Revised Long-Term Budget Model

Executive Vice President Nathan Brostrom
Vice President Patrick J. Lenz

September 18, 2013

Context for Update of Long-Term Budget Model

- Long-term budget model originally presented to Regents in March 2011
- UC revenue and expenditure assumptions and State budget situation have changed considerably since 2011
- Long-term budget modeling needs to take into account Governor’s proposed multi-year funding plan
- Updated data now available on alternative revenues and other measures

Context for Update of Long-Term Budget Model

- Earlier modeling assumed restoration to 2007-08 funding levels
  - Getting back to 2007-08 funding levels is unrealistic in the current context
- Current modeling uses 2013-14 as base year and focuses on four years of the Governor's proposed multi-year plan
- Restoration of academic quality is still a priority, but assumptions are no longer set to 2007-08 levels

UC's Three Pillars of Excellence: Access, Affordability and Quality

- During recent years of fiscal crisis, UC has protected access and affordability
- However, measures taken in budget cuts have affected quality
  - Student-faculty ratio
  - Faculty salary gap
  - Faculty hiring

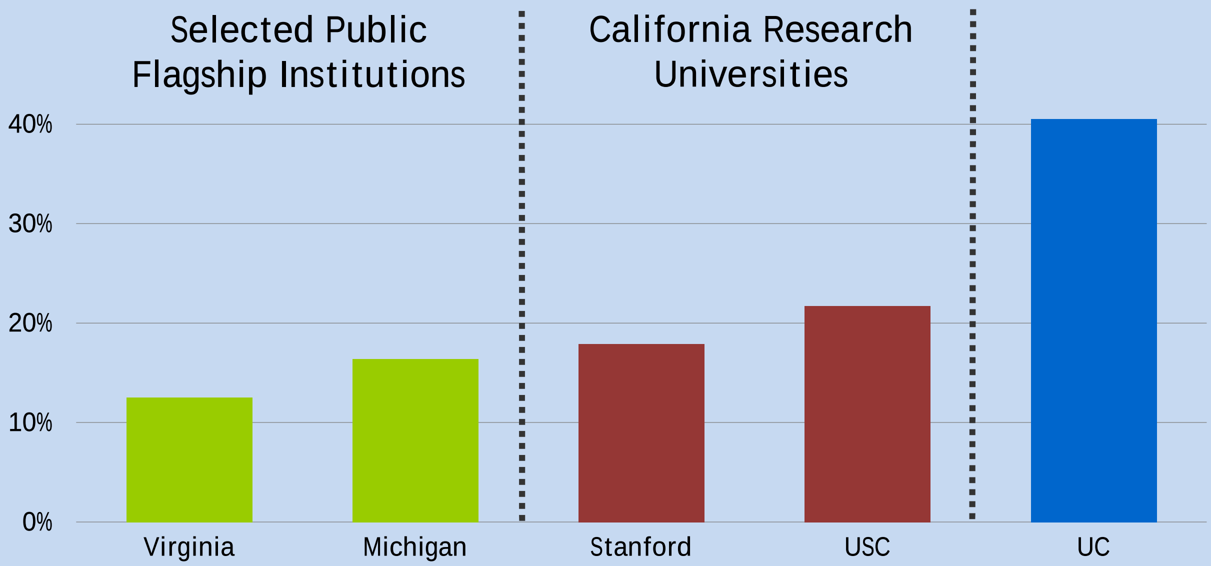
UC’s Three Pillars of Excellence: Access

- All eligible freshmen have been offered a place at UC
  - Fall 2013 freshman applications rose to nearly 100,000
  - Number of California freshman applicants grew 6.2% over last year
- In 2012-13, UC enrolled nearly 240,000 students
- In Fall 2011, 40% of UC’s undergraduate students were first-generation college students

UC's Three Pillars of Excellence: Access

- UC has a higher proportion of Pell Grant recipients – 41% during 2010-11 – than any comparable public or private institution

2010-11 Undergraduate Pell Grant Recipients

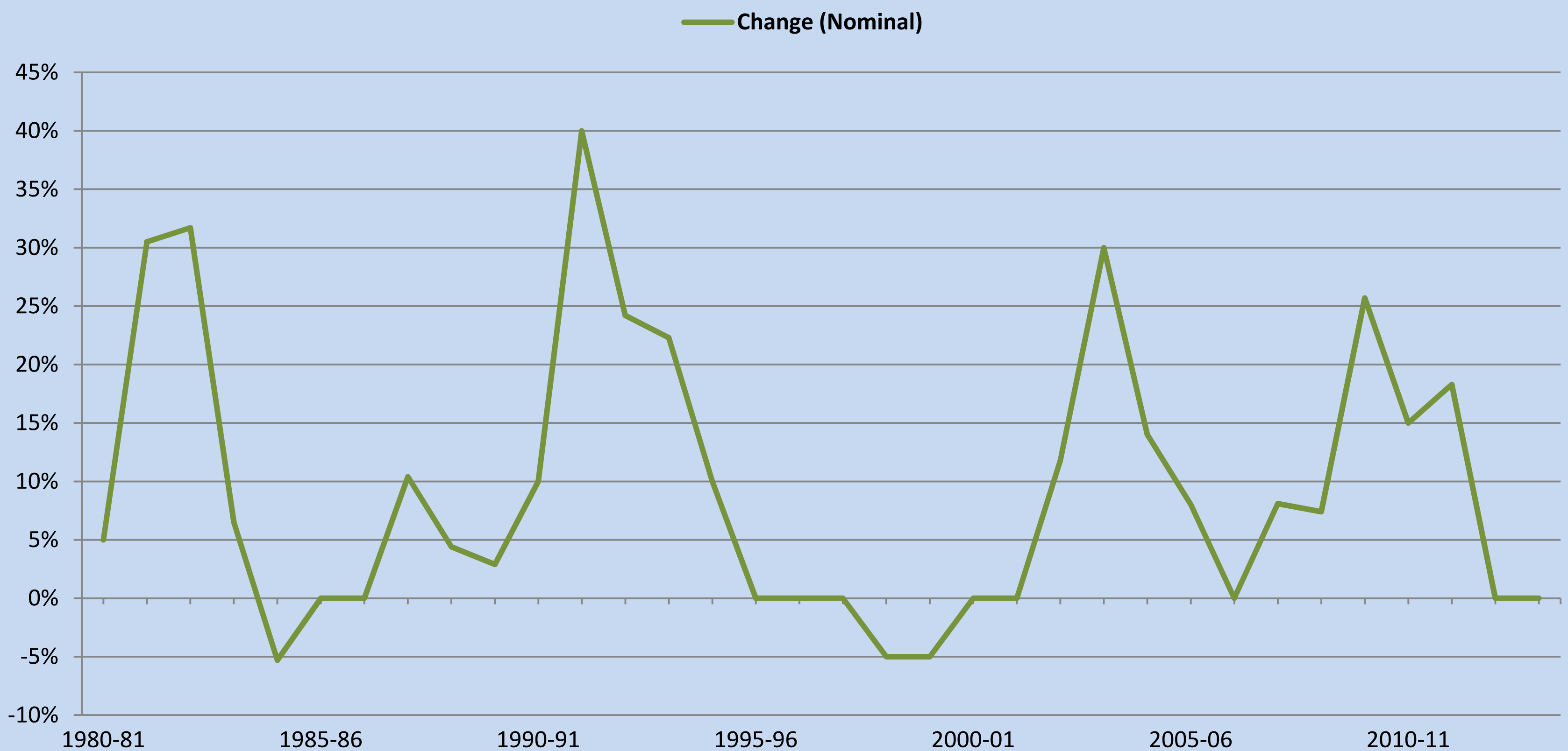


UC's Three Pillars of Excellence: Affordability

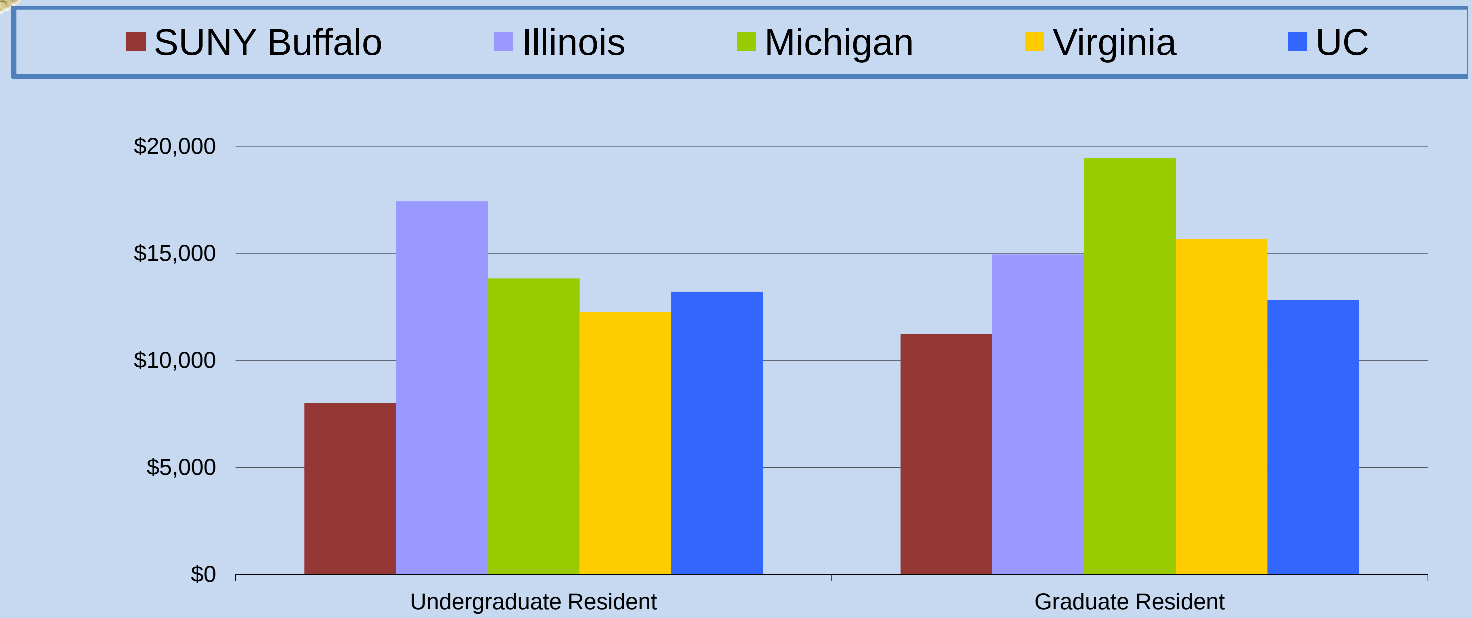
- Over 50% of all California resident undergraduates pay no systemwide tuition or fees
- About half of UC's 2011-12 graduating undergraduates had no student loan debt
  - The 52% who borrowed had average debt of $19,751, well below the national average of $26,600

UC's Tuition Policy Has Been Marked by Chronic Volatility, Which Has Hurt Students, Their Families and Our Campuses

