

#### **UNIVERSITY OF CALIFORNIA**

Update on the 2008-09 and 2009-10 UC Budgets, Preliminary Discussion of the 2010-11 UC Budget, and Proposed 2009-10 Mid-year and 2010-11 Student Fee Increases

> Patrick J. Lenz Vice President for Budget and Capital Resources September 16, 2009

# UC Budget Issues and Recommendations

- Overview on State Fiscal Condition
- Update on the 2008-09 and 2009-10 UC Budgets
- Preliminary Discussion of the 2010-11 UC Budget
- Proposed 2009-10 Mid-year and 2010-11 Student Fee Increases and Financial Aid

#### **State Budget Actions**

<u>Process</u>	Budget Gap
<ul> <li>January State Budget</li> </ul>	\$42.0 B
<ul> <li>Initial Budget Gap</li> </ul>	
<ul> <li>February Special Session</li> </ul>	\$36.0 B
<ul> <li>– \$6 B May Election failed voter approva</li> </ul>	al
<ul> <li>May Revise</li> </ul>	\$24.0 B
<ul> <li>State Budget Gap increases</li> </ul>	
<ul> <li>Enacted State Budget</li> </ul>	\$60.0 B
<ul> <li>Budget Solutions</li> </ul>	

# State Fiscal Condition and Future Budget Gap

<ul> <li>Budget Cuts</li> </ul>	\$31.0 B
<ul> <li>Taxes</li> </ul>	\$12.6 B
<ul> <li>Federal Stimulus (ARRA)</li> </ul>	\$ 8.0 B
• Other	\$ 8.4 B
<ul> <li>Total</li> </ul>	\$60.0 B

• 2010-11 Budget Gap

\$60.0 B \$7 to \$8 B

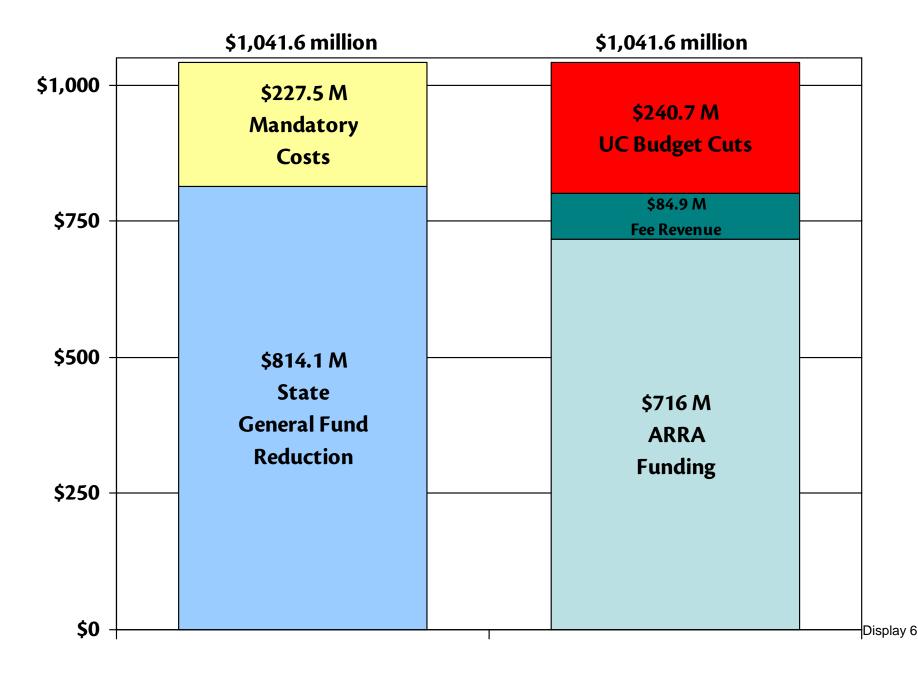
#### 2008-09 UC Budget Actions

- September 2008 Budget Act 2008 Budget Act (One-Time) (\$33.1 M)  $\bullet$ (\$65.5 M) Special Session (Ongoing) (\$510.0 M) May 14, Revise (One-time) (\$207.5 M) May 26, Reduction (One-time)  ${\color{black}\bullet}$ Final Budget Act Adjustment \$2.0 M (Ongoing)
  - Total

