



Fiscal Responsibility Campus Townhall 12.4.20



UNIVERSITY OF CALIFORNIA
MERCED





Outcomes

- Establish an understanding of our current financial situation
- Review status of current cost saving measures
- Provide feedback on President Drake's salary and time reduction program
- Offer recommendations to the Chancellor for achieving the campus' salary savings target of \$0.9M established by OP
- Develop a shared understanding of the need to consider a salary and time reduction program as part of a larger campus strategy to reduce costs



Agenda

- Overview of campus' financial situation
 - Structural deficit and debt
- Review fiscal conservation measures
- Illustration of our growth in payroll expenses
 - Current and projected
- Review President Drake's salary and time reduction program
- Review alternative salary savings models
- Contextualize salary savings relative to the campus' financial situation
- Feedback for next steps

UC Merced Operating Budget by Source

Total Operating Budget is approximately \$398M.

Our current revenue model relies extensively on two main drivers:

- State funding
- Student enrollment

Core Funds:
\$282M (71%)

Contracts & Grants: \$35M (9%)

Auxiliaries: \$68M (17%)

Other: \$10M (3%)

Gifts and Endowment:
\$3M (less than 1%)





Core Fund Sources

Our core revenues come from two primary sources:

- State appropriations
- Tuition revenues

State
Appropriations:
\$154M (55%)

Tuition Revenues: \$112M (40%)
(excluding non-resident tuition)

Indirect Cost: \$7M (2%)

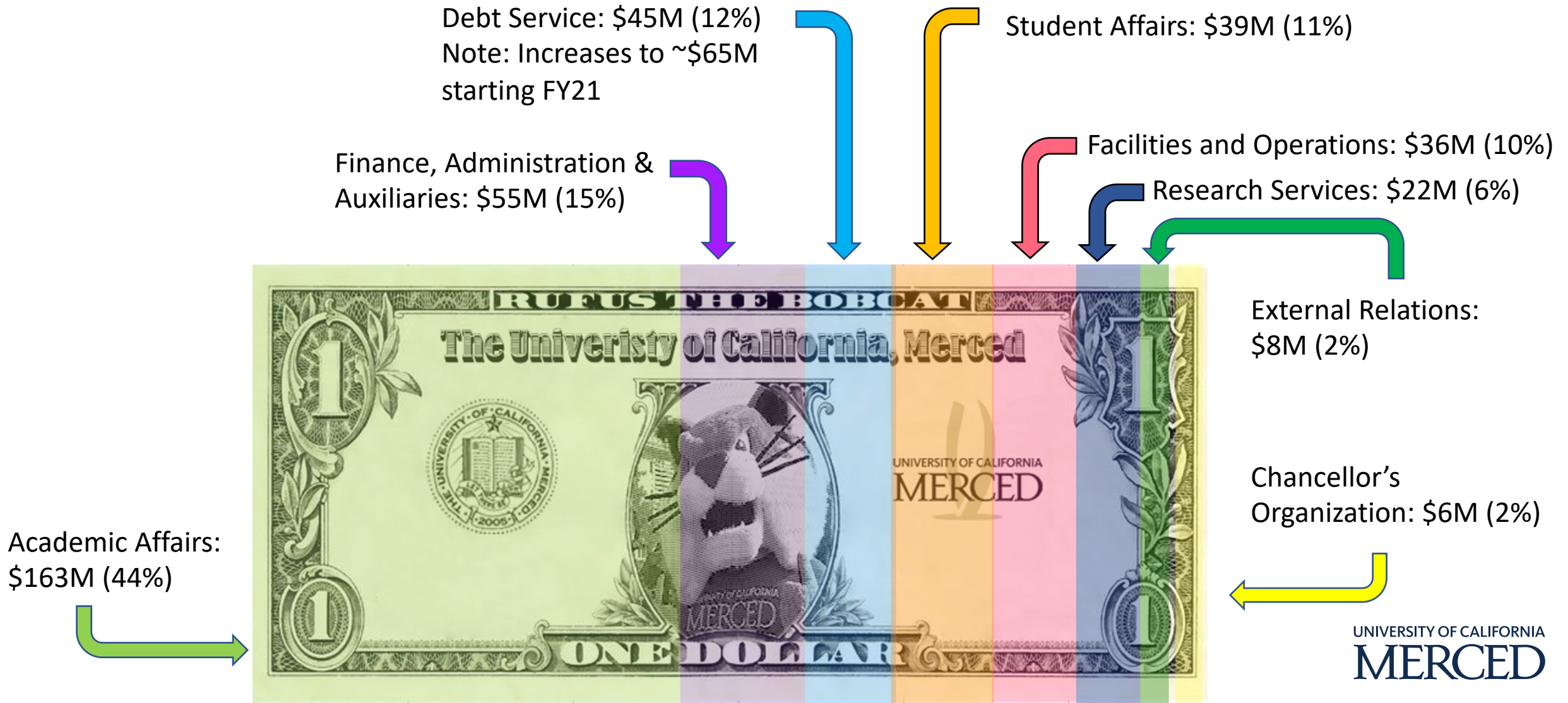
Other: \$6M (2%)