Year-to-Year Percentage Change in Mandatory Charges (Nominal Dollars) Since 1980



UC's Three Pillars of Excellence: Affordability

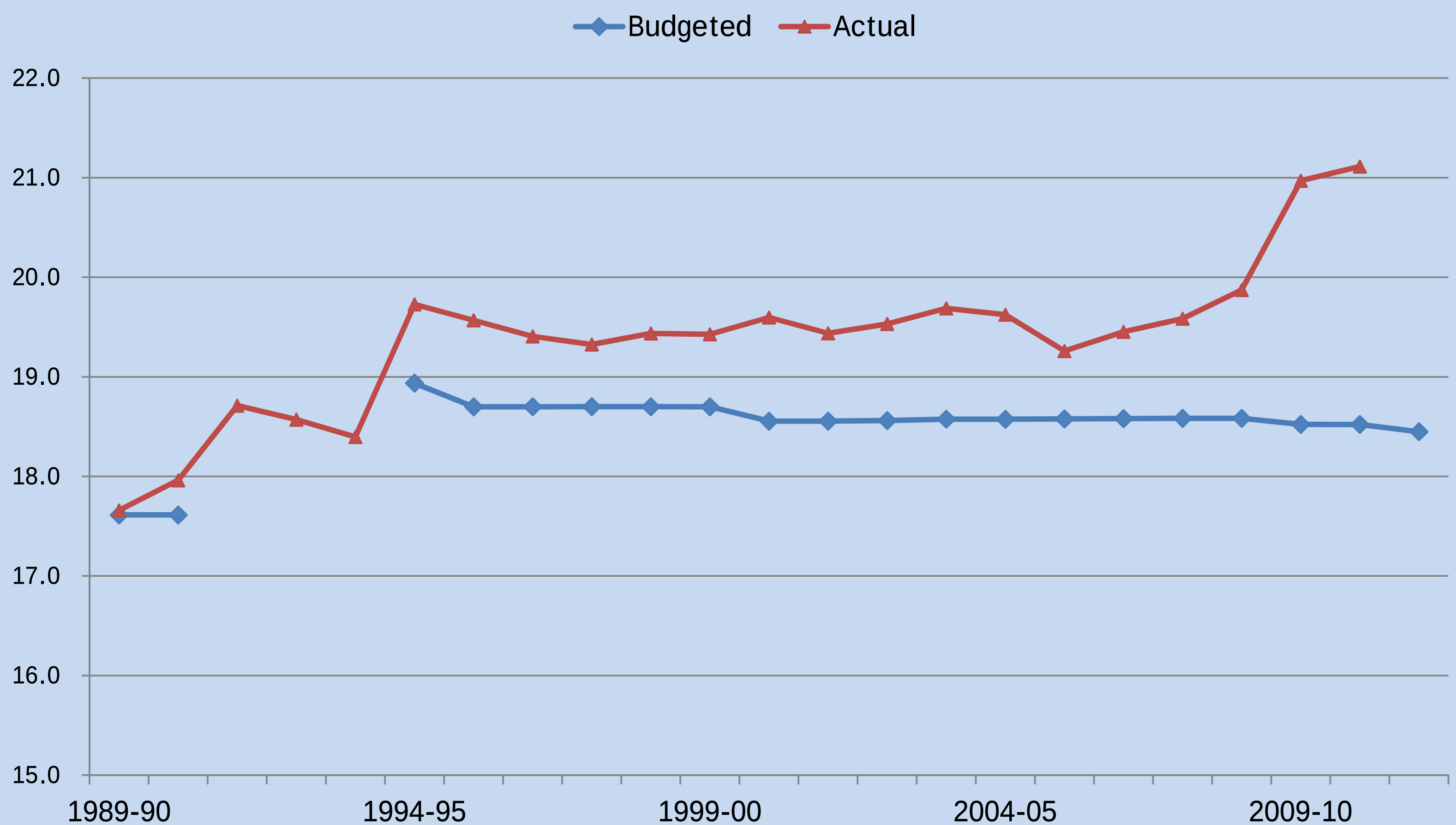


- In 2012-13, UC's average in-State tuition and fees were below two of four public comparators for undergraduates and three of four comparators for graduate academic students
- UC also utilizes higher return to aid than comparable institutions, therefore net tuition is even lower

UC's Three Pillars of Excellence: Quality

- A revised budget model needs to provide adequate resources to:
  - employ outstanding faculty and staff
  - recruit and educate outstanding undergraduate and academic/professional graduate students
  - engage in robust programs of research, scholarship, and creative activity
  - share its expertise and resources with the people of California
  - provide the infrastructure necessary to support all this

Student-Faculty Ratio Has Risen

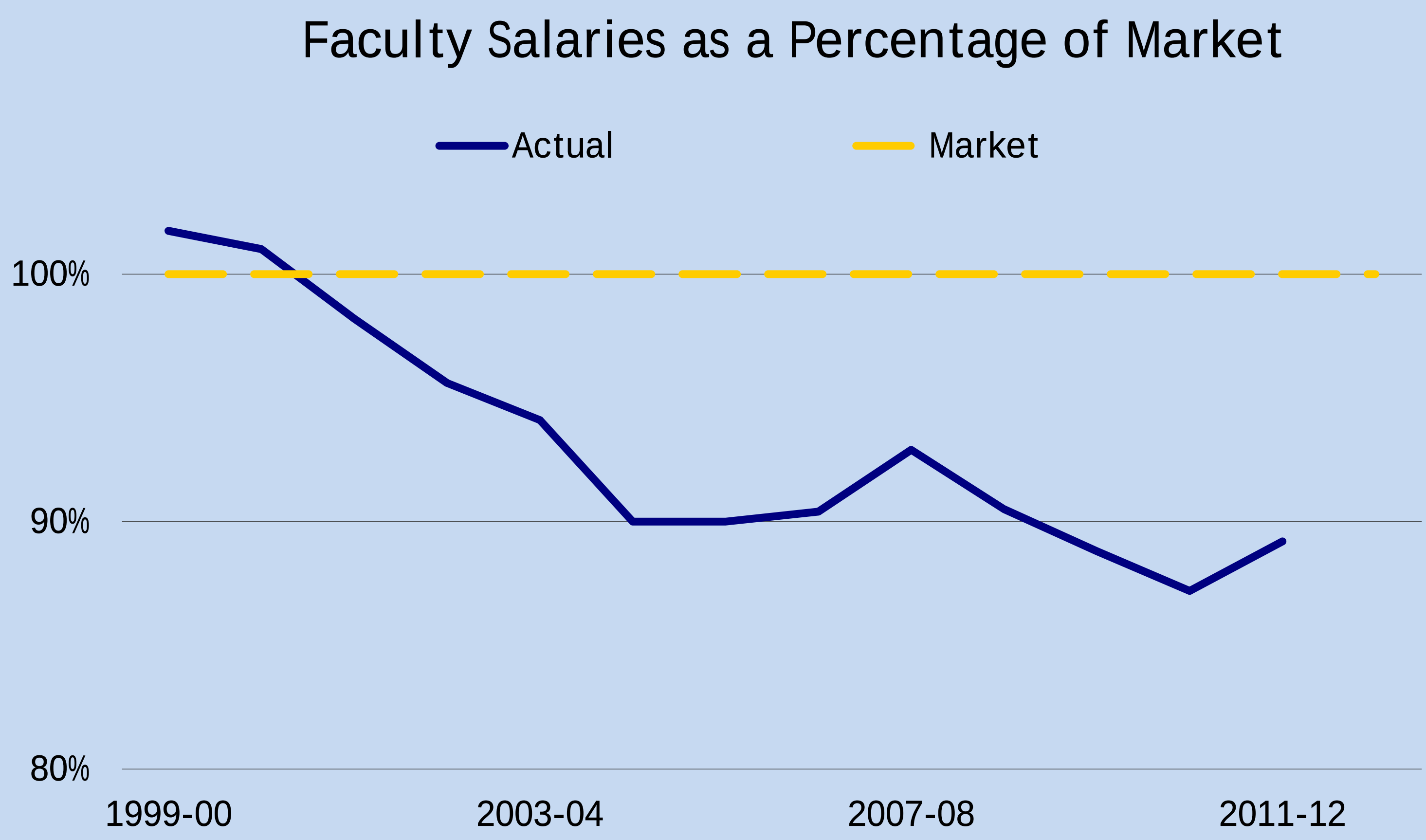


Display 11

Since 1989-90, UC's enrollment has grown at nearly twice the rate as faculty

	Students (UC general campus FTE)	**Faculty** (UC general campus FTE)
1989-90	140,507	7,161
2010-11	220,293	9,367
change	+58.6 %	+30.8 %

Faculty Salaries Lag the Market



Four Essential Elements of a Long-Term Funding Plan

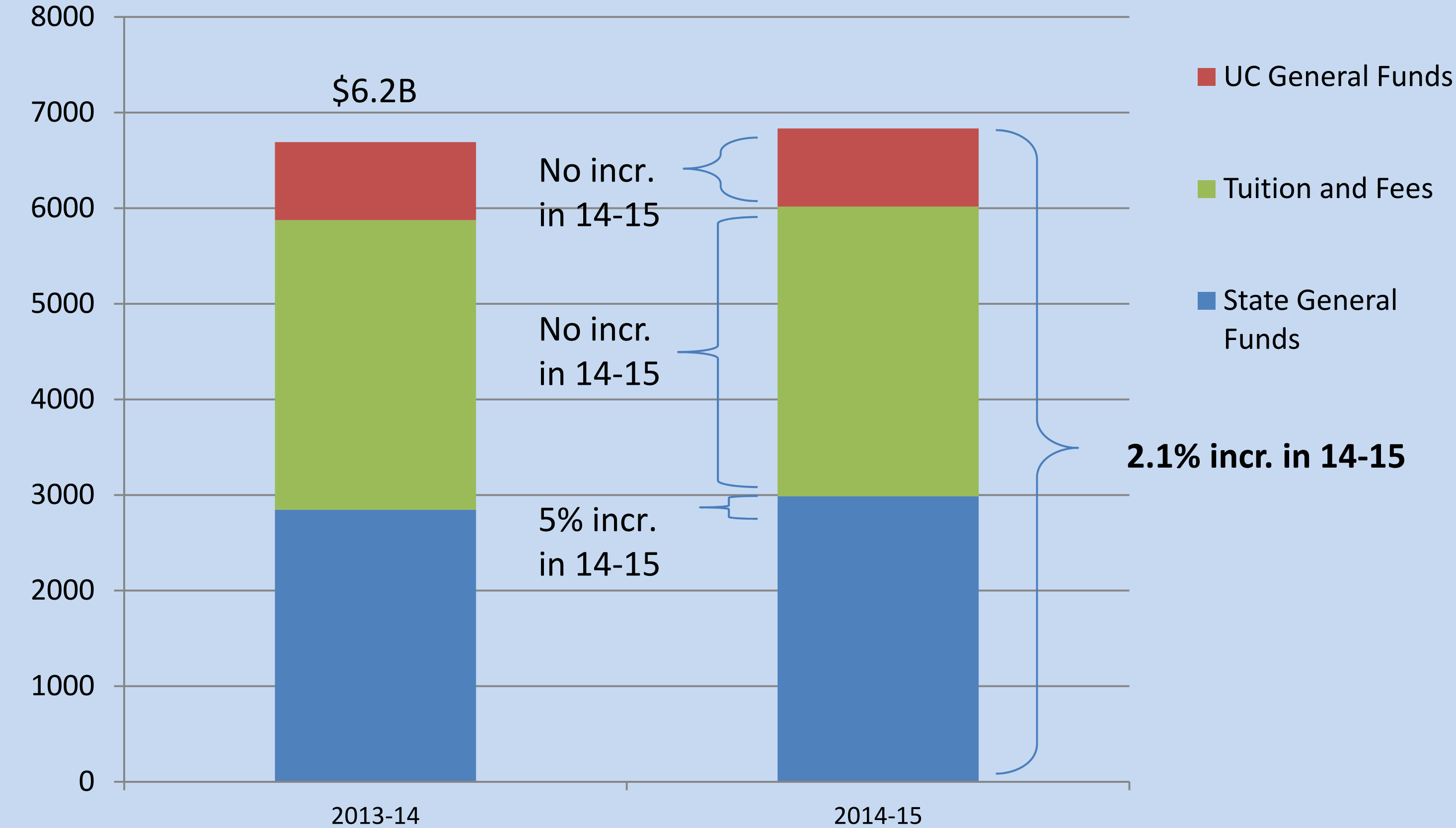
- Stable and predictable funding from the State
- Leveraging of alternative revenues
- Achieving administrative efficiencies
- Stable and predictable tuition and fee plan

Governor’s Multi-year Funding Plan

- State General Fund increases of 5% in 2013-14 and 2014-15 and 4% increases in 2015-16 and 2016-17
- State funding increases contingent on no tuition and fee increases over four-year period

