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Office of the President

TO MEMBERS OF THE BOARD OF REGENTS:

ACTION ITEM

For Meeting of July 19, 2018

APPROVAL OF REVISED 2018-19 BUDGET FOR CURRENT OPERATIONS AND TUITION

EXECUTIVE SUMMARY

With the Budget Act of 2018 and related trailer bills now signed into law, the Regents are asked to approve a revised 2018-19 budget plan for the University of California that reflects increases in State support for UC, keeps the Student Services Fee flat at 2017-18 levels, and reduces tuition by $60 by eliminating a temporary tuition surcharge.

The Legislature adopted a final 2018-19 State Budget on June 14 and the Governor signed the budget package into law on June 27. The State General Fund budget totals $138.6 billion and reflects a spending increase of nine percent ($11.6 billion) over 2017-18. For the University, ongoing General Fund support for operating expenses will increase by $98.1 million, a 2.9 percent increase over the University's 2017-18 permanent base budget. In addition, the budget provides the University with temporary, one-time General Fund appropriations totaling $248.8 million, including $105 million for general University needs and $35 million for deferred maintenance. This new funding has been incorporated into a revised 2018-19 budget plan for the University, which the Board is asked to approve. Under the plan, the University would have sufficient funds to cover projected increases in mandatory costs in 2018-19 without the immediate need for a tuition increase and would be able to make critical one-time investments in student success, restoring academic quality, and other areas. However, because over two-thirds of new State support for the University is provided in the form of temporary, one-time funding, additional ongoing resources will be needed to maintain proposed levels of expenditures beyond 2018-19.

The proposed budget plan reflects the fact that, by fall 2018, the University will have recovered nearly all damages resulting from two class-action lawsuits that led to the assessment of a temporary tuition surcharge of $60 since fall 2007. Consequently, under the plan, the surcharge would be eliminated and tuition would decline by $60 effective fall 2018.

The University plans to work closely with the incoming Governor's administration and the Legislature to develop a sustainable longer-term enrollment and funding model consistent with the University's long-term goals of access, affordability, and excellence.

RECOMMENDATION

The President of the University recommends that the Regents:

A. Approve the revised 2018-19 budget plan for core funds shown in Attachment 1.

B. Approve the tuition and Student Services Fee levels shown in Display 1, to be effective beginning with the fall 2018 term.

DISPLAY 1: Proposed Tuition and Student Services Fee Levels, Effective 2018-19[1]

	2017-18 Level	Proposed Level Effective 2018-19	*Proposed Change from 2017-18*
Tuition (Undergraduate and Graduate)			
Surcharge[2]	$60	$0	*-$60*
Base	$11,442	$11,442	*$0*
Tuition	$11,502	$11,442	*-$60*
Student Services Fee			
Undergraduate and Graduate	$1,128	$1,128	*$0*
Total Mandatory Systemwide Charges (Tuition and Student Services Fee)			
Undergraduate and Graduate	$12,630	$12,570	*-$60*

[1] Charges are to be effective fall 2018.
[2] Surcharge to cover costs associated with the *Kashmiri v. Regents* and *Luquetta v. Regents* class action lawsuits.

BACKGROUND

The University's core funds budget – the funds used to support its basic educational mission – consists of State General Funds, revenue from mandatory systemwide tuition and fees, and UC General Funds, which include Nonresident Supplemental Tuition, portions of indirect cost recovery, and a variety of other revenue sources. Totaling over $8 billion in 2017-18, core funds comprise only about one-fourth of the University's overall expenditures; however, they support the operational infrastructure needed for the success of other programs in the $35 billion University system, such as medical centers and organized research.

The Finance and Capital Strategies Committee first discussed the University's 2018-19 core funds operating budget in September 2017 (*Preliminary Discussion of the University's 2018-19 Budget*). That discussion included a review of the long-term funding framework established between the Governor and the University, which committed the University to a series of reforms over a multi-year period and set expectations regarding annual increases in State support for UC, one-time State contributions to the University of California Retirement Plan (UCRP), and tuition and fee levels during the length of the framework (from 2015-16 through 2018-19). The discussion also included an overview of major cost drivers for the University – in particular, costs associated with unprecedented enrollment growth of California resident undergraduate students above and beyond the level funded by the State – along with potential resources that could help address them, such as savings from the University's own cost-saving efforts and revenue from improved asset management strategies, philanthropy, State support, nonresident tuition, and tuition.