- \$3,250.3 B
- \$3,217.2 B
  - \$3,151.7 B
- \$2,641.7 B
  - \$2,434.2 B
  - \$2,436.2 B

(\$814.1 M)

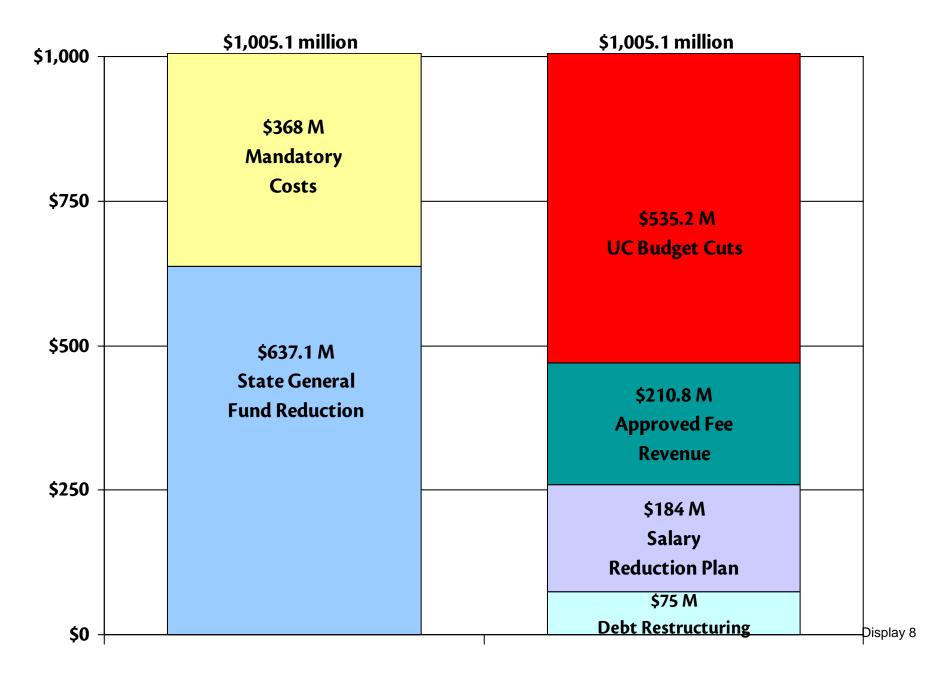
## 2008-09 UC Budget



## 2009-10 UC Budget Actions

•	January 10, Governor's Budget		\$3,250.3 B
•	Special Session (Ongoing Cut)	(\$65.5 M)	\$3,184.8 B
•	Special Session (Trigger, One-Time)	(\$50.0 M)	\$3,134.8 B
•	Special Session (Veto, One-Time)	(\$255.0 M)	\$2,879.8 B
•	May 14, Revise (Unallocated)	(\$50.0 M)	\$2,829.8 B
•	May 14, Revise (Academic Preparation)	(\$31.3 M)	\$2,798.5 B
•	May 26, Budget Reduction	(\$167.5 M)	\$2,631.0 B
•	Conference Committee Action	<u>(\$17.8 M)</u>	\$2,613.2 B
•	Total	(\$637.1 M)	

# 2009-10 UC Budget



# 2010-11 UC Budget and Future Funding Issues

•	Restoration of One-Time Cuts	\$305.0 M
•	Enrollment Reduction	(\$22.6 M)
•	Salary Reduction Plan	\$184.0 M
•	UC Retirement Plan	\$108.9 M
•	Other New Mandatory Costs	\$129.4 M

