University of California
March 2011 Regents’ Meeting

Presentation on 2011-12 Budget and Longer-Term Budget Planning

March 16, 2011
Today’s Discussion

- Update on the State Budget Process
- Campus Processes and Options for 2011-12
- Systemwide Actions
- Balance Sheet Strategies
- The Long-term Problem
Bottom Line

• Failure to bridge funding gap threatens:
  – Quality
  – Access
  – Affordability

• Key Levers:
  – State Support
  – Enrollment
  – Tuition and Financial Aid
  – People, Programs, and Services
Decline in Spending Per Student

<table>
<thead>
<tr>
<th>Year</th>
<th>Student Fees</th>
<th>UC General Funds</th>
<th>State General Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>$16,720</td>
<td>$2,680</td>
<td>$1,970</td>
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<tr>
<td>1995-96</td>
<td>$12,860</td>
<td>$4,850</td>
<td>$1,880</td>
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<tr>
<td>2000-01</td>
<td>$15,020</td>
<td>$3,920</td>
<td>$1,920</td>
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<tr>
<td>2005-06</td>
<td>$10,100</td>
<td>$5,370</td>
<td>$2,140</td>
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<tr>
<td>2011-12</td>
<td>$7,210</td>
<td>$7,930</td>
<td>$2,080</td>
</tr>
</tbody>
</table>
State Budget Update

Budget Conference Committee Approved

- State spending reductions $12.5 B
- Assumed General Fund tax revenues $12.0 B
- Funding transfers $3.0 B
- 2011-12 State budget reserve $840 M
State Actions Affecting UC

• $500 million reduction for UC may represent best-case scenario
• $3 million redirection of funds to AFSCME
• $9.3 million for capital equipment
• Trailer bill language:
  – Report by June 1, 2011: Regents’ Budget Options
  – State-supported enrollment target: 209,977 FTE students
  – Report by September 1, 2012: Implemented Budget Solutions
State Actions on Cal Grants

- Financial Aid Grant Programs $1.6 B
- Governor’s Budget - G.F. to F.F. Shift $946.8 M
- Conference Committee Action $285.3 M
  - Annual Income Verification - $100 Million
  - New Student Default Risk Index - $24 Million
  - Reporting Data on Completion and Job Placement Rates
2011-12 UC Budget Pressures

- State Budget Reduction $500.0 M
- Cost Increases $362.5 M
- Total $862.5 M

- Uncertainty of voter approval for tax initiative
- Uncertainty of cuts to UC budget if the tax initiative fails
- Need for long-term fiscal stability
2011-12 UC Budget Gap

- Additional 2011-12 Mandatory Costs, $266.8M
- 2008-09 through 2010-11 Mandatory Costs, $586.3M
- 2011-12 Net State General Fund Reduction, $733.4M
- 2011-12 Shortfall, $692.7M
- Earlier Budget Cuts, $237.1M
- Earlier Fee Increases, $540.9M
- 2011-12 Fee Increases, $115.8M

Dollars in millions.
Selected Systemwide Options for 2011-12

- Deferral of salary increases
- Furloughs
- Deferral of UCRP contribution increases
- Health benefit cost reductions
- Debt restructuring
- Additional tuition increases
- Enrollment reductions
Campus Actions Since 2007-08

• More than 4,400 layoffs, more anticipated
• More than 3,700 positions are unfilled or have been eliminated
• About $155 million has been saved from programs consolidated/eliminated
• Academic and administrative units have been assigned cuts generally ranging from 6% to 35%
### Systemwide versus Campus Solutions

<table>
<thead>
<tr>
<th></th>
<th>2009-10</th>
<th>2010-11*</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Systemwide Solutions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Tuition and Fee Increases</td>
<td>53%</td>
<td>72%</td>
<td>41%</td>
</tr>
<tr>
<td>• Salary Reductions/Furloughs</td>
<td></td>
<td></td>
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<tr>
<td>• Debt Restructuring</td>
<td></td>
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<tr>
<td><strong>Campus Solutions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Layoffs/Position Eliminations</td>
<td>47%</td>
<td>28%</td>
<td>59%</td>
</tr>
<tr>
<td>• Deferred Hiring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Other Solutions</td>
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</table>

* Net of new and restored State funding.
Campus Options and Plans for 2011-12

All campuses are:

• Allocating disproportionate cuts to administration to reduce impact on academic programs
• Taking some temporary measures and planning to implement permanent cuts over two or more years
• Planning to increase nonresident enrollment
• Deferring faculty hiring
• Engaging in significant efforts to generate administrative efficiencies:
  – Implementing shared service centers to consolidate administrative functions
  – Participating in the Statewide Energy Partnership program to promote energy conservation
  – Curtailing hiring of staff, reducing travel, and deferring equipment purchases
Campus Challenges

