Academic Planning and Budget
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UCLA Cost Savings Program Briefing Paper

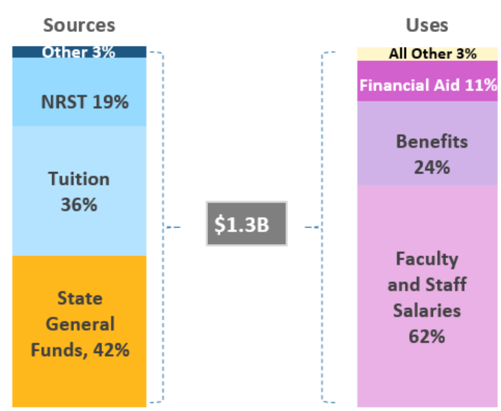
Introduction

This briefing paper provides context about UCLA's General Funds budget, describes Governor Gavin Newsom's State budget proposal for 2022-23, and explores why – even with two consecutive years of positive base budget adjustments from the State – UCLA's savings program continues to be essential to its financial health. The intent of this paper is to facilitate robust discussions about UCLA's savings program and the conditions that set the stage for it.

Background: Funding for UCLA's Core Academic Mission

General Funds are the primary source of support for UCLA's core academic activities and central services. The main components of UCLA's General Funds are permanent (ongoing) State funding, base tuition and fees, and Nonresident Supplemental Tuition (NRST). UCLA's General Fund expenditures are primarily personnel-based. Totaling $1.3 billion in 2021-22, 86% of UCLA's General Fund supports salaries and benefits for faculty and staff. See Figure 1, below, for more details.

Figure 1: Sources and Uses from UCLA's General Funds, 2021-22



Update on Governor's 2022-23 State Budget Proposal

On January 10, 2022, Governor Gavin Newsom issued his 2022-23 State budget proposal and announced a five-year funding agreement (or "Compact") with the University of California (UC). The proposed Compact provides sustained annual funding increases for UC through 2026-27, in exchange for commitments to expand student access, equity, and affordability. In particular, the Compact includes expectations of progress on a number of shared goals, including annual one percent enrollment growth, closing graduation gaps and creating pathways to debt-free education by 2030, and increasing online education offerings.[1]

[1] The expectations of the January 2022 Compact align well with the multi-year framework adopted by the UC Board of Regents in early 2019 known as "UC 2030: Advancing the California Dream" or "UC 2030." UC 2030 is a collective effort by UC leadership (the President, Chancellors, and Board of Regents) to address inequities and strengthen California's future by investing in the next generation of UC graduates, faculty, and research. Specifically, this framework seeks to achieve the following goals by 2030: to produce over 200,000 additional degrees (on top of the one million undergraduate and graduate degrees currently

The proposed budget includes a $4.6 billion allocation for UC. This investment includes a 5% base budget increase and funding related to enrollment growth referenced in the Budget Act of 2021 that had not previously been appropriated to UC. The Governor's proposed budget also provides UC with $295 million in one-time funds, which includes $185 million for the University to help achieve statewide climate resiliency goals.

The proposed State budget for 2022-23 includes a $307.3 million increase in UC's ongoing support, relative to that of 2021-22. This increase would build upon the advancements made by the final State Budget Act of 2021, which provided much-needed resources for UC in the wake of the economic downturn resulting from COVID-19. The final 2021-22 State budget restored the cut of $302 million that the University sustained in 2020-21, and provided an additional increase of $170 million (5%) over 2020-21 levels to support new operational costs.

On an ongoing basis, UC requested $422 million from the State for 2022-23 ($114.7 million less than the Governor's proposal). This proposed figure included a 5% base budget increase of $199.4 million to sustain core operations. Alongside roughly $83 million in University resources,[2] this $199.4 million figure corresponds primarily with UC's *people-related* costs in 2022-23, including policy-covered faculty and staff compensation, UC's faculty merit program, contractually committed compensation, and health benefits. In recognition of inflationary pressures resulting from pandemic-related supply chain issues, the Board of Regents also augmented UC's State budget proposal by $52 million for equity- and market-based salary adjustments for faculty and policy-covered (i.e., unrepresented) staff, along with associated retirement contributions.[3] Other requests for ongoing funding from the State included the following:

- $66.7 million for the State's share of unfunded enrollment growth between 2019-20 and 2021-22 (4,360 California resident undergraduates), and for UC's planned enrollment of 2,000 additional California resident undergraduates in 2022-23;
- $31.1 million to offset a State-mandated reduction of 900 total nonresident undergraduates at UCLA, Berkeley, and San Diego in 2022-23;
- $31.3 million to support efforts to eliminate equity gaps in graduation rates; and
- $41.5 million for other high-priority investments, such as converting one-time funds for the Student Academic Preparation and Educational Partnerships (SAPEP) program to ongoing funds; supporting former foster youth, undocumented students, and carceral-impacted students; and expanding the impact of the UC Cancer Consortium (UCCC).

