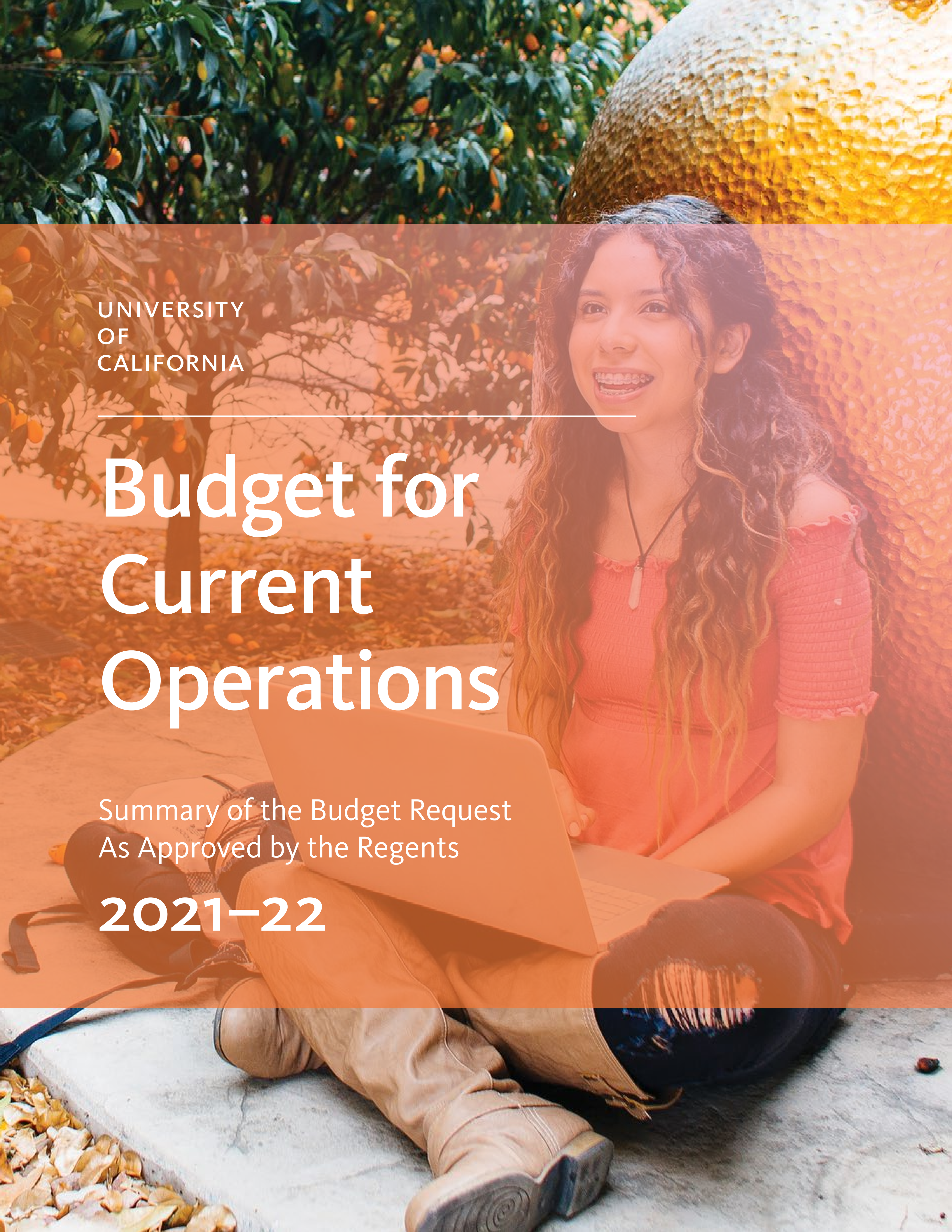


UNIVERSITY
OF
CALIFORNIA

Budget for Current Operations

Summary of the Budget Request
As Approved by the Regents

2021–22

LETTER FROM THE PRESIDENT

Clark Kerr, President of the University of California (UC) from 1958 to 1967, and principal architect of the 1960 Master Plan for Higher Education, once described the UC system as a "city of infinite variety." Some lose their way in the city and some rise to the top, Kerr wrote, but "most fashion their lives within one of its many subcultures." The University, much like a well-functioning city, equips and encourages its members to pursue their dreams, engage in civic discourse, adapt to a changing economy, and enhance the lives of others.

Cities are more than metaphors, of course. They are real, human enterprises. At this moment, cities around the world are contending with the COVID-19 pandemic and its resulting economic recession. From early March through mid-November 2020, over one million COVID-19 cases were identified across California's cities, resulting in over 18,000 deaths. The state's thriving economy was brought to a halt: its projected surplus of $5.6 billion in January devolved into an estimated deficit of $54.3 billion by May.

For the University, the pandemic resulted in an estimated $2.7 billion in lost revenue and extraordinary costs between March and October. At the core of this financial loss, of course, is one of human ties. Measures to protect the UC community and the public at large from the spread of COVID-19 included transitioning to remote instruction, scaling back on-campus housing facilities, and decreasing provisions of in-person patient care at UC's medical centers. Despite these safety measures, student enrollment remained stable in spring 2020, and the State did not implement mid-year budget cuts, enabling UC's core fund revenues—comprised mainly of State General Funds and student fees—to remain largely unaffected by the pandemic.

