University of California
May 2011 Regents’ Meeting

Update on 2011-12 Budget and Longer-Term Funding Options

Vice President Patrick J. Lenz
Executive Vice President Nathan Brostrom
May 18, 2011

Today's Discussion

- Update on the 2011-12 Budget
- Review of UC's Long-term Budget Context
- Budget Scenarios 2011-12 through 2015-16

Budget Update:
Status of Current Negotiations

- No agreement between the Governor and the Legislature on overall Budget Plan
- State addressed $13.4 billion in budget solutions. Remaining Budget gap is $15 billion
- Governor and legislative leaders conducting public hearings around the state
- Unclear when there will be an initiative in the fall to extend temporary tax increases
- State tax revenue estimates up by $6.6 billion, for 2010-11 and 2011-12 fiscal years

2011-12 UC Budget Update

- $500 million base budget cut
- Language requesting no impact on enrollment or tuition levels
- $3 million redirection to support AFSCME contract
- Language setting enrollment target at nearly 210,000 – too high by UC's calculations (although still less than total enrollment)
- Capital Outlay funding for 4 equipment projects
- $500M May Revise contingency budget reduction

Budget Update: Cut Levels Are Starting to Outstrip Available Solutions

- Campuses are already doing all they can to cope with prior cuts and prepare for the approved $500 million cut
- UCOP budget is being reduced by $80 million to help absorb proposed cuts, on top of $55 million in earlier reductions
- Balance sheet strategies will provide some relief
  - Moving excess liquidity to TRIP
  - Potential assessments on carryforwards
- Working Smarter initiatives are generating efficiencies

Budget Update: An All-Cuts Budget Could Be Devastating

- Campuses are at the end of available solutions at the margin – no “magic bullets”
- Quality is at a make or break point
- Faculty and students (existing and those being recruited) need assurances that UC will protect excellence
- All options must be on the table if further cuts are allocated to UC – including fee increases

Bottom Line

- Failure to bridge funding gap threatens:
  – Quality
  – Access
  – Affordability
- Key Levers:
  – State Support
  – Enrollment
  – Tuition and Financial Aid
  – People, Programs, and Services

UC Values

- Quality – excellence in instruction, research, and public service
- Access – opportunity for all qualified California residents who seek to enroll
- Affordability – cost of attendance should not deter California residents from enrolling

