An investment in UC pays dividends far beyond what can be measured in dollars. An educated, high-achieving citizenry is priceless.

2011-12 Budget for Current Operations
Budget Detail

UNIVERSITY OF CALIFORNIA

Foreword

The University of California was founded in 1868 as a public, State-supported land grant institution. The State Constitution establishes UC as a public trust to be administered under the authority of an independent governing board, the Regents of the University of California. The University maintains ten campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of the campuses offer undergraduate and graduate education; one, San Francisco, is devoted exclusively to health sciences graduate and professional instruction. The University operates teaching hospitals and clinics on the Los Angeles and San Francisco campuses, and in Sacramento, San Diego, and Orange counties. Approximately 150 University institutes, centers, bureaus, and research laboratories operate throughout the state. The University's Agricultural Field Stations, Cooperative Extension offices, and the Natural Reserve System benefit all Californians. In addition, the University provides oversight of the Lawrence Berkeley National Laboratory and is a partner in limited liability corporations that oversee two additional Department of Energy Laboratories.

ORGANIZATION OF THE *2011-12 BUDGET FOR CURRENT OPERATIONS — BUDGET DETAIL*

The companion to this document, the *Summary of the Budget Request*, provides a brief overview of the major policy issues, revenue expectations, and expenditure plans and objectives of the University for 2011-12. This document provides explanatory detail for all aspects of the University's operating budget.

The first chapter, *UC's Role in the State of California*, provides an overview of the University's contributions to the state both as an educator and as an economic driver.

The *Sources of University Funds* chapter presents a digest of the major fund sources that constitute the University's $21.8 billion in operating revenues. Of particular note is a discussion of the shifts in core funding for the University's mission of instruction, research, and public service due to the loss of State funds that has occurred over the last several decades.

Subsequent chapters discuss specific program areas in more detail and provide fuller justification of requests for funding increases. These include chapters covering the core mission activities of instruction, research, and public service, as well as all support activities and student financial aid.

The *Cross-Cutting Issues* chapter provides budget detail for issues that cross functional areas — systemwide and campus actions to address budget cuts and to shape the long-term future of the University, graduate student enrollment and financial support, diversity, information technology needs, and funding for academic support activities. This chapter also includes a brief discussion of

capital facilities needs, which are more fully described in another document, the *2010-20 Consolidated State and Non-State Capital Financial Plan*.

Salary increases and rising costs of employee and retiree benefits are major drivers of the University's budget plan. These issues are discussed in the *Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases* chapter.

As a significant and growing source of revenue in support of UC's teaching mission, the *Student Tuition and Fees* chapter provides information about the University's fee policy and practices.

The *Historical Perspective* chapter provides a detailed account of the history of State funding for the University over the last several decades.

Finally, an index appears at the end of this document to assist readers who are looking for a particular subject.

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List of Displays

"An investment in the University of California pays dividends far beyond what can be measured in dollars. The value of an educated, high-achieving citizenry is priceless."

Mark G. Yudof
University of California
President

UC's Role in the State of California

California's economic prosperity, social mobility, and cultural opportunity all have been fueled by far-sighted public investments in higher education. This historic commitment has enabled the University of California not only to educate the state's brightest students – over 232,000 last year alone – but to touch the lives of every Californian:

- **UC educates the workforce** needed by high-tech, business, agriculture, health care, education, and other sectors of the economy.
- **UC conducts research that fuels the economy**, creates jobs, increases productivity, and solves state and societal problems, leading to higher standards of living.
- **UC is a key source of innovation** and entrepreneurs, which are essential to the industries that drive California's competitiveness.
- **UC improves the health of Californians** by providing an unmatched combination of state-of-the-art patient care facilities and path-breaking research programs, which are integrated with the nation's largest medical education program.
- **UC works with K-12 schools** to improve the quality of instruction and expand educational opportunities.

The excellence of the University's programs attracts billions of dollars in federal and private funding and promotes the discovery and dissemination of new knowledge that promotes economic, social, and cultural development. To maintain California's leadership role and to meet the changing needs of future generations, California must continue to invest in the future by supporting the core budget of its world-class public research university system.

STATE FUNDS REMAIN ESSENTIAL

The University's operating budget, totaling $21.8 billion, funds the core mission responsibilities of teaching, research, and public service, as well as a wide range of support activities, including teaching hospitals, the Lawrence Berkeley National Laboratory, UC Extension, housing and dining services, and other functions.

THE CALIFORNIA MASTER PLAN FOR HIGHER EDUCATION

The Master Plan has served as California's blueprint for higher education for 50 years, specifying the mission of each segment of higher education. UC's mission is tripartite:

- **Teaching.** UC serves students at all levels of higher education in California, and is the public segment solely responsible for awarding the doctorate, except for joint doctorates offered with CSU and several professional doctorates offered by CSU.
- **Research.** UC is the primary State-supported academic agency for research. Research is inextricably linked with teaching at the graduate level and increasingly so at the undergraduate level, and creates a vital link to the private sector and development of new knowledge and innovation leading to new industries and jobs.
- **Public Service.** UC contributes to the well-being of communities, the state, and the nation through programs such as outreach, cooperative extension, and health sciences clinics. UC's public service programs allow policy makers to draw on the expertise of UC's faculty and staff to address public policy issues.

Historically, State funding has been the largest single source of support for the University, totaling $2.91 billion in 2010-11. However, the volatility of State support and the failure to keep pace with enrollment and inflation, particularly over the last 20 years, have eroded the University's competitiveness and destabilized the quality of the academic program. The fiscal crises that have rocked California since 1990 have reduced the State's share of core funding support per student by more than half, as described in the *Sources of University Funds* chapter of this document. The unprecedented cuts in State funding for 2008-09 and 2009-10 have brought UC to an insufficient support level that threatens to replace excellence with mediocrity.

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 18% in inflation-adjusted dollars. Other sources of funds help augment and complement the University's core activities of instruction and research, providing academic and administrative support functions, public service to the state and its people, and a rich social, cultural, and learning environment on UC campuses.

Yet, State General Funds remain extremely critical because they support the core instructional mission and make it possible to attract funds from other sources. For example, for every State dollar specifically invested in research, UC draws nearly $8 more from the federal government and other non-State sources. State funds help attract significant private funding, with one example being the California Institutes for Science and Innovation, a unique funding partnership between the State, industry, and UC.

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 UC 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.

Planning for the University's 2011-12 budget is proceeding in the context of the State's ongoing fiscal problems. UC further recognizes that it has an obligation to identify and capture savings and has an ongoing review of operations to identify funds for additional UC aspirations and obligations.

UC'S CONTRIBUTION TO THE STATE ECONOMY

This state has had a long record of strong economic performance with a history of thriving industries and high-paying jobs. If California were a country, its economy would be among the top 10 in the world. In comparison to other states, salaries in California have been well above the national average for the last three decades.

California became one of the world's leading economies in the second half of the 20th century, in part because it had a greater number of excellent research universities and more venture capital than other states, which helped create and attract knowledge-based companies. For example, basic research at California's research universities created the biotechnology industry and hundreds of biotechnology companies have been founded by UC faculty and former students. Knowledge-based companies depend upon discoveries and highly-educated employees from university research laboratories and technology transfer.

However, there are signs that California is losing its comparative advantage. Already, California's per capita personal income has declined continuously from 118.2% of the U.S. average in 1980 to 108.5% of the U.S. average in 2008. According to the National Center for Higher Education Management Systems in 2005, if current trends are not reversed, changes in California's population and low educational attainment levels among faster-growing groups will lead to a reduction in California's per capita income levels relative to the U.S. average, reaching 50th among states by 2020.

As baby boomers retire, they will be replaced by younger workers. These younger workers, however, will have lower educational levels than today's retirees. According to the 2006 report by economists at the California State University at Sacramento's Applied Research Center, "Keeping California's Edge: The Growing Demand for Highly Educated Workers,"

> *"In recent history, California's education pipeline has always assured that the next cohort to enter the labor force would be better educated than current and previous cohorts. Employers could anticipate the ever-improving educational attainment of the labor force. Now, for the first time, projections of California's education pipeline indicate declining labor force quality compared to previous cohorts, which raises questions about our ability to supply the higher-educated labor force of the future."*

While 41% of California's 45- to 64-year-olds hold an associate's degree or higher, only 36% of 25- to 34-year-olds are as educated. The report projects, moreover, that occupations in California requiring a higher education degree (associate's degree or higher) will grow by more than 46% between 2002 and 2022, while occupations not requiring higher education will grow by only 33.5%.

The industries that will be driving California's economic longer-term competitiveness will be knowledge-based industries. California's fastest growing occupational

categories are professional and managerial jobs. In the early 1980s, one-fourth of all jobs in California were held by professionals and managers. Today, that fraction has grown to one-third of all jobs.

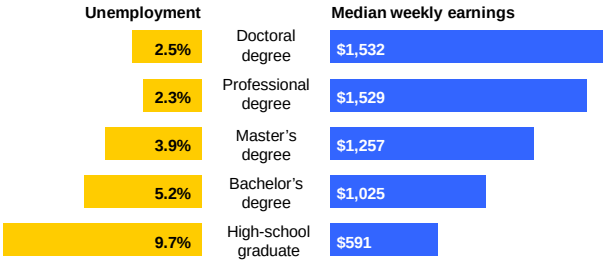
Most of these new professional and managerial jobs require at least a bachelor's degree and often a master's or doctorate. The California Postsecondary Education Commission's 2007 "Public Higher Education Performance Accountability Framework Report" showed that fields in critical need of highly educated professionals include computer occupations, engineering, teaching, nursing, and pharmacy.

As the Public Policy Institute of California (PPIC) described in their 2009 report, "Closing the Gap: Meeting California's Need for College Graduates," the state faces a shortfall in college-educated workers as, for the first time, retirees are not being replaced by more plentiful and better-educated younger workers. Instead, the state's college-aged population will be increasingly composed of groups with historically low levels of educational attainment. Particularly notable are Latinos, comprising about one-third of the state's current population, and projected to make up 43% of California's 2025 population. Though UC has made great strides over the past 30 years in increasing Chicano/Latino enrollment (as described in *Cross-Cutting Issues*), college attendance and completion rates are still low, even among the second generation.

A more educated population is one that generates more tax revenue and enjoys more rapid economic growth. On an individual level, the correlation between higher levels of education, lower levels of unemployment, and median earnings is clear (Display I-1). Furthermore, individuals who are members of groups that are historically the least likely to complete college are those who receive the greatest return on their education in terms of higher salaries.

The need for more college graduates is evident, but the solutions are less so. Already, the CCC, CSU, and UC systems account for over 80% of California's higher education enrollment, and the CSU and UC systems award over three-fourths of the baccalaureates conferred annually in California. In order to generate the additional 1 million

Display I-1: Earnings and Unemployment by Level of Education



Source: Bureau of Labor Statistics, 2009.

With the shift to a knowledge-based economy, individual income and employment are more closely linked to level of education. Average earnings are higher and unemployment rates are lower for those with more advanced levels of education.

baccalaureates needed by 2025, PPIC suggests that California would need to graduate another 60,000 students a year, a 40% increase over current levels. In "Closing the Gap," PPIC proposes three solutions:

- **Increase college attendance**. The National Center for Public Policy and Higher Education found in 2008 that only 56% of California's high school graduates directly matriculate to any college, compared to 62% nationwide.
- **Increase the transfer rate to CSU and UC**. Only 20-30% of students who matriculate at a community college eventually transfer to a four-year institution, and community college students spend an average of four years at a CCC before transferring.
- **Increase graduation rates.** While over 80% of UC students graduate within six years, only about half of CSU students do so.

Even though, according to PPIC, "high school students who go directly to UC have the greatest likelihood of earning a degree, and UC is projecting a very slight increase in the share of high school students it will admit," UC does have room to improve. Some of these avenues are more likely to bear fruit than others.

Unfortunately, because the State has been unable to fully fund recent enrollment growth, UC, like CSU, is taking steps to reduce enrollment to funded levels (see the *General Campus Instruction* chapter for further detail). Additionally, because the graduation rate at UC is already quite high, improvements would not yield a significant number of new graduates; however, the University's graduation rate and time to degree have consistently

improved over the past ten years and may continue on these trajectories.

The University can, however, make inroads with improving the transfer rate. UC has several initiatives to this end, including UCTransfer and ASSIST, online tools to help CCC students navigate the transfer path. Both are described further in the *General Campus Instruction* chapter of this document. President Yudof has also made increasing transfer enrollments a priority for UC.

In the future, California will also be in need of students with graduate-level training. Analysis conducted by the PPIC indicates that growth in the number of jobs requiring graduate degrees will surpass one million by 2025, a 68% increase from 2005.

The State's investment in higher education will impact the future of knowledge-based industries in California. Georgetown University's 2010 report, "Help Wanted: Projections of Jobs and Education Requirements through 2018" forecasts that nearly two-thirds of jobs will require postsecondary education by 2018. The 2010 Lumina Foundation report, "A Stronger Nation through Higher Education," building upon Georgetown's forecast, shows that while California's percentage of college graduates is above the national average, an annual increase of college graduates of 6.7% is needed to produce enough educated professionals by 2025 to meet California's projected workforce needs. A lack of investment in education will continue to erode the economic advantages that California has enjoyed and the quality of life in the state.

The state is at a crossroads. Where California was once and still is among the highest educated and earning states in the nation, that advantage will not last if current trends in education continue. The University of California is one of the top universities in the world, as a research institution and as an engine of economic growth. Investment in the University by the State translates to investment in the future of California.

THE PURSUIT OF EXCELLENCE

The University of California is internationally renowned for the quality of its academic programs and consistently ranks among the world's leading institutions in the number of faculty and researchers singled out for awards and distinctions, election to academic and scientific organizations, and other honors.

- 56 Nobel laureates – more than any other public university
- 60 Medal of Science winners
- 244 National Academy of Science members
- 373 American Academy of Arts and Sciences members
- 125 Institute of Medicine members
- 651 American Association for the Advancement of Science members
- 80 recipients of MacArthur Foundation "genius" grants since their start in 1981
- 1,463 Guggenheim fellowships since 1930 – more than any other university or college
- For 17 years running, UC has developed more patents than any U.S. University
- *Washington Monthly* 2010 college rankings that focused on how much an institution benefits the country — how well it performs as an engine of social mobility, fosters scientific and humanistic research, and promotes an ethic of service to the country – included eight UC campuses in the top 100, with the San Diego, Berkeley, and Los Angeles campuses sweeping the top of the list.
- The National Research Council reviewed 322 UC programs in science, math, engineering, social sciences, and humanities, ranking 141 among the top ten in their fields.

"UC relies on California general fund support for its core academic programs. This support is critical to our quality and the ability to ensure access for all students."

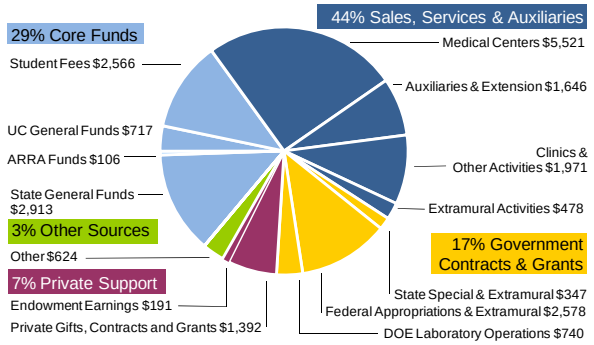
Peter Taylor
University of California
Chief Financial Officer

Sources of University Funds

The University's operating revenues, estimated to be $21.8 billion in 2010-11, support the tripartite mission of teaching, research, and public service, as well as a wide range of activities in support of and generated by these responsibilities, including teaching hospitals, the Lawrence Berkeley National Laboratory, University Extension, housing and dining services, and other functions.

These activities are funded from a wide range of sources, including State support, student fees, medical center and other self-supporting enterprise revenues, federal, State, local, and private contracts and grants, and private giving and endowment earnings, among others, as shown in Display II-1. The University's annual budget plan is based on the best estimates of funding available from each of these sources. This chapter presents a digest of major fund sources. Later chapters of this document describe the functional areas in which the University's funds are expended.

Display II-1: 2010-11 Sources of Funds (Dollars in Millions)



UC's operating budget, totaling $21.8 billion in 2010-11, consist of funds from a variety of sources. State support, which helps leverage other dollars, remains critical.

CORE OPERATING FUNDS: GENERAL FUNDS AND STUDENT FEES

The University's "core funds," comprised of State General Funds, UC General Funds, and student fee revenue, provide permanent support for the core mission activities of the University: instruction, research, and public service, as well as the administrative and support services needed to perform these activities. Totaling $6.3 billion in 2010-11, these funds represent 29% of UC's total operations. Much of the focus of UC's strategic budget process and negotiation with the State is dedicated to the levels and use of these fund sources.

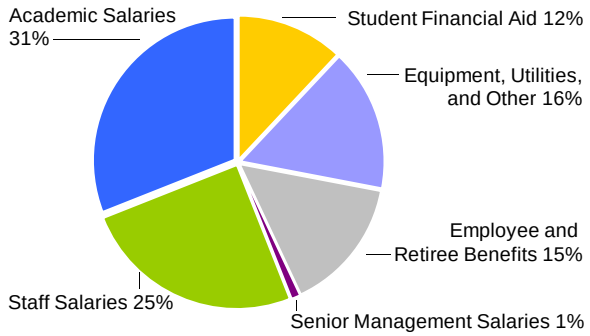
State General Funds

State General Fund support for UC, $2.91 billion in 2010-11, provides a critical base of permanent support for the University's core mission activities. The majority of State General Funds is undesignated in the State budget act, but some funding is specifically designated for specific programs or activities. In addition to funding for basic operations, the State appropriation includes funding for principal and interest payments associated with University facilities financed through lease-purchase agreements with the State Public Works Board. In 2010-11, the State is also providing a $5 million one-time allocation for start-up activities at Merced.

Beginning in 2005-06, State funding augmentations were driven in large part by the Compact with Governor Schwarzenegger. The fiscal provisions of the Compact were designed to provide necessary resources for base budget adjustments to help fund salary, health benefit, and non-salary price increases; enrollment growth at an agreed-upon marginal cost of instruction; funding to address chronic budgetary shortfalls in State funding for core academic support; and continued support for bond financing to meet capital outlay needs. The Compact is described in more detail in the *Historical Perspective* chapter of this document.

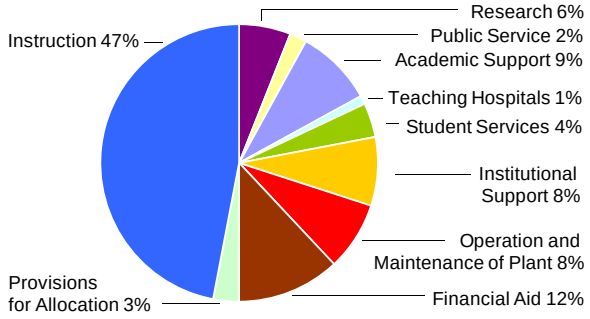
The Compact called for the State to provide funding for 2008-09, 2009-10, and 2010-11 of at least $223 million each year. However, the State's ongoing budget deficit has prevented funding of the Compact. In 2008-09, the Governor first funded the Compact provisions, and then

Display II-2: 2009-10 Core Funds Expenditures by Type



Nearly three-fourths of core funds support academic and staff salaries and benefits.

Display II-3: 2009-10 Core Funds Expenditures by Function



Nearly half of core funds are spent in general campus and health sciences instruction.

proposed 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 latest State's fiscal crisis grew during fiscal year 2008-09, proposed budget cuts grew. Permanent and one-time cuts to UC's budget for 2008-09 totaled $814.1 million, although these reductions were offset by $716.5 million in one-time State Fiscal Stabilization Funds authorized by the American Recovery and Reinvestment Act (ARRA). For 2009-10, permanent and one-time cuts in State funding totaled $637.1 million (from the level of State funding in 2007-08), essentially erasing the gains made over the earlier period of the Compact.

In 2010-11, the State restored a portion of the cuts ($305 million), although one-third of this restoration was in additional one-time ARRA funds. In addition, the State provided funds to support enrollment and annuitant health benefits. Even with this funding, the University's 2010-11 permanent State allocation is more than $1 billion below the level envisioned by the Compact.

UC General Funds

In addition to State General Fund support, based on long-standing agreements with the State, certain other fund sources are unrestricted and expected to provide general support for the University's core mission activities. Collectively referred to as UC General Funds, these include:

- a portion of overhead on federal and state contracts and grants,
- nonresident tuition,
- fees for application for admission and other fees,
- a portion of patent royalty income, and
- interest on General Fund balances.

The University expects to generate $717.2 million in UC General Funds during 2010-11. The largest sources of UC General Funds are nonresident tuition, accounting for $308.3 million, and indirect cost recovery on federal contracts and grants, totaling $296 million in 2010-11.

Student Fees

Also included in the core funds category are revenues generated from three student fees.