In 2020-21, however, the University faces a reduction of $300.8 million in State support relative to last year, and a potential decline of $38 million in nonresident supplemental tuition. These declines in core fund revenues are compounded by mandatory cost increases that the University can anticipate this year. Covering these costs, which include employee health benefits, debt service on capital projects, and contractually committed wage increases, is critical to sustaining core operations.

Continued support for the University is key to the resiliency of California. UC is the state's third-largest employer; its medical and research centers are on the front lines of the pandemic; and its student body, which is more diverse now than at any moment in its history, constitutes the next generation of thought leaders. In recognition of the challenges of these times, the 2021-22 budget plan pares down proposed investments to those that are essential to ongoing operations and critical to State and University needs. The plan requests that the State restore this year's $300.8 million cut and provide support for both mandatory cost increases and strategic priorities. These priorities include closing educational opportunity gaps, expanding student mental health services, and bolstering enrollment support for UC Programs in Medical Education. Absent sustained core operations, these vital priorities cannot be achieved. Just as cities need electricity to run successful programs for the common good, sustained core operations are necessary for carrying out UC's strategic priorities.

With continued support, the University can function not only as a city of infinite variety, but perhaps also as a city upon on a hill, committed always to serving the public good. In my inaugural year as UC President, I look forward to partnering with the Governor, the Legislature, and other stakeholders to expand access to UC's many subcultures, and to boldly confront and overcome the challenges that lie ahead.

Michael V. Drake, M.D.
President

2020–21 BUDGET PRIORITIES

In the midst of overlapping public health and economic crises resulting from the COVID-19 pandemic, the University's 2021-22 budget request is an attempt to balance the need to maintain high-quality instruction; support campus communities and facilities; make progress toward fiscal stability; and address public healthcare needs across the state. In particular, the budget plan reflects the following priorities:

- Accelerating the University's progress toward closing educational opportunity gaps between students from disadvantaged backgrounds and others by enhancing student academic preparation, advising, and tutoring; bolstering analytical tools to allow for early academic intervention; and supporting innovations in instructional delivery.

- Pursuing a responsible compensation strategy that enables the University to retain and support faculty members as they grow in experience and productivity, follow through on collective bargaining agreements, and prevent further wage erosion for policy-covered (i.e., unrepresented) staff in Professional and Support Staff (PSS) positions.

- Carrying out the second of a six-year plan approved by the UC Regents in September 2019 to phase in a 3 percent increase to the employer contribution rate of the University of California Retirement Plan (UCRP), resulting in annual increases of 0.5 percent, beginning in 2020-21.

- Addressing the projected increase of 4 percent in the unit cost of employee and retiree health benefits in 2021-22.

- Ensuring a safe and functional environment for students, faculty, and staff by addressing the most critical aspects of the University's substantial deferred maintenance backlog, while also achieving long-term benefits related to energy efficiency, reduced greenhouse gas emissions, and lower energy and maintenance costs.

- Improving access to student mental health services by developing targeted interventions to meet the unique needs of the University's diverse student population while bolstering students' connectedness and sense of belonging.

- Supporting and expanding enrollments in UC Programs in Medical Education (PRIME), a systemwide initiative that includes six programs focused on meeting the healthcare needs of California's underserved communities. Funding included in this budget plan would support existing enrollments, launch a new PRIME program focused on the needs of American Indian communities, expand or launch other PRIME programs that are priorities for the State, and augment need-based financial aid for PRIME students.

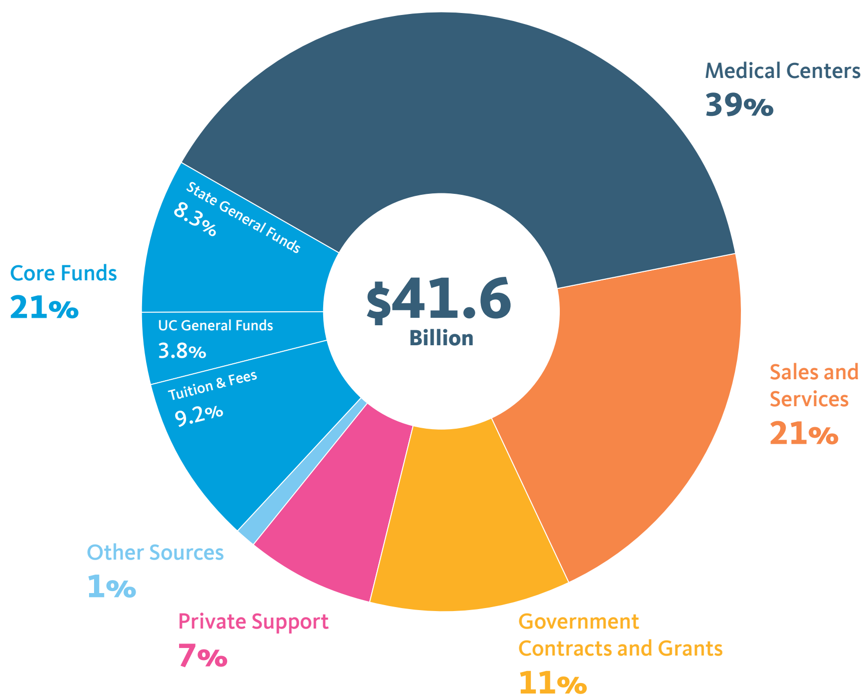
- Keeping projected increases in all other budget categories, including all non-personnel costs, to a minimum.