Although the Governor's proposal for 2022-23 would build upon last year's State appropriation, it diverges from UC's "ask" to the State in meaningful ways. Figure 2, below, compares UC's requests for ongoing and one-time State funds in 2022-23 against the Governor's January 2022 proposal. Although the Governor's budget includes both a 5% base budget increase for UC and funding to cover prior and

projected); to raise the undergraduate four-year graduation rate to 76% and the six-year graduation rate to 90%; to eliminate gaps in timely graduation and graduate degree attainment for Pell recipients, first-generation students, and underrepresented groups; and to invest in the next generation of faculty and research by adding 1,100 ladder-rank faculty.

[2] University resources allocated to sustaining core operations include procurement savings, enrollment of an additional 200 nonresident undergraduates at UC campuses currently below their nonresident caps; tuition, NRST, and Student Services Fee adjustments (net of aid); and a proposed reduction to the UC Retirement Plan (UCRP) employer contribution rate of 1% (from 15% to 14%), in light of positive trends in UCRP's funded status.

[3] This augmentation was also intended to facilitate closer alignment between negotiated wage adjustments for represented staff and salary adjustments for unrepresented staff.

planned enrollment growth, it does not accommodate the Regents' $52 million request to help cover compensation increases, the $31.3 million requested to help eliminate equity gaps in graduation rates, and most of UC's other high-priority requests.

Figure 2: Comparison of UC's Proposal and Governor's Budget for 2022-23 ($ in millions)

Category	UC Proposed	Gov. Jan	Difference	% Funded
Base budget increase for core operations	$251.4	$200.5	-$50.9	
CA undergraduate enrollment growth (6,230)	$66.7	$67.8	+$1.1	
Buy-down of nonresident enrollment at 3 campuses	$31.1	$31.0	-$0.1	
Eliminate equity gaps in graduation rates	$31.3	$0.0	-$31.3	
Other perm funding	$41.5	$8.0	-$33.5	
Subtotal State Ongoing Support	**$422.0**	**$307.3**	-$114.7	73%
Deferred maintenance/energy efficiency projects	$600.0	$100.0	-$500.0	
Other one-time investments	$9.0	$195.0	+$186.0	
Total State Support	**$1,031.0**	**$602.3**	-$428.7	58%

The UC Office of the President characterized UC's request for a 5% base budget adjustment in 2022-23 as follows: "Together with the University's own efforts to reduce costs, opportunities for alternative revenues, and new resources provided by the Tuition Stability Plan previously approved by the Regents, this level of support would allow the University to cover expenses associated with sustaining core University operations."[4] State funding, in other words, is characterized not as the primary source of funding for UC, but rather as *one key revenue stream among others*.

In fact, as a percentage of UC's core fund operating budget, State support declined from 87% in 1980-81 to 39% in 2020-21. Student tuition and fees, by contrast, grew from less than 10% in 1980-81 to 57% in 2020-21. Even when State support for UC has increased during times of fiscal stability over the past few decades, those increases have not been enough to restore prior funding levels and keep pace with enrollment growth, catalyzing increased reliance on tuition and fees to support students, faculty, and staff.