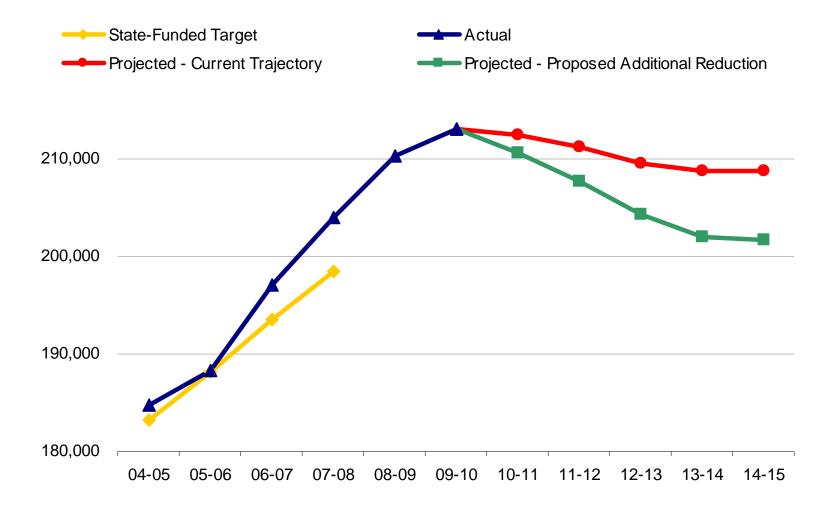
## 2009-10 UC Budget Actions

•	January 10, Governor's Budget		\$3,250.3 B
•	Special Session (Ongoing Cut)	(\$65.5 M)	\$3,184.8 B
•	Special Session (Trigger, One-Time)	(\$50.0 M)	\$3,134.8 B
•	Special Session (Veto, One-Time)	(\$255.0 M)	\$2,879.8 B
•	May 14, Revise (Unallocated)	(\$50.0 M)	\$2,829.8 B
•	May 14, Revise (Academic Preparation)	(\$31.3 M)	\$2,798.5 B
•	May 26, Budget Reduction	(\$167.5 M)	\$2,631.0 B
•	Conference Committee Action	<u>(\$17.8 M)</u>	\$2,613.2 B
•	Subtotal	(\$637.1 M)	

## State-Funded Enrollment

- In 2008-09, UC was over-enrolled by 11,700 students
- Four-year plan to reduce total enrollments by 8,000 10,000 students
- For 2009-10, first-time freshmen were reduced by 2,300 to slow enrollment growth and CCC transfers increased by 500
- Even so, projected over-enrollment will still grow to nearly 14,000 students in 2009-10
- 2010-11 recommendation:
  - Reduce first-time freshman by another 2,300
  - Increase CCC transfers by another 250

#### State-Funded Enrollment



## Salary Reduction Plan

- Approved by the Regents in July
- Implemented September 1, 2009
- In effect until August 31, 2010
- Recognized statewide for thoughtful protection of lower paid employees
- Will generate savings of \$184 million in 2009-10

### UC Retirement Plan

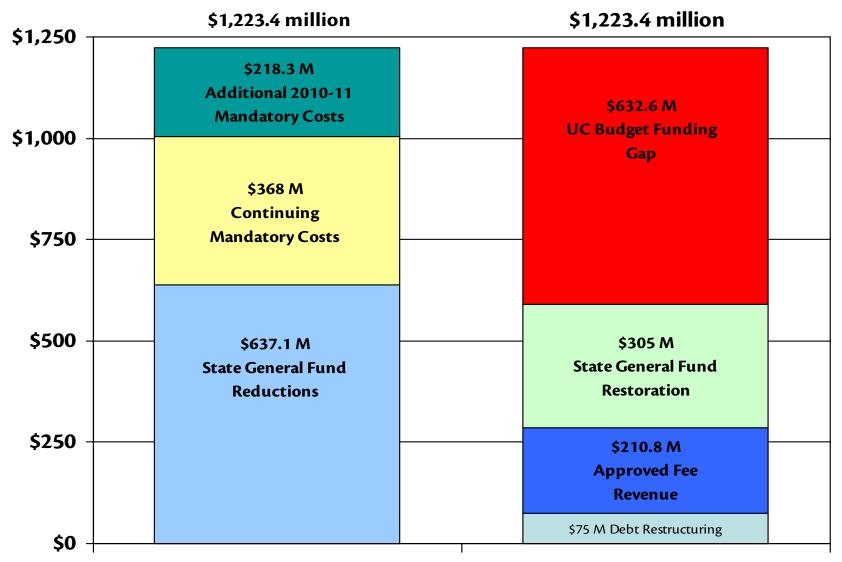
- In January, Governor included \$20 million in 2009-10 state budget proposal, subsequently eliminated in the Special Session
- In February, Regents approved April 15, 2010 implementation date
- Annualized 2010-11 State share: \$96 million
- Total core funds cost to UC: \$108.9 million

