Pillars of Quality:

The University of California at a Crossroads

Executive Vice President Nathan Brostrom
Senior Vice President Daniel M. Dooley
Vice President Patrick J. Lenz

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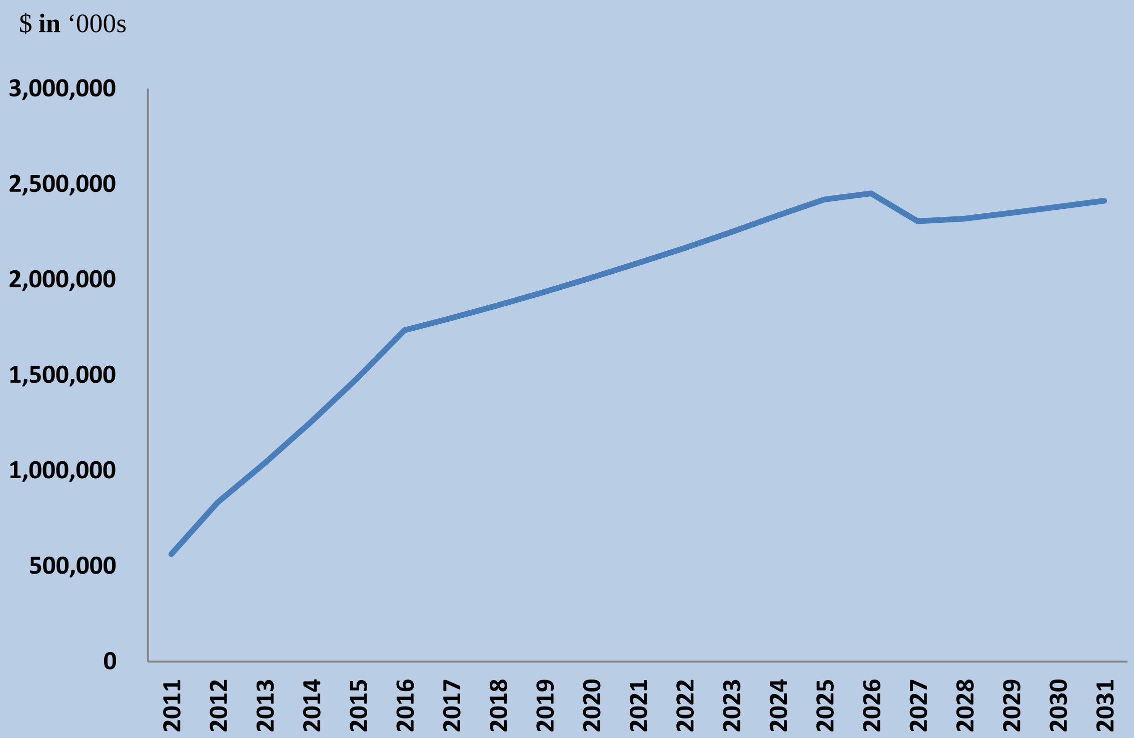
A snapshot of UC in 2012

- Faculty positions unfilled
- Dramatic reduction in staff
- Fewer class offerings
- Larger class sizes
- Programs reduced or eliminated

Mandatory costs are exploding

Pension costs alone will rise to $1.8 billion annually in the next five years

Total Systemwide $



Four Pillars of Quality

A sustainable funding model for UC requires four pillars of support

- A stable funding relationship with the State
- Wise stewardship of UC’s financial resources
- Leveraging the other strengths of UC
- Predictable funding from other financial sources, including student tuition

Pillar #1

UC’s fraying relationship with the State

- Over the last two decades, UC has had 11 years of State cuts – 7 in the last decade
- UC today relies on the same absolute level of funding as in 1997-98, even though it educates 73,000 more students, operates one additional campus, and offers scores of new programs and degrees
- Overall amount spent per student from UC’s core sources of funding has declined by nearly 20% in the past 20 years
- State’s contribution to UC, on a per-student basis, has declined by 60% since 1990

Pillar #2

Wise financial stewardship

- Implementing efficiencies and organizational restructuring through –
  - Campus efforts
  - Systemwide “Working Smarter” initiatives
- Working Smarter targets $500 million in positive fiscal impact
  - Financial management
  - Risk management
  - Energy strategies
  - Enterprise systems

Pillar #3

Leveraging UC's other strengths

- UC enterprise is both strong and diverse
  - Research
  - Private philanthropy
  - Medical enterprise
- Other opportunities
  - Nonresident student enrollments
  - Self-supporting academic programs

Pillar #4

Predictable funding from other sources

- Decline in State funding has created uncertainty and volatility in UC tuition plan
- Striving for a tuition plan that is –
  - Moderate
  - Affordable
  - Predictable
- Protecting low- and middle-income students
- Increases in student tuition are generally in response to State funding reductions