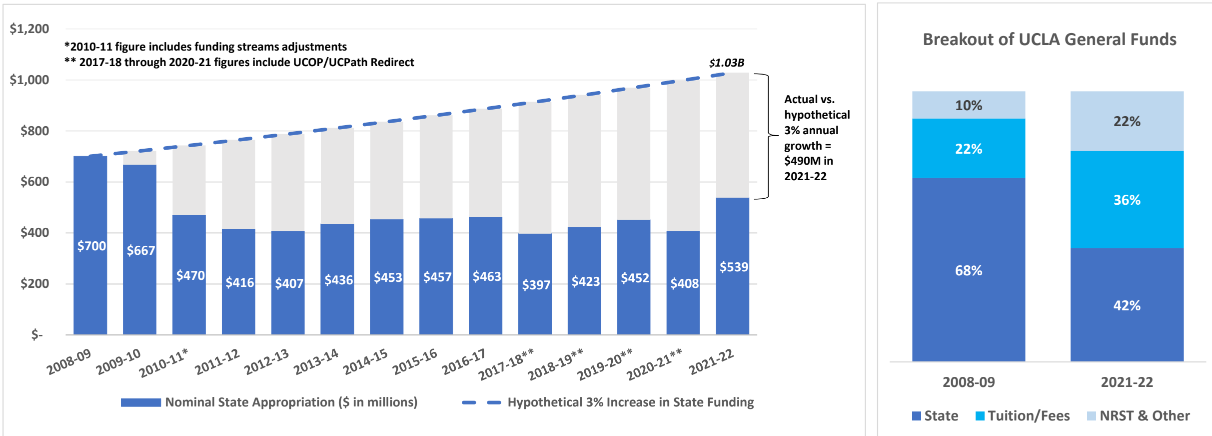
State Support for UCLA since 2008-09

UCLA has not been insulated against the State funding shortfalls that have resulted in greater systemwide reliance on tuition and fees over time. As shown on the right side of Figure 3, below, the State provided UCLA with 68 percent of its total General Funds in 2008-09. This figure has since dropped to 42 percent, with student tuition, fees, and NRST growing in prominence as a proportion of General Funds.

Also shown in Figure 3 is UCLA's nominal State appropriations between 2008-09 and 2021-22. The blue dotted line denotes how those figures would have changed had permanent State support for the campus increased steadily by 3% each year starting in 2008-09 (essentially remaining flat in constant dollars). Under this counterfactual, UCLA would have received $5.8 billion more from the State over the past 13 years, helping to reduce the campus's unavoidable reliance on non-State fund sources today.

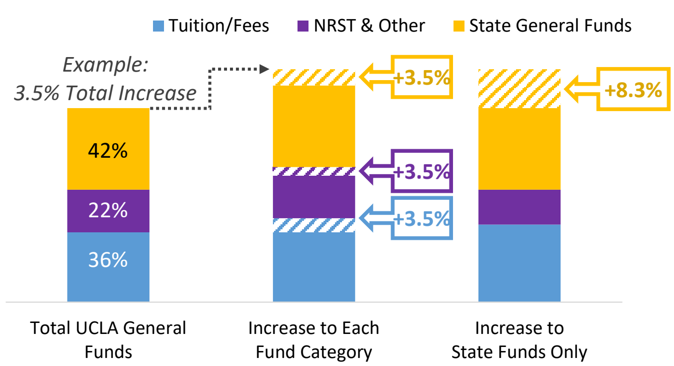
[4] UC Office of the President. "Approval of the University of California's 2022-23 Budget for Current Operations." November 17, 2021 Regents Meeting Item. https://regents.universityofcalifornia.edu/regmeet/nov21/f6.pdf.

Figure 3: UCLA Historical State Funding and Percentages of Total UCLA General Funds (GF)



When State funding represented a large majority of UCLA's General Funds, a 3.5% increase in State support was nearly equivalent to a 3.5% increase in UCLA's entire General Funds budget. Today, given the growing importance of tuition and NRST to cover cost increases, a 3.5% increase in State support—which, as mentioned, represents 42% of UCLA's General Funds—provides only a 1.5% increase in total General Funds. Holding all other fund sources flat, State support would need to increase by 8.3% to achieve an overall increase of 3.5% in UCLA's General Funds. This phenomenon is illustrated by Figure 4, below. Unfortunately, UCLA's General Fund sources very rarely grow in lockstep, let alone by the same proportion as UCLA's annual cost increases. This reality helps to explain why mandated tuition freezes and State funding shortfalls over the past 15 years have contributed to campus budget constraints and the erosion of key metrics, such as the student-to-faculty ratio.

Figure 4: Achieving a 3.5% Increase in Total General Funds



(Figures not drawn to scale.)