In January 2018, the Governor released his preliminary proposal for the 2018-19 State budget. That proposal included a 2.7 percent increase to the University's base State General Fund budget, or $44 million less than the amount generated by the four percent increase specified by the long-term funding framework. In response to this funding shortfall, at its January meeting, the Board was presented with an initial 2018-19 budget plan for the University that reflected a lower UCRP employer contribution rate than had been discussed in September and previously approved by the Regents (14 percent instead of 15 percent). The plan also called for a net $288 (2.5 percent) increase in tuition, a $54 (4.8 percent) increase in the Student Services Fee, and a $978 (3.5 percent) increase in undergraduate Nonresident Supplemental Tuition (NRST).

The initial 2018-19 budget plan was withdrawn from consideration by the Board in January pending a more comprehensive presentation on the University's cost structure. The Board also agreed to take up the proposed increase in NRST and the appropriate UCRP contribution rate in March and to delay any action on student tuition and fees until students and other UC stakeholders had the opportunity to engage with lawmakers about the University's ongoing funding needs and the State's historical and crucial role in addressing them.

The March Board meeting included an extensive presentation on the University's cost structure that described the main cost drivers for the University's core operating budget, the University's success in controlling staff growth, the significant decline in available funding per student over time, and the consequences of this underinvestment for students. Also in March, the Board approved the proposed adjustment to undergraduate NRST and approved maintaining the UCRP employer contribution rate at 14 percent, the same rate as in 2017-18. The Board also requested that in addition to requesting new State funds to avoid a tuition increase for 2018-19, the University advocate for funding to buy out the increase in NRST and to restore nonresident undergraduates' eligibility for need-based financial aid from the University Student Aid Program (USAP), which is funded primarily by tuition paid by resident and nonresident students alike.

The Governor's May Revise budget proposal for UC was discussed by the Finance and Capital Strategies Committee in May. Compared to the January budget proposal, the May Revise provided new permanent funding to the University for support of the Institute on Global Conflict and Cooperation and provided one-time appropriations of $100 million to address a portion of the University's deferred maintenance needs, $55 million to expand psychiatric residency programs, and $1.2 million to provide anti-bias training at UC and the California State University (CSU).

During this same time period, ongoing deliberations among Senate and Assembly members resulted in favorable proposals for enhanced ongoing and one-time support for the University.

Both houses of the Legislature supported $70 million in new ongoing support for the University to permanently buy out the increases in tuition and the Student Services Fee that had been proposed as part of the University's initial 2018-19 budget plan. In addition, the Assembly and the Senate approved, respectively, $12.5 million and $25 million of new ongoing support to help address current levels of California resident undergraduate enrollment beyond the levels funded by the State in the Budget Acts of 2016 and 2017, and $10 million in new State funds to support enrollment growth in 2018-19. Both houses also approved additional permanent funding to be provided in 2018-19 to support future enrollment growth of California resident undergraduates in 2019-20. Other proposals endorsed by one or both houses included one-time support of $120 million in Proposition 2 funds to reduce the unfunded liability of UCRP, $25 million to enhance student mental health services, and $5 million to address student hunger and basic needs.

The impact of UC stakeholder involvement on the adoption of these proposals – in particular, the unprecedented participation by UC students in committee hearings, social media campaigns, and other events – was extraordinary. Ultimately, however, the spending packages approved by the Senate and the Assembly reflected 2018-19 General Fund revenue estimates that were more than the Governor was willing to endorse. Consequently, the budget package that emerged from negotiations between the Governor, the Speaker of the Assembly, and the Senate President Pro Tempore reflected a hybrid of the Governor's May Revise proposal and proposals that emerged from the Legislature, with over two-thirds of new funding for UC provided as temporary one-time support instead of permanent ongoing funds.

University of California Funding in the Budget Act of 2018

State funding for the University in the Budget Act of 2018 represents a $98.1 million (2.9 percent) increase in ongoing funding and $248.8 million in temporary, one-time General Fund support. In addition, the University may be eligible to receive additional funding for specified purposes from allocations made to other State agencies. Components of the Budget Act are described below.

<u>New Ongoing General Fund Support: $98.1 million (2.9 percent increase)</u>

- $92.1 million is provided as a 2.7 percent base budget adjustment to the University's 2017-18 permanent General Fund appropriation.
- $5 million is provided to support 500 new California undergraduates in 2018-19 (in addition to the 1,500 new California undergraduates funded by an internal reallocation of University resources).
- $1 million to support the Institute on Global Conflict and Cooperation (UC San Diego)

<u>Temporary One-Time General Funds: $248.8 million</u>

- *$105 million for general use.* This funding level is consistent with the amounts that UC had requested in permanent funding to buy out the proposed 2018-19 tuition and Student Services Fee increases ($70 million), support 2,500 current students above the number funded by the State ($25 million), and support 2018-19 enrollment growth of 500

California resident undergraduates and 500 graduate students ($10 million). However, because these are provided as temporary one-time funds and not permanent funds, there is no guarantee that they will be available beyond 2018-19, which limits the kinds of investments that campuses can make.

