UC is not just an institution of higher learning.
Here, research aims higher.
Service reaches higher.

A higher level of excellence calls for a higher commitment.

2010-11 BUDGET FOR CURRENT OPERATIONS
SUMMARY OF THE BUDGET REQUEST
AS PRESENTED TO THE REGENTS FOR APPROVAL

UNIVERSITY *of* CALIFORNIA

The State has stopped building freeways to higher education and it has started building toll roads. – *Mark Yudof*

As goes education, so goes the future of the State of California. – *Clark Kerr*

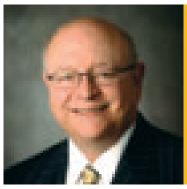
KEY ELEMENTS OF THE UNIVERSITY OF CALIFORNIA 2010-11 BUDGET

During a period of unprecedented State funding reductions, the University's 2010-11 budget request is an attempt to balance the need to provide access, maintain quality, and stabilize fiscal health.

The key features of the budget plan are as follows:

- Better aligning enrollments with available resources. If State funding is not provided to support existing, unfunded enrollments, the University will curtail enrollment by reducing the number of new California resident freshmen enrolled during academic year 2010-11 by another 2,300 students, for a total reduction of 4,600 in the entering freshman class over two years;
- Ending the furlough/salary reduction plan on August 31, 2010;
- Continuing the academic merit salary increase program, a critical activity for retaining high-performing faculty;
- Maintaining 4% employer contributions and 2% employee contributions to the UC Retirement Plan for the duration of 2010-11;
- Preserving the quality of employee and retiree health benefits programs while striving to contain cost increases;
- Keeping pace with inflationary costs for instructional equipment, technology, library materials, purchased utilities, and other non-salary items;
- Increasing mandatory systemwide student fees by 15% for undergraduate and graduate professional students and by 2.6% for graduate academic students for terms beginning in January 2010, and by another 15% for all students for the 2010-11 academic year, to help address State funding reductions and maintain quality;
- Raising professional school fees for 2010-11 to promote quality;
- Sustaining the University's commitment to affordability by setting aside 33% of new undergraduate and professional fee revenue and 50% of new graduate academic fee revenue for financial aid; and
- Expanding and renewing essential infrastructure and facilities, and maintaining progress on seismic and other life-safety improvements.

This document provides a summary of the current status of the University's operating budget and proposed changes for 2010-11. A brief section at the end of the document summarizes the University's budget for capital improvements. A companion to this document, the *2010-11 Budget for Current Operations – Budget Detail*, provides explanatory detail for all aspects of the University's operating budget, including both sources of funding and expenditure program areas. The University's capital budget program is described in more detail in the *2009-15 State and Non-State Capital Improvement Program* document.



PRESIDENT'S LETTER

The University of California's current financial crisis brings us to a reality we have never had to confront in the 141-year history of this institution. The severe and unprecedented cuts in State funding over the last two years have put the value of UC at risk. We are left with two choices: Accept a slow and painful slide into mediocrity or fight to maintain the quality that students and their families expect from us.

I choose to fight. Mediocrity is not an option. Since taking office as President in 2008, I have made it a priority to use our limited resources to the best advantage in serving the people of California. I understand the vastness of the deficit our state faces and the necessity of living within our means.

Every member of the University community has participated in the sacrifices needed to cope with our dwindling financial resources. We have laid off employees, reduced pay, curtailed faculty hiring, increased class sizes, cut courses, deferred maintenance, limited freshman enrollment, and raised student fees. We are now at a point where we can no longer make cuts without irreparable harm to our teaching, research, and public service missions. We can no longer continue to raise student fees to make up for the dollars the State slices from our budget and still call ourselves a public university. Our very commitment to access for all qualified, hard-working students is jeopardized.

We realize the limitations our struggling economy puts on the State's resources. With the creation of the UC Commission on the Future, the University is exploring strategies for new ways to deliver our academic and research programs in a shrinking budget climate. UC is doing its part by cutting costs and seeking new directions. Still, we need our government leaders to renew their commitment to higher learning.

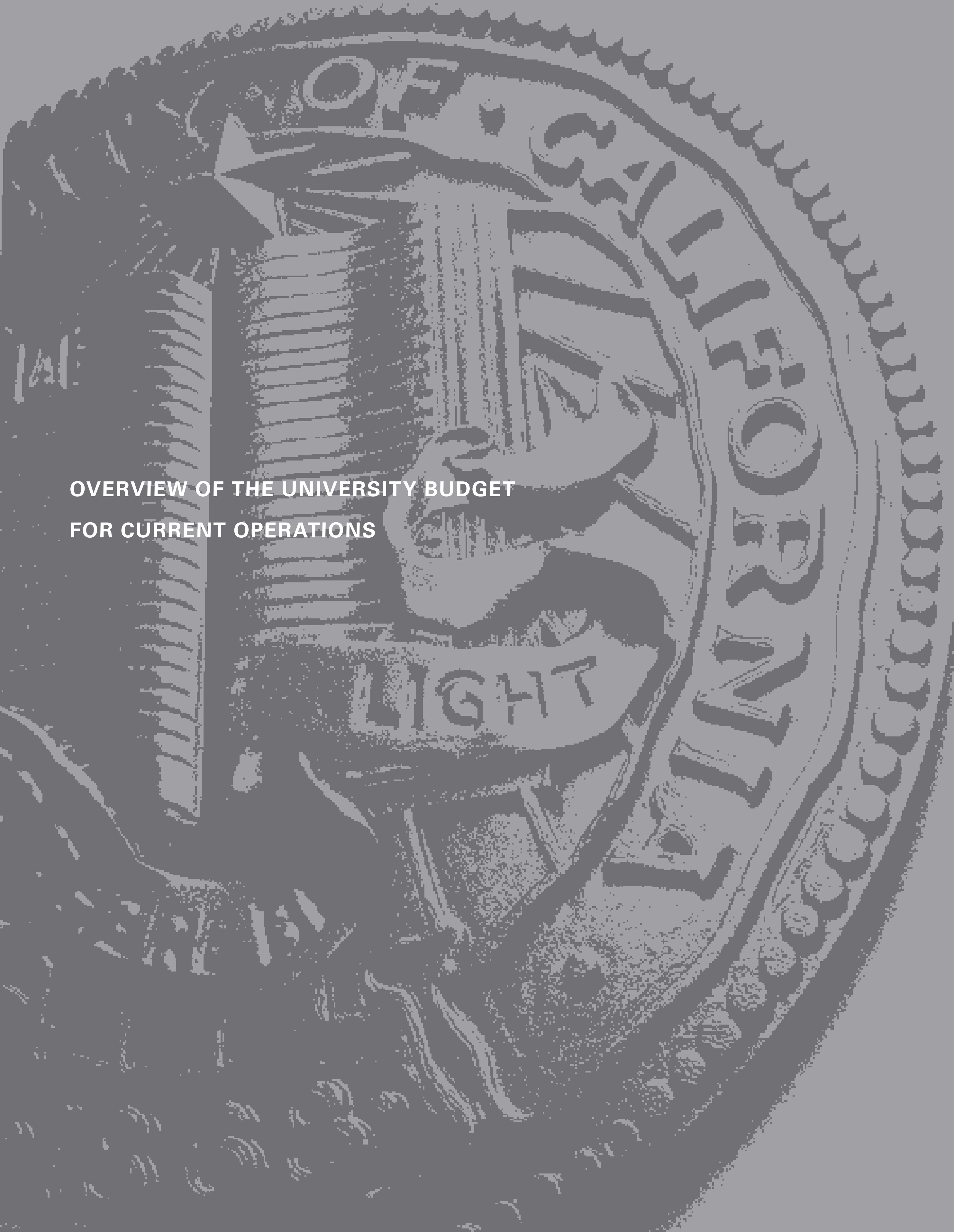
Much is at stake, not only for our students, faculty, and staff but for all Californians. This State's reputation as a seat of innovation and bold new discoveries came about, in part, through the talents of the highly educated work force UC produces — more than 55,000 new graduates each year. Many of these graduates have been leaders in founding new companies and creating new industries — not just in California but throughout the nation. Even in times of financial crisis, California cannot afford to divest itself of an institution that delivers so much so effectively.

The 2010-11 budget we are presenting here seeks to stabilize our financial situation and restore public support to the level this University deserves. It is a budget that reflects our values, preserves our research enterprise, and honors our dedication to student success.

I look forward to working with our leaders in Sacramento to craft a funding approach that shares our vision of the future and supports us in our service to California.

Mark G. Yudof

President



OVERVIEW OF THE UNIVERSITY BUDGET FOR CURRENT OPERATIONS

Under the California Master Plan for Higher Education, the University of California is charged with the tripartite missions of teaching, research, and public service.

In addition to providing instruction for more than 225,000 students annually and maintaining a multi-billion dollar research enterprise, the University engages in a broad spectrum of ancillary activities, including the operation of teaching hospitals, maintenance of world-class libraries, development of academic preparation programs, provision of housing and dining services, and management of National Laboratories. In 2009-10, the University's endeavors are generating $20.1 billion from a wide range of revenue sources for support of the University's budget.

Core Funds

State General Funds, UC General Funds, and student fee revenue provide permanent funding for core mission and support activities, including faculty salaries and benefits, academic and administrative support, student services, operation and maintenance of plant, and student financial aid. Totaling $5.3 billion in 2009-10, these core funds represent 26% of the University's total expenditures. Much of the focus of the University's strategic budget process and negotiation with the State is dedicated to the uses of these fund sources.

Historically, State funding has been the largest single source of support for the University. Totaling $3.26 billion in 2007-08, State funds have provided and remain a critical core investment, enabling UC to attract funds from federal, private, and other sources. However, the volatility of State support and the failure to keep pace with enrollment and inflation over the last 40 years have eroded the University's competitiveness and destabilized the quality of the academic program. The unprecedented cuts in State funding for 2008-09 and 2009-10 have brought the University to an insufficient support level that threatens to replace excellence with mediocrity.

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The volatility of State support and the failure to keep pace with enrollment and inflation over the last 40 years have eroded the University's competitiveness and destabilized the quality of the academic program.

