

COMMITTEE ON PLANNING AND BUDGET
Report on UCSC Extension

To the Academic Senate, Santa Cruz Division:

Introduction

CPB is deeply concerned about the current financial condition of UC Extension. For four years UCSC University Extension has been in a state of fiscal crisis, amassing a projected cumulative deficit of c. \$15M through the current fiscal year (2003-2004). There is a high likelihood that this gap will continue to grow, since the current business plan of UNEX does not provide a viable means to increase enrollments and decrease costs so that annual revenues exceed expenses. We have explored the deteriorating situation with Dean Cathy Sandeen and other members of the Administration, all of whom are working to find a solution to the problem. We report here to bring to the attention of the Senate our view of the problem, its origins, its implications, and some alternative possibilities for the future.

Historical Background

When UCSC Extension was chartered in 1965, it was assigned a service area that included Santa Cruz, San Benito, Monterey, and Santa Clara counties. In the early years, UCSC Extension offered classes primarily within Santa Cruz County. Until 1988 it was the smallest UC Extension, but with the opening of a Santa Clara office that year, it began to grow rapidly. By 1999, expenditures totaled more than \$19 million/year, and Extension managed operations in Cupertino, Milpitas, Santa Clara, Sunnyvale, Santa Cruz and Monterey Counties. It had become the third-largest UC extension, just behind UCLA and Berkeley. In the years of enrollment growth from 1988 to 1999, Extension was able to remain self-supporting, although it was not able to build a sufficient operating reserve for a self-supporting organization of its size.

In 1999, in the context of the campus's consideration of the possible development of a Silicon Valley Regional Center, then-Executive Vice Chancellor and Provost John Simpson charged an administrative task force with addressing several aspects of UCSC Extension: its goals and mission, its administration and governance, the quality of its curriculum, and the implications of its geographical presence throughout its service area, with particular attention to the possibilities of Extension participation in the Silicon Valley Regional Center. The task force returned a report that documented and supported the direction on which the growth from 1988 to 1999 had been based: providing advanced technical and business education for Santa Clara County clients. In their report, the task force noted that "at least 75 percent of UC Extension students are enrolled in courses that are part of Certificate Programs" (that is, that are oriented toward employees of high-tech industries) (1999, 3). At the conclusion of its report, the task force stated:

In general, University Extension is a financially sound, well-managed unit that has enjoyed extraordinary growth in the last decade. Such self-supported growth provides a measure of its effectiveness in serving its mission of continuing education. Its future will probably depend on its ability to continue to meet the educational and professional needs of its service region, which includes most of Silicon Valley. Its established relationships with individuals and corporations as well as its extensive experience in meeting professional needs indicate that the

University Extension has become an invaluable resource in areas of continuing education, regional outreach, part-time degree and certificate programs, distance learning, and partnerships with business and industry.

The task force did not identify any risk associated with Extension's increasing dependence on growth in the Silicon Valley economy. However, we can now see that growth in the demand for continuing education in the various areas of information technology and associated business skills had already begun to level off. A summary of revenue and expenditures follows.

Analysis

Based on the data provided in Table 1:

- Over the period 1997 – 2003 total fee income dropped 35% (from c. \$20M/year to c. \$13M in 2002-03).
- Total expenses dropped 18% over this same period (from c. \$20.6M/year over 1997 – 2002 to c. \$16.8M in 2002-03). Thus, total expenses were reduced by only half as much as the reduction in fee income.
- Total administrative personnel costs rose from c. 33% of revenue to c. 45% of revenue (1997 – 2003), and are projected to rise to 50% of total fee income in the current year (2003-2004).
- Lease expenses have risen from c. 9% of total fee income over the period 1997 – 2001, to c. 21% of revenue in 2001 – 2003, due partly to high lease costs renegotiated at the peak of the Silicon Valley boom.
- Total lease expenses, while a contributor to the annual deficit, do not entirely account for the running deficit, since for the past two fiscal years (2001-02, 2002-03), the lease expenses of c. \$3M/year were less than the annual deficit (average c. \$4M/yr).
- The majority of current course offerings cost more to offer than they bring in as fee income, based on the low margin of courses (-37% to 45% in 2004; avg. 34% for courses that comprise 83% of revenues). Courses require a margin of c. 45 – 50% to break even (i.e., cover all lease and admin, and course offering related costs).

UNEX enrollments began to fall precipitously, from 54,884 in 2000-01 to 42,196 in 2001-02, to 29,167 in 2002-03 (Figure 1). It is clear that this was related to the down-turn in the Silicon Valley hi-tech economy. Yet, at the present time, at least 70% of extension classes are still directed to the hi-tech industry and its current and potential employees, reflecting a continued reliance on that market. The opportunity to charge higher fees for professional development programs may have led UNEX to concentrate its course offerings even more strongly in the hi-tech area, making it more vulnerable to the downturn.

