University of California
May 2011 Regents’ Meeting

Update on 2011-12 Budget and Longer-Term Funding Options

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Executive Vice President Nathan Brostrom
May 18, 2011
Today’s Discussion

• Update on the 2011-12 Budget
• Review of UC’s Long-term Budget Context
• Budget Scenarios 2011-12 through 2015-16
Budget Update:
Status of Current Negotiations

- No agreement between the Governor and the Legislature on overall Budget Plan
- State addressed $13.4 billion in budget solutions. Remaining Budget gap is $15 billion
- Governor and legislative leaders conducting public hearings around the state
- Unclear when there will be an initiative in the fall to extend temporary tax increases
- State tax revenue estimates up by $6.6 billion, for 2010-11 and 2011-12 fiscal years
2011-12 UC Budget Update

• $500 million base budget cut
• Language requesting no impact on enrollment or tuition levels
• $3 million redirection to support AFSCME contract
• Language setting enrollment target at nearly 210,000 – too high by UC’s calculations (although still less than total enrollment)
• Capital Outlay funding for 4 equipment projects
• $500M May Revise contingency budget reduction
Budget Update: Cut Levels Are Starting to Outstrip Available Solutions

- Campuses are already doing all they can to cope with prior cuts and prepare for the approved $500 million cut
- UCOP budget is being reduced by $80 million to help absorb proposed cuts, on top of $55 million in earlier reductions
- Balance sheet strategies will provide some relief
  - Moving excess liquidity to TRIP
  - Potential assessments on carryforwards
- Working Smarter initiatives are generating efficiencies
Budget Update:
An All-Cuts Budget Could Be Devastating

• Campuses are at the end of available solutions at the margin – no “magic bullets”
• Quality is at a make or break point
• Faculty and students (existing and those being recruited) need assurances that UC will protect excellence
• All options must be on the table if further cuts are allocated to UC – including fee increases
Bottom Line

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

• Key Levers:
  – State Support
  – Enrollment
  – Tuition and Financial Aid
  – People, Programs, and Services
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 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
• Partnership with the State will need to link State support with tuition policy
• 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
Current Budget Gap

- Growth in costs has exceeded revenue growth: close to $1 billion in 2011-12
- Temporary savings through furloughs and debt restructuring
- Cost avoidance through deferred faculty hiring, expansion of class sizes, and alternative health benefit offerings
- Administrative efficiencies
- Layoffs

Dollars in billions.
$2.5 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.
Baseline Cost Drivers, No New Revenue

Tuition Revenue-Enrollment Growth
- $3.0

Other Non-salary Costs
- $2.0

Capital Renewal Costs
- $2.5

Other Benefits Costs
- $2.0

Post-Employment Benefits Costs
- $2.5

Compensation Costs
- $1.5

Enrollment Growth Costs
- $1.0

2011-12 Budget Gap
- $0.5

Remaining Gap: $2.5 Billion

Dollars in billions.
## Baseline Cost Driver Assumptions

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Assumptions</th>
</tr>
</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 $25 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>
</tbody>
</table>
# 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>$50 million reduction in 2011-12</td>
</tr>
<tr>
<td>Reductions in Earmarked Programs</td>
<td>$30 million reduction over two years</td>
</tr>
<tr>
<td>Employer Costs for Employee Health Benefits</td>
<td>50% reduction in cost increases annually</td>
</tr>
</tbody>
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# Alternative Revenue Assumptions

<table>
<thead>
<tr>
<th>Cost Driver</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Cost Recovery</td>
<td>$30 million increases annually</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>$50 million annual 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 Tuition</td>
<td>Increased revenue from professional degree supplemental tuition increases and self-supporting program expansion equivalent to 8% annual growth in professional degree supplemental tuition revenue</td>
</tr>
</tbody>
</table>
Remaining Budget Gap: $1.5 billion