- Educational Fee revenue supports student services, student financial aid, and a share of the University's operating costs for instruction, libraries, operation and maintenance of plant, and institutional support. During 2010-11, Educational Fees range from $9,302 to $11,106, depending on student level, program, and residency status, and will generate $2.14 billion.
- Student Services Fee (formerly University Registration Fee) revenue provides funding for student life, student services, and other activities that provide extracurricular benefits for students, as well as capital improvements. The $900 Registration Fee will generate $206.6 million during 2010-11.
- Professional school fee revenue helps fund instructional costs associated with the professional schools, including faculty salaries, instructional support, and student services, as well as student financial support. Professional school fees range from $4,000 to $31,355, depending on the program and campus, and will generate $216 million in 2010-11.

These and other UC student fees are discussed in detail in the *Student Fees* chapter of this document.

Historical Changes in Core Funds Support

State funds represent a critical investment by the State, making it possible for the University to attract funds from other sources. For every State dollar specifically invested in research, UC generates nearly $8 more from the federal government and other non-State sources. State funds help attract private funding, with one example being the California Institutes for Science and Innovation, a unique State, University, and industry partnership.

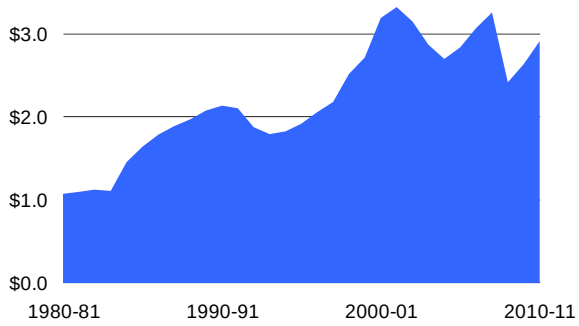
State funding for UC has fluctuated over time, as shown in Display II-4. Funding increases and reductions have largely coincided with changes in the state's economy. In the 1980s, State funding for UC doubled due to the high priority placed on the University of California by Governor Deukmejian and the Legislature, but extraordinary declines occurred during recessionary years in the early 1990s. During the late 1990s, under the first Compact with Governor Wilson and the first two years of the Partnership with Governor Davis, the State provided increased funding for UC's budget each year, totaling more than $1 billion.

The State budget crisis during the early 2000s led to another decline, but State funding for UC rose from 2005-06 through 2007-08, under the Compact with Governor Schwarzenegger. The latest crisis led to a second dramatic reduction in State funding for UC within a decade during 2008-09 and 2009-10, although a portion of this reduction was restored in 2010-11.

While funding from the State in real dollars tripled during the period from 1980-81 through 2007-08, the University's share of the total State General Fund budget declined markedly (see Display II-5). In 1980-81, the State dedicated 5% of the State General Fund toward the University's programs. In 2010-11, funding for UC represented just 3.36% of the State budget. Other State operations, and the prison system in particular, have taken larger shares. In 1990-91, the State's corrections budget was slightly less than State support for UC. Today, State funding for corrections nearly surpasses the combined State support of UC, CSU, and the community colleges.

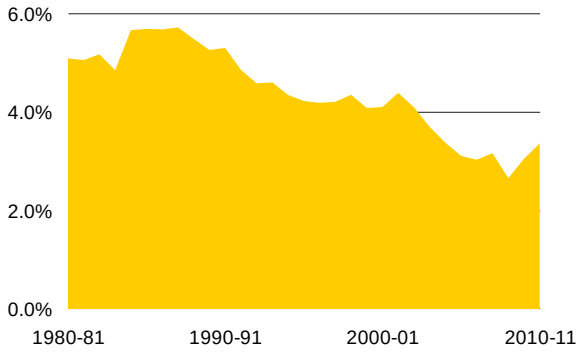
Another critical issue for the University is how well funding has kept pace with the costs of providing postsecondary instruction. Display II-6 shows the University's core funds

Display II-4: State General Fund Support (Dollars in Billions)



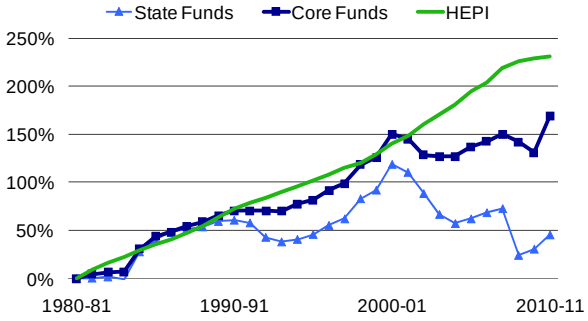
State support for UC has fluctuated over time, coincident with the state's economy. The past decade has been particularly volatile for the State and the University.

Display II-5: UC Share of State Budget



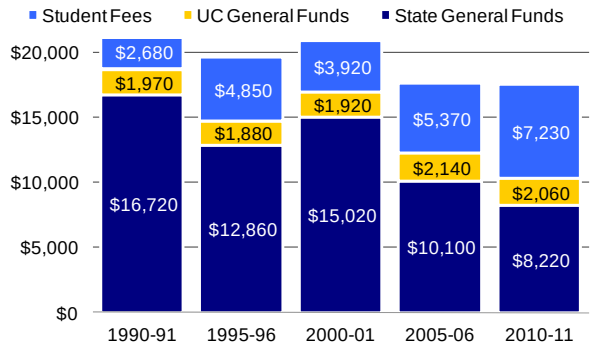
UC's share of the total state budget has declined markedly over the long term. In the late 1980s, more than 5% of the State General Fund was dedicated to UC. By 2010-11, the UC share had declined to 3.36%.

Display II-6: Growth in Core Funds Per Student Relative to Inflation



Most recently, growth in total core support, including State funds, UC General Funds, and student fee revenue (excluding ARRA funds), has not kept pace with enrollment growth and inflation. State funding, relative to inflation, has fallen off sharply during the last decade.

Display II-7: Per Student Average Expenditures for Education (2010-11 Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students declined 18%. The State's share of expenditures plunged even more steeply – by 51%. Over this period, the student share of core funds, net of financial aid, has tripled, from 13% to 41%.

budget on a per student basis relative to inflation as measured by the Higher Education Price Index (HEPI). The University has fared better in some years and worse in others, when compared to inflation, but until 2000-01, total core funding generally kept pace with inflation. After 2000-01, the University experienced a precipitous decline over several years in funding per student when compared to the price index. The importance of sufficient funding to maintain quality cannot be overstated. The erosion of the University's resources must be halted if the educational quality of the University is to be preserved.

Underlying the level of core funding relative to inflation, however, is the shift in the distribution of that funding among State support, UC General Fund sources, and student fees. Display II-7 shows the core funding components of UC average per student expenditures for education in inflation-adjusted (HEPI) dollars and yields several key findings:

- The average expenditure per student for a UC education has declined over 20 years — by 18%, from $21,370 in 1990-91 to $17,510 in 2010-11.
- State funding per student declined significantly — by 51% over a 20-year period. In 1990-91, the State contributed $16,720 per student — 78% of the total cost. In 2010-11, the State share declined to $8,220, just 47%.
- As the State subsidy has declined, the share students pay has tripled. In 1990-91, students contributed 13% toward their education; in 2010-11, students are paying 41% of the cost of their education.

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 2010, UC has received $822.5 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 been awarded more than $1.1 billion in additional grant funding. Because many are multi-year, these research awards will have an impact beyond the 18-month term of ARRA. UC campuses and national laboratories are also benefiting 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 are benefiting 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 $55 million during 2009-10. ARRA also includes funding for investment in clinical information technology and community health.

Financial Aid: ARRA is helping UC students and families pay for their education. For low-income students, it provided a $500 per year increase to the maximum Pell Grant in 2009 and 2010, benefiting more than 52,000 UC undergraduates, and boosted funding for the Federal Work-Study program. In addition, the American Opportunity Tax Credit, created by ARRA, is benefiting eligible students and parents who pay for required tuition, fees, books and course materials out-of-pocket in 2009 and 2010. More than 80,000 UC students are eligible for the tax credit.

These findings raise several additional points. First, the funding gap that has developed since 1990-91 represents lost support totaling more than $1 billion. Although the University has struggled to meet the challenge presented by this substantial decline in State funding, certain elements of the educational, research, and public service functions have been steadily compromised in order to preserve the core missions of the University. It is unrealistic to assume that cuts of this magnitude sustained over time will not damage the state's brain trust, the California economy, and individual students' chances for educational advancement.

Second, recent national news coverage about skyrocketing costs of college tuition masks what has really happened at UC. Expenditures per student have not increased, but rather have fallen (in constant dollars). Instead, fees paid by students have risen as funding from the State has declined. Student fee increases have helped maintain quality, but have not fully compensated for the loss of State funds. Under better circumstances, if the State subsidy had not declined, student fees would have remained low.

Third, despite rising fees for students, the University has striven to maintain student access and affordability. While fees have increased, the University has provided significant increases in financial aid to help ensure access for low-income students. UC has maintained affordability for these students by sustaining a strong financial aid program.

SELF-SUPPORTING ENTERPRISES: SERVICES AND AUXILIARIES

Fully 44% of the University's current budget consists of revenues from self-supporting enterprises operated by the University in support of its instruction, research, and public service missions. Such enterprises include the University's academic medical centers and clinics; auxiliary enterprises such as housing and dining services, parking facilities, and bookstores; University Extension; and other complementary activities such as museums, theaters, conferences, and scholarly publishing. Revenues from these activities are restricted — 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.

Teaching Hospitals

The University's academic medical centers generate three types of revenue:

- **Patient service revenues** are charges for services rendered to patients at a medical center's established rates, including rates charged for inpatient care, outpatient care, and ancillary services. Major sources of revenue are government-sponsored health care programs (i.e., Medicare, Medi-Cal), commercial insurance companies, managed care and other contracts, and self-pay patients.
- **Other operating revenues** are derived from non-patient care activities of the medical centers, such as cafeteria sales and parking fees. Another major source is Clinical Teaching Support ($37.5 million in 2009-10), provided by the State to help pay for the costs of teaching programs at the hospitals.
- **Non-operating revenues** result from activities other than normal operations of the medical centers, such as interest income and salvage value from disposal of a capital asset.

Medical center revenues are used for operating expenses, including salaries and benefits, supplies and services, workers' compensation and malpractice insurance, and other expenditures. Remaining revenues are used to meet working capital needs, fund capital improvements, and provide a reserve for unanticipated downturns.

Expenditures of hospital income for current operations are projected to total $5.5 billion during 2010-11. The *Teaching Hospitals* chapter of this document discusses problems confronting the medical centers and how those problems have been, and will continue to be, addressed.

Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students, faculty, and staff. Programs include student residence and dining services, parking, bookstores, and faculty housing. No State funds are provided for auxiliary enterprises; revenues are derived from fees directly related to the costs of goods and services provided. Expenditures for auxiliary enterprises are estimated to total $1.1 billion in 2010-11.

University Extension, Other Self-supporting Educational Programs, and Other Campus Fees

In addition to the fees charged for regular degree programs, the University also generates fee revenue from enrollment in University Extension courses and self-supporting graduate and professional degree programs, and enrollment of non-UC students in summer instruction. These programs are entirely self-supporting; they receive no State funding and fees are charged to cover the full costs of offering the courses and programs. Programs are dependent upon user demand. Campuses also charge fees for a variety of student-related expenses not supported by mandatory systemwide fees, such as student health

insurance fees and course materials fees. Income from University Extension, other self-supporting instructional programs and other campus fees is projected to be $583.6 million in 2010-11.

Educational and Support Activities

Income from sales and services of educational and support activities is projected to total $1.87 billion in 2010-11. This includes income from the health sciences faculty compensation plans and a number of other sources, such as neuropsychiatric hospitals, the veterinary medical teaching hospital, dental clinics, fine arts productions, museum ticket sales, publication sales, and athletic facilities users. Similar to auxiliary enterprises and teaching hospitals, revenues are generally dedicated to support the activity operations.

GOVERNMENT CONTRACTS, GRANTS, AND AGENCY APPROPRIATIONS

Contract and grant activity generates more than $4 billion in revenue for the University and plays a key role in the University's position as a major driver of the California economy. Government sources, including the Department of Energy and other federal agencies, state agencies, and local governments, are significant providers of contract and grant funding. Contract and grant activity that is codified in legislation or based on long-standing agency agreements is permanently budgeted. In addition, non-permanent extramural funds are provided for specified purposes. The majority of this funding supports research or provides student financial aid.

Federal Funds

Federal funds provide support for the University in three primary ways: federal research contracts and grants, student financial aid, and federally-funded health care programs.

Federal funds are the University's single most important source of support for research, generating $2.05 billion and accounting for nearly 50% of all University research expenditures in 2009-10. While UC researchers receive support from virtually all federal agencies, the National Institutes of Health and the National Science Foundation are the two largest sponsors, accounting for nearly 80%

FEDERAL INDIRECT COST REIMBURSEMENT

All federal contract and grant activity generates costs which are divided into two basic categories — direct and indirect. Direct costs are those expenditures that can be identified as directly benefiting and directly charged to a specific contract or grant. Indirect costs are those expenses which cannot be specifically identified as solely benefiting one particular contract or grant, but instead are incurred for common or joint objectives of several contracts or grants. Because these costs are not charged against a specific contract or grant, indirect costs initially must be financed by University funds, with reimbursement based on rates negotiated for each campus later provided by the federal government.

The University has an agreement with the State regarding the disbursement of federal reimbursement. Pursuant to this agreement, the first 19.9% of the reimbursement accrues directly to the University for costs of contract and grant administration in campus sponsored projects offices, academic departments, and research units. This is the source of the University's Off-the-Top Fund, estimated to be $133 million in 2010-11.

The remaining 80% of the federal reimbursement is split into two funds. The first 55% is budgeted as UC General Funds. It is used, along with State General Funds and student fee revenue, to help fund the University's basic budget (estimated to be $296 million in 2010-11). Since 2000, 94% of any increase generated is returned directly to source campuses. The remaining 6%, along with the amount generated prior to 2000, is pooled with all other General Funds and used to support base budget cost increases and special initiatives.

The remaining 45% is the source of the University Opportunity Fund (estimated to be $242 million in 2010-11). Approximately 6% of these funds supports special programs like the California Institutes of Science and Innovation, systemwide activities such as the Education Abroad Program and the Washington Academic Center, and other universitywide programs; the remainder is returned to source campuses.

In 1990, the State approved legislation (SB 1308, Garamendi) authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and ongoing maintenance of certain research facilities and related infrastructure. Under the provisions of the legislation, the University is authorized to use the reimbursement received as a result of new research conducted in, or as a result of, the new facility to finance and maintain the facility. A total of 22 facilities have been fully financed using this mechanism.

of UC's federal research contract and grant awards in 2009-10. In the past, federal funds for UC research have grown dramatically, but in recent years, increases have been modest due to constraints on federal spending. However, the federal economic stimulus bill included significant new funding for federal agencies that supports academic research, and the University expects that UC researchers will attract hundreds of millions of new research dollars in the next several years.

Indirect cost recovery funding reimburses the University for costs of facilities and administration associated with research activity, but that cannot be identified as solely benefitting a particular contract or grant. During 2010-11, indirect cost recovery funding from federal contract and grant activity is projected to reach $720 million and is dedicated to support contract and grant administration, core mission activities (as UC General Funds) and special programs. Federal funds for research are discussed in more detail in the *Research* chapter.

In addition to research contracts and grants, federal funds entirely support the Lawrence Berkeley National Laboratory, for which UC has management responsibility. This support is projected to be $740.1 million in 2010-11.

In 2008-09, UC students received nearly $1.3 billion in federal financial aid, including $305.9 million in gift aid and the remainder in the form of loans and work-study. The significance of the federal loan programs for UC students is demonstrated by the fact that these programs comprise nearly three-quarters of all federally funded aid and 38% of the total financial support received by UC students in 2008-09. Federal aid also assists undergraduate and graduate students through a variety of other programs. Needy students are eligible for federally-funded grant programs such as Pell Grants and they may seek employment under the Federal Work-Study Program, through which the federal government subsidizes up to 75% of a student employee's earnings. Graduate students receive fellowships from a number of federal agencies such as the National Science Foundation and the National Institutes of Health. The *Student Financial Aid* chapter provides additional detail.

Finally, as mentioned earlier, federally-supported health care programs provide significant funding to the University's medical centers for patient care through Medicare and Medi-Cal, totaling $2.1 billion in 2009-10.

State Agency Agreements

Similar to federally-sponsored research, California state agencies provide contracts and grants to the University for a variety of activities. The largest area is research, but these agreements also support public service and instruction. These agreements are expected to generate $285.9 million in revenue for the University during 2010-11. Major providers of state agency agreements are the health care services, social services, transportation, food and agriculture, and education departments. Indirect cost recovery on State agency agreements is treated as UC General Fund income and supports the University's core mission activities.

State Special Funds

In addition to State General Fund support and State agency contracts, the University's budget for 2010-11 includes $60.6 million in appropriations from State special funds. These include:

- $27.2 million from the California State Lottery Education Fund, which is used to support instructional activities;
- $12.5 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program;
- $11.8 million for the Breast Cancer Research Program, also funded from the Cigarette and Tobacco Products Surtax Fund and from the Breast Cancer Research Fund, which derives revenue from the personal income tax check-off;
- $1.8 million from the Health Care Benefits Fund for analysis of health care-related legislation;
- $980,000 from the Public Transportation Account for support of the Institute of Transportation Studies;
- $1 million from the Earthquake Risk Reduction Fund;
- $2 million from the Oil Spill Response Trust Fund;
- $500,000 for cancer research from the California Cancer Research Fund and the California Ovarian Cancer Research Fund; and
- $2.65 million in one-time federal Workforce Investment Act funding for nursing education programs.

PRIVATE SUPPORT AND ENDOWMENT EARNINGS

Private funds include gifts, private grants, and private contracts. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other nonprofit entities, with foundations providing nearly half of total private gift and grant support. Private contracts are entered into with for-profit and other organizations to perform research, public service, or other activities.

Private Gifts and Grants

Private funds, even gift funds, are highly restricted by funding source and provide support for instruction, research, campus improvements, and student financial support, among other programs. In recent years, approximately 98% of new gifts received by UC are restricted in their use.

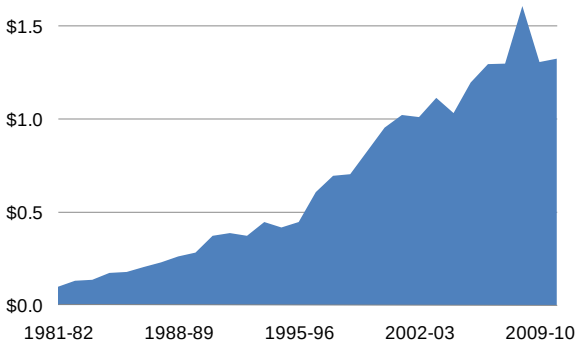
Since 1990, the University has experienced large, steady increases in private gifts received. In 2009-10, new gifts and private grants to the University totaled $1.3 billion. This reflected a small increase over 2008-09, but fell below the record total of $1.6 billion in 2007-08. The decrease of private support over the last two years is attributable to the current financial climate. Nevertheless, the University's remarkable achievement in obtaining private funding in recent years — even during state and national economic downturns — is a testament to UC's distinction as a leader in philanthropy among the nation's colleges and universities, and the high regard in which its alumni, corporations, foundations, and other supporters hold the University. In 2010-11, expenditures of gifts, private grants and contracts to the University are expected to be similar to the expenditures in 2009-10.

Endowments

Combined Regents and campus foundation endowments were valued at $7.8 billion as of June 2009. Final values for combined endowments for 2009-10 will be presented to the Regents in January 2011, although market gains suggest an increase in the endowments. For example, the Regents General Endowment Pool (GEP) increased by 10.9% during fiscal year 2009-10.

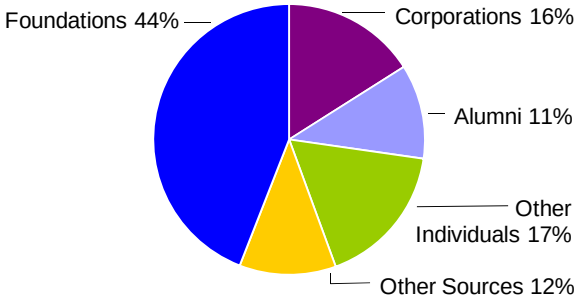
Just as the use of private gifts for current expenditures is highly restricted by donor terms, expenditures of endowment payouts are also highly restricted, but support a range of activities, including endowed faculty chairs, financial aid, and research. Approximately 95% of UC's

Display II-8: Private Gift and Grant Support (Dollars in Billions)



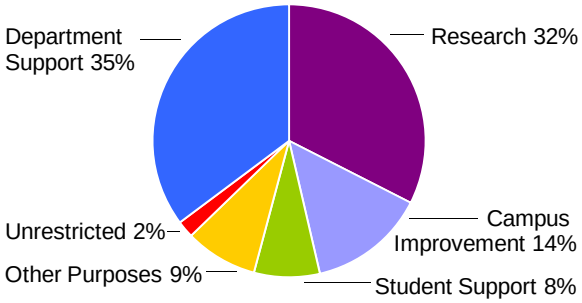
New private gift and grant support for UC has exceeded $1 billion per year for the last ten years. Gifts and pledge payments totaled $1.3 billion during 2008-09 and 2009-10, below the 2007-08 record total of $1.6 billion.