The commitment to leased facilities in Cupertino and Sunnyvale, for which relatively high rents must be paid, has contributed to this process of consolidating UNEX operations in Silicon Valley rather than in the Santa Cruz area. In the Summer 2004 catalog, 371 of the 439 classes offered are located at the Cupertino and Sunnyvale facilities, illustrating the degree to which Extension has had to fill the space to which it has committed. This long-term commitment to these expensive locations contributes to the approximately \$3 million annual lease expenses, which represent a part of the high costs of the current program.

UNEX Historical Financial Summary

	1994-95 ACTUALS	1995-96 ACTUALS	1996-97 ACTUALS	1997-98 ACTUALS	1998-99 ACTUALS	1999-00 ACTUALS	2000-01 ACTUALS	2001-02 ACTUALS	2002-03 ACTUALS	FY 2003-2004 FORECAST*
Registrations - Excluding Concurrent	41,467	47,279	52,215	51,559	51,561	54,720	54,884	41,496	29,187	
Growth From Prior Year	20%	14%	10%	-1%	0%	6%	0%	-24%	-30%	
Concurrent Enrollments	569	610	622	485	525	527	474	548	612	
TOTAL FEE INCOME	\$12,554,911	\$15,507,825	\$16,792,453	\$18,485,289	\$19,355,493	\$21,140,546	\$21,780,777	\$16,494,399	\$13,326,051	\$11,615,498
EXPENSES										
DIRECT EXPENSE:										
Stipends (Including Benefits)				5,143,657	5,544,023	6,071,785	6,134,750	4,937,750	3,475,960	3,136,184
Direct Marketing				1,965,284	2,222,122	2,680,055	2,684,468	2,653,019	1,301,492	1,655,878
Other				1,641,319	1,134,296	1,292,845	1,418,793	1,029,652	574,814	703,113
Degree/ Concurrent Enrollment to Campus				91,135	112,458	114,034	150,917	117,436	99,132	135,232
TOTAL DIRECT EXPENSE				8,841,395	9,012,899	10,158,719	10,388,928	8,737,857	5,451,398	5,630,407
% of Revenue				48%	47%	48%	48%	53%	41%	48%
DEPARTMENT EXPENSE:										
Current Staffing		Financial detail not available in similar categories for these years		4,325,988	4,825,534	4,861,979	5,318,032	5,304,717	4,401,619	4,357,172
General Assistance				320,956	365,417	350,217	479,969	552,101	257,734	155,223
Temp Services				-	-	-	-	151,824	236,315	104,772
Subtotal				4,646,944	5,190,951	5,212,196	5,798,001	6,008,642	4,895,668	4,617,168
Benefits				1,061,513	1,401,573	1,477,665	1,593,763	1,343,535	1,175,717	1,236,313
Total Personnel Costs				5,708,457	6,592,524	6,689,861	7,391,764	7,352,177	6,071,385	5,853,481
% of Revenue				31%	34%	32%	34%	45%	46%	50%
General Expenditures				1,788,207	1,503,034	1,632,562	2,381,988	1,069,325	1,082,289	1,238,853
Credit Card Fees				238,630	255,621	271,775	308,139	226,855	177,911	174,232
Lease Expense				952,486	1,371,988	1,479,863	2,119,873	3,154,049	2,982,217	3,120,443
Campus Recharge				429,015	424,290	456,669	474,725	592,682	602,307	538,833
TOTAL DEPARTMENT EXPENSE				9,116,795	10,147,457	10,530,730	12,676,489	12,395,088	10,916,109	10,925,842
CAPITAL EXPENDITURES				368,786	142,694	424,637	252,104	13,038	35,325	83,000
INTEREST							-	54,292	194,715	289,248
LEGAL							-	-	130,000	-
DEPARTMENT LOANS				10,000	10,000	10,000	10,000	37,778	93,334	93,334
TOTAL EXPENSES	\$12,291,986	\$15,411,249	\$16,777,956	\$18,336,976	\$19,313,050	\$21,124,086	\$23,327,521	\$21,238,053	\$16,820,881	\$17,021,832
SURPLUS / (SHORTFALL)	\$262,925	\$96,576	\$14,497	\$148,313	\$42,443	\$16,460	(\$1,546,744)	(\$4,743,654)	(\$3,494,830)	(\$5,406,334)
FUNDS TO CAMPUS				530,150	546,748	580,703	635,642	802,188	989,488	1,056,647

* Forecast Based on January 2004 Actuals

A related concern is the degree to which UNEX supports the academic mission of the campus as a whole. At present, Extension offers very few courses for degree academic credit (having cancelled the Sierra Institute program), and its continuing education courses for teachers have mostly moved from the schools of the Pajaro Valley to the leased facilities in Cupertino, Sunnyvale and Santa Cruz (though a few courses are taught elsewhere, in Hollister and Greenfield for example).