OVERVIEW

The 2021-22 budget request represents a statement of the University's funding priorities in advance of the Governor's January State budget proposal for the next fiscal year. It acknowledges the reality that the COVID-19 pandemic has taken a significant toll on the California economy and on Californians generally. The plan also recognizes that the University of California is uniquely positioned to contribute to the resiliency of the State.

Consequently, the requested increase in State support for the University in 2021-22 is limited only to those investments that are deemed essential to addressing selected cost increases and making the highest-priority investments aligned with the University's and the State's shared goals related to student access and success.

Display 1: Overview of the University of California Budget, 2020-21 (Estimated)



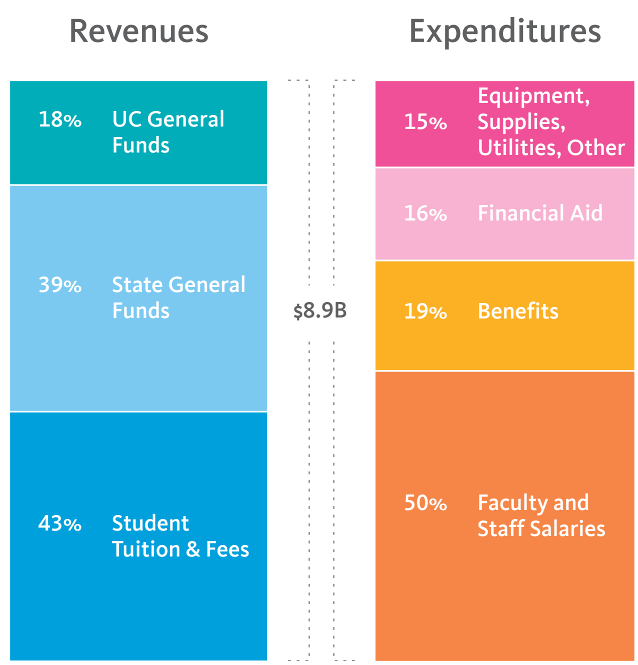
UC's operating budget, totaling an estimated $41.6 billion in 2020-21, consists of funds from a variety of sources. State support, which helps leverage other dollars, is critical.

Background

The scale and composition of the University of California operating budget reflects the University's broad and diverse impact on Californians. The University's operating revenue, estimated at $41.6 billion in 2020-21, funds essential programs related to teaching, research, and public service, as well as a wide range of other activities, including academic medical centers, 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 mission, as well as the administrative and support services needed to perform them. Totaling an estimated $8.9 billion in 2020-21, these funds represent 21 percent of the University's total operating budget. 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 2: Revenue and Expenditures from Core Funds, 2020-21 (Estimated)



Three major fund sources make up UC's core operating budget, with the majority of expenditures funding faculty and staff salaries and benefits.

CONTEXT FOR THE 2021-22 BUDGET PLAN

Typically, the University's budget plan for core operations includes a combination of what are essentially nondiscretionary cost increases (e.g., wage increases mandated by existing collective bargaining agreements), strategic investments designed to address specific University and State priorities, and a funding plan that involves a combination of cost savings and projected increases in revenues from various sources. The 2021-22 budget plan reflects additional considerations related to the immediate financial impact of the COVID-19 pandemic and the budget actions that the University has already implemented or that are under consideration in the current budget year.

Financial impact of COVID-19

The COVID-19 pandemic has taken a significant human and financial toll on California. Over one million cases have been identified in California through mid-November, including over 18,000 deaths. California's thriving economy was brought to an abrupt halt, with unemployment rising to a record 16.4 percent by April 2020. Although the unemployment rate declined to 11.0 percent by September 2020, it remains high by historical standards and is only slightly below the highest level reached during the height of the Great Recession (12.3 percent).

The financial impact to the State's budget was immediate and significant. Although the 2020-21 State budget initially proposed by the Governor in January 2020 projected a surplus of $5.6 billion in State General Funds, the State confronted a budget deficit estimated at $54.3 billion by the time of the May Revision—a four-month swing of $60 billion caused by the COVID-19 recession. The final 2020-21 Budget Act addressed the projected deficit with a combination of measures, including using $8.8 billion in reserves from the State's Rainy Day Fund and other accounts; $11.1 billion in budget cuts; $10.1 billion in new federal funds to provide General Fund relief; $4.4 billion in new revenue due to the temporary suspension of certain tax deductions and business incentive credits; $9.3 million in special fund borrowing and transfers; and $10.6 billion from cancelled program expansions and other measures

The pandemic has also created budget challenges for the University of California.