• Chancellor George Blumenthal
• Chancellor Michael Drake
• Chancellor Robert Birgeneau
Redefined UCOP-Campus Relationship

• Return centrally-held funds to campuses
• Allow campuses to retain all revenues generated on campuses
• Support UCOP through a low, broad-based assessment on campuses
• Reduce impact of the campus assessment by:
  – Broadening campus expenditure base
  – Lowering UCOP budgets
Redefined UCOP-Campus Relationship
(continued)

• Maintain funding at UCOP for activities that:
  – Provide valuable central services
  – Achieve economies of scale, both in administrative and academic sectors
  – Provide “common good” benefits for system

• Include all activities as UCOP budget items
  – Ensure transparency
  – Allow for campus and Regental deliberation
Impact of Proposed Changes

• In 2011-12, reduce UCOP budget by $50M (17%)
  – This reduction comes on top of an additional $55M in cuts since 2007-08

• Reduce other systemwide initiatives by $30M

• Combined effort reduces campus impact of State funding reduction from $500M
Balance Sheet Initiatives

**Why?**
- Total assets in excess of $45 billion
- Size is considerable advantage
- Use strength to generate benefits

**How?**

- **Reduce** existing costs and totally avoid incurring others
- **Create** new value where it did not previously exist
- **Incentivize** administrative efficiency by breaking down investment barriers
Balance Sheet Initiatives Currently Being Executed

**TARGET STIP/TRIP ALLOCATION**
- Move incremental $1 billion from STIP into TRIP
- Create unrestricted funds to supplement campus budgets

**UCRS TRANSFER**
- Move up to $2 billion of STIP into UCRS (pending Regents’ approval)
- Reduce future UCRS liability growth, employer contributions by 1.4% annually (in later years)
Balance Sheet Initiatives Currently Being Executed

**CAPITAL MARKETS STRATEGIES**

- Restructure debt for cashflow relief and purchase UC debt on open market to save on outstanding debt balances
- Generate combined $300+ million for FY2010-11 for investment in UCRS

**INTERNAL LOAN PROGRAM**

- Finance equipment acquisitions at low fixed rate in lieu of leasing
- Offer 0% internal working capital loans for key strategic investments
Balance Sheet Initiatives in the Pipeline

• **SPECIAL ONE-TIME ENDOWMENT PAYOUT**

• **AGGRESSIVE USE OF ALL FUNDS**

• **ALTERNATIVE RISK FINANCING PROGRAM**

• **SELF-INSURANCE FOR HEALTH BENEFITS**
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 State is an Unreliable Partner

Includes ARRA funds of $716.5 million during 2008-09 and $106 million during 2010-11.
Volatility of Tuition and Fee Increases

Tuition and fees did not increase during 8 of the last 20 years, but rose by more than 10% during 7 years.
The Need for Stable Revenues

- Stable, permanent revenue streams are critical to maintenance of quality
- Volatility in revenue prevents campus leadership from investing strategically in programs and faculty
- The State is an unreliable partner
- 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
Budget Pressures: 2007-08 Through 2011-12

Core Fund Resources

Dollars in billions. Core funds include State General Funds, UC General Funds (nonresident tuition and a portion of indirect cost recovery), and student tuition and fees. Excludes return-to-aid funds.
Budget Pressures: 2007-08 Through 2011-12

Cumulative Core Fund Cost Increases

- Enrollment costs – faculty hiring, expansion of services, maintenance of new facilities
- Salary increases for meritorious faculty reviewed every 2-3 years
- Other compensation and benefit cost increases
- UCRP contributions rising to 7%
- Non-salary cost increases for utilities, library collections, and instructional equipment

Dollars in billions. Figures represent cumulative cost increases from 2007-08 through 2011-12.
**Budget Pressures: 2007-08 Through 2011-12**

**Current Budget Gap**

- **Growth in Costs**
- **Total Revenues**

Dollars in billions. Excludes return-to-aid funds.

- Growth in costs has exceeded revenue growth: $900 million in 2011-12
- Temporary savings through furloughs and debt restructuring
- Cost avoidance through deferred faculty hiring, expansion of class sizes, alternative health benefit offerings
- Administrative efficiencies
- Layoffs
Budget Pressures: Enrollment

- Earlier enrollment plan called for UC to continue growth of at least 1% annually over the coming decade.