January 2022 Governor's Budget Implications for UCLA

Despite two consecutive years of growth in State funding for UC (in 2021-22 and projected for 2022-23), UCLA's savings program remains necessary to balance its General Funds budget, manage uncertainty, and support new investments. Under the 2022-23 Governor's budget as proposed, UCLA would receive a portion of UC's 5% base budget increase from the State, after accounting for rebenching.[5] In addition, with UC's multi-year Tuition Stability Plan (cohort-based tuition) taking effect in fall 2022, one incoming cohort of undergraduates will be assessed increases in base tuition, the Student Services Fee, and NRST in 2022-23. The Tuition Stability Plan also includes an inflation-based increase in base tuition and the Student Services Fee for all graduate students (as opposed to just one cohort) in 2022-23. These funds will represent welcome investments in UCLA's General Fund. Absent efforts to reduce costs, however, proposed State support and projected cohort-based tuition revenues by themselves will fall short of covering the campus's mandatory General Fund expenses, let alone its current deficits.

Figure 5: Five-Year Financial Plan Forecast

Figure 5, shown below, presents a full summary of UCLA's five-year forecast for General Funds. As noted in previous discussions with campus stakeholders, UCLA is in the midst of a predicted five-year budget stretch where known cost increases are exceeding revenue growth. Academic Planning and Budget (APB) has updated its planning scenarios for recent developments, but the bottom line has not shifted materially. Recent developments on the revenue side include higher anticipated State funding levels, per the multi-year Compact mentioned in the Governor's January budget proposal. APB also anticipates higher cohort-based tuition rate increases, as the approved annual increases are indexed to real inflation (not to exceed 5% in any given year). Recent developments on the expense side include proposed higher salary increases for policy-covered faculty and staff in fiscal year 2022-23 (per UC's latest budget plan); a new represented staff contract for lecturers; and a temporary two-year reduction in the employer pension contribution rate (approved by the Regents in November 2021).

Figure 5 shows slow revenue growth in large part because the greater share of UCLA's General Fund is derived from tuition and NRST, and the full effects of cohort-based tuition will not be felt until the phase-in period is complete in 2026-27. Rows 2 through 5 chart projected changes in General Fund revenue, including an assumed full State buyout of mandated nonresident enrollment reductions. This assumption constitutes the best-case scenario. The pandemic has only had a minor impact on UCLA's revenue scenario: UCLA's $54.6 million cut in State funding in 2020-21 was restored in 2021-22, along with a 4% base budget increase. Over two years, however, these appropriations equate to a less-than-inflationary adjustment. Cohort-based tuition was also delayed by a year due to the pandemic. Overall, UCLA's General Fund revenues are projected to grow by 2.6% per year over the next five years.

On the expense side, the forecast shows a higher rate of cost increases (relative to revenue increases). As mentioned, 86% of UCLA's General Fund supports salaries and benefits, with faculty salaries constituting the largest share. Faculty salaries increase between 4% and 5% each year due to range adjustments, merits, and promotions. In addition to faculty cost increases, the forecast scenario includes normal annual increases for staff, benefits for faculty and staff, and represented staff agreements. The pandemic has not had an adverse impact in the forecast for ongoing expenditures, as its associated

[5] Rebenching is the University's strategy for allocating State General Funds across campuses so as to avoid disparities in State funding per student. The University began implementing this strategy in 2012-13 with the goal of achieving equivalent weighted per-student funding from eligible State General Funds by 2017-18. One of the principles behind rebenching is that students in the same enrollment categories should be funded at the same level across the system. Under this framework, campuses that enroll larger graduate student populations, especially in the health sciences, receive more unweighted funding relative to campuses with lower graduate enrollments. On a weighted basis, however, all campuses receive the same State funding level per student.

costs are mainly one-time in nature. Overall, UCLA's General Fund expenses are projected to grow by 3.6% per year over the next five years.

The spread between the growth rate of revenue (2.6%) and expenditures (3.6%) results in a cumulative gap to solve of $85 million by the end of 2025-26. UCLA must be proactive in addressing our budget deficits, as these choices become more difficult when action is deferred. As shown in Figure 5, fiscal year 2022-23 will begin with a deficit of $37.6 million. For this reason, our gap-closing program must start on July 1, 2022. This program includes unit savings targets to be realized over four years, central actions to diversify revenue, and limited funding to invest in budget priorities. These priorities include growing graduate student support and addressing deferred maintenance needs for UCLA's facilities, as well as providing some central funding to support the annual budget process. Each year, these investments will be transparent and focus substantially on academic needs and priorities. Under this five-year plan, each academic organization's General Fund budget will grow even after factoring in the savings plan targets. Most will grow by greater than 10% over this five-year period. For the savings component, the target for Administrative units is 8%; for Academic units, the savings target is 4%. By spreading the reductions over multiple years, units can be more strategic in how targets are achieved – including through new revenues and shifting expenses off General Funds.

