University of California
March 2011 Regents' Meeting

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

March 16, 2011

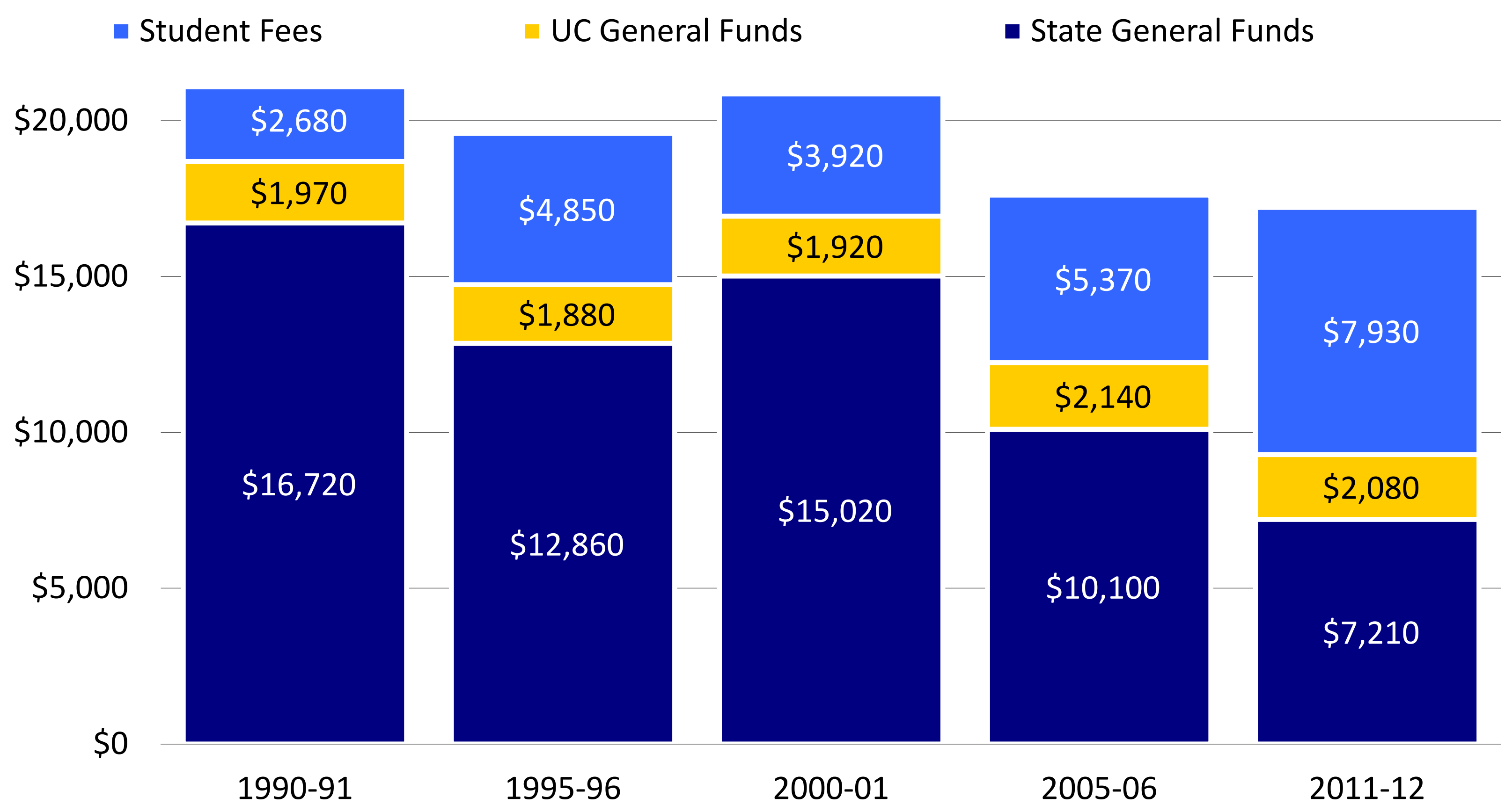
Today's Discussion

- 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



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

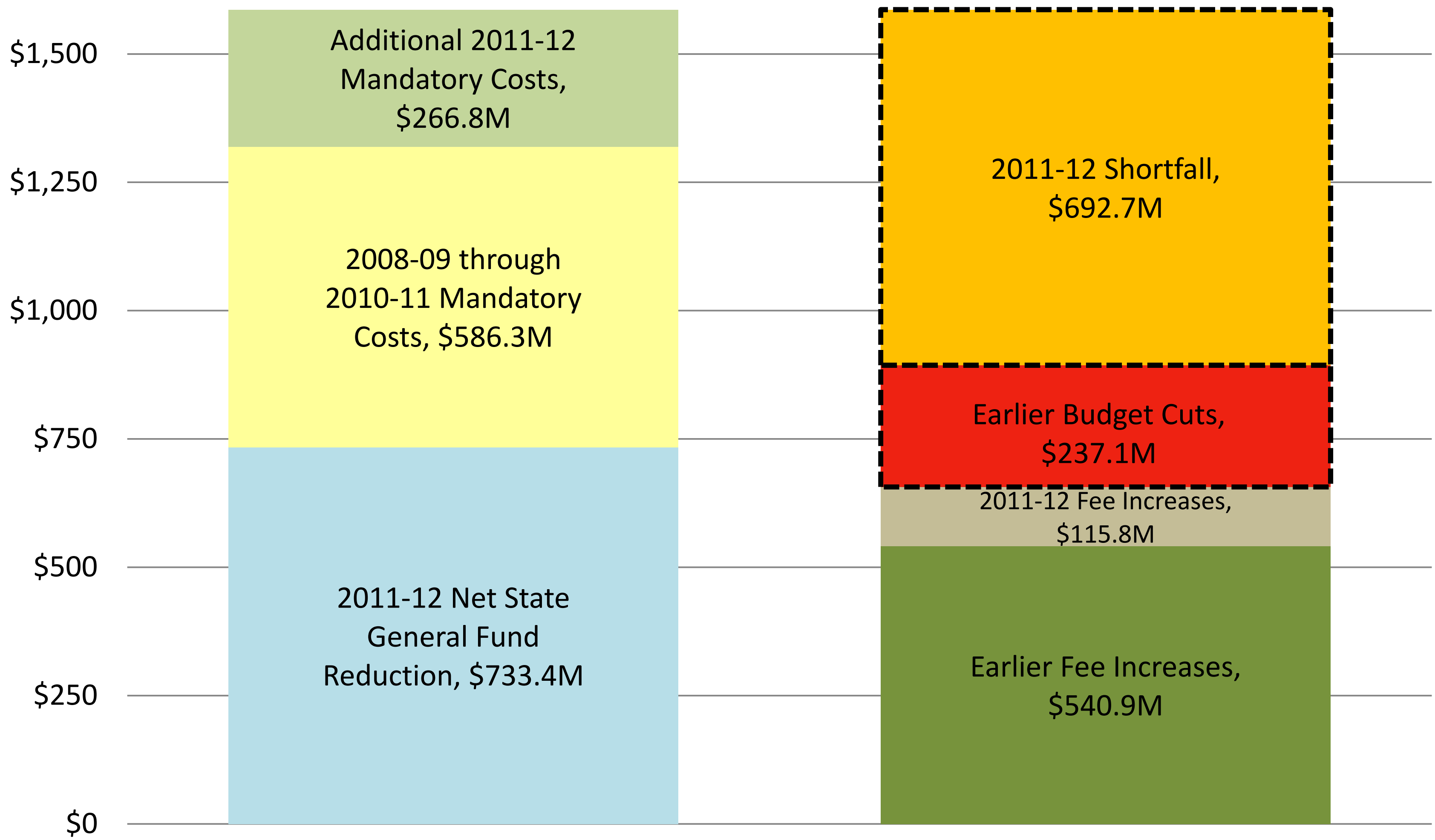
- Financial Aid Grant Programs $1.6 B
- Governor’s Budget - G.F. to F.F. Shift $946.8 M
- Conference Committee Action $285.3 M
  - Annual Income Verification - $100 Million
  - New Student Default Risk Index - $24 Million
  - Reporting Data on Completion and Job Placement Rates