- UC enrolls 11,000 students for whom the State has not provided funding.
- Reductions in new freshmen have halted growth.
Budget Pressures: Enrollment

• With adequate resources, campuses should be hiring new faculty, expanding student services, and purchasing additional instructional equipment
  – These actions ensure maintenance of a high-quality instructional program

• Instead, without enrollment growth support from the State and constrained budgets, campuses have resorted to cost avoidance:
  – Hiring part-time faculty rather than tenure-track faculty
  – Limited course offerings, larger class sizes, and higher student-faculty ratios
  – Deferred equipment purchases and constrained student services
  – Reduced maintenance of new space, although this is a largely unavoidable cost
Budget Pressures: Retirement Benefits

• Employer contributions to UCRP (7%) from core operations will reach $200 million in 2011-12
  – Largely being handled through one-time actions

• UCRP costs will continue to rise:
  – Regents have approved 10% rate for 2012-13
  – Contribution rates will likely rise an additional 2% annually through 2015-16 and beyond
  – Salary increases drive contributions higher

• Retiree health benefits costs will also grow
Budget Pressures: Compensation

• No general salary increases for faculty and non-represented staff for the last three years
• Employees facing reductions in net pay due to increases in benefits costs
• Salary lags complicating recruitment and retention efforts
• Need for a stable program of merit salary increases for faculty and non-represented staff
Budget Pressures: Capital Renewal

• No systemwide program since 2001-02
• State eliminated remaining permanent deferred maintenance funding in 2002-03
• Capital renewal needs are expected to increase significantly over the next decade
  – Systems in buildings constructed in the 1960s and 1970s are reaching the end of their useful lives.
The Longer-Term Problem: 2011-12 Through 2015-16

- Cost Drivers
- Efficiencies and Other Cost Reductions
- Alternative Revenue Options
- State Funds and Student Tuition
- Alternative Levers: Quality, Access and Affordability
The Longer-Term Problem: 2011-12 Through 2015-16

$2.4 Billion Deficit in 2015-16

Baseline Scenario: No new revenues after 2011-12, except tuition from enrollment growth. Includes all mandatory costs and enrollment growth consistent with 2008 plan.
The Longer-Term Problem: 2011-12 Through 2015-16

Baseline Cost Drivers, No New Revenue

Budget Gap: $2.4 billion

Cost Drivers:
- Tuition Revenue-Enrollment Growth
- Other Non-salary Costs
- Capital Renewal Costs
- Other Benefits Costs
- Post-Employment Benefits Costs
- Compensation Costs
- Enrollment Growth Costs
- 2011-12 Budget Gap

Solutions:
- Dollars in billions.

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**Baseline Cost Driver Assumptions**

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Assumptions</th>
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</thead>
<tbody>
<tr>
<td>Enrollment</td>
<td>No further reductions and growth of 1% annually beginning in 2012-13</td>
</tr>
<tr>
<td>Compensation</td>
<td>3% increases annually to keep pace with market in addition to regular academic merit salary increase program</td>
</tr>
<tr>
<td>Post-Employment Benefits</td>
<td>UCRP contributions of 10% in 2012-13, followed by 2% annual increases; annual growth in retiree health benefit costs of 7%</td>
</tr>
<tr>
<td>Other Employee Benefits</td>
<td>7% annual increases</td>
</tr>
<tr>
<td>Capital Renewal</td>
<td>Investment growing by $50 million annually</td>
</tr>
<tr>
<td>Other Non-salary Cost Increases</td>
<td>No increase in purchased utility costs for two years; other items increasing 3% annually</td>
</tr>
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</table>
The Longer-Term Problem: 2011-12 Through 2015-16

Good Efficiencies versus Bad

- Operational Improvements: desirable for the University
  - Development of IT systems that reduce personnel effort
  - Strategic sourcing
  - Shared library collections
  - Energy savings programs
  - Curriculum redesign, alternative instructional delivery

- Austerity Measures: negative impacts on the quality of UC
  - Higher student-faculty ratios and larger class sizes
  - Reduced graduate student enrollments
  - Faculty and staff salary lags
  - Deferred equipment purchases and technology lags
  - Deferred facility maintenance
  - Increased risk and non-compliance due to suboptimal oversight
The Longer-Term Problem: 2011-12 Through 2015-16

Reducing the Gap: Efficiencies

Budget Gap: $1.8 billion

Cost Drivers

Solutions

- Other Cost Reductions
- Efficiencies and OP Reductions
- Tuition Revenue-Enrollment Growth
- Other Non-salary Costs
- Capital Renewal Costs
- Other Benefits Costs
- Post-Employment Benefits Costs
- Compensation Costs
- Enrollment Growth Costs
- 2011-12 Budget Gap

Dollars in billions.
## The Longer-Term Problem: 2011-12 Through 2015-16

### Efficiencies and Savings Assumptions

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Efficiencies</td>
<td>Savings of $100 million annually, two-thirds accruing to core fund sources</td>
</tr>
<tr>
<td>UCOP Reductions</td>
<td>10% reduction in 2011-12</td>
</tr>
<tr>
<td>Reductions in Earmarked Programs</td>
<td>$30 million reduction over two years</td>
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<tr>
<td>Employee Health Benefits</td>
<td>Minimized cost increases through 2015-16</td>
</tr>
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</table>
The Longer-Term Problem: 2011-12 Through 2015-16