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Over the last two decades, student fees and other sources of general funds, such as federal indirect cost recovery funding, have helped to make up for declines in State support for UC, but overall core funding per student has declined by 25% in inflation-adjusted dollars.

Other sources of funds help augment and complement the University's core activities of instruction and research, providing support functions, public service to the State and its people, and a rich social, cultural, and learning environment on UC campuses.

Sales and Services Revenue

These revenues directly support the University's academic medical centers and clinical care staff; auxiliary enterprises such as housing and dining services, parking facilities, bookstores, and intercollegiate athletics; University Extension; and other complementary activities such as museums, theaters, conferences, and scholarly publishing.

Government Contracts and Grants

Federal, state, and local governments directly fund specific research programs as well as student financial support.

Private Support

Endowment earnings as well as private gifts, grants, and contracts fund a broad range of activities, typically restricted by the donor or contracting party. Private support comes from alumni and friends of the University, foundations, corporations, and through collaboration with other universities.

Other Sources

Other sources include indirect cost recovery funding from contracts and grants that supports the costs of research administration and operation and maintenance of research facilities.

In some cases, the use of these funds is contractually or legally restricted, and the funds can be used only for purposes stipulated by the donor or granting agency. In other cases, operations are market-driven and face many of the same cost and revenue pressures occurring in the private sector. Revenues are tied not only to the quality of the direct services and products being provided, but also to the price the market will bear. The excellence of the core mission operation of the University also plays a role. Damage to UC's core operations will have ripple effects to other activities.

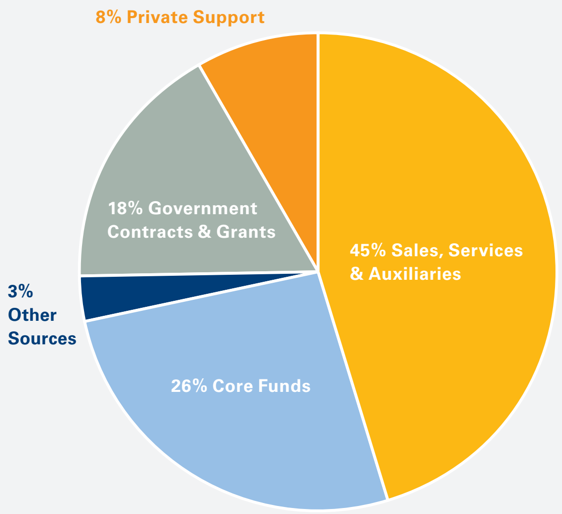
The historic investment from the State has helped develop one of the finest public university systems in the world. That investment must be restored if the University is to remain among the world's top universities and continue to provide the State with the economic and social benefits that derive from a great institution of research and learning.

The University's annual budget plan is based on the best estimates of funding available from each of these sources.

DISPLAY 1

2009-10 Projected Expenditures by Source

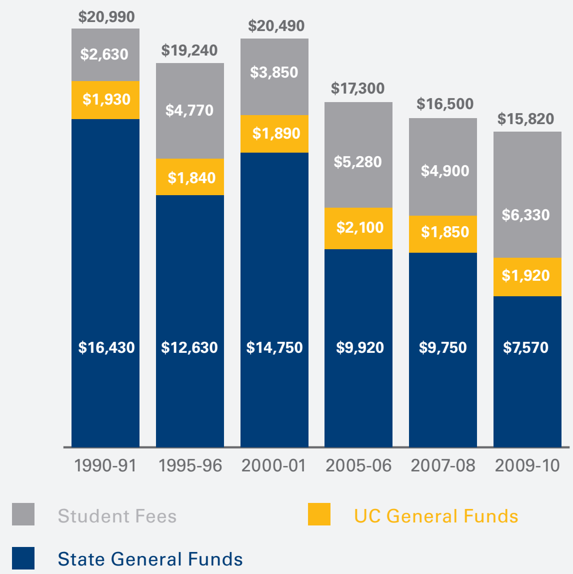
UC's $20.1 billion operating budget consists of funds from a variety of sources. State support, which helps leverage other dollars, remains most crucial.



DISPLAY 3

Per Student Average Expenditures for Education

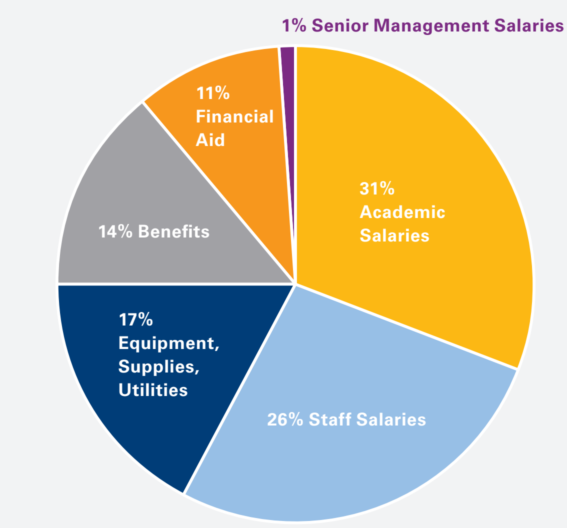
Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined 25%. The State's share of expenditures has plunged even more steeply – by more than 50%. Over this period, the student share, net of financial aid, has tripled, from 13% to 40%.



DISPLAY 2

2008-09 Expenditures from Core Funds

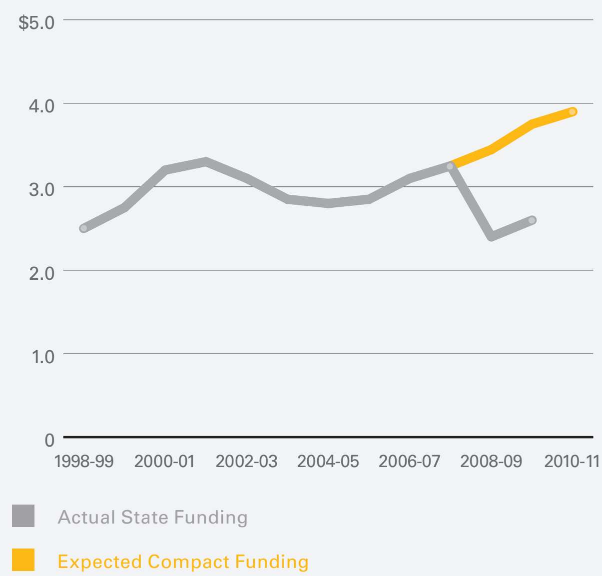
Nearly three-fourths of core funds (State and UC General Funds and student fees) support personnel through academic, staff, and senior management salaries and benefits.



DISPLAY 4

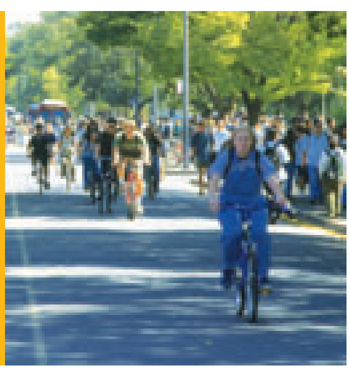
State Funding for UC (Dollars in Billions)

The State's fiscal crises over this decade have left State funding for UC at levels equivalent to the 1998-99 level, despite significant increases in costs and student enrollment. In 2009-10, State funding is nearly $1.1 billion below the level promised by the Compact.



CALIFORNIA'S FISCAL CRISIS SHAPES THE 2010-11 BUDGET

The development of the 2010-11 budget occurs in a context shaped by the State's current fiscal crisis, the inability of the Compact with Governor Schwarzenegger to protect the University from that crisis, and the University's efforts to respond to the resulting State funding reductions with both temporary and long-term solutions.



THE HIGHER EDUCATION COMPACT

In the midst of the State fiscal crisis earlier this decade, in 2005-06, UC and CSU entered into a six-year Compact with Governor Schwarzenegger. The funding agreement was a comprehensive statement of the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution.

From 2005-06 through 2007-08, this agreement with the Governor served the University well. Over that three-year period, State funding increased by more than $550 million, allowing UC to continue enrollment growth, provide compensation increases for faculty and staff, and avoid a student fee increase in 2006-07.

THE CURRENT FISCAL CRISIS

The provisions of the Compact called for the State to provide increased funding for 2008-09 and 2009-10 of at least $223 million each year. However, the State's ongoing budget deficit led the Governor to first fund the Compact provisions in 2008-09, consistent with the Compact, and then propose a 10% reduction from that higher budget. In this way, at least initially, the Compact protected UC from greater budget reductions in 2008–09. As the State's latest fiscal crisis grew during 2008-09, proposed budget cuts for 2008-09 and 2009-10 also grew. Permanent and one-time cuts to UC's

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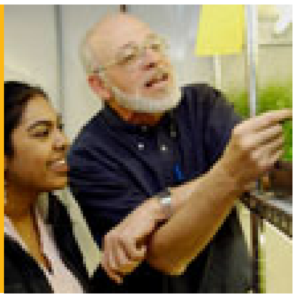

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budget for 2008-09 totaled $814.1 million, although these reductions were to be partially offset by State Stabilization Funds authorized by the federal economic stimulus act. For 2009-10, permanent and one-time cuts in State funding total $637.1 million (from the level of State funding in 2007-08), essentially erasing the gains made over the earlier period of the Compact. These cuts, along with the $450 million in additional funding promised by the Compact for 2008-09 and 2009-10, mean that during 2009-10, permanent State funding is nearly $1.1 billion below the level called for by the Compact.

The fiscal problems associated with the inability of the State to provide the funding called for in the Compact – including funding for enrollment growth of more than 10,000 FTE students – and subsequent State funding reductions were further compounded for the University by unfunded cost increases for academic merit increases, collective bargaining agreements, health benefits costs, and purchased utilities.

Fiscal year 2010-11 represents the final year of the Compact, and the University had hoped to use new State funding to continue enrollment growth, raise faculty and staff salaries closer to market levels, restore core academic support, and expand programs benefitting the State. Under the Compact, State support for UC normally would be $3.9 billion in 2010-11, or nearly $1.3 billion more than actual State support during 2009-10. However, given the ongoing fiscal crisis, it is unlikely that the State will be situated to restore earlier funding reductions, let alone provide the funding increases called for in the agreement.