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



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

	2009-10	2010-11*	2011-12
Systemwide Solutions • Tuition and Fee Increases • Salary Reductions/Furloughs • Debt Restructuring	53%	72%	41%
Campus Solutions • Layoffs/Position Eliminations • Deferred Hiring • Other Solutions	47%	28%	59%

* 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**

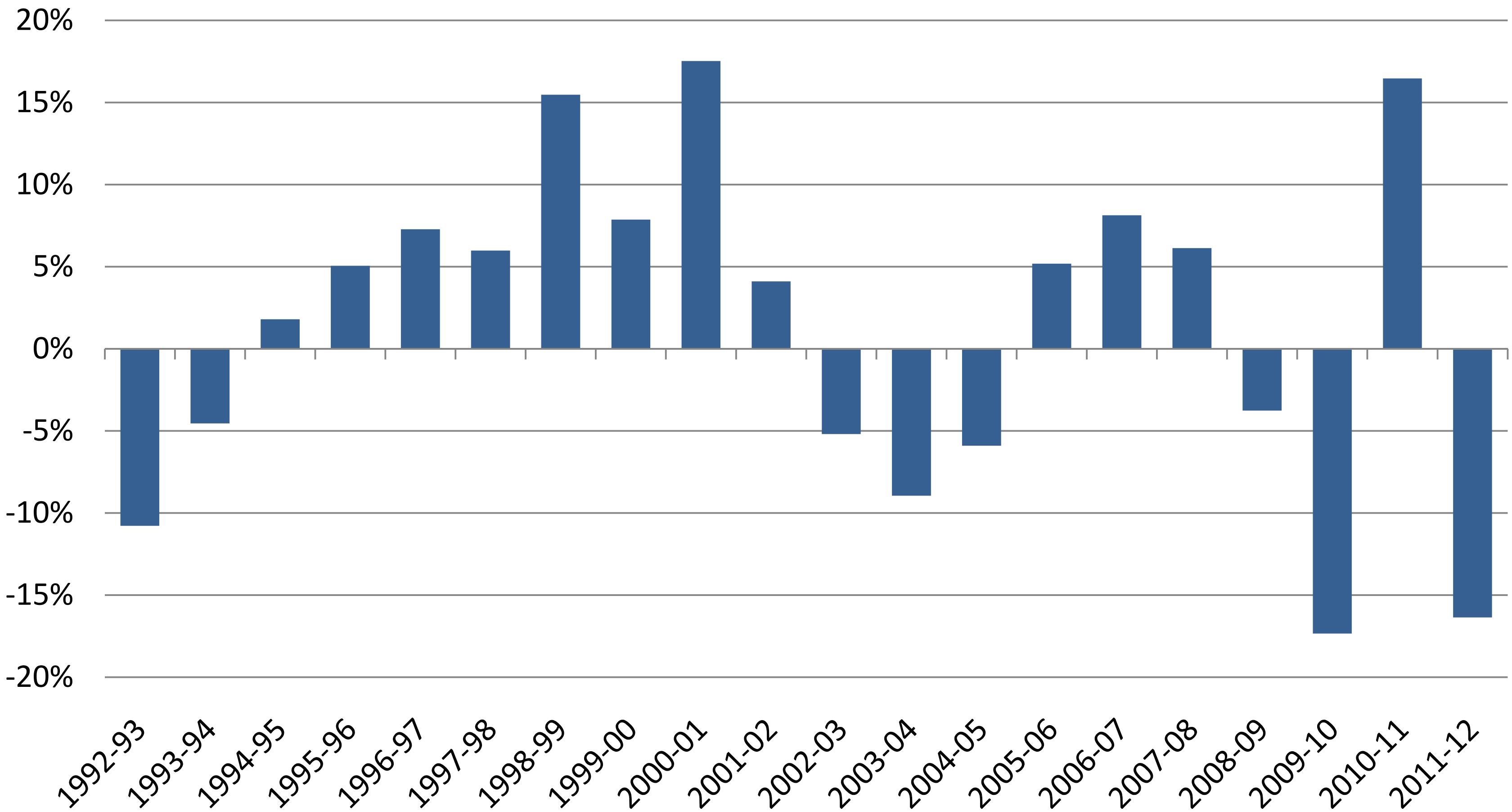
UC Values

- 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

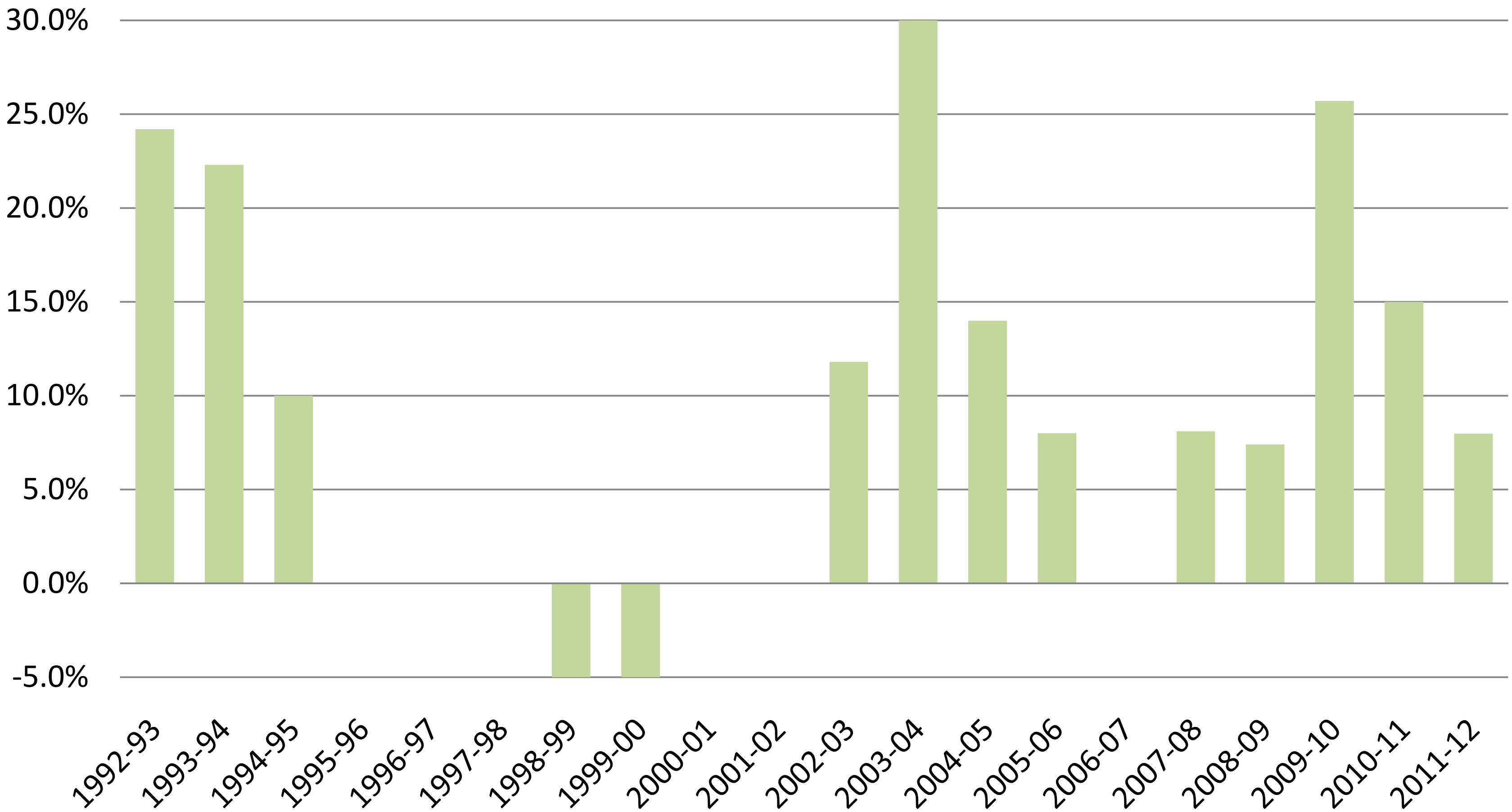
- Core expenses will continue to increase
- Pace of growth accelerated by post-employment benefits costs
- UC needs steady and predictable revenue growth to meet expenses
- Failure to bridge the gap threatens quality, access, and affordability