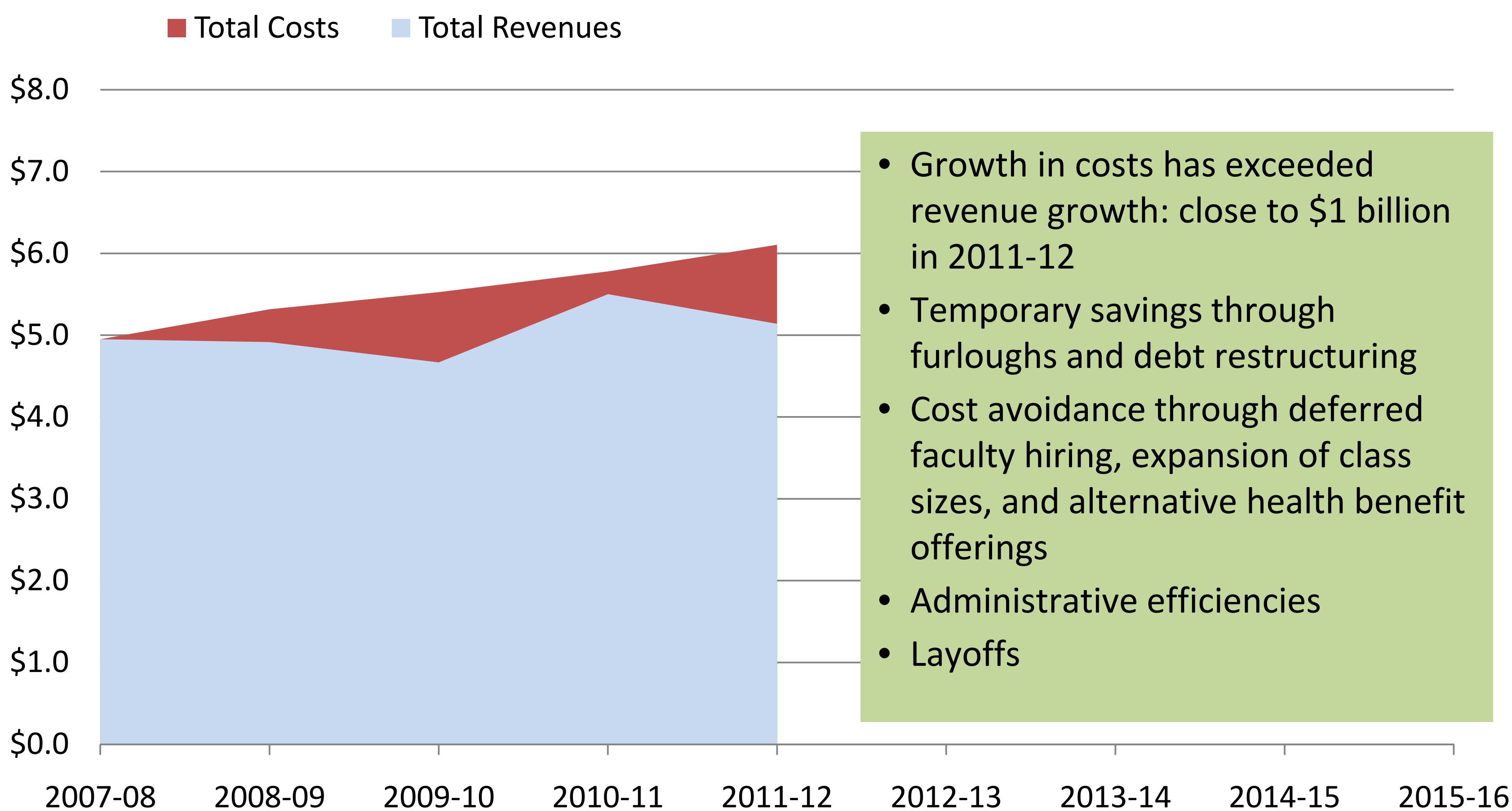
The Long-term Problem

- Core expenses will continue to increase
- Pace of growth accelerated by post-employment benefits costs
- UC needs steady and predictable revenue growth to meet expenses
- Failure to bridge the gap threatens quality, access, and affordability

The Need for Stable Revenues

- Stable, <u>permanent</u> revenue streams are critical to maintenance of quality
- Volatility in revenue prevents campus leadership from investing strategically in programs and faculty
- Partnership with the State will need to link State support with tuition policy
- Students – both current and future – need a firmer understanding of where UC is headed
- Volatility sends a negative message to existing and prospective faculty members