Display II-9: 2008-09 Private Gift and Grant Support by Source



More than half of gift and grant support to the University is provided by foundations and corporations.

Display II-10: 2008-09 Private Gift and Grant Support by Purpose



Academic departments and research receive two-thirds of private gift and grant support, and health science disciplines receive nearly half of all private support.

overall endowment is restricted, contrasted with 80% for most public institutions and 55%, on average, for private institutions.

In 1998-99, The Regents approved a payout rate based on the total return of the GEP over the previous 60 months, with a long-term target rate set at 4.75%. This policy is intended to smooth annual payouts and avoid significant fluctuations due to market conditions. In 2009-10, the expenditure of the payout distributed on endowments and similar funds was $231.9 million from the Regents' Endowments and $137 million from campus foundations. For 2010-11, payout expenditures from Regents' endowments are projected to total $237.8 million. Payouts from campus foundations in 2010-11 are expected to be similar to those realized in 2009-10.

Private Contracts

In 2009-10, awards from private contracts totaled $679 million, a 12% increase over 2008-09. Over the last ten years, awards have more than doubled, making private contracts an increasingly important source of University funding. However, in the current economic climate, increases in private contracts may slow. These contracts, which primarily support research purposes, include clinical drug trials with pharmaceutical and health care organizations, as well as agreements with other agencies, including higher education institutions.

OTHER FUND SOURCES

DOE Management Fee Revenue

As compensation for its oversight of the DOE National Laboratories at Berkeley, Livermore, and Los Alamos, the University earns management fees which can be used to support other activities. Performance management fees from Lawrence Berkeley National Laboratory (LBNL) are gross earned amounts before the University's payments of unreimbursed costs. In contrast, net income from the Los Alamos National Security LLC (LANS) and Lawrence Livermore National Security LLC (LLNS) reflects fee income remaining after payment of unreimbursed costs at the two laboratories. For 2010-11, estimated income will total $33.5 million from performance management fees from LBNL (up to $4.5 million) and an estimated share of the LANS and LLNS net income ($29.5 million).

Management fee revenue related to LBNL is used for costs of oversight, research programs, reserves for future claims, and unallowable costs associated with LBNL. Per Regental approval, revenue from LANS and LLNS will be used to provide supplemental income to select LANS employees, to cover unreimbursed oversight and post-contract costs, and to support a variety of University research programs. Further information about DOE Laboratory Management activity and revenue can be found in the *Department of Energy Laboratory Management* chapter of this document.

Contract and Grant Administration

Contract and Grant Administration funds, also referred to as "Off-the-Top" funds, currently represent 19.9% of the total indirect costs recovered under federal awards after the set-aside for Garamendi projects funding. The fund is allocated by the President to the campuses based on the net indirect cost recovery of the individual campus. Pursuant to agreement with the State, funds must be used for costs related to federal contract and grant administration, including federal governmental relations, cost and financial analysis, sponsored projects offices, costs resulting from federal cost disallowances, and "any additional costs directly related to federal contract and grant activity as mutually agreed to by the University and the State."[1]

University Opportunity Fund

The University Opportunity Fund, which consists of a share of federal indirect cost recovery funds, is used to fund programs and services that are not adequately supported from State funds. Allocations to campuses from the University Opportunity Fund are based on the amount of indirect cost reimbursement generated by the campus. This approach represents a reinvestment in research and an incentive to further develop the University's research capacity. Each campus has discretion as to the use of University Opportunity Funds. Generally, campuses have used Opportunity Funds to enhance faculty recruitment packages through laboratory alterations, equipment purchases, and support for graduate student researchers, to provide innovative instructional programs, including the

[1] *Memorandum of Understanding between the University and the State Department of Finance for Disposition of Receipts from Overhead on Federal Government Contracts and Grants.*

Education Abroad and Washington Academic Center program, and to augment funding for capital outlay and other institutional support.

Other Sources

Other University funds include restricted sources such as intellectual property royalty revenue distributed to campuses and inventors, as well as other revenues that are not categorized elsewhere.

Intellectual Property Royalty Income. Income derived from royalties, fees, and litigation recovery, less the sum of payments to joint holders, net legal expenses, and direct expenses, is distributed to various stakeholders according to the University Patent Policy and campus policies. Patent income fluctuates significantly from year to year and budget estimates are based upon past experience. This revenue appears in the University budget in two categories: as a component of UC General Funds and under Special Funds Income-Other. Income distributions after mandatory payments to joint holders and law firms (for legal expenses) were $88.3 million in 2008-09, the most recent year for which data are available. While 1,947 inventions generated royalty and fee income, the 25 most profitable inventions collectively accounted for more than 75% of total revenues.

- **Inventor Shares:** The University Patent Policy grants inventors the right to receive a percentage of net income accruing to individual inventions. The terms of the inventor share calculations are established in the Patent Policy. In 2008-09, 2,072 inventors received $41.1 million.
- **General Fund Share:** In 2008-09, the portion of net income allocated to the UC General Fund was $11.5 million, equal to 25% of the amount remaining after deducting payments to joint holders, legal expenses, and inventor shares.
- **Research Allocation Share:** For inventions covered by the 1997 Patent Policy, 15% of net income from each invention is designated for research-related purposes at the inventor's campus or Laboratory. This allocation totaled $3.2 million in 2008-09.
- **Income after Mandatory Distributions:** All income remaining after deductions and other distributions is allocated to the campuses. These funds, totaling $32.6 million in 2008-09, are used by the Chancellors to support education and research priorities.

"The high priority we place on academic innovation benefits our students at every level of instruction, from undergraduate courses to our high-ranking doctoral programs."

Lawrence Pitts
University of California
Provost

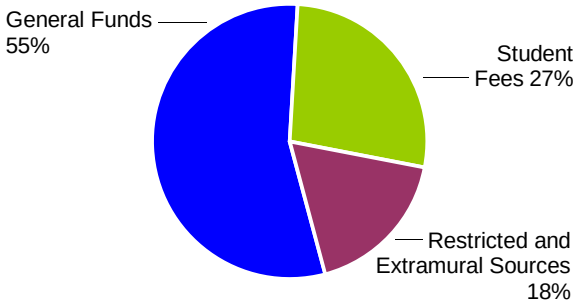
General Campus Instruction

Consistent with the California Master Plan for Higher Education, UC provides undergraduate, professional, and graduate academic education through the doctoral degree level and serves as the primary State-supported academic agency for research. A fundamental mission of the University is to educate students at all levels, from undergraduate to the most advanced graduate level, and to offer motivated students the opportunity to realize their full potential. The University continues to offer a space to all qualified California undergraduates and provides programs for graduate academic and professional students in accordance with standards of excellence and the growing needs of California, the eighth largest economy in the world. To do this, the University must maintain a core of well-balanced, quality programs and provide support for newly emerging and rapidly developing fields of knowledge.

In recent years, the University's budget plans were based on the Higher Education Compact with the Governor, a key provision which was support for enrollment growth of 2.5% per year through 2010-11. This growth rate represented an increase of more than 5,000 full-time equivalent (FTE) students annually at UC and would have allowed UC to achieve enrollment levels consistent with earlier projections. Under the Compact, the State was expected to provide funding for this growth at the agreed-upon marginal cost of instruction as adjusted annually.

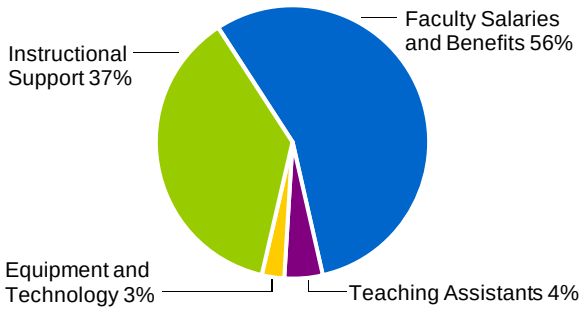
As explained later in this chapter, due to the current fiscal crisis, the 2008-09 and 2009-10 State budgets provided no new resources for enrollment growth. As a result, even with enrollment funds provided in the 2010-11 State budget, during 2010-11, the University is enrolling 11,570 FTE students for whom no State support has been provided. In 2009-10 and 2010-11, the University took action to reduce the size of the incoming freshman class while slightly expanding access for transfer students, as part of a multi-year strategy to reduce total enrollment to a level more consistent with resources.

Display III-1: 2009-10 General Campus Instruction Expenditures by Fund Source



Core funds – State General Funds, UC General Funds, and mandatory and professional school student fees – provide 82% of funding for general campus instruction.

Display III-2: 2009-10 General Campus Instruction Expenditures by Category



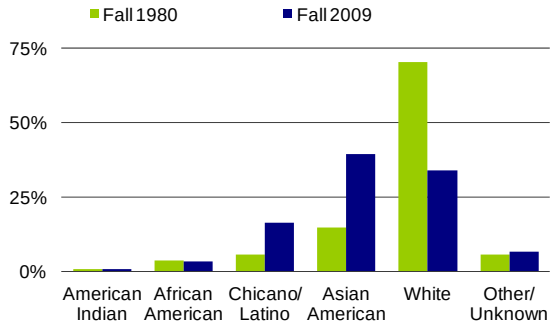
More than half of expenditures in general campus instruction are for faculty salaries and benefits.

For 2011-12, the University is requesting that the State provide full enrollment funding, representing $115.7 million in marginal cost funding for 11,570 FTE students. If the State is unable to provide this funding, the University will continue to constrain enrollment of new California resident freshmen while again slightly expanding access for community college transfer students. While acknowledging that access is important, the University cannot indefinitely accommodate larger numbers of students without adequate resources to provide them a UC-caliber education.

Display III-3: Characteristics of Fall 2009 Undergraduate Students

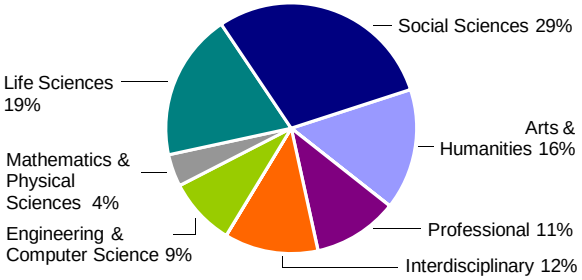
Headcount Enrollment	177,788
▪ Female	54%
▪ Underrepresented minority	21%
▪ First-generation college students	38%
▪ Full-time students	96%
▪ California residents	94%
▪ Domestic nonresidents	3%
▪ International students	3%
▪ Upper division	61%
▪ Lower division	39%

Display III-4: Distribution of Domestic Undergraduate Students by Race/Ethnicity



Since Fall 1980, the proportions of Chicano/Latino and Asian American students among UC undergraduates have tripled.

Display III-5: 2009-10 Bachelor's Degrees Conferred by Broad Discipline



In 2009-10, UC undergraduates earned 44,900 bachelor's degrees. Nearly one-third were earned in sciences, mathematics, technology, and engineering. Social sciences remains the most popular discipline among UC undergraduates.

Despite the effort to reduce total enrollments, the University will continue to expand enrollment at the newest campus at UC Merced. The campus officially opened in 2005-06 and is enrolling more than 4,250 students during 2010-11. Development of UC Merced is part of the University's strategy to increase statewide enrollment capacity, enhance access to students in the San Joaquin Valley, and provide the benefits of an additional research university to all Californians.

INSTRUCTIONAL PROGRAM OVERVIEW

The general campus Instruction and Research (I&R) budget includes direct instructional resources associated with schools and colleges located on the nine UC general campuses.[1] The I&R base budget totals $2.7 billion in 2010-11, over 80% of which comes from core fund sources (State General Funds, UC General Funds, and student fees). Additional resources for instruction are derived from self-supporting program fees, course materials fees, and other restricted sources.

Major budget elements and their proportions of the general campus I&R base budget are faculty and teaching assistant salaries and benefits, 60%; instructional support, 37%, which includes salaries and benefits of instructional support staff such as laboratory assistants, supervisory, clerical, and technical personnel, some academic administrators, and costs of instructional department supplies; and instructional equipment replacement and technology, 3%.

The University offers bachelor's, master's, and doctoral degrees in over 800 instructional programs from agriculture to zoology, as well as many emerging interdisciplinary fields, and professional degrees in more than 20 disciplines. The University's Academic Senate authorizes and supervises courses offered within instructional programs, and also determines the conditions for admission and the qualifications for degrees and credentials. UC began awarding degrees in 1870 and in 2009-10, conferred over 60,000 degrees.

[1] The San Francisco campus offers health sciences programs exclusively. Health science programs are discussed in the *Health Science Instruction* chapter.

ENROLLMENT

The California Master Plan for Higher Education calls for UC to offer access to all eligible applicants in the top 12.5% of the state's high school graduating class who choose to attend. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school class and to guarantee admission to all applicants who meet the eligibility requirements and apply on time, though not necessarily at the campus or in the major of first choice. In addition, the Master Plan calls for UC to guarantee a place for all California Community College transfer applicants who meet eligibility requirements.

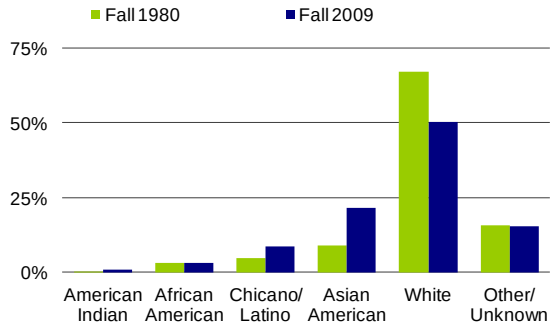
To enable the University to fulfill these access provisions, the Master Plan calls for the State to provide adequate resources to accommodate this enrollment. The University remains committed to the Master Plan as the foundation for one of the finest higher education systems in the world. The interests of the state, its citizens, and the higher education segments in California have been well-served by the Master Plan for 50 years. Legislative reviews of the Master Plan have maintained its basic tenets, explicitly reaffirming the access guarantee for all eligible students. However, if the University is to fulfill its promise over the long-term of providing access to all qualified students who wish to attend, the State must increase funding for enrollment. Actions the University is taking in the short term to continue its commitment to access under the Master Plan are not sustainable over the long term.

Framers of the Master Plan also envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. For several decades, a compelling state priority has been placed on providing undergraduate access for the rapidly growing high school graduate population. However, adherence to this priority has not been without some consequences for the overall academic balance of the University and its impact on the state's supply of highly-skilled workers needed in California's knowledge-based economy. While the University has expanded access for undergraduates, graduate and professional enrollments have not kept pace as intended in the Master Plan.

Display III-6: Characteristics of Fall 2009 Graduate Students

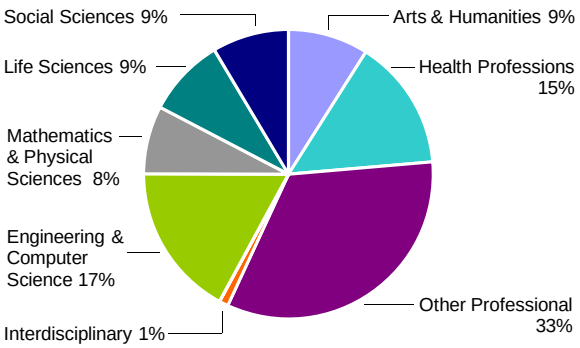
Headcount Enrollment	54,065
▪ Female	47%
▪ Underrepresented minority	11%
▪ General campus majors	74%
▪ Health science majors	26%
▪ California residents	75%
▪ Domestic nonresidents	10%
▪ International students	15%

Display III-7: Distribution of Domestic Graduate Students by Race/Ethnicity



Since Fall 1980, the proportions of Chicano/Latino and Asian American students among UC graduates have doubled.

Display III-8: 2009-10 Graduate Degrees Conferred By Broad Discipline



In 2009-10, UC awarded 15,213 master's, doctoral, and professional degrees. Nearly half were in sciences, mathematics, engineering, and health professions. Another third are in other professional disciplines.

▪ Master's degrees	9,405
▪ Doctoral degrees	3,738
▪ Professional degrees	2,070

During early 2008, as part of its ongoing academic planning efforts, UC developed new long-term enrollment projections through 2020-21. UC's long-term enrollment projections are based on consideration of four primary factors:

- projections of high school graduates from the Department of Finance;
- assumptions about the proportion of high school graduates who actually enroll in the University (consistent with the Master Plan, the University establishes eligibility criteria designed to identify the top 12.5% of the high school class, but in recent years about 7% to 8% actually enrolls);
- assumptions about community college transfer rates, consistent with the University's goal to continue to improve these rates; and
- increases in graduate and professional enrollment needed to meet workforce needs in academia, industry, and other areas.

The University's previous long-term enrollment plan, revised in 1999, called for annual enrollment growth of 2.5%, or about 5,000 FTE, over the last decade. This rapid rate of growth was necessary to accommodate growing numbers of qualified high school graduates as well as to meet the state's need for expanded transfer opportunities and graduate education. As originally designed, by 2010-11, the University would reach its planned target of 216,500 FTE students. However, in the early part of this decade, the University experienced far more rapid enrollment growth than projected in the 1999 plan. Following a pause in enrollment growth in the middle of the decade, the Compact with Governor Schwarzenegger called for UC to return to its earlier estimates of 2.5% enrollment growth per year through 2010-11.

The University's projections for the next decade, published in March 2008, included more modest growth as numbers of high school graduates stabilize, slowing to approximately 1% from 2010-11 to 2020-21, and reaching 265,000 in 2020-21. Undergraduate growth will expand opportunity to populations historically underserved by higher education, including low-income students, those who are the first in their families to complete a four-year degree, students from underserved communities, and transfer students. Meanwhile, accelerated growth in graduate enrollments, particularly in life and physical sciences, engineering and math, and professional disciplines will fuel California's economy and provide social and economic mobility.

To help the state remain competitive in a knowledge-based global economy, UC proposes to increase graduate enrollments by roughly 22,000 students by 2020-21.

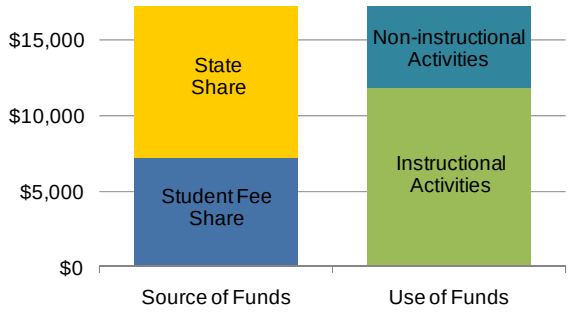
Enrollment growth will enhance diversity as UC will expand in regions and in fields where underserved populations can most benefit. Undergraduate growth will be greatest in the Central Valley and Inland Empire—regions that lag the rest of the state in college opportunity and support diverse and growing populations. At the graduate level, campuses will increase enrollments and develop new programs in areas that both attract and serve diverse populations.

The March 2008 projections were developed at a time when the outlook for continuing support from the State for enrollment growth was more positive. Given the State's inability to fully fund recent enrollment growth and the significant reductions in State support for UC during the last several years, prospects for State support for further enrollment growth during the next decade are a matter of concern. Longer-term enrollment levels will be influenced by a variety of factors, including solutions to current budget shortfalls.

State Support for Enrollment Growth

In a normal year, the State provides funding for each additional FTE student added to the University's current budgeted enrollment level based on an amount known as the "marginal cost of instruction." The marginal cost of instruction formula includes salary and benefits for additional faculty positions (based on the current budgeted student-faculty ratio of 18.7:1); related instructional support such as clerical and technical personnel, supplies, and equipment; support for teaching assistant positions; institutional support; and support for operation and maintenance of plant, libraries, and student services. The calculation does not include funding for activities within these categories that the State has chosen not to support. Specifically excluded from the marginal cost calculation is support for student health services, plant administration, executive management, and logistical services. The calculation reflects the State subsidy provided toward the cost of education as well as the portion of this cost that is paid from student fees. Before the significant cuts in State funding imposed in 2009-10, the estimated State marginal cost share was about $11,000 per FTE student.

Display III-9: 2010-11 Marginal Cost Funding for Enrollment by Source and Use



State marginal cost funding for enrollment growth is needed to provide the expanded instructional resources required to educate additional students. Even at the 2010-11 fee levels, fee revenue (net of financial aid), will not provide sufficient funding to cover instructional activities for additional students.

Funding for enrollment growth was included in the 2005-06, 2006-07, and 2007-08 budgets, consistent with the Compact. However, due to substantial demand for enrollment from growing numbers of high school graduates and community college transfers, the University was significantly over-enrolled in both 2006-07 and 2007-08.

In developing the 2008-09 and 2009-10 Governor's Budgets, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor, including funding for 5,000 FTE enrollment growth each year, and then proposed reductions to those workload budgets to address the State's fiscal situation. In both years, the University was left with State funding significantly reduced from the 2007-08 level. Without new State funding to support enrollment growth, but in keeping with its commitment to the California Master Plan and undergraduate applicants who had worked hard to become eligible for admission, in 2008-09, the University made a decision to ask that campuses, to the best of their ability, implement the enrollment increases that had been included in the Governor's Budget before the cuts were taken. This enrollment growth, including growth planned in MD students in the PRIME programs, was funded through an internal redirection of existing resources. As a result of this action, and because recent incoming classes have been larger than those graduating, the University's enrollment continued to grow during 2008-09 and 2009-10.

