

University of California July 2011 Regents' Meeting

Update on 2011-12 Budget and Additional Tuition Increase

Executive Vice President Nathan Brostrom
Vice President Patrick J. Lenz
Executive Vice President Peter Taylor

July 14, 2011

Today's Discussion

- Update on the 2011-12 State Budget
- Ongoing and Future Options for Addressing Budget Shortfall
- Additional Tuition Increase

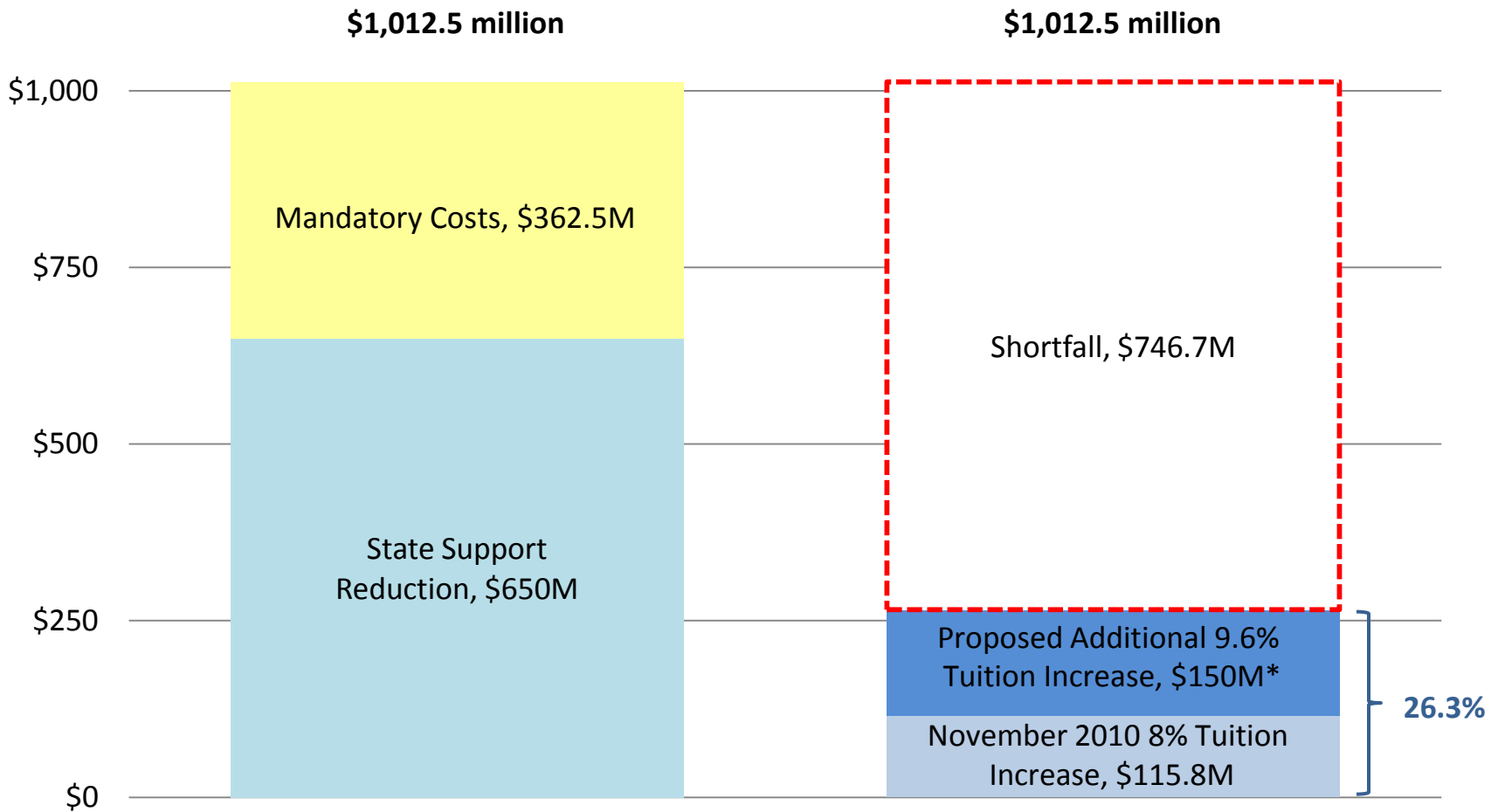
2011-12 State Budget Act: Overview

- Signed by the Governor June 30
- Addresses a \$9.6 billion deficit
- Abandons tax extensions for 2011-12
- Includes more than \$5.3 billion in cuts
- Assumes \$4 billion in revenue growth
- Additional cuts triggered if revenue falls short

2011-12 State Budget Act: UC Support

- Total undesignated reduction: -\$650 million
- Revenue shortfall trigger: -\$100 million
- Limits on discretion to assign cuts
- No funding for retirement contributions, enrollment, or other mandatory costs
- Funding for two capital projects: \$45.7 million

2011-12 Budget Shortfall



Dollars in millions.