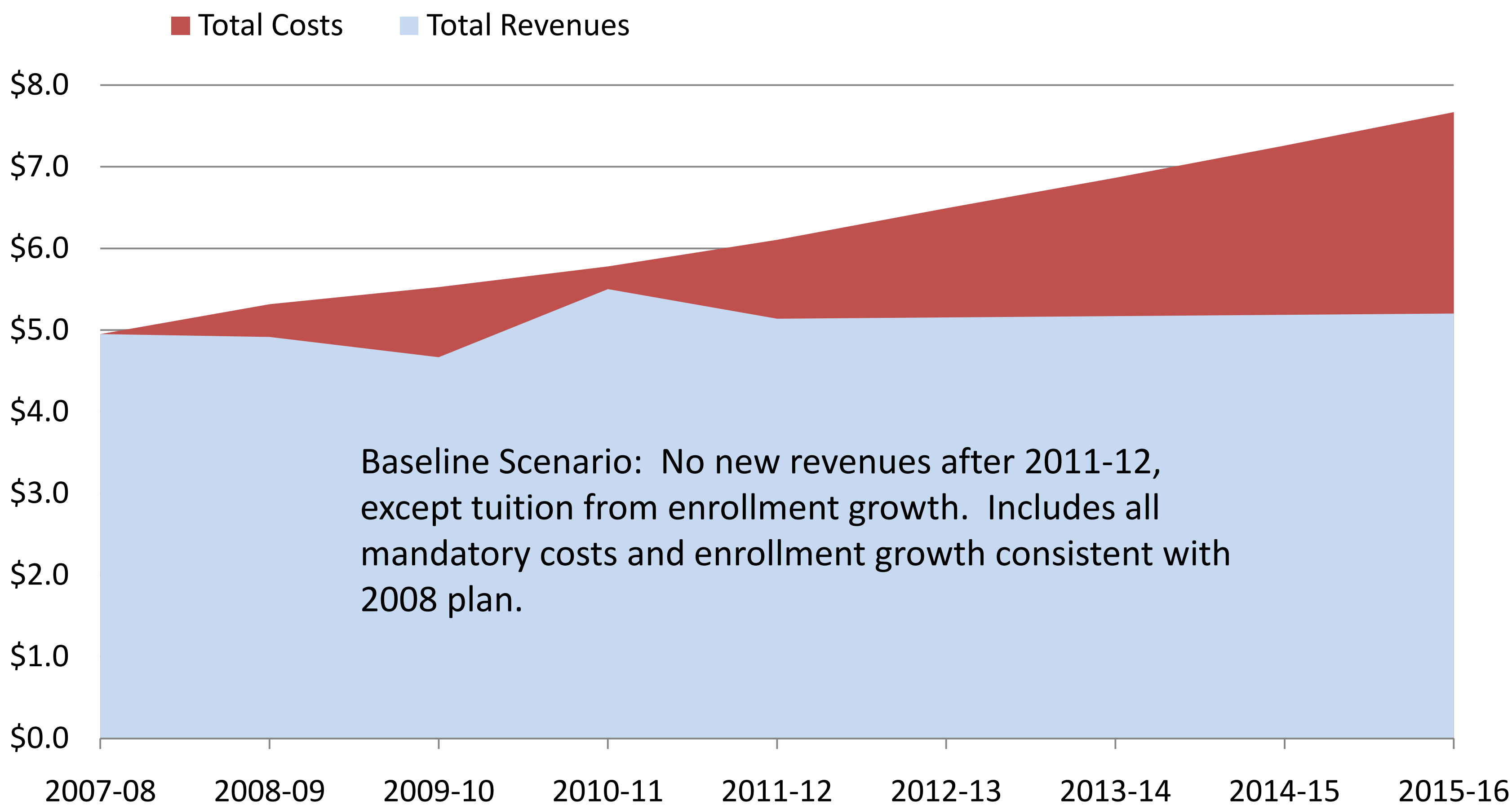
Current Budget Gap



- Growth in costs has exceeded revenue growth: close to $1 billion in 2011-12
- Temporary savings through furloughs and debt restructuring
- Cost avoidance through deferred faculty hiring, expansion of class sizes, and alternative health benefit offerings
- Administrative efficiencies
- Layoffs

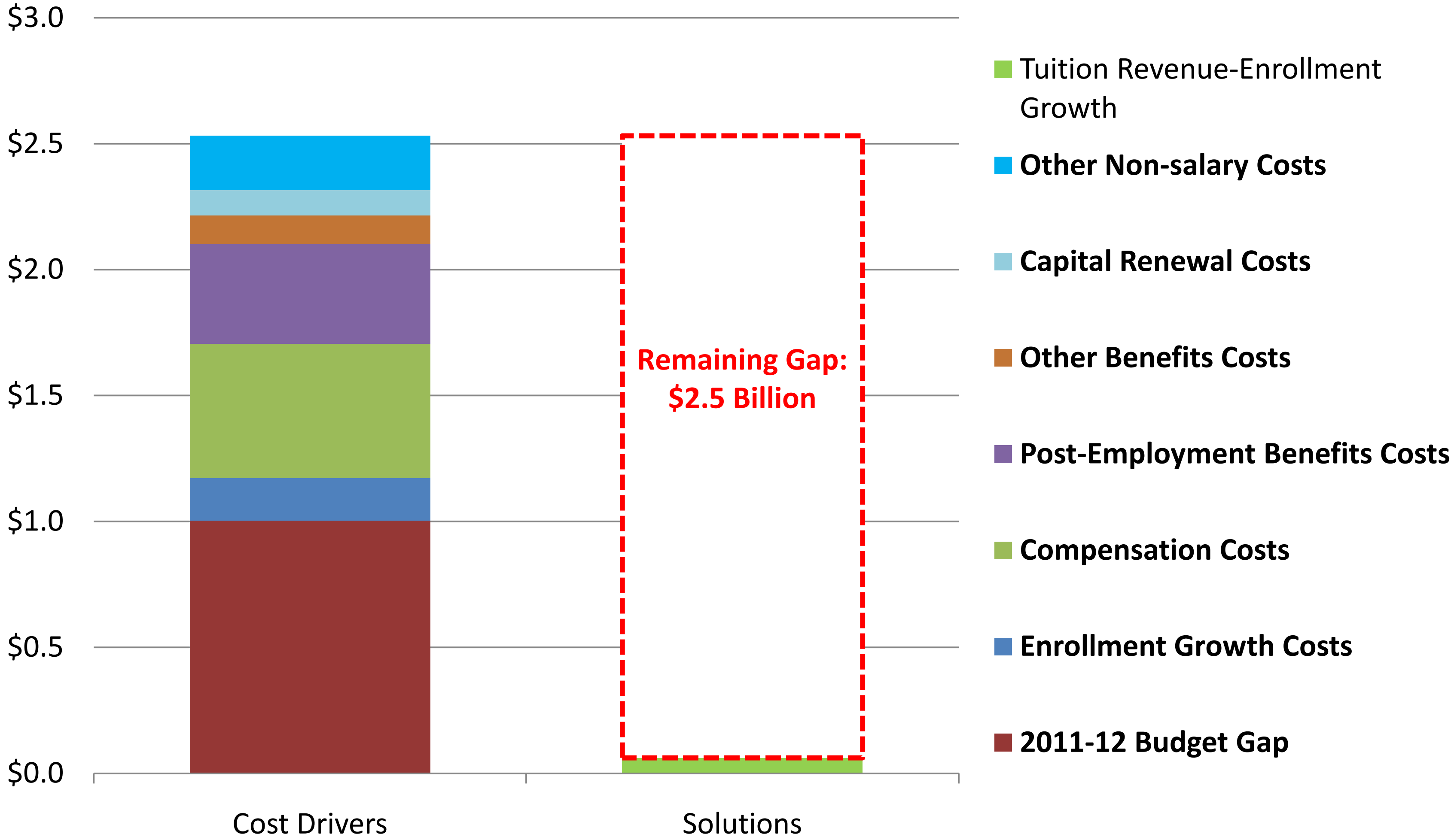
Dollars in billions.