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



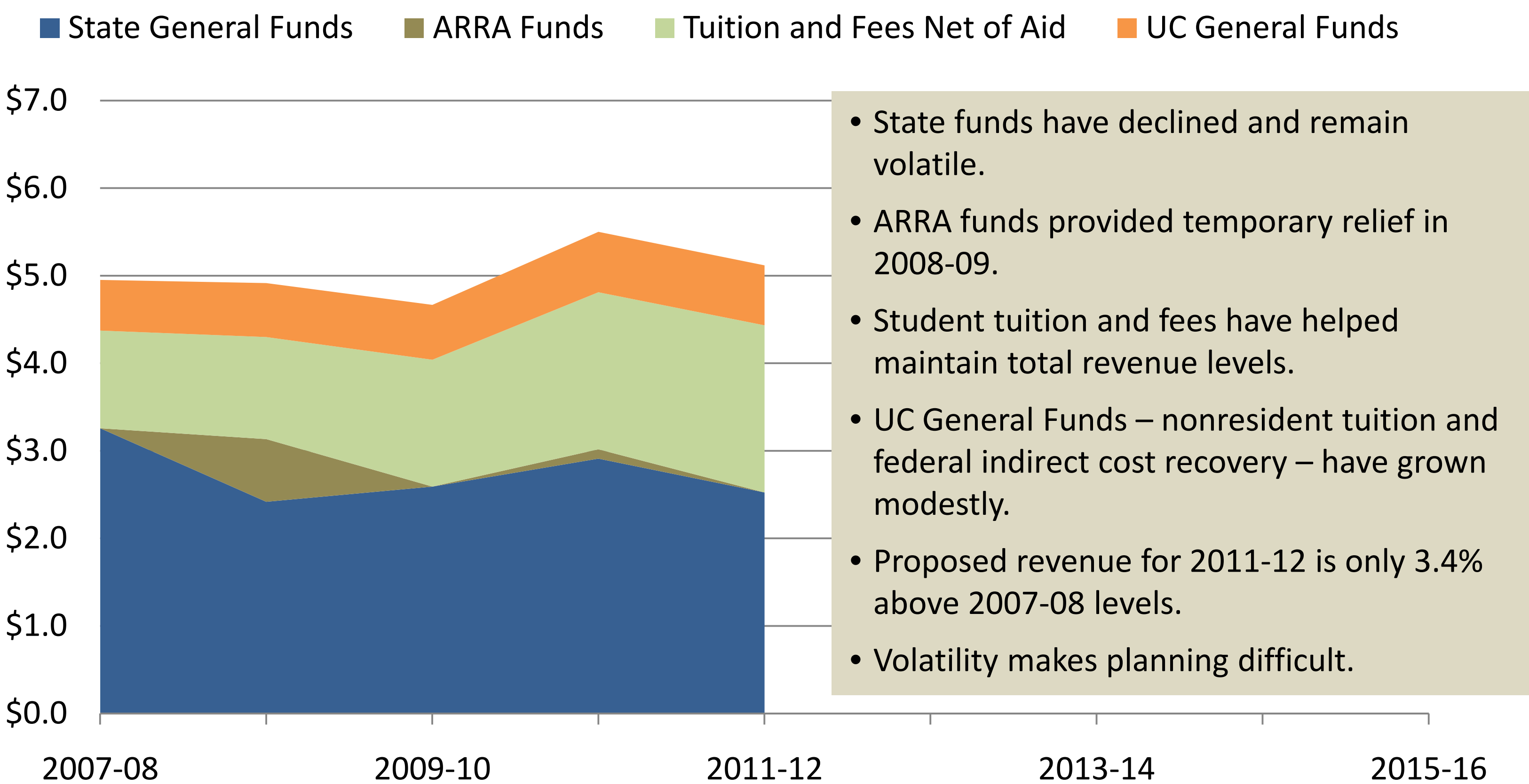
Tuition and fees did not increase during 8 of the last 20 years, but rose by more than 10% during 7 years.