ACTIONS TO ADDRESS BUDGET SHORTFALLS

The State continues to face a budget deficit of $7 billion to $8 billion annually, with no obvious permanent solutions.

To deal with the fiscal crisis, UC has taken a number of actions to generate savings to help address the shortfalls in State funding. Some measures are short-term and temporary while others are more permanent and/or long-term.

Furlough/Salary Reduction Plan

In July 2009, the Regents approved a salary reduction and furlough plan for 2009-10 that will provide $184 million in one-time General Fund savings. This plan is described in more detail on page 20.

Debt Restructuring

UC has taken steps to delay principal payments totaling $150 million over 2009-10 and 2010-11, providing temporary relief to campuses.

Senior Management Compensation Actions

The President and other senior members of the Office of the President and campus leadership agreed to reduce their salaries by 5% for one year, effective July 1, 2009. This was two months ahead of the implementation of the furlough program, which in most cases will impose 9% to 10% pay reductions for all Senior Management Group employees in 2009-10. In addition, systemwide salary freezes for Senior Management Group members also have been imposed.

UCOP Restructuring

Over the last two years, the Office of the President has undergone a thorough restructuring and downsizing. A total of $62.2 million in reductions from both unrestricted and restricted funds so far have been generated through a combination of program transfers and permanent budget reductions, with additional savings expected. Savings from unrestricted funds were redirected to support debt service payments not funded by the State, maintenance of new space on campuses, and enrollment growth at UC Merced. Savings from restricted sources must be used for the purposes for which they were funded, and may be used to offset future cost increases or address other funding shortfalls where appropriate.

Strategic Sourcing

This initiative was designed as a comprehensive program focused on purchasing efficiencies that achieve significant cost savings and build and improve the internal infrastructure that supports the core procurement functions. Purchasing efficiencies include leveraging the University's buying power and negotiating systemwide agreements, changes in delivery and payment practices which result in additional cost savings, and improving agreement compliance of the Strategically Sourced Agreements to take advantage of tiered-volume discounts. From its inception in 2004-05 through 2007-08, the Strategic Sourcing Initiative achieved $154 million in cumulative cost savings to the University. The 2008-09 savings results are estimated to be $64 million.

Energy Savings Program

Through an incentive program developed by the Public Utilities Commission, UC is pursuing $247 million in energy conservation projects that are expected to generate $36 million in annual energy savings at the end of three years, for a net savings of $18 million annually after debt service is paid. Some of the energy projects will also help address UC's growing capital renewal and deferred maintenance needs.

Other Actions

The University has taken several other actions to cut costs. Certain bonus and incentive programs were cancelled or deferred. The staff merit program for 2008-09 was eliminated and will not be implemented in 2009-10. Significant restrictions have been placed on travel and other purchasing.

Campus Administrative Efficiencies

Campuses are engaged in wide-ranging activities to reduce costs. Some of these cost-cutting measures, such as administrative restructuring and program consolidations, will help make the University more effective and efficient. On some campuses, these efforts have resulted in the elimination of senior management positions and significant reductions in staff. To leverage savings across campuses, the University is developing programs for shared computing resources through regional data centers.

Academic Program Reductions

The magnitude of the State budget reductions has meant that the University's academic programs are being affected. Some of the measures being taken to address cuts include delaying hiring of new faculty and the elimination of course sections. These decisions in turn mean larger class sizes, narrower offerings for students, and less opportunity for students to interact with leading scholars.

The impacts of even short-term actions on the academic programs are of great concern. For example, reduced course offerings and contact with faculty may undermine the strength of the academic community and lead to reduced student retention and lengthened time-to-degree. Meanwhile, due to loss of staff support, remaining faculty will be asked to assume more administrative tasks and more student advising at a time when they are experiencing furloughs and salary reductions.

Furthermore, the inability to hire new faculty and the increased instructional workload for existing faculty will also have damaging impacts on the University's research enterprise. UC researchers attract nearly $2.8 billion in federal and private research dollars to California, creating thousands of jobs and helping support graduate students, who will be the State's next generation of scientists, engineers, entrepreneurs and leaders. The innovations and discoveries generated from UC's research enterprise in turn lead to the creation of patents, as well as spinoff industries and startup companies.

HOW ARRA FUNDS ARE HELPING UC

The American Recovery and Reinvestment Act (ARRA), signed by President Obama in February 2009, is providing support for UC in several ways:

State Fiscal Stabilization Funds

ARRA includes funding for states to help maintain support for education. As of October 2009, UC has received $716.5 million in State Fiscal Stabilization Funds to help offset State funding reductions and support UC's operating budget on a one-time basis.

Research Grants

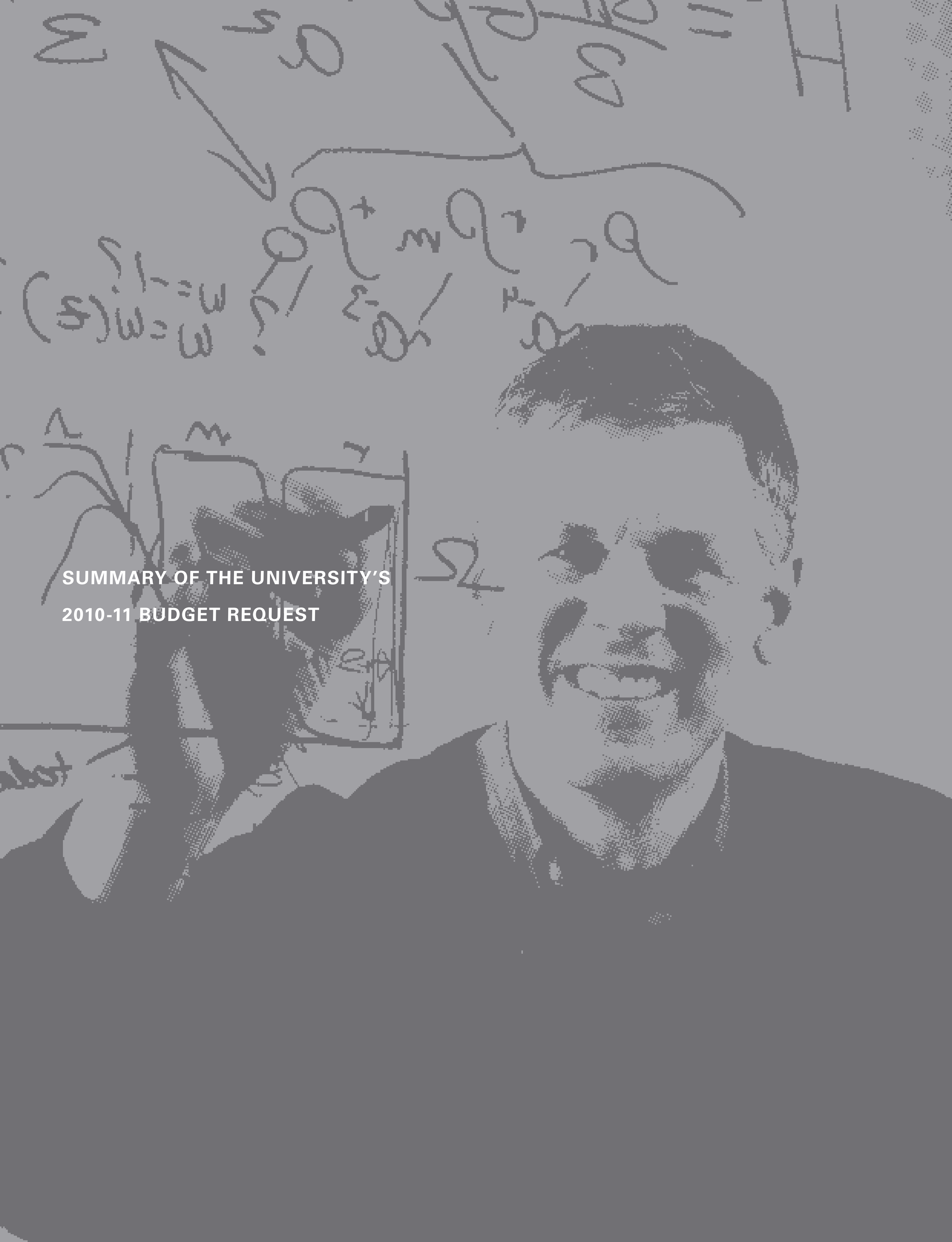
ARRA provides significant additional funding for federal research grants, particularly for biomedical, energy, and climate change research. UC researchers have already been awarded more than $671 million in additional grant funding. Because many awards are multi-year, these research funds will have an impact beyond the 18-month term of ARRA. UC campuses and national laboratories will also benefit from additional ARRA awards for construction of research facilities.

Medical Centers

In addition to the expansion of research funds described above, UC's medical centers will benefit from a major investment in clinical operations through an increase in the federal Medicaid matching assistance percentage, which increased Medicaid payments to the medical centers by $60 million in 2008-09. ARRA also includes funding for investment in clinical information technology and community health.

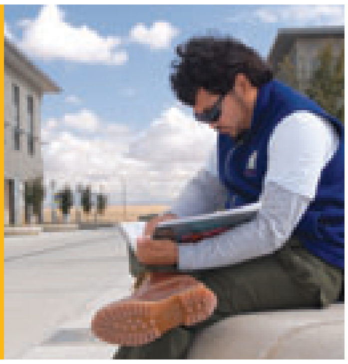
Financial Aid

The stimulus act includes increases in the maximum Pell Grant award, which for UC will provide an estimated $33 million in new financial aid, benefiting more than 50,000 UC undergraduates. In addition, ARRA expanded the existing higher education tax credit to more families and increased the amount of the tax credit. More than 80,000 UC students are eligible for the tax credit and could benefit by up to $88 million. ARRA is also expected to provide UC students with additional work-study funds.



SUMMARY OF THE UNIVERSITY'S 2010-11 BUDGET REQUEST

For UC to remain the high-quality, low-cost institution it has been for more than 140 years requires that the State reinvest in the University.