DILUTION OF STATE FUNDING

Accommodating enrollment without sufficient resources (except the student fee income associated with enrollments) has impacted new and existing students alike by the lack of resources to support a high quality academic experience.

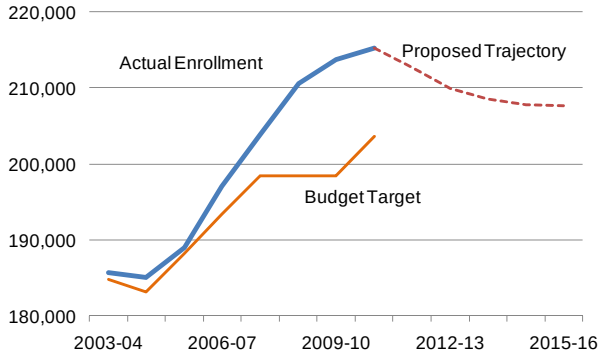
For students, the dilution of resources means fewer and narrower course offerings, the inability to use functional and modern instructional equipment as part of their educational experience, larger class sizes, reduced interaction with leading faculty, longer waits for academic and student services, longer time-to-degree, fewer student jobs, and fewer library holdings and services relative to the number of students enrolled. This negative impact on the student experience comes at a time when students are being asked to pay a greater share of costs through higher tuition and fees. All of these factors lead to a downward spiral of lowered student satisfaction, students choosing not to attend UC, and negative impacts on the University's perceived and actual quality.

For faculty, the impact is similar. As the funding gap widens, fewer competitive offers can be made to new faculty and graduate students. Existing faculty find themselves spread thinly in order to manage the needs of ever larger classes, with less assistance from additional faculty and graduate students and less time for research or public service activities. Working with outdated equipment in unmaintained buildings, faculty morale suffers and opportunities at other institutions begin to look more attractive. If the best faculty leave, UC's quality will suffer.

In 2009-10 and 2010-11, the University took action to slow enrollment growth by reducing the targeted number of new California resident freshmen enrolled by 3,800 students over two years. To achieve this reduction, 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. Students had fewer campus choices for accommodation at UC and, in some cases, chose to pursue their education elsewhere. This freshman reduction was partially offset by a planned increase of 1,000 CCC transfer students, an action taken to preserve the transfer option in difficult economic times.

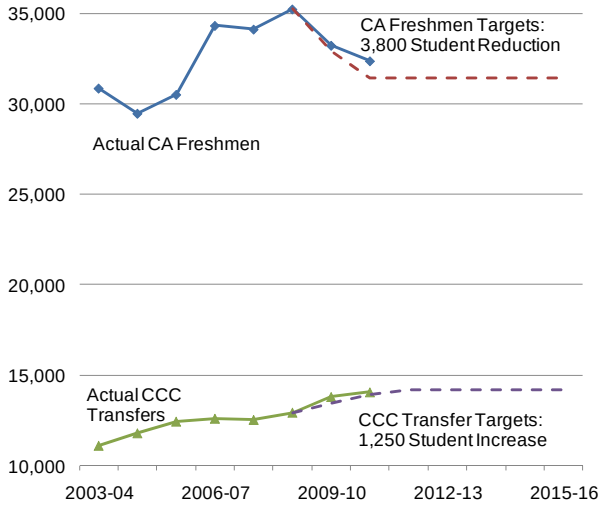
In 2010-11, the State budget provided enrollment growth funding of $51.3 million to support enrollment of 5,121 FTE students at UC at a marginal cost rate of $10,012. Even with these new resources and the actions to reduce total enrollment, the University remains about 11,570 students over-enrolled during 2010-11.

Display III-10: State-supported FTE Student Enrollment



The Compact called for enrollment growth of 2.5% annually through 2010-11 to accommodate Tidal Wave II and expansion of graduate enrollments. Enrollments grew more rapidly than expected and during 2008-09 and 2009-10, the State was unable to provide funding for enrollment growth. Despite new enrollment funding provided by the State in 2010-11, the University is enrolling 11,570 FTE students for whom the State has not provided funding.

Display III-11: California Resident Freshman and California Community College Transfer Entrants



In order to reduce the level of unfunded enrollment, the University took action in 2009-10 and 2010-11 to reduce numbers of new California resident freshmen by a total of 3,800 students over two years. This reduction was offset by a planned increase of 1,000 CCC transfers. Unless State funding is provided to fully fund enrollments, the University will continue to constrain entering freshman classes in order to bring total enrollments to a level consistent with resources.

As outlined in the *Cross-Cutting Issues* chapter of this document, increasing enrollment without sufficient resources forces campuses to implement a variety of measures to deal with the budget shortfall – halting the hiring of permanent faculty, reducing numbers of temporary instructors, 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.

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.

For 2011-12, the University is requesting that the State provide full funding of UC enrollments. If the State is unable to fund total UC enrollments, campuses will hold enrollment targets for new California freshmen at 2010-11 levels, while continuing to modestly increase enrollments of new CCC transfers. The freshman reductions, if sustained over several years, will help reduce total enrollments to a level consistent with available resources.

UC MERCED

UC Merced was established as the 10th campus of the University of California to meet the needs of a significant and rapidly growing area of California — the San Joaquin Valley. Since officially opening its doors to freshman, transfers, and graduate students in 2005-06, the University has achieved critical milestones to mark the further development and expansion of the first new research university in the United States in the 21st century.

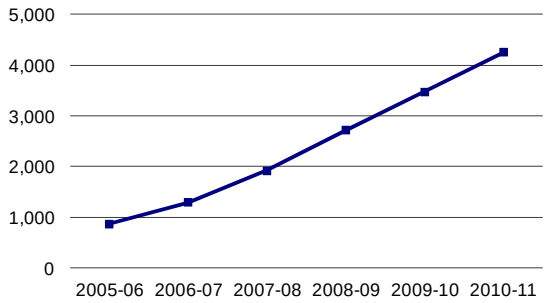
As the first new University of California campus in over 40 years, UC Merced has a rare opportunity to become an extraordinary institution as it builds on a heritage of distinction and legacy of excellence. Faculty, staff, and administrators have been drawn by the challenge of building and sustaining a unique institution in a traditionally underserved area of California. The collective energy and enthusiasm of those committed to the development of the institution has resulted in the promise that UC Merced will emerge as a world-class center of research, knowledge, and intellectual relevance and significance.

Educational Access

In 2010-11, UC Merced is enrolling more than 4,250 students. As the UC system has experienced unprecedented enrollment growth throughout the last decade, student interest in UC Merced has grown and has produced a 12% increase in freshmen choosing UC Merced this fall over Fall 2009, and a 22% increase over Fall 2008. More than 13,000 students applied for admission for Fall 2010. In 2011-12, UC Merced expects to expand by another 650 FTE students, and it is estimated that the campus will reach a population of over 5,000 FTE students by the 2012-13 academic year.

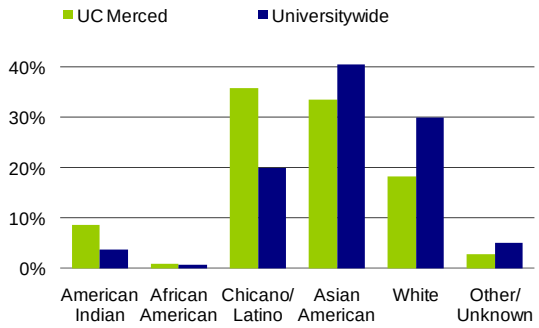
UC Merced plays a major role in fulfilling the goals of the Regents and the State to ensure that every eligible student in California is offered a place at UC and to raise the college-going rate in the San Joaquin Valley and beyond.

Display III-12: UC Merced FTE Student Enrollment



Enrollment at UC Merced has grown to over 4,250 FTE students in 2010-11. Interest in UC Merced continues to grow. Enrollment is expected to reach 5,000 FTE students by 2012-13.

Display III-13: Fall 2009 California Resident Freshmen by Race/Ethnicity



Among UC Merced freshmen, 45% are students from underrepresented groups.

One-third of the incoming undergraduate class in 2010-11 at UC Merced has come from the Central Valley region. Moreover, among UC Merced freshmen, over half are first-generation college students and 45% are members of underrepresented minority groups. These students will serve as role models for others and help establish a college-going tradition in their families and communities.

As a research university, UC Merced is particularly focused on increasing the number of students in California who complete advanced degrees. In Fall 2010, the graduate student population on the campus grew to nearly 250 students, representing another significant milestone for the campus.

Academic Innovation and Excellence

UC Merced is in many ways an educational laboratory, its faculty and students deeply engaged in innovative programs in both education and research. UC Merced's 128 ladder-rank faculty members, drawn from all over the world, are leading the way in advancing cutting-edge curricula and developing new majors that will support a vibrant range of academic offerings. Currently, students are able to choose from 19 majors and 17 minors. Entering freshmen can look forward to greatly expanded curricula as they move toward graduation.

In terms of developing its research enterprise, UC Merced continues to demonstrate remarkable achievement. For example, the campus maintained its impressive track record in contract and grant awards in 2009-10 with a total of close to $22 million dollars from a variety of federal, state, and private sources, including the National Science Foundation, the California Institute for Regenerative Medicine, the National Institutes of Health, the U.S. Department of Agriculture, and the California Institute for Energy and the Environment. The success in garnering extramural funding allows UC Merced's innovative faculty and students to conduct trailblazing, multidisciplinary research in the campus's particular areas of strength, most notably climate change, solar and renewable energy, water quality and resources, artificial intelligence, cognitive science and biomedical topics including stem cell and cancer research. The faculty's accomplishments in these areas are vital to UC Merced's core mission as a research university with a strong commitment to graduate education.

A distinctive mark on research at UC Merced is being made by its signature organizations: the Sierra Nevada Research Institute, the Merced Energy Research Institute, and the Biomedical Sciences Research Institute. At UC Merced, opportunities for undergraduates to become involved in research projects are a high priority. As with the instructional programs, UC Merced's research institutes foster collaboration across disciplinary areas — the relationships among environmental science, human health, and environmental and health policy are obvious examples of issues that are particularly important for the San Joaquin Valley. Partnerships with other UC campuses and with entities such as Lawrence Livermore National Laboratory, Sequoia and Kings Canyon National Parks, and Yosemite National Park enhance education and research at Merced.

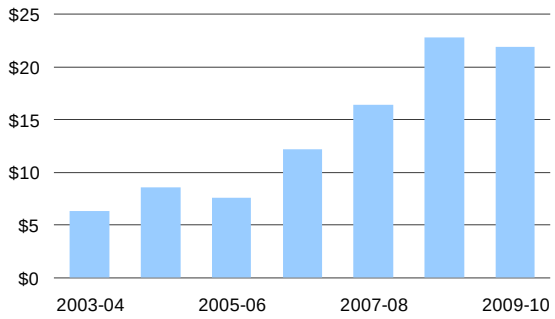
Economic Development

UC Merced serves the San Joaquin Valley as an economic engine. As the employer of more than 1,265 FTE staff, faculty, and student workers and a major user of local services, the campus continues to be a significant and growing contributor to the regional economy, attracting almost $22 million in research dollars in 2009-10. Most importantly, the campus will produce an educated workforce that will benefit the region and the State.

Supplemental One-Time Funding

While the Merced campus has developed and through these initial years of enrollment, supplemental funds have been required for faculty salaries and recruitment costs, as well as instructional technology, library materials, and expanded general support needed to fully operate the campus. In recent years, the State has provided one-time allocations to help support start-up costs. This funding was $14 million in 2005-06, 2006-07, and 2007-08. Per agreement with the State, funding declined to $10 million in 2008-09 and to $5 million in 2009-10, which was to be the final year of supplemental State support. However, several factors have contributed to the need to continue this supplemental funding, including the extraordinary cost pressures associated with developing a new campus in an era of heightened regulation and the higher than projected enrollment levels needed to reach the "cross-over" point of critical mass. UC is requesting that the State continue to provide $5 million in supplemental funding for UC Merced.

Display III-14: Federal and Private Research Awards to UC Merced (Dollars in Millions)



UC Merced and its faculty are attracting significant research dollars to the San Joaquin Valley. As student enrollment grows and more faculty are hired, research awards should also continue to rise rapidly.

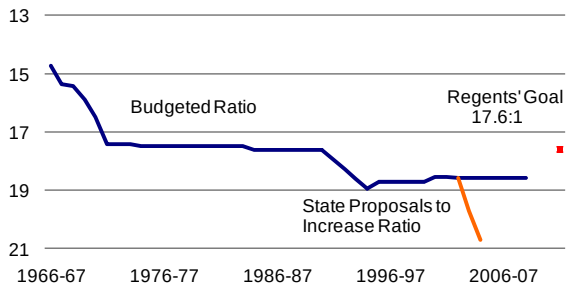
FACULTY EXCELLENCE

By any measure, the University of California faculty is among the best and brightest internationally, leading the world in research excellence and productivity at public institutions. UC faculty members deliver excellence in instructional programs, research productivity, professional leadership, and public service. The faculty fulfill the University's goals on behalf of the State of California by:

- educating the workforce to keep the California economy competitive;
- attracting billions of research dollars, creating new products, technologies, jobs, companies, advances in health care, and improvements in the quality of life;
- translating scientific discoveries into practical knowledge, technological innovations, and advanced health care delivery.

In Fall 2009, UC employed around 9,500 faculty with appointments in the Ladder Rank Professorial series, the core faculty series charged with the tripartite mission of teaching, research, and public service. In addition, the University employs lecturers, adjuncts, and visiting faculty, among others, to provide depth and breadth in fulfilling these missions. In 2009-10, expenditures on base salaries for appointments in all faculty series (from all revenue sources including state funds, student fees, contracts and grants, gifts and endowments, and clinical services) totaled $1.7 billion dollars (net of furlough program reductions).

Display III-15: General Campus Student-Faculty Ratio



State cuts have deteriorated the University's budgeted student-faculty ratio. The University's long-term goal is to improve the ratio to 17.6:1, from the current level of 18.7.

Since 1994, the University has maintained a budgeted student-faculty ratio of 18.7:1. Before the cuts of the early 1990s, the University's student-faculty ratio was 17.6:1; the deterioration in the ratio represented about 500 faculty members. Preserving and ultimately improving the student-faculty ratio at the University has been among the highest priorities of the Regents. Improved student-faculty ratios would permit the University to offer both smaller class sizes in some subjects, thereby improving the quality of the educational experience and richness of course offerings, which will help students complete requirements and graduate more quickly. A sufficient student-faculty ratio also increases opportunities for contact outside the classroom, guidance in internships and placements, and undergraduate participation in research and public service.

During the fiscal crisis of the early 2000s, the University took a series of budget cuts in academic programs, including a total of $70 million in reductions targeted to increase the student-faculty ratio. While UC instead took these cuts as unallocated reductions, cuts in core support have prevented campuses from hiring sufficient numbers of faculty or addressing critical areas of instructional and other core support need. Such reductions have made it difficult for campuses to maintain the instructional support necessary to provide a high quality education.

With funding provided as part of the Compact in 2005-06, 2006-07, and 2007-08, the University committed $10 million annually toward restoring the $70 million that had been eliminated from the University's instruction budget in 2003-04 and 2004-05. Due to the inability of the State to provide Compact funding in 2008-09, 2009-10, and 2010-11, no additional funds have been committed.

Maintaining the quality of the faculty is critical to both the University and the State. Due to the significant State funding reductions during the last several years, campuses have dramatically slowed efforts to recruit new faculty. Instead, some positions are being held open until the funding resources to support faculty are identified. This means that campuses have fewer faculty to teach courses, and in turn are eliminating course sections, narrowing course offerings, and increasing class sizes. Faculty resources are further stretched thin due to departmental and campus-wide academic leadership responsibilities being shared by a smaller faculty workforce.

New funds will allow campuses to restart searches and fill faculty positions, and restore instructional support funding. If UC's full request for State funding is provided in 2011-12, the University will return to its earlier plan to restore instructional support with another investment of $10 million.

MAINTAINING FRESHMAN STUDENT ACCESS

In spite of increasing enrollment pressures in recent years, the University has maintained its commitment to the Master Plan for Higher Education to provide a place on at least one of the UC campuses for all eligible undergraduate California applicants who wish to attend. In recent years, applications for freshman admission from California high school seniors have grown significantly and the University has grown to accommodate all eligible students. Campuses received applications for Fall 2010 admission from more than 82,000 California high school seniors, a one-year increase of 9.2%. This increase, in a year when the number of California public high school graduates was expected to remain stable, indicates the continuing demand among California's young people for access to the University of California.

Admission Policies

The University's goal is to identify and enroll, on each of its campuses, a student body that demonstrates high academic achievement or exceptional personal talent, and that encompasses the broad diversity of backgrounds characteristic of California. The University strives each year to admit a number of public high school graduates that

CRITERIA FOR FRESHMAN APPLICATION REVIEW AND ADMISSION GUARANTEES

Application Review Entitlement:

- Completion of at least 15 year-long 'a-g' courses and standardized tests (with completion of 11 of the 15 courses by the end of the junior year),
- a minimum GPA of 3.0 in 'a-g' courses, and
- completion of either the ACT plus Writing or the SAT Reasoning Test.

Statewide Context Guarantee:

- Satisfaction of the above criteria, and
- a combination of grades and test scores that place them within the top 9% of graduates statewide.

Local Context Guarantee:

- Satisfaction of a specified set of 11 courses by the end of the junior year,
- a minimum GPA of 3.0 in 'a-g' courses, and
- rank within the top 9% of the high school class based on GPA in 'a-g' courses.

is not less than 12.5% of the number of students who graduated from California public high schools in that year.

In February 2009, the Board of Regents approved changes to the University's admission policy recommended by the Academic Senate; these will be effective for the entering Fall 2012 class. Under the new policy, prospective freshmen will be required, as they are now, to complete 15 year-long courses in the 'a-g' academic disciplines (11 of which must be completed by the end of 11th grade), take the ACT with Writing or SAT Reasoning Test, and achieve a GPA in their 'a-g' courses of at least 3.0. All students who meet these requirements will be entitled to a full review of their application. Applicants will no longer be required to take the SAT subject examinations, although scores on these exams may be submitted as a way to showcase academic achievement and will be considered along with all other information in the application.

Guaranteed admission. Beginning in Fall 2012, there will be two paths to attaining guaranteed admission to UC: through the Statewide Context, based on grades and test scores placing an applicant in the top 9% of graduates statewide, and the Local Context, based on a class rank placing an applicant in the top 9% within his/her high school. Both will guarantee a space at UC, though not necessarily to the campus of choice. Consistent with current practice, for California resident students who are guaranteed admission but are not accepted by any campus to which they apply, students will be admitted through the referral pool at one or more campuses with space to admit more students. Currently, the Merced campus admits all students from the referral pool.

The University's "comprehensive review" process, in place since 2002, ensures the admission of highly-qualified students by allowing UC campuses to consider the broad variety of academic and other qualifications that all students present on the application. Applicants admitted under comprehensive review continue to be high-achieving students. All freshman applicant records are analyzed not only for their grades, test scores, and other academic criteria — important baseline indicators of academic potential — but also for additional evidence of such qualities as motivation, leadership, intellectual curiosity, and initiative. This policy sends a strong signal that UC is looking for students who have achieved at high levels and, in doing so, have challenged themselves to the greatest extent possible.

On an annual basis, the University monitors key demographic and financial indicators, as well as policy changes that affect enrollment.

As part of its service to the state, UC is responsible for certifying courses offered in California's high schools as meeting the 'a-g' course requirements, which are also required for eligibility to the CSU system. For the 2009-10 academic year alone, UC reviewed and approved 20,000 high school courses for UC and CSU eligibility. UC's 'a-g' course lists are widely used throughout the U.S. and internationally; UC's 'a-g' website received more than one million visits in the last year.

In recent years, a great deal of attention has been devoted to creating curricula that combine college preparatory work with Career-Technical Education (CTE). Courses that combine academic content knowledge with practical or work-related applications may be eligible for 'a-g' approval. To date, UC has reviewed and approved more than 9,000 CTE courses as meeting 'a-g' standards, and expects to exceed the goal of 10,000 by 2011-12.

TRANSFER FROM CALIFORNIA COMMUNITY COLLEGES TO UC

For those students not eligible, unable, or who choose not to attend a four-year university directly out of high school, the ability to transfer from a California Community College (CCC) to a four-year institution for upper division coursework maintains the state's commitment to educational opportunity for all. The Master Plan calls for UC to accommodate all eligible CCC transfer students. Accordingly, the University's Commission on the Future recommended that UC, as it improves the transfer function, pursue the goal of seeking to reach the ratio of one CCC transfer for every two California resident freshmen.

Since Fall 1999, CCC transfer enrollment has grown nearly 45%. In Fall 2009, UC enrolled 11,498 new CCC transfer students, and the freshman:transfer ratio stood at 2.4:1. Reflecting the priority the University places on its transfer mission, the President recommended an increase of 1,000 California Community College transfer enrollments over two years. Enrollment estimates for 2010-11 indicate that UC has met this goal.