- *$40 million for graduate medical education.* This funding will backfill, on a one-time basis, General Funds that were cut from the University's budget and replaced with Proposition 56 funds in 2017-18.
- *$35 million for deferred maintenance.* Though less than the amount proposed by the Governor in the May Revise, this funding is consistent with the University's original 2018-19 budget plan and will allow campuses to address their most critical deferred maintenance and seismic safety needs.
- *$25 million for UC Berkeley.* The Budget Act provides $25 million to UC Berkeley to address its operating deficit, subject to certain reporting requirements.
- *$15 million for telemedicine/telepsychiatry.* Funding is provided to the UC Riverside School of Medicine to support residency programs that utilize telemedicine and/or increase the number of psychiatry residents who use telemedicine. Programs must serve medically underserved rural areas or areas with demonstrated workforce need.
- *$12 million for Jordan's Syndrome research.* This funding will support research for Jordan's Syndrome, a rare genetic variation, at the Institute for Regenerative Cures at UC Davis.
- *$4 million for legal services to undocumented and immigrant students, faculty, and staff.* These funds will allow the University to expand the legal resources that it currently provides to this population.
- *$3 million for valley fever research.* This funding will support UC research efforts to combat valley fever, a serious respiratory illness caused by a fungus found in the San Joaquin Valley and parts of the southwestern United States, Mexico, and South America.
- *$2.8 million for Aggie Square.* These funds will support planning efforts for Aggie Square, a satellite campus for UC Davis located in Sacramento.
- *$2 million for equal employment opportunity programs.* These funds will further support campus efforts to enhance faculty diversity.
- *$1.8 million for the Ralph J. Bunche Center for African-American Studies.* The Center, located at UCLA, supports research on the history, sociocultural systems, and well-being of persons of African descent and provides scholarships and information services to facilitate study in these areas.
- *$1.5 million for student hunger and basic needs.* This funding continues support for campus-based activities related to student hunger and basic needs at qualifying "hunger-free campuses."
- *$1.2 million for anti-bias training.* These funds are provided to the University to contract for a two-year pilot program to provide anti-bias training for administrators, faculty, staff, and student leaders at UC and CSU campuses.

- *$500,000 for the California Vectorborne Disease Surveillance Gateway.* The Gateway, which is managed jointly by UC Davis and other entities, facilitates the collection and dissemination of information about diseases transmitted by mosquitoes, ticks, and other infection vectors.

<u>Funding Opportunities from Other State Agencies</u>

- UC is an eligible applicant for funding from the Greenhouse Gas Reduction Fund for research on reducing carbon emission; funding from the Governor's Office of Planning and Research to advance precision medicine; and grants from the Office of Emergency Services for work related to earthquake early warning systems.
- Funding is also provided by other agencies to support the UC Natural Reserve System ($4 million from the Wildlife Conservation Board), scholarships for primate care or emergency physicians at the UC Davis or UC Irvine Schools of Medicine ($1 million from the Office of Statewide Health Planning and Development), and the UC Berkeley Underground Scholars Program ($150,000 from the Board of State and Local Corrections).

The Budget Act continues to fund the UC Office of the President (UCOP) and UCPath as separate line items for General Fund support. The Act redirects $8.55 million from UCOP to campuses to support a portion of 2018-19 enrollment growth, consistent with the University's proposal in response to provisions of the Budget Act of 2017. The Budget Act of 2018 also allows UCPath to assess campuses for up to $15.3 million in additional expenditures, consistent with projected operating cost increases as UCPath is deployed to more UC campuses in 2018-19. The Act also creates a new, separate line item for Agriculture and Natural Resources as part of the UCOP Budget.

Implications for the 2018-19 Core Funds Operating Budget

Taken together, the total amount of new funding provided by the State in 2018-19 – $98.1 million in permanent funding plus $248.8 million in temporary one-time funds – is a significant increase over the level of State support that the University received in 2017-18. These funds will be particularly helpful to certain programs and research initiatives specified in the Act itself.