To summarize, UCLA's five-year financial plan represents a balanced funding strategy that incorporates moderate annual increases in State support; student tuition and fees, consistent with the Tuition Stability Plan; and contributions from UCLA's own efforts to operate more efficiently.

Looking past this five-year horizon, even after cohort-based tuition fully matures in 2026, UCLA's best-case scenario will be for State appropriations and systemwide charges (base tuition, the Student Services Fee, and NRST) to increase annually by the rate of inflation. Absent additional, nontraditional sources of funding, budget pressures will persist because UCLA's annual personnel cost increases typically exceed the rate of normal inflation. This phenomenon is due to faculty merits and promotions, represented staff increases, and established long-term trends in health and pension costs. Modest growth in UCLA's General Funds would also be insufficient to support UCLA's high-priority *new investments*, which include hiring additional staff and ladder faculty, growing graduate student support, and addressing deferred maintenance needs for campus facilities. The Bruin Budget Model, which will also take effect on July 1, 2022, is designed specifically to help the campus adapt to these longer-term challenges by better aligning core operating revenues with expenditures, providing transparent incentives for units to pursue nontraditional revenue growth opportunities, and by creating more central funds for strategic investment.

Figure 5: Five-Year Financial Plan Forecast

ref		2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
1	**Gap to be Closed - Start of Period**	**$ -**	**$ (73.7)**	**$ (37.6)**	**$ (60.6)**	**$ (66.6)**	**$ (78.9)**
	Revenue Changes						
	Changes in State General Funds						
2	Funds for core operations	(54.6)	78.3	20.8	21.6	22.3	23.1
3	Funds to offset lost NRST income			10.0	11.2	12.1	13.3
	Changes in Tuition and NRST						
4	Cohort tuition increases, net of aid			10.1	16.7	26.1	33.3
5	Loss of NRST to reach 18% enrollment target			(10.0)	(11.2)	(12.1)	(13.3)
6	**Total Revenue Changes**	**$ (54.6)**	**$ 78.3**	**$ 30.9**	**$ 38.3**	**$ 48.4**	**$ 56.4**
	Expense Changes						
	Changes in mandatory financial aid						
7	Increases from cohort tuition increases	-	-	3.9	6.0	8.8	9.0
	Changes in salaries and benefits						
8	Increases for policy-covered staff	11.0	27.5	35.5	29.0	30.2	31.4
9	Increase for represented staff	3.0	3.2	6.6	4.9	4.5	4.6
10	Increases in benefit costs	5.1	11.5	15.9	12.7	12.9	13.0
11	Adjustments to employer pension contribution			(8.0)	(8.3)	4.3	4.5
12	**Total Expense Changes**	**$ 19.1**	**$ 42.2**	**$ 53.9**	**$ 44.3**	**$ 60.7**	**$ 62.5**
13	**Gap to be Closed - End of Period**	**$ (73.7)**	**$ (37.6)**	**$ (60.6)**	**$ (66.6)**	**$ (78.9)**	**$ (85.0)**
	Gap-closing Program						
1	Savings administrative units			12.9	12.9	12.9	12.9
2	Savings academic units			11.7	11.7	11.7	11.7
3	Central actions			5.0	5.0	8.3	8.3
4	Budget priorities			(10.0)	(10.0)	(10.0)	(10.0)
	Total Gap-closing Program - Annual	**$ -**	**$ -**	**$ 19.6**	**$ 19.6**	**$ 22.9**	**$ 22.9**
	Total Gap-closing Program - Cumulative	**$ -**	**$ -**	**$ 19.6**	**$ 39.2**	**$ 62.1**	**$ 85.0**

Major components of Campus Gap Closing Program

1. **Admin Savings:** Target = 2% per year for 4 years starting in 2021-22
2. **Academic Savings:** Target = 1% per year for 4 years starting in 2021-22
3. **Central Actions:** Higher draws on investment income and renegotiated ICR rate
4. **Priorities:** Faculty and diversity commitments and annual budget process