$2.5 Billion Deficit in 2015-16



Dollars in billions.

Baseline Cost Drivers, No New Revenue



Dollars in billions.

Baseline Cost Driver Assumptions

Cost Driver	Assumptions
Enrollment	No further reductions and growth of 1% annually beginning in 2012-13
Compensation	3% increases annually to keep pace with market in addition to regular academic merit salary increase program
Post-Employment Benefits	UCRP contributions of 10% in 2012-13, followed by 2% annual increases; annual growth in retiree health benefit costs of 7%
Other Employee Benefits	7% annual increases
Capital Renewal	Investment growing by $25 million annually
Other Non-salary Cost Increases	No increase in purchased utility costs for two years; other items increasing 3% annually

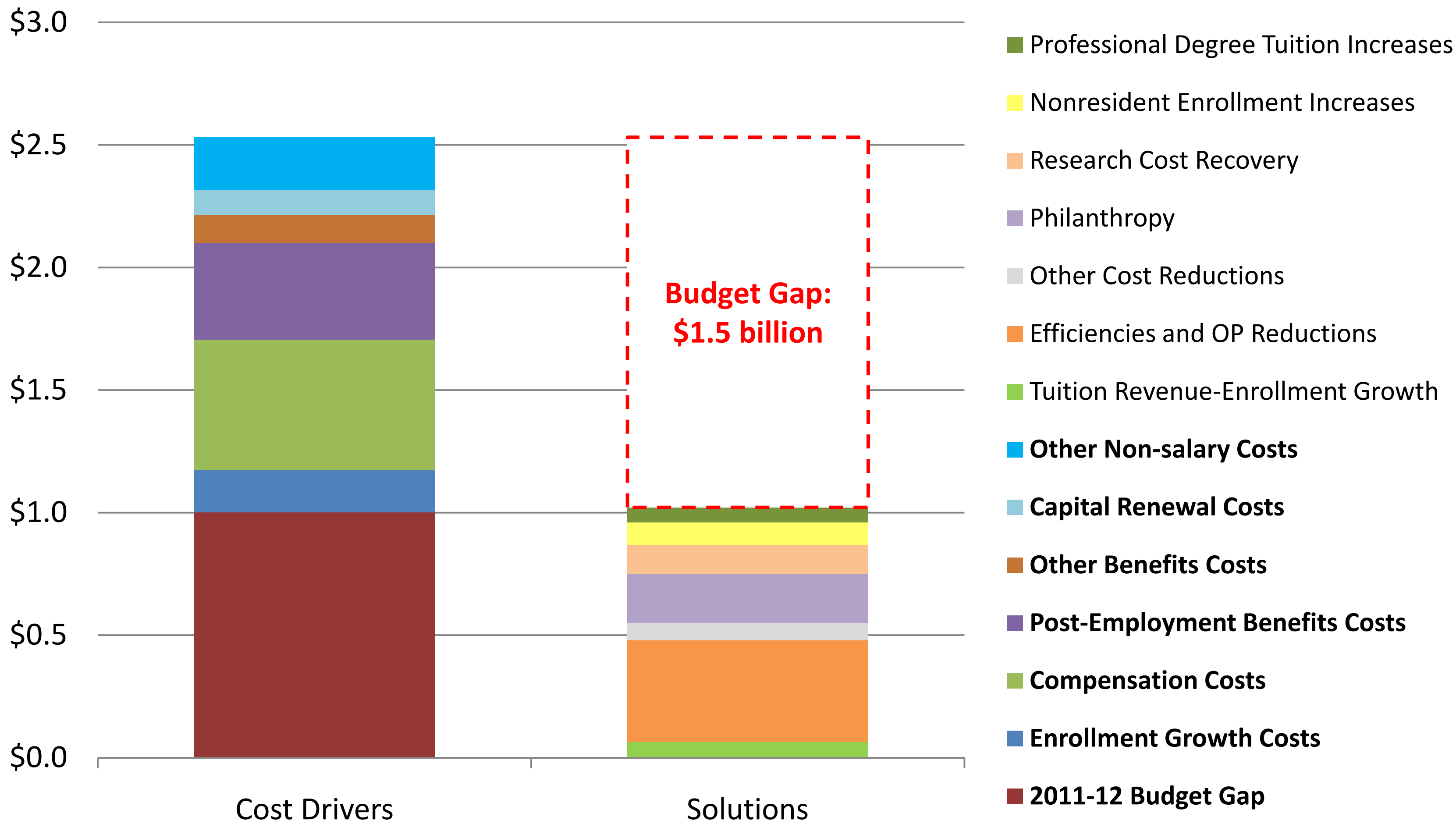
Efficiencies and Savings Assumptions

Cost Driver	Assumptions
Administrative Efficiencies	Savings of $100 million annually, two-thirds accruing to core fund sources
UCOP Reductions	$50 million reduction in 2011-12
Reductions in Earmarked Programs	$30 million reduction over two years
Employer Costs for Employee Health Benefits	50% reduction in cost increases annually