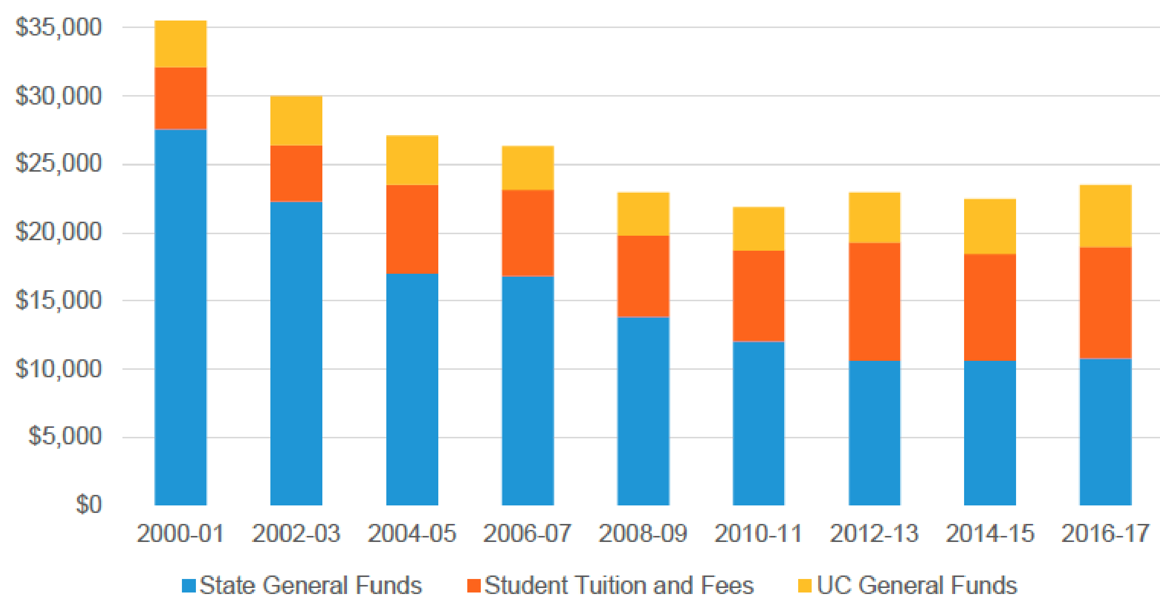
However, for the University's core funds budget – the budget that supports the University's primary activities related to instruction, academic support, research, student services, student outreach, and the related administrative infrastructure – the Budget Act has mixed impacts. For example:

- The $98.1 million in permanent funding, while greater than the amount originally proposed by the Governor in January and May, is $38.4 million less than the amount that the University would have received under the budget framework established with the Governor.

- The $35 million in temporary one-time funding for deferred maintenance is excellent news for UC campuses. This amount is consistent with UC's initial proposal and will allow campuses to make progress on their highest-priority projects.
- The $105 million in temporary, one-time funding will permit campuses to address one-time funding needs, but is not a long-term substitute for ongoing State support or tuition revenue. These funds will revert to the State in the next fiscal year unless replacement funding is provided *in addition to* funding that will be needed to cover anticipated cost increases in 2019-20.

As a result, although the budget will allow UC campuses to meet their immediate expenditures in 2018-19 and to make important one-time investments, it will not alter the overall decline in per-student funding shown in Display 2, below, and the consequences of that decline for current and future generations of UC students, faculty, and staff.

DISPLAY 2: Change in Available Core Funds per Student, Adjusted for Inflation



After taking into account inflation and increased expenditures on financial aid, debt service, and contributions to the UC Retirement System, UC has about $11,100 less available funding from core funds per student now than in 2000-01 – a decline of over 30%.

Revised Proposal for the 2018-19 Operating Budget Plan and Tuition and Fees

In light of the funding provided in the Budget Act and actions previously taken by the Board, a revised 2018-19 budget plan for core funds is presented to the Board for approval and is shown in Attachment 1.

Like the initial plan presented to the Board in January, the revised plan incorporates enrollment growth for California resident undergraduates, graduate students, and nonresident undergraduates and allows for investments to enhance student success, expand access to student mental health services, and address the University's most critical capital needs. The plan includes both University-initiated actions to limit cost increases and identify alternative revenue sources, unrestricted State support provided in the Budget Act, and tuition and fees resulting from enrollment growth in 2018-19.

Ongoing and One-Time Resources and Costs

In the revised budget plan, proposed changes to expenditures and resources have been grouped into two categories: ongoing and one-time. The distinction is important. For example, temporary one-time funds are helpful in addressing discrete one-time funding needs (e.g., replacing a classroom building roof that has outlived its useful lifespan) but cannot be used to fund long-term commitments (e.g., hiring tenure-track faculty) unless there is confidence that replacement funding can be found in subsequent years once the temporary funding is no longer available.

