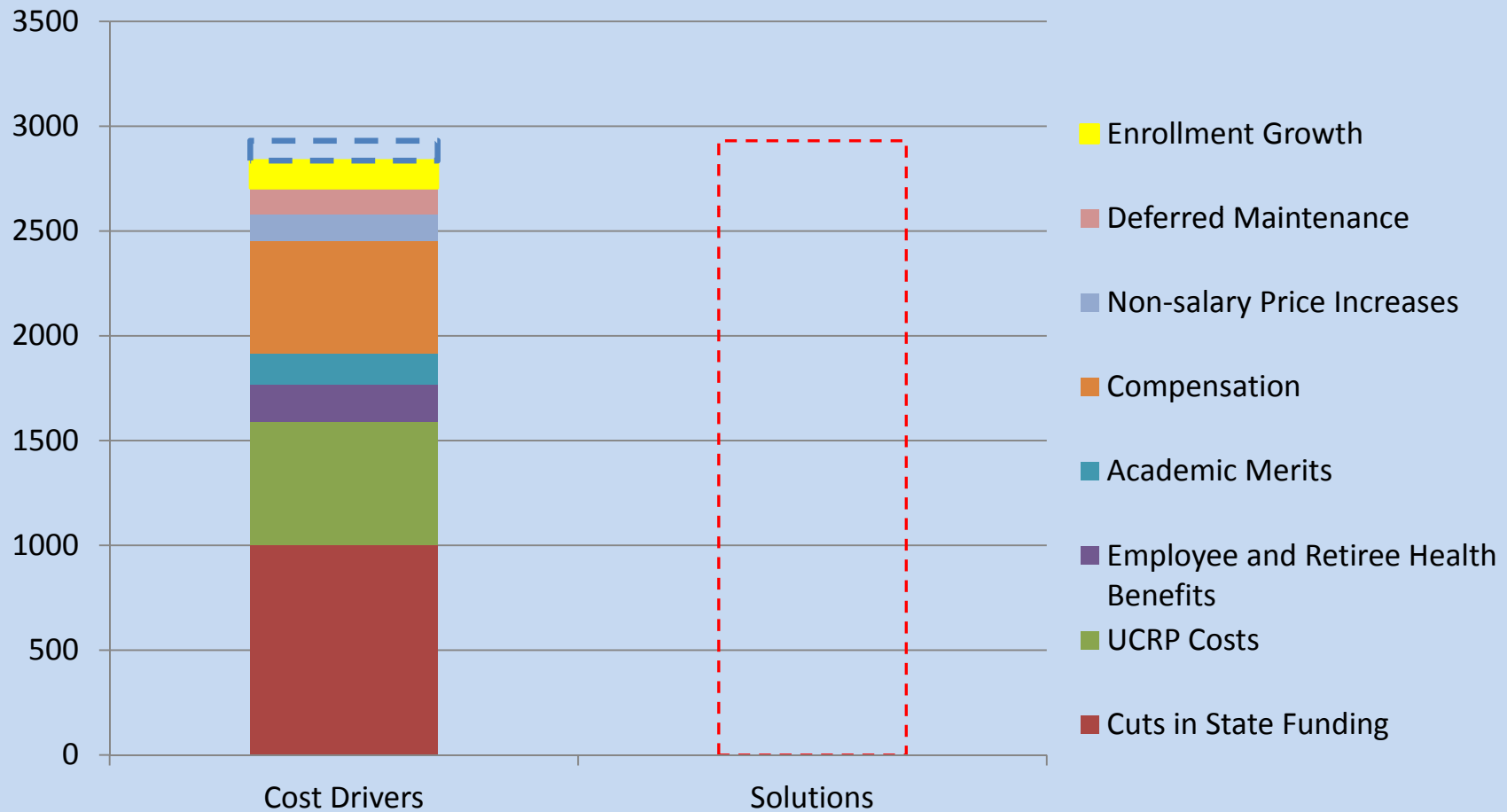
## Cost Drivers: Deferred Maintenance/ Capital Renewal, \$125 million