Governor's Multi-year Funding Plan

- 5% State General Fund increase yields a 2.1% overall increase in Core Funds (assuming no tuition and UC General Funds increases)



In millions of dollars

Elements of Long-Term Budget Model

- Mandatory Costs – cost increases that are unavoidable
- High Priority Costs – budget items that are discretionary but are essential for operating a world-class university
- Reinvestment in Academic Quality – areas identified as key to maintaining UC's excellence

Cost Drivers

- Mandatory Costs
  - Employer Contribution to UCRP
  - Health Benefits
  - Annuitant Health Benefits
  - Academic Merit Program
  - Non-Salary Price Increases

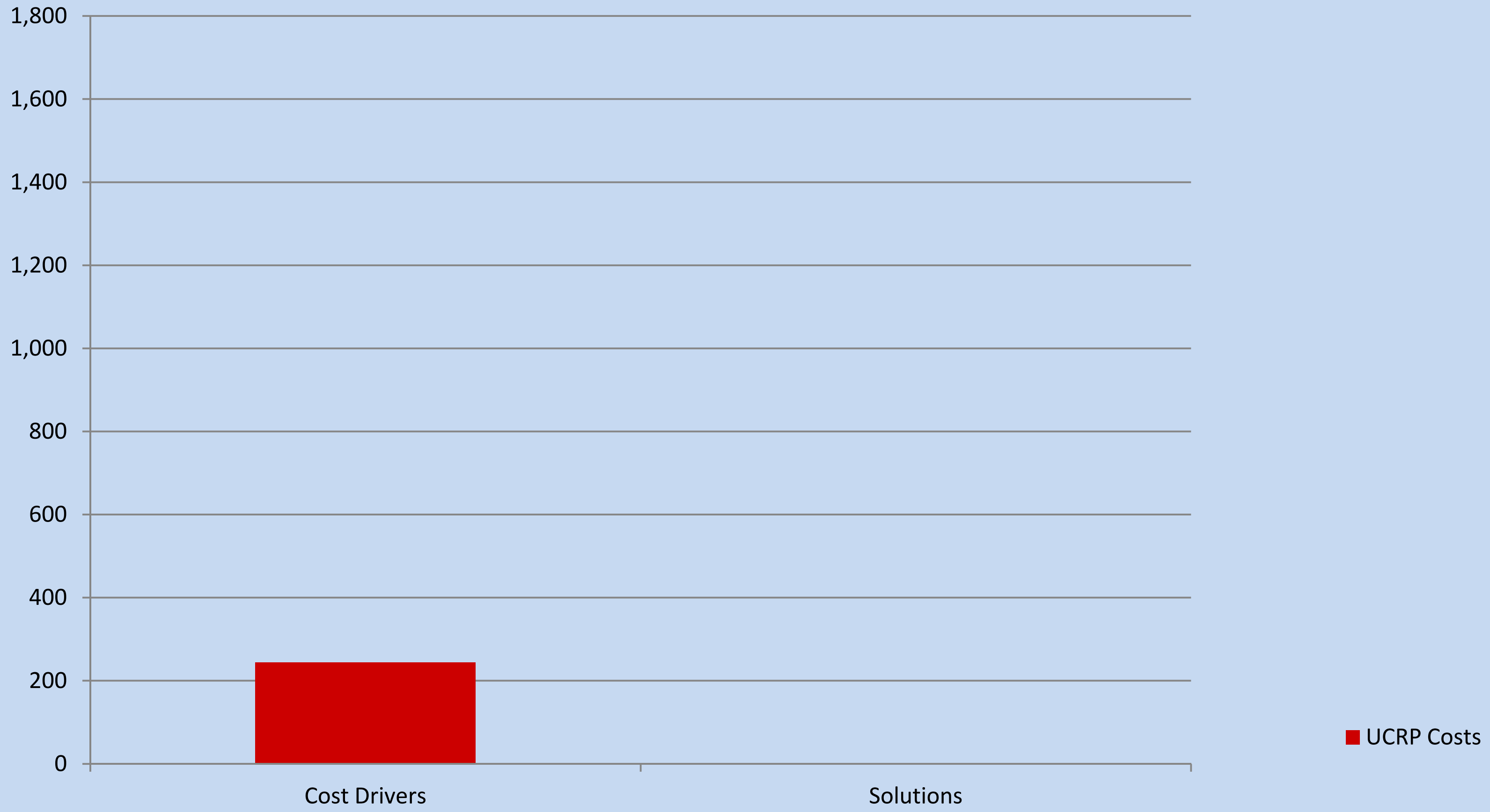
Cost Drivers

- High Priority Costs
  - Compensation
  - Deferred Maintenance
  - Enrollment Growth
  - Capital Projects

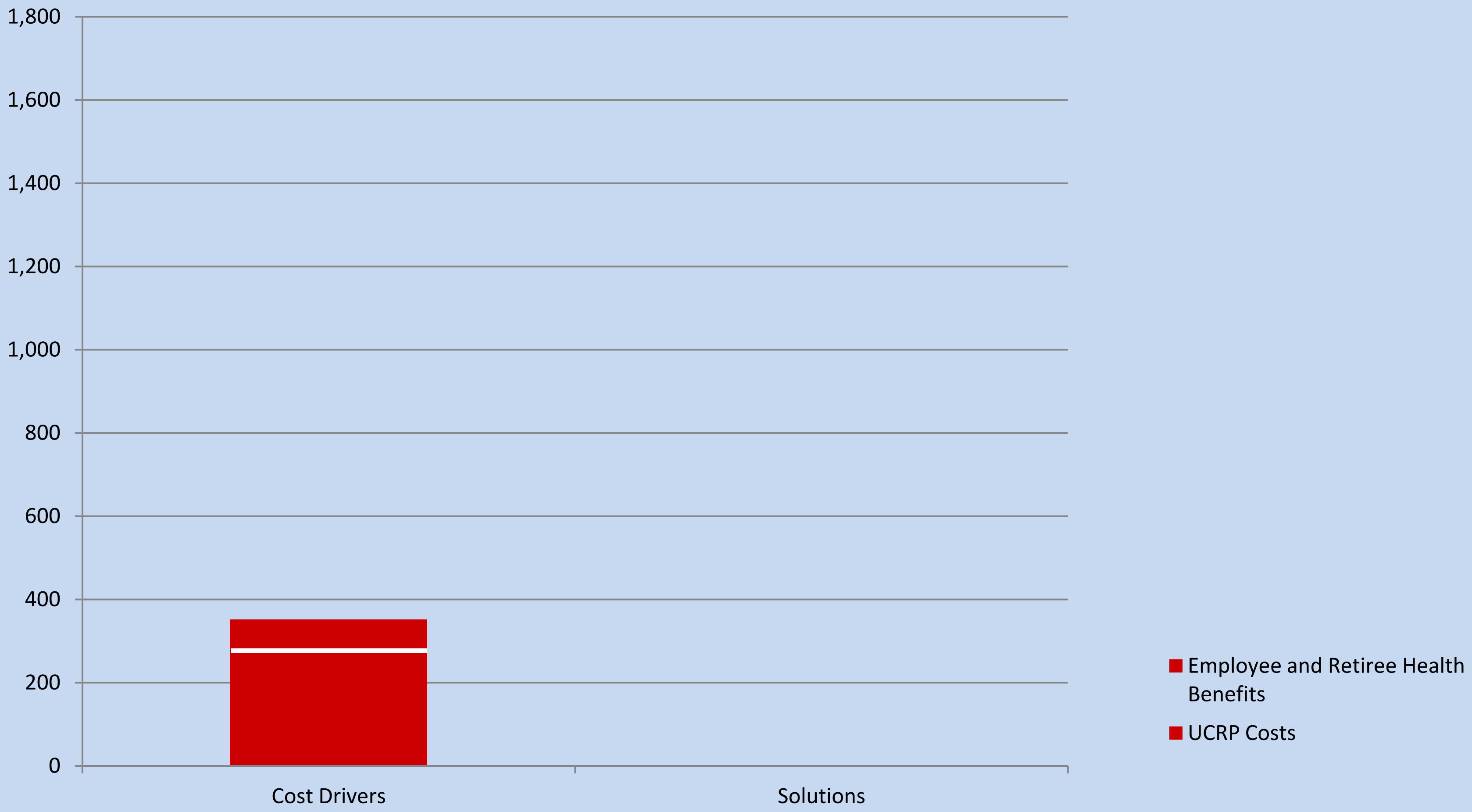
Cost Drivers

- Reinvestment in Academic Excellence
  - Enhance undergraduate instructional support
  - Reduce student-faculty ratio
  - Support start-up costs for new faculty
  - Increase graduate academic student support
  - Reduce faculty and staff salary gap

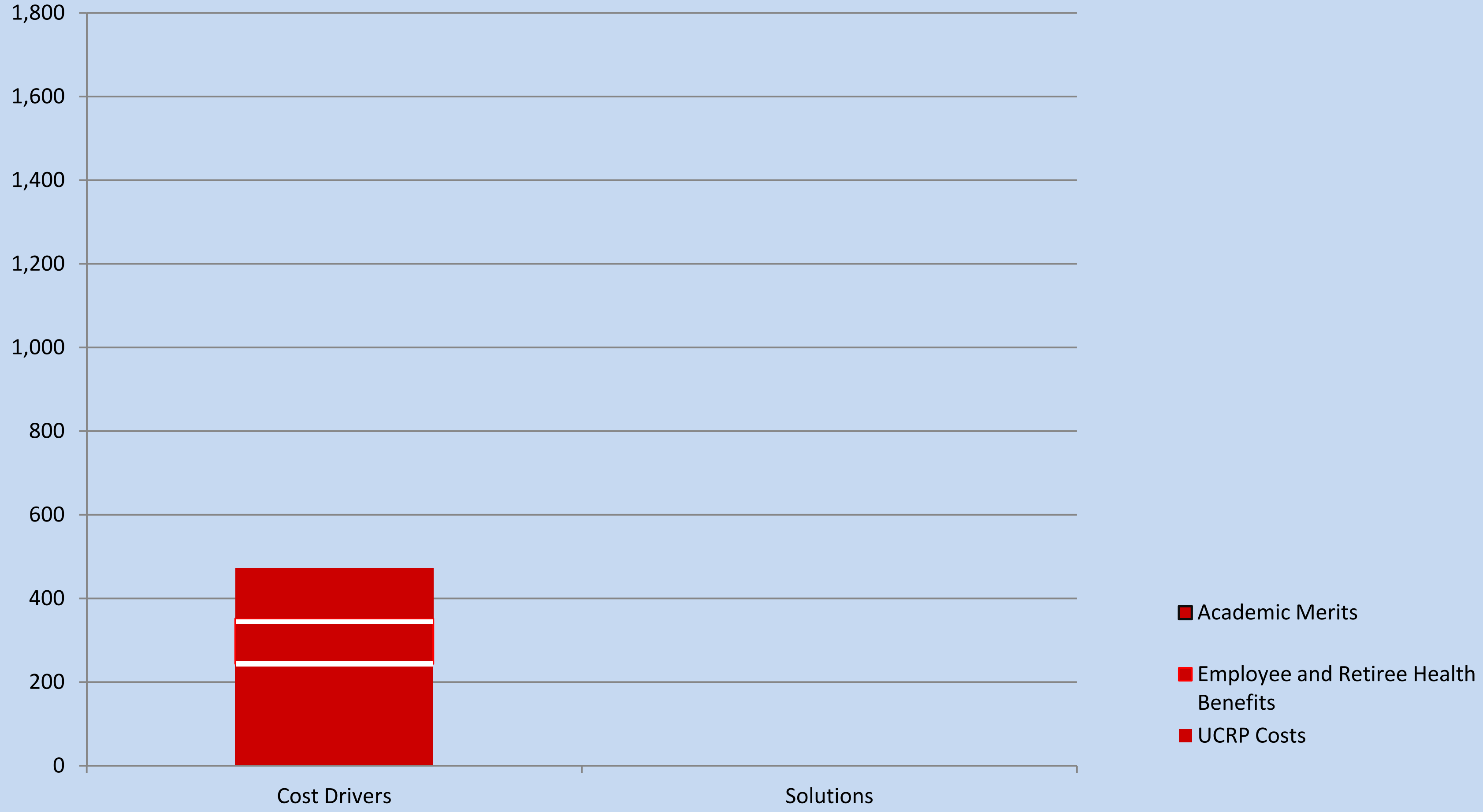
2013-14 through 2016-17 Cost Drivers: UCRP Costs, $244 million