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

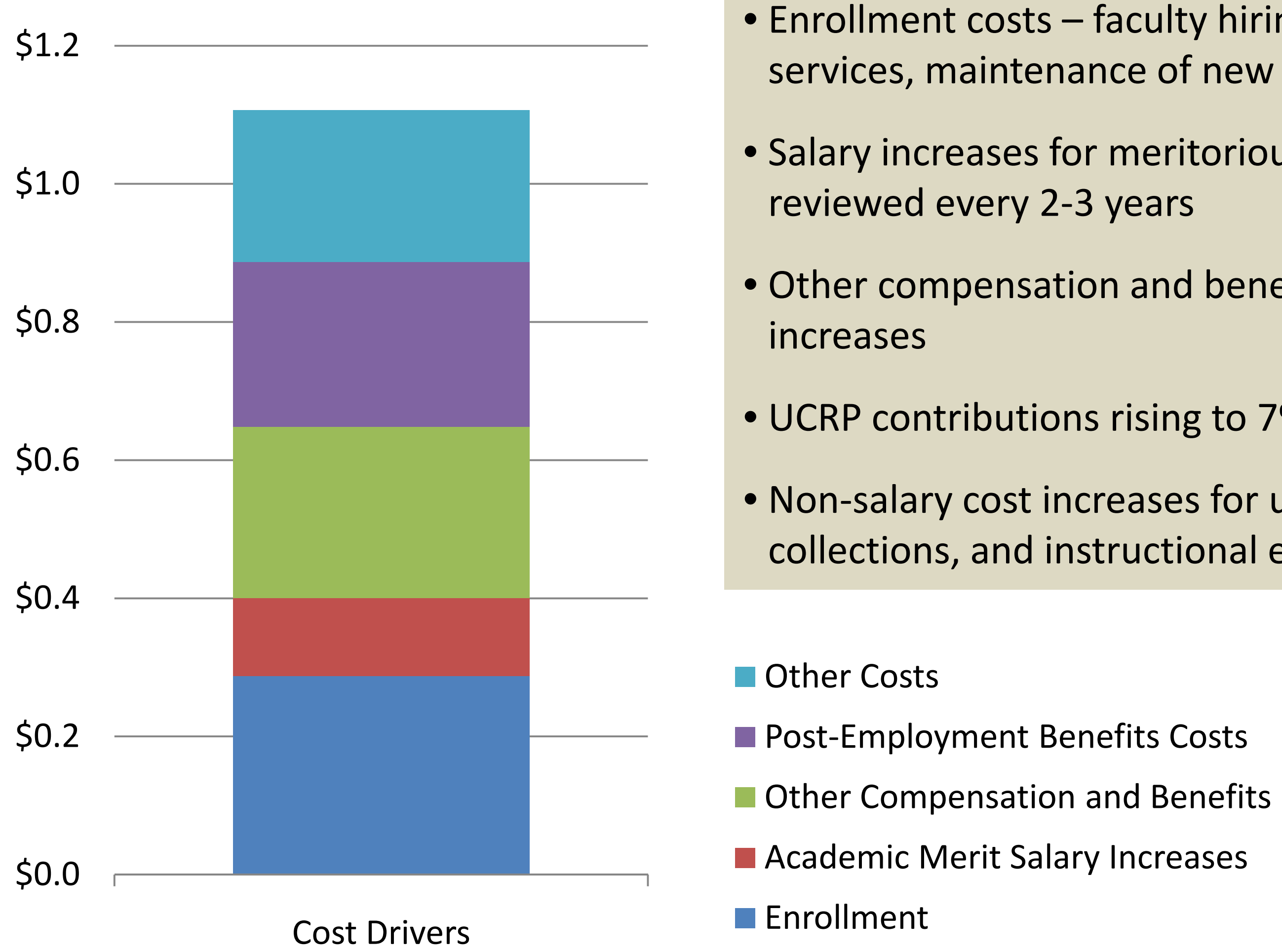


- State funds have declined and remain volatile.
- ARRA funds provided temporary relief in 2008-09.
- Student tuition and fees have helped maintain total revenue levels.
- UC General Funds – nonresident tuition and federal indirect cost recovery – have grown modestly.
- Proposed revenue for 2011-12 is only 3.4% above 2007-08 levels.
- Volatility makes planning difficult.

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

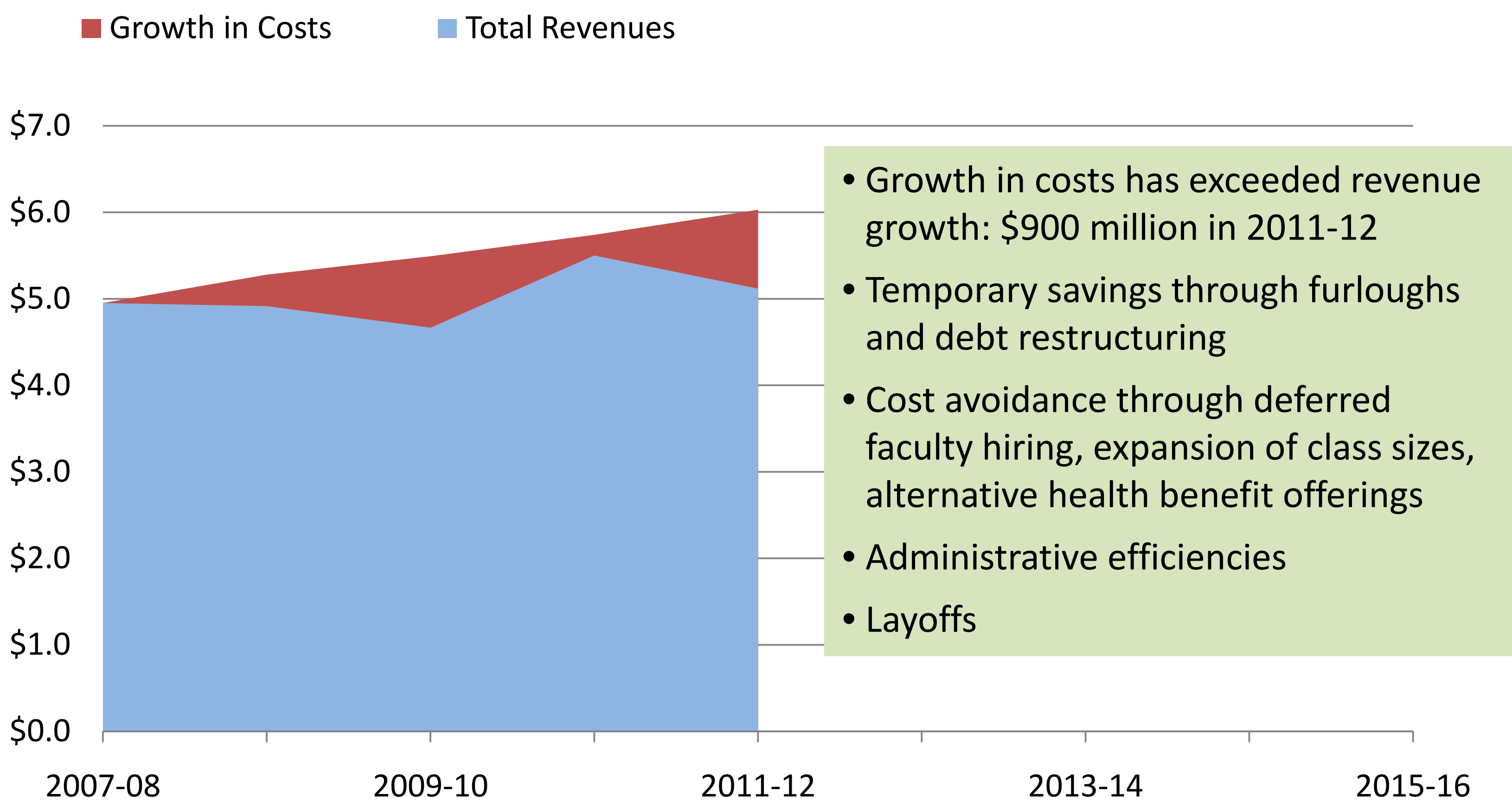


- Enrollment costs – faculty hiring, expansion of services, maintenance of new facilities
- Salary increases for meritorious faculty reviewed every 2-3 years
- Other compensation and benefit cost increases
- UCRP contributions rising to 7%
- Non-salary cost increases for utilities, library collections,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

Dollars in billions. Figures represent cumulative cost increases from 2007-08 through 2011-12.