- **Between March 2020 and October 2020, the pandemic resulted in an estimated $2.2 billion of lost revenue to the University.** Approximately half of this amount was attributable to the University's academic medical centers and clinical operations, where the diversion of resources towards treating COVID-19 patients limited the ability to deliver other revenue-generating patient services. The remainder was primarily due to revenue losses associated with the student housing and dining contracts, along with other auxiliary enterprises (e.g., parking and intercollegiate athletics) where revenue declined as a result of curtailed campus operations.
- **The University also incurred an estimated $431 million in additional expenses attributable to the pandemic during this same period,** including $238 million for emergency medical services (including the cost of personal protective equipment, testing, and supplies), $78 million for extraordinary cleaning costs, and $114 million to support the rapid transition to remote instruction and remote employment.
- **Federal assistance will offset a portion of these revenue losses and extraordinary costs.** For example, the Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated $267 million to UC campuses (including $130 million specifically for student financial assistance) from the Higher Education Emergency Relief Fund. In addition, UC Health has received over $500 million from the Provider Relief Fund, also established by the CARES Act. UC campuses and medical centers are also pursuing cost reimbursement from the Federal Emergency Management Agency (FEMA).
- **The University's 2020-21 State General Fund appropriation is detailed in the Budget Act of 2020,** which was enacted by Senate Bill 74 (SB 74) and amended by Assembly Bill 89 (AB 89). As enacted, SB 74 provided the University with a base budget increase of $170.8 million in addition to new funding for the UC Riverside School of Medicine, support for the

UCSF School of Medicine Fresno branch campus, and other one-time appropriations. AB 89 amended the Act and replaced the base budget increase of $170.8 million with a base budget reduction of $300.8 million in ongoing General Fund support from 2019-20 levels. The reduction would have been wholly reversed and the base budget increase of $170.8 million restored if, by October 15, federal legislation had been enacted to provide $14 billion of additional federal funds to the State, and partly reversed if the State had received at least $2 billion in additional federal funds. Regrettably, no such federal legislation was enacted. As a result, the University must absorb a reduction of $300.8 million in General Fund support in 2020-21.

- **In contrast to other public four-year universities, preliminary figures suggest that the pandemic did not have a material impact on fall 2020 student enrollment at the University of California.** The number of new first-year UC undergraduates is expected to increase by 2.5 percent over fall 2019 compared to a 13.7 percent decline at public four-year universities nationally. Total fall 2020 undergraduate enrollment at UC is expected to remain nearly flat compared to a 1.4 percent decline nationally. The flat enrollment at UC reflects a combination of a projected increase of 1.0 percent in California resident enrollment and a decline of 3.4 percent among nonresident undergraduates. Thus, although the University expects no significant change in base tuition and fee revenue in 2020-21, the estimated decline in nonresident enrollment is expected to result in a decline in Nonresident Supplemental Tuition (NRST) revenue of approximately $38 million from 2019-20 levels. (Note that about half of the decline in nonresident students is among continuing students, most of whom have indicated their intent to re-enroll in spring 2021 or fall 2021. To the extent that they do re-enroll, the decline will be less.)

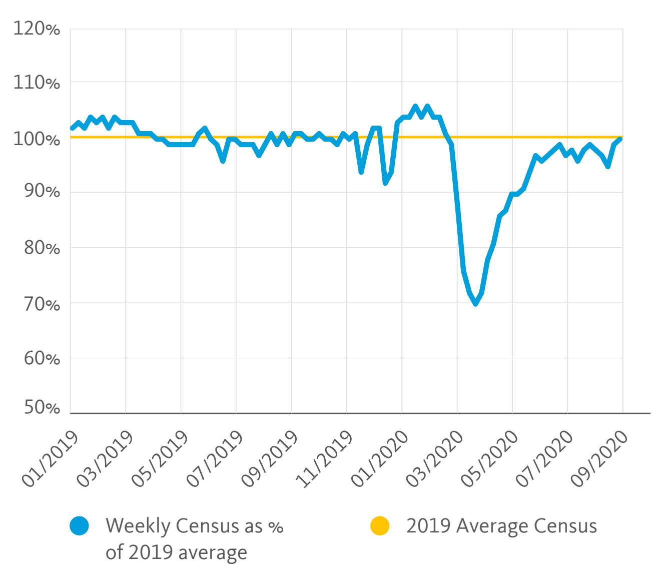
Responding to COVID-19 Budget Challenges

The financial challenges caused by the pandemic can generally be grouped into two categories: those having an immediate impact with a high likelihood of recovery in the near term, and those having a delayed impact for which the timeframe for recovery is less certain.

Areas with Immediate Impact Followed by Recovery

The two functional areas that have experienced the greatest financial impact to date—academic medical centers and auxiliary enterprises—are also areas where full recovery is very likely. As shown in Display 3, below, weekly census figures at the University's medical centers have largely returned to the average level for calendar year 2019 following an initial decline early in the pandemic. Ambulatory visit volume has similarly rebounded and, when combined with telehealth services, has reached all-time highs. In addition, the lost revenue and extraordinary expenses incurred by UC medical centers were partly offset by federal assistance provided by the CARES Act, as described above.