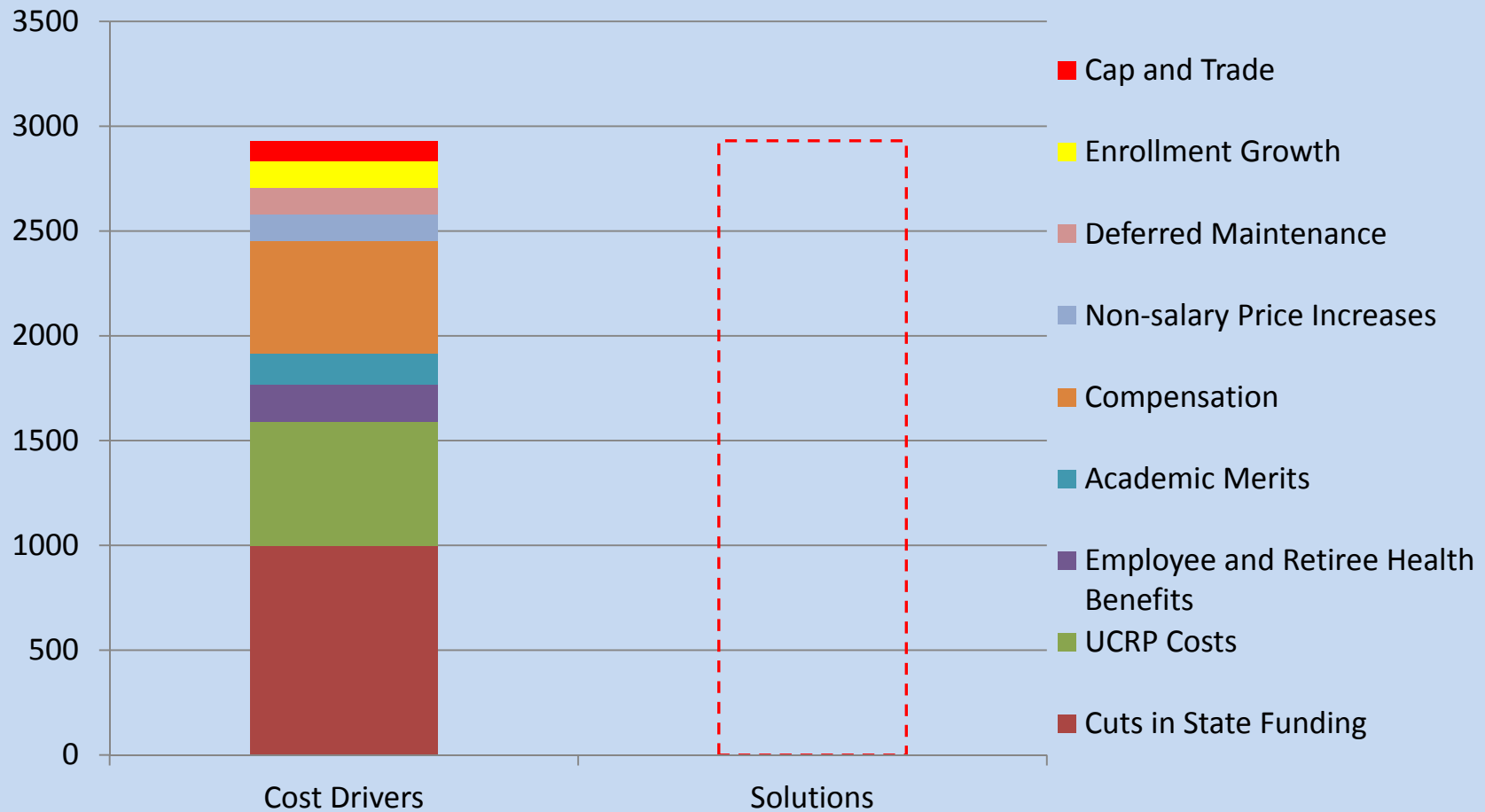


## Cost Drivers: Enrollment Growth, \$130.5 million



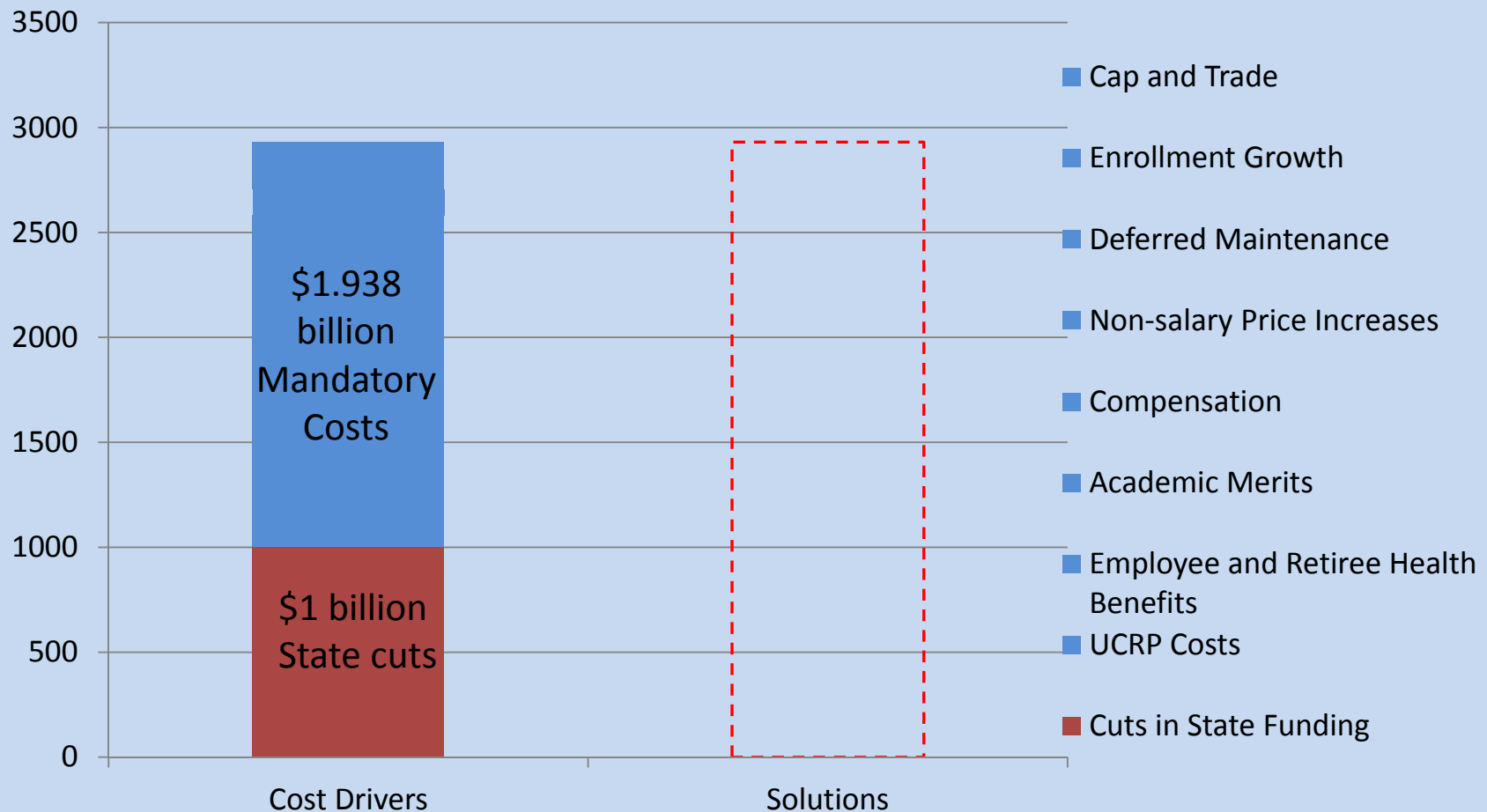


## Cost Drivers: Cap and Trade Charges, \$95 million





# Cost Drivers: \$2.938 billion through 2016-17





## Cost Drivers: Potential Cost Reductions, \$474.2 million

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### Cost Reductions

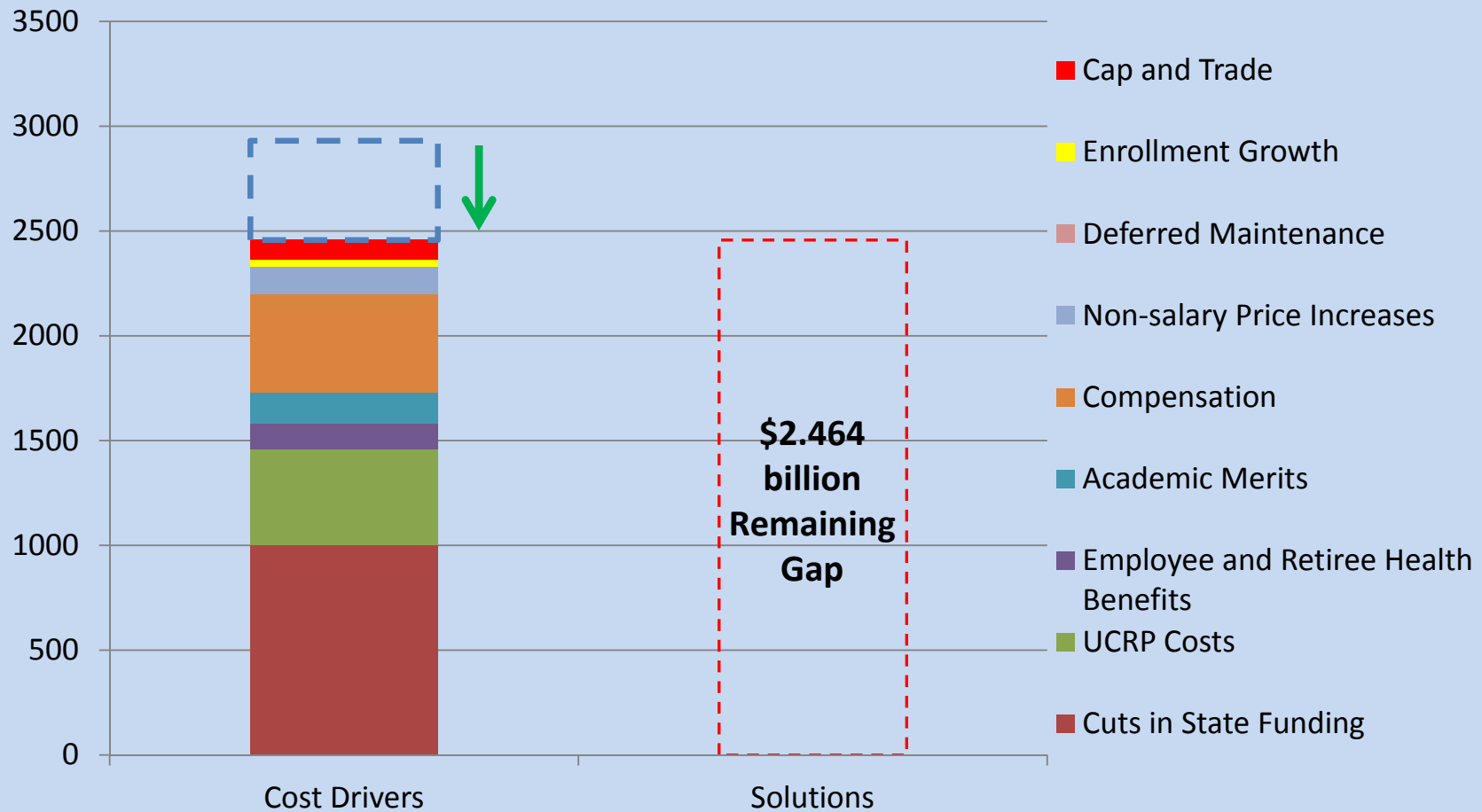
### Savings

(dollars in millions)

- |   |         |
|---|---------|
| • Limit UCRP employer costs to 14%          | \$131.5 |
| • Delay in DM/capital renewal funding       | \$125.0 |