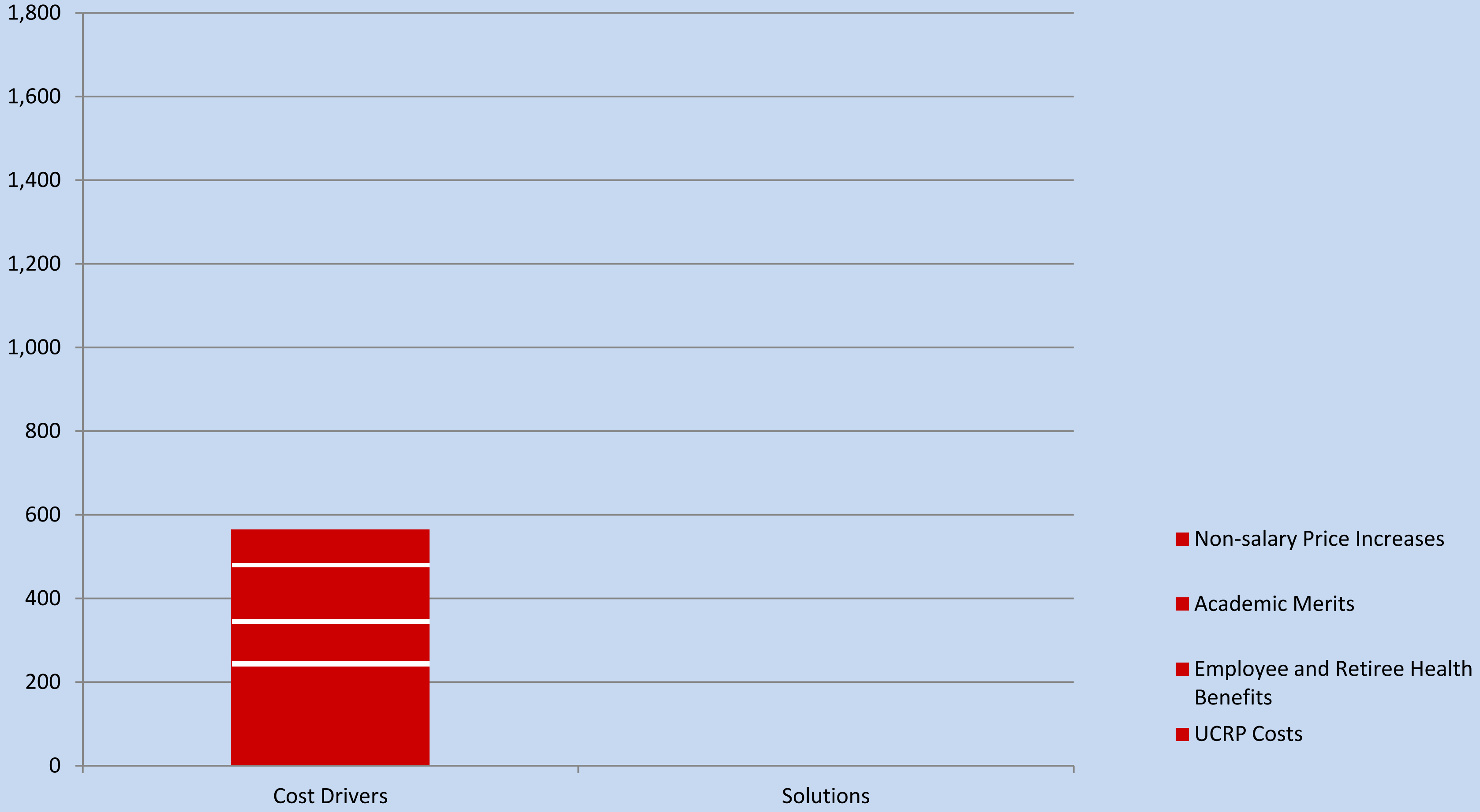
Cost Drivers: Employee and Retiree Health Benefits, $108 million



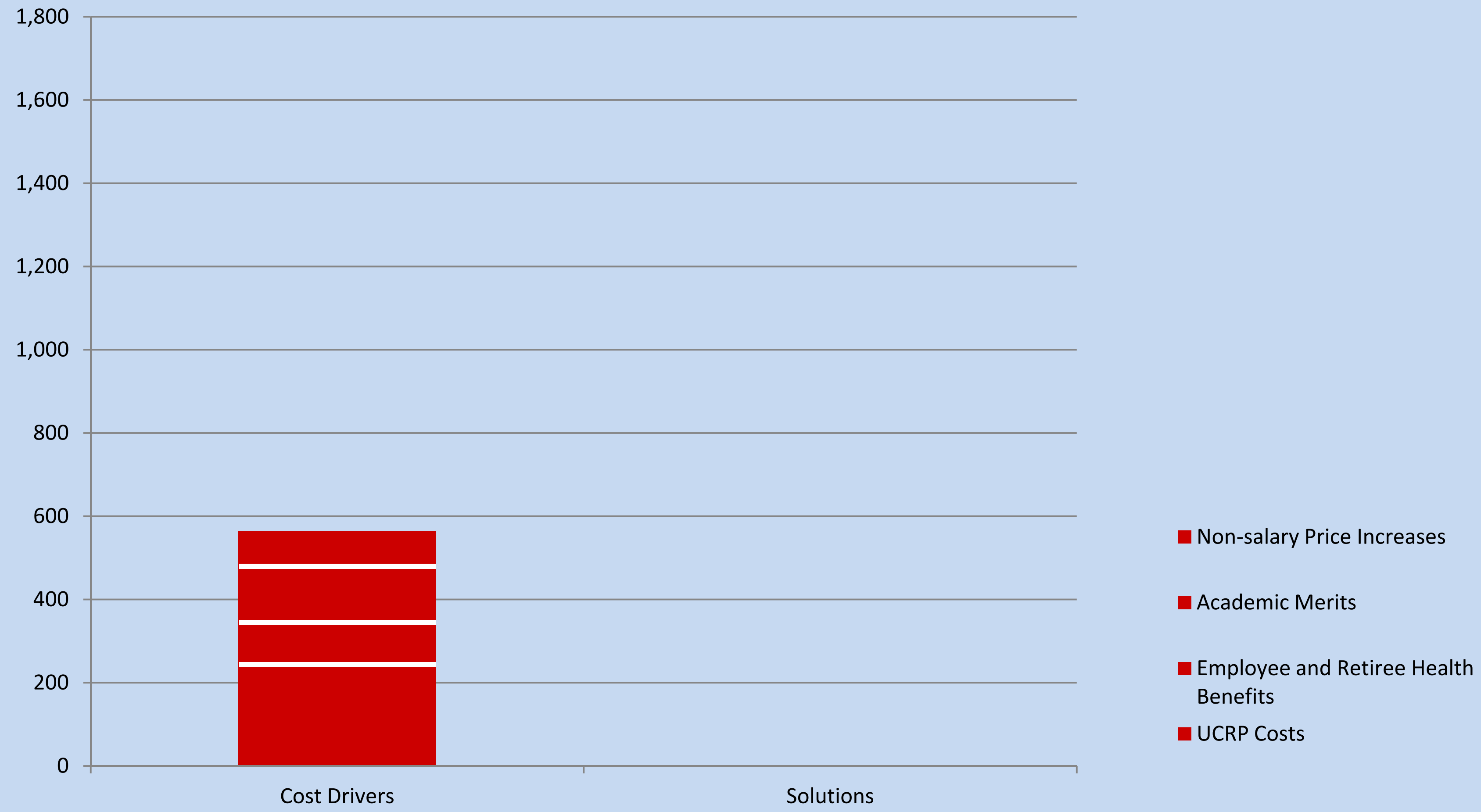
Cost Drivers: Academic Merits, $120 million



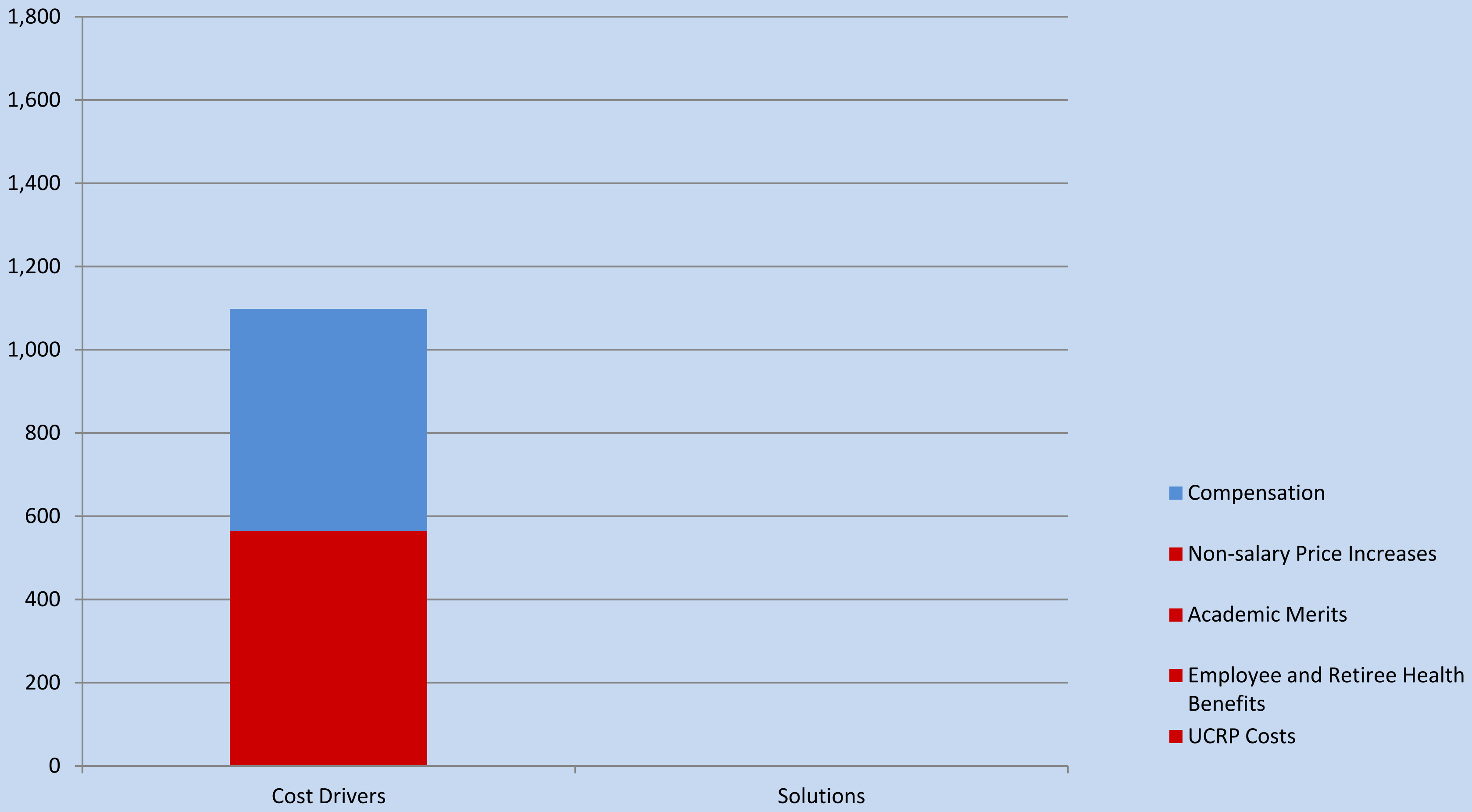
Cost Drivers: Non-Salary Price Increases, $92 million