* Annualized revenue impact.

University Responses

- Campus and Systemwide Actions to Address Budget Shortfalls
- Active Projects with Long-Term Payoffs
- Options for Future Consideration
- Options Not Being Pursued

Working Smarter

- Goal to achieve \$500 million in positive fiscal impacts through operational excellence:
 - Cost savings
 - Cost avoidance
 - Opportunity cost avoidance
 - Revenue generation
- An initial estimate of the fiscal impact of seven *Working Smarter* projects yields \$157 million in cost savings and revenue generation thus far
- Positive fiscal impact should grow as additional administrative efficiency projects are implemented in the future
- Projection is that two-thirds of positive fiscal impact will accrue to the core operating budget

Alternate Revenue Strategies

| Impacting 2011-12 Cashflow | Impacting 2012-13 Cashflow and Beyond |
|---|--|
| Transfer additional \$1B to TRIP | Transfer additional \$1B to TRIP |
| Extraordinary payout on FFEs | |
| Extraordinary payout on true endowments | |
| Draw down health and welfare reserve | |
| Increase endowment cost recovery | Increase endowment cost recovery |
| Tax carry-forwards | |
| | Central bank for debt management |
| | Captive insurance program |

Indirect Cost Recovery

- Current ICR rates for UC campuses are 52-55%; rates for comparison institutions are 60-70%
- Increase ICR from the State, foundations, corporations and private donors – campus management of waivers
- Recent modest increases in ICR rates plus higher research awards

Fungibility in Private Philanthropy

- Campuses and OP are developing new models to increase unrestricted fundraising to support core operations
 - Departmental support
 - Chairs
 - Parents' programs
 - Class giving
- President will report to Regents every November on levels of private support and fungibility

Nonresident Student Enrollment

- UC remains committed to enrolling all funded California residents
- Commission on the Future identified increasing nonresident enrollment up to 10% of undergraduates as a revenue strategy
- Nonresident students pay more than the cost of education, enhancing quality for all students
- UC likely to increase undergraduate nonresident enrollment in 2011-12 by about 2000 students; but at 6% nonresident students, UC is well below other institutions

New Strategies for Financial Aid

- New corporate fundraising and balance sheet strategies, combined with a portion of new Tuition and fee revenue, will support new strategies for financial aid
- Financial aid strategies for 2012-13 and beyond include:
 - Ensuring students' loan-work expectation is manageable
 - Expanding UC's commitment to lower-income families
 - Substantially increasing grant support to needy middle-income families

Online Instruction

- Pilot project – 29 courses in development
- Evaluation of course quality
- Online courses available to UC students for degree credit
- Also available to non-UC students for transferable credit
- Possibly contribute to core mission by:
 - Reducing impacted courses
 - Shortening time to degree
 - Potential to generate revenue after four years

Accelerated Technology Transfer

- Largest university patent portfolio with 349 patents in 2010 (18th year in a row)
- About \$120M annually in royalties
- Current review of campus practices to promote technology commercialization
- California Institutes of Science & Innovation collaboration with industry
- UC initiated Proof-of-Concept grants to move from patents to products
- Potential to increase revenue over time

Improved Transfer Articulation

- Transfer students persist and graduate at rates similar to freshmen
- Current efforts to improve advising tools and streamlined admission criteria are underway
- Upper-division courses more costly to provide, so increasing transfer access comes with costs
- Benefits accrue to student and State rather than to the University's budget
- Can increase transfer students only if capacity increased or fewer freshmen admitted

Self-supporting Academic Units

- 43 self-supporting degree *programs* in operation or planned, but no self-supporting schools or other academic units
- Cultivating reliable non-State fund sources could provide new revenues, better ability to pay faculty at market rates
- Could serve new student populations
- Impact on State support unclear – could result in loss of State-funded enrollment revenue
- Uncertain effects on research, public service, and access

Campus Specialization

- Commission on the Future had mixed recommendations
 - General campuses require broad program offerings
 - The comprehensive nature of campus programs allows collaboration across disciplines
 - Costs to move tenured faculty, labs, and students would likely be prohibitive
- Campuses achieved savings over the past several years by discontinuing or consolidating programs
- Not an efficient means of achieving short-term savings
- May be appropriate for new programs over time