It is important that the University continue to promote awareness on the part of the State and others regarding the University's need for adequate support. As mentioned earlier, full funding of the Compact, intended to establish the minimum levels of support necessary to maintain access and quality, would mean that State support for UC would be nearly $1.1 billion higher in 2009-10 than funding currently provided. While most of the State budget reductions for UC during 2008-09 and 2009-10 were proposed and approved as temporary cuts, the continuing State budget deficit makes the full restoration of these earlier reductions a significant challenge.

Because it is recognized the State would have considerable difficulty fully funding the University's needs, the budget plan developed and justified in this document and its companion, the *2010-11 Budget for Current Operations–Budget Detail*, is based on the most critical funding priorities and other actions necessary to keep quality from eroding to a point beyond which access to a University of California education becomes an empty promise. Display 5 summarizes the proposed increases in revenue and expenditures for 2010-11.

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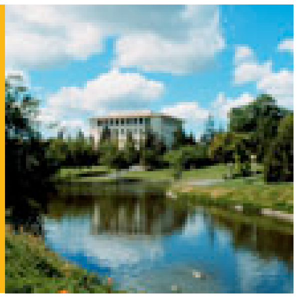

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SUMMARY OF PROPOSED REVENUE

The University's plan calls for restoration of State funding reductions, funding of the State's obligations to UC retirees, and additional State funding for recent enrollment growth, as well as new revenue from student fee increases.

State General Funds

State General Funds are proposed as follows:

- restoration of $305 million in one-time reductions included in the Special Session Budget package in February 2009;
- enrollment funding totaling $155.8 million for 14,000 FTE students at the agreed-upon marginal cost of instruction, to provide instructional resources for existing enrollment above the 2007-08 budgeted level;
- funding for the State's share of the cost of re-starting contributions to the UC retirement plan and for annuitant health cost increases, totaling $109.8 million; and
- an additional $332.1 million reinvestment in academic excellence, restoring State funding to the level of support during 2007-08.

UC General Funds

UC General Funds are expected to increase through growth in indirect cost recovery on research contracts and grants and increases in nonresident tuition income. Because nonresident undergraduate students already pay much more in tuition and fees than the subsidy provided by the State for resident students and concerns about the effect of tuition levels on the University's ability to attract nonresident undergraduate students, no increase in undergraduate nonresident tuition is proposed. Furthermore, due to continuing concerns about the University's ability to recruit high quality graduate students and the need to ensure that the University's graduate student support packages are competitive with those of other institutions seeking the same high quality students, no increase in nonresident tuition for graduate students is proposed for the sixth year in a row. Nonresident students would experience increases in mandatory systemwide fees equivalent to those of resident students.

Student Fees

Recognizing the variety of factors that must be considered and the likelihood that State funds will not be available to fully support the University's core operating budget, the budget plan includes an assumption of revenue associated with fee increases as follows:

- mid-year mandatory student fee increases of 15% for undergraduate and graduate professional students and 2.6% for graduate academic students for 2009-10, effective for academic terms beginning in January 2010;
- additional 15% mandatory student fee increases for all students effective for 2010-11; and
- increases for 2010-11 in professional school fees generally ranging from 7% to 22%, depending on the campus and program.

It is the University's intention, as it has done in the past, to augment UC financial aid to mitigate the impact of cost increases, including fee increases, on needy students. Net of financial aid, these student fee increases are expected to generate $350.5 million annually to support the University's operating budget.

The University is proposing these fee actions at the November 2009 meeting of the Regents. These actions are being requested at this time in order to address urgent needs during the 2009-10 year, provide continuing and prospective students with advance notice of fee levels for 2010-11, and enable faculty and administrators on campuses to plan accordingly. The fee increase proposals reflect the University's concern about the State's ability to provide the full funding being requested in the budget plan. By restoring funds cut from the University's base budget, the State funding requested in the budget plan would only partially backfill the University's current budget gap — in other words, student fee increases would still be needed to help fund mandatory, but unfunded, cost increases. If the State is able to provide not only the full funding requested but also funding in excess of this request to help fill the total budget shortfall, the fee increases as approved at the November meeting will be reviewed and a subsequent action to revise fee levels would be brought to the Board at a future meeting.

The proposed budget plan represents an increase of $1.4 billion, or 26%, over the current year, 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).

The University's plan calls for restoration of State funding reductions, funding of the State's obligations to UC retirees, and additional State funding for recent enrollment growth, as well as new revenue from student fee increases.

DISPLAY 5

2010-11 Budget Request (Dollars in Millions)

2009-10 Current Operating Budget	
State General Funds	$2,636.2
State General Funds, UC General Funds, and Student Fee Revenue	5,226.0

PROPOSED INCREASES IN REVENUE		
State General Funds		
Restoration of One-time Reductions		$305.0
Existing Enrollments	14,000 FTE	155.8
Retirement Benefits		109.8
Reinvestment in Academic Excellence		332.1
Subtotal		902.7
UC General Funds		
Nonresident Tuition		9.9
Federal Indirect Cost Recovery		22.0
Other		1.2
Subtotal		33.1
Student Fees		
2009-10 Mid-year Fee Increases[1]		118.5
2010-11 Mandatory Fee Increases	15%	286.4
Professional Fee Increases	7-22%	30.5
Subtotal		435.4
TOTAL INCREASE IN REVENUE		**$1,371.2**

PROPOSED INCREASES IN EXPENDITURES		
Compensation and Non-salary Items		
Academic Merit Increases		$29.5
Employee Health Benefits	11.0%	34.1
Annuitant Health Benefits		14.1
Retirement Contributions	4.0%	108.9
Purchased Utilities	6.5%	13.0
Non-salary Cost Increases	3.0%	24.6
Enrollment Growth and Related Workload		
PRIME Expansion	122 FTE	3.2
Other Enrollment Growth	13,845 FTE	136.9
Maintenance of New Space		25.7
Professional School Programs		20.4
Initiatives		
Graduate Student Support		10.0
Instructional Program Restoration		10.0
Reinvestment in Academic Excellence[2]		789.4
Financial Aid		
Return to Aid from Fee Increases		151.4
TOTAL INCREASE IN EXPENDITURES		**$1,371.2**
Percentage Increase		26.0%

[1]Represents the incremental amount resulting from the annualization of the proposed mid-year fee increases. In 2009-10, the fee increases will generate an additional $100.2 million.

[2]Funding would be used to restore reductions to academic and other critical programs, including renewed faculty hiring and restoration of class offerings, library hours, and student services. Funds may also be used for strategic investments in instructional support, IT infrastructure, and other critical needs. If the State were to provide funds in excess of the University's budget request of $902.7 million, the University would revisit fee levels for 2010-11.

EXPENDITURE CHALLENGES FACING THE UNIVERSITY IN 2010-11

Accommodating enrollment without sufficient resources means that new and continuing students alike are affected by the lack of resources needed to support a high quality academic experience.

CURTAILING ENROLLMENT TO REFLECT AVAILABLE FINANCIAL RESOURCES

UC has long accepted its obligation, as a land-grant institution and in accordance with the Master Plan for Higher Education, to provide a quality education to all eligible undergraduate students who wish to attend. This commitment was most recently underscored in the Compact with the Governor.

In addition, in recent years, the University planned multi-year initiatives to re-balance the proportion of graduate and undergraduate students enrolled to better meet State work force needs, particularly in the health science disciplines. To accomplish these goals, it was estimated that University enrollment would need to grow by about 2.5% per year, consistent with the Compact, through the end of the decade as growth in high school graduates peaked. Funding for this growth was provided during the first three years of the Compact. The University was planning for continued growth in graduate and professional enrollments after 2010-11, when demographic projections indicate there would be a significantly slower rate of growth in undergraduates.

The current State fiscal crisis has dramatically altered the University's enrollment landscape. The State has been unable to provide funding for enrollment growth that occurred during 2008-09 and 2009-10. As a result, in 2009-10, UC enrolls more than 14,000 FTE students for whom the State has not provided enrollment growth funding. Furthermore, the significant State budget reductions in the amendments to the 2009 Budget Act mean that funding for student enrollment has fallen far below the budgeted enrollment target for 2007-08, the last year the State provided enrollment growth funding.

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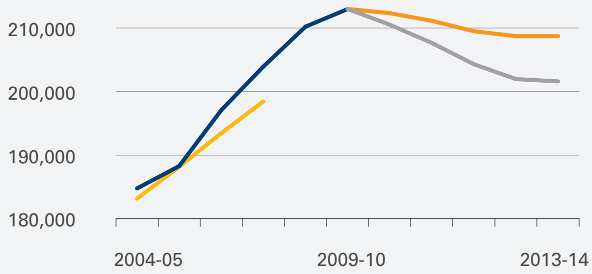
In response to the State's inability to provide the resources necessary to support enrollment demand, the University has taken steps to curtail enrollment growth. Because of the unfairness of late notice to students and their parents, no action was taken to reduce the number of incoming students during 2008-09. For 2009-10, UC enrolled 2,300 fewer new California resident freshmen as a means of slowing enrollment growth. Fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation at Riverside and Merced. This meant students had fewer campus choices for accommodation at UC and, in some cases, chose to pursue their education at other institutions. This freshman reduction was partially offset by a planned increase of 500 California Community College (CCC) transfer students. The University took this action in order to preserve the transfer option in difficult economic times.

Accommodating enrollment without sufficient resources (except the student fee income associated with enrollments) means that new and existing students alike are affected by the lack of resources needed to support a high quality academic experience. As mentioned earlier, campuses are employing a variety of measures to deal with the budget shortfall – halting the hiring of permanent faculty, narrowing course offerings, increasing class sizes, curtailing library hours, and reducing support services for students – all of which are negatively impacting what has historically been an educational program characterized by excellence and opportunity.

DISPLAY 6

Actual and Projected Student Enrollment

The State has been unable to provide funding for enrollment growth that occurred during 2008-09 and 2009-10. As a result, in 2009-10, UC enrolls more than 14,000 FTE students for whom the State has not provided enrollment growth funding. Until the State is able to provide funding for these students, the University will further reduce numbers of new California resident freshmen to align enrollment with available resources.