Budget Pressures: 2007-08 Through 2011-12

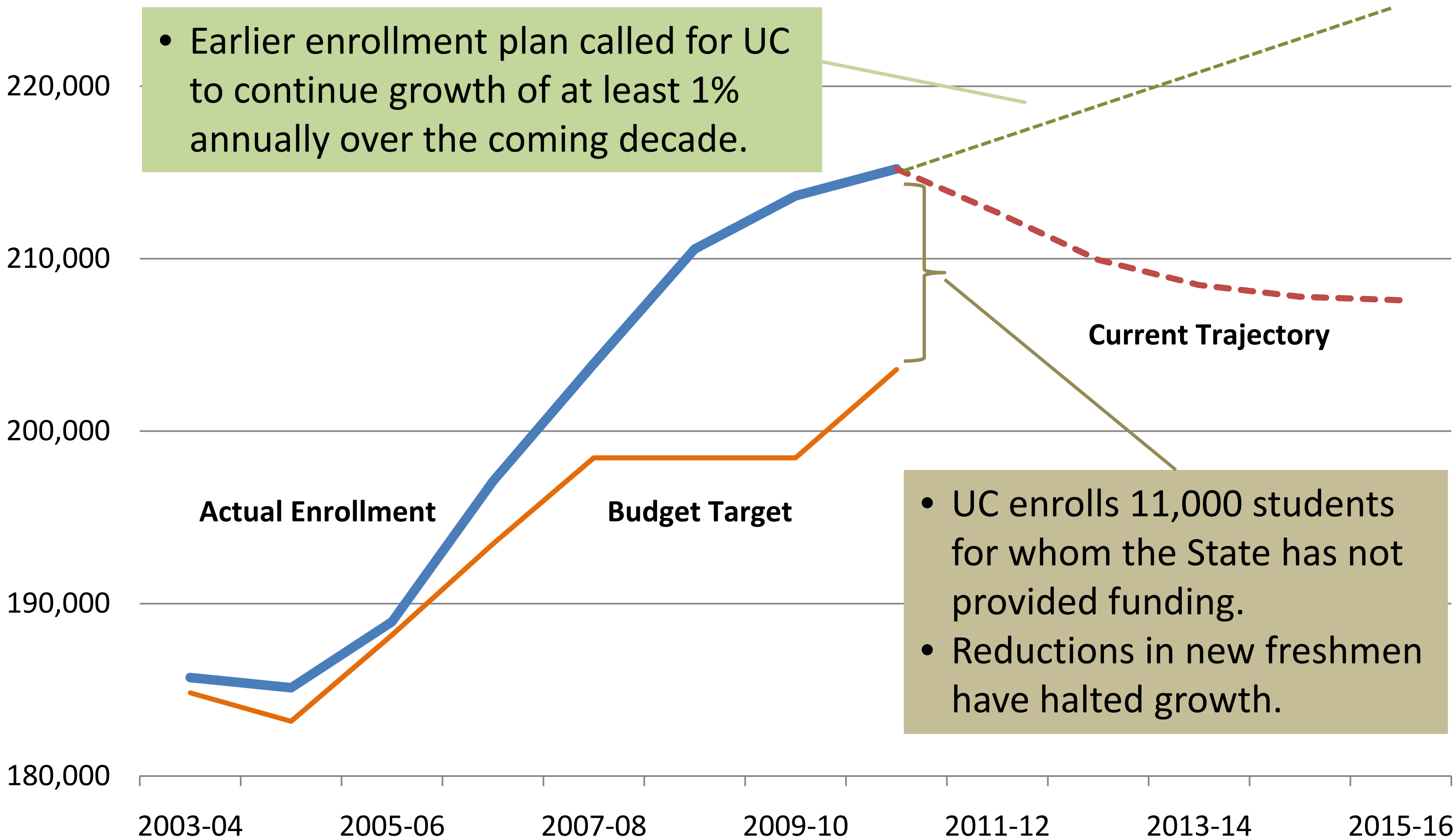
Current Budget Gap



- Growth in costs 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

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

Budget Pressures: Enrollment



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

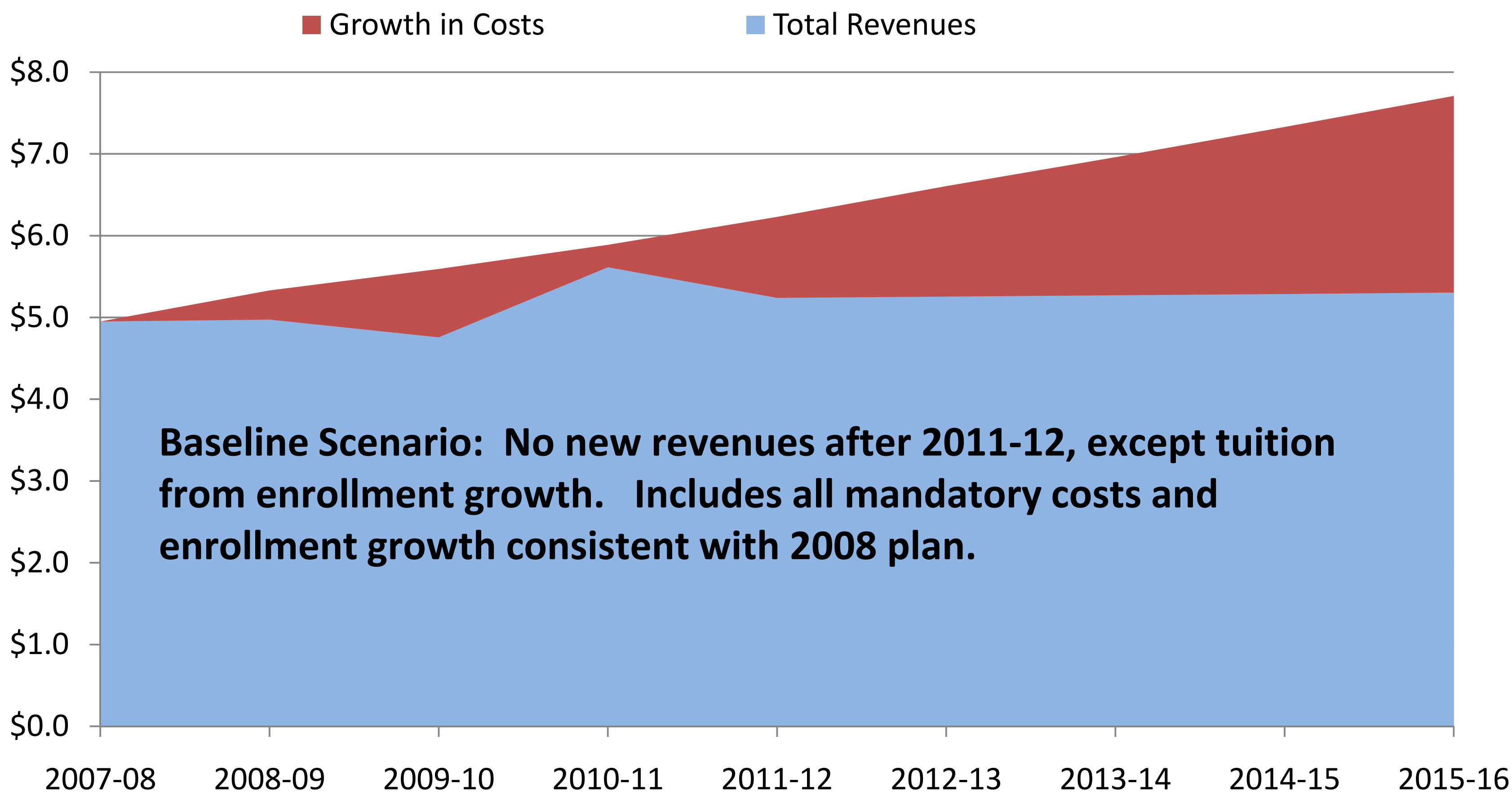
Budget Pressures: Capital Renewal

- 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

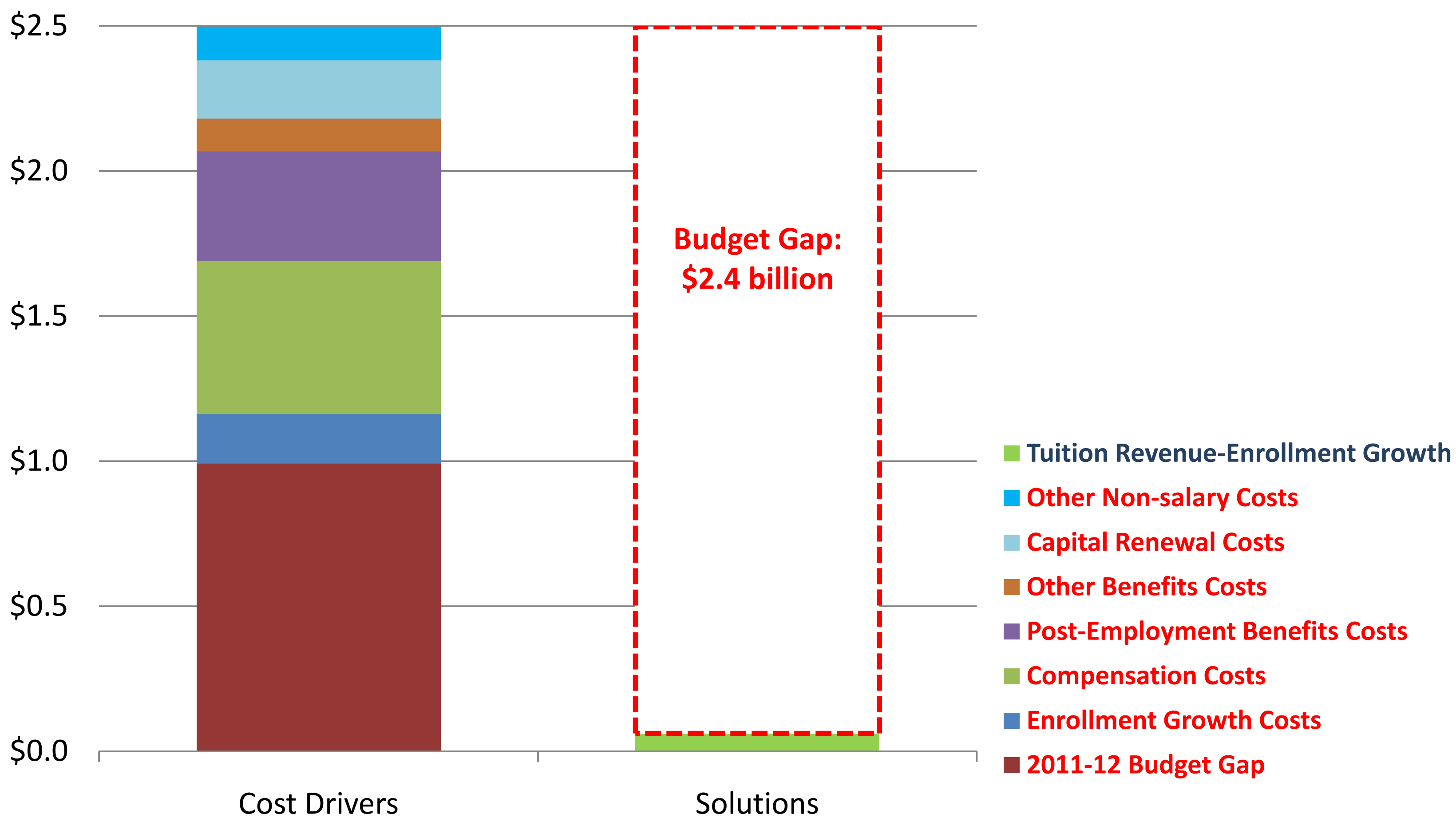
- Cost Drivers
- Efficiencies and Other Cost Reductions
- Alternative Revenue Options
- State Funds and Student Tuition
- Alternative Levers: Quality, Access and Affordability

$2.4 Billion Deficit in 2015-16



Dollars in billions.

