University of California
July 2011 Regents’ Meeting

Update on 2011-12 Budget and Additional Tuition Increase

Executive Vice President Nathan Brostrom
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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

- **State Support Reduction, $650M**
- **Mandatory Costs, $362.5M**
- **Proposed Additional 9.6% Tuition Increase, $150M***
- **November 2010 8% Tuition Increase, $115.8M**

Shortfall, $746.7M

Total: $1,012.5 million

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
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
- Transfer additional $1B to TRIP
- Extraordinary payout on FFEs
- Extraordinary payout on true endowments
- Draw down health and welfare reserve
- Increase endowment cost recovery
- Tax carry-forwards

### Impacting 2012-13 Cashflow and Beyond
- Transfer additional $1B to TRIP
- Increase endowment cost recovery
- 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 (18\textsuperscript{th} 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

- State Support Reduction, $650M
- Mandatory Costs, $362.5M
- Proposed Additional 9.6% Tuition Increase, $150M*
- November 2010 8% Tuition Increase, $115.8M

Shortfall, $746.7M

Dollars in millions.
* Annualized revenue impact.
### Proposed Additional Tuition Increase

<table>
<thead>
<tr>
<th></th>
<th>Mandatory Charges*</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>$10,302</td>
<td></td>
</tr>
<tr>
<td>2011-12 - Approved 11/2010</td>
<td>8.0%</td>
<td>$11,124</td>
</tr>
<tr>
<td>2011-12 - Proposed 07/2011</td>
<td>9.6%</td>
<td>$12,192</td>
</tr>
</tbody>
</table>

*Combined Tuition and Student Services Fee.

The total increase of $1,890 represents an 18.3% increase over 2010-11.
## Additional Tuition Increase Revenue

<table>
<thead>
<tr>
<th></th>
<th>2011-12</th>
<th>2012-13 Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$216.5 M</td>
<td>$232.4 M</td>
</tr>
<tr>
<td>Financial Aid Set Aside</td>
<td>$76.9 M</td>
<td>$82.4 M</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>$139.6 M</td>
<td>$150.0 M</td>
</tr>
</tbody>
</table>

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.
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

<table>
<thead>
<tr>
<th>Institution</th>
<th>UC Average</th>
<th>SUNY Buffalo</th>
<th>Texas</th>
<th>Colorado</th>
<th>Oregon</th>
<th>Virginia</th>
<th>Michigan</th>
<th>Minnesota</th>
<th>Illinois</th>
<th>Penn State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Net Tuition</td>
<td>$11,300</td>
<td>$7,100</td>
<td>$3,600</td>
<td>$2,500</td>
<td>$2,100</td>
<td>$7,300</td>
<td>$8,200</td>
<td>$8,300</td>
<td>$8,800</td>
<td>$12,100</td>
</tr>
<tr>
<td>Average Gift Aid</td>
<td>$6,800</td>
<td>$3,200</td>
<td>$5,900</td>
<td>$6,000</td>
<td>$6,100</td>
<td>$4,400</td>
<td>$4,100</td>
<td>$3,800</td>
<td>$3,700</td>
<td>$15,800</td>
</tr>
</tbody>
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26.3%