Key elements for a successful transfer function include clearly-defined eligibility and selection criteria; availability of academic and financial aid counseling from both CCC counselors and UC transfer advisors; and complete, accurate, timely, and available course articulation information identifying which CCC courses are transferable to UC and how individual courses will advance students to a baccalaureate degree. The University makes efforts in all three of these areas to help promote transfer student access to UC.

In March 2009, California Community College Chancellor Jack Scott, California State University Chancellor Charles Reed, and University of California President Mark G. Yudof established the Community College Transfer Task Force, which was charged with examining strategic opportunities to achieve an increase in the numbers of community college students who transfer to four-year public universities in California. The collaborative effort to improve transfer continued in 2010 with a meeting of the California Education Round Table and with plans by the Academic Senates to explore aligning eligibility requirements of all three public segments.

PATHS TO TRANSFER ELIGIBILITY

Applicants seeking admission to UC as transfers may meet eligibility requirements in one of three ways depending on their eligibility when they graduated from high school.

Eligible as high school graduate:

- maintain a 2.0 GPA in transferable coursework

Not eligible at high school graduate due to missing 'a-g' subject requirements:

- complete transferable courses in the required subjects with a C grade or better
- maintain a 2.0 GPA in transferable coursework

Not eligible at high school graduation due to scholarship requirements:

- complete 60 semester/90 quarter units of transferable coursework with a 2.4 GPA
- complete 7 specific transferable courses with a C grade or better in each

Transfer Eligibility

Applicants seeking admission to UC as transfers may meet eligibility requirements in one of three ways, depending on their eligibility status at the time they graduated from high school. Students who were fully eligible for freshman admission at graduation must maintain a minimum GPA of 2.0 in transferable coursework. Students who were not fully eligible must meet additional coursework and scholarship requirements.

Admission as a Transfer

All UC campuses are open to new transfer students for each fall term and several also accept students in winter and spring terms. CCC transfer applicants who are California residents and who have met UC's eligibility requirements and lower division major requirements are given top priority in transfer admission at all campuses.

As with freshman applicants, campuses use comprehensive review criteria for transfer applicants to select students for admission to majors and campuses. Selection criteria at campuses with more eligible applicants than spaces available include academic factors such as major preparation, as well as additional evidence of such qualities as motivation, leadership, intellectual curiosity, and initiative.

Transfer Advising

In order to promote the transfer process, the University provides admission advisors who regularly travel to community colleges to meet with students and staff regarding transfer admission and lower division preparation requirements. Efforts are focused on community colleges with high numbers of educationally disadvantaged students and historically low transfer rates to UC. In 2006-07, State funds totaling $2 million were added to the funds already provided for community college transfer programs, providing more advisors and funding the UC Transfer website[2]. Additionally, UC campuses have transfer centers and advisors available to assist prospective and new transfer students who enroll at UC.

Course Articulation

In order to plan for transfer, students must know how the courses they take at a community college will apply toward a degree at a particular UC campus. Articulation refers to agreements between educational institutions that specify how a course a student completes at one institution (e.g., a community college) can be used to satisfy general education, major preparation, and graduation requirements at a second institution (e.g., a UC campus). Each UC campus has articulated high demand majors with all 110 CCCs, and all campuses (except Merced) have more than 70 majors articulated on average with all of the community colleges. Course articulation at UC falls into two categories:

Universitywide Articulation. Transfer Course Agreements, reviewed by the UC Office of the President, designate which courses can be transferred for unit credit to meet University admissions, general education, and graduation requirements.

Major Preparation Articulation. Each UC campus designates which courses at the community college are comparable to courses taught at the UC campus and, hence, will be accepted as transfer credit toward the requirements of a particular major.

Students can satisfy lower division general education courses by completing the Intersegmental General Education Transfer Curriculum (IGETC), or, if they are interested in high-unit science majors, the Science Intersegmental General Education Transfer Curriculum (SciGETC). In addition to completing general education requirements, students must complete specified coursework to prepare for their intended major.

CCC students have two primary tools to navigate the transfer path. Students can locate course articulation agreements at www.assist.org. ASSIST, the Articulation System Stimulating Interinstitutional Student Transfer, includes all official course articulation established among CCC, CSU, and UC, and more than 13 million articulation reports are generated annually for students.

UC majors tend to be highly specialized, positioned at the cutting edge of advancing knowledge in disciplines across the curriculum. University faculty have developed a second tool, UC Transfer Preparation Paths, which establishes a framework to identify specific courses at every CCC that students can use to meet the lower division requirements in any of the top 21 transfer majors. This information is available at uctransfer.universityofcalifornia.edu.

The University supported the recently signed Associate Degree for Transfer legislation (AB 2302, Fong), which calls for UC to explore, among other transfer initiatives, creating a system under which a student who completes an Associate's degree in a major is guaranteed admission to UC in that major, as a way to ease the transfer of students between California community colleges and the University. In the coming year, faculty and administration will explore options for aligning UC's lower-division major preparation coursework across campuses as a first step to smoothing the transfer process.

NONRESIDENT ENROLLMENT

UC's priority is to enroll eligible California residents for whom the State has provided funding. The California Master Plan for Higher Education establishes the framework, calling for UC to offer a space to, and the State to fund, all eligible California resident applicants at both the freshman and transfer levels. Campus enrollment targets for California residents are established on a universitywide level based on available State funding. Enrollment targets for nonresident students, however, are currently established at the campus level rather than at the system

[2] uctransfer.universityofcalifornia.edu

level and are based on campus physical and instructional capacity and the ability of the campus to attract and enroll qualified nonresident students.

Since the early 2000s, UC enrollment of undergraduate nonresidents has been no more than 6% of total undergraduate enrollments across the system. UC's peer institutions typically have much higher enrollments of nonresident students. For example, at the University of Michigan and the University of Virginia, more than one-third of undergraduates are nonresident.

Nonresident students are essential to the quality of the University and a crucial part of the economic future of California. They contribute to the academic quality and educational experience of all students and enhance the diversity of backgrounds and perspectives on the campuses at which they enroll. Their contributions help prepare all UC students to effectively live and work in an increasingly global world. Nonresident enrollments also help grow and sustain the University's global reach, promoting new opportunities for students and faculty.

Because nonresident students pay supplemental tuition not charged to California residents, $22,021 in 2010-11, an amount that exceeds the State support provided for California residents, they provide extra revenue that enables UC to improve educational programs for all students. Among other things, nonresident tuition is used to help recruit and retain high quality faculty, mount additional courses that help lower class sizes and expand the breadth of offerings, expand library collections and services for students, and renew instructional equipment and technology.

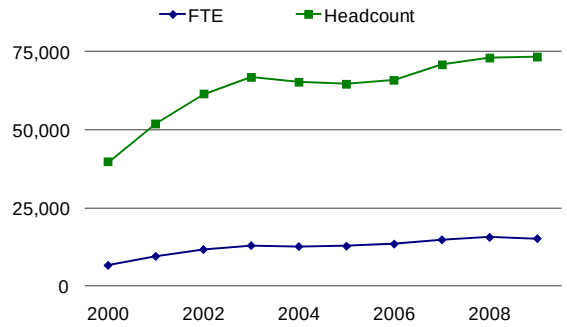
Many nonresident students choose to stay in California after graduation from UC. The State itself reaps benefits from the contributions to California industries of talented and highly qualified nonresident UC graduates. As discussed in the *UC's Role in the State of California* and *Health Sciences* chapters of this budget, California is in desperate need of college-educated workers in many industries. Nonresidents who stay in California after earning their degree at UC bolster the pool of educated workers in California and make significant contributions to the state economy.

Despite the advantages of a larger nonresident population, UC remains committed to maximizing the number of California residents enrolling at UC, and as such, UC's enrollment of nonresident students is – and will continue to be – low relative to comparable institutions.

SUMMER INSTRUCTION

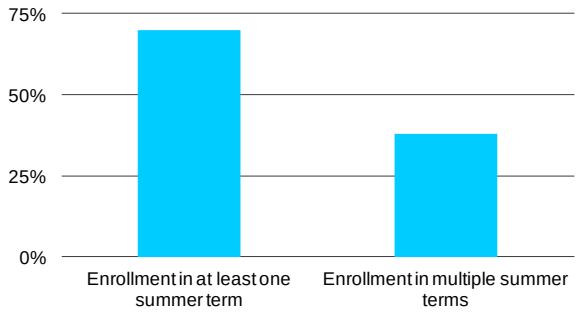
Facing extraordinary growth in high school graduating classes over the last decade and the need to accommodate significant enrollment increases, the University, with funding from the State, began expanding summer instruction programs in 2001. Since that time, the University has more than doubled its summer enrollments. In Summer 2009, over 73,000 students participated in summer instruction, or over 15,300 FTE students.

Display III-16: Summer Headcount and FTE Enrollment



FTE enrollment in summer instruction has grown by 125% since 2000, and 44% of undergraduates enroll in summer session annually.

Display III-17: Summer Enrollment Patterns of UC Undergraduates



Among undergraduates who entered UC in 2004 and 2005, fully 70% enrolled during at least one summer term during their undergraduate careers, and 38% enrolled in summer courses during more than one year.

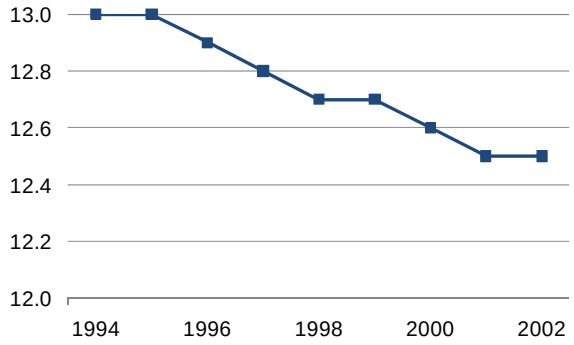
The key to achieving significant enrollment growth in the summer has been to offer summer instruction that is critical to student progress, along with essential student support services, access to libraries, and student financial aid. State funding for summer instruction has allowed campuses to provide UC financial aid equivalent to the UC grant support available during the regular academic year, fund adequate student services, and hire more regular-rank faculty to teach summer courses. In addition, with State funding, campuses can afford to offer a greater breadth of courses during the summer to maximize efficiency and student progress toward the degree; campuses have nearly doubled the number of primary classes offered in the summer since 2000, totaling over 5,200 in 2009. Summer expansion has resulted in more efficient use of facilities and accelerated time to degree for undergraduates, thereby making room for more students during the regular year. Students report using summer as a means to graduate on time or even early, and enjoy the smaller class sizes and faculty contact summer courses provide.

Summer enrollment at UC may have reached its point of maximum efficiency. Further growth in the summer may be difficult to achieve for several reasons. In recent years, over 70% of undergraduate students have enrolled in at least one summer session, and 40% enroll more than once even though students can also use summer for other opportunities, such as work, travel, or internships. Rather than growing in recent years, this participation rate has stabilized. Students are not replacing a regular academic year term with summer, but rather are going year-round for two or more years. Students take 9.6 units per summer on average. Also, many courses are designed in two-semester or three-quarter sequences; the cost and difficulty to re-engineer courses to allow for year-round availability may be prohibitive.

TIMELY GRADUATION

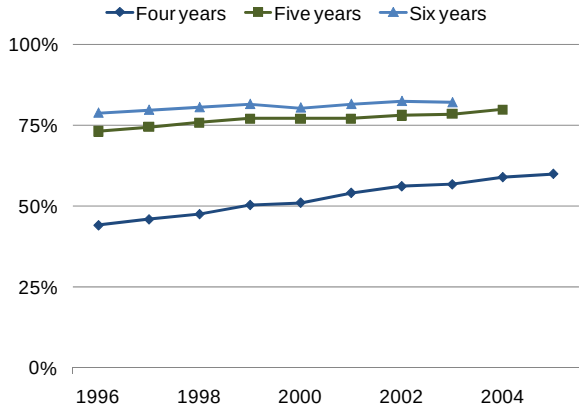
The University remains committed to ensuring that undergraduate students are able to complete their degrees on time and maintaining its excellent record of improving persistence and graduation rates among all students. Accordingly, campuses have developed advising and administrative initiatives to facilitate persistence and timely degree completion. Campuses continue to ensure course

Display III-18: Time to Degree among Freshmen by Cohort



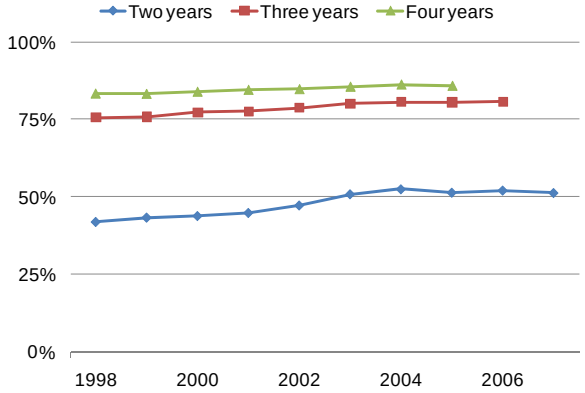
Time-to-degree, measured in quarters enrolled, has declined from 13 to 12.5 among recent freshman cohorts.

Display III-19: Graduation Rates among Freshmen by Cohort



Approximately 60% of freshman entrants complete their degree program within four years and about 80% finish within 6 years.

Display III-20: Graduation Rates among Upper Division CCC Transfer Students by Cohort



CCC transfers to UC also exhibit strong graduation rates, with more than half finishing in two years and 86% graduating within four years of transfer.

availability by sustaining increases in faculty teaching effort, creatively managing the curriculum and its delivery (for example, through targeted and broader summer offerings), and expanding the use of instructional technology.

For UC undergraduates, the number of terms enrolled has dropped from 13.4 enrolled quarters (where a four-year degree equals 12 quarters) for the 1984 freshman class to 12.5 for the 2002 cohort. Well over half of UC freshmen graduate in 12 or fewer registered quarters; they are able to do this by taking full academic loads each year and by not exceeding the 180 units required for graduation. Students may take more total units or take longer to graduate if they change majors, undertake a double major, major in a field with a higher unit requirement, or take a lighter load some terms, often to accommodate working part-time. In recent years, campuses have worked to increase the average number of units taken during a term, but reduce excess units taken over a student's career, enabling more students to graduate in four years and making room for others.

Freshman and transfer persistence and graduation rates have steadily risen over time. Among recent freshman cohorts, 92% of students persist into the second year and about 60% graduate within four years. Those who do not graduate in four years typically require only one more academic quarter to earn their degree; 78% of the 2003 entering freshmen earned a baccalaureate degree within five years and 82% within six years. UC graduation rates far exceed the national average; among first-time students entering four-year institutions nationwide, only 57% earn bachelor's degrees within six years.

Students beginning their higher education at a community college have historically done very well after transferring to UC. Among CCC transfer students, 92% persist to a second year and nearly 86% earn a UC degree within four years, taking on average 7.1 quarters at UC to complete their degrees. Transfer students' UC grade point averages upon graduation are about the same as those of students who entered as freshmen.

SCIENCE AND MATH INITIATIVE

UC's Science and Mathematics Initiative (SMI) improves the undergraduate pipeline to teaching careers by increasing the number of mathematics and science students interested in and prepared for teaching credential programs. Recent analyses of California's teacher workforce needs show that more than 10% of California's science and math teachers are underprepared. In order to combat this problem, UC launched SMI, with annual State support first provided in 2005-06 and 2006-07 totaling $1.1 million. Through the nine-campus program, popularly known as CalTeach, the University of California is recruiting and preparing mathematics and science majors for future teaching careers by providing special coursework and field experiences in K-12 schools. Since 2005-06, 6,000 students have enrolled in SMI courses and made 60,000 visits to K-12 schools. As of Spring 2010, 1,800 SMI participants (students who have participated in one or more SMI courses) have graduated. The University has developed new minors and concentrations – more than 60 to date across the system – that focus specifically on math and science teaching. This focus complements students' work in their major to ensure both deep subject matter content knowledge and strong pedagogical skills and prepares them for teaching while they simultaneously complete their undergraduate degrees.

Traditionally, UC has not graduated a significant number of teachers. However, UC graduates the majority of baccalaureates earning math credentials, and according to the most recent data available, more baccalaureates earning science credentials than any other system. The original goal of the program was to quadruple the annual number of science and math graduates prepared to enter credential programs from 250 to 1,000 by 2010-11, the first year in which SMI will have graduates. The State's fiscal crisis has resulted in significant cuts to UC's budget, and no program has been protected from reductions, including SMI. Efforts associated with this program will continue, however, at reduced levels; as such, it is unlikely UC will reach its goal of 1,000 SMI graduates during 2010-11.

INSTRUCTIONAL EQUIPMENT REPLACEMENT

Obsolete equipment ranges from equipment that is functional but lacks the required capability and efficiency of current technology to devices that are of limited use because replacement parts are not readily available or the equipment is costly to operate and maintain. Using an agreed-upon methodology for calculating need, the State

began partially funding the instructional equipment replacement (IER) program in 1976-77 and provided full funding from 1984-85 through 1989-90. Since 1990-91, funding for IER has been inconsistent, with annual permanent funding often falling short of each year's IER need, but some one-time funding helped address the growing shortfall. As of 2007-08, the annual shortfall was estimated to be $41.5 million. The latest State funding reductions mean that funding for instructional equipment replacement has fallen further behind the University's need.

With technology changing every 16 months to 3 years, it is imperative that the University replace obsolete equipment and offer students the most technologically-advanced education available. A persistent inability to keep pace with equipment needs weakens the University's instructional programs and reduces the University's ability to provide the highly-skilled personnel needed for California's high technology industries. Additional funding for core academic support (informational technology, instructional equipment replacement, building maintenance, and library resources) is one of the University's priorities for restoring academic quality. As discussed in the *Cross-Cutting Issues* chapter of this document, funds for this purpose were proposed in the Compact beginning in 2008-09, but the State's fiscal crisis prevented this request from being funded.

"UC trains health professionals who will transform health care delivery, improving health care quality, access and efficiency throughout California."

Dr. John Stobo
University of California
Senior Vice President for Health Sciences and Services

Health Sciences Instruction

The University of California plays a critically important role in training health professionals, undertaking scientific research on health-related issues, and delivering essential healthcare services.

- UC operates the largest health sciences instructional program in the nation, enrolling more than 14,000 students across 16 schools at 7 campuses. These include schools of dentistry, medicine, nursing, optometry, pharmacy, public health, and veterinary medicine. UC's health sciences instructional programs provide an unparalleled integration of research and education with patient care, preparing leaders in clinical care, research, and academia.
- UC's research discoveries help prevent and cure diseases, create new technologies for diagnosing and treating illnesses, and provide new strategies for staying healthy. Beyond millions in federal and philanthropic dollars invested in the state through UC's research grants, UC's advances in the prevention and treatment of chronic medical conditions such as cardiovascular disease, asthma, and diabetes help improve health outcomes, achieving savings in treatment and improving productivity.
- UC operates five academic medical centers, providing services to millions of Californians every year, as described in the *Teaching Hospitals* chapter of this document. In addition, UC provides education, prevention, and early intervention services to thousands of Californians through community health and outreach programs.

The ultimate goal of all UC health sciences programs is to train skilled, knowledgeable, and compassionate health care professionals; to improve health care with cutting-edge research; and to deliver outstanding services to California and the world.

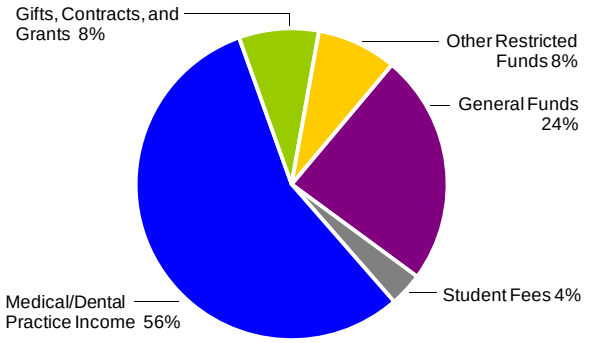
FUNDING FOR HEALTH SCIENCES

The 2010-11 budget for Health Sciences Instruction is $1.4 billion, of which $382 million is UC and State General Funds. The medical and dental care provided by UC health sciences faculty also generate significant revenue which contributes to support for health sciences instruction.

To operate the instructional program, the health sciences schools require faculty, administrative and staff personnel, supplies, and equipment. Faculty requirements for instruction are linked to historic student-faculty ratios established for each profession and category of students enrolled. These student-faculty ratios reflect the intensity and requirements of both basic sciences and clinical instruction, including associated responsibilities for supervision of students engaged in patient care activities, and are typically lower than ratios for general campus programs.

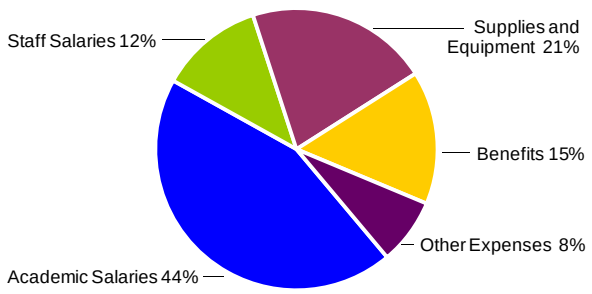
As a result, health sciences programs are high cost and while State support for these programs is significant, revenues from other sources are essential. Physician and other professional service fees, as well as professional

Display IV-1: 2009-10 Health Sciences Instruction Expenditures by Fund Source



Physician and other professional fee revenue as well as support from the medical centers supplement the cost of clinical training in the health sciences.