#### **Campus Mandatory Costs**

- Academic Merit Increases
- Employee Health Benefits
- Retiree Health Benefits
- Purchased Utilities
- Non-salary Price Increases

\$29.5 M \$34.1 M \$10.0 M \$13.0 M \$24.6 M

# 2010-11 UC Potential Budget Reductions and Funding Issues



Addressing the Budget Gap

- 2010-11 UC Budget Gap \$632.6 M
- Equivalent to:
  - Eliminating State support for 2 medium-sized campuses
  - Reducing enrollment by 57,500 students
  - Closing UC libraries and public service programs
  - Terminating 8,300 employees
  - Eliminating all core-funded student financial aid

# UC Administrative Efficiencies and Other Actions

- Strategic Sourcing \$154.0 M
- UCOP Restructuring
- Energy Savings Program

- \$62.2 M
- \$18.0 M

- Other Actions:
  - Senior management salary freeze
  - 5% senior administrator pay reductions on July 1, 2009
  - Cancellation or deferral of bonus and many incentive programs
  - Suspension of staff merit awards
  - Restrictions on hiring, travel, and purchasing

## **Campus Budget Actions**

- Greater impact on administrative versus academic programs
- Administrative restructuring and consolidations
- Positions eliminated, hiring deferred, and layoffs
- Service reductions
- Increasingly using "one-time" campus reserves
- Class sections reduced or eliminated, class sizes increased

#### **Campus Budget Actions**

	2008-09 (Actual)	2009-10 (Projected)
Instructional Budget Reductions	\$56.4 M	\$139.2 M
Employee Layoffs	884	1,006 additional
Positions Eliminated	1,951	1,919 additional
Deferred Hiring	633	951 additional

#### "Unrestricted" Net Assets

- UC does not have billions of dollars in uncommitted funds that it can use to make up for massive reductions in state support.
- UC's June 2008 financial statements reference \$5.3 billion in "unrestricted net assets" terminology required to be used under GASB requirements.
- The definition of "unrestricted" must be used for any funds that are not subject to *externally* imposed restrictions. "Unrestricted assets" does not mean uncommitted assets.
- Funds are kept in over 76,000 funds and accounts that each individual campus controls for very specific uses including:
  - endowments
  - capital project funding
  - medical centers
  - operating funds to support academic programs and research initiatives on a multipleyear basis
  - liening funds for authorized equipment purchases and services that have not been expended by the end of the fiscal year

#### "Unrestricted" Net Assets

- The next issuance of our audited financial statements summarizing our financial condition as of June 30, 2009 will show a substantial drop in our unrestricted net assets to an amount *below* \$4 billion.
- Some of this drop is attributable to the growth in our unfunded retiree health care obligations and investment losses.
- The financial statements will show a decrease in operating cash balances at our campuses. These accounts are used by campuses to meet a variety of expenses throughout the year for core instructional needs.
- The substantial budget cuts from the State including those in the middle-and-end of the 2008-09 fiscal year hit our campus programs so late that all available funds had to be tapped to help bridge over to the current fiscal year.

# Preview of Unrestricted Net Assets for FY 2008-09

Total to be reported: Below \$4 billion, down from \$5.3 billion

#### Highlights:\*

•	Capital Projects	\$	946	Μ
•	Medical Centers	\$	512	Μ
•	Endowment Income/FFEs	\$1	,199	Μ
•	Debt Service Funds	\$	35	Μ
•	Misc. Student Fee & Auxiliary Payments	\$	699	Μ
* a	mounts are approximates			

# 2009-10 Mid-Year and 2010-11 Student Fee Recommendations

- Mid-Year Student Fees
- 2010-11 Student Fees
- Financial Aid Opportunities

#### Mid-Year Student Fee Increases

	Current Fee	Proposed Increase*	Proposed Fee
Undergraduate	\$7,778	\$585	\$8,373
Graduate Academic	\$8,736	\$654	\$9,390
Graduate Professional	\$7,722	\$579	\$8,301

\*Annualized fee increases would be \$1,170, \$1,308, and \$1,158 for resident undergraduates, graduate academics and graduate professional students, respectively.