Non-Resident Tuition:
\$4M (1%)





Campus Expenditures (Excluding Financial Aid)





Overview of Campus Financials

- Current structural deficit in our General Funds (19900) is approximately **\$33M**
 - \$23M is related to salary and benefits
- Auxiliary revenue losses are estimated to be **\$58M** for fiscal year 2020-21 (FY21)
- Debt payments to be made by the campus during FY21
 - Owner cost payment of ~\$38M
 - Auxiliary debt of ~\$40M
 - Core campus debt of ~\$21M (increases to ~\$25M/year thereafter)
- Total expected annual debt:
 - FY21: **~\$99M**
 - FY22: **~\$65M (to remain into future)**

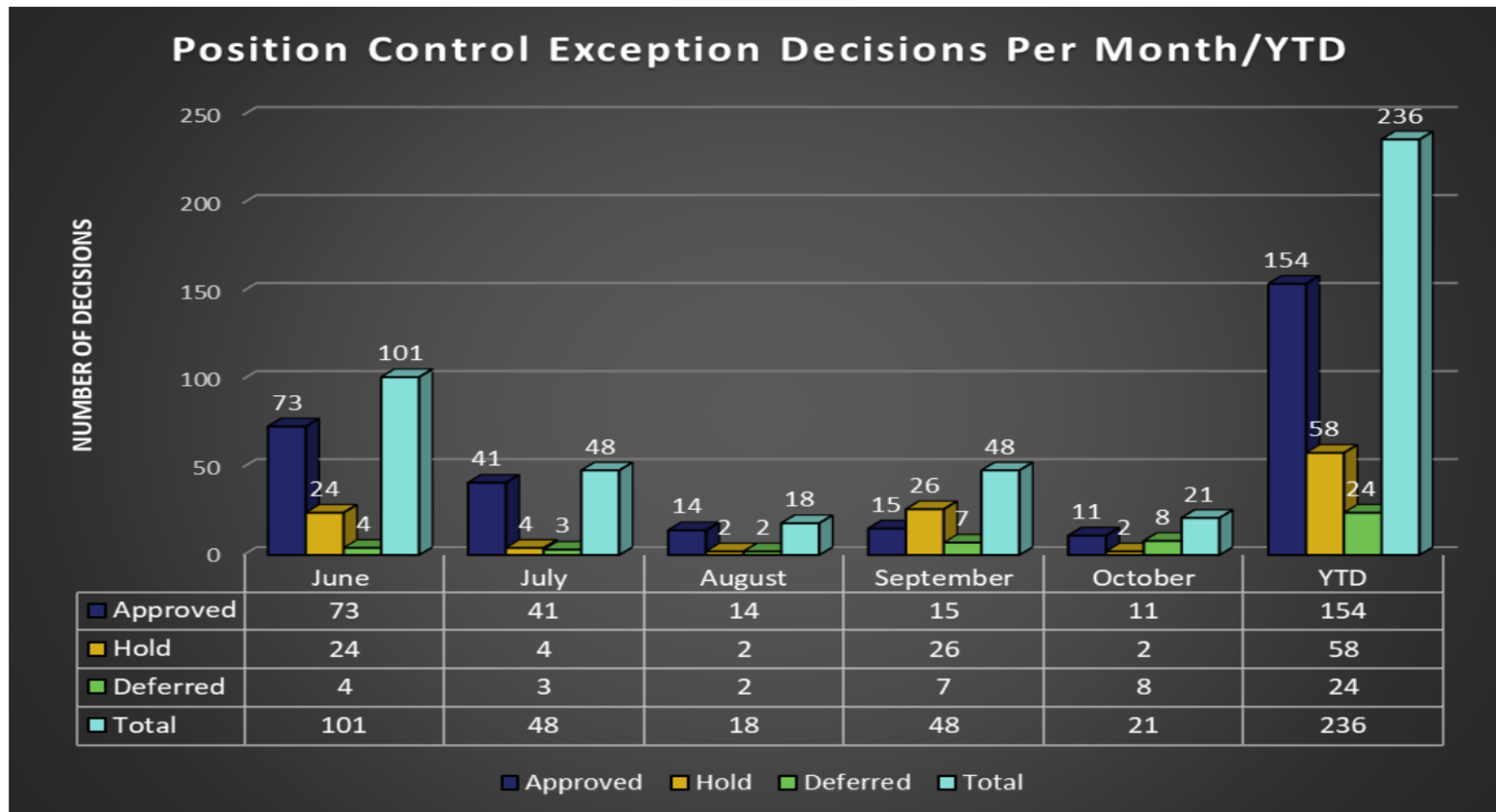


Fiscal Conservation Measures

- June 8th Message to campus:
 - Pause all existing stipends, starting July 1, 2020 through June 30, 2021
 - Place a six-month hold on all new and backfill hires, including limited and contract hiring
 - Halt all recruitments, if no offer has been extended
 - Any exceptions must go through position control process
- June 29th message to campus:
 - All purchases and contracts of \$5K or more will require approval from dean or divisional head
 - All professional services and consulting agreements of any value will require divisional-level of dean approval
- September/October Cabinet-level messages:
 - 5% targeted reduction in expenditures relative to FY20 for FY21
 - Additional 7% targeted reduction for FY22