Display IV-2: 2009-10 Health Sciences Instruction Expenditures by Category



Academic and staff salaries and benefits constitute over three-quarters of all health sciences expenditures.

school fees charged to medicine, dentistry, veterinary medicine, nursing, optometry, public health, physical therapy, and pharmacy students contribute to the funding for health sciences instructional programs. During the State's fiscal crisis of the early 2000s, State support for UC's professional schools declined significantly and professional fees increased dramatically to offset lost State revenue. More recently, professional fees have increased in order to address changes in national educational standards for health sciences and to invest more generally in academic excellence.

HEALTH SCIENCES INITIATIVES FOR 2011-12

For 2011-12, the University is requesting permanent State support for three major health sciences instruction initiatives, each of which is described in more detail later in this chapter.

Programs in Medical Education. In 2004, UC launched its new PRograms in Medical Education (PRIME) initiative to meet the needs of medically underserved communities by combining specialized coursework, structured clinical experiences, advanced independent study, and mentoring to prepare highly motivated, socially conscious students as future clinicians, policy makers, and leaders. No funding has been provided for PRIME expansion since 2007-08. The University is requesting $5.46 million in permanent funds to support 194 MD students at an estimated marginal cost rate of $25,012 and 61 MS students at an estimated marginal cost rate of $10,012.

Nursing Programs. In 2006-07, UC began expanding nursing programs in response to a deepening nursing shortage. While no permanent funding has been provided since 2007-08, temporary funding was available through the Governor's Workforce Investment Act (WIA) for enrollment in 2009-10 and 2010-11 to support a limited number of nursing students. UC requests continuation of this program in 2011-12 with $3 million in WIA funding to support 230 nursing students. Furthermore, the University requests an additional $1.1 million in permanent funding for unfunded nursing enrollment growth requested in 2008-09 and 2009-10 but not included in the WIA agreement.

UCR Medical School. As the first new medical school in California in over 40 years, the UC Riverside School of Medicine plans to open its doors in Fall 2012. In 2011-12, the State required that the University redirect $10 million of General Funds to support start-up activities. For 2011-12, UC is requesting $15 million in new permanent funds to provide core support for the UCR medical school on an ongoing basis.

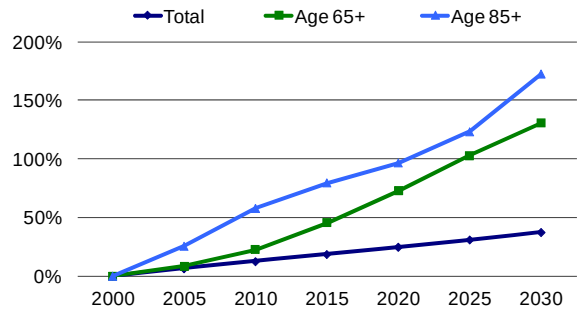
While enrollment growth in pharmacy and public health are also vitally needed, the University is deferring these initiatives due to the fiscal crisis.

STATE NEEDS FOR HEALTH SCIENCES EXPANSION

Already the most populous state in the nation, California is projected to grow 37% through 2030, faster than the nation as a whole. California's elderly population will grow even faster, with the population age 85 or older growing more than 150% by 2030, as shown in Display IV-3. California's population is racially and culturally more diverse than any other state in the nation, with more than one in four Californians born outside the U.S., more than twice the national average of 1 in 10. Despite these facts, for nearly three decades, UC has added virtually no new capacity in health sciences programs; only recently has the University begun to expand medicine and nursing programs.

In June 2005, the Universitywide Health Sciences Committee completed the most comprehensive assessment of health workforce needs undertaken by UC in more than two decades. The report found shortages of

Display IV-3: Projected California Population Growth by Age Group



Between 2000 and 2030, the Census Bureau projects that California's population will grow by 37%. During that time, the population age 65 and older will grow 130% and the population age 85 and older will grow 170%.

health care professionals in most areas of the state and noted that gaps in access to care are widening.

In response to these findings, then-President Dynes appointed the Advisory Council on Future Growth in the Health Professions to review the findings and develop profession-specific enrollment plans with annual targets for growth through 2020. The Council found compelling needs for enrollment growth in five fields: medicine, nursing, public health, pharmacy, and veterinary medicine, as well as a need to maintain existing enrollment levels in dentistry and optometry. The Council recommended that growth in the health professions occur in a phased, stepwise manner, contingent upon adequate resource support, starting with increases that can be accommodated within existing campus infrastructures. In addition, because the magnitude of growth that will be needed in some professions exceeds what can be accommodated by existing programs, even with new infrastructure, the Council recommended planning for new programs at new locations be developed over time.

In recommending substantial enrollment increases, the Council stressed that future growth should provide opportunities for:

- new educational models involving interdisciplinary training and team-based approaches to patient care;
- increased diversity of all UC health professions faculty and students;
- innovative approaches to teaching, including telemedicine, distance learning, and use of new technologies; and
- added value for students, the people of California, and the health professions.

PROGRAMS IN MEDICAL EDUCATION (PRIME)

California's physician workforce is vital to the health and well-being of the state's 37 million residents. As the most populous and most ethnically and culturally diverse state in the nation, California faces unique challenges in improving access to care and health outcomes for its citizens. In both urban and rural communities, challenges associated with inadequate access to care and resulting health disparities stem from multiple factors, including uneven geographic distribution of clinicians, lack of insurance, low socio-economic status, limited English proficiency, and low health literacy. Health sciences graduates must be prepared and better trained to consider the cultural and socioeconomic factors, health practices, and potential environmental hazards that affect health outcomes. Without comprehensive strategies and focused teaching programs, current health disparities will persist and likely intensify in the years ahead as the state faces a projected shortfall of nearly 17,000 physicians by 2015.

PROGRAMS IN MEDICAL EDUCATION (PRIME)

PRIME-RC (Rural California) at Davis
Incorporates UCD's award-winning model program in telemedicine with a commitment to outreach and rural health care.

PRIME-LC (Latino Community) at Irvine
Emphasizes Latino health issues with training in Spanish language and Latino culture.

PRIME (Diverse Disadvantaged) at Los Angeles
Trains physicians to provide leadership and advocacy for improved health care delivery systems in disadvantaged communities.

PRIME-HEq (Health Equity) at San Diego
Builds upon knowledge of health disparities and minority health problems to help students work toward and contribute to achieving equity in health care delivery.

PRIME-US (Urban Underserved) at San Francisco
Offers students the opportunity to pursue their interests in caring for homeless and other underserved populations in urban communities.

PRograms In Medical Education (PRIME) are innovative training programs focused on meeting the health needs of California's underserved populations in both rural and urban areas by combining specialized coursework and clinical training experiences designed to prepare future clinician experts, leaders, and advocates for the communities they will serve. The special training ranges from enhancing cultural competence to the use of technology to overcome geographic barriers to quality care. Since students who enter medical school with an interest in caring for underserved communities as part of their future career are more likely than other students to practice in such communities, the PRIME programs will also help address regional health shortages.

State funding requested for PRIME in 2008-09, 2009-10, and 2010-11 was not provided. However, in order to maintain momentum in the development of this program, the University made funding available on a one-time basis in 2008-09 for PRIME expansion, and in 2009-10 and 2010-11, redirected funds from other programs to PRIME to support planned enrollment growth. UC is requesting $5.46 million for planned PRIME growth between 2008-09 and 2011-12, totaling 61 MS and 194 MD students. Because these programs are not sustainable without permanent State support, if, during 2011-12, the State is once again unable to provide funding for PRIME due to its fiscal situation, the University may need to develop plans to reduce PRIME program enrollments to a level more consistent with resources.

TELEHEALTH AT THE UNIVERSITY OF CALIFORNIA

A key component to the University's PRIME programs is expansion of telemedicine training and services. Telemedicine uses telecommunications and other information technology to share information and receive or provide consultations with medical specialists, as well as treat patients, across distance.

UC has used a $200 million General Obligation Bond approved in the November 2006 election to expand and support new UC telemedicine programs at each of the five health science campuses, as well as Merced, Riverside, Berkeley, and the Charles R. Drew Medical School.

Under the Federal Communications Commission's Rural Health Care Pilot Program, the new UC-managed California Telehealth Network has received commitments of more than $30 million over three years to connect more than 500 primarily rural California healthcare facilities to a statewide and nationwide broadband telehealth network and to provide distance learning and emergency preparedness/disaster response.

NURSING PROGRAM EXPANSION TO MEET STATEWIDE SHORTAGES

Virtually all Americans will require nursing care at some time in their lives. The deepening nursing shortage raises serious concerns that must be addressed in California and nationwide.

California ranks 48th in the nation in the number of nurses per capita (638 vs. the U.S. average of 854 per 100,000). Causes of the nursing shortage include rapid population growth (especially of those over age 65), an aging nursing workforce (half of California's licensed nurses are age 50 and older), and an increasing mean age of nursing faculty. Current nurse staffing ratios for California hospitals and national accreditation standards limiting the number of hours medical residents can work have created further demand. Without intervention, California's nursing shortage will worsen significantly through 2030.

In their 2007 report, UC's President's Advisory Council on Future Growth in the Health Professions recommended significant increases in nursing education. The Council also stated that even with significant infrastructure support, unmet demand will warrant the establishment of additional nursing programs.

To help meet the state's future nursing needs, the University has been expanding its traditional graduate role in nursing education, including preparation of new faculty for nursing programs and the education and training of advanced practice nurses, but it also has re-established and added new undergraduate nursing programs.

Baccalaureate Nursing. In Fall 2006, UC re-established the UCLA bachelor's degree program in nursing and added a new undergraduate program at UC Irvine.

Graduate Nursing. UCLA and UCSF have recently expanded programs for professional nurses and nursing faculty. Irvine added a graduate program in 2009-10.

New Initiatives. In 2007, the Gordon and Betty Moore Foundation (GBMF) announced $100 million in founding

support, the largest donation ever made to a nursing school, to launch the Betty Irene Moore School of Nursing at UC Davis. The GBMF's vision for the School of Nursing was as a public-private partnership between the Foundation and the State in which both would provide funding for the new school. The campus admitted its inaugural class of students in the master's and doctoral programs in Fall 2010. A bachelor of science in nursing program is also planned for the future. When full enrollment is reached in all degree programs, the school is projected to serve 456 students. Other UC campuses are also considering future initiatives in nursing education.

Funding for Nursing Programs. The University has requested enrollment growth in nursing programs each year since 2006-07. In 2006-07 and 2007-08, UC's requests were fully funded, but in 2008-09, 2009-10, and 2010-11, funding was not provided. Because of the strong demand for UC-educated nurses, the California Labor and Workforce Development Agency presented a proposal in which, beginning in 2009-10, approximately $12 million in new, one-time federal Workforce Investment Act funding provided over five years would be available to UC through participation in the Governor's Nursing Education Initiative, for UC to train and graduate single cohorts of new California nurses. Under this proposal, UC must provide matching funds, and will train nearly 350 nurses across multiple degree programs (see Display IV-4). This one-time funding provides only for single cohorts of students to complete their nursing programs. After this program is completed, enrollment will return to State-budgeted levels, and no growth will occur until State funding is again provided.

For 2011-12, the University requests continuation of the Governor's Nursing Education Initiative, with funding of $3 million to support 230 nursing students (55 bachelor's, 23 doctoral, and 152 master's level nurses). In addition, because these funds are temporary but the workforce need for nurses is ongoing, the University requests $1.1 million in permanent State funding to support another 111 students (95 bachelor's, 8 doctoral, and 8 master's level nurses).

Display IV-4: Anticipated New Graduates through the Governor's Nursing Education Initiative

Campus	Bachelor's	Master's	Ph.D.
Davis	0	85	8
Irvine	0	45	5
Los Angeles	55	10	4
San Francisco	0	124	6
Total	55	264	23

PLANNING AND PROGRESS TOWARD A NEW UC RIVERSIDE MEDICAL SCHOOL

The need to address physician workforce shortages and to train increased numbers of physicians is well recognized. Specific regions within California – in particular the rapidly growing Inland Empire of Southern California – are already experiencing a health care crisis due to a shortage of physicians, nurses, and allied health professionals, a crisis that will worsen without expanded medical education. UC's health workforce study shows that even if existing medical schools expand to maximum capacity, the state will still fall far short of achieving the number of doctors needed in the coming years.

A new school of medicine at Riverside will help meet health care needs in the state and region by serving as a locus for expanded medical care; by educating physicians who are likely to enter residencies, and later practices, in the region and state; by training a culturally competent and diverse physician workforce; and by undertaking research to develop and implement projects that improve the health of people living in the region.

In 2010-11, the State required that UC redirect $10 million of General Funds from the base budget to support start-up costs at the UCR Medical School. However, the notion that an initiative of this magnitude can be implemented by redirecting University resources is unsustainable. For 2011-12, the University is requesting a permanent increase in State funding to support the medical school on an ongoing basis. Specific start-up activities that will occur during 2011-12 include pursuing accreditation for the medical school curriculum and graduate medical education (residency) programs, establishing affiliations with community-based hospitals and clinics, appointing faculty and administrative staff necessary to open the school, recruiting and admitting the first class of medical students, developing a faculty practice plan, and acquiring private and other non-state funding.

"The University of California looks for students who demonstrate the potential to become leaders in their communities and beyond. We want students who aspire to help others improve their lives."

Mark G. Yudof
University of California
President

Cross-Cutting Issues

Several of the University's significant budget issues do not fall into a single functional area and instead cut across multiple areas. This chapter provides detailed information about several of these cross-cutting issues for 2011-12: systemwide and campus actions to address budget shortfalls, long range planning, graduate student enrollment and financial support, diversity, information technology, and core academic support.

SYSTEMWIDE AND CAMPUS ACTIONS TO ADDRESS FUNDING SHORTFALL

The current fiscal crisis facing the State, and indeed the nation and the world, has presented the University with the significant challenge of achieving major reductions to budgets in a very short period of time. The 2009-10 State-funded budget was over $600 million less than the 2008-09 budget that existed before mid-year cuts were instituted. This represented a 20% reduction in State support, unprecedented in size and scope. Despite a partial restoration in 2010-11, the outlook for the next several years is extremely pessimistic, given the State's inability to resolve its longstanding structural deficit. Furthermore, the long-term decline in State support, combined with substantial mandatory cost increases, including costs of retirement benefits, is forcing the University to reexamine all aspects of operations and develop new strategies. It is in this context that efforts are being made centrally as well as at the campus level to reduce costs, both over the short term and the long term.

Short-Term Systemwide Actions

The following is a brief summary of actions that are occurring at the systemwide level to help address ongoing budget shortfalls in the short term. Many of these actions are discussed in more detail elsewhere in this document.

- Curtailment of Freshman Enrollment: Campuses were asked to reduce enrollment of freshman by 3,800 students over two years. This curtailment was partially offset by a goal of increasing transfers from the community colleges by 1,000 students. Enrollment reductions allow campuses to save money on course sections and other activities and avoid spreading instructional resources too thinly.
- Salary Reduction/Furlough Plan: In July 2009, the Regents approved a one-year salary reduction/ furlough plan that has provided $136.5 million in one-time General Fund savings and nearly $237 million in savings from all fund sources, as of October 1, 2010. This plan ended for most employees on August 31, 2010, although some represented employee groups will remain on furloughs for several more months due to delayed starts. The estimated savings reflect a reduced level from earlier estimates in part because the total workforce has been reduced through layoffs and attrition. In addition, more employees were exempted or waived from the furlough than had been anticipated. Final savings numbers should be available when all furloughs end in December 2010.
- Due to budget constraints, the University has not provided regular merit increases or range adjustments to a significant portion of its staff over an extended period. For example, UC has not had a staff merit program in four of the last seven years, going back to 2003-04. This has affected positions that range from the highest to lowest levels.
- Although faculty have continued to receive merit increases through a rigorous review process (with most faculty eligible only once every three years), requiring redirection of resources within existing budgets to fund these increases, they have not had a range adjustment since 2007-08. UC faculty salaries now lag peer institutions by 12%.

- Debt Restructuring: UC has taken steps to delay debt service payments on capital projects during 2009-10 and 2010-11. The Regents have authorized campuses to restructure $75 million in debt in each of the two years for temporary relief to campuses. During 2009-10, campuses restructured $67 million.
- Senior Management Group 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 imposed pay reductions of 9% to 10% in most cases for Senior Management Group employees during 2009-10. In addition, systemwide salary freezes for Senior Management Group members were imposed for this same period.
- UCOP Restructuring: During 2007-08 and 2008-09, the Office of the President (UCOP) underwent a thorough restructuring. Actions associated with this restructuring are estimated to have reduced the budget by a total of 16%, from $523.8 million to $438.5 million. Roughly $30 million of the budget reduction has been achieved through the transfer of programs to campuses. The remainder – $55 million – has been the result of layoffs, consolidations and restructuring, new administrative efficiencies, expenditure reductions, and voluntary separations. Since 2007-08, staff reductions have totaled 29%, or nearly 600 FTE – from 2,069 to 1,480. Savings from restricted sources must be used only for programs for which they were intended, but may be used to offset future cost increases or address other funding shortfalls within those programs where appropriate. Savings generated by the restructuring have been offset somewhat by increased obligations, including retirement contributions, research funding, Discovery Grants, and other approved programmatic increases.
- Other Actions: Certain bonus and incentive programs were cancelled or deferred.

The Commission on the Future

In July 2009, Board of Regents Chairman Russell S. Gould launched a commission with a goal to shape a far-reaching vision to ensure excellence and access to UC in the future while addressing acute financial challenges resulting from the State's fiscal woes. A critical focus of the Commission, in addition to preserving the excellence of UC while facing economic realities, was to find ways to maintain and even expand UC's substantial contributions to California's economy and cultural life.

Co-chaired by Regents Chair Gould and President Yudof, the Commission was composed of members from across UC and outside of the University. Among those appointed to serve on the Commission were UC Regents, chancellors, Academic Senate leaders and faculty members, the UC Regents staff advisor, the UC Student Association president, and representatives from both the labor and business sectors.

The Commission initially used working groups to reach out to the entire UC community and an array of experts inside and outside the system to re-examine key questions, including:

- How can UC best meet the needs of California and at the same time maintain access, quality, and affordability in a time of diminishing resources?
- What educational delivery models will both maintain quality and improve efficiency for the University's future?
- What is the appropriate size and shape of the University going forward?
- How can traditional and alternative revenue streams be maximized in support of UC's mission?
- How can UC best utilize new models for research practices and collaboration, both within and outside the system?

Recommendations from the working groups as well as additional recommendations from faculty and staff were reviewed by the Commission at public meetings over the last year. The Commission endorsed recommendations covering the following five broad categories:

- **Teaching and Curriculum** includes recommendations to improve students' time-to-degree by removing obstacles to completion in four years and creating pathways for graduation in three years. Another major recommendation is for a pilot program to explore the quality and feasibility issues regarding offering online courses.
- **Undergraduate Enrollment and Access** includes recommendations that recommit us to the California Master Plan for Higher Education goals for freshman and transfer students, strengthen previous statements regarding financial accessibility for California's families,

streamline and align major requirements for students transferring from California Community Colleges to UC campuses, and increase and cap nonresident undergraduate enrollment.

- **Research and Graduate Education** includes a sustained effort to meet the graduate student enrollment goals established in support of UC's research mission and greater emphasis on multi-campus research and training.
- **Fiscal Discipline and Administrative Reform** includes recommendations to implement the Regents' and President's initiative on systemwide administrative efficiencies and redouble efforts, along with other major research institutions in the country, to recover more of the infrastructure costs associated with conducting research via the federal government's indirect costing formulas. These two recommendations alone, if successful, would bring several hundred million dollars annually to UC.
- **Advocacy and Other Measures** includes recommendations for the continued expansion of public education and advocacy, as well as greater investments of time and resources in communicating UC's purposes, accomplishments, value and needs. Another major recommendation is for UC to lead efforts to persuade the federal government to provide special institutional support for research universities with exceptional demonstrated success at serving students from low-income families.

Each of these recommendations includes actionable, assigned next steps to ensure that recommendations are acted upon. Some recommendations have already been implemented, while others will require additional development and study. A final report of the Commission's recommendations will be released in November 2010.

Administrative Efficiencies: Working Smarter

Growing out of the work of the Commission of the Future, the University community has coalesced around administrative and operational effectiveness as a key tenet of long-term viability. This consensus has evolved into *Working Smarter*, an ongoing administrative efficiency effort that brings together systemwide, regional, and campus-level initiatives under one umbrella. The overarching goal of *Working Smarter* is to support the 10 distinct campuses using one efficient administrative framework, with the specific objective of redirecting $500 million of positive fiscal impacts in 5 years from administrative costs to the academic and research mission of the University. These efforts to increase administrative efficiency are manifest across all levels and functional areas of the University. Examples include:

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 procurement functions. From its inception in 2004-05 through 2008-09, the Strategic Sourcing Initiative achieved $207 million in cumulative cost savings to the University. 2009-10 savings are estimated to be $52.8 million.