DISPLAY 7

General Campus and Health Sciences FTE Enrollment

	2007-08 Funded Level	2008-09 Actual	2009-10 Estimated
Berkeley	33,296	35,485	35,928
Davis	29,610	31,216	31,328
Irvine	27,234	29,157	28,343
Los Angeles	37,325	38,836	39,151
Merced	2,000	2,775	3,424
Riverside	17,207	18,082	18,560
San Diego	27,784	29,192	29,434
San Francisco	3,784	4,184	4,279
Santa Barbara	22,000	22,589	23,166
Santa Cruz	16,075	16,809	17,143
Total	**216,315**	**228,325**	**230,756**

During a budget crisis, such steps are necessary. But these actions are not sustainable over a long period of time if the quality of the University is to be preserved. While acknowledging that access is important, the University cannot indefinitely accommodate larger numbers of students without adequate resources needed to provide them a UC-caliber education.

If the State is unable to fund the University's request for funding for 14,000 students currently enrolled above the 2007-08 funded level, the University will need to continue on a path toward bringing enrollments to a level more consistent with the resources provided by the State in order to preserve quality. To do so, the University will further restrict the enrollment of new California resident freshmen in 2010-11 and later years. For 2010-11, freshman enrollments would be reduced by an additional 2,300 students, for a total decrease in the incoming class of 4,600 from the number enrolled in 2008-09. This reduction, if sustained over several years, would help decrease total enrollments. For CCC transfer students and graduate students, 2009-10 enrollment levels will be maintained or slightly increased.

If the State were to fund the University's budget request, including support for the existing 14,000 FTE students enrolled above 2007-08 funded levels, the University would be able to restore spaces in the California resident entering freshman class over the next several years.

UC Merced

Adding to the difficulty of dealing with State budget reductions, cost increases, and unfunded enrollments, is the need for UC to maintain enrollment growth at Merced. The Merced campus commenced its fifth year of operation in 2009-10 with a total enrollment of 3,400 students, reflecting strong student interest in Merced's unique educational environment and programs. For 2010-11, the campus plans to enroll a total of 4,000 FTE students. Deferring growth at Merced is undesirable because it delays the point at which the new campus reaches "critical mass" enrollment and achieves economies of scale. Given its small size, Merced is not capable of absorbing the additional instructional costs incurred by enrollment growth without State support. For the last two years, temporary funding to support enrollment at Merced has been redirected from other campuses. In addition, in 2009-10, additional funding was redirected to Merced from the savings from restructuring the Office of the President. However, the other campuses and UCOP are not inexhaustible sources of funding for further growth at Merced. The inability of the State to provide enrollment growth funding means that further growth in the near future at Merced must be reconsidered or other sources of support must be found.

In addition to the 2.5% growth called for in the Compact, the University earlier had planned expansion of health sciences programs in accordance with recommendations included in an April 2005 report issued by the University-wide Health Sciences Committee, "Workforce Needs and Enrollment Planning." Based on that study, enrollment increases in the health sciences were recommended for medicine, nursing, pharmacy, public health, and veterinary medicine.

Medicine

Over the last several years, the University began to expand medical school enrollment through PRIME programs (Programs In Medical Education), designed to attract and prepare more medical students to provide care to underserved populations in the State. Without State support, reductions in regular medical school enrollments have been and will continue to be made in order to continue development of the PRIME programs.

Nursing

In recent years, the University began a multiyear plan to increase undergraduate and graduate nursing programs to help meet the State's critical shortage of both practitioners and nursing faculty. The University is in negotiations with the State to commit $12 million of Workforce Investment Act funding over five years through the Governor's Nursing Initiative to UC to train and graduate a single cohort of 400 nursing students across multiple degree programs. Without permanent funding from the State to support these ongoing enrollments, long-term plans for nursing enrollment expansion are being postponed.

COMPENSATION FOR ACADEMIC/STAFF EMPLOYEES

Attracting and retaining quality faculty and staff to the University of California are critical to building and maintaining the excellence of UC's teaching and research programs. Earlier cuts to the University's budget have resulted in significant disparities in faculty and staff salaries compared to the market. In 2008-09, UC faculty salaries lagged the market by 9.5% and there is a similar or greater problem with respect to staff salaries in most work force segments. The University is deeply concerned about the widening gap between funds available for compensation and the resources needed to fund competitive salaries. Studies of UC's total compensation program indicate that in general, salaries are significantly below the market median, but that the total compensation package, including salaries, health and welfare benefits for active employees and annuitants, and retirement system benefits, is more competitive with the market at present.

Plans to eliminate the salary lag for faculty over four years and for staff over a longer period were initiated in 2007-08, but the current crisis has delayed implementation of those plans. While the merit and promotion system for academic employees has been maintained, no general salary increases were provided for faculty or staff in 2008-09 and 2009-10.

Furthermore, as mentioned earlier, to provide immediate, temporary financial relief to the University amidst unprecedented reductions in State funding, the University implemented a one-year furlough/salary reduction plan from September 2009 through August 2010. Graduated salary reductions based on total salary levels range from 4% to 10% and furlough days range from 10 to 26 days over the year. Student employees, Lawrence Berkeley Laboratory personnel, and employees whose salaries are paid entirely from extramurally-funded sponsored projects are exempt from the plan.

While the effect of the furlough plan on comparative salaries is not known at this time due to impacts of the national and State economic downturns on compensation practices at other institutions and in other sectors, the lack of general salary increases and temporary salary reductions resulting from the furlough plan will have significant consequences on UC faculty and staff and their families.

Looking ahead, compensation costs will remain a significant issue over the next several years. First, the cost to continue the academic merit salary increase program, net of salary savings from retirements and separations, will grow at an annual rate of nearly $30 million.

Second, under the assumption that the furlough/salary reduction plan ends August 31, 2010, the savings generated ($184 million in core funds) will not be available to help address budget shortfalls in 2010-11 and beyond. The University will need to find permanent solutions to State budget reductions.

Third, potential changes in the costs and structure of the University's employee benefits programs will increase pressure for salary increases. While employee contributions to the retirement plan during 2010-11 will be made by redirecting current employee payments to the Defined Contribution Plan, increases in employee contributions likely to occur in 2011-12 and beyond will have an impact on employee take-home pay. In addition, a lack of funding over the next several years to match the inflationary cost increases in health and welfare benefits may require that employees pay for an increased share of their medical insurance premiums. Although the benefits provided by the University are an important component of the packages offered to candidates, the salary component itself must be competitive to attract and retain quality faculty and staff employees if the University is to retain its stature.

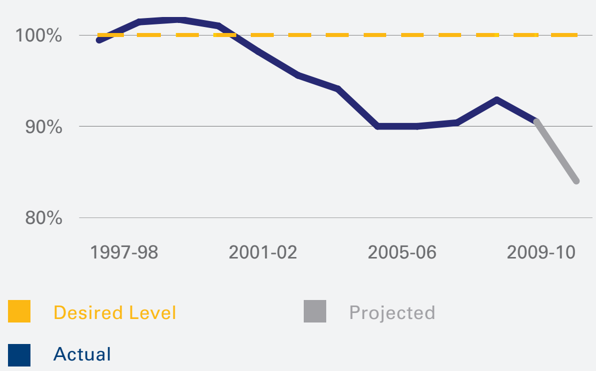
Finally, a national economic recovery is likely to have daunting repercussions on recruitment and retention of high-performing faculty and staff for UC. If and when endowments at private institutions recoup their losses and other states restore funding for public institutions, it is expected that those institutions will rapidly move to restore academic programs by recruiting high-performing faculty away from other universities. UC will likely find itself struggling to retain its own high-quality faculty. Similarly, economic recovery in California will generate new competitive opportunities for staff.

Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements for represented employees under the Higher Education Employer-Employee Relations Act.

DISPLAY 8

Faculty Salaries as a Percentage of Market

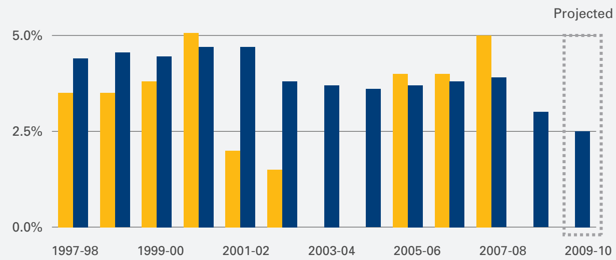
After one year of the faculty salary plan, the market lag of UC's salaries improved from 10% to 7.1% in 2007-08. However, with no range adjustments in 2008-09, the gap widened again in 2008-09, and will widen further to 16% in 2009-10 due to the furlough plan.



DISPLAY 9

Increases in Funding for Staff Salaries

This display shows annual percentage increases in funding for UC staff salaries compared to increases in funding for salaries in the Western Region market. During the years the State was able to fund the Compact (2005-06 through 2007-08), UC was able to fund compensation increases that exceeded the market, but over the longer term, UC has frequently fallen behind the market. (Source: World at Work Annual Salary Budget Survey)



Attracting and retaining quality faculty and staff to the University of California are critical to building and maintaining the excellence of UC's teaching and research programs.

Benefit Costs

Employee health benefit costs are rising at a rapid rate (12% for calendar year 2010), much more so than the 5% rate of growth anticipated when the Compact was developed in 2004-05. Thus, funds received in recent years for employee benefit costs have fallen far short of what was actually needed. And as previously noted, no State funds were provided for this purpose in 2008-09 or 2009-10, yet costs continued to rise, dramatically exacerbating an already difficult problem. Campuses have been forced to redirect funds from existing programs to address these cost increases – beyond the redirections necessary to absorb base budget cuts.

In addition, employees have been required to bear a larger responsibility for the rising costs of these benefits, partially offsetting earlier salary increases. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical plan premiums on lower-paid employees. Although UC continues to pay approximately 88% of monthly medical premiums for employees on an aggregate basis, UC has made a strategic decision to cover an even larger portion of the premium for those in the lower salary brackets.

In the current environment, with limited new funding and growing cost pressures, it is expected that some of the increases in cost will continue to be borne by most employees. The University will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market.

REINSTATEMENT OF CONTRIBUTIONS TO THE UC RETIREMENT PLAN

Prior to November 1990, contributions to the University of California Retirement Plan (UCRP) were required from both the University as employer and from employees as members. In the early 1990s, the Regents suspended University contributions to UCRP after actuaries confirmed that UCRP was adequately funded to provide plan benefits for many years into the future. At the same time, the Regents directed that employee contributions be redirected to individual accounts in the Defined Contribution Plan (DCP).

