UC Davis Finances

2006-07 Revenue = $2.57 Billion
($1.63 billion campus and $0.94 billion medical center)

<table>
<thead>
<tr>
<th></th>
<th>1999-00</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>43.5%</td>
<td>32.9%</td>
</tr>
<tr>
<td>Fees</td>
<td>13.1%</td>
<td>18.4%</td>
</tr>
<tr>
<td>sub-total</td>
<td>56.5%</td>
<td>51.3%</td>
</tr>
<tr>
<td>Federal</td>
<td>16.1%</td>
<td>19.0%</td>
</tr>
<tr>
<td>Sales/Aux</td>
<td>19.4%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Private, Local, Other</td>
<td>8.0%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

During this period, State funds increased from $443M to $537M (21%).
What is driving the cuts?

<table>
<thead>
<tr>
<th>Proposed Revenue Changes</th>
<th>Regents</th>
<th>Governor January</th>
<th>Governor May</th>
</tr>
</thead>
<tbody>
<tr>
<td>State General Funds (Compact)</td>
<td>$216.8</td>
<td>$223.2</td>
<td>$321.7</td>
</tr>
<tr>
<td>State funds to buy-out student fee increases (7.4%)</td>
<td>$70.5</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>State Funded Initiatives</td>
<td>$15.0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>State cut</td>
<td>$0</td>
<td>-$331.9</td>
<td>-$331.9</td>
</tr>
<tr>
<td>Total state funds</td>
<td>$302.3</td>
<td>-$108.7</td>
<td>-$10.2</td>
</tr>
</tbody>
</table>

Governor’s Budget Proposal: May Revise

- proposes additional $98.5 million based on State Lottery proposal.
- Requires legislative approval
- If proposal holds, University budget in 2008-09 is flat, therefore must cut to fund any additional costs

Potential Budget Reductions: Fixed Cost Increases

Fixed (mandatory) cost increases totaling over $14 million:

1. Salary continuation costs (October 1, 2007 actions) $4.4 million
2. Faculty Merits and Promotions for 2008-09 $3.5 million
3. Benefits costs for health and dental (employer share) $5.1 million
4. Non-senate faculty negotiated increases $1.0 million
Absorb costs of enrollment growth (~250 new students) (a different kind of cut)

<table>
<thead>
<tr>
<th>Enrollment Growth Funding in recent years</th>
<th>(thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: State funds and educational fees (250 students)</td>
<td>$2,750</td>
</tr>
<tr>
<td>Use: Faculty positions – salary and benefits for 13.37 FTE</td>
<td>$1,050</td>
</tr>
<tr>
<td>Use: Teaching assistants – salary and fee remission</td>
<td>$250 to $400</td>
</tr>
<tr>
<td>Use: Graduate student support</td>
<td>$1,000 or more</td>
</tr>
<tr>
<td>Use: Academic support, administration, student support</td>
<td>None in recent years</td>
</tr>
<tr>
<td>Use: Utilities, deferred maintenance, other</td>
<td>$500 or more</td>
</tr>
<tr>
<td>Use: Offset budget cuts</td>
<td>Varies</td>
</tr>
</tbody>
</table>

Potential Budget Reductions: Enrollment Growth

- Enrollment Trends
  - Undergraduates flat fall 2003 to fall 2007
    - Anticipate 1-2% growth next year (~250 students)
  - Graduates up 4.5% since fall 2003 (~180 students)
Potential Budget Reductions: Enrollment Growth

- UC Merced enrollment growth
  - Budgeted growth of 700 students (2,700 total)
  - State marginal cost = $6.3 million
  - New campus cannot absorb these costs
  - Davis campus share is $985,000

Campus Budget Reductions Graduate Student Support

- $1.13 million to maintain purchasing power
  (fee increases and enrollment growth)
  - $480,000 block grant augmentation
  - $400,000 graduate dean discretion
  - $250,000 for GSR buy-down program

- Training grants: continue to fund matches

- Fee remission: $1.1 million for TA and general fund GSR from return-to-aid funds
Campus Budget Reductions
Utilities Shortfall