Differential Tuition by Campus

- Campuses might be permitted to charge different tuition levels within a range set by the Regents
- All campuses have substantial market headroom
- If tuition becomes very high over time, a campus could elect a lower tuition, or offer discounts
- Could be considered in the future to provide revenue, but not necessary or appropriate at this time

Differential Tuition by Discipline

- Campuses might be permitted to charge different tuition levels on some undergraduate majors
- Widely practiced at other universities
- Differentials might negatively influence students' choice of major and diversity of students in majors charging higher tuition
- Increased administrative costs
- Relatively small revenue impact – a small percentage increase in tuition provides greater revenue

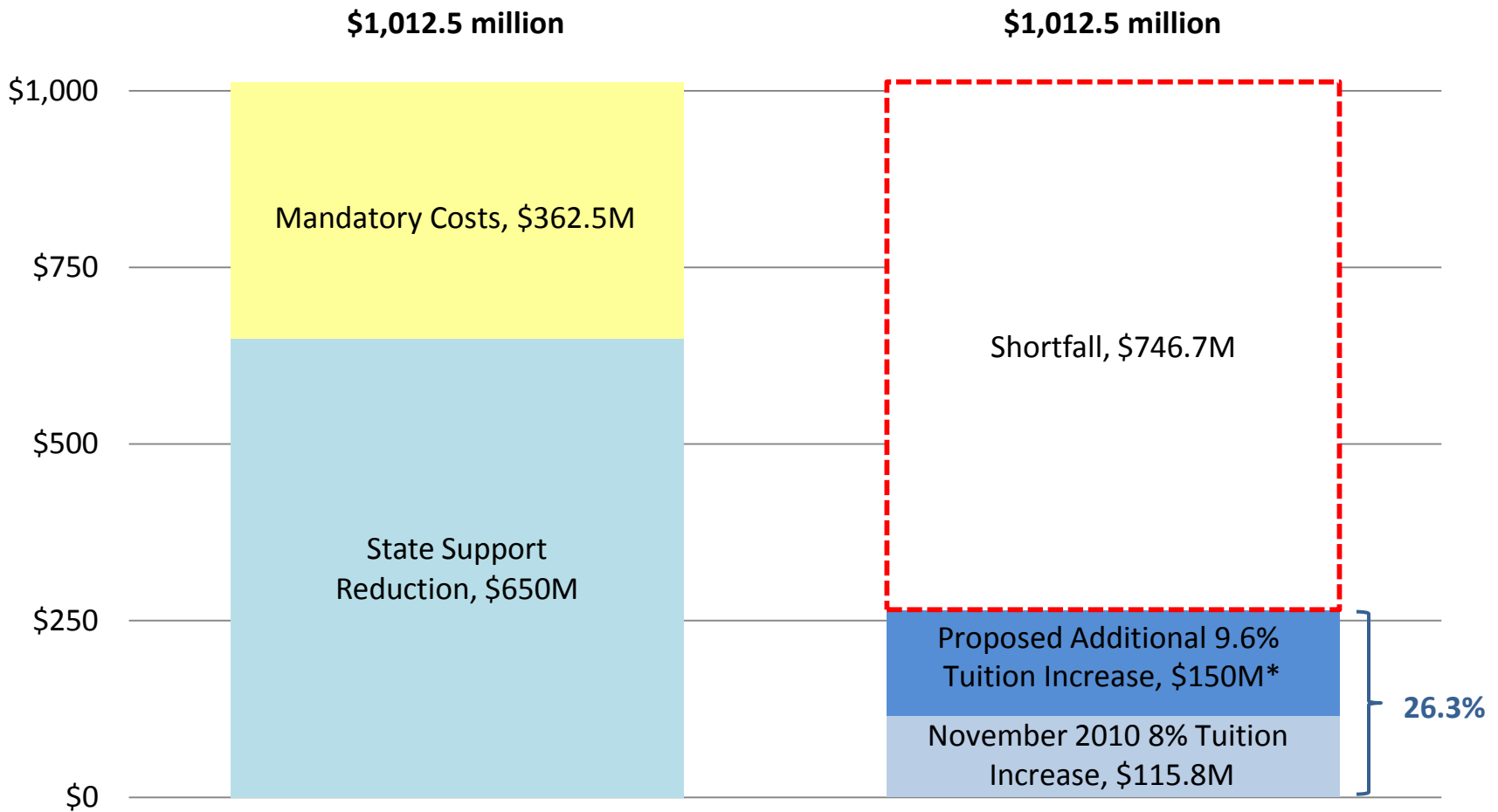
Income-based Tuition

- Lower-income students could be charged lower Tuition
- Approach would disadvantage UC and students:
 - UC would yield less revenue from Cal Grants and veterans' benefits, thereby reducing operating budget revenues
 - Income alone is an incomplete indicator of a family's resources
- Current financial aid model reduces net cost for needier students while avoiding these revenue and equity problems

