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

March 29, 2012
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 –
  o Campus efforts
  o Systemwide “Working Smarter” initiatives

• Working Smarter targets $500 million in positive fiscal impact
  o Financial management
  o Risk management
  o Energy strategies
  o 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
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

- **State Support Reduction**, $750M
- **Shortfall**, $846.7M
- **Mandatory Costs**, $362.5M
- **Additional 9.6% Tuition Increase**, $150M*
- **November 2010 8% Tuition Increase**, $115.8M

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)
  o 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
  o 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