• Recent history
  – 1999-00 through 2006-07: $57.2 million in deficits
    • State energy crisis (2000) and Hurricane Katrina (2005)
    • Facilities growth – inadequate state formula and several years without funding for new space
    • Electricity prices: $0.09 kWh (PG&E $0.164)
    • Gas prices: $1.33 therm (PG&E $1.41)

  – Funding sources to offset the deficits
    • State/OP covers $19.9 million
    • Campus covers $26.1 million
    • Last two years; unfunded liability of $11.3 million

Campus Budget Reductions
Utilities Shortfall

• Campus Strategies
    • $15 million project costs (debt financed)
    • $1.5 million net savings/year; $1.25 million PG&E rebate
  – Freezer and Refrigerator buy-back program (2008)
  – UC Partnership program with utility companies (2009)
    • Many, many projects in facilities throughout campus
  – Conservation
    – Engage OP and State
  • But, base deficit remains of ~ $10 million
Campus Budget Planning for 2008-09

• Better information, but much uncertainty remains
  – May Revise – will Governor’s Lottery Proposal work?
    Will the Legislature support the proposed increase?
    • Final State Budget Act may lag into summer
  – OP and Regents
    • Salary Programs
    • President Yudof
    • Other Priorities
  – Contingency added to plan
    $2 million

Recap Potential Budget Reductions

<table>
<thead>
<tr>
<th>Budget Item</th>
<th>BASE ESTIMATE</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base shortfall</td>
<td>-$14,000</td>
<td>January budget proposal</td>
</tr>
<tr>
<td>Fixed costs – salaries, benefits</td>
<td>-$14,030</td>
<td></td>
</tr>
<tr>
<td>Enrollment growth – state marginal cost funds</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>UC Merced enrollment</td>
<td>-$985</td>
<td>UC Davis share</td>
</tr>
<tr>
<td>Graduate student support</td>
<td>-$1,130</td>
<td>Cover allocations</td>
</tr>
<tr>
<td>Utility shortfall</td>
<td>-$9,900</td>
<td>Eliminate deficit</td>
</tr>
<tr>
<td>Contingency</td>
<td>-$2,000</td>
<td>Too much uncertainty</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>-$28,045</strong></td>
<td></td>
</tr>
<tr>
<td>Faculty and staff salaries</td>
<td>-$12,000</td>
<td>Estimate for 2% COLA and 2nd year of faculty market increases</td>
</tr>
<tr>
<td><strong>Total shortfall</strong></td>
<td><strong>-$40,045</strong></td>
<td></td>
</tr>
</tbody>
</table>
Addressing the shortfall… Base budget reductions

- CODVC cut targets $17.7 million
- General fund and registration fee base = ~$600 million
  - 50% of base exempt (blue)
  - Reductions = 3% of total
- Plans reviewed by ORMP; feedback to Provost 6/30; Provost decisions mid-July

Base budget reduction 2008-09 Targets

<table>
<thead>
<tr>
<th></th>
<th>Schools, Colleges and Divisions</th>
<th>Administrative &amp; Academic Support Units</th>
<th>Central Campus</th>
</tr>
</thead>
<tbody>
<tr>
<td>State funds and registration fees</td>
<td>$298.6 million</td>
<td>$180.8 million</td>
<td>$119.8 million</td>
</tr>
<tr>
<td>Budget reduction target</td>
<td>$7.5 million</td>
<td>$10.2 million</td>
<td>None</td>
</tr>
<tr>
<td>Percent of total</td>
<td>2.5%</td>
<td>5.6%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Exclusions:

- Ladder & TA salaries $191.4 million $19.3 million
- Purchased Utilities, Graduate student support $30.2 million
- Central benefits pool
- Salary increases, central (debt service, leases, other) and financial aid $17.3 million
Addressing the shortfall…
One-time strategies

Series of one-time options to balance 2008-09

• Non-resident tuition decentralized to campuses this year
  – Campus received NRT revenue (1994x) and campus returned general funds (19900) for 1,455 students
  – Campus retains ~$25,000 for each non-resident student that exceeds base enrollment of 1,455
  – Assume $100,000 as placeholder until fall quarter data available.