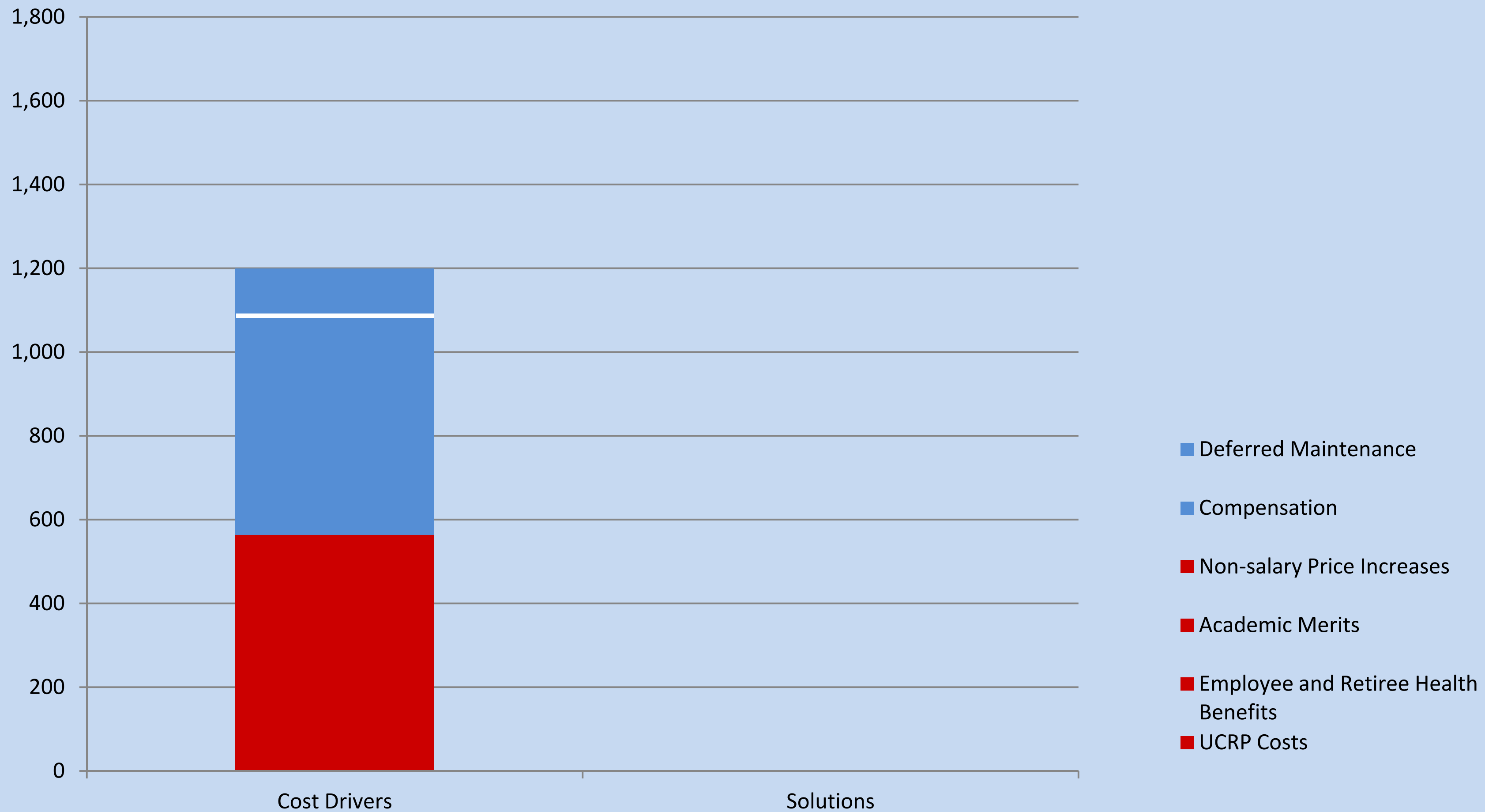
Cost Drivers: All Mandatory Costs, $564 million



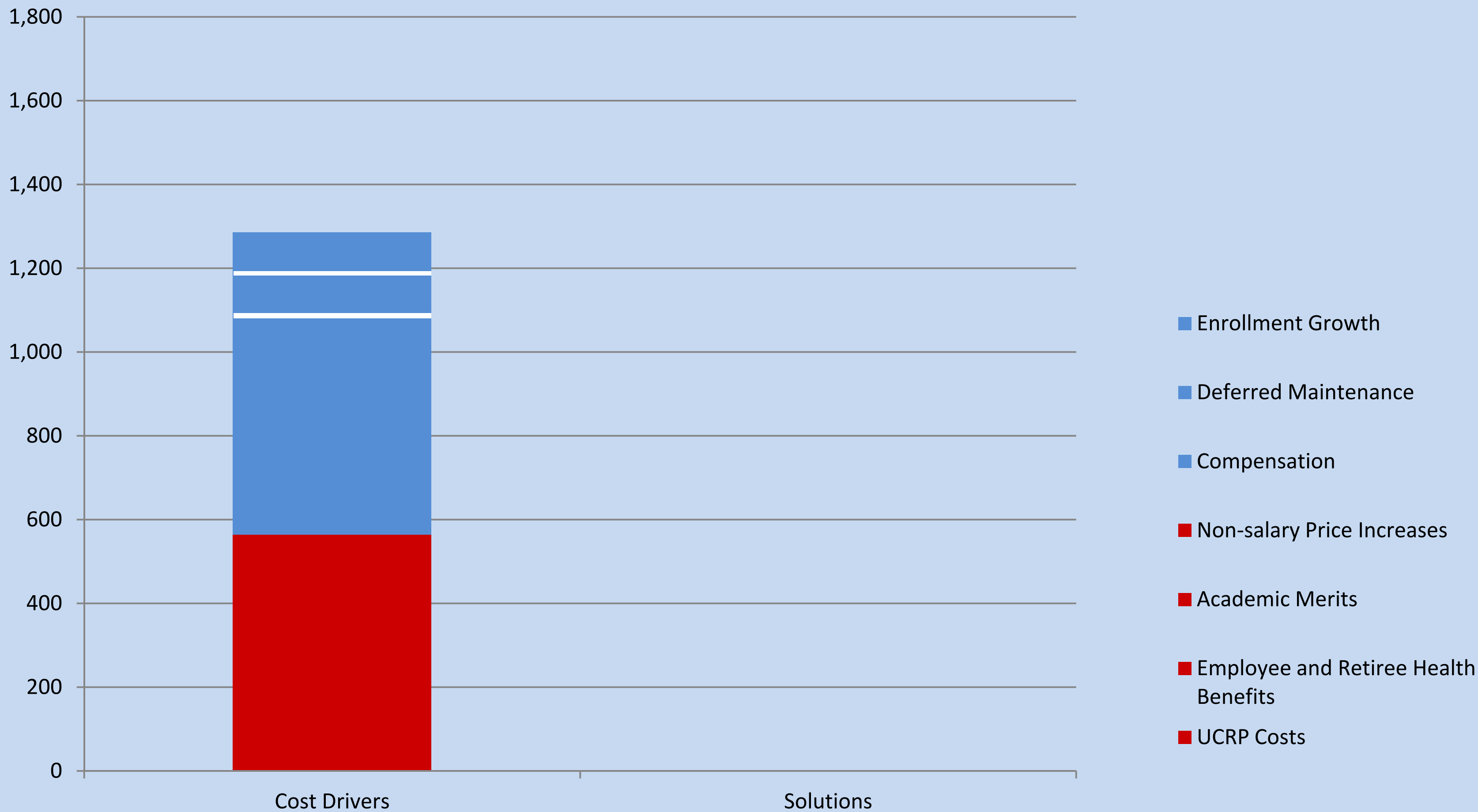
Cost Drivers: Compensation, $534 million



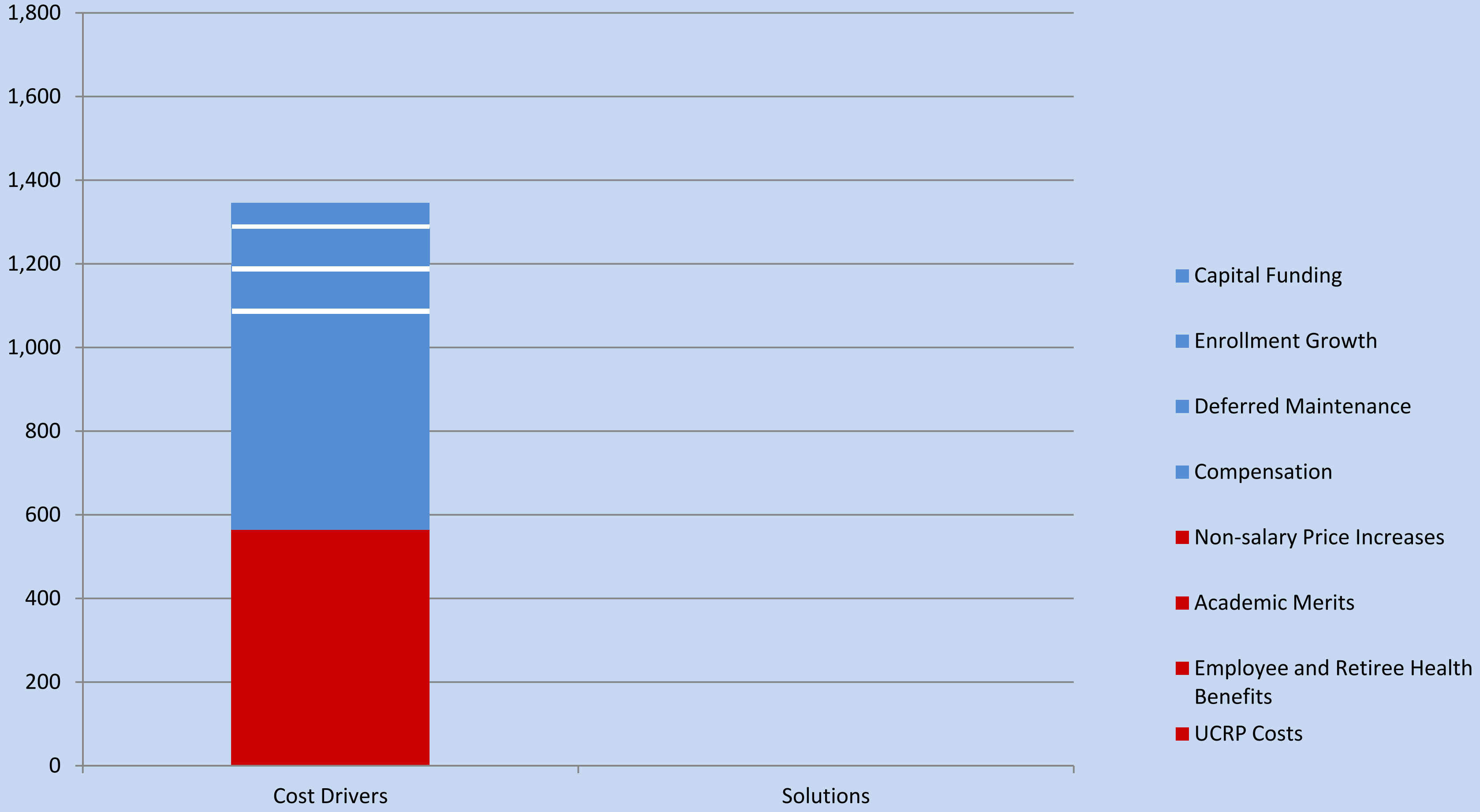
Cost Drivers: Deferred Maintenance, $100 million