| • Limit health benefit increases to 3.5%    | \$ 54.3 |
| • Limit enrollment growth to UC Merced only | \$ 98.4 |
| • Delay in compensation increase in 2012-13 | \$ 65.0 |



# Cost Drivers: Potential Cost Reductions, \$474.2 million





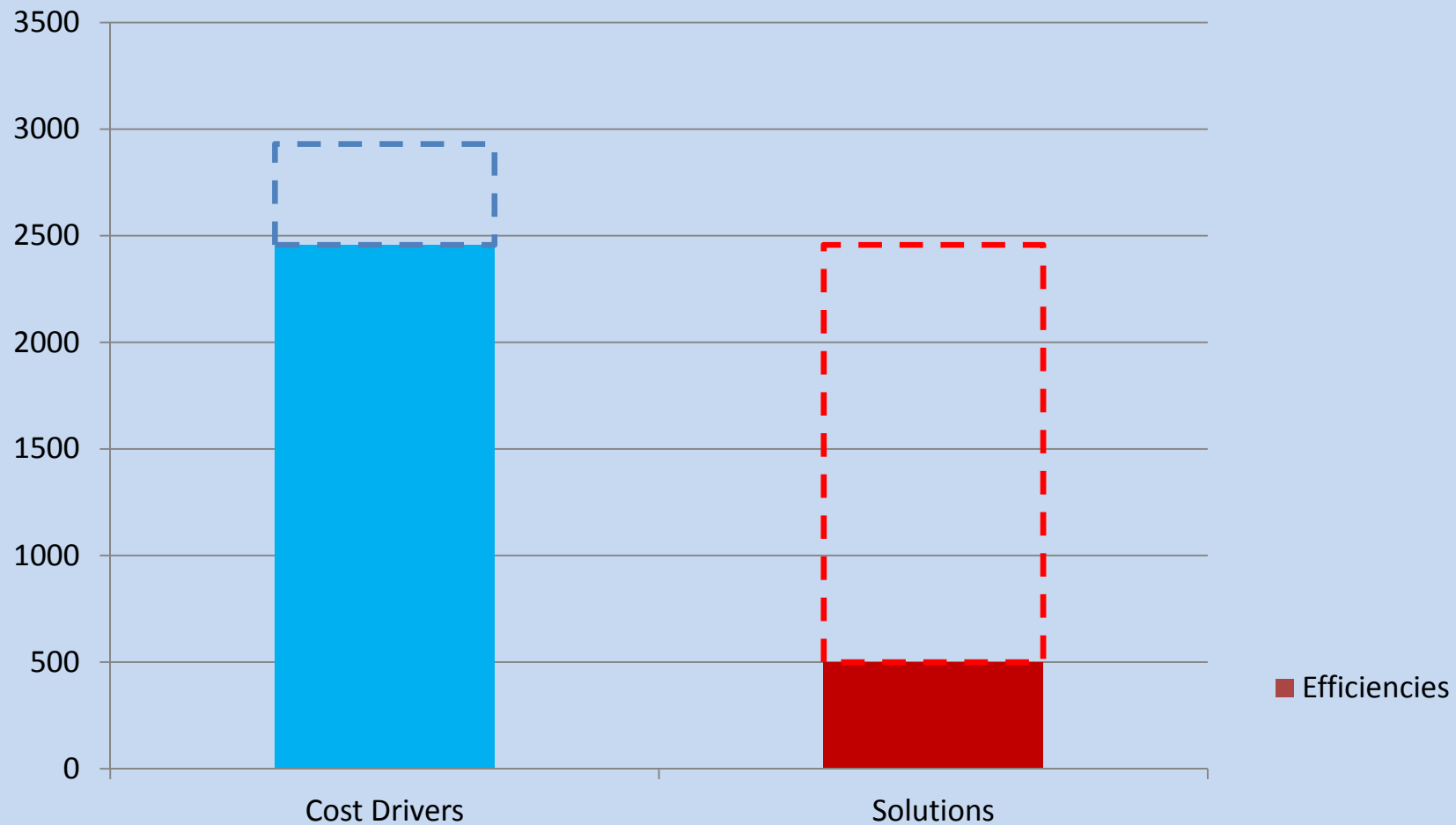
## Solutions: Efficiencies and Alternative Revenues, \$1 billion

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- The budget model assumes \$1 billion of the long-term funding gap will be addressed
  - Ongoing efforts at administrative efficiencies
  - Developing and leveraging alternative revenues throughout the system