Baseline Cost Drivers, No New Revenue



Dollars in billions.

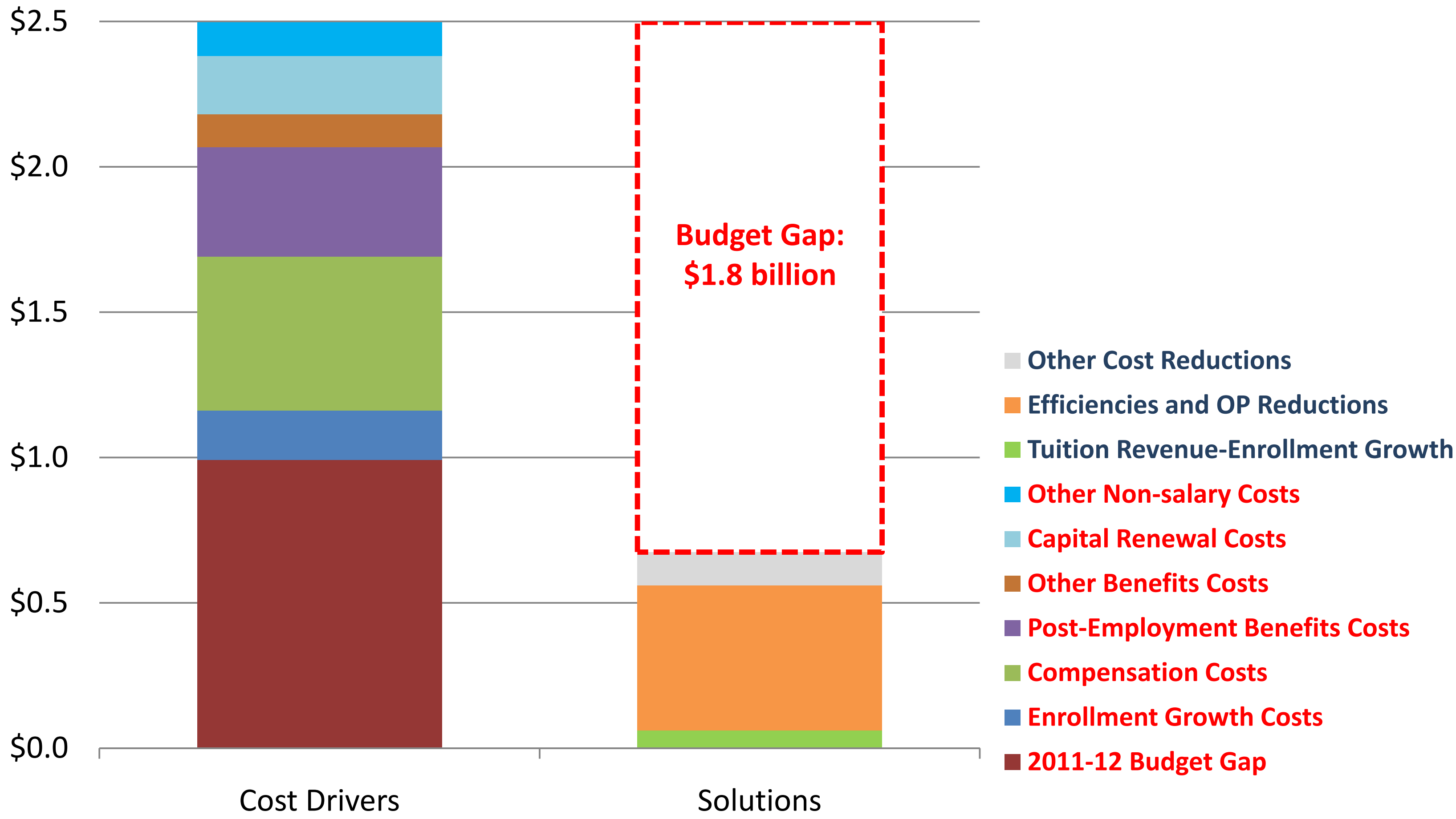
Baseline Cost Driver Assumptions

Cost Driver	Assumptions
Enrollment	No further reductions and growth of 1% annually beginning in 2012-13
Compensation	3% increases annually to keep pace with market in addition to regular academic merit salary increase program
Post-Employment Benefits	UCRP contributions of 10% in 2012-13, followed by 2% annual increases; annual growth in retiree health benefit costs of 7%
Other Employee Benefits	7% annual increases
Capital Renewal	Investment growing by $50 million annually
Other Non-salary Cost Increases	No increase in purchased utility costs for two years; other items increasing 3% annually