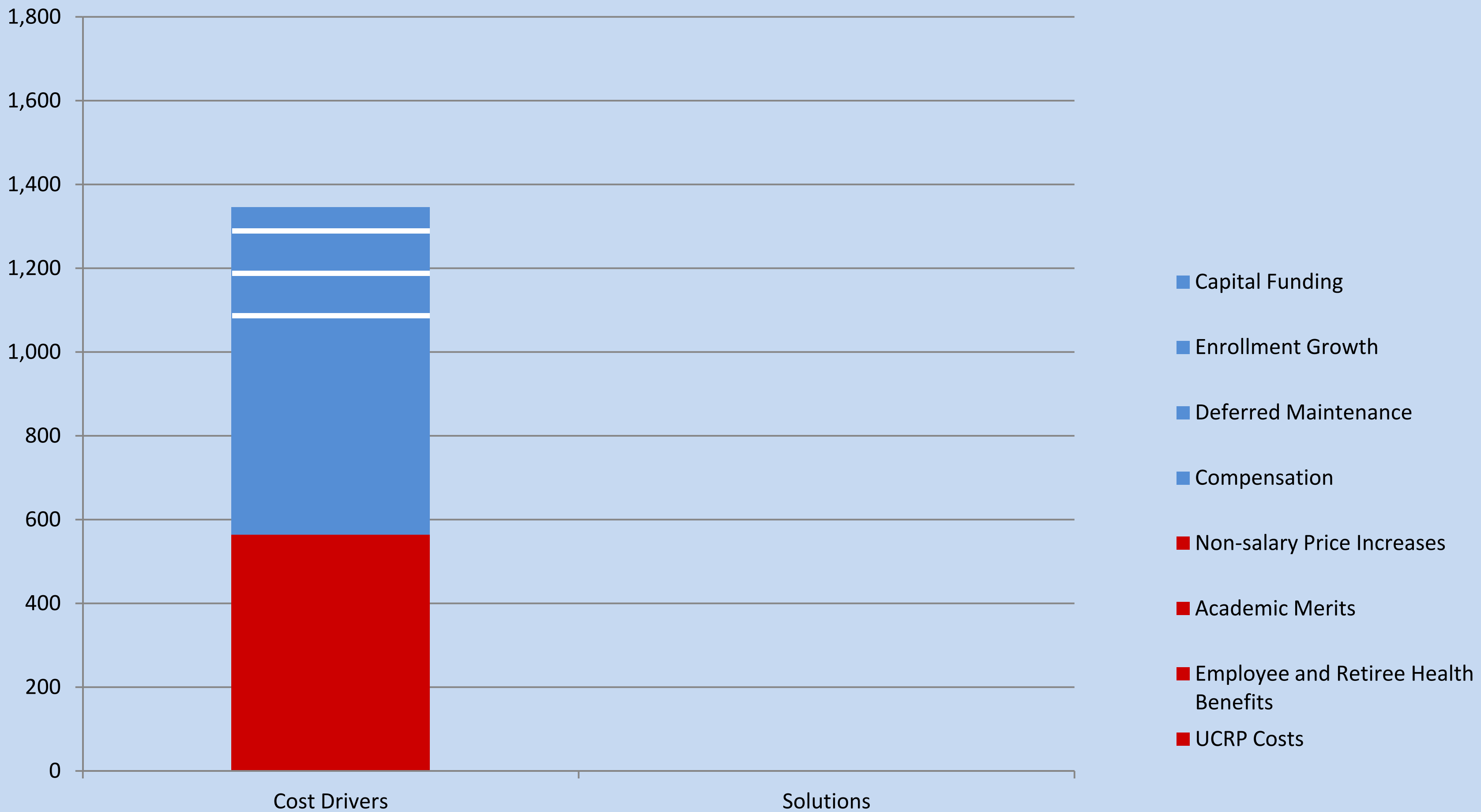
Cost Drivers: Enrollment Growth, $88 million



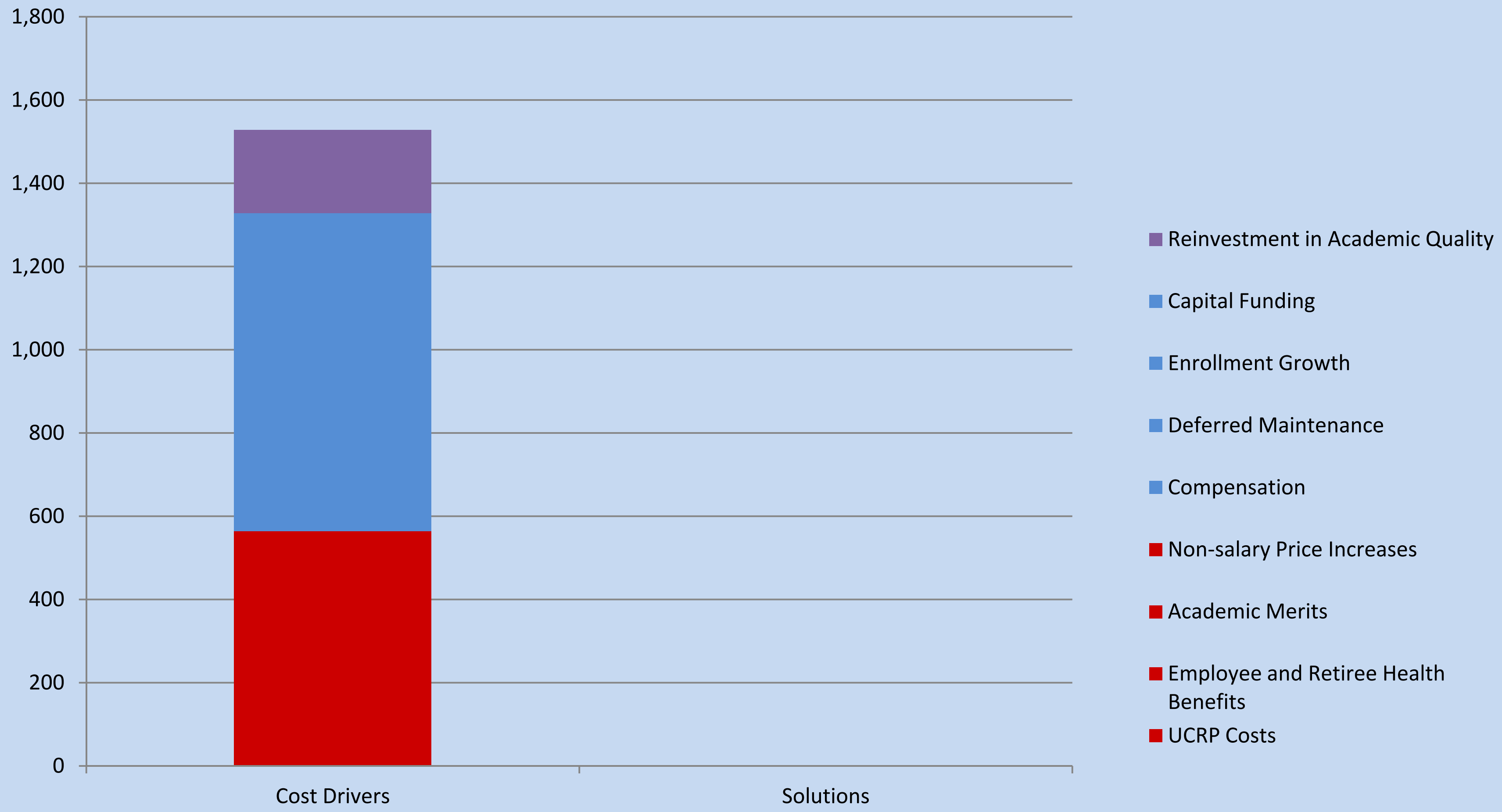
Cost Drivers: Capital Funding, $60 million