Display 3: Weekly Census of UC Academic Medical Centers as a Percent of 2019 Average



The long-term prospects for the University's auxiliary enterprises are also strong due to continued high demand for housing, dining, bookstores, intercollegiate athletic programs, parking, cultural events, and other services that are integral to a full-time, residential college experience. In the near term, however, the University's ability to provide these services remains constrained by the trajectory of the pandemic and attendant measures that are required in order to ensure the health and safety of the University community. For 2020-21, preliminary estimates suggest that the average occupancy rate for on-campus housing will be approximately 37 percent of normal capacity. Assuming similar reductions across auxiliary enterprises generally and acknowledging continued uncertainty about the extent of recovery in 2021-22, the potential aggregate shortfall from 2019-20 through 2022-23 is estimated to be between $1.9 billion and $2.2 billion dollars relative to planned revenues (which reflect typical annual increases of three percent). See Display 4, below.

The University is taking a variety of steps to address these sizable but ultimately temporary budget shortfalls, including by not limited to the following:

- UC campuses were awarded $267 million of federal funding provided by the CARES Act to provide emergency grant assistance to students and to help institutions address revenue shortfalls and extraordinary costs associated with COVID-19. This support is in addition to the CARES Act funding received by UC medical centers described above.
- Campuses are using designated auxiliary reserves and borrowing internally from other working capital reserves to cover fixed costs such as debt service and essential staff and building maintenance.
- In July 2020, the University priced a bond transaction that resulted in $2.8 billion in proceeds at an extraordinarily low cost of capital (2.15 percent). Of this amount, $1.5 billion was made available to

Display 4: Revenue Scenarios for UC Auxiliary Enterprises ($ Millions)

		2018-19	2019-20	2020-21	2021-22	2022-23	Total
Plan	**Revenue**	1,949	2,007	2,068	2,130	2,194	10,348
Optimistic Scenario	**Revenue**	1,949	1,606	765	1,917	2,194	8,430
	% of Plan	100%	80%	37%	90%	100%	
	Shortfall to Plan	—	(401)	(1,303)	(213)	—	(1,917)
Pessimistic Scenario	**Revenue**	1,949	1,606	765	1,597	2,194	8,111
	% of Plan	100%	80%	37%	75%	100%	
	Shortfall to Plan	—	(401)	(1,303)	(532)	—	(2,237)

campuses for working capital to help address the reduced revenue and extraordinary costs that they anticipate in 2020-21. The remaining $1.3 billion will be used for capital projects at all ten campuses and to refund existing debt for cash flow savings.

- Because of the greatly reduced utilization of housing, dining, bookstores, and other auxiliary enterprises due to the pandemic, the workload needed to be performed by University staff has been substantially reduced in some areas. Wherever possible, campuses have redeployed affected employees to areas with staffing needs or provided them with alternative employment opportunities in order to minimize the impact of the pandemic on their livelihood.
- In cases where other immediate employment opportunities are not available but where resumption of activities is anticipated at a future date, the University has implemented temporary furloughs to preserve employees' health benefits and eligibility for retirement benefits during a break in service.

Areas with Delayed Impact Followed by Uncertain Recovery

As noted above, the University's core funds—consisting of student tuition and fees, UC General Funds, and State General Funds—are the primary source of funding for the University's academic activities and the infrastructure needed to perform them. Although the COVID-19 pandemic introduced new costs in 2019-20 that were covered in part with these funds (e.g., information technology resources needed to shift to remote instruction and remote employment), the pandemic had little effect on core funds revenues last year. Student enrollment remained stable through the spring 2020 term despite the transition to remote instruction, and the State did not implement any mid-year budget reduction for UC.

For the current year, however, the impact is evident. As noted above, the University faces a reduction of $300.8 million in State General Fund support from 2019-20 levels and a potential decline of up to $38.0 million in NRST revenue.

In addition to the decline in core funds, the University must also address certain cost increases that the University can anticipate in the current year and which are largely nondiscretionary. Those amounts are shown in Display 5, below.

Display 5: Estimated Nondiscretionary 2020-21 Cost Increases ($ Millions)

Category	Estimated Increase over 2019-20
Contractually committed wage increases	$30.6
Faculty merit program	$33.0
Increased employer contributions to the UC Retirement System (UCRS)	$26.2
Employee health benefits	$21.9
Retiree health benefits	$7.5
Debt service on capital projects (AB 94)	$15.0
Total	**$134.3**

When combined with the $300.8 million reduction in State support and the potential decline of $38 million in NRST revenue, the $134.3 million in nondiscretionary cost increases results in a total funding gap of $473.1 million.

In light of the resulting gap, the University is forgoing other components of the 2020-21 budget plan that, if implemented, would have made the gap even larger. The University did not implement a planned scale adjustment for ladder-rank faculty designed to improve the University's ability to attract and retain top talent, which risks putting the University at a further competitive disadvantage relative to its "comparison eight" public and private universities. Similarly, the University did not implement a 3 percent merit increase program for unrepresented staff. The University is also unable to make desired investments to improve graduation rates, particularly among disadvantaged students, or to expand student mental health services and student outreach programs.

The University plans to cover the $473.1 million budget gap in the current year primarily through a combination of cost-saving strategies and the use of University reserves. Some cost-saving strategies are greatly facilitated by the temporary impact of the pandemic on business operations. Restrictions on travel and in-person meetings, for example, have led to the extensive use of remote videoconferencing applications (e.g., Zoom) and substantial savings on travel, conferences, and related expenses. Having a smaller number of student, faculty, and staff physically present on campus has also reduced the University's utilities costs.