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

Reducing the Gap: Efficiencies

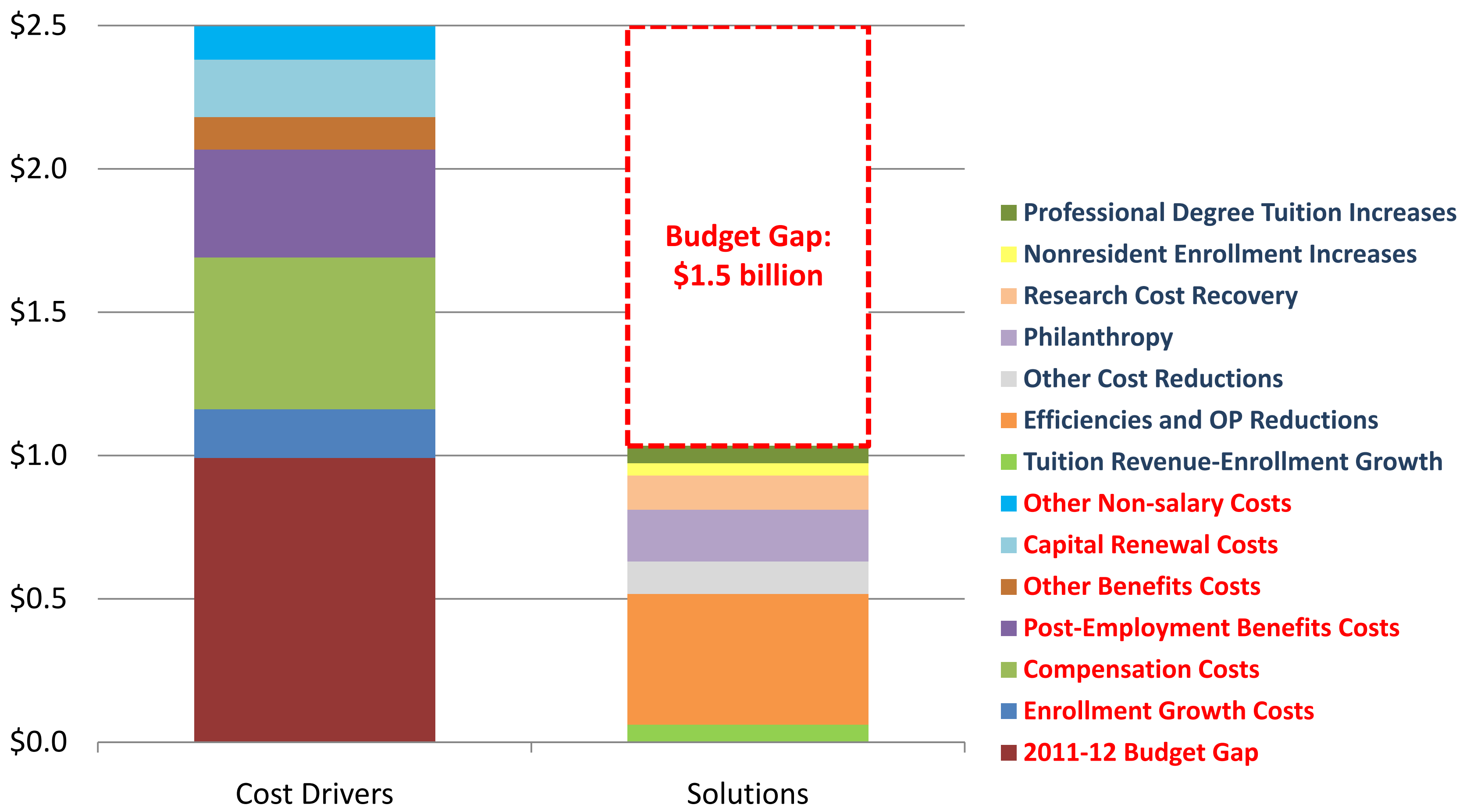


Dollars in billions.

Efficiencies and Savings Assumptions

Cost Driver	Assumptions
Administrative Efficiencies	Savings of $100 million annually, two-thirds accruing to core fund sources
UCOP Reductions	10% reduction in 2011-12
Reductions in Earmarked Programs	$30 million reduction over two years
Employee Health Benefits	Minimized cost increases through 2015-16

Reducing the Gap: Alternative Revenue



Dollars in billions.

Alternative Revenue Assumptions

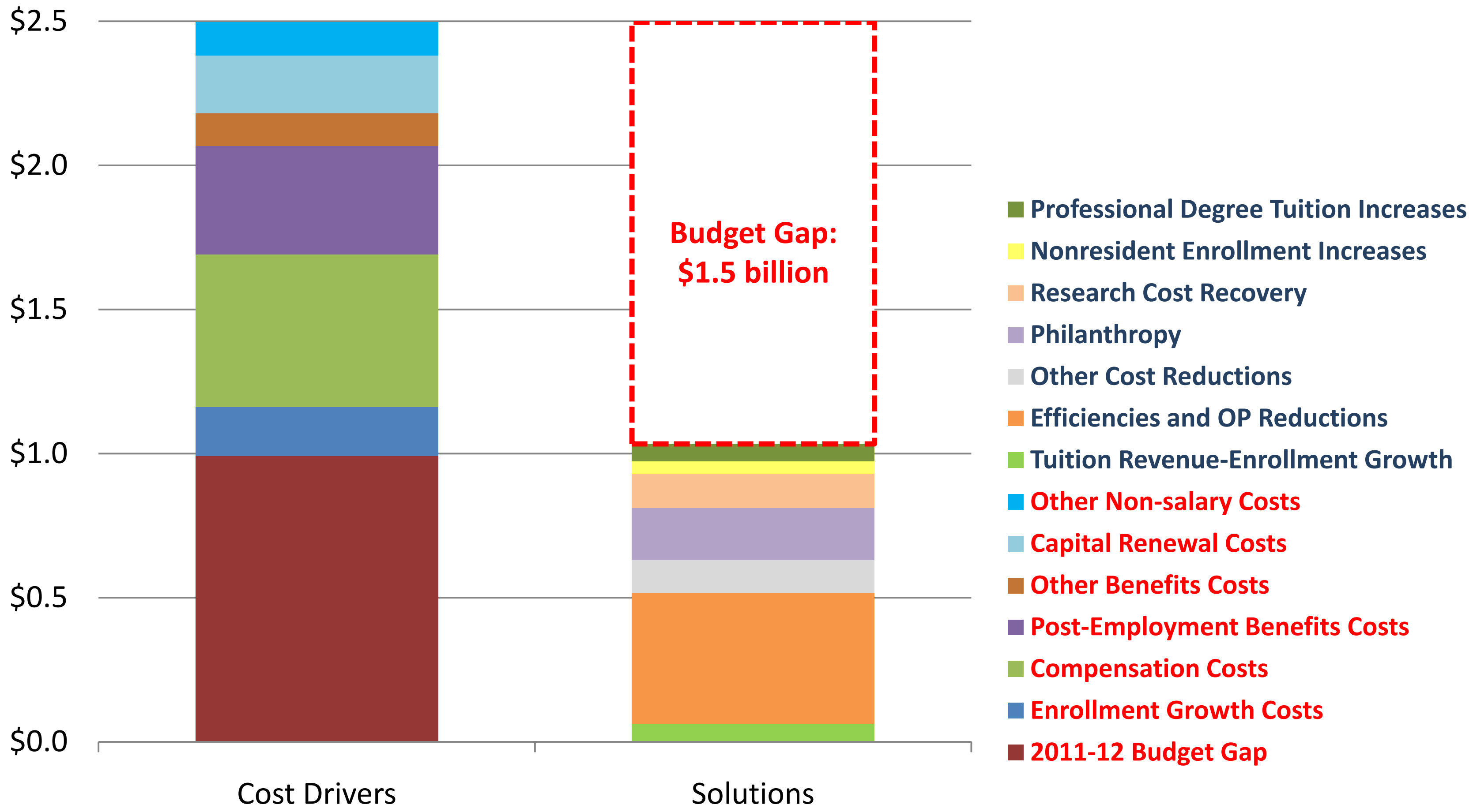
Cost Driver	Assumptions
Indirect Cost Recovery	$30 million increases annually
Philanthropy	$1 billion in new unrestricted endowment annually, resulting in $45 million increases in unrestricted payouts
Nonresident Enrollment	10% annual growth in nonresident undergraduates (~860 students annually), net of instructional costs
Professional Degree Program Tuition	8% annual increases