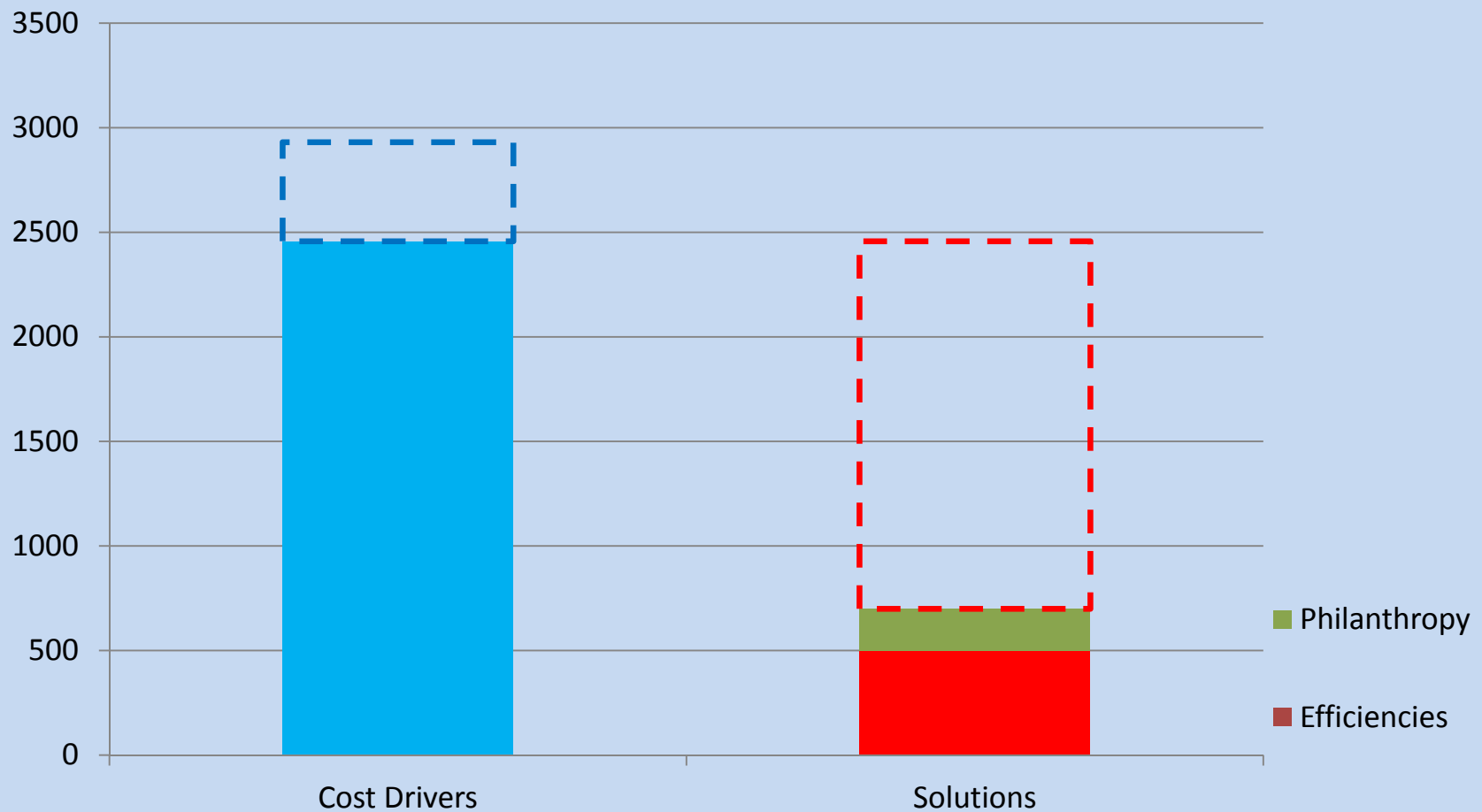


## Solutions: Efficiency Improvements, \$500 million





## Solutions: New Models of Private Giving, \$200 million







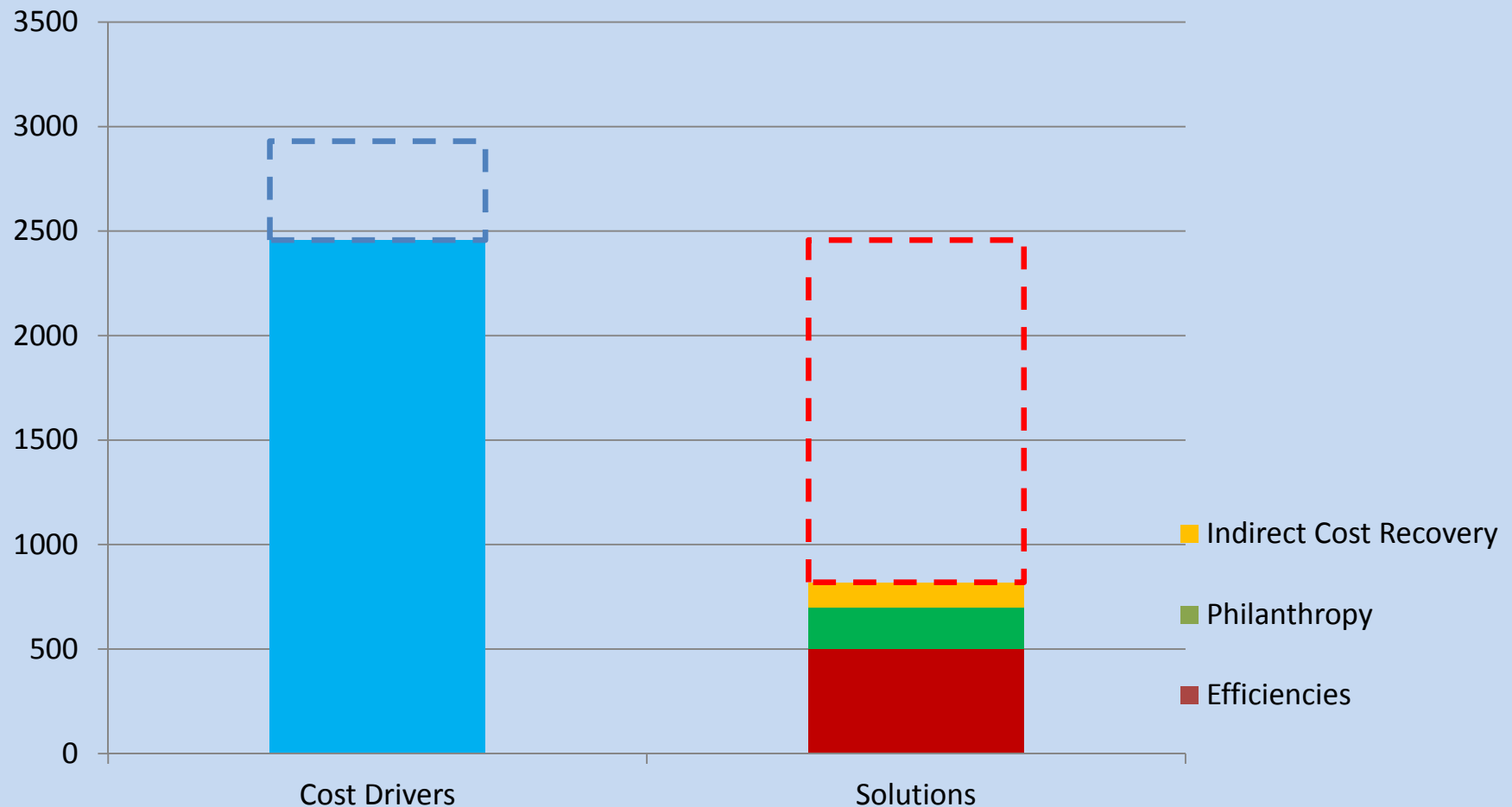
## New Models of Private Giving

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- Private giving remains strong at UC as donors recognize outstanding return on their philanthropic investment
- \$1.6 billion in 2010-11 – extraordinary increase of nearly 20% over the prior year
- Likely over \$1.5 billion again for 2011-12
- Developing new models for corporate fund raising, endowments and cost recovery that support core budget needs



## Solutions: Indirect Cost Recovery, \$120 million





## Solutions: Indirect Cost Recovery, \$120 million

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### **Rate increases over the next four years:**