As Attachment 1 shows, for 2018-19, the budgeted total increase in available resources ($409.3 million) is equal to the budgeted total increase in expenditures. However, the budget plan also reflects a gap of $34.9 million between new *ongoing* resources ($269.3 million) and new *ongoing* mandatory and high-priority costs ($304.2 million). While these costs can be covered by one-time resources in 2018-19, the University will need to secure new ongoing revenues in 2019-20 to address them *in addition* to costs associated with further enrollment growth, inflation, and other cost drivers next year.

To minimize the ongoing funding gap, the budget plan assumes that campus investments related to student success and academic excellence will primarily be short-term rather than ongoing expenditures – for example, covering faculty start-up costs, upgrading instructional equipment, or developing new courses. One-time funding also provides an opportunity for campuses to upgrade critical campus information systems and make other investments to increase efficiency or enhance the services that they provide.

The expenditure and revenue components of the plan described below were presented to the Board in January and have been updated, where appropriate, to reflected the final 2018 Budget Act and the proposed rates for tuition and the Student Services Fee effective 2018-19.

Major Expenditure Categories for 2018-19

Enrollment Growth. UC is dedicated to the mission of access for California residents consistent with its founding as the State's land-grant institution and in accordance with the Master Plan for Higher Education. As a research university, UC also must educate enough graduate students to meet the California's economic development and skilled workforce needs, help advance knowledge through its research mission, and work with faculty and undergraduate students as part of the education continuum. The 2018-19 budget plan provides the resources needed to increase enrollment at both the undergraduate and graduate levels.

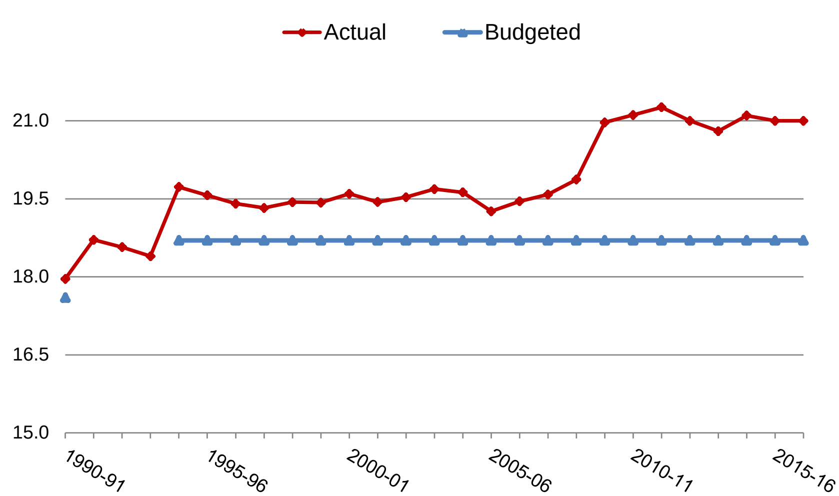
The 2018-19 budget plan anticipates enrollment growth of 2,000 California resident undergraduate students and 500 graduate students over 2017-18 levels. The plan also reflects an additional 1,000 undergraduate nonresident students systemwide, the same number that was incorporated into the University's budget plan for 2017-18. Projected expenditures associated with this enrollment growth are approximately $18,900 per student (excluding financial aid) based upon the University's marginal cost calculation methodology. Of this amount, new State funds contribute $10,000 per student, with the remainder covered by the tuition and fees paid by the student (less the amount used for financial aid).

As the State's research university, UC is also concerned with enrollment of graduate students to complement and support dramatic undergraduate growth. As faculty are added in response to increased enrollment, graduate students are needed to partner with faculty in their research, teach and mentor additional undergraduates, and contribute to the State's skilled workforce and broader economy upon graduation. To address this need, the budget plan includes enrollment growth of 500 graduate students in 2018-19.

