

**Office of the President**

**TO MEMBERS OF THE COMMITTEE ON FINANCE:**

**ACTION ITEM**

*For Meeting of November 15, 2006*

**APPROVAL OF UNIVERSITY OF CALIFORNIA 2007-08 BUDGETS FOR CURRENT OPERATIONS AND FOR STATE CAPITAL IMPROVEMENTS**

The President recommends that:

- (1) The Committee on Finance recommend to The Regents that the expenditure plan included in the document, *2007-08 Budget for Current Operations*, be approved.
- (2) The Committee on Finance concur with the recommendation of the Committee on Grounds and Buildings to The Regents that the *2007-2008 Budget for State Capital Improvements* be approved.

**BACKGROUND**

***Proposed 2007-08 Expenditure Plan for Current Operations***

The *2007-08 Budget for Current Operations*, mailed on Thursday, October 26, provides the basis for the recommendation that the 2007-08 expenditure plan be approved. Vice President Hershman will make a detailed presentation on the proposed 2007-08 budget. Displays taken from the Regents' budget document will serve as the basis for Vice President Hershman's presentation and are attached to this Item as Displays 1-27.

While State funding provides essential core support, the University's overall operating budget is funded from a variety of sources, including State General Funds, revenue from student fees, UC General Funds, federal funds, teaching hospital revenue, gifts and endowments, and income from self-supporting enterprises. The University's annual budget plan is based on the best estimates of funding available from each of these sources. Major changes projected for general support of the University's budget are discussed in detail in the budget document.

The Regents are being asked to approve the 2007-08 expenditure plan for core operations, which was developed based on the Compact with the Governor and includes the following:

- an average 5 percent compensation package, including continuation costs for salaries and health benefits that were provided in the previous year but effective for only part of the year; merit salary increases for eligible employees; a cost-of-living adjustment effective October 1;

equity increases; and health and welfare benefit cost increases. This funding is sufficient to prevent further erosion in overall compensation and begin to close the salary gap, estimated to be 10 percent;

- funding related to re-instatement of contributions to the University of California Retirement Program (UCRP). The Regents have made it a high priority to ensure the long-term viability of the retirement program for the benefit of all UC employees;
- an enrollment increase of 2.5 percent, or 5,340 FTE students, at the revised marginal cost level. This rate of growth is consistent with the Master Plan goal of accommodating eligible students, and is sufficient to allow for planned increases in graduate academic programs and the health sciences, including increases in medical school and nursing enrollments;
- an increase for graduate academic student support, including new funding provided under the Compact and redirection of funds from additional savings achieved through the Strategic Sourcing Initiative and other efficiencies. This is necessary to begin to regain the University's competitive position to attract the best graduate academic students;
- a research initiative that will both partially restore recent budget cuts to core research programs, such as agricultural research, Scripps Institution of Oceanography, and others, and will provide new funding for research initiatives important to the state's economic growth and job creation, including support for the California Institutes for Science and Innovation. Campuses will be asked to use at least 50 percent to 60 percent of the funds for new research initiatives to help support graduate students as research assistants;
- funding to continue UC's multi-year plan to restore funds cut from the budget related to the student-faculty ratio. Support for this purpose in 2007-08 would constitute the third increment of funding over a three-year period directed toward improving the student-faculty ratio.

The budget plan assumes continuation of one-time funding for the Merced campus needed for start-up costs as the campus continues to increase enrollments. In addition, the University intends to request one-time funding for deferred maintenance and capital renewal. The Compact provides that as the State's fiscal situation permits and one-time funds become available the University may request one-time funds to address high priority infrastructure needs, including deferred maintenance and capital renewal. No funding has been provided for deferred maintenance since the State's recent fiscal crisis began. The University's deferred maintenance backlog for high priority projects now exceeds \$800 million, reflecting the lack of predictable and adequate capital renewal funding to replace building and infrastructure systems that have reached the end of their useful life. This is a critical unmet need. If one-time funds are available from the State, the University can begin to address the highest priority deferred maintenance and capital renewal projects and help protect its capital assets.

As noted previously, funding for the University's 2007-08 budget plan will come from a variety of sources. The Compact includes the following funding provisions from State General Funds for 2007-08:

- base budget adjustment of 4 percent to be used to fund increases for salaries, employee health and welfare benefits, and other cost increases; and
- enrollment funding for growth of 2.5 percent, or 5,340 FTE students, at the agreed-upon marginal cost of instruction.

The budget plan also contains assumptions about revenue from non-State sources:

- \$34.8 million in student fee income related to enrollment growth; and
- \$20 million in UC General Funds, including a 5 percent increase in undergraduate nonresident tuition.

With regard to student fees, the Compact states the Governor's intent that increases in student fees should be based on the rise in California per capita personal income. However, in years in which UC determines fiscal circumstances require increases that exceed that rate of growth, UC may, in consultation with the Governor, decide that fee increases of up to 10 percent are necessary to provide sufficient funding for programs and to preserve quality.

With regard to professional school fees, the Compact provides that UC is to develop plans for professional school fees while considering several factors, including average fees at other public comparison institutions, total cost of attendance, market factors, the need to preserve and enhance the quality of graduate academic programs, the State's need for more graduates in a particular discipline, and financial aid requirements of graduate academic students.

For 2006-07, planned fee increases were avoided with the provision of sufficient State funds to "buy out" the proposed student fee increases. This was welcome relief for students and their parents, given the significant fee increases that have occurred in recent years. In fact, following the State's fiscal crisis in the early 1990s, when fees also went up dramatically, the State provided funds to avoid student fee increases for seven consecutive years.

At this time, the University is making no proposal for an increase in student fees. Instead, the University proposes to delay action on student fees until more is known after the Governor's proposed budget for 2007-08 is released in January. Recognizing the variety of factors that must be considered and the uncertainty about the availability of State funds once again to buy out proposed student fee increases either partially or totally, the budget plan proposed for 2007-08 includes an assumption of revenue that would reflect either student fee increases or an equivalent amount of funding provided by the State, the source of which is to remain open until the January 2007 meeting of the UC Regents. It should be noted that any consideration of student fee increases would also need to include provision of adequate financial aid to ensure continued access for all students regardless of financial circumstances. In the event student fee increases are implemented for the coming year, it would be the University's intention to offer financial aid initiatives that include the following:

- a 33 percent return-to-aid for undergraduate students, including special emphasis on providing assistance to needy middle-income students who traditionally have not qualified for grant aid;

- a higher return-to-aid of 45 percent for graduate academic students, to recognize the need to provide competitive graduate support packages and to cover collective bargaining agreements with teaching assistants; and
- a 33 percent return-to-aid for graduate professional school students.

The total request for the 2007-08 proposed expenditure plan is \$373.7 million to support the general budget from the sources described above. This constitutes an increase of about 7.6 percent when calculated on a base that includes programs funded from State and UC General Funds, and student fees (Educational Fee, University Registration Fee, and the Fee for Selected Professional School Students).

***Proposed 2007-08 State-Funded Capital Outlay Program***

Funding for the University's 2007-08 budget will require passage of the new General Obligation bond measure (Proposition 1D) on the ballot for the November 7 election. Proposition 1D would provide \$690 million for UC's general capital outlay over two years as well as an additional \$200 million over the same time period for expansion of the University's medical schools and delivery of health care through telemedicine. The State capital outlay plan for 2007-08 includes \$316.8 million from general obligation bonds for general capital outlay, another \$140 million for projects associated with expansion of the medical school programs, and \$30 million in State lease revenue bonds.

Attachments