Personnel-related expenses comprise about two-thirds of the University's total core funds budget, and workforce-related savings will also play a role in closing the budget gap in 2020-21. Examples of such savings that have already been implemented or that are under consideration include the following:

- **Voluntary pay cuts for senior leaders**. Beginning July 2020, voluntary pay reductions of 10 percent were unanimously taken by the President and Chancellors.
- **Hiring freeze and/or deferral for faculty and staff**. Every campus has introduced some form of hiring freeze or position control to limit hiring to essential positions. Combined with regular employee attrition, hiring restrictions or deferrals generate current-year savings and have the potential to reduce ongoing costs when administrative efficiencies or reorganizations allow a permanent reduction in positions or the redeployment of talent to mission-critical areas.
- **Temporary reductions in time worked and/or salaries**. Individual campuses and the University of California Office of the President (UCOP) are exploring options for achieving short-term cost savings through the temporary reduction of time worked and/or salaries. The UC Regents have been asked to amend the University of California Retirement System to lessen the consequences of such measures on employee retirement benefits when they are adopted as part of a COVID-related workforce action as designated by the President.

The specific budget strategies adopted by each campus and their potential contribution to help address the funding gap will vary across the system. Display 6, below, illustrates the potential savings from core funds that would result from selected strategies based on the following parameters:

- As positions become vacant through faculty and staff attrition, only 50 percent of vacant positions are backfilled.
- Campuses adopt cost-reduction measures that yield savings comparable to those that are expected from the curtailment program implemented by the Office of the President for 2020-21.
- Travel, meetings, and related expenditures in the current year decline by 80 percent from 2019-20 levels (which were already reduced from 2018-19 levels).
- Utilities expenses decline by 15 percent from 2019-20 levels.

Display 6: Estimated 2020-21 Core Fund Savings from Potential Budget Actions ($ Millions)

Action	Estimated Savings
Backfill only 50% of vacancies from attrition	$185.7
Curtailment or comparable savings	$41.3
80% reduction in travel and related costs	$49.0
15% reduction in utility costs	$23.0
Reserves and other strategies to close $473.1 gap	$174.1
Total	**$473.1**

COMPONENTS OF THE 2021-22 BUDGET PLAN

In recognition of the financial challenges facing the State and the University, the proposed 2021-22 budget plan continues to pare back proposed investments to those that are most essential to ongoing operations and directly related to addressing critical University and State needs. The plan includes continued cost savings by the University and the use of alterative resources such as reserves and other one-time funds, including the potential for additional federal stimulus dollars in the next fiscal year.

The plan also requests that the State restore the $300.8 million reduction in General Fund support that the University sustained in 2020-21 and provide support for specific cost increases and strategic priorities. Even as the State continues to face financial challenges created by the pandemic, continued support for the University's three-part mission of instruction, research, and public service is key to the resiliency of the California economy.

- As the third-largest employer in California, the University seeks to be part of the solution by contributing to the rapid recovery of California's economy, not part of the problem. By avoiding permanent reductions to the University's budget and investing in critical high-need areas, the State can help sustain employment statewide and continue to provide thousands of Californians with access to a world-class education.
- University of California medical centers and research institutes are on the front lines of the pandemic, enabling large-scale testing, providing patient care, and developing innovative COVID-19 treatments.
- Amid the major disruptions caused by the pandemic, UC continues to produce highly skilled graduates from all socioeconomic backgrounds who will be key to the recovery of the California economy. The diversity of the UC student body is greater than at any time in the University's history.

Details about these and other components of the plan are described below and summarized in the appendix. Information about the University's entire operating budget may be found at ucop.edu/operating-budget/budgets-and-reports/current-operations-budgets/.

Expenditure Components of the Plan

- **Faculty and Staff Support**. Unlike previous budget plans, the 2021-22 budget plan includes no across-the-board salary adjustments for faculty and staff. Instead, proposed cost increases are limited to three areas that the University deems most essential to sustaining operations during these unprecedented circumstances.

  For ladder-rank faculty, the budget plan continues to fund 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 plan includes $33.0 million for this purpose.

  For represented staff, wage growth is already built into existing collective bargaining agreements. (Projections are 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 2021-22 budget plan includes $31.4 million for wage growth among represented employees supported by core funds, an increase of approximately 3.1 percent over 2020-21 levels.

  For policy-covered (i.e., unrepresented) staff in Professional and Support Staff (PSS) positions, the budget plan includes a proposed 1.5 percent salary adjustment in order to avoid two consecutive years of no wage growth for this important segment of the UC workforce. Although less than one-half of the projected rate of inflation for 2021-22, the proposed increase would provide partial relief to help cover cost increases in the broader economy. The average base salary for employees in this classification was $64,050 in 2018-19, compared to $124,287 for Senior Professionals and $146,736 for Managers in the Manager and Senior Professionals classification. The budget plan includes $17.3 million for this purpose.