Statewide Energy Partnership Program. Through an incentive program developed by UC and the investor-owned utilities and subsequently approved by the California Public Utilities Commission, UC is pursuing $262.6 million in energy efficiency projects that are expected to generate over $36 million in annual energy savings at the end of three years (or about $18 million annually after debt service). Some of the energy projects will also help address UC's growing capital renewal and deferred maintenance needs.

Travel Purchasing. The University created Connexxus, an efficient, cost-effective, and comprehensive travel program utilized across UC. By leveraging volume, the program realized $3 million in savings for 2009-10 and is expected to achieve up to $15 million in annual savings by 2011-12.

Graduate Student Health Insurance. UC has created a systemwide health insurance plan, including medical, dental, and vision care for graduate students. Up to 14,000 graduate students at six campuses are participating in the plan in 2010-11. As the plan is expanded to all campuses and extended to undergraduate as well graduate students, the plan is expected to provide increasingly lower rates that will ultimately benefit not only students and their families but also the graduate divisions, academic departments, and financial aid and other entities that contribute to the payment of student health insurance premiums.

Library Resource Sharing. Efforts to build resource-sharing and consolidated and coordinated services have helped campus libraries avoid over $100 million per year in costs that they would have incurred had they attempted to achieve the same level of service acting independently. The UC libraries began a new phase of strategic planning

in 2008-09 to identify additional innovative, systemwide strategies to mitigate cuts, while reframing library services that support institutional missions.

Payroll Operations. The University has begun a project to identify a new approach to its payroll operations that will eventually allow UC employees at all 10 campuses and UCOP to be paid from a single universitywide payroll system that satisfies the core needs of each location while also bringing the efficiencies, improved data, and cost-savings associated with a unified system. By implementing a single payroll system and improving related business processes, the University expects to achieve significant long-term cost and efficiency savings.

Risk Management. UC has migrated from a traditional risk program to an Enterprise Risk Management (ERM) program, which aims to enhance the University's ability to identify, assess, and manage all levels of risk, thus reducing the overall cost of risk. Since 2003-04, the strategic approach to risk provided by ERM has helped reduce the University's total cost of risk by 28%, with the potential of saving or avoiding millions more.

Safety and Loss Prevention. Through the Be Smart About Safety (BSAS) program, UCOP budgets a small amount of its total budget to fund proactive loss-prevention and loss-control projects at campuses and medical centers to make UC a safer environment for faculty, staff, students, patients, and guests. In its inaugural year, 2006, BSAS was limited to a worker's compensation program. The program yielded a reduction in funding for liability coverage of over $22 million.

Regional Data Centers. The UC Information Technology Leadership Council is exploring the opportunity to utilize the San Diego Supercomputer Center (SDSC) data center as a regional co-location facility with the objective of meeting the computer operations needs of campuses and medical centers throughout the UC system. Utilization of SDSC as a regional co-location facility could significantly reduce costs that campuses would need to invest to maintain or construct individual facilities.

Construction Insurance Costs. The University is seeking to develop and implement a systemwide University Controlled Insurance Program (UCIP) for all projects with construction budgets over $25 million, with higher limits dedicated to the UC project, broader coverage, and uniform and consistent coverage for the project duration. Based on the current pilot program including four completed projects, it is anticipated that through the program the University can save 1% to 3% of total construction value and up to $17 million annually. The savings can be as much as 35% less than the cost of traditional insurance.

Investments in Future Efficiencies. Lack of one-time investment funding has often been a barrier to efficiency improvements systemwide. The Office of the President has devised a suite of internal-loan programs (CapEquip, C3, and STARs) that lever UC's high credit rating to make low borrowing costs available for purposes beyond construction. Although CapEquip is expected to provide modest cost savings directly, the overall crux of the UC Strategic Investment Program is its ability to diminish barriers to efficiency investments at the campuses. The cost savings and cost avoidance that will result over time is expected to be significant.

There are countless other examples of efficiency efforts happening at each campus and through the UC system, and more will continue to develop.

Post-Employment Benefits Reform

Both the unfunded liability for retirement benefits accrued to date by UC employees and retirees and the cost of benefits accrued by current employees going forward will place a significant strain on the University's budget in the future. Sustaining these benefits has become increasingly difficult. To help the University develop a comprehensive long-term approach to post-employment benefits, both pension and retiree health, at the request of the Regents, President Yudof established a task force in 2009 to study and recommend funding, policy, and benefits design alternatives. The task force consisted of senior leadership, faculty and staff representatives, and UC retirees and considered issues of market competitiveness, workforce behavior and development, affordability, and sustainability.

The final report of the Task Force was submitted to the President in August 2010. Based on the recommendations of the Task Force, the President will present recommendations to the Regents in November 2010. It is

expected that the Regents will take action on these recommendations in December 2010. Additional information about the report of the Task Force is available in the *Compensation, Employee and Retiree Benefits, and Non-Salary Price Increase* chapter of this document.

Campus Actions

While steps to achieve both short-term and long-term savings are being taken at a systemwide level, UC campuses are also implementing actions to reduce expenditures at the local level. While each campus is distinct in its character as well as its fiscal situation, several common themes emerge.

- Every campus is firmly committed to protecting quality, access, and, as much as possible, the academic and student service programs.
- Each campus is setting priorities that over the next several years will advance those initiatives that continue to be important to the development of the institution while eliminating or curtailing programs that no longer serve the identified priorities of the campus.
- Most campuses have taken temporary measures in the early part of the fiscal crisis through the use of one-time funds, vacancy control measures, and other steps, while they plan for permanent cuts that are likely to be implemented over the next several years upon completion of their highly deliberative review processes.
- While using different approaches, campuses have embraced a process for identifying and eliminating redundancy and for avoiding across-the-board solutions to budget shortfalls.
- All campuses are approaching the issues with thorough consultation and deliberation.

The following provides a summary of the actions campuses have taken to address budget shortfalls. It is not an exhaustive list, but rather is representative of a wide variety of actions each campus is adopting.

- Layoffs/Positions Eliminated – More than 2,600 staff have been laid off and another 1,400 positions have been eliminated since the fiscal crisis began while workload has continued to increase due to higher levels of student enrollment, added regulations/oversight, and other issues.
- Program Elimination/Consolidation – Scores of programs have been eliminated or consolidated with other programs for an estimated savings of over $110 million.
- Budget Cuts – Academic and administrative units on the campuses were assigned cuts ranging in general from 6% to 35%, determined through a series of consultative processes on each of the campuses.
- Travel/Purchasing – Significant restrictions have been placed on travel and other purchasing. As an example, travel expenditures at UCOP declined by more than 60% as a result of the travel constraints.
- Slowing, Postponing, or Halting Initiatives – Several campuses are in the midst of major initiatives or were poised to launch new programs. For example, the Irvine campus is making more cuts elsewhere in its budget in order to continue development of its law school. At the same time, it is slowing its development of several health science disciplines. The Merced campus has curtailed leasing of administrative space in Merced and instead is re-organizing existing space on the campus and at its Fresno facility to house staff. The San Francisco campus deferred initiatives related to IT, a research data base, a web portal, child care expansion, and renovations, among others.
- Staff Hiring Freezes – All campuses have some form of hiring freeze in place, although some are more strictly controlled at the central level (generally the smaller campuses) while others are determined at the departmental or college level (generally the larger campuses).
- Faculty Recruitment – All campuses have curtailed the number of faculty recruitments, in many cases by 50% or more. This is true despite the fact that several campuses have continued to enroll growing numbers of students.
- Program Assessments – All campuses impose upon auxiliaries some level of assessment to help defray the cost of campus infrastructure. Many campuses are reviewing this assessment to ensure auxiliaries and other non-State funded programs are paying their fair share, and most are considering increasing this assessment to some degree.

Given the continuing State fiscal crisis and the uncertainty over future State funding, campuses are continuing to review options for additional cost savings and elimination of programs.

GRADUATE STUDENT ENROLLMENT AND FINANCIAL SUPPORT

Graduate education and research at the University of California have long fueled California's innovation and development, helping establish California as one of the ten largest economies in the world. Indeed, UC is charged by the California Master Plan for Higher Education with the responsibility to prepare professional and doctoral students to help meet California's and the nation's workforce needs. However, over the last forty years, while well-justified attention has been paid to accommodating undergraduate enrollment growth as a result of Tidal Waves I and II, little attention has been paid to graduate enrollment growth.

Despite high-quality programs and many applicants, growth in graduate programs has been limited due to the lack of State support, creating an imbalance in University programs and failing to meet the state's workforce needs. As a result, the University has reached a critical point in graduate education. Unless action is taken to fully invest in graduate and professional programs, California's educational, economic, technological, and public welfare needs will not be met.

Since 1965-66, UC undergraduate enrollments have grown fairly steadily, from 49,000 FTE to 170,000 FTE, nearly 250% over forty-five years, as a way of ensuring undergraduate access for UC-eligible students. General campus graduate enrollment has grown at a much slower rate, from 20,000 to 34,700 FTE, only 74%, during the same period. In fact, during the 1980s and early 1990s, graduate enrollment did not increase at all; much of this growth has occurred since 2000-01.

As a consequence of this imbalance, the proportion of graduate students decreased from 28.8% of general campus enrollment in 1965-66 to 16.6% in 2001-02. Although UC's graduate enrollments began to grow again in 1999-00, by an average of 1,000 FTE students per year, they still have not kept pace with undergraduate growth; the proportion of general campus graduate students has dropped to 15.9% in 2009-10. Graduate enrollments were expected to continue to grow along with undergraduate enrollments over the next several years. Because numbers of high school graduates will stabilize, UC was expecting increases in the proportion of graduate students during the next decade, as indicated in the University's March 2008 long-range enrollment projections.

The graduate student percentage of total enrollment has remained essentially flat in recent years. From Fall 2003 to Fall 2008, enrollments of graduate academic and professional students (including health sciences and self-supporting enrollments) have averaged about 22% of total UC enrollment each year, while during that same period, among other American Association of Universities (AAU) institutions, approximately 26% of public and roughly 50% of private enrollments were graduate students. UC's total graduate percentage is lower than the percentages at all of UC's 8 comparators.

UC has fallen behind in graduate enrollments for several reasons. Because of State budget constraints in the 1980s and 1990s, graduate growth was held down to ensure access to all eligible undergraduates who chose to attend UC. But graduate enrollment growth has also been slowed, in many cases, by the inability of graduate students or departments to secure adequate and competitive student financial support. Dramatic increases in graduate student fees in recent years have exacerbated these problems.

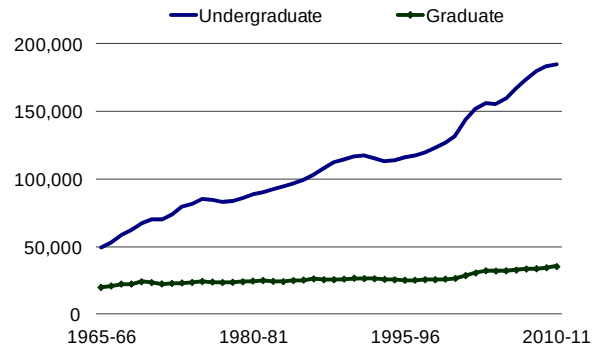
Graduate enrollments in high quality UC programs are critical to the state's economic vitality, as well as its social and cultural development. In addition, UC graduate students play a vital role as future faculty in higher education in California, and serve a key function in enhancing the quality of the instructional and research enterprise while enrolled at UC.

Graduate Education and the State's Economy

UC graduate education and research have a long history of fueling economic development in California. UC graduate education and research spawned the biotechnology industry, and UC graduates have been drivers in the development of the electronics industry, particularly in communications and semiconductors.

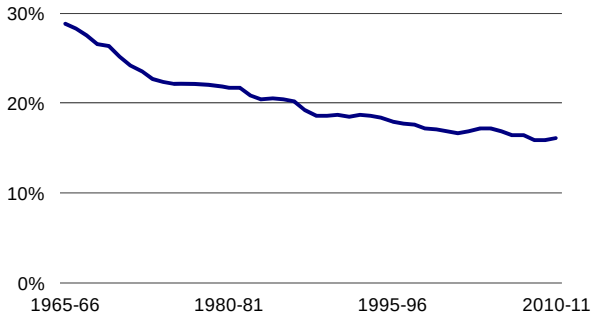
UC graduate programs directly contribute to California's R&D-intensive industry sectors by supplying highly trained alumni and attracting industry to California. Companies in knowledge-based industries tend to form clusters around transfers from the concentration of research, innovation, and specialization.

Display V-1: Undergraduate and Graduate General Campus FTE Enrollment



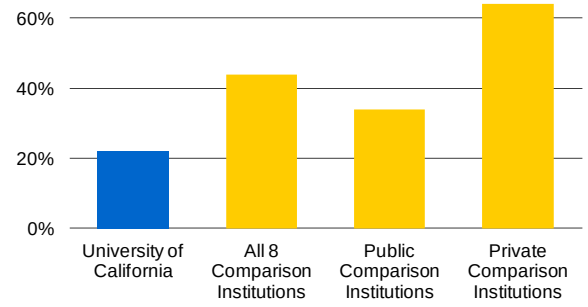
Since the 1960s, UC's undergraduate enrollment has grown rapidly, but graduate enrollment has not kept pace. While undergraduate enrollment has grown nearly 250%, graduate enrollment has grown only 74%.

Display V-2: Graduate Students as a Percentage of General Campus Enrollment



The proportion of graduate enrollment on the general campuses has fallen from nearly 30% in the 1960s to less than 16% in recent years.

Display V-3: Graduate Enrollment at UC and Comparison Institutions



In Fall 2009, 22% of total UC enrollment was graduate academic and professional students (including health sciences and self-supporting enrollments), compared to 34% at its 4 public comparison universities and 64% at its 4 private comparison universities.

major universities to take advantage of access to the pool of specialized workers and to benefit from knowledge

In the future, California's economy will depend even more on high-tech industries. Stem cell research, environmental research and innovation, global health care delivery, and energy research will have significant impacts on the health and economy of California and the world. These science- and technology-based industries will require even more highly trained workers.

In the coming years, all sectors of California's economy will need many more highly-educated workers — engineers, scientists, business entrepreneurs, and others whose innovations will drive California's prosperity. In keeping with its charge under the Master Plan, the University will play a key role in helping to meet the need for these technically and analytically sophisticated workers. As the state's economy continues to shift toward jobs requiring advanced education, California will need to fill more than a million new positions requiring graduate degrees by 2025, a 68% increase from 2005. In addition, the looming retirement of highly educated workers in the large baby-boom generation and the declining in-migration of educated workers from other states and nations create significant challenges for California's economy. Growth in UC graduate programs would help meet the need for more science and technology professionals. UC's March 2008 projections indicated that more than a third of graduate enrollment growth through 2020-21 would be in science, math, engineering, and computer science fields. As discussed in the *Health Sciences Instruction* chapter of this document, health care is another area in which UC's graduate programs contribute to state workforce needs. Over the next decade, the University projects that more than a quarter of graduate enrollment growth will occur in the health professions.

UC's contribution toward fulfilling the state's need for intellectual resources is not limited to science, engineering, and health care. In addition to the needs of a technologically-based economy, California and the nation face many social challenges that require highly-educated individuals to analyze and solve problems as they shape California's future. UC graduate programs in the arts,

humanities, social sciences, and professional fields continue to serve these needs.

- Notwithstanding the current economic climate, professional and managerial jobs are California's fastest growth occupations, creating thousands of jobs for financial managers, marketing executives, computer scientists, engineers, consultants, and many other professionals. These professional and managerial jobs typically require at least a bachelor's degree and often a master's or doctorate.
- UC prepares highly-skilled and creative school administrators, architects, lawyers, public health and public policy analysts, social workers, urban planners, and other professionals who add to the state's economic and social well-being.
- Recent reports show that the arts contribute $5.4 billion to California's economy. Alumni of UC's graduate programs are represented in every sector of the arts world, leading and building programs and creating new ideas. California's entertainment and digital media industries are thriving precisely because of the many writers, musicians, visual artists, and actors the University trains.

Graduate Students and Higher Education

No less important is the crucial role UC graduate students play in higher education in California, both as future faculty at UC, CSU, and other California colleges and universities, and as teaching and research assistants while in graduate school. Both UC and CSU depend heavily on the graduates of UC's Ph.D. programs: nearly a quarter of UC and CSU tenure-track faculty members have a doctoral degree from UC. California's four-year colleges and universities will need to hire tens of thousands of new faculty over the next decade not only to replace retiring faculty, but also if California is to address the shortfall in college graduates projected by the Public Policy Institute of California (PPIC). Because many doctoral institutions in other states are not planning graduate enrollment increases, even more of these new college faculty than in the past may need to come from UC's graduate programs.

Growth in graduate enrollments is necessary to maintain excellence in instruction and research, distinctly part of UC's mission. New faculty members are attracted to UC in part because of the high caliber of graduate students with whom they can work. UC enrolls 7% of US graduate students but attracts 20-30% of the prestigious fellowship students in science, arts, and humanities. While teaching assistants help meet UC's overall instructional needs, their primary importance lies in the ways they complement faculty roles: leading small discussion groups and laboratory sections, offering a wider range of perspectives and delivery modes, and serving as mentors for undergraduates.

Graduate students are also vital to UC's discovery and innovation enterprise. Especially in the sciences and engineering, the research process entails research teams, and graduate student researchers, as key members of these teams, have been central to the creative breakthroughs that have made UC one of the world's greatest universities. Graduate students further amplify UC's research contributions by supervising and mentoring undergraduates engaged in research projects, thus enabling greater involvement of undergraduates in primary research activities.

In the 21st century, access to an undergraduate education is no longer sufficient. While recent increases in undergraduate enrollments have served to provide access for Tidal Wave II, members of this second wave will seek to further their education beyond the baccalaureate level in the coming years. Following the extraordinary growth in high school graduates during the last decade, the population aged 25-34 in California will grow 17% between 2010 and 2020. As a result, demand for graduate education will increase substantially, particularly from the University's own baccalaureate graduates — 75% of UC undergraduates state a desire to earn a graduate or professional degree. The University has an obligation to provide all Californians with the opportunity to achieve at the highest levels. UC must be particularly vigilant about access to opportunity for historically underrepresented groups, including individuals from disadvantaged socioeconomic backgrounds. Within the next 10 to 15 years, underrepresented minorities will be the majority of California's population. For California to meet its growing workforce needs and to maximize the potential of so much unrealized talent within the state, UC must engage and help equip the emerging majority to pursue graduate study.

Graduate Academic Student Aid

The competitiveness of graduate student support for UC graduate academic students and its impact on the ability of

the University to enroll top students from across the world has been a longstanding concern at the University. Several administrative and faculty groups and committees, including the 2001 Commission on the Growth and Support of Graduate Education, have taken up the issue and concluded that both the size and composition of UC's awards for graduate academic degree students are not fully comparable to the best offers UC students receive from competitor institutions. Recently, this issue has been exacerbated by cost increases — especially increases in tuition and fees — that have been instituted in response to declining State support for the University's budget.

Concerns about the competitiveness of the University's graduate support awards were substantiated by surveys conducted in 2001, 2004, and 2007 of students admitted to UC's academic doctoral programs. These surveys showed that the competitiveness of UC's offers varied across academic disciplines and campuses, but also indicated that the average amount of student financial support offered by the student's top choice UC doctoral program was substantially less than that offered by the student's top choice non-UC institution. This shortfall has been exacerbated by differences between the cost of living in the communities surrounding UC campuses compared to those of other institutions. A new study is being conducted in 2010; results will be available in November 2010.

UC has taken several steps to improve graduate student support. First, fee increases during recent years have been offset in part by new UC graduate student support funding generated by the fee increases themselves. The percentage of new fee revenue returned to students in financial aid was increased from 20% in 2004-05 to 50% in 2005-06 and subsequent years. This increase has provided funds to cover the fee increases for students receiving University fellowships and teaching assistantships.

Second, between 2005-06 and 2008-09, the University augmented its graduate student support programs by an additional $40 million from a combination of campus and systemwide fund sources. This approach reflects a shared responsibility at the systemwide and campus level to address the issue of competitive award packages.

Finally, the University has not increased graduate nonresident tuition levels since 2004-05. The foregone revenue has been judged to be a worthwhile trade-off in order to avoid further demands on limited fellowship and research assistantship funding caused by tuition increases. By maintaining nonresident tuition for graduate students at the 2004-05 level, the University also continued to reduce, in inflation-adjusted dollars, the costs associated with covering nonresident tuition for out-of-state and international graduate students.

For 2011-12, as in past years, the University proposes to set aside 50% of any new graduate academic fee revenue so that campuses may cover the associated cost increases for University-funded teaching assistants, fellowships, and research assistantships. The University will also freeze nonresident tuition for graduate academic students for the seventh consecutive year. This further reduction in the real cost of nonresident tuition will continue to facilitate the enrollment of highly talented, out-of-state domestic and international students.

DIVERSITY

UC is dedicated to achieving excellence through diversity in the classroom, research laboratory, and the workplace. It strives to establish a climate that welcomes, celebrates, and promotes respect for the contributions of all students and employees.