	Total Revenue	Student Financial Aid	Net Revenue
2009-10	\$117.3 M	\$42.2 M	\$75.1 M

\*During 2010-11, annualized fee increases would generate \$253.8 million in total revenue, of which \$91.0 million would be set aside for financial aid, providing \$162.8 million in net revenue to help address budget issues.

### 2010-11 Proposed Fee Increases

	2009-10 Fees	Proposed Increase	Proposed 2010-11 Fee
Mandatory Fees:			
Undergraduate	\$8,948	\$1,344	\$10,302
Graduate Academic	\$10,044	\$1,506	\$11,550
Graduate Professional	\$8,880	\$1,332	\$10,212
Undergraduate Business / Engineering Fee	\$0	\$900	\$900
Professional Degree Fees	\$4,000 - \$26,283	\$200 - \$5,174	\$4,200 - \$30,979

#### 2010-11 New Fee Revenue

	Total Revenue	Student Financial Aid	Net Revenue
Mandatory Fees	\$291.7 M	\$104.6 M	\$187.1 M
Undergraduate Business / Engineering Fee	\$14.9 M	\$4.9 M	\$10.0 M
Professional Degree Fees	\$27.2 M	\$9.0 M	\$18.2 M

## Financial Aid for UC Undergraduates

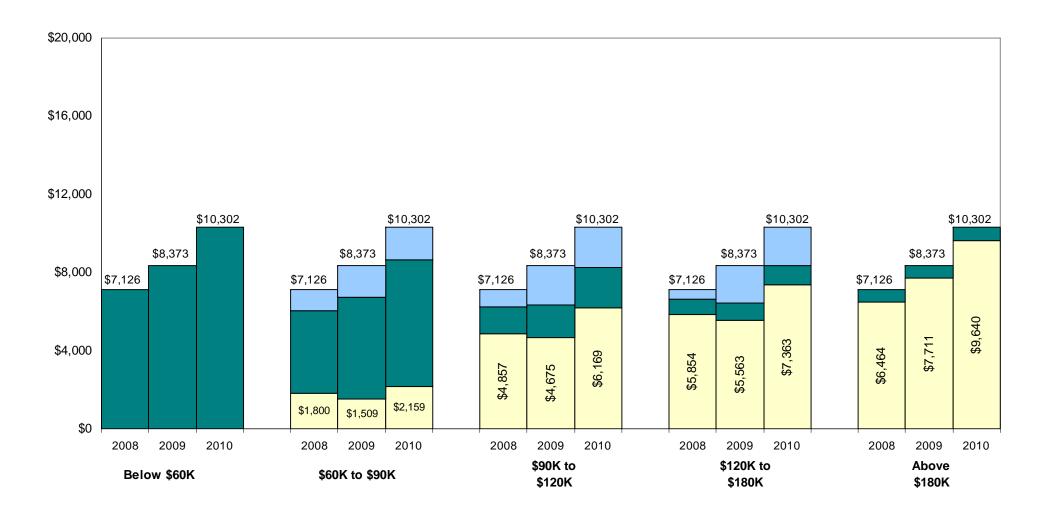
- Financial aid and tax credits provided more than \$1.7 billion to UC undergraduates in 2008-09
- 55% of undergraduates received \$1 billion in grants and scholarships with an average award of \$11,100
- One-third of undergraduates are low-income, Pell Grant recipients, more than any other comparable research university

## Financial Aid Enhancements: 2009-10

- Augmentations to Cal Grants and UC grants to cover fee increases of lower-income students
- Pell Grant expansion raising maximum award by \$619, from \$4,731 to \$5,350
- Tuition tax credit expansion raising maximum credit and raising income ceiling
- Introduction of Blue and Gold Opportunity Plan ensuring systemwide fees coverage