General Fund Planning Scenarios

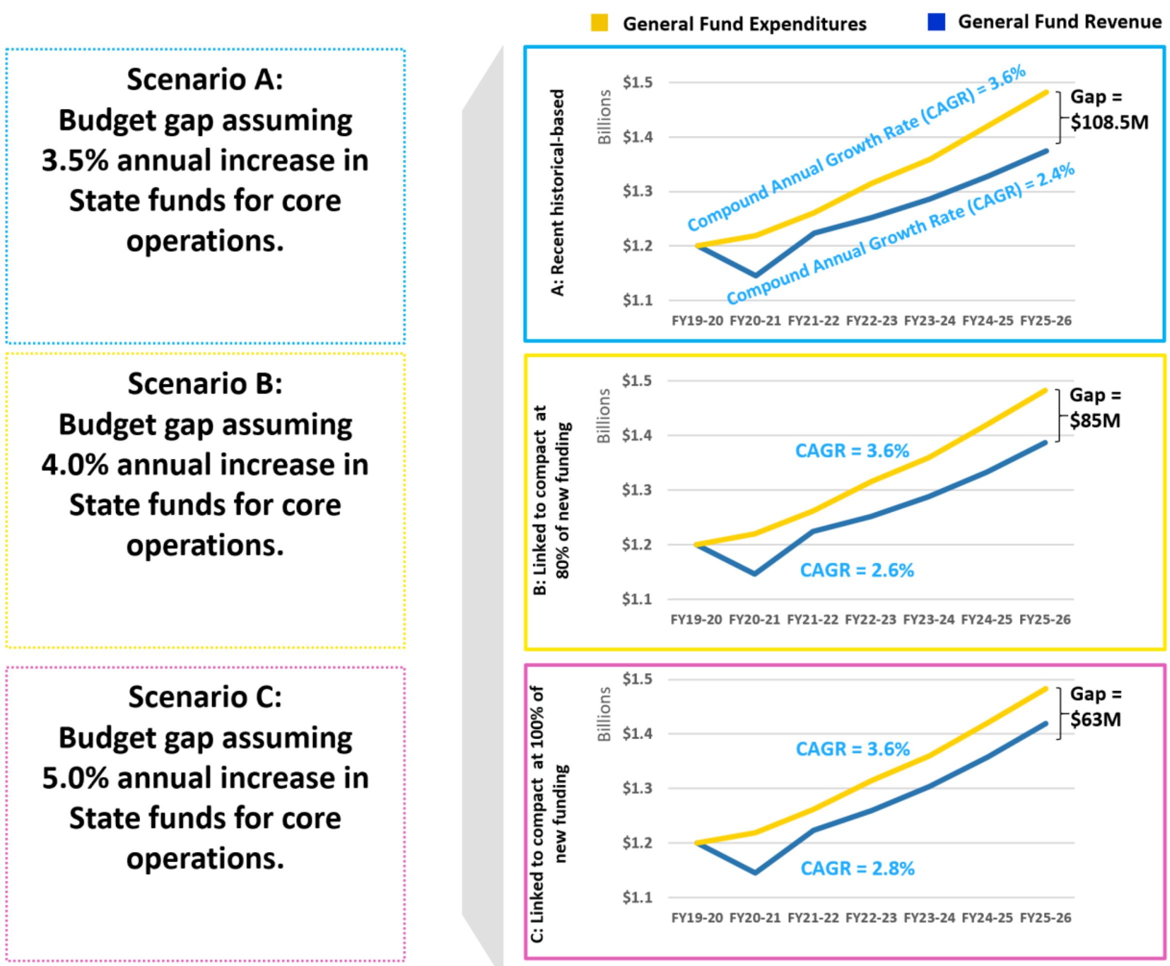
State funding for UC can be difficult to predict, given historical volatility. Tuition and fee revenues, by contrast, are currently fairly simple to predict, due to the recent approval of a multi-year Tuition Stability Plan.[6] UCLA can also fairly accurately predict future personnel-related cost increases. For these reasons, the campus is well-positioned to project General Fund expenditures and a portion of General Fund revenues (from tuition and fees) over time. Figure 6, below, shows three possible State funding scenarios (A, B, and C) between 2022-23 and 2025-26.