Alternative Revenue Assumptions

Cost Driver	Assumptions
Indirect Cost Recovery	$30 million increases annually
Philanthropy	$50 million annual increases in unrestricted payouts
Nonresident Enrollment	10% annual growth in nonresident undergraduates (~860 students annually), net of instructional costs
Professional Degree Tuition	Increased revenue from professional degree supplemental tuition increases and self-supporting program expansion equivalent to 8% annual growth in professional degree supplemental tuition revenue

Remaining Budget Gap: $1.5 billion



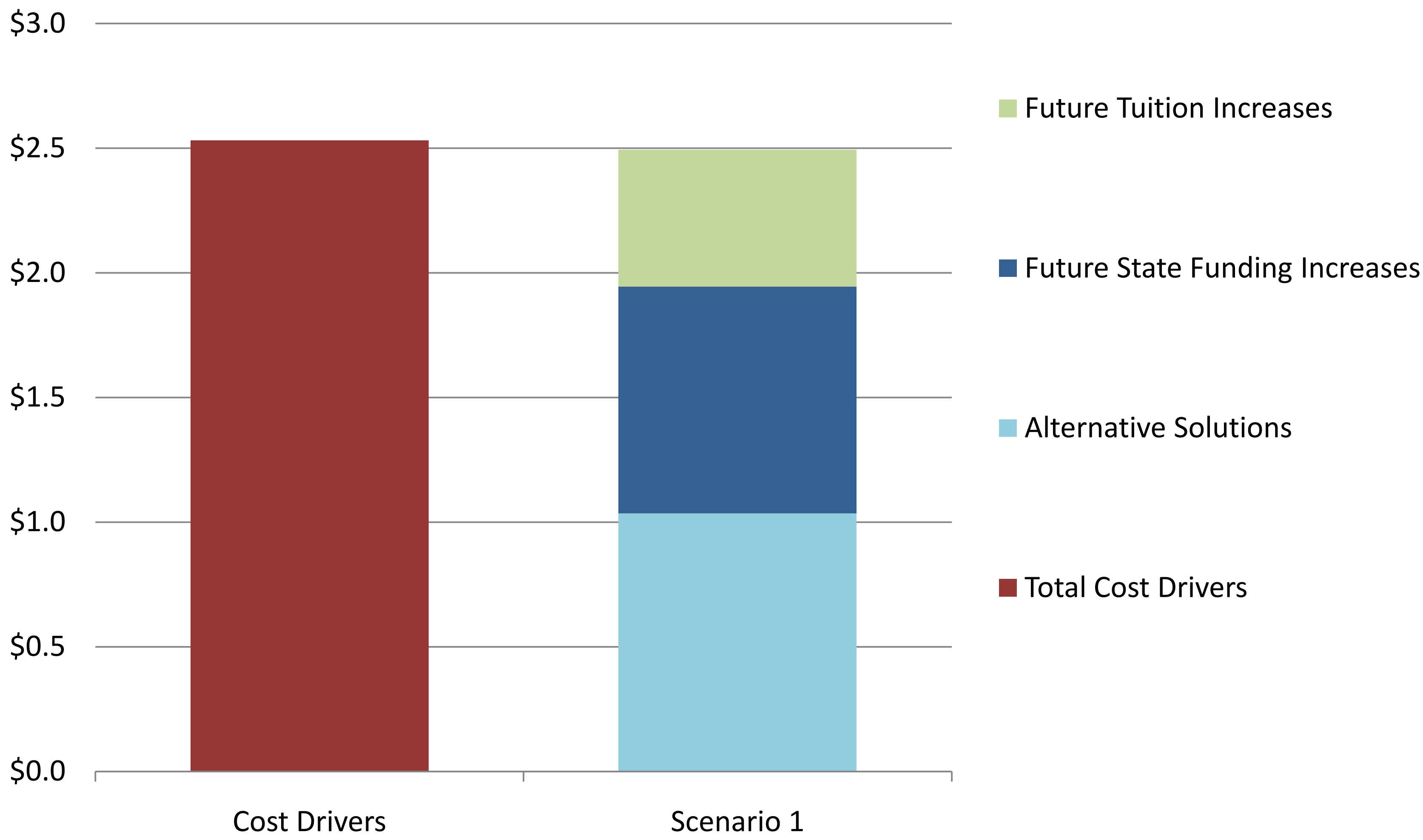
Dollars in billions.