Enrollment Reductions

- UC remains committed to providing access
- Recent actions to curtail enrollment growth still left the University underfunded
 - The University has enrolled 11,000 students for whom no State funding has been received
 - With additional budget cuts, an estimated 23,000 students are unfunded
- Hiring faculty and developing programs are long-term investments, and net savings achieved by enrollment reductions are small
- For 2011-12, enrollment is expected to remain relatively stable

2011-12 Budget Shortfall



Dollars in millions.

* Annualized revenue impact.

Proposed Additional Tuition Increase

| | | Mandatory Charges* | Increase |
|----------------------------|------|---------------------------|-----------------|
| 2010-11 | | \$10,302 | |
| 2011-12 - Approved 11/2010 | 8.0% | \$11,124 | \$822 |
| 2011-12 - Proposed 07/2011 | 9.6% | \$12,192 | \$1,068 |

*Combined Tuition and Student Services Fee.

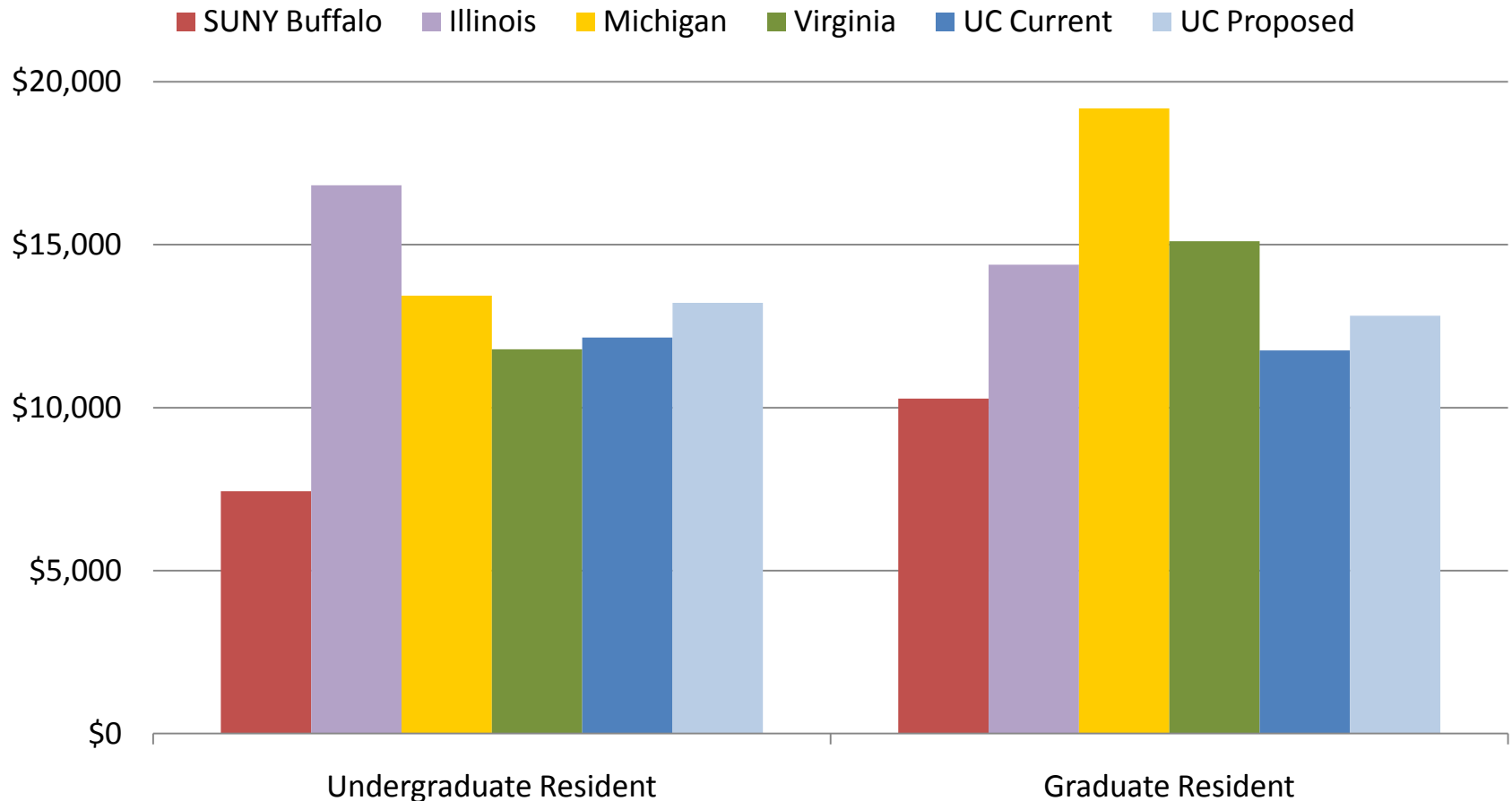
The total increase of \$1,890 represents an 18.3% increase over 2010-11.