Berkeley	3.5%*
San Francisco	4.0%
Santa Barbara	2.0%

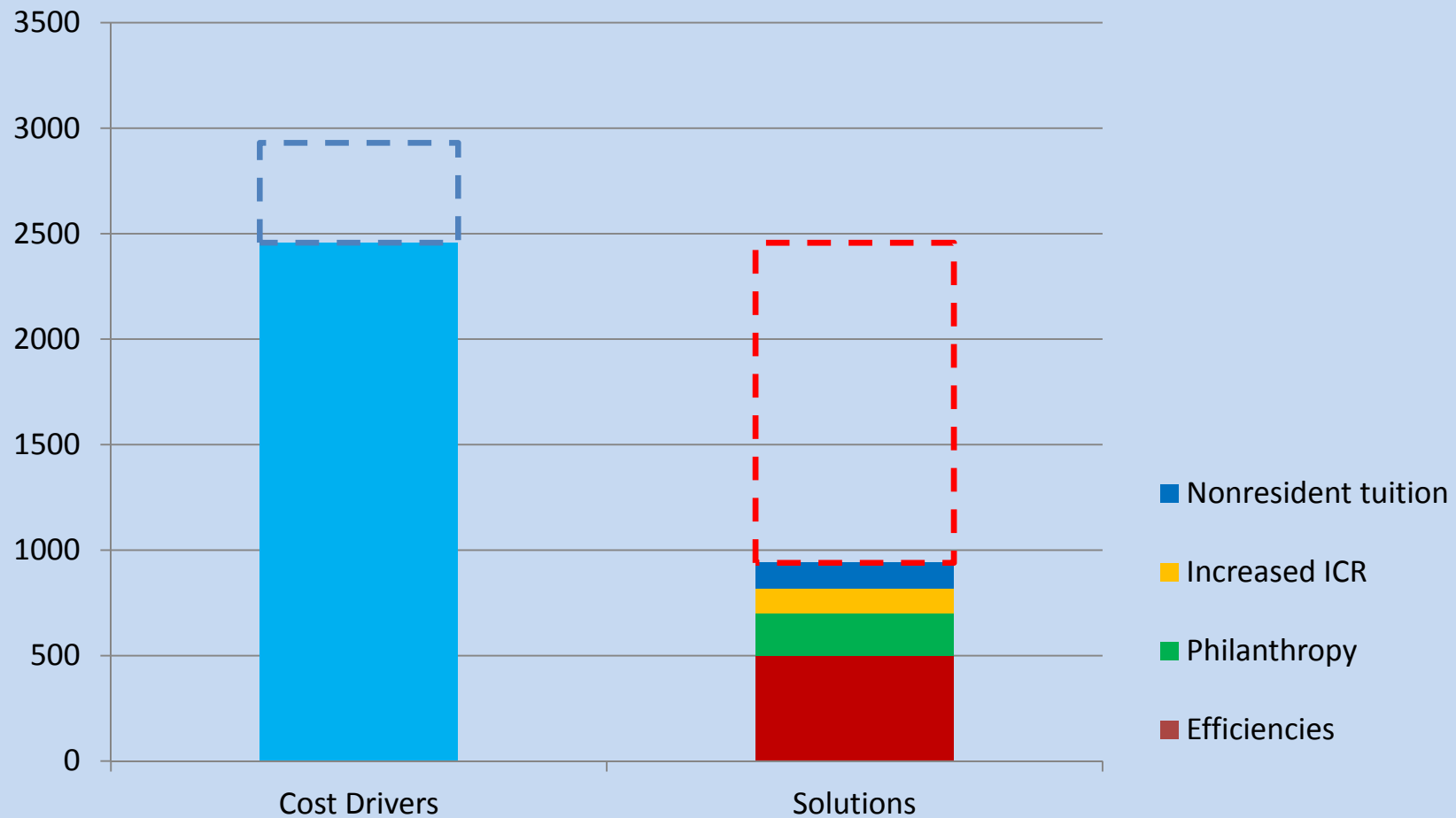
### **Campuses that have submitted or will soon:**