Over the 19 years during which employer and employee contributions were not required, the State has saved over $2 billion. However, the funded status of the retirement program has declined as both annual payouts and the accrued liability have risen. Furthermore, the national economic crisis has depleted the value of assets held in the UCRP, which is projected to be funded well below 100% on a market value basis in 2009.

In recognition of the State's role in the restart of contributions to the UCRP, in January 2009 the Governor included $96 million in his 2009-10 budget proposal, assuming an

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initial employer contribution of 4% to begin July 2009. However, in the same budget proposal, the Governor reduced this amount to $20 million. (Later in the budget process, this funding was eliminated.)

Based on the Governor's January proposal, in February 2009, the Regents approved a plan to restart contributions to UCRP in April 2010, with an employer contribution of 4% through June 30, 2010 and of at least 4% for 2010-11. The Regents also acted to set employee contributions at 2% for the period from April 2010 through the 2010-11 fiscal year. During this time there will be no impact on employee take-home pay because employee contributions will begin in the form of a redirection of mandatory employee contributions currently going into the DCP. The University expects that its long-term approach to how employer and employees will share the cost of UCRP contributions will be consistent with the State's approach to contributions to CalPERS and CalSTRS, the retirement systems for State employees.

At the November 2009 meeting, UC's actuary will present the Regents with the annual valuation for UCRP and information regarding the total recommended level of contributions required from both UC and employees to return UCRP to full funding.

In the 2010-11 budget year, UC's retirement-covered compensation is projected to be $2.7 billion from core funds, and at least $7.7 billion overall. The cost of a 4% employer contribution for 2010-11 will be $108.9 million in core funds and $308 million for all UC operations. The State's share of the contribution, associated with State and student-fee funded employees, is $95.7 million.

RETIREE HEALTH BENEFITS

Unlike the UCRP, UC retiree health benefits are currently funded on a pay-as-you-go basis – that is, from current operating funds rather than from a trust account. In 2008-09, 51,000 eligible UC retirees and their dependents received health benefits at a cost to the University of $225 million. This amount is projected to rise rapidly over the next five years, to more than $416 million, as both health benefit premiums and the number of annuitants rise rapidly.

Accounting rules require the University to report in its financial statements all post-employment benefits expenses, such as retiree medical and dental costs, on an accrual basis over the employees' years of service, along with the related liability, net of any plan assets. Beginning with the 2007-08 financial statements, the University began recording the annual expense, including normal cost, interest, and amortization of unfunded liability. The total accrued annuitant health benefit expense for 2008-09 was approximately $1.2 billion.

This year, the President established the UC Post-Employment Benefits Task Force, which is examining the University's pension and health benefits policies and funding and exploring alternatives for a comprehensive long-term approach to retirement benefits.

MAINTENANCE OF NEW SPACE

In recent years, the University has been engaged in a significant capital program in order to accommodate enrollment growth, address seismic safety issues, and renew aging facilities. Each year new buildings are completed and brought into service that must be operated and maintained. While some funding comes from indirect cost recovery on federal and private research grants, historically, the State has been a major provider of funding. In recent years, without State support for enrollment growth, the University has been forced to redirect funds from other programs in order to provide maintenance funding for new space. If the State were to fund the University's budget request, including support for the existing 14,000 FTE students enrolled above 2007-08 funded levels, the University would be able to fund maintenance of new space without negative impacts on other areas of the budget. Without new State support, the University must continue to identify sources of funding from within existing resources.

KEEPING PACE WITH INFLATION

To maintain the quality of the instructional program and all support activities, the University must regularly replace, upgrade, or purchase new non-salary items such as instructional equipment and library materials. The University must also purchase utilities to provide energy to its facilities. Just as costs for salaries and benefits for employees rise, the University's non-salary spending is affected by inflation. Costs of goods and services employed for education generally rise faster than the typical basket of goods and services used to measure inflation. In addition, since 1999-00, prices of electricity and natural gas have risen by over 140%, resulting in significant cost increases for UC campuses despite only modest increases in consumption. Even with the efficiencies described earlier, to offset the impact of inflation and maintain the University's purchasing power, without State funding to support cost increases, the University must identify funds from existing resources to cover non-salary price increases.

MAINTAINING QUALITY IN PROFESSIONAL SCHOOLS

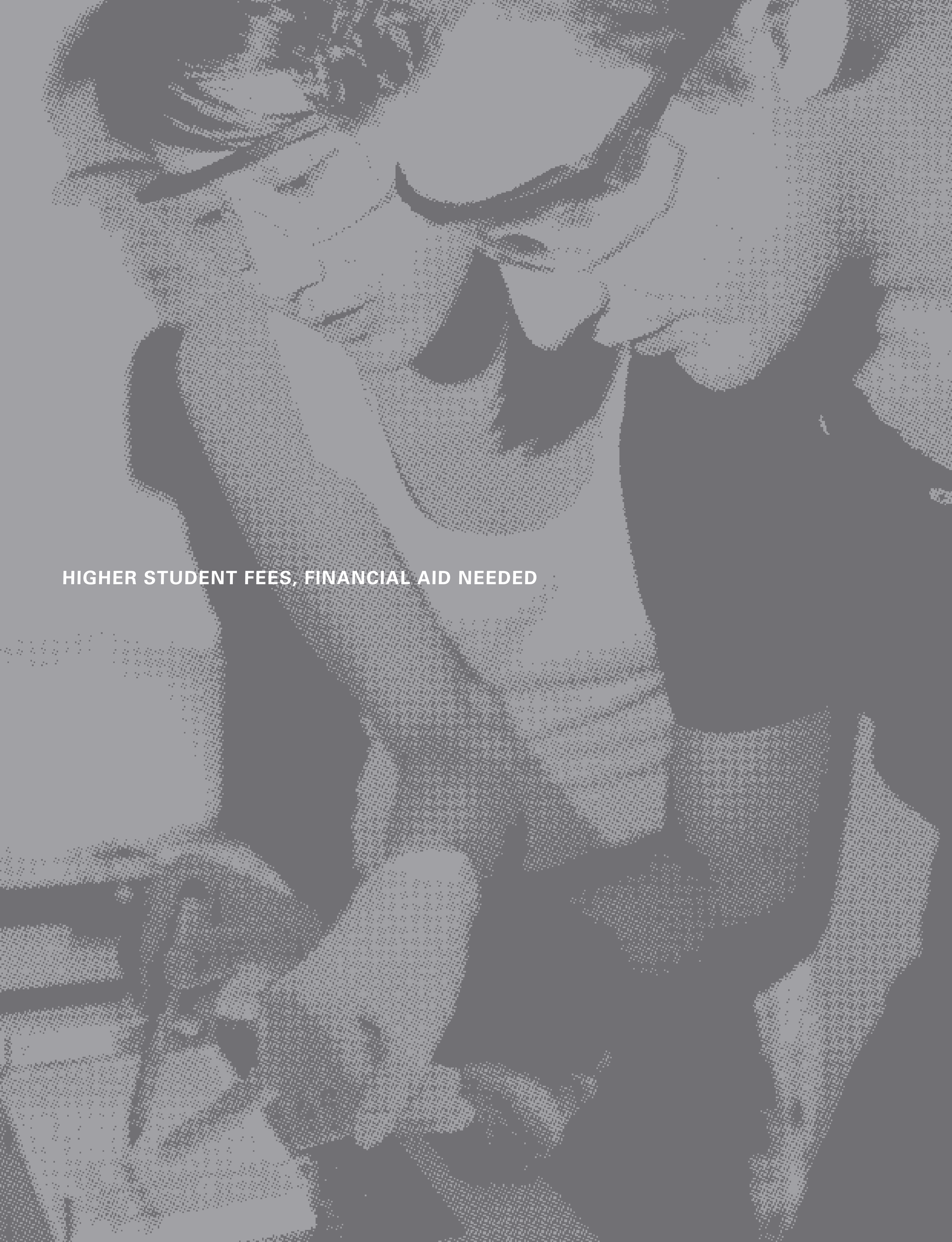
The quality of the University's professional schools is critical to maintaining California's leadership role in fields as diverse as health sciences, business, and law. Increased funding is needed to offset rising salary and other professional school costs, as well as to maintain and enhance the schools' ability to compete for the best students and faculty. This is particularly critical after years of devastating cuts to professional school budgets. The budget plan assumes $30.5 million, including a minimum of $10.0 million for financial aid, will be generated for these purposes from professional school fee increases in 2010-11.

REINVESTING IN ACADEMIC EXCELLENCE

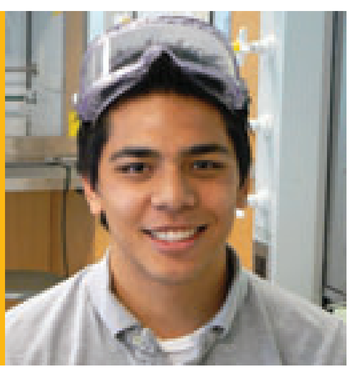
As described earlier, State funding reductions have led to academic programs reductions across the system. Campuses have delayed hiring of new faculty and eliminated course sections, resulting in larger class sizes, narrower offerings for students, and less opportunity for students to interact with faculty. Furthermore, library hours have been shortened and campuses have delayed purchases of necessary instructional equipment and technology. Restored State funding and student fee revenue will be used by campuses to reinvest in faculty, course offerings, instructional and academic support, and graduate student support.

Campuses have delayed hiring new faculty and eliminated course sections, resulting in larger class sizes, narrower offerings for students, and less opportunity for students to interact with faculty.

HIGHER STUDENT FEES, FINANCIAL AID NEEDED



Revenue from student fees is a major source of funding for the University's core educational program. Fees have increased significantly in recent years due to reductions in State funding, the need to fund unavoidable cost increases, and efforts to maintain program quality.



STUDENT FEES

Student fees provided $1.95 billion for the University's basic operations in 2008-09. Assuming proposed mid-year fee increases are approved, students will pay 40% of the cost of education during 2009-10.