Additional Tuition Increase Revenue

| | 2011-12 | 2012-13 Annualized |
|-------------------------|-----------|-----------------------|
| Total Revenue | \$216.5 M | \$232.4 M |
| Financial Aid Set Aside | \$76.9 M | \$82.4 M |
| Net Revenue | \$139.6 M | \$150.0 M |

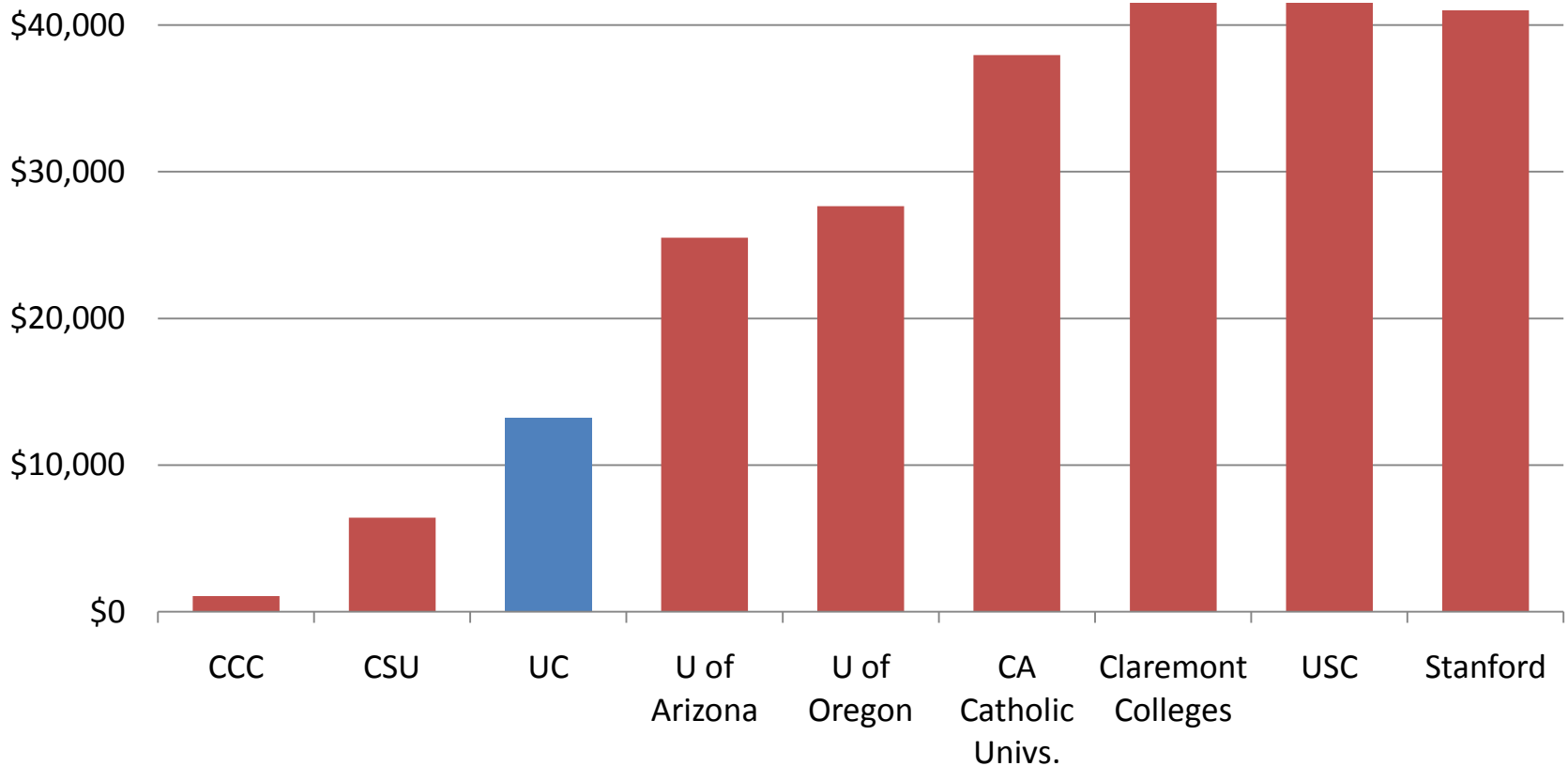
Because the Tuition increase will not apply to Summer 2011, revenue from the Tuition increase would not fully replace the additional loss of State funds during 2011-12. In 2012-13, the University would realize the entire \$150 million.