Cost Drivers: High Priority Costs, $782 million

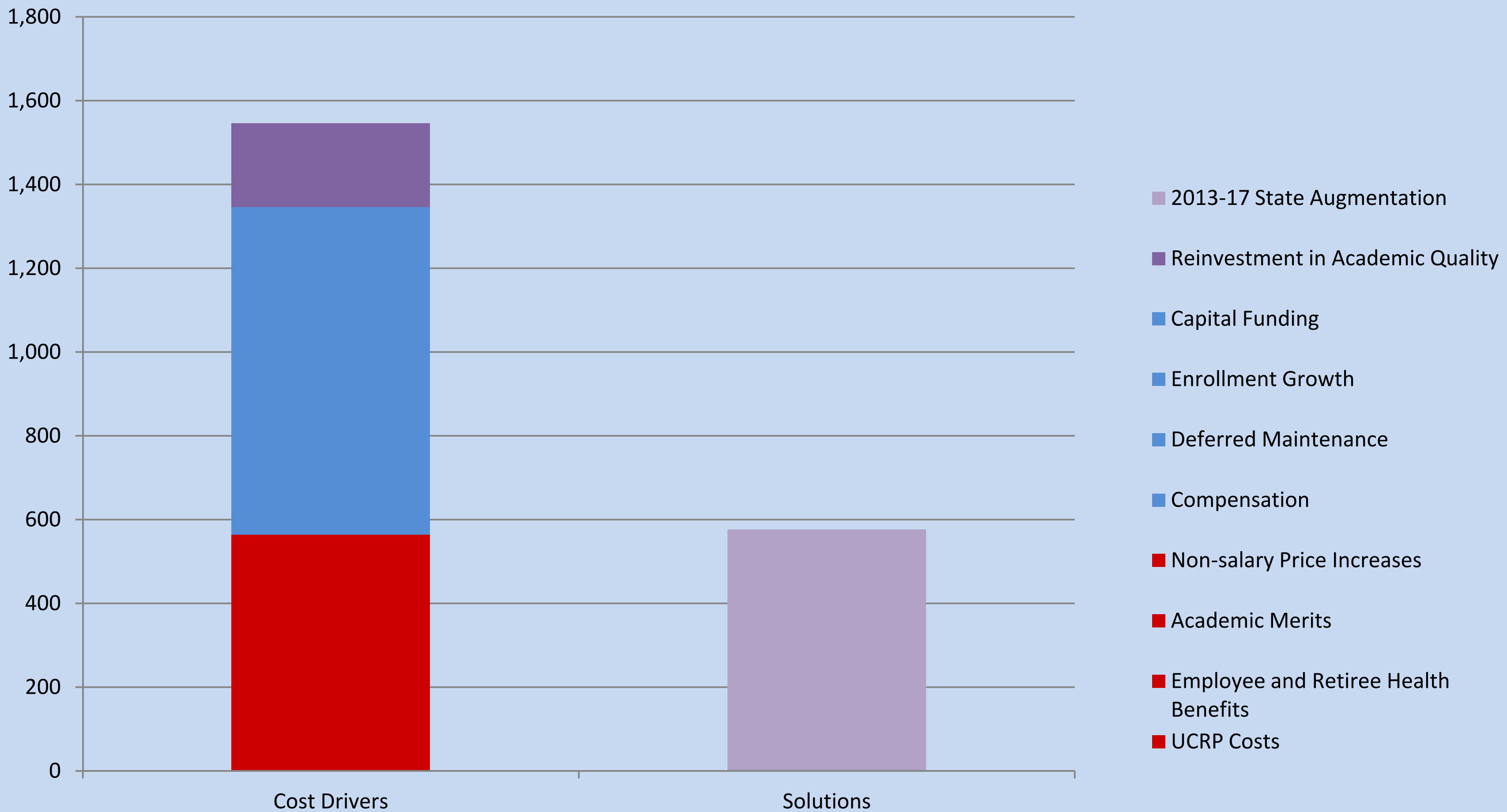


Cost Drivers: Reinvestment in Academic Quality, $200 million

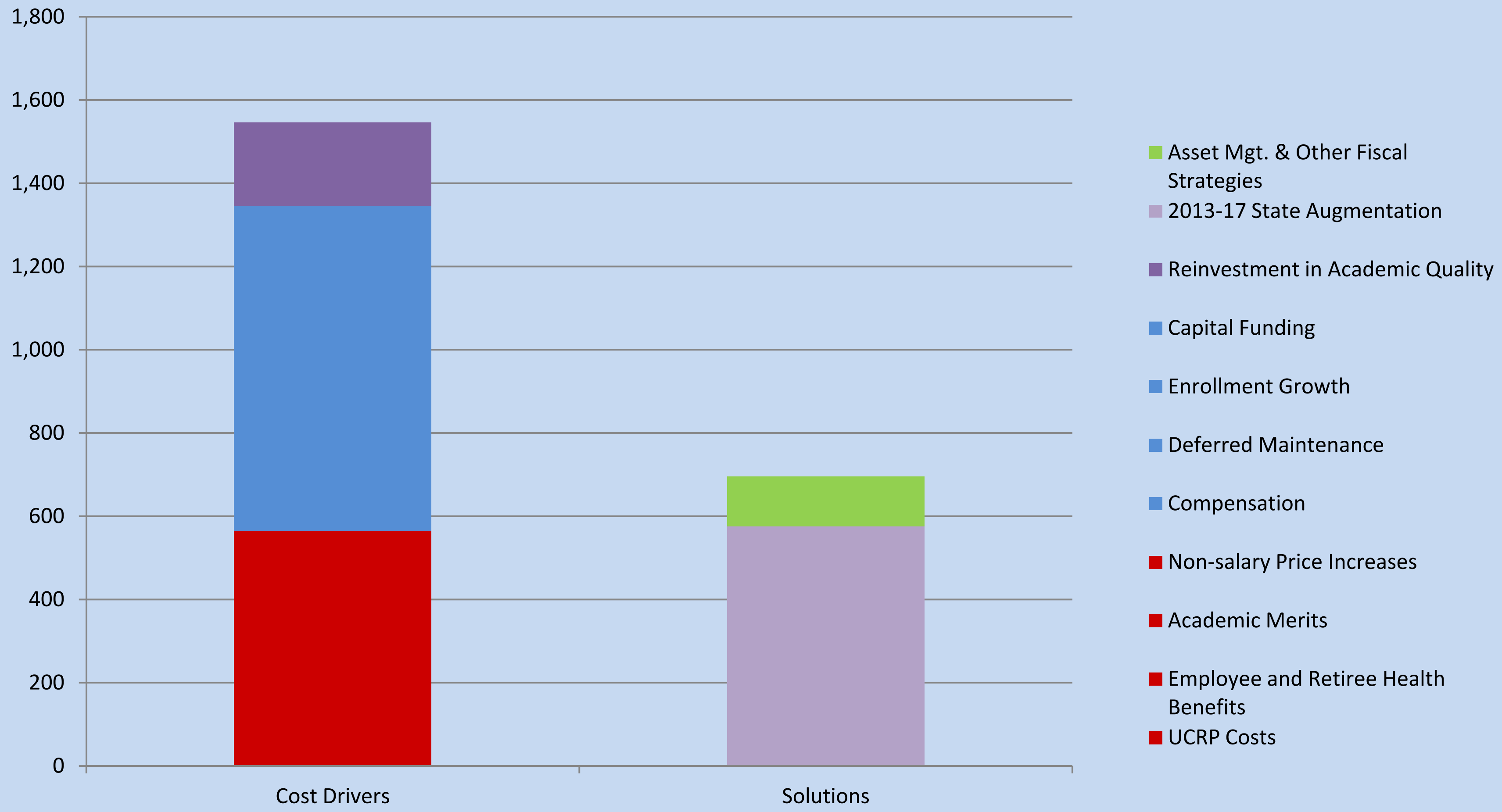


Display 31

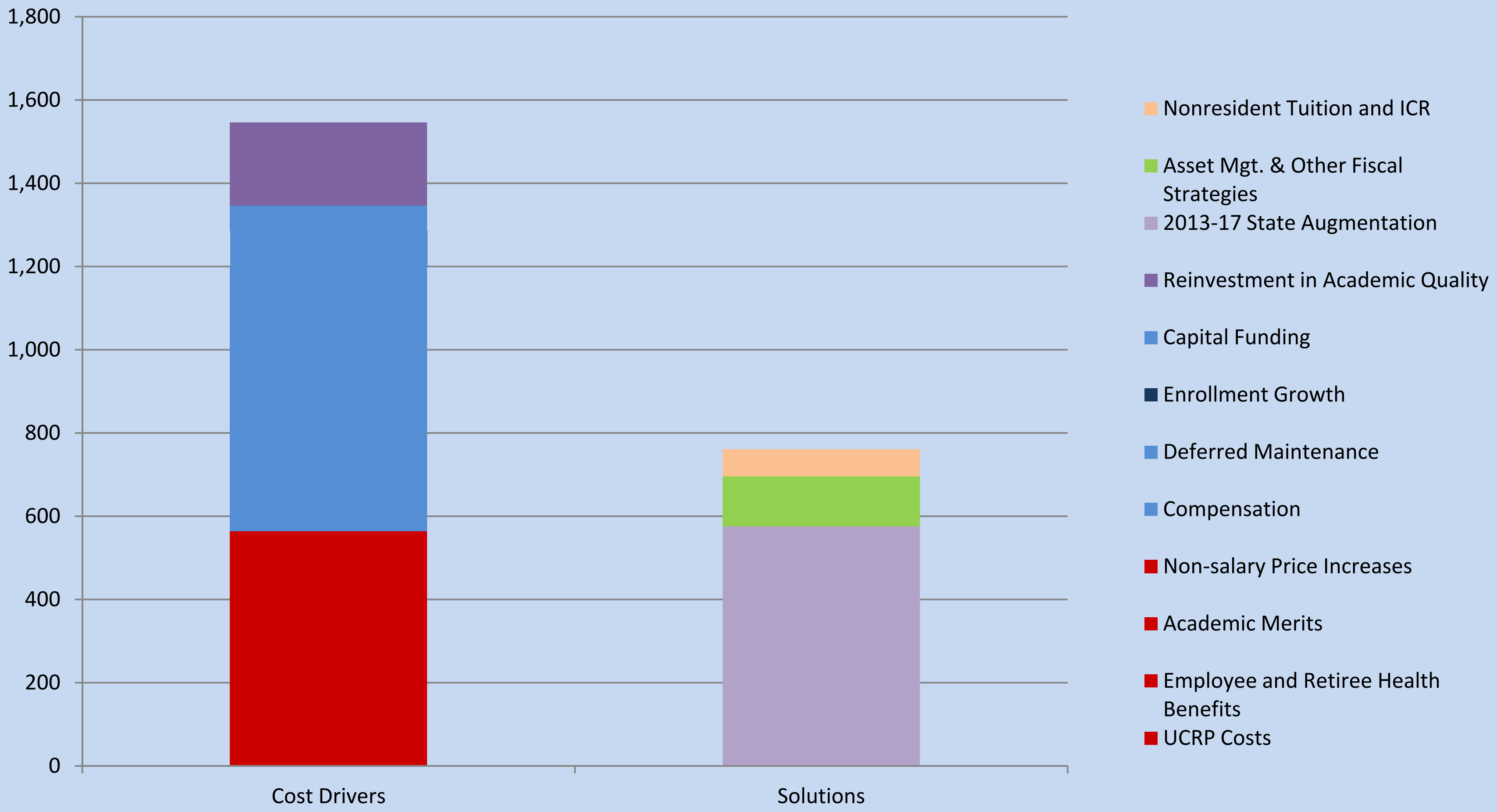
Solutions: 2013-17 State Augmentation, $576 million



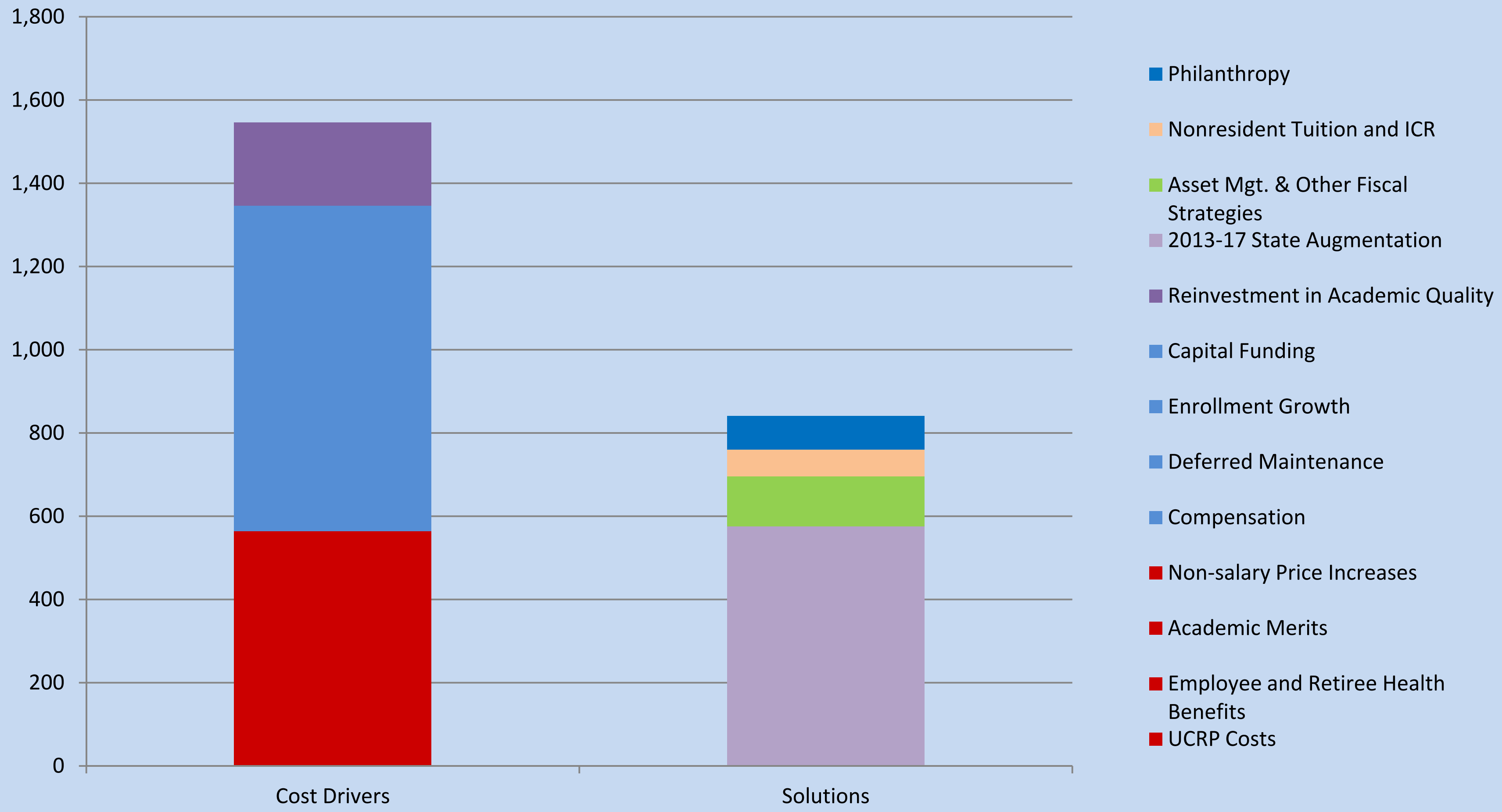
Solutions: Asset Management and Other Fiscal Strategies, $120 million