Despite recent fee increases, UC fees remain very competitive with public comparison institutions for California resident undergraduates and graduate academic students. Even with the proposed mid-year fee increases, in 2009-10, the University's average fees for California resident undergraduate and graduate students remain below the average of tuition and fees at the University's four public comparison institutions, as shown in Display 10.

The University is proposing several fee actions at the November 2009 meeting of the Regents. These actions are being requested at this time in order to address urgent needs during the 2009-10 year, provide continuing and prospective students with advance notice of fee levels for 2010-11, and enable faculty and administrators on campuses to plan accordingly. As mentioned earlier, if the State were to provide funds in excess of the University's budget request of $902.7 million, the University would revisit fee levels for 2010-11.

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Mandatory Student Fees

For 2009-10, the University proposes to increase mandatory student fees by 15% for undergraduate and graduate professional students and by 2.6% for graduate academic students, effective for terms beginning in January 2010. For 2010-11, the University proposes an additional increase in combined mandatory systemwide fees of 15%. Because the fee increases are intended to sustain academic program quality, the full amount of the fee increases will be assigned to the Educational Fee, which provides general funding for University operations, including instruction and support activities, and is essentially equivalent to tuition charged by other institutions. Revenue generated from the fee increases will be used to backfill State funding reductions and help fund academic merit increases, benefits cost increases, and other critical needs, as well as provide new funding for financial aid. No increases to the Registration Fee, which exclusively supports student life activities, will be made at this time. Consideration has been given to establishing differential fees by discipline for upper division undergraduates for 2010-11; however this issue has been referred to the UC Commission on the Future. No action on this issue is contemplated for the November meeting.

Fees for Professional School Students

As mentioned earlier, professional school fees provide UC's professional schools with funds to maintain quality – to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students – following significant budget cuts over the last two decades. The budget plan includes campus proposals for increases in professional school fees generally ranging from 7% to 22% depending on the campus and program. Specific fee levels are based on an evaluation of program resources and needs, comparison institution fees, and affordability for students.

DISPLAY 10

UC and Comparison Institution Fees 2009-10

Even with the proposed mid-year fee increases, in 2009-10 the University's average fees for California resident undergraduate and graduate students remain below the average of tuition and fees at the University's four public comparison institutions.

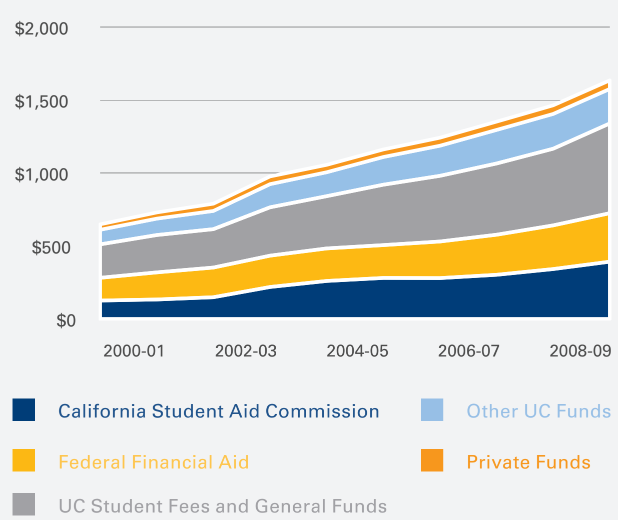
	UNDERGRADUATE		GRADUATE	
	RESIDENT	NONRESIDENT	RESIDENT	NONRESIDENT
Public Comparison Institutions				
University at Buffalo (SUNY)	$7,013	$14,913	$9.883	$14,763
University of Illinois	$12,508	$26,650	$12,514	$25,780
University of Michigan	$12,400	$36,163	$17,475	$35,133
University of Virginia	$9,872	$31,872	$12,635	$22,635
Average	$10,448	$27,400	$13,127	$24,578
UC Current	**$8,726**	**$31,395**	**$11,241**	**$26,277**
UC Proposed*	**$9,311**	**$32,028**	**$11,352**	**$26,394**

*Includes one-half of the proposed 15% mid-year increase, reflecting the actual fees students will pay during 2009-10 if the fee proposal is approved at the November 2009 Regents' meeting.

DISPLAY 11

Total Gift Aid by Source (Dollars in Millions)

To offset fee increases and maintain the promise of higher education for all Californians, both the University and the State have invested heavily in student financial support. Total gift aid is projected to exceed $1.6 billion in 2009-10.



The University of California has become nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students.

Nonresident Tuition

In addition to mandatory student fees, nonresident students pay tuition in lieu of State support. As mentioned earlier, for 2010-11, the University proposes no increase in nonresident tuition for undergraduates due to the already high level of tuition and fees paid by these students. Furthermore, due to the inadequacy of graduate student support, nonresident tuition for graduate students will not be increased in order to avoid exacerbating an already difficult problem. Nonresident students will experience increases in mandatory systemwide fees equivalent to the increases imposed on resident students.

STUDENT FINANCIAL AID

The University's student financial aid programs, guided by policy adopted by the Regents in 1994, are closely linked to the University's goals of student accessibility and helping the State meet its work force needs. To mitigate the impact of fee increases as well as increases in other educational expenses, the University has continued to use a portion of the new revenue derived from student fee increases to support financial aid. Other sources of funds, including State funding for Cal Grants and federal and private funds, have helped ensure that UC meets its financial aid goals.

Undergraduate Financial Aid

At the undergraduate level, the goal is to maintain the affordability of the University for all students so that financial considerations are not an obstacle to student decisions to seek and complete a University degree. The University of California has become nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students. In 2007-08, more than half (54%) of UC undergraduates received grant or scholarship aid, averaging $10,300 per student.

Despite fee increases, the University has remained accessible to undergraduate students from all income groups. Enrollments of low-income Pell Grant recipients at other research institutions range from below 10% to nearly 20%. The average at UC is more than 30%, more than any other comparably selective research institution. At UCLA, 34% of undergraduates are low-income students.

The enrollment of students from middle-income families also has remained relatively stable. Over the past decade, despite fee increases, the percentage of middle-income students enrolled at the University has remained about 43%.

Financial aid also contributes greatly to the University's undergraduate ethnic diversity. African-American,

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Chicano/Latino, and Asian-American students are disproportionately low-income. Collectively, these students receive 70% of all undergraduate gift assistance. For all of these reasons, maintaining a robust financial aid program for UC undergraduate and graduate students remains a top University budget priority.

In 2009-10, several significant factors have helped UC maintain affordability for undergraduates:

- increases in the maximum federal Pell Grant;
- full funding of the State's Cal Grant program;
- continuation of UC's 33% return-to-aid policy;
- establishment of the Blue and Gold Opportunity Plan, which ensures in 2009-10 that all needy students with household incomes below $60,000 receive gift aid covering systemwide fees up to their need level; and
- expansion of federal education tax credits.

As a result of these ongoing programs and new program expansions, on average, undergraduates with family incomes below $180,000 will have the approved and proposed mid-year fee increases for 2009-10 covered by financial aid or tax credits. In 2010-11 the University will continue to set aside 33% of new undergraduate fee revenue for financial aid. In addition, the University will expand the Blue and Gold Opportunity Plan to all needy students with family incomes below $70,000. The University also has announced "Project You Can," an ambitious fundraising initiative that aims over the next four years to raise $1 billion in private support for student aid.

Undergraduates with family incomes below $180,000 will have the approved and proposed mid-year fee increases for 2009-10 covered by financial aid or tax credits.

Graduate Financial Aid

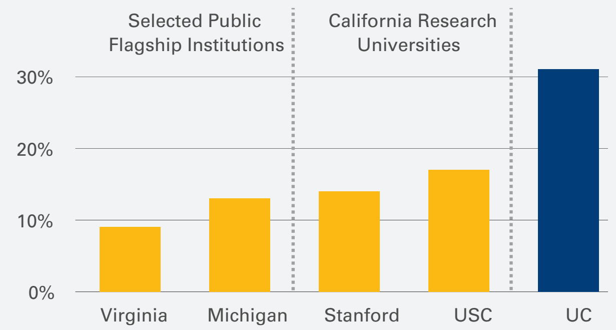
At the graduate level, the Regents' policy calls upon the University to attract a diverse pool of highly qualified students by providing a competitive level of support relative to the cost of other institutions. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the State meet its academic and professional work force needs. Graduate awards must be sized not only to make the University accessible but also to be competitive with awards prospective students receive from other institutions. Among graduate students, 61% received gift aid averaging about $14,100 per student during 2007-08. However, in recent years, the financial aid packages awarded by UC fell short of the packages offered by competing institutions. While the gap narrowed to just $1,000 on average in 2007, graduate student aid remains a concern.

To help mitigate this problem, UC's current practice is to return 50% of any new graduate academic fee revenue to students in the form of financial aid. In addition, in recent years, the University has augmented graduate student support by $40 million from a combination of campus and systemwide resources.

DISPLAY 12

Undergraduate Pell Grant Recipients

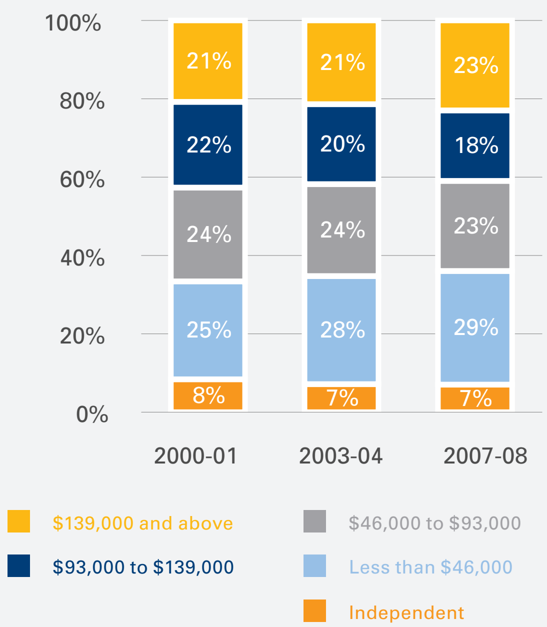
UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – around 30% in 2007-08, which is more than any comparable public or private institution.