Scenarios Presented Today

- All scenarios assume January proposed $500M reduction and no further fee increases for 2011-12
- Scenarios assume annual growth in State funds, tuition and fees, and enrollment for 2012-13 through 2015-16, as below:

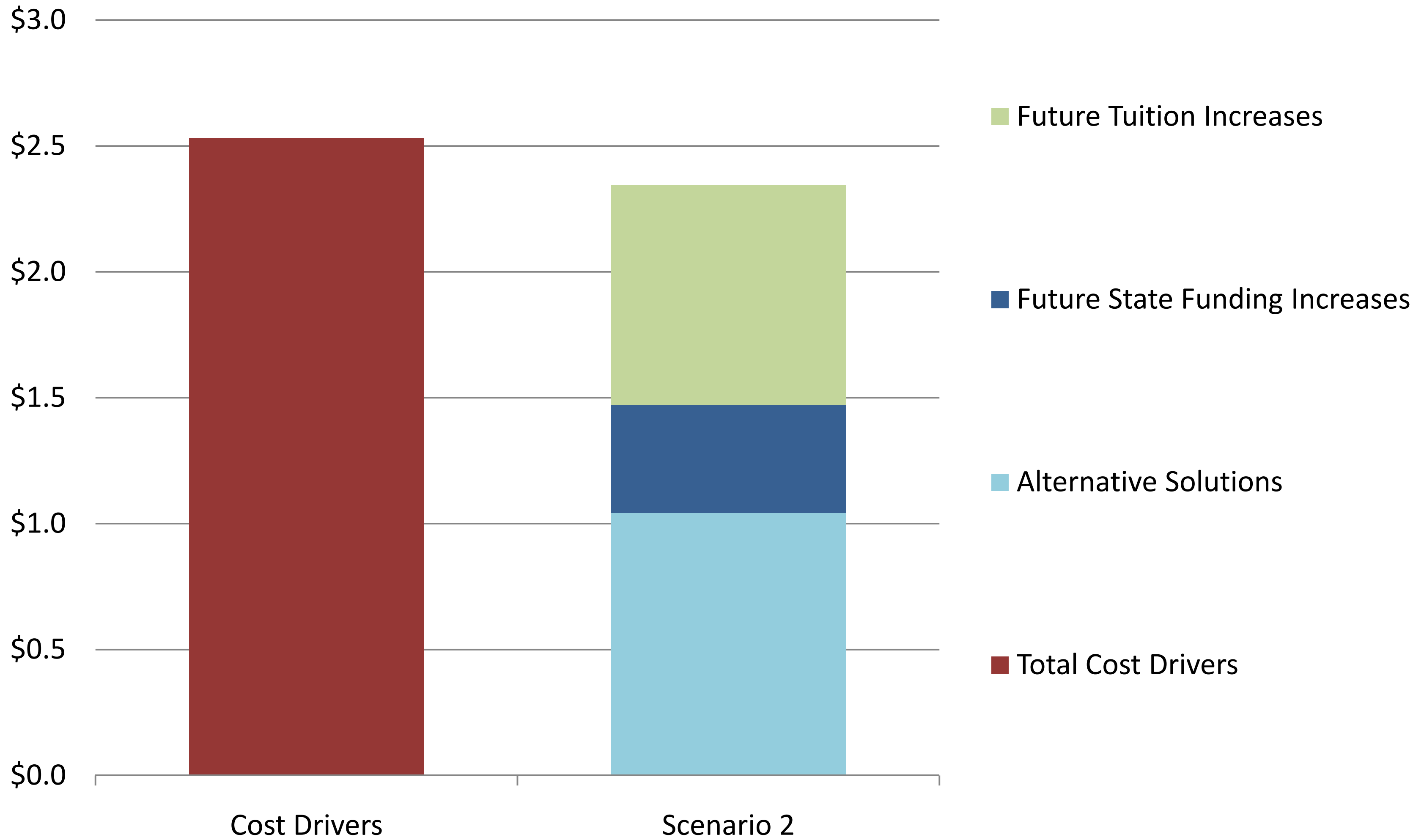
Scenario	State Support	Student Tuition & Fees	Enrollment
1	• 8% annual increases	• 8% annual increases	• 1% annual growth
2	• 4% annual increases	• 12% annual increases	• 1% annual growth
3	• Funding held flat at 2011-12 level	• 16% annual increases	• No growth
4	• 2% annual <u>reductions</u>	• 20% annual increases	• No growth

Scenario 1: 8% Annual State Funding Increases, 8% Annual Tuition Increases, 1% Annual Enrollment Growth