  Forgoing across-the-board range adjustments or other salary increases for all other policy-covered faculty and staff will avoid an estimated $96.2 million in additional

costs next year (including the associated increase in retirement plan contributions). It will also result in the second consecutive year of no salary increase for these employees. While necessitated by present circumstances, holding employee salaries flat is not a viable long-term strategy given the highly competitive labor market in which the University competes and the extraordinary contributions that UC faculty and staff make to the University's success.

- **Employer Contributions to the University of California Retirement Plan (UCRP)**. In September 2019, the Regents approved a plan to phase in a 3 percent increase in the employer contribution rate over six years, resulting in annual increases of 0.5 percent beginning in 2020-21. The 2021-22 budget plan incorporates the second year of this increase. Most ($19.4 million) of the budgeted increase of $30.0 million in employer contributions to UCRP for employees supported by core funds is due to the increase in the employer contribution rate, with the remainder attributable to the increases in core-funded compensation described above.
- **Employee and Retiree Health Benefits**. The budget plan reflects a projected increase of 4.0 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 (5.3 percent) but should be achievable given the University's ongoing efforts to control costs in this area. The cost of retiree health benefits is expected to increase by an additional 4.4 percent due to a projected increase in the number of UC retirees. The budget plan includes $22.8 million to address the projected increase in employee health benefits and $8.2 million to address higher retiree health benefit costs.
- **Debt Service for AB 94 Capital Projects**. In the absence of new general obligation bond funds to help address its capital needs, the University must use a growing portion of its State General Fund allocation 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, as authorized by AB 94 (2013). The University's budget proposal for 2021-22 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.
- **Focused Investments to Improve Student Outcomes**. Among the goals of the UC 2030 Framework initiative are increasing the number of undergraduate and graduate degrees produced by UC; improving student graduation rates across the board; eliminating gaps in graduation rates that currently exist between students from disadvantaged backgrounds (including students from low-income families, first-generation students, and students from underrepresented groups) and other students; and investing in faculty research by adding 1,100 ladder-rank faculty over four years. The investments needed to achieve all four goals is estimated to be $240 million annually, which the University proposed to achieve by making incremental investments of $60 million over four years. Funding for UC 2030 was not included in either of the past two Budget Acts, placing these goals at risk. The budget plan for 2021-22 includes a focused investment in programs and services that are specifically designed to address the achievement gaps between students from disadvantaged backgrounds and other students. Campus strategies to achieve this goal emphasize enhanced student academic preparation, advising, tutoring, analytical tools to allow early intervention, and innovations in instructional delivery. The budget plan includes $30.4 million to support these investments.

- **Expanded Student Mental Health Services**. The Regents have long recognized the need to increase the availability of mental health services for UC students. National mental health and well-being concerns persist as a public health crisis, and rates of anxiety, depression, and stress continue to grow among the college-age population. Improved access to student mental health services is an important factor in student success: students who achieve mental well-being are more likely to graduate, be successful in their careers, and maintain long-term health and well-being. The budget plan includes $16.5 million to develop targeted interventions to meet the unique needs of the University's diverse student population, while critically addressing student retention by increasing students' connectedness and sense of belonging.
- **Support and Expansion of UC PRIME**. UC Programs in Medical Education (PRIME) is a systemwide initiative that includes six unique programs focused on meeting the healthcare needs of California's underserved communities. Each program includes a clear area of focus and combines core elements ranging from student outreach and recruitment to specialized coursework, population-focused clinical training experiences, advanced independent study, and faculty mentoring. The budget plan includes $12.9 million to support existing PRIME enrollment, to launch a new PRIME program focused on the needs of American Indian communities, and to launch or expand other PRIME programs that are priorities for the State (e.g., Black/African-American communities or groups disadvantaged by poor access to mental health services). One-third of the total funds received would be used to augment need-based financial aid for PRIME students.

Revenue and Alternative Resources for the Plan

The proposed funding strategy to support the 2021-22 budget plan includes the following sources of support:

- **Resources from the University's own efforts to increase revenue and reduce costs**. As noted earlier, the University faces a structural core funds budget gap of $473.1 million in the current fiscal year. The gap represents the combined impact of the $300.8 million decline in State General Fund support, an estimated shortfall of up to $38 million in NRST revenue, and projected cost increases of $134.3 million. The University will address this shortfall in the current year through a combination of largely temporary measures described above. However, the shortfall will reemerge in 2021-22 in addition to the new investments proposed in the 2021-22 budget plan unless it is addressed on a more permanent basis.

  There are good indications that the current-year decrease in NRST revenue will be temporary in nature. University of California campuses remain highly desirable options for both domestic and international nonresident students, making it likely that nonresident enrollment will rebound under more favorable circumstances related to in-person instruction, housing, and travel. (As noted above, a majority of continuing nonresident students who stopped out in fall 2020 indicated an intent to reenroll in spring or fall of 2021.) The budget plan includes a projected recovery in NRST revenue in 2021-22 equal to the shortfall that it experienced this year.

  The budget plan commits the University to finding long-term solutions for covering the projected $134.3 million increase in ongoing costs that will occur in the current fiscal year. Some of the budget reductions implemented in 2020-21 (e.g., a reduction in travel expenditures) may be repeatable and new opportunities for savings may be identified (i.e., a reduced need for leased space) if telecommuting becomes a permanent and significant part of UC operations. As in 2020-21, the specific combination of longer-term strategies to reduce costs or identify alternative revenues will vary by campus.