2011-12 Comparison Institution Charges



- For 2011-12, UC charges are currently lower than two comparators at the undergraduate level and lower than three comparators at the graduate level.
- After the proposed increase, UC's relative position would not change.

2011-12 Tuition and Fees: UC remains a bargain for California residents

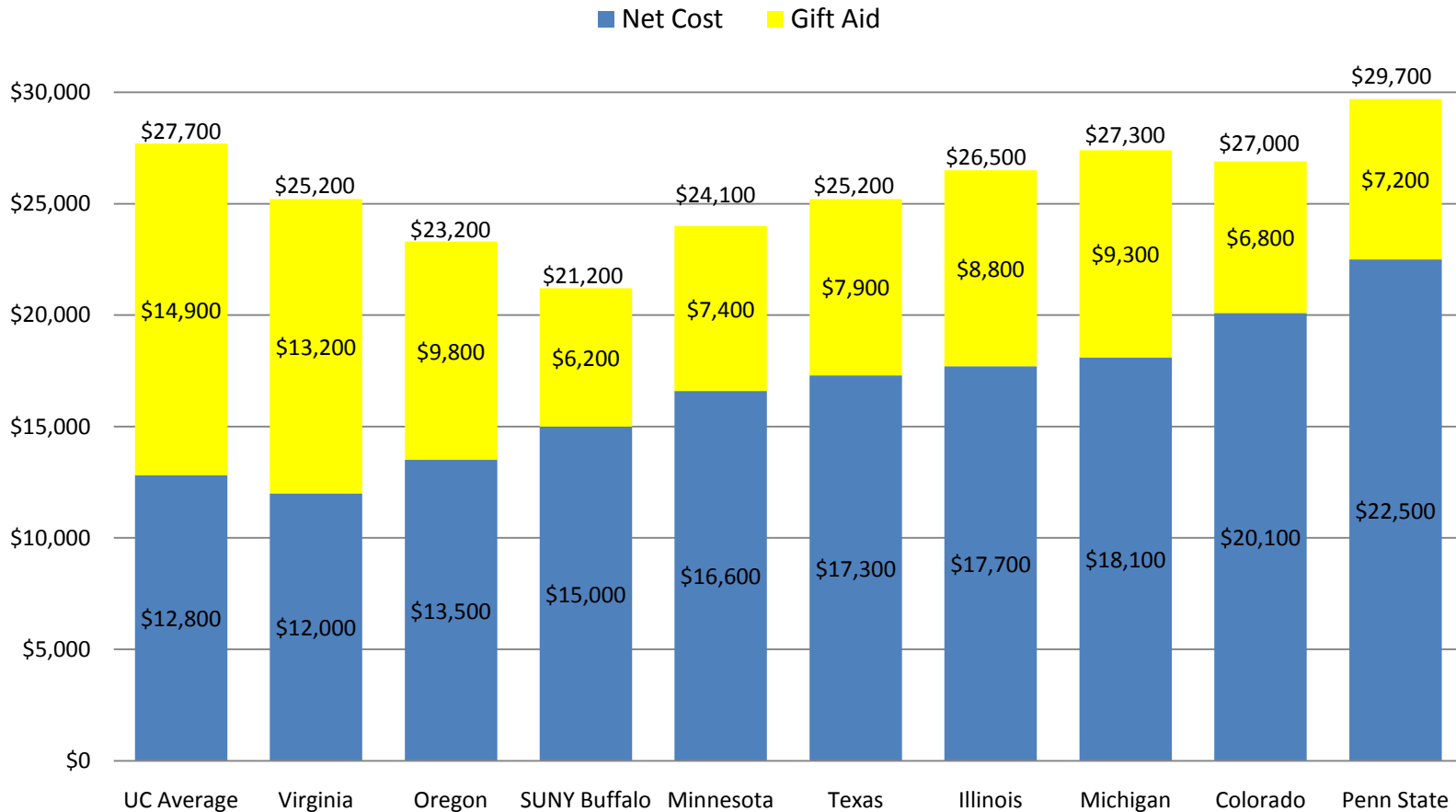


Note: Averages for California Catholic Universities and Claremont Colleges. Arizona and Oregon tuition and fees are those paid by California residents.