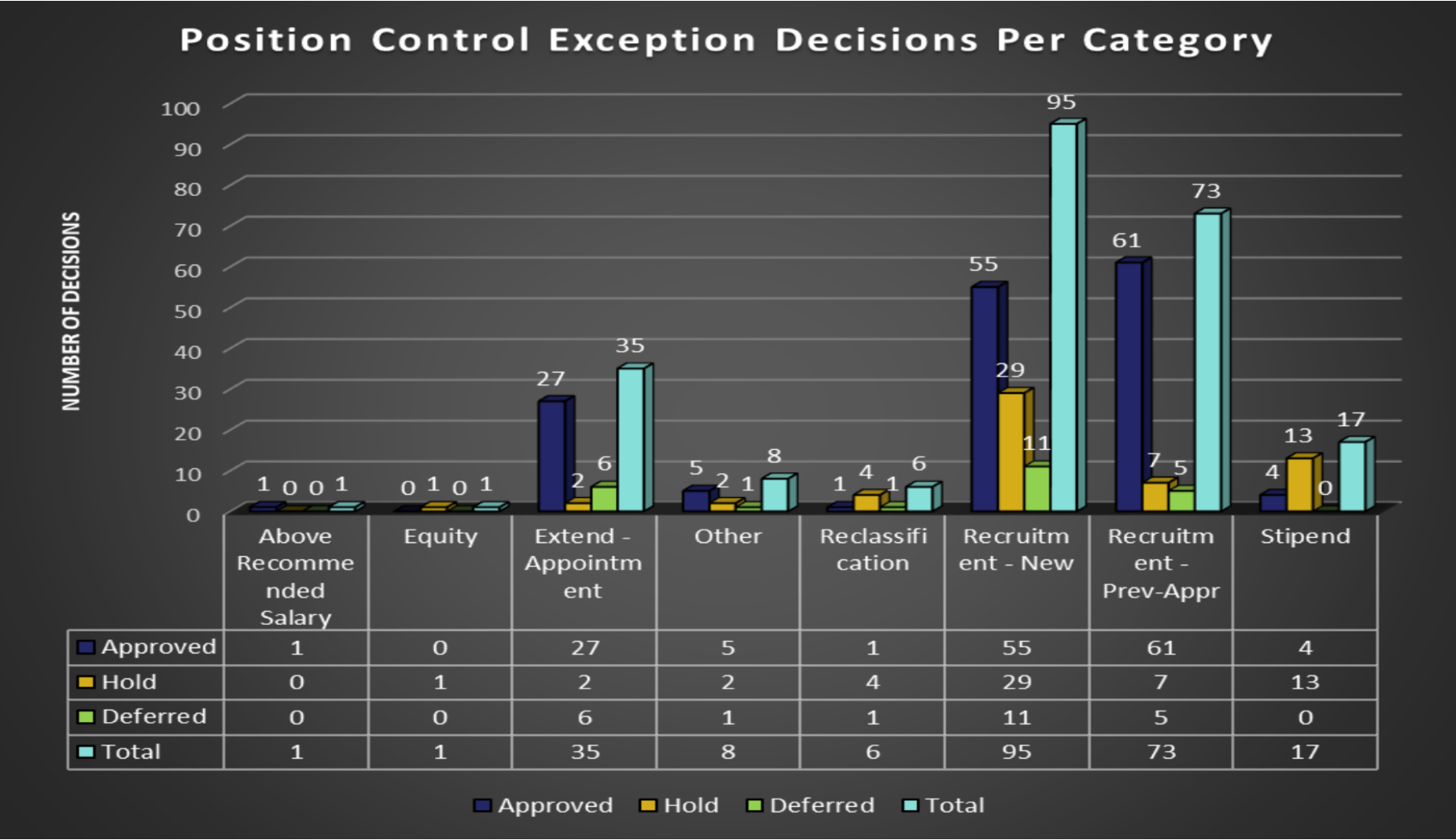


Position Control Outcomes



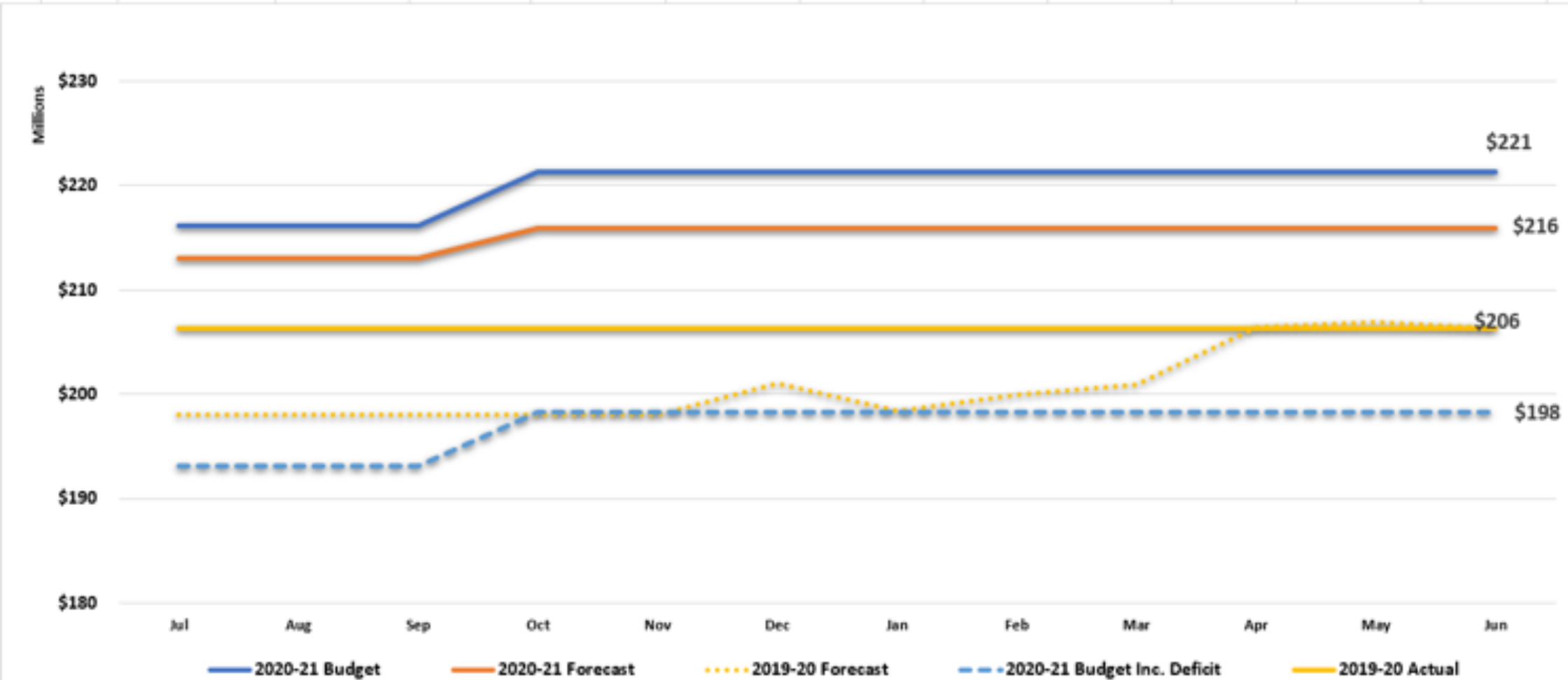


Position Control Outcomes



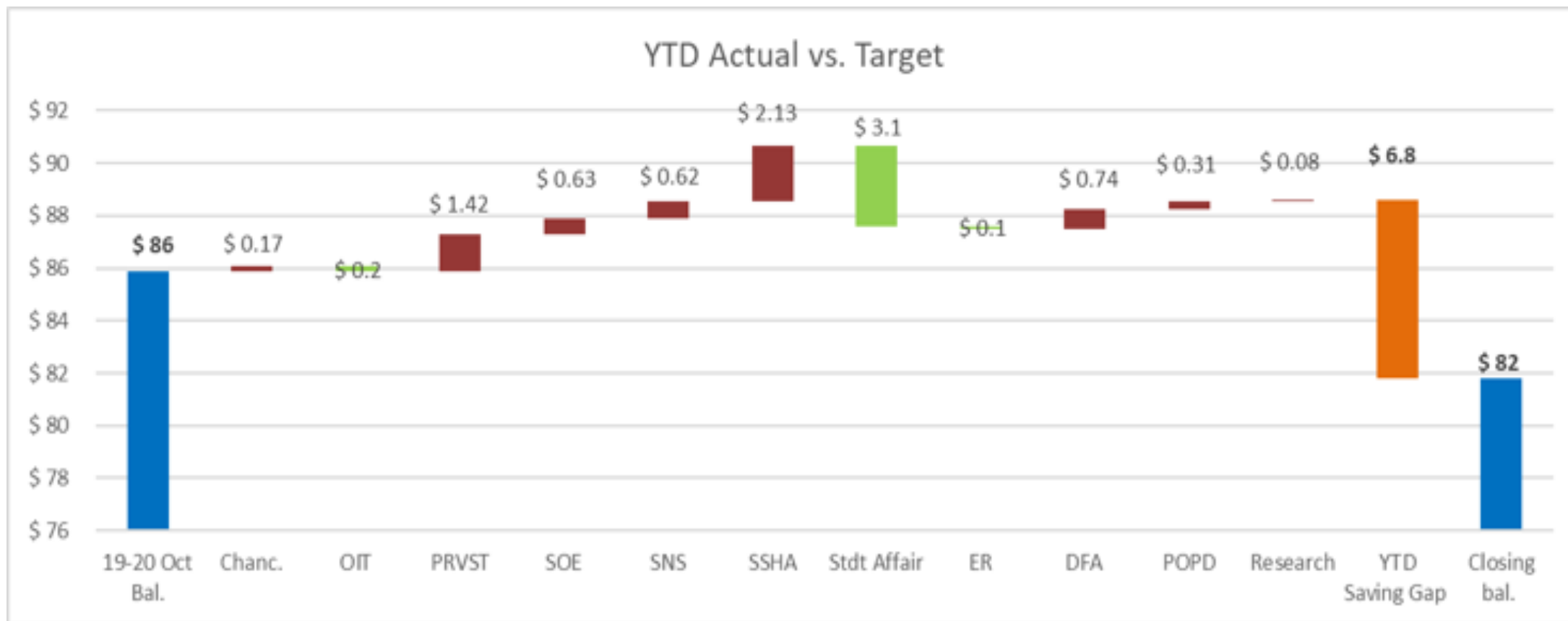


Growth in our Payroll Expenses





Current State (YTD): 5% Targeted Reductions





President Drake's Salary and Time Reduction Program

- Goal is to protect jobs and avoid pandemic-related layoffs as much as possible
- Goal is to protect those with lower income
- Goal is to ensure that the process is equitable and fair
- Establishes salary savings for each campus with campus-specific targets:
 - UCM - \$0.9M
- Requires a final report to be presented to the Office of the President by July 20, 2021 that outlines actions taken to meet target



OP Salary Savings Model (Model 1)

Salary Band	Furlough Days	Annual Salary Reduction	Employees Impacted	Total Salary Spend	Salary Savings
Less than \$59K	0	0.0%	695	\$33M	\$0.0M
\$59K - \$89K	1	0.4%	536	\$38M	\$0.1M
\$89K-\$118K	2	0.8%	278	\$29M	\$0.2M
\$118K-\$176K	3	1.1%	176	\$25M	\$0.3M
\$176K-\$234K	4	1.5%	37	\$7M	\$0.1M
\$234K-\$312K	5	1.9%	22	\$6M	\$0.1M
Above \$312K	5	1.9%	3	\$1M	\$0.1M
Total		0.6%	1,747	\$138M	\$0.9M

Note: Salaries does not include student employment (~\$68M) which is within the lowest pay band. Data is based on October 2019 payroll and provided by the Office of the President (OP).