DISPLAY 13

Undergraduate Enrollment by Family Income

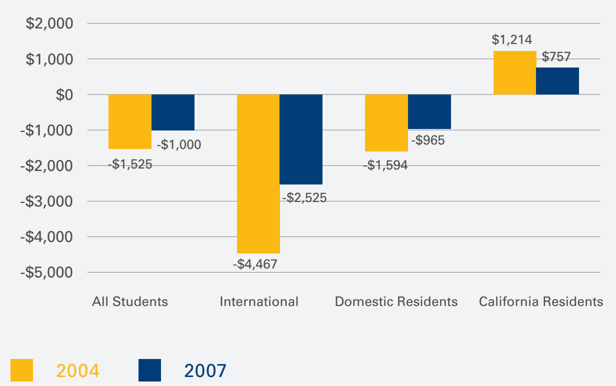
UC enrollment of students from middle-income families also has remained stable. Despite fee increases, the percentage of students in the middle-income quartiles has remained about 43% since 2000-01.



DISPLAY 14

Competitiveness of UC Financial Support Offers to Graduate Students

For academic doctoral students, UC has narrowed the gap between its offers and those of competing institutions by more than $500. UC's competitiveness has improved the most for international students, where the gap has been reduced by almost $2,000. UC has made progress for domestic nonresident students as well and maintained a sizable advantage over competing institutions for California resident students. Nevertheless, large gaps remain, and they are exacerbated by the high cost of living at UC campus locations.



FUTURE FUNDING FOR HIGH PRIORITY NEEDS

To compete in the global economy, the State must increase production of bachelor's degrees among its own citizens.

The budget priorities described in the previous pages reflect essential priorities for managing the University through a time of fiscal crisis. However, the University's funding needs far exceed what is contained in that request if it is to continue to be the high-quality, low-cost institution it has been until now.

From its founding, the University of California has propelled California's economy and quality of life. It has transformed desert to farmland, created new industries and economic prosperity, contributed to the defense and security of the nation, stimulated social mobility, and promoted discoveries and innovations that have improved the health and well-being of people far beyond California's borders.

To achieve all this, the University has required continuous investment — investment that, in recent years, has been inadequate because of dwindling state resources. The University faces the very real threat that it will lose its competitive advantage among research universities, endangering the quality of its academic programs and impacting the California economy and the quality of life for all Californians.

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A renewed investment by the State in the University of California would allow UC to pursue the following goals critical to the quality of instructional programs, research productivity, and economic benefits to the State:

Restore the Promise of Access
To compete in the global economy, the State must increase production of bachelor's degrees among its own citizens. State funding for enrollment growth ensures that California's high school graduates and community college transfer students have access to the University education they have worked to attain.

Achieve the Potential of the Merced Campus
Growth of the nation's newest research university will promote college-going in the previously underserved communities of the Central Valley.

Reignite Growth in Graduate and Health Sciences Enrollment
The State needs highly-educated workers and must address the large and mounting shortfalls of doctors, nurses, public health professionals, pharmacists, and veterinarians, particularly in California's medically underserved communities. The current crisis is causing the University and the State to delay unique opportunities to educate new knowledge workers.

- The Riverside medical school would be the first new allopathic medical school to open in California in more than 40 years and would serve Inland Southern California by training a diverse physician work force and developing innovative research and health care delivery programs that will improve the health of the medically underserved throughout the region and serve as a model for improving health care access in California.

- The Davis nursing school, supported in part by a major grant from the Moore Foundation, would help alleviate California's desperate nursing shortage. California ranks 50th in the nation in the number of nurses per capita, and recent studies have shown that without intervention, this shortage will worsen significantly through 2030.

Recruit and Retain the Highest Quality Faculty
The faculty are the University's lifeblood, driving the high quality instructional programs desired by students, their families, and California business, and leading an unparalleled research enterprise that serves as an engine for California's economy. Maintaining the quality of the faculty – by fully funding faculty salaries at competitive levels – is critical to both the University and the State.

Compensate Staff at Competitive Levels
The need to pay competitive salaries to staff is as critical to the University as bringing faculty salaries to market levels. The quality of the institution relies upon excellence in all areas – excellence that is difficult to maintain when faced with chronic compensation shortfalls compared to market.

Restore Funding to Instructional Budgets and Improve the Student-Faculty Ratio
Investments in additional faculty will provide students with greater access to leading scholars and widen the breadth of academic offerings, enriching educational experiences. In addition, new faculty will attract additional research funding to California, promoting the advancement of knowledge and innovation, and leading to further benefits for the State's economy.

Reinvest in the Research Enterprise and Provide Support for the Graduate Students
Investments in research and graduate students, which are leveraged with grant and other funding, will power California's economy, give rise to new industries, solve real

and pressing problems of the environment, health access, workforce needs, and agriculture, to name just a few, and inform social public policy.

Contribute Lasting Solutions to California's K-14 Educational Crisis

UC recognizes its responsibility as a public trust to mobilize its teaching, research, and public service mission to respond to California's K-14 educational crisis. The University is committed to a coordinated institutional strategy to address the quality of California's K-14 education, building upon the University's existing programs that provide services to schools, teachers, and students.

Upgrade Essential Academic, Technology and Facilities Infrastructure

Recruitment and retention of the best faculty and students and modernization of instruction practices require that the University make continuing investments in libraries, instructional technologies, and instructional equipment, areas critical to the quality of UC's academic programs. Development and maintenance of an information technology infrastructure is critical to management of the University's educational and business enterprise and to manage a cyber-infrastructure capable of supporting cutting-edge and increasingly computationally-based research. Capital projects are necessary for seismic and life-safety improvements, accommodating enrollment growth including instructional (classroom) buildings, capital renewal, and expanding essential infrastructure. Additional capital development is needed to improve and expand research space, improve medical centers, and provide auxiliary structures such as parking and housing for students, faculty, and staff.

Increase Diversity

By expanding and coordinating successful student academic preparation programs as well as implementing recruitment, fellowship, and mentoring programs that encourage recruitment, retention, and successful advancement of diverse faculty and staff, consistent with the findings and recommendations of the Regents' Study Group on University Diversity, the University's students, faculty, and staff can more closely reflect the population of California.

Sustain Retiree Health Benefits

As mentioned earlier, the costs of retiree health benefits are expected to rise rapidly over the next decade. It is critical that UC maintain the value and security of retirement benefits both for retirees and current employees.

The University recognizes this is an ambitious agenda, but it is one appropriate for meeting the growing needs of California. At the same time, the University also acknowledges it must do its part by undergoing a thorough operations and efficiencies review, with the goal of identifying and capturing sufficient savings to finance many critical initiatives. However, this cannot be a substitute for continued support from the State. On the contrary, the State must dramatically augment its investment in the University as its fiscal situation improves. Only in partnership – with the State committed to investing in its research university, and a University that, in turn, recognizes its public trust obligation to operate at maximum efficiency – can the University of California's continued place as the highest quality public research institution in the world be ensured.

The University faces the very real threat that it will lose its competitive advantage among research universities, endangering the quality of its academic programs and impacting the California economy and the quality of life for all Californians.

2010-11 BUDGET FOR STATE CAPITAL IMPROVEMENTS

Adequate funding for facilities is essential to the University's commitment to maintain progress on seismic and other life-safety improvements, address essential infrastructure and building renewal needs, and upgrade and expand academic facilities necessary to support enrollment growth.

For 2008-09, the State did not propose a new General Obligation bond measure for higher education. Late in the budget process, the University sought and received $261.3 million to support a portion of its 2008-09 capital plan, including $204.6 million in Lease Revenue bond funding. The University sought similar financing for 2009-10. However, the 2009-10 State budget act provided only $30.9 million in existing General Obligation bond funds, primarily to support medical education and telemedicine projects. Over the two-year period, less than one-third of the funding requested to meet high-priority needs was provided to the University, resulting in a backlog of essential projects that require funding.

Because adoption of the 2008-09 State budget was delayed and the State's financial condition worsened, the State was unable to access the bond market or obtain new interim financing for the second half of 2008. To address this problem, the Pooled Money Investment Board (PMIB) took the unprecedented step in December 2008 of suspending State-funded loan disbursements for on-going projects statewide. In addition, the PMIB suspended approval of new loans for appropriated projects that had not yet begun.

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Appropriations for 68 UC projects totaling $983 million were initially halted or suspended as a result of the freeze of loan disbursements. Of these, the University received an exemption from the freeze and partial funding to continue 11 projects. In April 2009, the University received funding from two General Obligation bond sales totaling $62.8 million and $164.8 million, respectively, as well as Lease Revenue bond sales totaling $142.6 million. These funds allowed the 11 exempted projects to continue and 15 additional projects to restart. In addition, the University raised $199.8 million in July 2009 through the sale of short-term commercial paper and purchased a privately placed State of California General Obligation bond that provided funding for 18 additional projects.

Funding for the remaining 24 projects totaling $413 million, including 7 to be funded from Lease Revenue bonds, remains suspended. It is an unfortunate irony that, while the bidding market is at its most favorable in years, the State has been unable to obtain the financing to construct projects.

It is the University's intention to pursue a four-year General Obligation bond for voter approval in 2010-11 for funding that provides at least $450 million per year for general campuses to meet enrollment, renewal, and seismic improvement needs and another $100 million per year for health sciences programs to help address California's need for more healthcare providers and for improved clinical facilities.

Within this context, the University's 2010-11 capital budget proposal totals $631.5 million for enrollment growth-related expansion, seismic and life-safety improvements, and essential infrastructure and renewal. The capital budget proposal would meet two objectives:

- Restore projects that were included in the Governor's proposed budget plans for 2008-09 and 2009-10, but were not funded.
- Provide funding for additional projects included in the campuses' five-year capital plans that address critical needs for seismic and life safety, enrollment growth that has already occurred, and facilities renewal.

The University's 2010-11 request for State funds for capital improvements is presented in more detail in a companion document, titled *2009-15 State and Non-State Capital Improvement Program.*

DISPLAY 15

2010–11 Capital Budget Proposal (Dollars in Millions)

Expansion and upgrades of academic facilities to support enrollment growth	$106.0
Maintaining progress on seismic and other life-safety improvements	173.5
Essential infrastructure and building renewal	325.0
New program initiatives	27.0
Total	**$631.5**

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