Santa Cruz	submitted
Davis	2012
Riverside	2012

\* Pending

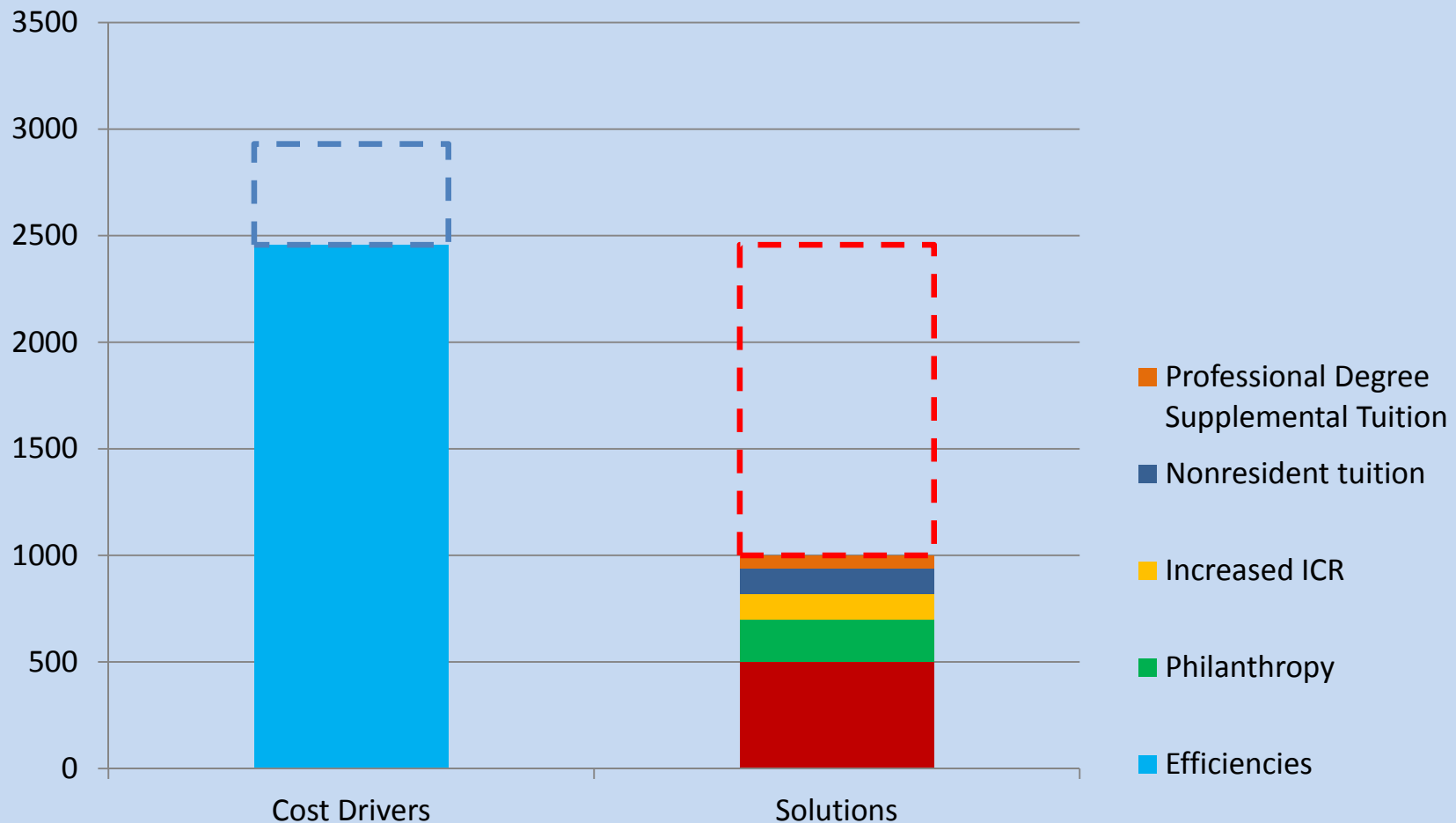


## Solutions: Nonresident Tuition, \$120 million



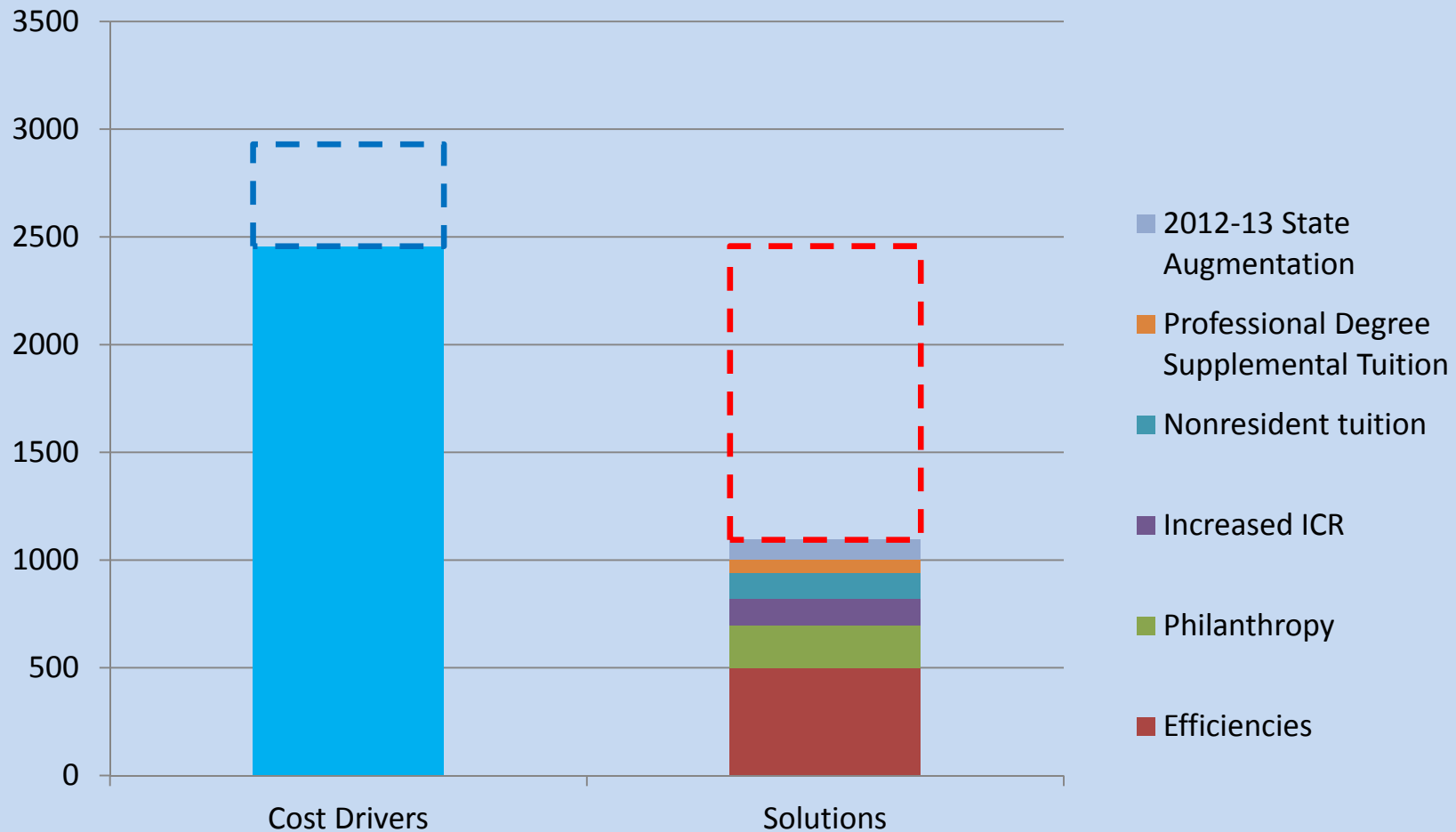


## Solutions: Professional Degree Supplemental Tuition, \$60 million



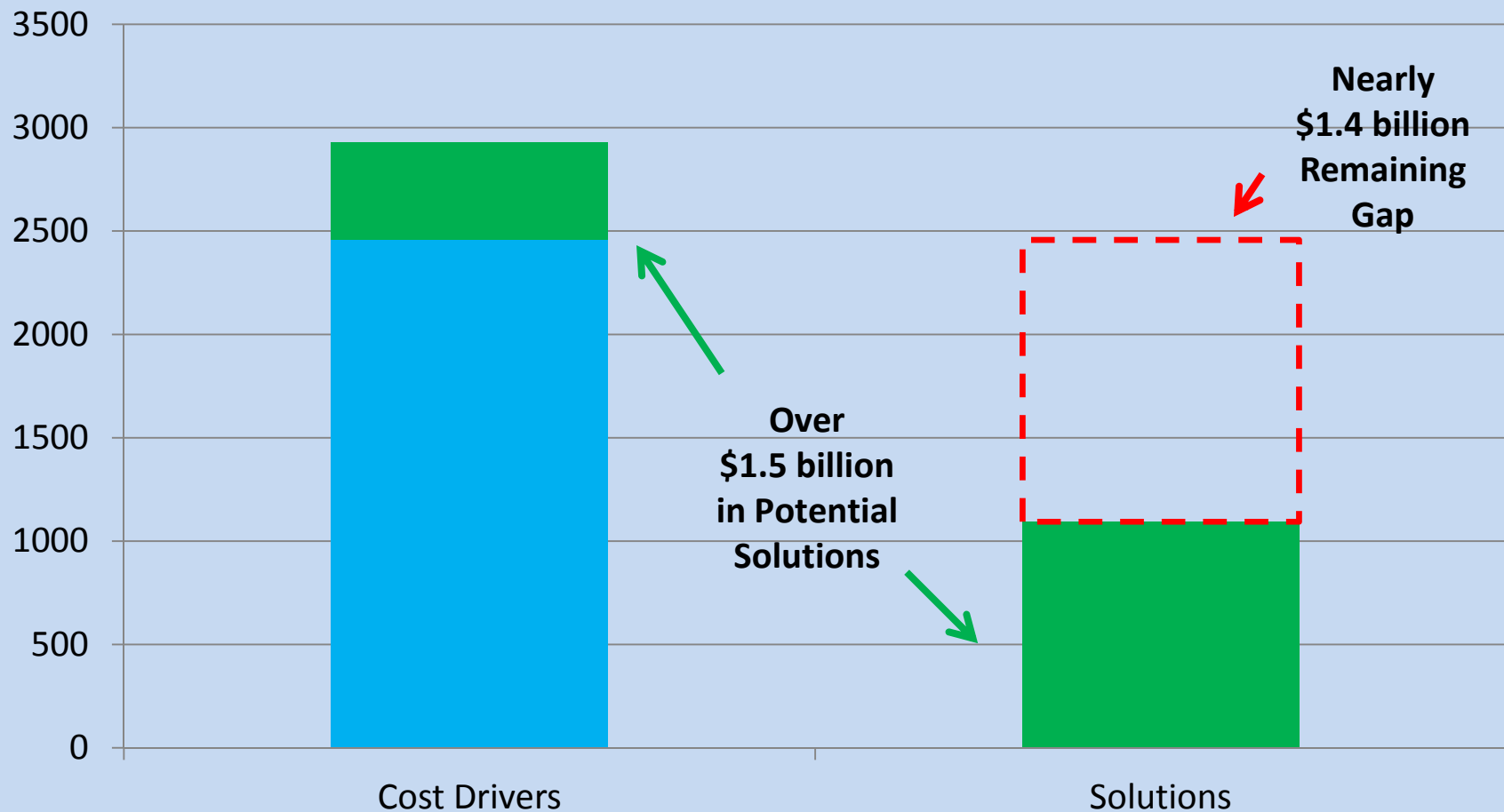


## Solutions: State Augmentation, \$94.3 million



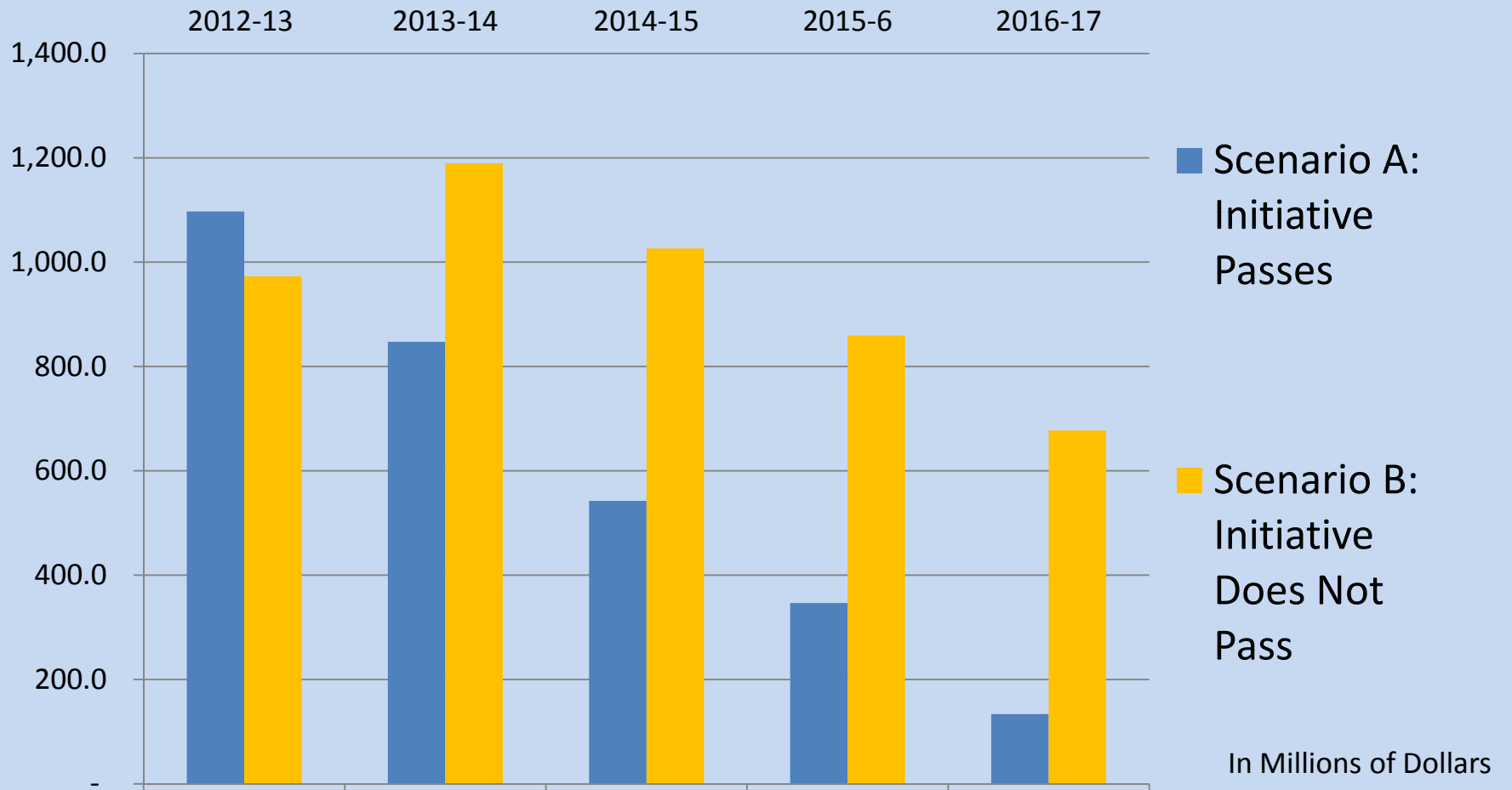


## Remaining Budget Gap with 2012-13 State Augmentation: \$1.4 billion





# Budget Gap: Five-Year Funding Scenarios







## Short-Term Budget Challenges

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- Even if a multi-year agreement is secured with the Governor and the State Legislature, the University faces severe budget challenges in the short term