Investment in Student Success and Academic Excellence. Reinvestment in the academic infrastructure of the University remains a top priority, made even more essential by the University's recent enrollment growth. Areas where additional investment is needed include the following:

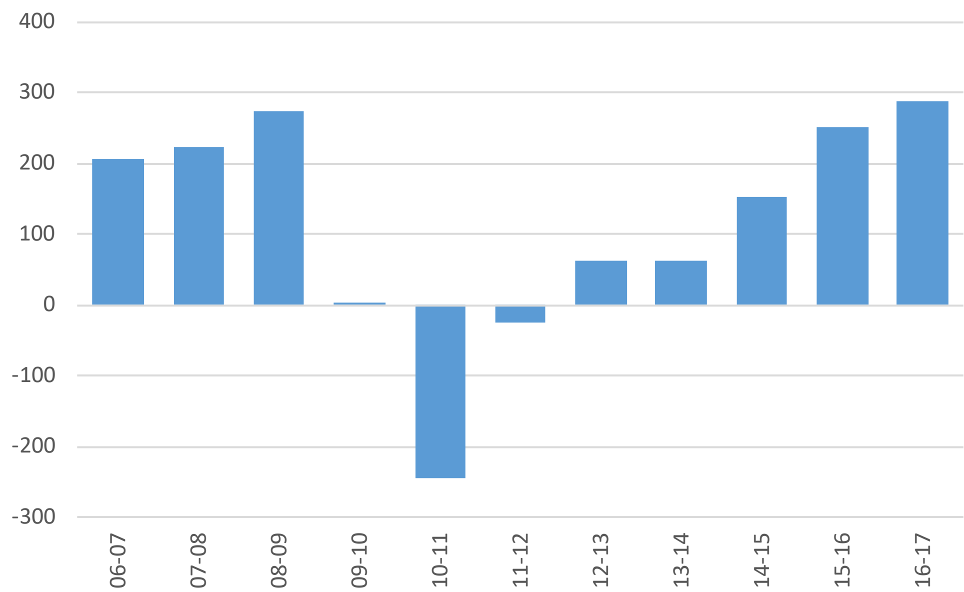
- *Improving the Student-Faculty Ratio.* As shown in Display 3, the University's student-faculty ratio ballooned during the recent fiscal crisis and stands currently at 21:1 – well above the ratio previously agreed upon with the State of 18.7:1 (sometimes referred to as the "budgeted" ratio). Reducing the student-faculty ratio would permit the University to offer smaller class sizes and expand the number of courses offered. A lower student-faculty ratio also creates more opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service, all of which directly benefit students. Reducing the student-faculty ratio also can contribute to improved performance outcomes such as graduation rates and time-to-degree.

DISPLAY 3: Budgeted and Actual Student-Faculty Ratios



The University's average student-faculty ratio has increased precipitously since the early 1990s as enrollment growth outpaced growth in new funding.

DISPLAY 4: Ladder-Rank and Equivalent Faculty Hires, Separations, and Net Change, 2006-07 to 2016-17



Following the Great Recession, more faculty members left the University than were hired. In recent years, the trend has been reversed.

Improving the student-faculty ratio requires a sustained effort over the course of many years. Signs of preliminary progress can be seen in Display 4, which shows the difference between the number of ladder-rank equivalent faculty hired each year and the number who leave the University. For several years, the number of newly hired faculty members was below or barely higher than the number of faculty who left the University. In recent years, the trend has been more promising. Additional years of continued growth will be required in order to bring the student-faculty ratio closer to pre-recession levels.

- *Supporting Startup Costs for New Faculty.* As campuses hire new faculty, they are faced with the need to cover the associated startup costs. These may include renovation of laboratory space; equipment; graduate student, postdoctoral scholar, and technical staff support; and other costs necessary for new faculty to establish their research teams and to become productive members of the University community. In some disciplines – especially health sciences, life sciences, physical sciences, and engineering – startup costs frequently exceed $1 million per faculty member. Since UC's top candidates have multiple job prospects and UC is in competition for these hires, candidates make decisions based in part on UC's ability to support cutting-edge research.

- *Augmenting Graduate Student Support.* Graduate education and research at the University fuel California's innovation and economic development, helping establish California as the sixth largest economy in the world. The strength of UC's graduate programs is also a key factor in attracting and retaining high-quality faculty. To maintain that strength, the University must ensure that the amount and duration of graduate student support are competitive. Since 2004, surveys of students admitted to the University's academic doctoral programs have repeatedly shown that UC's offers of financial support are, on average, less than the offers students receive from competing institutions. The University has attempted to address this issue on several fronts, including freezing graduate student Nonresident Supplemental Tuition for several years and increasing the average value of its graduate student support offers. Recent surveys suggest that these efforts have started to yield results: UC's competitive gap has narrowed since 2010, an important sign of progress. Nevertheless, students' offers from competing institutions continued to be higher, on average, than offers from UC, illustrating the need for continued investment in this area.