2011-12 Financial Aid Commitments

- Continue 33% return-to-aid policy for undergraduates and 50% return-to-aid for graduate academics
- Support augmentations to Cal Grants to cover fee increases
- Expand Blue and Gold Opportunity Plan to include students with family income up to \$80,000
- Provide one-time coverage of 100% of 2011-12 fee increases for needy families earning up to \$120,000

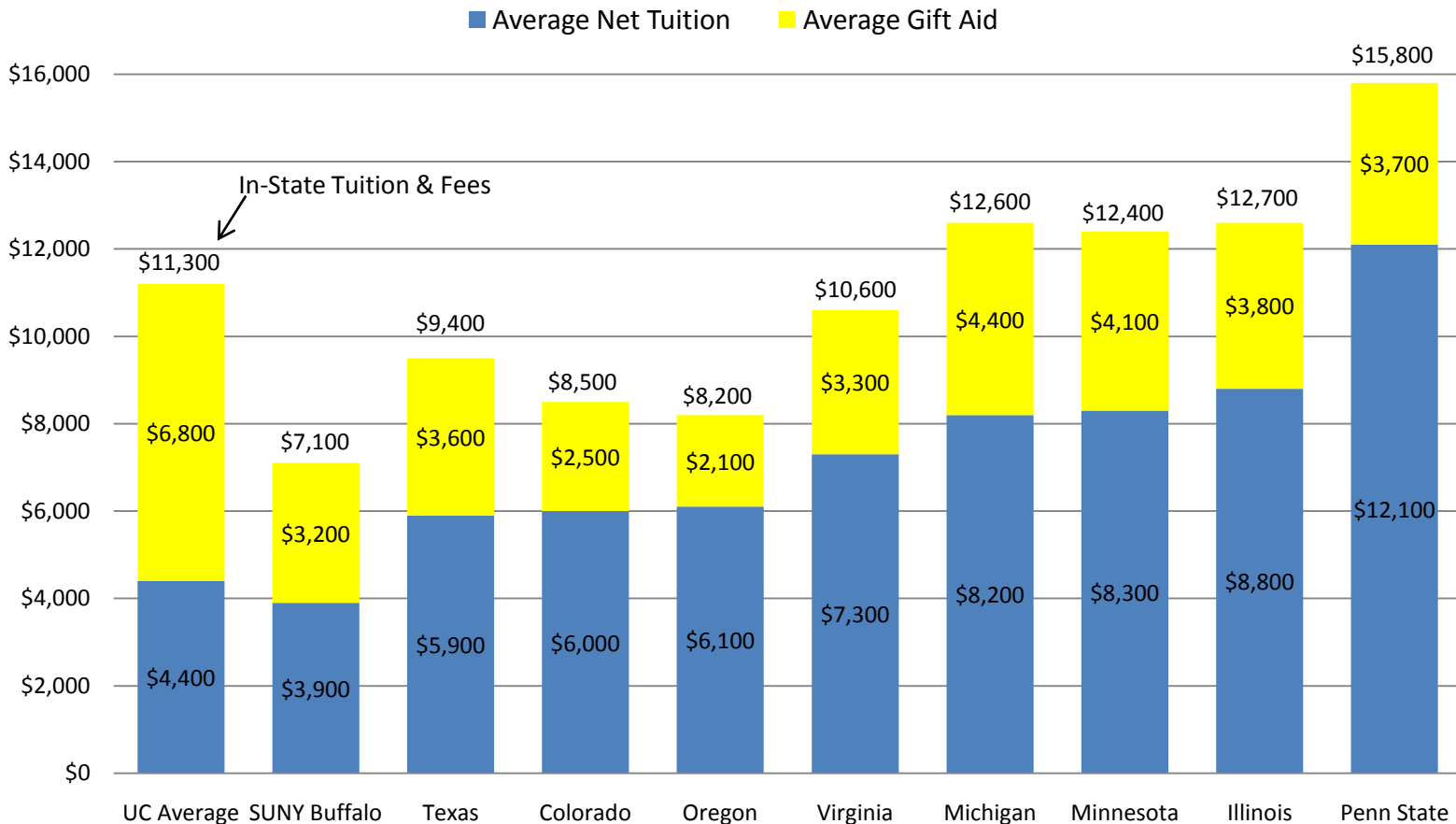
Net Cost of Attendance, 2010-11



Note: AAU refers to the Association of American Universities, the 61 leading research universities in the U.S.A. and Canada.

Sources: Tuition, fees and cost of attendance from IPEDS Institutional Characteristics Survey and institution websites; tuition figures reflect an estimated average across all undergraduates for institutions that have differential tuition. Financial aid figures from institutions' most recent common dataset; for institutions reporting only 2009-10 aid, a 3.8% inflator was applied to estimate 2010-11 aid.