- **State support**. The plan includes two categories of new ongoing State support: funding required to sustain core operations and funding to address other high-priority initiatives.

  To sustain core operations, the plan requests restoration of the $300.8 million that was removed from the University's budget in 2020-21, together with $157.6 million to cover the following projected cost increases in 2021-22, each of which is described above (all figures are in millions):

Faculty and staff support	
Faculty merit program	$33.0
Contractually committed compensation	$31.4
1.5% adjustment for policy-covered staff	$17.3
Employer contributions to UCRP	$30.0
Employee and retiree health benefits	$31.0
Debt service for AB 94 capital projects	$15.0
Total	**$157.6**

The budget plan also proposes State investments to support the other high-priority programs described above (all figures are in millions):

Focused investments to improve student outcomes	$30.4
Expanded student mental health services	$16.5
Support and expansion of UC PRIME	$12.9
Total	**$59.8**

Other Extraordinary Costs and Opportunities

The evolving nature of the COVID-19 pandemic creates a host of contingencies that cannot be captured within a single budget plan. Great uncertainty remains, for example, about the scale, frequency, and cost of testing that may be required in 2021-22; the availability and effectiveness of a COVID-19 vaccine; the extent to which lessons learned from remote instruction and remote business operations will translate into long-term changes in teaching and working; or the potential availability of new federal stimulus dollars, which greatly mitigated the financial impact of the pandemic on UC campuses, medical centers, and students in 2020.

Faced with such uncertainties, the University is exploring all possible options to ensure that campuses have the resources and flexibility they need to weather any number of outcomes.

- The University is deferring all employer Social Security tax payments in 2020, as permitted by a provision of the CARES Act. Under the Act, fifty percent of these payments must be made by December 31, 2021, with the remaining fifty percent deferred until December 31, 2022.
- As noted earlier, the University generated $1.5 billion in new working capital through a recent bond transaction at an exceptionally low cost of capital.
- Campuses are optimizing their investment portfolios to strike the appropriate balance between short- and long-term investments to maintain sufficient liquidity while also generating investment income to support their operating budgets.
- Campuses have established local voluntary separation programs to reduce spending and reduce the potential need for involuntary layoffs.

- The University is seeking changes to the University of California Retirement System so that certain workforce actions related to COVID-19 will not adversely affect employees' retirement benefits.
- The University continues to advocate for changes to federal tax law that would restore its ability to pursue advance refundings of eligible bonds in order to take advantage of historically low interest rates. Recent changes to tax law permit only current refundings, which provide only marginal savings.
- The University continues to advocate for additional federal stimulus dollars to mitigate the financial consequences of the COVID-19 pandemic for UC and its students.

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

The 2021-22 budget plan requests $250 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 become net carbon neutral.

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 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 one and a half 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, kilowatt-hour 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. Building on this system, GHG reductions would be documented based on conversion of energy savings (kilowatt-hour and therms), including renewable generation, to equivalent GHG emissions reductions based on an approved campus level emissions factor.

The 2021-22 budget plan includes a request for $250 million in one-time funding for UC DM+, including $150 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 $100 million for other high-priority deferred maintenance projects.

APPENDIX: 2021-22 BUDGET PLAN FOR CURRENT OPERATIONS

(dollars in millions)

2020-21 Core Funds for Current Operations

Total Core Funds (State General Funds, Student Tuition and Fee Revenue, and UC General Funds)	**$ 8,872.6**

Proposed Changes in Expenditures

Sustaining Core Operations		
Address structural deficit resulting from:		
2020-21 reduction in State support	$	300.8
2020-21 reduction in nonresident tuition	$	38.0
Unfunded cost increases in 2020-21	$	134.3
Faculty merit program	$	33.0
Contractually committed compensation	$	31.4
1.5% adjustment for policy-covered staff	$	17.3
Retirement contributions	$	30.0
Employee health benefits	$	22.8
Retiree health benefits	$	8.2
Debt service for AB 94 capital projects	$	15.0
Subtotal	$	630.7
Additional High-Priority Investments		
Focused investments on student success	$	30.4
Student mental health	$	16.5
PRIME support and expansion	$	12.9
Subtotal	$	59.8
Expenditures Total	**$**	**690.5**

Proposed Changes in Revenues/Resources

Cost Savings/Alternative Revenues		
Nonresident revenue recovery	$	38.0
Savings to offset 2020-21 cost increases	$	134.3
Subtotal	$	172.3
State General Funds		
Sustaining core operations		
Restore 2020-21 budget reduction	$	300.8
Address 2021-22 cost increases	$	157.6
Additional high-priority investments		
Focused investments on student success	$	30.4
Student mental health	$	16.5
PRIME support and expansion	$	12.9
Subtotal	$	518.2
Revenue/Resources Total	**$**	**690.5**

Additional Requests for One-Time State Funds

Deferred Maintenance Plus (DM+) Program Includes $150M for projects related to energy conservation and efficiency that will reduce ongoing operational costs.	**$ 250.0**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