Campus-Specific Salary Savings Model (Model 2)

Salary Band	Furlough Days	Annual Salary Reduction	Employees Impacted	Total Salary Spend	Salary Savings
< \$54K	0	0.0%	533	\$23M	\$0.0M
\$54K - \$68K	1	0.4%	376	\$23M	\$0.1M
\$68K-\$87K	2	0.8%	298	\$23M	\$0.2M
\$87K-\$110K	3	1.1%	239	\$23M	\$0.3M
\$110K-\$145K	4	1.5%	187	\$23M	\$0.4M
Above \$145K	5	1.9%	114	\$23M	\$0.4M
Total		1.0%	1,747	\$138M	\$1.4M

Note: Salaries does not include student employment (~\$68M) which is within the lowest pay band. Data is based on October 2019 payroll and provided by the Office of the President (OP).



Campus-Specific Salary Savings Model (Model 3)

Salary Band	Furlough Days	Annual Salary Reduction	Employees Impacted	Total Salary Spend	Salary Savings
< \$63K	0	0.0%	803	\$39M	\$0.0M
\$63K - \$77K	1	0.4%	267	\$19M	\$0.1M
\$77K-\$95K	2	0.8%	228	\$20M	\$0.1M
\$95K-\$115K	3	1.1%	190	\$20M	\$0.2M
\$115K-\$148K	4	1.5%	154	\$20M	\$0.3M
Above \$148K	5	1.9%	105	\$21M	\$0.4M
Total		0.8%	1,747	\$138M	\$1.2M

Note: Salaries does not include student employment (~\$68M) which is within the lowest pay band. Data is based on October 2019 payroll and provided by the Office of the President (OP).



Model Comparisons

- Model 1:
 - More graduated for higher income earners
 - Least amount of cost savings
- Model 2:
 - More exposure for lower income earners
 - Largest amount of cost savings
- Model 3:
 - Largest protection band for lower income earners
 - Middle range of cost savings



Current Savings

- Payroll cost reductions:
 - Model 1 (0.6%); Model 2 (1.0%); Model 3 (0.8%)
- Cost reductions relative to structural deficit:
 - Model 1 (2.7%); Model 2 (4.2%); Model 3 (3.6%)
- Cost reductions relative to debt payments (assume steady-state of \$65M/year):
 - Model 1 (1.4%); Model 2 (2.2%); Model 3 (1.8%)
- Proposed salary savings models (consistent with OP target) do not provide a significant reduction in our fiscal deficit
- Current cost savings measures have not successfully reduced our payroll below FY20 levels
- What would a significant salary savings model look like?
 - 5% payroll reduction



5% Salary Savings Model (*For Illustration Only*)

Salary Band	Furlough Days	Annual Salary Reduction	Employees Impacted	Total Salary Spend	Salary Savings
< \$54K	3	1.1%	533	\$23M	\$0.3M
\$54K - \$68K	5	1.9%	376	\$23M	\$0.4M
\$68K-\$87K	9	3.4%	298	\$23M	\$0.8M
\$87K-\$110K	14	5.4%	239	\$23M	\$1.3M
\$110K-\$145K	20	7.7%	187	\$23M	\$1.8M
Above \$145K	27	10.3%	114	\$23M	\$2.4M
Total		5.0%	1,747	\$138M	\$6.9M

Note: Salaries does not include student employment (~\$68M) which is within the lowest pay band. Data is based on October 2019 payroll and provided by the Office of the President (OP).



Questions for Us Moving Forward Together

- Our inability to significantly reduce current spending may necessitate additional action in upcoming fiscal years (FYs).
- There is still significant uncertainty regarding our future (FY22 & FY23) fiscal health:
 - Undergraduate enrollment growth; state appropriations; stimulus
- What we are asking you to consider **temporarily**:
- Staff-side:
 - Consider holding staff vacancies for a longer period of time?
 - Consider reducing our consulting expenditures?
 - Are we willing to temporarily reduce contract positions?
- Faculty-side:
 - Consider reducing incidental expenditures?
 - Consider reduced start-up expenditures?
 - Are we willing to temporarily hold current faculty hires/academic appointments?



Feedback on Salary Savings Program

- Which of the three salary savings models would best suit the campus?
- What is your perspective on the salary savings program?
- What information does the campus need on a regular basis to develop a shared responsibility for our financial situation?
- What efforts can you/we take to reduce expenditures beyond what you/we are already doing to prevent more significant conservation measures?

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