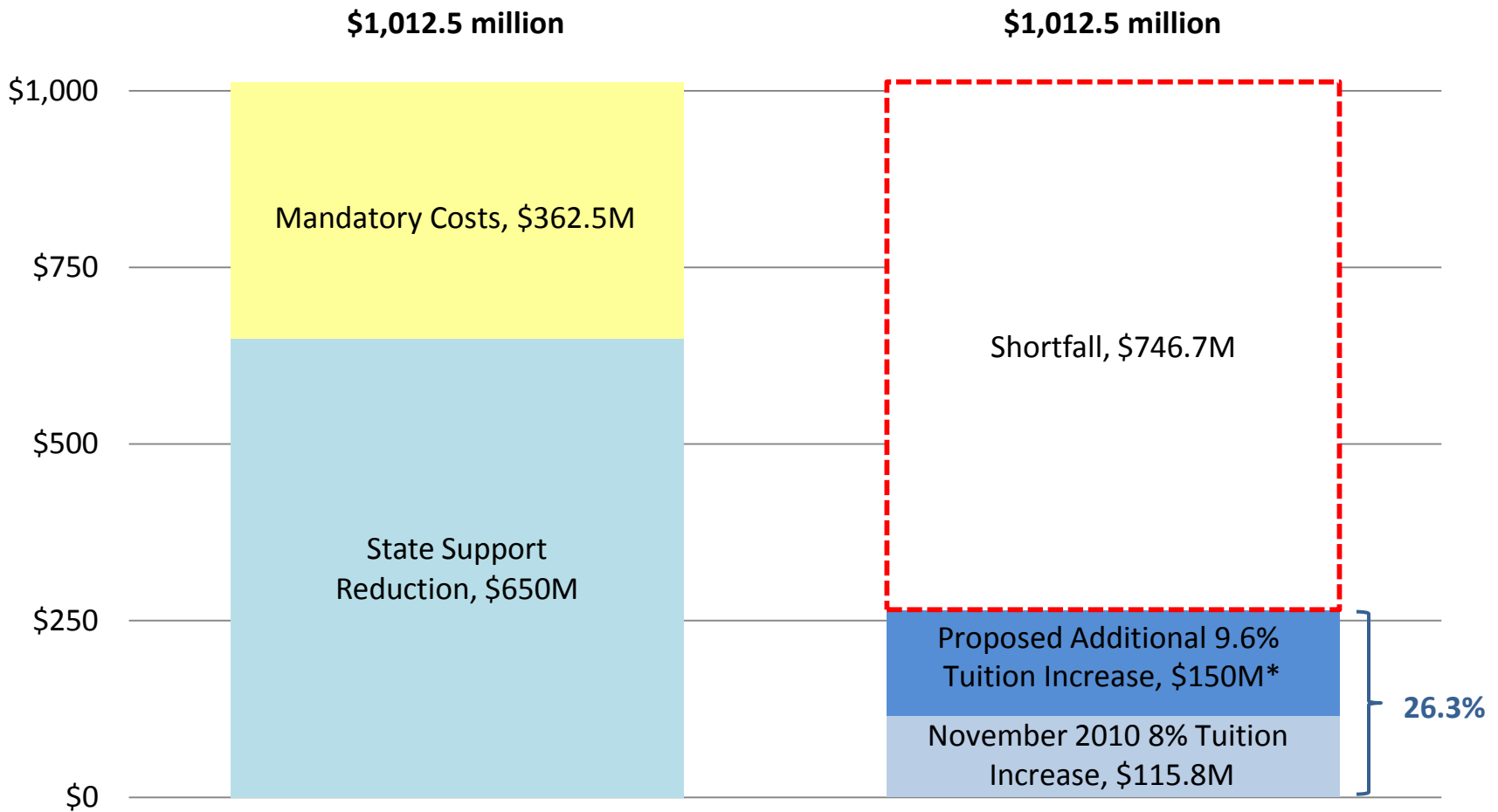
Net Tuition and Fees, 2010-11



Note: AAU refers to the Association of American Universities, the 61 leading research universities in the U.S.A. and Canada.

Sources: Tuition and fees from IPEDS Institutional Characteristics Survey and institution websites; tuition figures reflect an estimated average across all undergraduates for institutions that have differential tuition. Financial aid figures from institutions' most recent common dataset; for institutions reporting only 2009-10 aid, a 3.8% inflator was applied to estimate 2010-11 aid.

2011-12 Budget Shortfall



Dollars in millions.

* Annualized revenue impact.