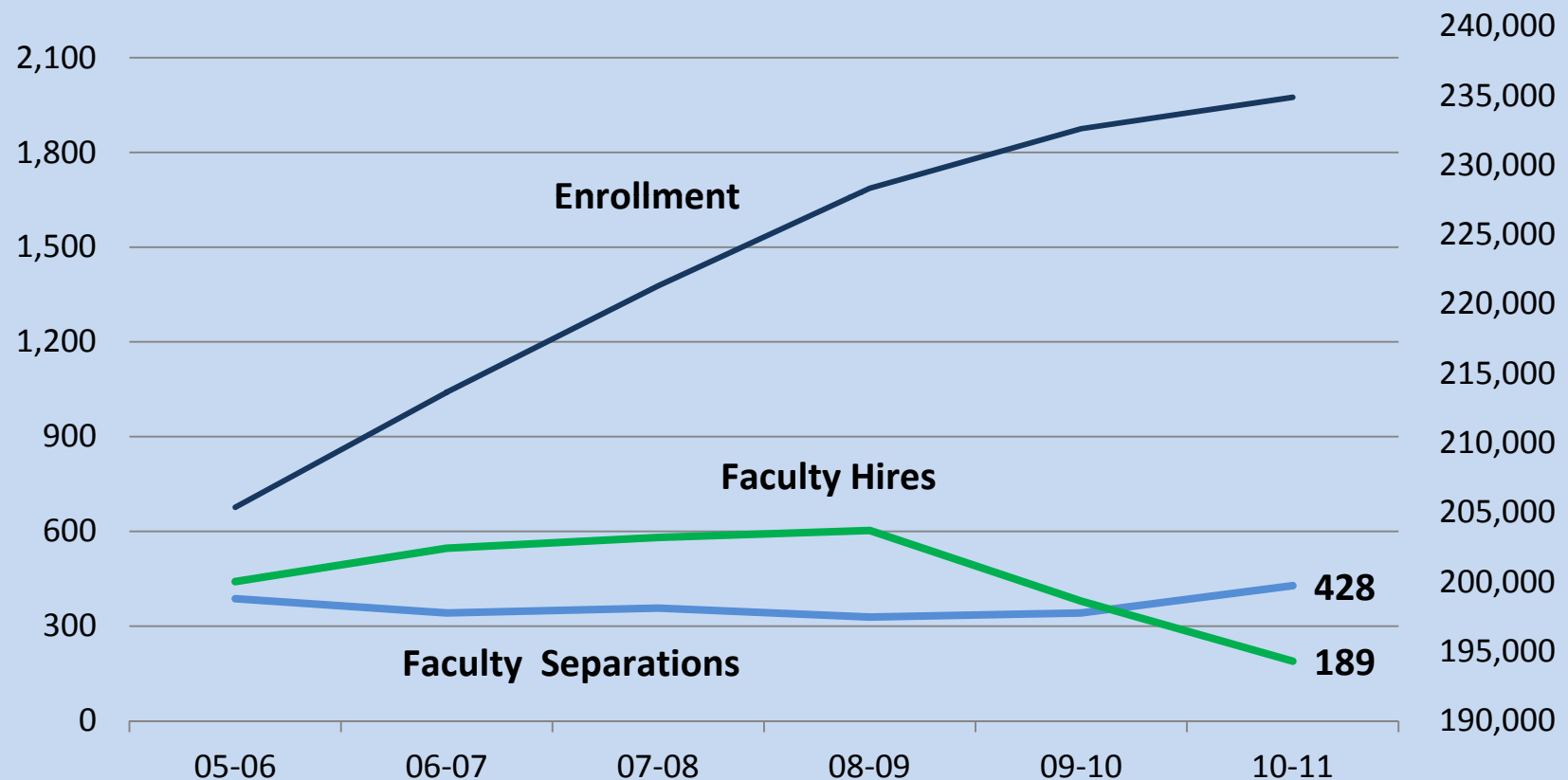
## Reinvestment in Excellence

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- Model covers basic costs but does not address funding needed to restore quality
- Model uses 2007-08 as the baseline funding year; however, as early as 2005, Regents had concerns about quality and set goals for certain indicators to improve quality

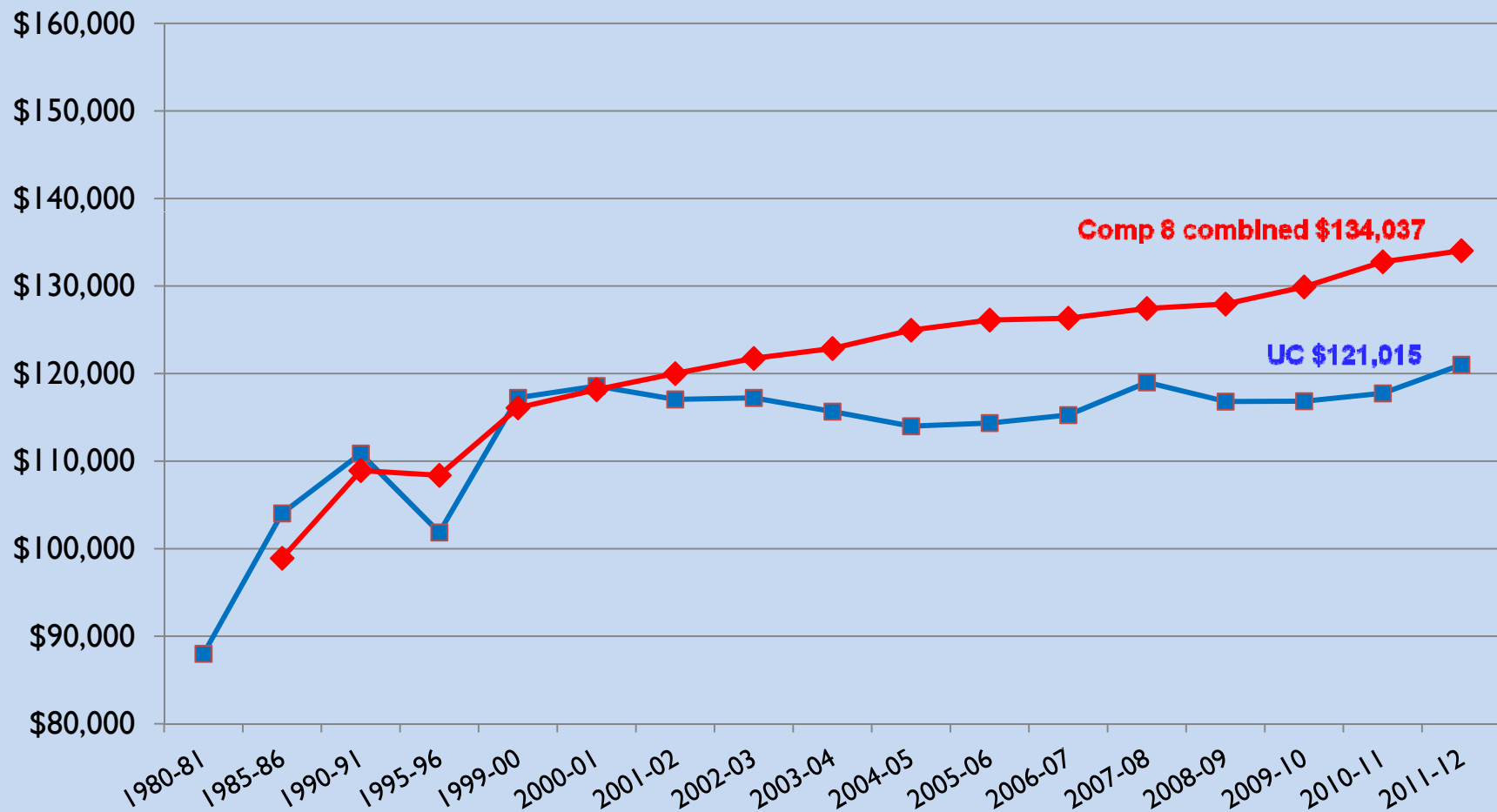


## Faculty New Hires and Separations and Enrollment Growth, 2005-06 to 2010-11





## Average Faculty Salaries: General Campus Private/Public (Comparison 8) and UC



5-Year Intervals to 1999-00, and each year 1999-00 through 2011-12  
Adjusted for Inflation in 2011 Dollars



## Conclusion

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- UC fared well, relative to other State agencies, in the 2012-13 budget process
  - However, cuts are still required on campuses
  - No funding provided for capital projects that have been stalled for several years
- Budget package includes high level of risk for UC funding
  - Future UC funding and its stability rests on passage of the Governor's tax initiative
  - If successful, initiative offers some degree of ongoing stability for UC's campuses, students and families
- Budget forecasts meet basic campus needs but do not fully address quality imperatives
  - Increased faculty lines
  - Increased graduate student support
  - Salary gap for faculty