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

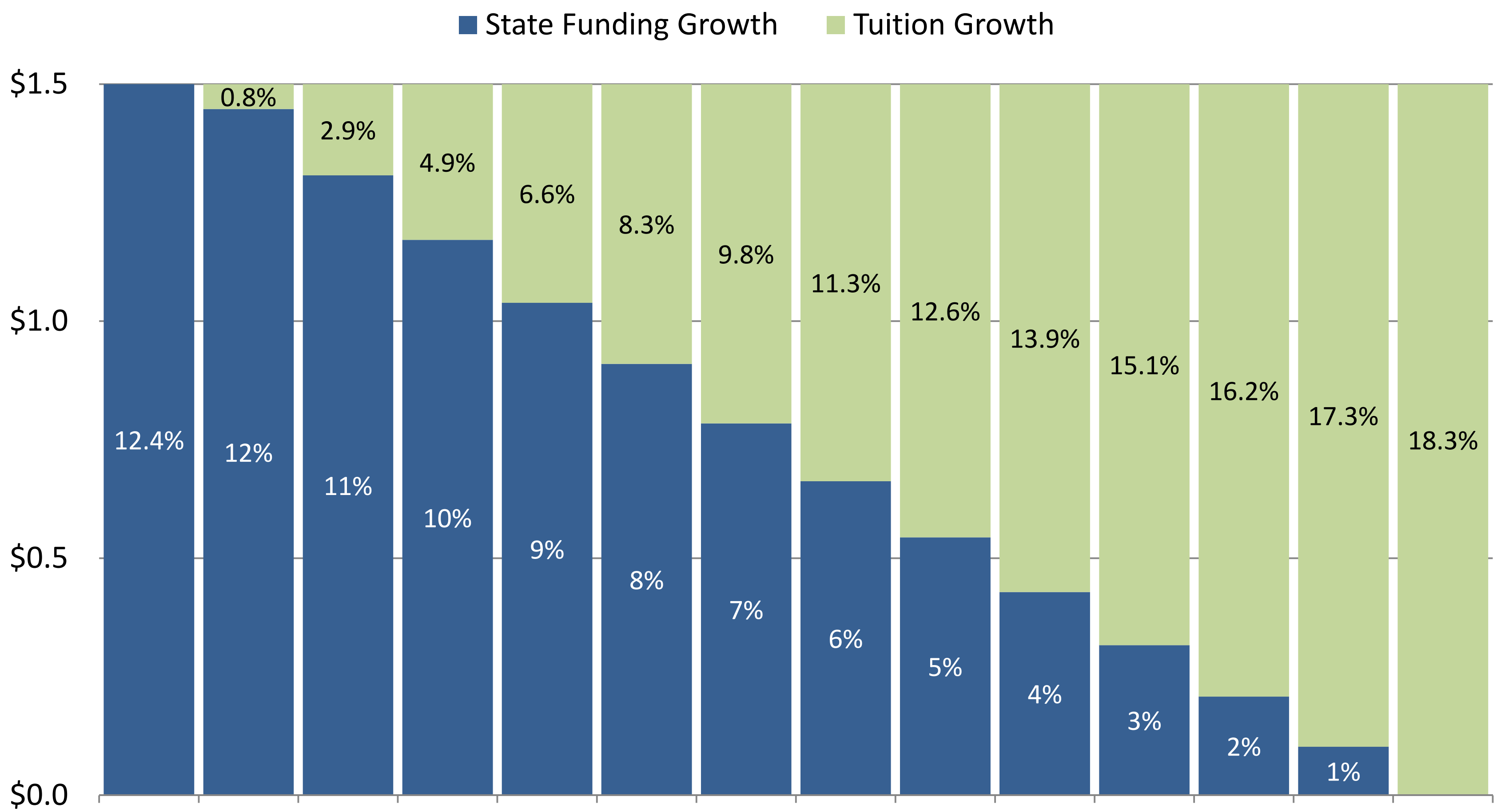
The Longer-Term Problem: 2011-12 Through 2015-16

Remaining Gap: $1.5 billion



The Longer-Term Problem: 2011-12 Through 2015-16

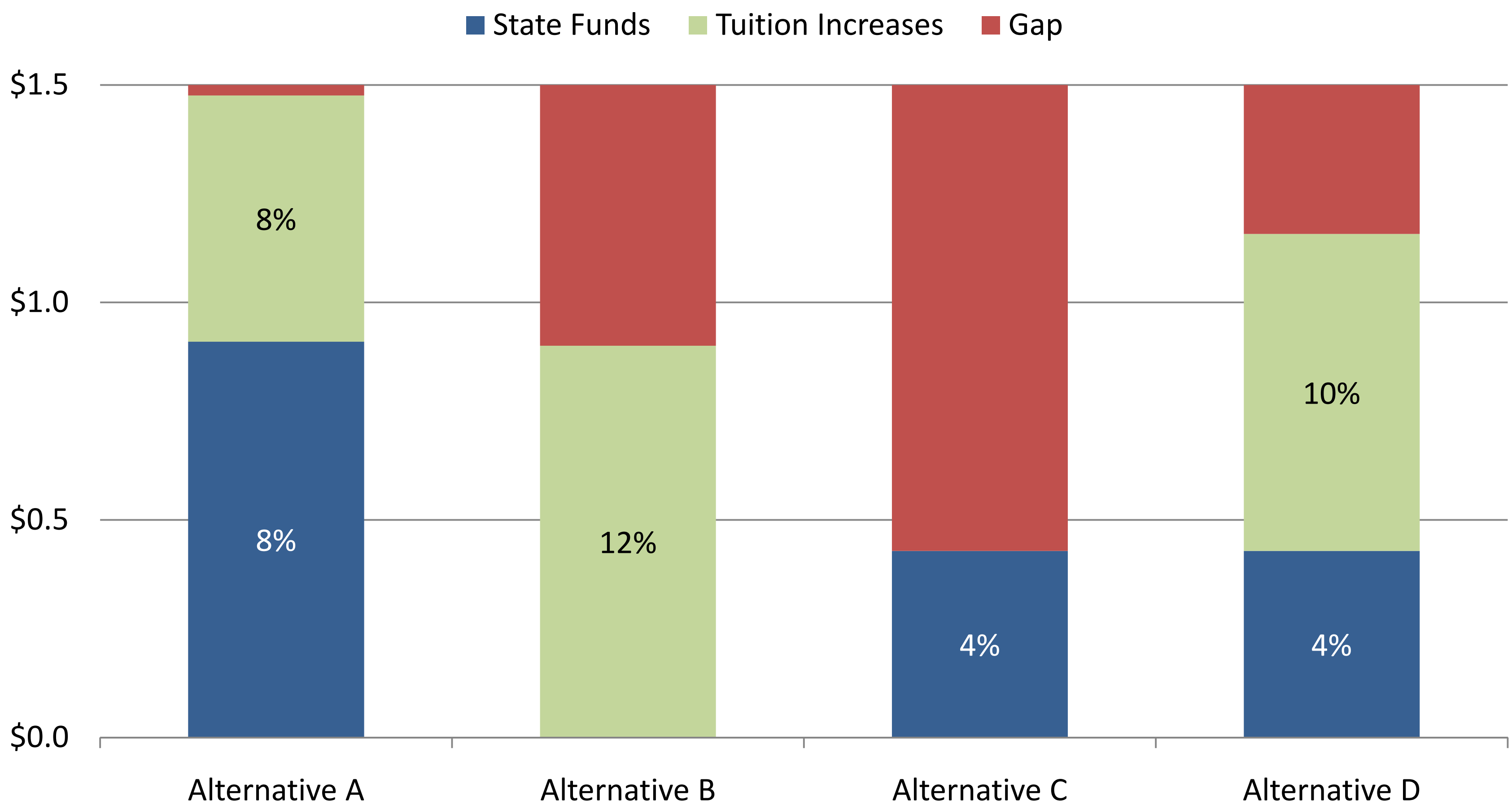
Filling Remaining Gap with State Funds and Tuition: Annual Increases Required to Generate $1.5B



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



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

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