• 2007-08 faculty positions from growth
  – 24.5 general campus FTE in Provost Reserve
  – $80,000 per FTE salary and benefits
  – $2 million annual savings to offset cuts

• 2008-09 faculty positions from growth
  – Enrollment growth not funded; FTE not funded
  – No savings to offset cuts
Addressing the shortfall…

One-time strategies

• Focus faculty hiring on “steady state”
  – Replace retirements and resignations
  – Save start-up costs (central and dean); salary funds

• Campus saves $0 to $10 million

• Short-term strategy for 2008-09 hiring

Addressing the shortfall…

One-time strategies

• Concern about age demographics and instruction gaps
  – Retirements have slowed in some areas
  – Student growth modest
  – Multi-year hiring plans needed to understand impact.
Addressing the shortfall…
One-time strategies

- Indirect Cost Funds (March letter from Provost)
  - 2006-07: $384.3M Directs and $83.3M Indirects
  - 2007-08 Allocation from OP: $61.5M

- Campus Uses:
  - Capital $21.1M
  - Returns $12.2M
  - Start-ups/retention $11.1M
  - Match/Bridge/COR $5.0M
  - Grad support $5.4M
  - ORU/central facilities $3.7M
  - Admin/Outreach $3.0M

2006-07 Indirect Costs Allocated

- Match/Bridge/COR $5.0M
- Grad support $5.4M
- ORU/central facilities $3.7M
- Admin/Outreach $3.0M

Campus Return Programs
- $12 million total plus match and bridge funds
  - Deans, VCs, Department Chairs, PIs

2006-07 Activity
- Expenses: 66% salary and benefits and 34% OE&E

June 30, 2007 Balance $14.8 million
- up from $12.6 million June 30, 2006
- Balances include campus returns, match and COR

Many concerns voiced about possible one-time reductions
Addressing the shortfall...
One-time strategies

- **Self-supporting activity assessment**
  - Rationale: Self-supporting units part of campus and should participate in addressing challenges

- **Propose assessment in 2008-09**
  - 3% assessment (units already absorbing fixed cost increases like benefits so impact is more than 3%)
  - Need to understand consequences
  - Rate freeze to mitigate higher cuts being pushed to campus departments
  - Generates $3 million to $5 million

Bringing the parts together

**GOAL: Balanced budget for 2008-09**

- **Potential Cuts** $28 to 42 million

- **Potential Sources**
  - Base $17.7 million
  - One-time $10.2 to $24.2 million

Elements of budget plan that are addressed with one-time funds in 2008-09 must be addressed permanently in 2009-10.
Balancing the budget for 2008-09

<table>
<thead>
<tr>
<th>POSSIBLE OPTIONS TO BALANCE 2008-09</th>
<th>BASE (thousands)</th>
<th>ONE-TIME (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CODVC base reductions</td>
<td>$17,745</td>
<td>February targets</td>
</tr>
<tr>
<td>Non-resident tuition</td>
<td>$100</td>
<td>Enrollment &gt; 1,455</td>
</tr>
<tr>
<td>Educational fees</td>
<td>$6,500</td>
<td>One-time $ from OP</td>
</tr>
<tr>
<td>Faculty positions</td>
<td>$2,000</td>
<td>2007-08 growth FTE</td>
</tr>
<tr>
<td>Faculty start-up savings</td>
<td>$0 to $10,000</td>
<td>Slow hiring in 2008-09</td>
</tr>
<tr>
<td>Indirect cost funds</td>
<td>$0 to $10,000</td>
<td>Pause or reduce</td>
</tr>
<tr>
<td>Equipment/research match</td>
<td>$0 to $1,500</td>
<td>Pause or reduce</td>
</tr>
<tr>
<td>Self-supporting assessment</td>
<td>$3,000 to $5,000</td>
<td>Evaluating 3%</td>
</tr>
<tr>
<td>Campus Investment Fund</td>
<td>$1,000 to $2,000</td>
<td>Reduce spending</td>
</tr>
<tr>
<td>Other spending reductions</td>
<td>??</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$17,745</strong></td>
<td><strong>$12,600 to $37,100</strong></td>
</tr>
</tbody>
</table>

NEXT STEPS:

1. Review reduction and hiring plans
2. Prioritize one-time actions for 2008-09
3. Define and begin planning process for 2009-10 to address shortfall of $10-20 million plus additional cuts that may emerge from State.

“What can we stop doing”
“What can we do differently”
“What new revenue can we generate”