- *Enhancing Undergraduate Instructional Support.* Historically, the State has recognized chronic shortfalls in funding for key areas of the budget that directly affect instructional quality – instructional equipment replacement, instructional technology, libraries, and ongoing building maintenance. The University must reinvest in these areas if it is to keep up with technical innovations that have become the norm in higher education today and that students have come to expect.

Maintaining Affordability. The budget plan for 2018-19 includes $15.5 million of new funding for financial aid attributable to enrollment growth – 33 percent of the new tuition and fee revenue resulting from undergraduate and graduate professional degree enrollment growth and 50 percent of the new revenue from enrollment growth in graduate academic programs. The plan also reflects the elimination of the temporary $60 tuition surcharge in 2018-19 (as described elsewhere in this item) and the portion of the surcharge that had been set aside for financial aid to offset its impact on students ($5.7 million). The net increase in financial aid is $9.7 million for undergraduate and graduate students.

Expanded Student Mental Health Services. The budget plan includes $4.7 million for expanded student mental health services, consistent with the high priority that the Regents and students have placed on this issue in recent years. Funding will allow campuses to make progress on their plans to hire additional mental health advisors and other professionals to improve students' access to counseling and related resources.

Capital Needs. Two components of the budget plan directly address the University's most pressing capital needs.

- *Deferred Maintenance.* The 2018-19 budget plan includes $35 million in one-time State funds for deferred maintenance, which continues to represent a substantial and growing safety and economic risk to the University. The University's current deferred maintenance is estimated to exceed $8 billion, over $4 billion of which is eligible for State support. As University facilities deteriorate, the threat of a significant building or infrastructure failure grows – a failure that could place students, faculty, and other staff at risk, cause extensive damage to facilities and other property, destroy years of research, or disrupt instructional and other core mission activities for an extended period of time.

- *Capital Improvements.* The University continues to face a growing backlog of capital projects. The State process introduced by AB 94 allows the University to address its highest-priority capital needs until a new General Obligation bond can be brought before California voters. To utilize this mechanism, however, the University must set aside sufficient revenue from other parts of its operating budget. The budget plan for 2018-19 includes an additional $15 million for debt service and related capital expenses, including those associated with Merced 2020, enrollment growth, seismic safety, and other approved capital projects.

Mandatory and Other High-Priority Costs. The University must pay a variety of cost increases each year, regardless of whether or not additional new funding is provided to support them. Significant mandatory and high-priority cost changes projected for 2018-19 are described below.

- *UC Retirement Plan.* The University of California Retirement Plan (UCRP) provides pension benefits for more than 59,000 retirees and survivors and has more than 126,000 active employee members as of July 1, 2017. The 2018-19 budget plan includes $17.1 million for increased employer contributions to the retirement system from core funds, which reflects maintaining the employer to UCRP at 14 percent next year.

- *Employee Health Benefits.* Significant efforts have been made in the past several years to limit health benefit cost increases and reduce pressure on already strained operating budgets. Through negotiations with providers and other measures, UC has been able to hold its own health benefit cost increases to levels below the national trend. Overall core-funded health benefit costs in 2018-19 are expected to increase by about four percent, or $18.9 million.

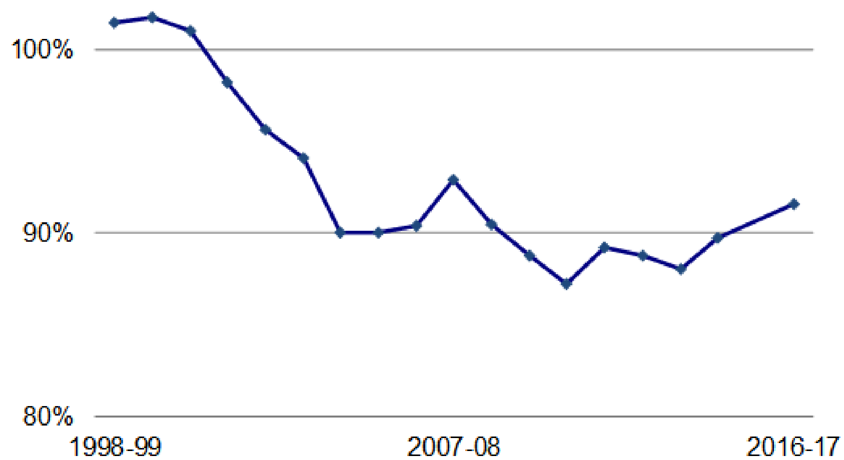
- *Retiree Health Benefits.* In 2017-18, more than 63,000 UC retirees and beneficiaries are eligible to receive or are receiving an estimated $315 million in health benefits paid for by the University. The annuitant health costs paid from core funds are estimated to increase by $7.7 million in 2018-19.