Extension has responded to the collapse of its primary market with rapid cuts to its expenditures in some areas. For example, total stipends and benefits for instructors have fallen (in 2003-04) to approximately 50% of 2000-01 expenditures, matching the nearly 50% drop in enrollments overall. However, other costs have been reduced much more slowly: core staffing expenses (administration, management, and other non-teaching personnel costs) have so far been reduced by only 20%. Additional initiatives to reduce these costs are underway, but more aggressive action must be taken to stem the spiraling deficit. Renegotiation of the lease commitments is currently underway. Although Extension is still paying rent at 1999 prices on most of its leased facilities, one location has been eliminated, and there are plans to reduce costs of other long-term leases. Overall, however, the leases represent only a portion of the deficit, amounting to \$3 million, so that a workout strategy cannot rely solely on their renegotiation.

What had been a reasonable process of careful retrenchment in the face of an economic downturn which everyone hoped would be temporary is now a problem of real concern. There is no sign that enrollments will recover to previous heights and without that, or a major rethinking and reorientation of Extension's activities and expenditures, the deficit will continue to accumulate.

We should note that the financial deficit suffered by UNEX is not unique to UCSC. University Extensions across every UC campus are showing a financial deficit (the systemwide extension deficit in 2002-03 totaled \$23.6 million, of which UCSC Extension contributed \$3.5 million). This does not mean, however, that our campus UNEX deficit has no direct implications for us. CPB has been unable, however, to ascertain precisely the impact of the deficit on the campus's financial reserves, despite posing many questions about that key issue. We have not been persuaded by arguments made by some in the Administration that the UNEX deficit is essentially harmless, and we are disturbed by the apparent implication that eliminating it is not a high priority in the present budget crisis. We can conclude only that policy choices have been made, and we fear will continue to be made, that tolerate, and even contribute to, the cumulative shortfall, by allowing UNEX to continue to accumulate substantial deficit.

Conclusions

It is clearly time for the campus administration and the Senate to consider some alternatives. This is likely to require the rapid development of a new and substantially different business plan for Extension in the coming years. This may also offer new opportunities for ways in which Extension, which in the years of its growth in serving Silicon Valley has been largely at arm's length from much of the campus (except for the Master's in Network Engineering), to connect more closely with, and benefit from, other areas of the campus's academic mission. We should be seeking other ways to diversify the client base for extension so that, when employment and professional training in the Silicon Valley area improve, Extension is not again so vulnerable to the inevitable fluctuations in a single industry. Offering more degree-credit courses and programs (versus strictly

non-degree professional development programs) may be one strategy for diversification. This is the time to consider whether the traditional areas of extension that provide continuing education for teachers, that encourage alumni to have continuing interest in the campus, and that offer local communities an opportunity to understand and enjoy what we do, might be rebuilt to provide a more diversified and balanced underpinning for a successful and financially stable UCSC Extension.

We conclude by noting that both the Administration and Extension have suggested the convening of a new task force to address questions about Extension's goals and mission, administration and governance, curriculum. CPB supports forming such a task force, especially if, unlike the 1999 Task Force, it is charged specifically with management and curricular objectives. There are as yet unanswered questions about just how much local control UCSC has to alter UNEX philosophy and management, questions that CPB will take to the systemwide UCPB. In addition, a task force might draw on the creative energies of faculty across this campus, in the service of strengthening Extension and rebuilding its connections with the academic mission of the campus more broadly. A specific object of study for the Senate should be to investigate the option of creating a new standing committee (e.g., an advisory board) that would assure in the long-term a continuing relationship between the campus and UCSC Extension, as is the case at several other campuses. These are all sound strategies for long-term planning for the recovery and revitalization of Extension. But the situation calls for more concerted action in the short term, a viable financial analysis and a plan for drastic cost-cutting to stop the ever-increasing annual deficit.

The Senate wishes to affirm its eagerness to work with the UCSC administration on two immediate steps we recommend to the Chancellor:

(1) Consult with CPB in early Fall on a plan for cost-cutting and program reduction that would eliminate within-UNEX deficit for fiscal 2005-2006.

(2) Present any proposed future expansions of UNEX to CPB and other relevant Senate Committees, with specific reference to how the campus as whole might benefit from the success of these programs and/or how the liability of the campus as a whole might be limited in the event of their failure.

Respectfully Submitted:

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