Scenarios A, B, and C progressively free up more State support for personnel-related costs over time. Scenario A applies a 3.5% annual growth rate to base budget support from the State between 2022-23

[6] The multi-year Tuition Stability Plan, approved by the UC Regents in July 2021, indexes increases in base Tuition, the Student Services Fee, and NRST to real inflation (with a 5% maximum increase in any year).

and 2025-26 (approximately equivalent to the compound annual growth rate of State support for UC over the past five years). It also incorporates assumptions about future cohort-based tuition rate increases (consistent with the Tuition Stability Plan), and assumes flat enrollment. Scenarios B and C apply the same assumptions about tuition and enrollment, but modify State support. Specifically, Scenario B assumes that the latest multi-year Compact with Governor Newsom will result in annual 4% base budget increases for UC, or that 80% of the target growth under the multi-year Compact (5%) will be available for personnel-related expenses. Scenario C is the most generous, as it assumes 5% annual base budget increases from the State for personnel costs. UCLA's budget savings program uses the middle case of State funding assumptions of Scenario B. Even under Scenario C, however, projected General Fund expenditures are still projected to exceed General Fund revenues through 2025-26. In fact, the spread of cumulative deficits is only $63 million to $109 million under these different assumptions, underscoring the need to take budget action under any probable State budget outcome.

Figure 6: Projected Gaps in General Fund Support under Three State Funding Scenarios



Scenarios A, B, and C provide examples of State funding projections grounded in reasonable assumptions. They do not, however, account for future funding decisions outside of UCLA's control (or ability to predict) that might erode future State support for the campus, regardless of the prevailing State funding scenario. For example, the campus might face the following: 1) deliverables required by the State that go unfunded; 2) modifications to rebenching that reduce UCLA's share of future State appropriations; and/or 3) the discontinuance of State buyouts of mandated reductions in nonresident undergraduate enrollment (the first such buyout is proposed for 2022-23 by the Governor's Budget). Compounding these uncertainties is the possibility that, should the State continue to buy out mandated reductions in nonresidents, those future funds might not flow directly back to UCLA, but rather to every UC campus through the rebenching process, effectively hamstringing UCLA's capacity to generate sufficient General Funds.[7]

The additional uncertainties highlight the need to act now, as opposed to hoping that the budget scenario will improve in the future. If UCLA is in a position to lessen its savings targets, campus leadership will do so, just as it has responded to shifting circumstances and needs during the pandemic. APB does not anticipate that savings target will change, given the realities of UCLA's funding scenario, but by spreading these targets over four years, the campus is well-positioned to adjust targets as needed in future years.

Enrollment Update

According to the 2021 Budget Act, the Legislature intends to reduce the number of nonresident undergraduate students at Berkeley, UCLA, and San Diego such that "nonresident undergraduate enrollment at each campus comprises no more than 18 percent of total undergraduate enrollment by the 2026-27 academic year."[8] To phase in this reduction, the State called for each of the three campuses to reduce their nonresident enrollments by 300 in 2022-23 and replace them with an equivalent number of additional California resident undergraduates. UCLA's initial enrollment plan for 2022-23 reduced nonresident undergraduates by 277 (relative to 2021-22) and increased California resident undergraduates by 821 (exceeding the California resident growth target of 300 by over 500 students).

The UC Office of the President asked UCLA to modify this plan in order to reduce nonresidents by at least 300. The campus has since agreed to reduce nonresident enrollments by an additional 150 in 2022-23 (for a total of 427). This plan will bring UCLA's nonresident percentage down to 21.7% (according to *Regents Policy 2109*, UCLA's current nonresident enrollment cap is 22.6%).

Going forward, UCLA will continue to assess alternatives to reducing nonresidents further. Such reductions could be destabilizing to the General Funds budget in the long term. Alternatives include admitting more California residents by better utilizing Summer, thereby satisfying the State's desire to expand access for Californians without further reducing nonresidents. As of now, UCLA's budget planning assumes no negative impact from nonresident reductions (as in, it assumes State support will offset foregone NRST revenue from mandated nonresident reductions). Similarly, campus budget plans assume that any California resident enrollment growth will be budget neutral (as in, any new revenue from enrollment growth will have offsetting expenses).