- *Contractually Committed Compensation.* Salary increases for represented employees are governed by collective bargaining agreements with each represented bargaining unit. These agreements are expected to result in additional costs of $28.3 million in 2018-19.

- *Faculty Merit Program.* The University has maintained the faculty merit program each year – even through years of fiscal crisis – because of its importance to the quality of the University. This program requires a rigorous peer review process before a merit increase is awarded. The budget plan includes $32 million for this purpose in 2018-19.

- *Keeping Pace with Inflation.* To preserve the quality of the instructional program and support activities, the University must regularly replace, upgrade, or purchase new instructional equipment, library materials, and other non-salary items. These expenses are affected by inflation, which is reflected in the 2018-19 budget plan by $32.3 million for non-salary price increases of 2.5 percent. This level of increase is below the State Department of Finance’s projections for general cost increases, but it represents an appropriate budget target in light of the University’s ongoing cost-containment efforts.

DISPLAY 5: Ladder Rank Faculty Salaries as a Percentage of Market



- *Compensation.* The University regularly compares its faculty salaries with those of eight peer institutions to evaluate its market position. At the start of the last decade, UC's faculty salaries were on par with the market. As shown in Display 5, faculty salaries had slipped to 12 percent below market by 2010-11 and remained 8.4 percent below market in 2016-17, the latest year for which market data are available. Regular compensation increases are necessary to ensure that UC can recruit and retain faculty and prevent further growth in salary lags for both faculty and staff. The budget plan for 2018-19 includes an average increase in compensation of three percent for nonrepresented faculty and staff, resulting in a projected net increase in core fund compensation expenditures of $82.7 million.

Revenue and Savings Components of the 2018-19 Budget Plan

The 2018-19 budget plan proposes $408.9 million in new available revenue to address the expenditure needs described above. These increases fall into four revenue categories.

- *Cost Savings/Alternative Revenue Sources.* The budget plan assumes $50 million in funding attributable to continued asset management strategies, cost-saving strategies, and philanthropic giving. The plan also incorporates $14 million in new savings from continuing to phase out need-based financial aid for new cohorts of nonresident undergraduate students, along with $15 million to be redirected from other purposes – primarily from funds and/or programs administered by the Office of the President – to provide what has historically been the State's share of the marginal cost of enrolling 1,500 additional California resident undergraduates.

- *State General Funds.* The plan incorporates the University's base budget increase of $92.1 million in new State General Funds, $5 million in new permanent funds to support the enrollment growth of an additional 500 California resident undergraduate students, and $1 million to support the Institute on Global Conflict and Cooperation. The plan also includes temporary, one-time State funds of $105 million for general use and $35 million for deferred maintenance.

- *Systemwide Tuition and Fees.* The plan includes an increase of $44.2 million of new revenue from Tuition and the Student Services Fee resulting from budgeted enrollment growth, which will provide $28.7 million to help cover the cost of enrolling these additional students and $15.5 million for financial aid.

  Note that since fall 2007, a temporary surcharge of $60 has been included in the tuition rate paid by all students each year. The surcharge was approved by the Regents to recover costs resulting from two earlier class-action lawsuits – *Kashmiri v. Regents* and *Luquetta v. Regents*. By fall 2018, nearly all of those costs will have been fully recovered. Consequently, under the plan, the temporary surcharge would be eliminated and tuition would decline by $60 effective fall 2018. This would result in a revenue decline of $16.2 million (including $5.7 million that would have been used to cover the surcharge for eligible financial aid recipients and $10.5 million of net revenue) and a corresponding reduction of $16.2 million in related expenses. Altogether, the plan reflects an overall increase of $28 million in tuition and Student Services Fee revenue.

- *UC General Funds.* Nonresident enrollment has helped campuses during periods of constrained State funding. The budget plan proposes $64.3 million in new revenue from Nonresident Supplemental Tuition based on the 3.5 percent ($978) adjustment to undergraduate nonresident tuition previously approved by the Regents and budgeted enrollment growth of 1,000 students. This will yield an estimated $54.3 million net of instructional costs after taking into account the other charges that students pay.

Key to Acronyms

CSU	California State University
NRST	Nonresident Supplemental Tuition
UCRP	University of California Retirement Plan

ATTACHMENTS:

Attachment 1: 2018-19 University of California Budget Plan for Core Funds