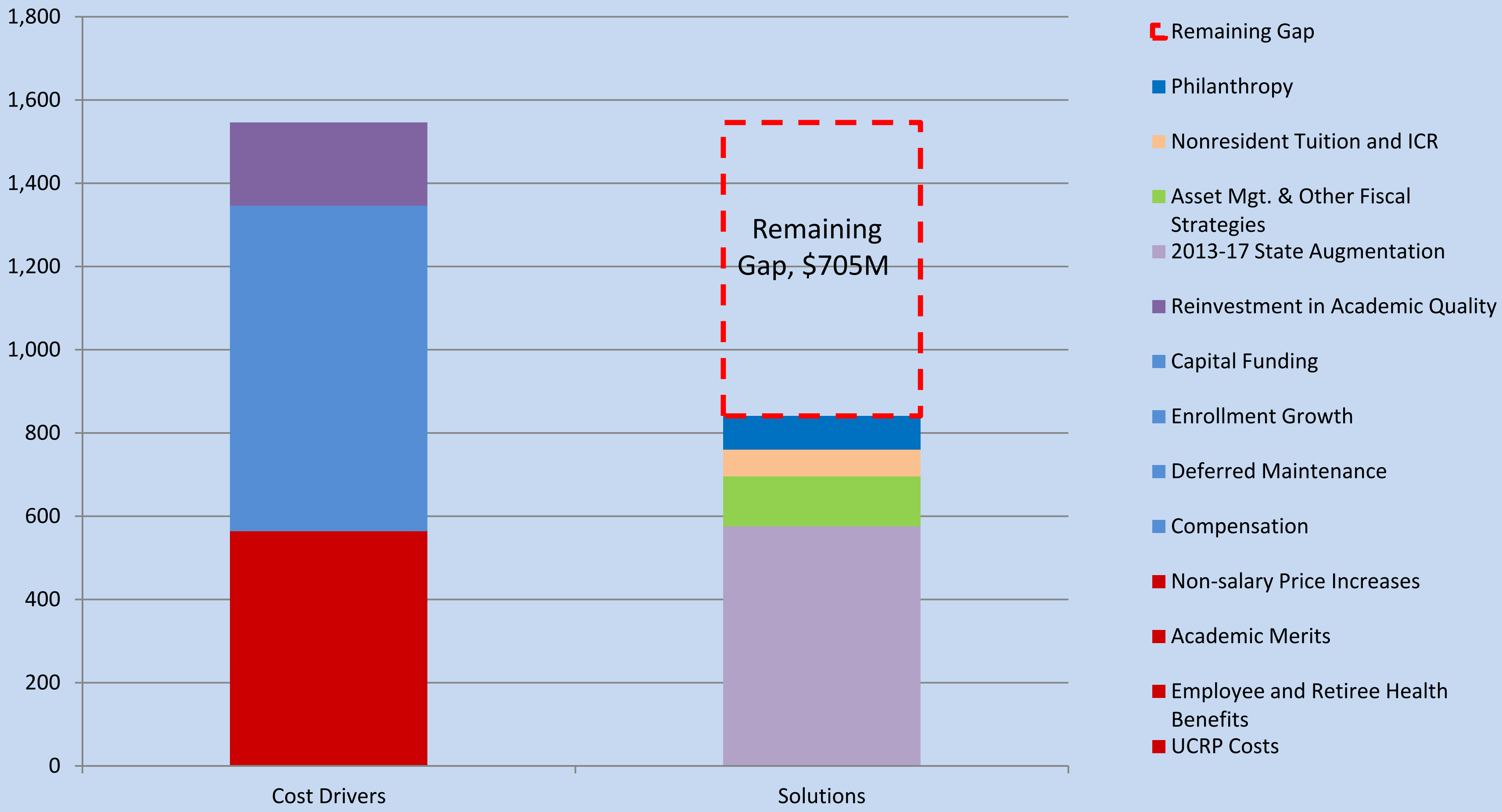
Solutions: Nonresident Supplemental Tuition and Indirect Cost Recovery, $65 million



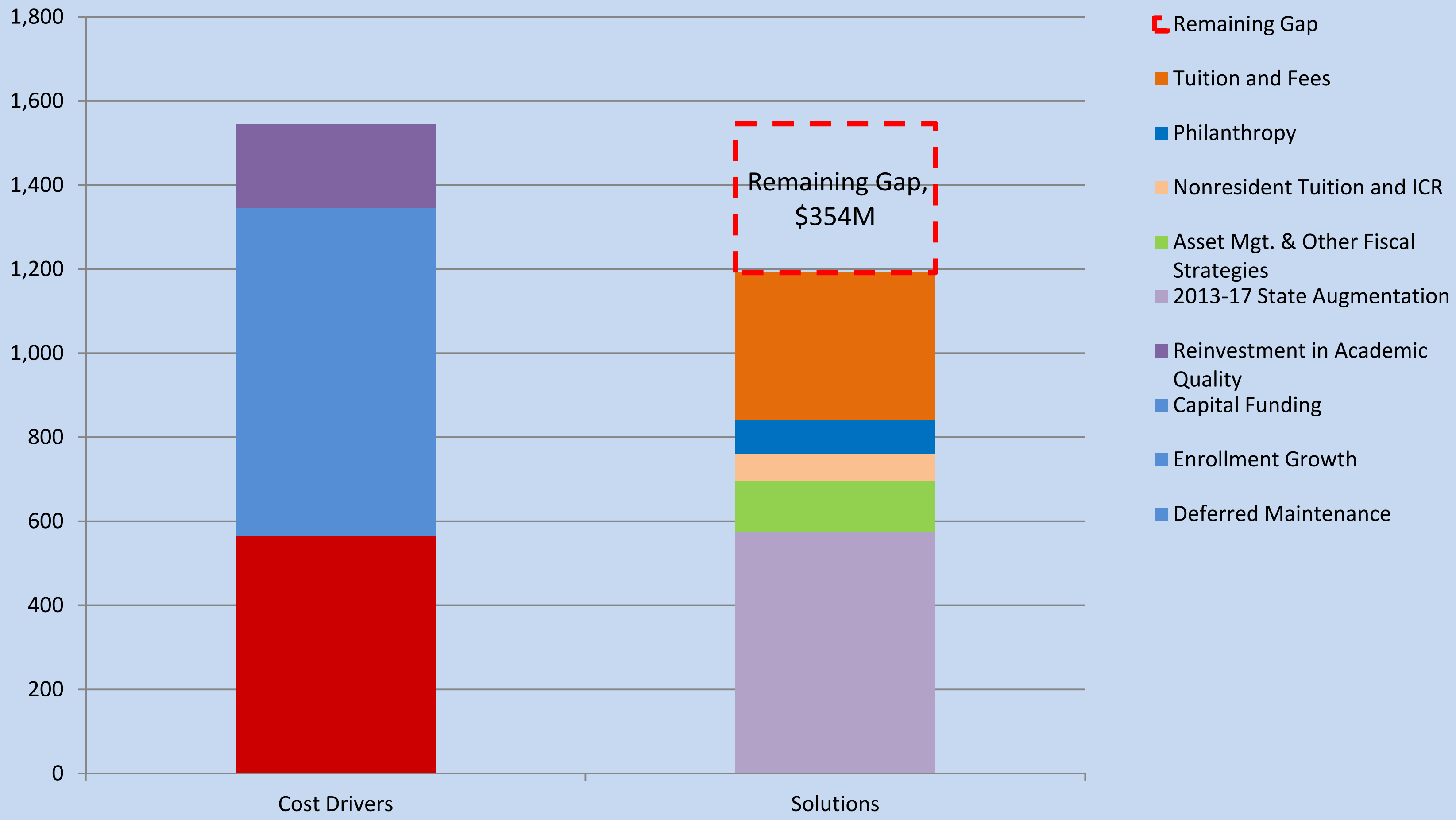
Solutions: Philanthropy, $80 million



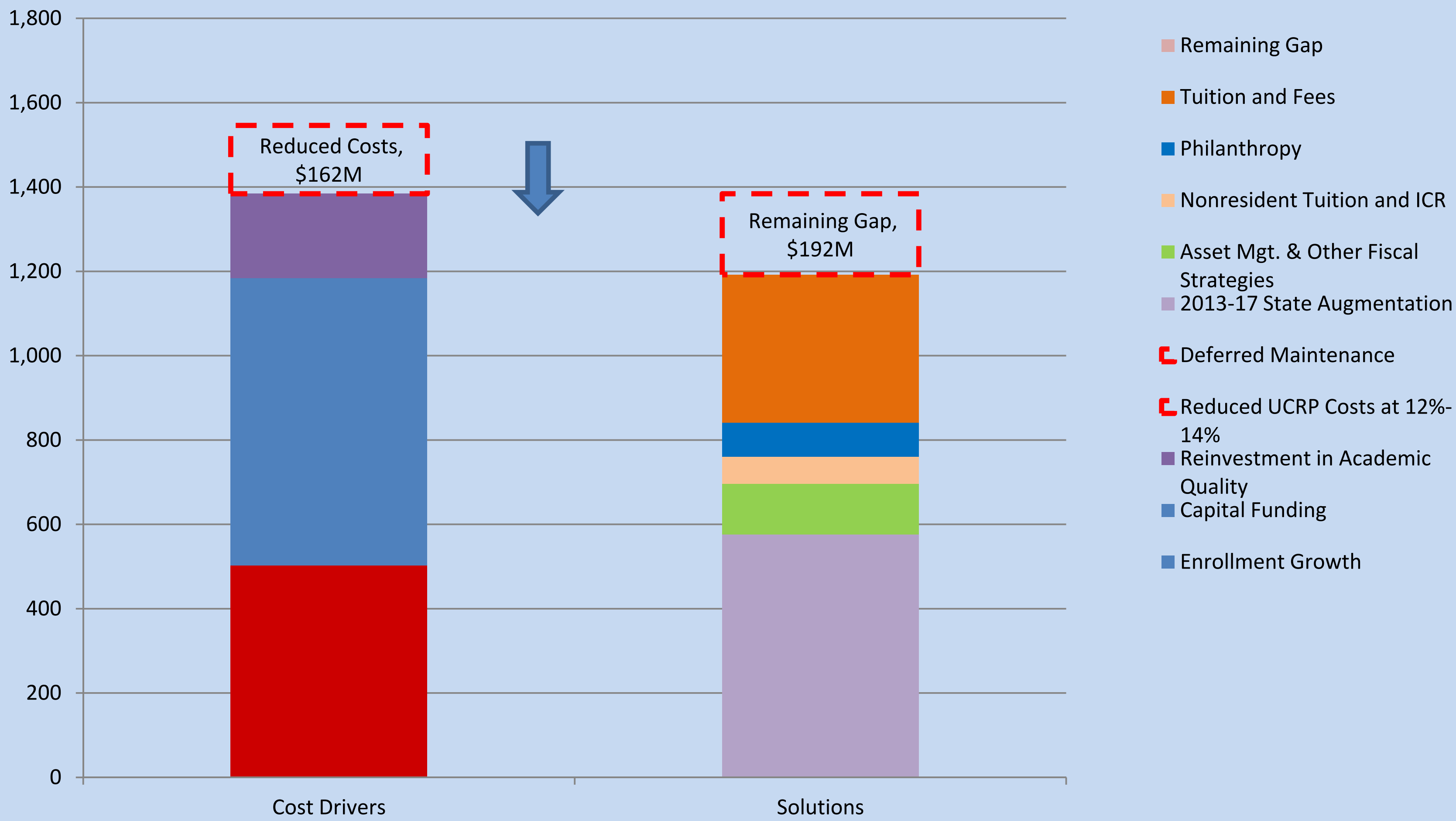
Remaining Gap: $705 million



Tuition and fee increases in 2015-16 and 2016-17 would reduce gap to $354 million



Reducing Cost Drivers could narrow shortfall to $192 million



Other Solutions

- Extend balance sheet strategies
  - Strategically invest more of our liquid assets
  - Borrow from balance sheet for UCRP
- Secure additional funding from State
  - For UCRP costs
  - Enrollment growth
- Alternate strategies in funding UCRS
- Reduce enrollment growth
- Implement additional budget cuts to core-funded programs


THE UNIVERSITY OF CALIFORNIA
LET THERE BE LIGHT
1868