Reducing the Gap: Alternative Revenue

Budget Gap: $1.5 billion

Cost Drivers

- Professional Degree Tuition Increases
- Nonresident Enrollment Increases
- Research Cost Recovery
- Philanthropy
- Other Cost Reductions
- Efficiencies and OP Reductions
- Tuition Revenue-Enrollment Growth
- Other Non-salary Costs
- Capital Renewal Costs
- Other Benefits Costs
- Post-Employment Benefits Costs
- Compensation Costs
- Enrollment Growth Costs
- 2011-12 Budget Gap

Dollars in billions.
## The Longer-Term Problem: 2011-12 Through 2015-16

### Alternative Revenue Assumptions

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>Indirect Cost Recovery</td>
<td>$30 million increases annually</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>$1 billion in new unrestricted endowment annually, resulting in $45 million increases in unrestricted payouts</td>
</tr>
<tr>
<td>Nonresident Enrollment</td>
<td>10% annual growth in nonresident undergraduates (~860 students annually), net of instructional costs</td>
</tr>
<tr>
<td>Professional Degree Program Tuition</td>
<td>8% annual increases</td>
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</tbody>
</table>
Quality Initiatives

- Improvement of student-faculty ratio
- Progress on faculty and staff salary lags
- Graduate student support
- Academic support restoration
- IT initiatives
- Additional capital renewal
The Longer-Term Problem: 2011-12 Through 2015-16

Remaining Gap: $1.5 billion

<table>
<thead>
<tr>
<th>Cost Drivers</th>
<th>Solutions</th>
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<tbody>
<tr>
<td>Professional Degree Tuition Increases</td>
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<tr>
<td>Nonresident Enrollment Increases</td>
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<td>Research Cost Recovery</td>
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<td>Philanthropy</td>
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<td>Efficiencies and OP Reductions</td>
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<td>Tuition Revenue-Enrollment Growth</td>
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<td>Other Non-salary Costs</td>
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<td>Post-Employment Benefits Costs</td>
<td>$1.0</td>
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<tr>
<td>Compensation Costs</td>
<td>$1.0</td>
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<tr>
<td>Enrollment Growth Costs</td>
<td>$1.0</td>
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<tr>
<td>2011-12 Budget Gap</td>
<td>$1.5 billion</td>
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Budget Gap: $1.5 billion
The Longer-Term Problem: 2011-12 Through 2015-16

Filling Remaining Gap with State Funds and Tuition: Annual Increases Required to Generate $1.5B

Dollars in billions. Fee increase percentages assume 33%/50%/33% return-to-aid, but dollar amounts exclude return-to-aid.
The Longer-Term Problem: 2011-12 Through 2015-16

State Funding and Tuition Scenarios
Reducing the Remaining $1.5B Gap

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Dollars in billions.
Diminish Quality

• Increase student-faculty ratio:
  – A 9.1% increase, from 21.0:1 to 22.9:1 = ~870 positions
    = $100 million in salaries/benefits
• Increase proportion of non-tenure track faculty:
  – An increase to 43.5% (from 33%) non-tenure track faculty
    = ~1,100 tenure-track positions replaced by non-tenure track faculty
    = $100 million in salaries/benefits
• Reducing staffing levels:
  – Elimination of ~1,280 staff positions = $100 million in salaries/benefits

• Consequences:
  – Reduced research funding, fewer graduate students
  – Reduced student interaction with scholars
  – Inadequate services and oversight
Limit Access

• Reduce California resident enrollment:
  – 10,000 students (~5%) = $100 million net of tuition loss

• Increase nonresident enrollment
  – 7,700 students (~100%) = $100 million net of costs

• Consequences:
  – Less access for Californians
  – Abrogation of the Master Plan
Additional Levers: Alternatives to State Funds and Tuition

Reduce Affordability

• Raise tuition and fees:
  – 6.4% increase = $100 million net of aid (single year)

• Reduce return-to-aid:
  – Reduce financial aid base by 11% = $100 million
  – Reduce RTA on tuition increases to 23% = $100 million
    over four years, assuming 10% tuition increases

• Consequences:
  – Higher contributions for middle-income families
  – Higher student contributions among needy students
The Longer-Term Problem: Discussion

- Cost Drivers
- Efficiencies and Other Cost Reductions
- Alternative Revenue Options
- State Funds and Student Tuition
- Alternative Levers:
  - Quality: Faculty and Staff
  - Access: Enrollment
  - Affordability: Tuition and Financial Aid