Figure 7, below, shows how future California resident and nonresident undergraduate enrollment levels would vary if UCLA reduced its nonresident percentage to 18% by 2026-27 (per the State's expressed

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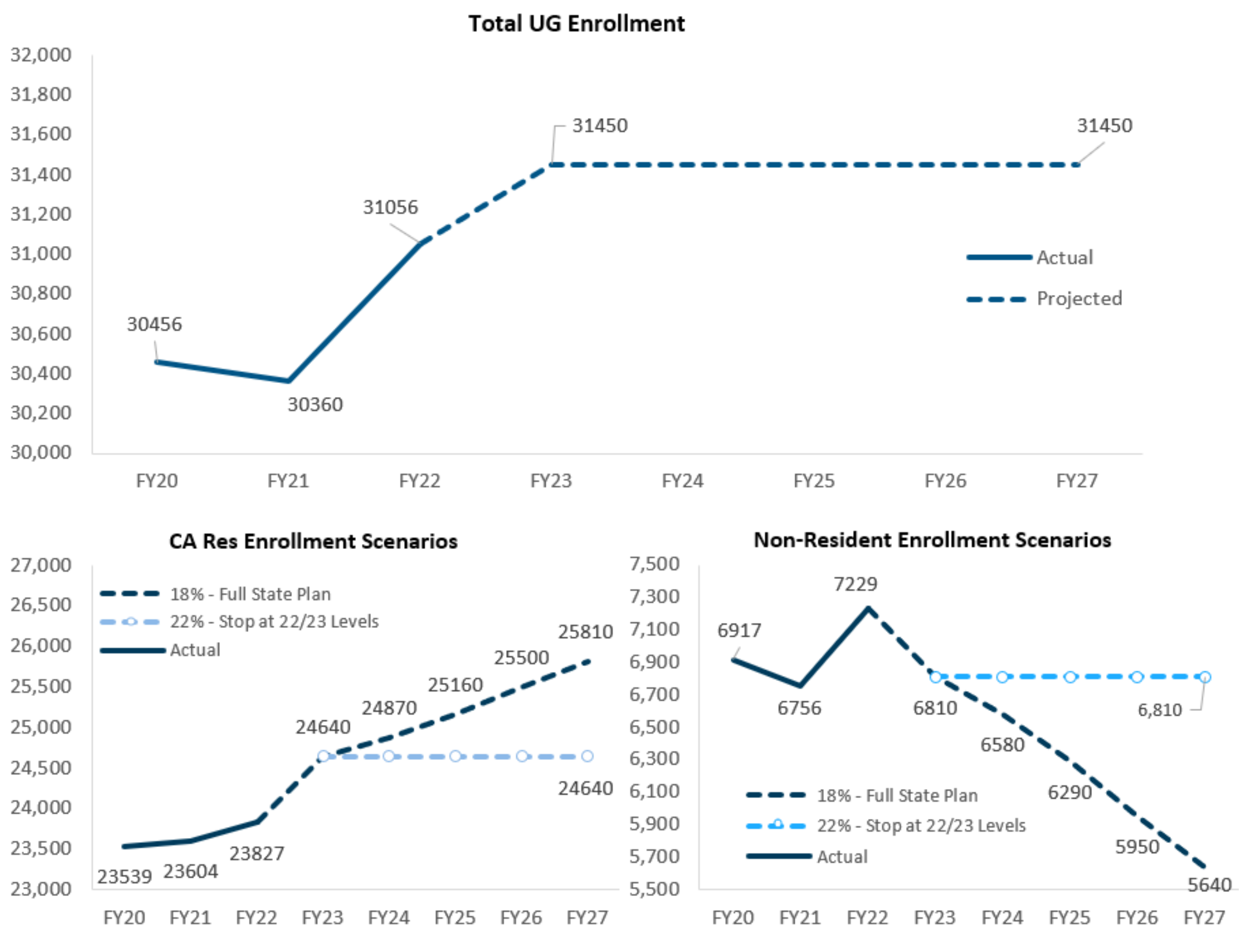
[7] Discussions are currently underway at the UC Office of the President as to whether future State funding buyouts of mandated nonresident undergraduate reductions at UCLA, Berkeley, and San Diego would flow through rebenching or function as set-asides to support these three campuses only.

[8] California Budget Act of 2021. Provision 43 of section 6440-001-0001. https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB128.

intent), as opposed to holding steady at approximately 22% (the 2022-23 level, which grows California residents more than the State's plan). As Figure 7 shows, either scenario results in total undergraduate enrollment of 31,450 starting in 2022-23.

Figure 7: Undergraduate Enrollment Scenarios



Conclusion

The exhibits and narrative of this paper were created to support campus-level discussions of UCLA's current budget situation and to reemphasize the need for its savings program. Questions about this document should be directed to Academic Planning and Budget.