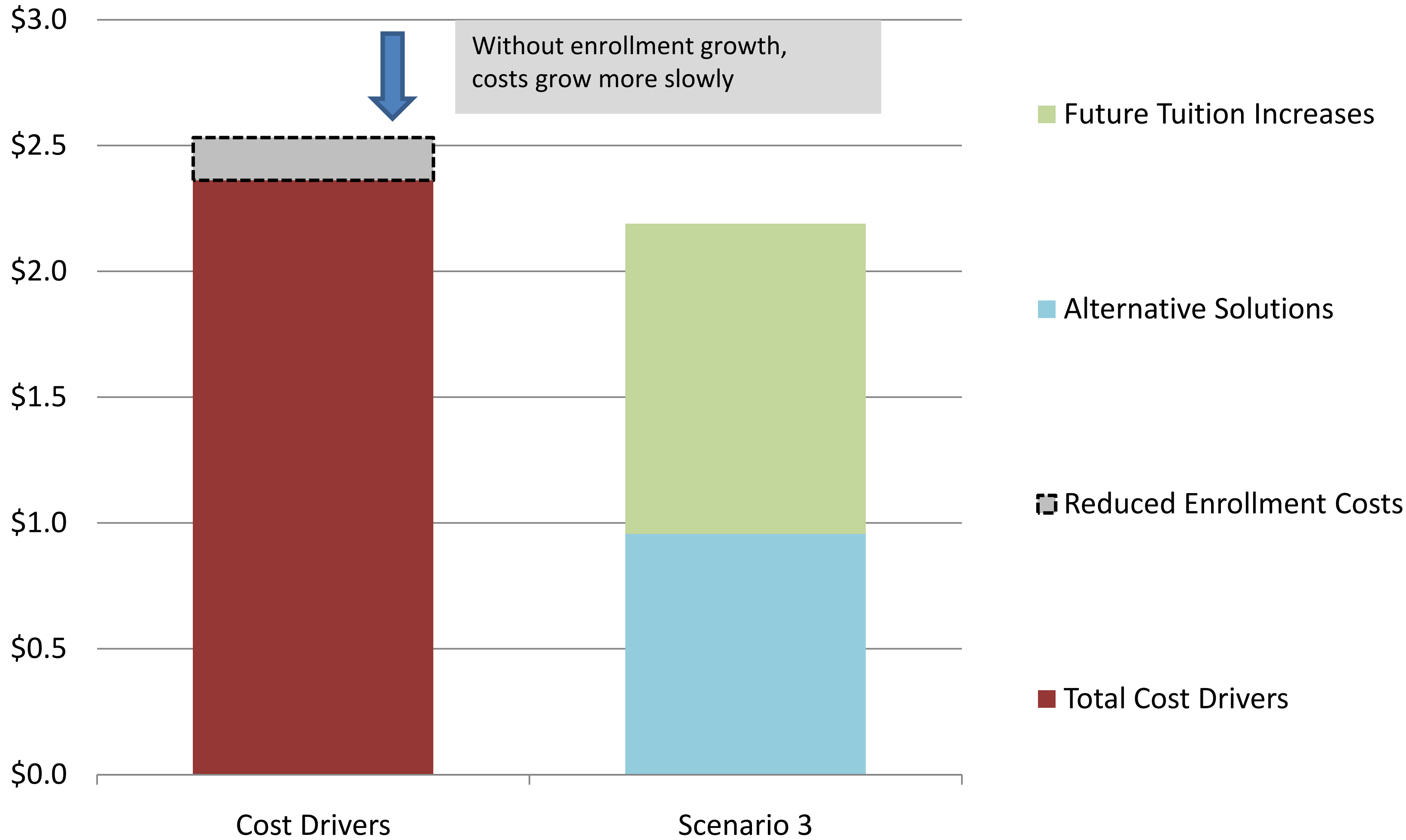
Dollars in billions.

Scenario 2: 4% Annual State Funding Increases, 12% Annual Tuition Increases, 1% Annual Enrollment Growth