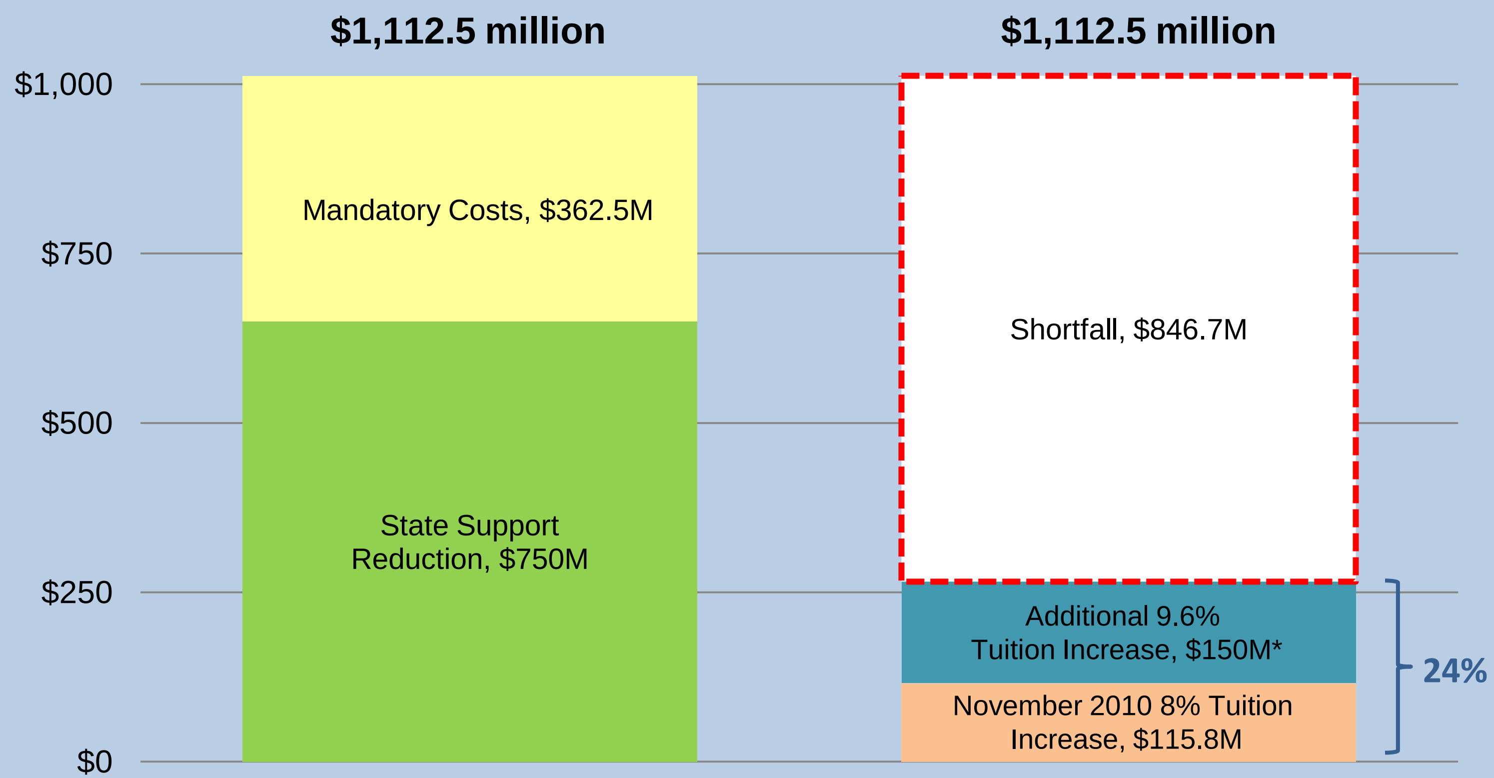
UC cannot rest on just two pillars

UC needs …

- A consistent and reliable funding agreement with the State

- A student tuition plan that provides modest and predictable increases to the benefit of both UC campuses and students and their families

UC’s 2011-12 Budget Shortfall



Dollars in millions.
* Annualized revenue impact.

Governor's 2012-13 UC Budget Proposal

- 2012-13 State General Funds $2.57 billion
  - General Obligation Bond debt service 196.8 million
  - State's obligation to UCRP 90.0 million
  - Increase in UC's LRB debt service 10.2 million
  - Annuitant health benefits 5.2 million
  - Shift Subject Matter Project funding to State Department of Education (5.0 million)
- Potential buy-out for 2012-13 tuition $125.4 million
- Mid-year budget trigger reduction if Governor's revenue initiative fails ($200 million)

Governor's 2012-13 UC Budget, Capital Facility Financing

- $2.5 billion of lease revenue bond (LRB) obligation will shift to UC's balance sheet (debt service for LRBs already in UC's base budget)
  - UC will retain savings if debt service reduced below 2011-12 level and gain flexibility in constructing buildings
- General obligation bonds will not shift to UC, though debt service will be included in UC's base for calculating base budget adjustment
  - UC will continue to participate in future general obligation bond initiatives
- Increase each year could be used to finance a regular and predictable capital outlay program

Governor’s 2012-13 Cal Grant Recommendations

- Use federal TANF funds to offset Cal Grant costs ($736 million)
- Raise Cal Grant grade point average requirements ($131 million)
- Change Cal Grant award amount for independent, nonprofit colleges and universities from $9,708 to $5,472 ($112 million)
- Change Cal Grant award amount for private, for-profit colleges and universities from $9,708 to $4,000 ($59 million)

Governor's 2012-13 UC Budget, Proposed Multi-Year Agreement

- Seeks long-term fiscal stability for the University
- Annual base budget adjustments, beginning in 2013-14
- Moderate, predictable, affordable tuition and fee increases
- Accountability metrics – graduation rates, CCC transfers
- Changes in the funding of UC's Capital Improvement Program

Governor's Revenue Initiative

- Increase personal income tax (PIT) on annual earnings over $250,000 for seven years
- Increase sales and use tax (SUT) by a quarter-cent for four years
- Adds to Constitution a tax shift to local governments to pay for incarceration and State services "realigned" in 2011
- Allocates temporary tax revenues with 89% going to K-12 schools and 11% going to community colleges. Revenues count toward Prop 98 minimum guarantee, potentially freeing up millions of dollars for other purposes

Governor’s Revenue Initiative

- Estimated revenues in 2012-13: between $6.8 billion (LAO) and $9 billion (DOF)
- Estimated revenues in 2013-4 through 2017-18: between $5.4 billion (LAO) and $7.6 billion (DOF)
- Estimates vary due to volatility of PIT revenues
- UC and CSU would face $200 million mid-year trigger cut if measure fails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