#### Estimated Financial Aid and Systemwide Fees

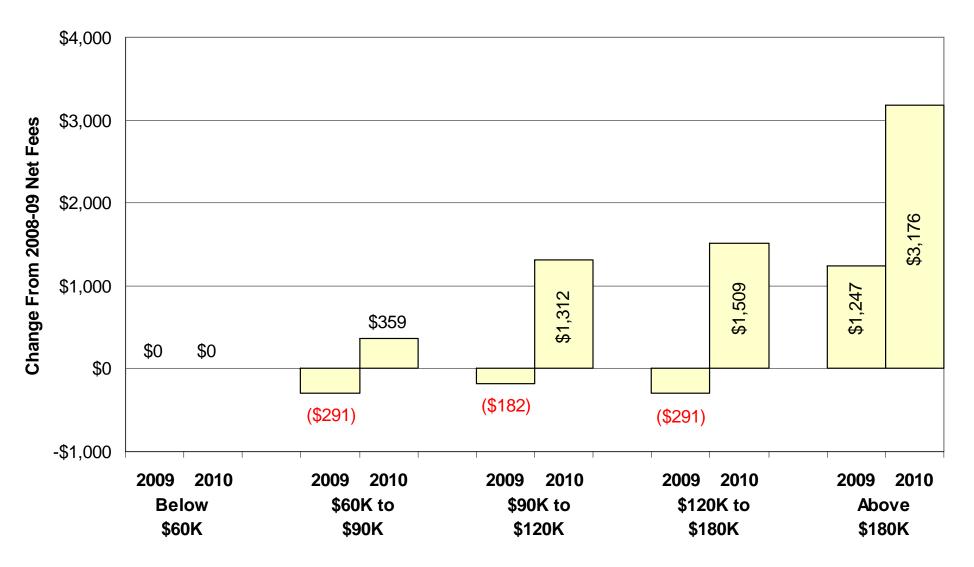
Average Per Undergraduate by Parent Income, 2008-09 through 2010-11



Grants & Tax Credits Net Fee Costs

#### Estimated Change in Undergraduate Net Fee Costs

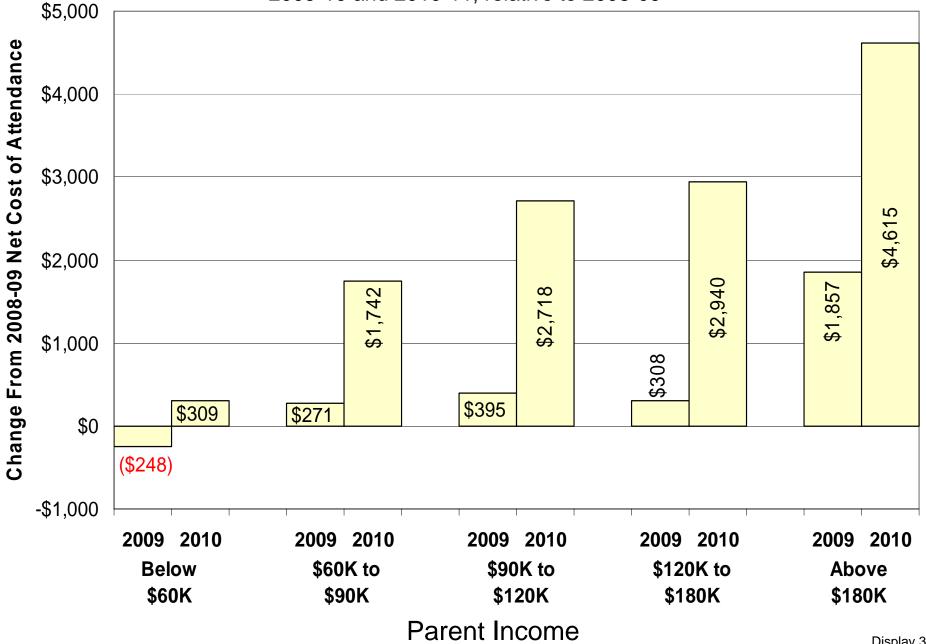
2009-10 and 2010-11, relative to 2008-09



Parent Income

#### Estimated Change in Net Cost of Attendance

2009-10 and 2010-11, relative to 2008-09



#### Proposed Student Fee Revenue

- 2009-10 Mid-year Fee (Annualized)
- 2010-11 Fee Recommendation
- Total

\$215.3 M

\$378.1 M

\$162.8 M

# 2010-11 UC Potential Budget Reductions and Funding Issues