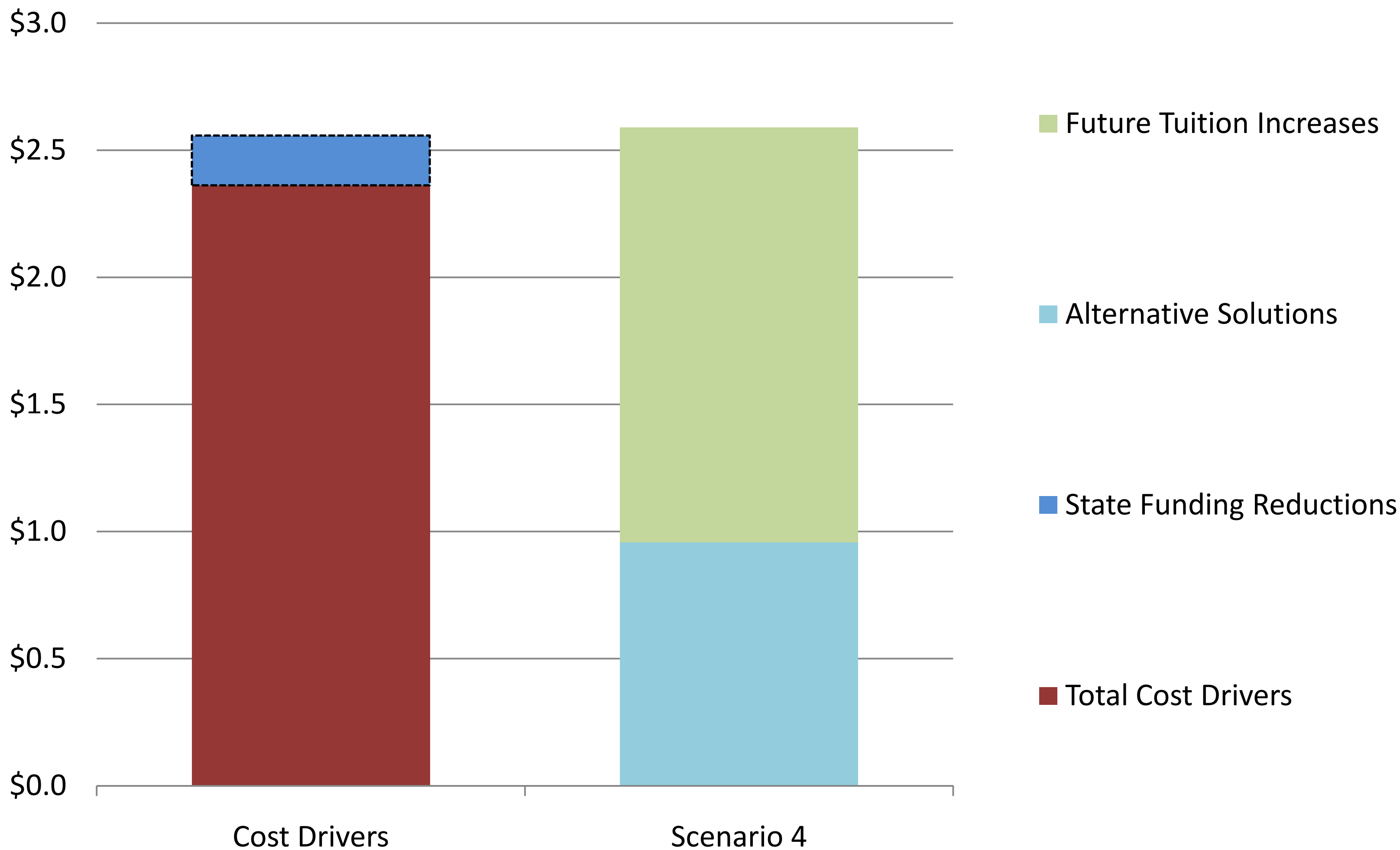
Dollars in billions.

Scenario 3: No Future State Funding Growth, 16% Annual Tuition Increases, No Enrollment Growth



Dollars in billions.

Scenario 4: 2% Annual State Funding Reductions, 20% Annual Tuition Increases, No Enrollment Growth



Dollars in billions.

Financial Aid

New proposals are being developed to:

- Expand Blue & Gold Plan
- Extend financial support increasingly to middle class
- Identify new fund sources to augment return to aid
  - Increased philanthropy
  - Balance-sheet strategies

Quality Initiatives Not Addressed

- Improvement of student-faculty ratio
- Progress on faculty and staff salary lags
- Graduate student support
- Academic support restoration
- IT initiatives
- Additional capital renewal

Differential Tuition Options

- Differential tuition could be established:
  - by discipline
  - by student level
  - by campus
- Options were discussed by the COTF Funding Strategies workgroup

Differential Tuition by Campus

- Tuition could be structured as a range established by the Regents
- Campuses would individually choose a level within the range
- Ranges would grow over time

<u>Hypothetical example for discussion purposes only:</u>

- After several years, a tuition range of $4,500 is established
- 5 campuses choose the maximum level
- 5 campuses choose the midpoint of the range
- The differential could generate $200M, net of financial aid

Differential Tuition by Campus

- Recent tuition increases have not had observable impacts on enrollment at any campus
- Price point may be much higher than current tuition
- State funding levels across campuses would need to be reconsidered if differentials established
- Differential tuition also raises concerns about:
  - Tiering of campuses
  - Equity for current and future students
  - Financial aid

Asset Management Strategies Currently Being Developed

All measures yield permanent revenues:

- Maximize incremental returns from asset management
  - Endowment cost recovery
  - Other asset management categories
- Develop captive insurance program
- Create central bank for debt issuance
- Reduce ICR waivers
- Introduce Legislative Authorization Bonds
- Explore overhead fee on endowment payouts

Potential Campus Bridging Strategies

Measures which yield one-time revenues:

- Tax on carry-forwards
- Extraordinary payouts on Funds Functioning as Endowments
- Borrowing for working capital

Next Steps

- Outcome of the 2011-12 Budget
- Discussions with DOF and Governor
- Further Development of Alternative Revenue Options