Dollars in billions.
Scenarios Presented Today

- All scenarios assume January proposed $500M reduction and no further fee increases for 2011-12
- Scenarios assume annual growth in State funds, tuition and fees, and enrollment for 2012-13 through 2015-16, as below:

<table>
<thead>
<tr>
<th>Scenario</th>
<th>State Support</th>
<th>Student Tuition &amp; Fees</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>• 8% annual increases</td>
<td>• 8% annual increases</td>
<td>• 1% annual growth</td>
</tr>
<tr>
<td>2</td>
<td>• 4% annual increases</td>
<td>• 12% annual increases</td>
<td>• 1% annual growth</td>
</tr>
<tr>
<td>3</td>
<td>• Funding held flat at 2011-12 level</td>
<td>• 16% annual increases</td>
<td>• No growth</td>
</tr>
<tr>
<td>4</td>
<td>• 2% annual reductions</td>
<td>• 20% annual increases</td>
<td>• No growth</td>
</tr>
</tbody>
</table>
Scenario 1: 8% Annual State Funding Increases, 8% Annual Tuition Increases, 1% Annual Enrollment Growth

Future Tuition Increases
Future State Funding Increases
Alternative Solutions
Total Cost Drivers

Dollars in billions.
Scenario 2: 4% Annual State Funding Increases, 12% Annual Tuition Increases, 1% Annual Enrollment Growth

Future Tuition Increases
Future State Funding Increases
Alternative Solutions
Total Cost Drivers

Cost Drivers
Scenario 2

Dollars in billions.
Scenario 3: No Future State Funding Growth, 16% Annual Tuition Increases, No Enrollment Growth

Without enrollment growth, costs grow more slowly

- Future Tuition Increases
- Alternative Solutions
- Reduced Enrollment Costs
- Total Cost Drivers

Dollars in billions.

Display 21
Scenario 4: 2% Annual State Funding Reductions, 20% Annual Tuition Increases, No Enrollment Growth

Dollars in billions.
Financial Aid

New proposals are being developed to:

• Expand Blue & Gold Plan
• Extend financial support increasingly to middle class
• Identify new fund sources to augment return to aid
  – Increased philanthropy
  – Balance-sheet strategies
Quality Initiatives Not Addressed

- Improvement of student-faculty ratio
- Progress on faculty and staff salary lags
- Graduate student support
- Academic support restoration
- IT initiatives
- Additional capital renewal
Differential Tuition Options

• Differential tuition could be established:
  – by discipline
  – by student level
  – by campus

• Options were discussed by the COTF Funding Strategies workgroup
Differential Tuition by Campus

• Tuition could be structured as a range established by the Regents
• Campuses would individually choose a level within the range
• Ranges would grow over time

Hypothetical example for discussion purposes only:
• After several years, a tuition range of $4,500 is established
• 5 campuses choose the maximum level
• 5 campuses choose the midpoint of the range
• The differential could generate $200M, net of financial aid
Differential Tuition by Campus

• Recent tuition increases have not had observable impacts on enrollment at any campus
• Price point may be much higher than current tuition
• State funding levels across campuses would need to be reconsidered if differentials established
• Differential tuition also raises concerns about:
  – Tiering of campuses
  – Equity for current and future students
  – Financial aid
Asset Management Strategies Currently Being Developed

All measures yield permanent revenues:

• Maximize incremental returns from asset management
  – Endowment cost recovery
  – Other asset management categories
• Develop captive insurance program
• Create central bank for debt issuance
• Reduce ICR waivers
• Introduce Legislative Authorization Bonds
• Explore overhead fee on endowment payouts
Potential Campus Bridging Strategies

*Measures which yield one-time revenues:*

- Tax on carry-forwards
- Extraordinary payouts on Funds Functioning as Endowments
- Borrowing for working capital
Next Steps

• Outcome of the 2011-12 Budget
• Discussions with DOF and Governor
• Further Development of Alternative Revenue Options