In 2007, the Regents adopted as policy the UC Diversity Statement defining diversity as the "variety of personal experiences, values, and worldviews that arise from differences of culture and circumstance. Such differences include race, ethnicity, gender, age, religion, language, abilities/disabilities, sexual orientation, socioeconomic status, geographic region, and more."[1] The value of diversity in all aspects of UC's educational programs is fundamental to its mission as a land grant institution.

The unique environment created by UC's system of 10 top-tier public research universities contributes to the overall UC educational quality. An important aspect of this environment is the ability to take advantage of the important social, cultural and intellectual contributions enabled by

[1] www.universityofcalifornia.edu/diversity/documents/diversityreport0907.pdf.

having a diverse population of students, faculty and staff from a variety of underrepresented populations. A diverse University community enhances the quality of education by infusing perspectives and experiences from people of all walks of life in California and beyond, enriching and contributing to the educational environment.

While there are many pockets of success and innovation, the University must focus greater and sustained attention on its diversity efforts. To monitor these efforts, the Regents requested an annual accountability report on diversity at UC. The second *Accountability Sub-Report on Diversity at the University of California* was presented to The Regents in September 2010. The report highlights the challenges UC faces as well as steps UC has taken to mitigate diversity gaps.

In recognition of the importance of gauging campus climate to create more inclusive and welcoming environments, in 2010, UC President Yudof formed an Advisory Council on Campus Climate, Culture and Inclusion charged with monitoring campus progress and metrics and examining campus practice and policy. Each of the Chancellors created similar councils on the 10 campuses and, in May 2010, the Regents created the Ad hoc Committee on Campus Climate. In September 2010, UC launched an online campus climate incident reporting system. The University is currently exploring opportunities to obtain additional campus climate data.

Academic preparation continues to challenge UC diversity efforts. A large proportion of underrepresented minority California high school graduates do not meet minimum academic UC eligibility requirements, such as the completion of required "a-g" academic courses in high school. The Regents in February 2009 adopted a proposal to change freshman admission to give more high-achieving students the chance to apply to UC and receive a full review of their applications.

At the graduate and professional levels, underrepresented minority proportions vary by discipline. Committed to supporting disadvantaged populations, UC business schools are developing partnerships with professional associations, alumni, and career-based outreach programs; UC law schools are focusing on long-term outreach programs, seasonal recruitment events, and need-based financial aid; and there are several programs currently offered by UC medical schools to support underrepresented students, such as the UC PRograms in Medical Education (PRIME).

For faculty, diversity efforts have been given greater attention in the appointment, review, and appraisal process. UC continues to operate the highly successful President's Postdoctoral Fellowship Program supporting scholars who contribute to diversity. Since 2003, 75 former fellows have received UC faculty appointments.

Diversity Within the University Community

The University community is comprised of students, faculty, and staff – and there are multiple subcategories within each group. At UC, the most racial, ethnic, and gender diversity is found among undergraduate students, and the least is observed among faculty.

UC often describes its diversity aspirations in terms of "reflecting the diversity of California." Both the University and the state are much more diverse than the nation as a whole. However, University demographics have not kept pace with California's growing Chicano/Latino population.

In 2008-09, the overall University community was 14% Chicano/Latino, matching the national average, compared to a much larger percentage of the population in California at 34%. For African-Americans, the UC community reflects the state — 5% of the UC community is African-American, compared to 7% of the state, and 13% of the nation as a whole. Following is a summary of findings from statistics gathered for 2008-09 for different University groups.

Staff Diversity. The most diversity is seen among the Professional and Support Staff, and the least among the Senior Management Group. Despite some progress over the years, in 2008 the Senior Management Group was 80% white, and 67% male. Among the Professional and Support Staff, roughly two-thirds are women across all racial and ethnic groups. Los Angeles and Riverside have the highest percentages of underrepresented staff, and women are more than 50% of the workforce on every campus and at the Office of the President.

Faculty Diversity. The ladder rank faculty at the University of California is more diverse than the faculty at the American Association of Universities (AAU) public and private institutions. However, the faculty is still over 60% white and male across all campuses. At the assistant professor level, UC hiring of underrepresented faculty in life sciences exceeds the national availability by 2%, but is below the estimated national availability in other disciplines. At the associate and full professor levels, UC hiring exceeds the national availability in humanities and social sciences by 2%, but again, hiring is below the estimated national availability in other disciplines.

Graduate Academic Students. UC's graduate academic programs lack racial and ethnic diversity. However, within each racial and ethnic category, women are well represented. Among African-American students, more women are enrolled than men (59% versus 41%); but the reverse was true for whites, among whom only 45% of enrolled students were women. Across all racial and ethnic groups, men receive more Ph.D.s in physical sciences, math, and engineering.

Graduate Professional Students. Underrepresented students are a very small percentage (14%) of total professional degree students. Across all racial and ethnic groups, men received the greatest percentage of professional degrees in business. For women, the greatest percentage of professional degrees awarded was in "other health" fields (dentistry, nursing, optometry, pharmacy, public health and veterinary medicine); with the exception of Chicana/Latina women, who received the highest percentage of their degrees in education.

Undergraduates. UC has more diversity among undergraduate students than graduate students, but African-Americans are still significantly underrepresented at every campus compared to the other racial and ethnic groups, and compared to the University's 8 comparators.

Between 1989 and 2009, the growth in underrepresented minorities in the pool of California public high school graduates and in UC's freshman class is comparable, about 150%. Not all groups have grown at the same pace, however. For African-American students, the percentage of total high school graduates has been stable, between 7.1% and 7.7% over the past 20 years. Conversely, in 1989, Chicano/Latino students comprised only 21% of public high school graduates in California, compared to over 40% today. Though UC has enrolled more Chicano/Latino students each year, it has not kept pace with this rapidly growing population.

INFORMATION TECHNOLOGY

Information technology (IT) is ubiquitous at the University of California. Every academic activity and administrative function depends on information technology systems and services for communication, operations, analysis, and information storage and retrieval. Without robust, innovative, and evolving IT services, the University cannot serve its mission of teaching, research, and public service, much less conduct its administrative business.

The University has engaged in extensive IT planning activities in recent years. The purpose of these initiatives is to position the institution to enhance its IT infrastructure to enable researchers to compete and lead on an international scale; to promote innovative learning and teaching methods; and to support business operations that ensure effective stewardship, accountability, and transparency. These efforts include the two-year system wide planning process under the IT Guidance Committee (ITGC), which was launched in 2006 and sought to identify investment strategies to support essential and commonly required IT services. Utilizing the work of the ITGC, the Building Administrative Efficiency work group was commissioned in 2008 to explore opportunities to improve the quality and lower the cost of administrative processes, systems, and services.

In July 2010, The Regents passed a resolution directing the University to "design and implement common best-practice administrative systems" that, in essence, will enable the University to realize administrative efficiencies across the institution. The resolution calls upon the President, in consultation with various stakeholder groups, to lead these efforts. The anticipated savings will enable the University to achieve significant cost savings, enhance the quality and effectiveness of administrative services, and redirect dollars annually from administrative cost to core academic and research missions over the next five years.

Prior IT planning efforts, and now the Regents Resolution on Administrative Efficiency, are resulting in current initiatives in instruction, cluster research computing, and administrative systems, as described in the following sections, that seek to optimize the University's technology investments, achieve greater efficiency and effectiveness, better serve the University mission, and enable UC to position itself to adapt and benefit as technology itself evolves.

IT and Instruction

Instruction increasingly relies on technology within classrooms and laboratories, but also to connect students, faculty, and instructional materials outside of these physical spaces. Instructional technologies must integrate seamlessly with the administrative and business systems that maintain information about students and their progress through the curriculum towards a degree. Strategic investments are accordingly essential in two areas. Investments in instructional technologies support innovation in teaching and learning enable UC to compete successfully for the best students, and potentially make learning available to students anywhere at any time without regard to geographic, campus, or other boundaries. Investments in systems integration promise considerable efficiencies in administering the instructional enterprise.

IT and the Research Enterprise

The research enterprise, having always relied on the most advanced technologies of the time, expands and innovates with the introduction of new technology. UC researchers increasingly rely on IT as new frontiers in research utilize simulation and modeling to bridge from theory to experimentation. In order to compete and indeed excel in these efforts, University researchers require advanced computational and network services, and a range of data sharing and scholarly collaboration tools that reduce the barriers associated with distance, language, and time.

Strategic investments in IT are also essential to support researchers with innovative technologies and to bolster their ability to attract large-scale research funding from state, federal, philanthropic, and corporate entities. The UC IT Leadership Council (ITLC), consisting of the University's chief information officers and IT directors, is conducting a pilot project to demonstrate that the use of shared computing resources provides University principal investigators enhanced high-performance computing services at the same time that it lowers research computing costs across the University. The Shared Research Computing Services Pilot relies on the CENIC high speed network and utilizes regional co-located data center facilities. Over two years, 23 faculty principal investigators from across the University will conduct their research computing not on local servers but at the regional centers, gaining access to technical support, regular back-up of their research data and, importantly, enhanced access to computing capacity and possibilities for research collaboration. It is expected that such "cluster computing" will become the way of the future for much of UC's research computing. The pilot sets the stage to prepare the University to take full advantage of the benefits of this computing services model.

IT and Public Service

The University's public service mission has also been fundamentally reshaped by technology, as UC's libraries and student academic preparation programs now reach electronically throughout the state. Instructional materials developed for UC students, publications by UC faculty, and other information resources available from UC's libraries, museums, and archives will, where appropriate, be made available for use within California's schools and community colleges to help to prepare more students for entry into California higher education system. Such materials will also be available to the University's graduates and to the citizens and enterprises of the State of California, encouraging continuing engagement with the University's rich cultural, civic, economic, and educational resources.

IT and Business Operations

Finally, UC's business operations increasingly rely on advanced systems to support the institution's administrative responsibilities. Investments in IT produce significant efficiencies and deliver critical new services in University business administration and operations. However, in recent years of budget cuts and fiscal constraints, under-investment in some key areas of administrative computing and related infrastructure has negatively impacted the University's ability to improve productivity and reduce labor costs and has hampered efforts to address critical issues

and opportunities in such areas as medical record systems, research administration, student systems, e-procurement, and employee self-service applications. It is imperative that the University adopt effective business processes and systems in order to realize efficiencies and benefit from best practices. A number of initiatives are planned or underway to support The Regents' resolution directing the University to share administrative systems and solutions and implement best practices.

Inadequate systems to collect and manage information about UC employees, both at the campus and systemwide levels, have been a significant liability to UC in light of growing demands for greater transparency and accountability. The first step in moving toward a modern human resources information system is the effort underway to standardize around a best practices-oriented set of common business processes in the UC payroll function to achieve savings and increase efficiency and reliability.

The IT Leadership Council is spearheading an initiative to develop shared regional data centers to drive lower computing costs across the institution. The intent of the initiative is to demonstrate that systems, servers, and storage may be housed more economically, effectively and efficiently in shared data centers than in numerous local data centers. Shared facilities offer lower electricity rates, optimize usage, and help campuses avoid significant costs of building new data centers to meet increased computing demand.

In 2010-11, a new online undergraduate application system is being developed. Called "apply UC," the new application is a modern and efficient centralized admissions application system that will replace the various processes and systems that comprised the Pathways online undergraduate application. Apply UC will accomplish the same business objectives as the old application but in a streamlined manner and at much lower cost. In addition, by consolidating all automated processes into a single system, the stage will be set for adoption of new cross-campus processes in the future.

Funding Information Technology Advances

The Higher Education Compact with Governor Schwarzenegger included provisions for 1% budget increases in 2008-09, 2009-10, and 2010-11 to address budgetary shortfalls in State funding for core areas of the budget critical to maintaining the quality of academic programs, including information technology. The State's fiscal crisis precluded the funding of this provision.

Investing in the University's future requires an ongoing commitment to funding technology. Technical solutions purchased with one-time funding will require ongoing maintenance and support. Emerging business, legal, regulatory, research, and student learning demands require extensive investment, both new and ongoing, in technical solutions. Despite continuing fiscal difficulties, a budgetary solution must be identified if UC is to keep pace with developing technologies.

CORE ACADEMIC SUPPORT

Several areas of the budget are critical to academic quality, but have been historically underfunded. Collectively referred to as core academic support, these areas require ongoing support and new investments to ensure that the University is able to recruit and retain the best faculty and students. Core academic support includes:

- instructional technology to enhance and enrich students' learning experiences and prepare them for employment in a global knowledge economy;
- instructional equipment replacement, providing up-to-date computing, laboratory, and classroom materials for teaching and research;
- library resources to build print and digital collections and to continue strategic investments in advanced cost-effective reference and circulation services; and
- ongoing building maintenance to support the janitorial, groundskeeping, and utility costs associated with maintaining facilities.

The Partnership Agreement with former Governor Davis recognized the shortfall in these areas and planned a 1% adjustment to the base each year to help address the gap. Funds were provided for this purpose for two years. Once the State's fiscal crisis began during the early 2000s, however, not only were increases discontinued, but program cuts erased the progress that had been made from earlier funding increases. The shortage in these areas was estimated in 2007-08 to be over $100 million.

The Compact Agreement with Governor Schwarzenegger again recognized the critical nature of the shortfall in these budget areas and proposed a 1% annual adjustment in the base budget beginning in 2008-09 to help address the shortfall. The additional 1% base budget adjustment was first funded in the Governor's 2008-09 budget proposal before applying a 10% budget-balancing reduction. Similarly, in 2009-10 and 2010-11, no new funding was provided for this purpose and in fact deep base budget cuts were initiated, further exacerbating the chronic funding shortfalls in these areas. When the State's fiscal situation improves, rebuilding support in these areas will be critical to the quality of UC's programs over the long term.

FACILITIES NEEDS TO MAINTAIN QUALITY

Adequate facilities are a critical factor in the University's ability to maintain the quality of the academic program. In addition, it is essential that UC provide safe, modern facilities through renewal and selective replacement.

To participate in the delegated process for approval of projects less than or equal to $60 million, each campus develops an annual Ten-Year Capital Financial Plan that articulates the campus' expectations for implementing projects. The individual campus plans are combined annually into one consolidated report. Within those plans are the five-year State and non-State capital plans that will comply with the State's five-year capital reporting requirements. Facilities needs and campus plans for the next 10 years are discussed in detail in the *2010-20 Consolidated State and Non-State Capital Financial Plan.*

The State provided funding for capital outlay within the range of $100 million to $250 million per year for more than a decade from the mid-1980s to the late 1990s. Between 2002-03 and 2007-08, the State annually provided about $345 million per year for capital outlay needs of the general campuses, and in some years significantly more, related to seismic corrections at UC medical centers, construction of the Merced campus, establishment of four world-class science institutes (the California Institutes for Science and Innovation), and expansion of medical education programs.

General obligation bonds approved by the electorate have provided significant resources over the years. Between 1998 and 2010, total general obligation bond funding provided to UC was $2.9 billion. Capital funds from other State sources in recent years, including both State General Funds and lease revenue bonds, totaled $2.2 billion. In addition, the University has approved $717 million of "Garamendi financing" to pursue development of research facilities.

The University has been without funding from a general obligation bond measure since 2008-09. In 2008-09, the University sought and received $261.3 million to support a portion of its 2008-09 capital plan, including $204.5 million in lease-revenue bonds. The remainder was funded from unspent dollars from previously authorized general obligation bonds.

For 2009-10, while the University sought a similar funding amount, only $30.9 million in previously authorized general obligation bond funds was actually provided by the State, primarily to support medical education and telemedicine projects. In 2010-11, the University received $352.7 million in funding, of which nearly $343 million was from lease-revenue bonds for four major construction and renovation projects at four campuses, with the remaining $9.7 million appropriated from existing general obligation bonds for four projects including two infrastructure projects at Merced. Over the three-year period, less than half of the funding anticipated from general obligation bond measures in 2008 and 2010 was provided to UC to meet high-priority needs, resulting in a backlog of essential projects that require funding.

Because a new bond measure did not materialize in 2010, it is the University's intent to pursue additional State lease revenue bonds for 2011-12 to partially address the backlog of essential projects that require funding as well as address emerging capital needs. The University also intends to pursue a four-year general obligation bond for voter approval in 2012 to provide at least $450 million per year for general campuses to meet enrollment, renewal and seismic improvement, and modernization needs, and another $100 million per year for health sciences programs to help address California's need for more health care providers and for improved clinical facilities.

Because of the delayed enactment of the 2008-09 State budget and the worsening of the State's financial condition,

the State was unable to access the bond market or obtain new interim financing for the second half of 2008, resulting in an all-time high of unreimbursed loan expenditures for capital improvement projects statewide. To address this problem, the Pooled Money Investment Board (PMIB) took the unprecedented step in late 2008 of suspending State-funded loan disbursements for existing projects across the State. In addition, PMIB suspended approval of new loans for appropriated projects that had not yet begun.

Appropriations for 68 UC projects totaling $983 million were initially halted or suspended as a result of the freeze. Between April 2009 and April 2010, the University received funding from four general obligation bond sales totaling $404 million and lease revenue bond sales totaling $370.6 million. In July 2009, the University raised $199.8 million through the sale of short-term commercial paper to purchase a privately placed State of California general obligation bond that provided funding to complete an additional 18 voter-approved building projects. The State is obligated to redeem the bond within three years, with interest. The combination of these funds allowed all suspended projects to restart and permitted all general obligation and lease revenue bond-funded projects authorized in the 2008 Budget Act to proceed.

Earlier in this decade, the University's capital program was particularly challenged by changes in the construction market that resulted in an extraordinary increase in building cost. This escalation in costs has abated in recent years, such that the actual cost of construction for some projects have in fact resulted in bid savings.

The major issue facing the University now is the availability of future State funding for capital outlay. Catching up with earlier enrollment growth presents major challenges, and the University has significant capital needs related to seismic and life-safety requirements, modernization of out-of-date facilities, new infrastructure for growing campuses, and renewal of infrastructure and other facility systems that are worn out and cannot accommodate present needs.

The University estimates that it will require more than $1 billion per year over the next five years to address its most pressing facilities needs for core academic and support space traditionally funded by the State. In addition, there are other urgent needs in areas traditionally not supported by the State, such as student and faculty housing, parking, and other facilities that serve public as well as University needs. Unfortunately, the magnitude of these non-State funded facilities needs places significant pressure on the University's debt capacity.

State funding in 2011-12 and beyond would enable the University to address its most essential enrollment, life-safety, and renewal needs, priorities that are key to the University's ability to accommodate enrollment and maintain adequate facilities.

The capital outlay budget and history are discussed in more detail in the companion document, *2010-20 Consolidated State and Non-State Capital Financial Plan*.

"Thousands of unemployed and underemployed Californians turn to the University's continuing education classes to gain new job skills."

Lawrence Pitts
University of California
Provost

University Extension, Summer Session, and Self-Supporting Instructional Programs

This chapter describes three instructional program categories that have historically received no State support: University Extension, Summer Session, and Self-Supporting Programs.

UNIVERSITY EXTENSION

University Extension is the largest continuing education program in the nation, providing courses to about 300,000 registrants who are typically employed adult learners with a bachelor's degree. UC Extension is a self-supporting operation and its offerings are dependent upon user demand, which varies due to many factors, including the strength of the economy. In 2009-10, University Extension expenditures, derived from student fee revenue, were $197.8 million.

The University offered its first Extension courses to students beyond the immediate campus community more than 100 years ago. Today, Extension divisions at each of UC's nine general campuses offer almost 20,000 different courses, programs, seminars, conferences, and field studies throughout California and in a number of foreign countries. The majority of Extension programs are designed to serve the continuing education needs of professionals. Certificate programs are offered in such areas as computing and information technology, environmental management, graphics and digital arts, and health and behavioral sciences.

UC Extension offers a wide variety of online courses to students in California, the nation, and around the world ranging from undergraduate courses carrying UC academic credit to professional-level courses in subjects such as project management, computer programming, and technical writing. These courses extend the instructional resources of the University to the world community.

Extension also offers degree-equivalent study in undergraduate education programs and cultural enrichment and public service programs. Various undergraduate degree credit courses are available, either as replications of existing UC campus courses or structured as undergraduate classes but with content not found in an existing campus offering. Extension explores history, literature, and the arts in traditional and innovative ways, providing cultural enrichment to Californians. Extension also organizes lecture series, summer institutes, public affairs forums, and other events for the general public.

SUMMER SESSION

In addition to the University's course offerings during the regular academic year, both UC and non-UC students may enroll in courses during summer session on all nine general campuses. Historically, the State provided funding for UC students enrolling in the fall, winter, and spring terms, but not summer; through Summer 2000, summer sessions were supported from student course and registration fees set by each campus.

With State support, UC began converting summer instruction for UC students from a self-supporting to a State-supported program in 2001-02 and completed the conversion of all general campuses in 2006-07. For UC students, funding for summer has been shifted to the general campus instruction budget. Further discussion of State-supported summer instruction may be found in the *General Campus Instruction* chapter.

Funding for non-UC students remains in the Summer Sessions budget. In 2009, 9,927 non-UC students registered for UC summer sessions, many of whom are regularly enrolled at California State University, California Community Colleges, or other institutions. Non-UC students pay fees that support the full cost of their

education. Fees generated from non-UC students provided $10.3 million in 2009 for support of summer instruction.

SELF-SUPPORTING PROGRAMS

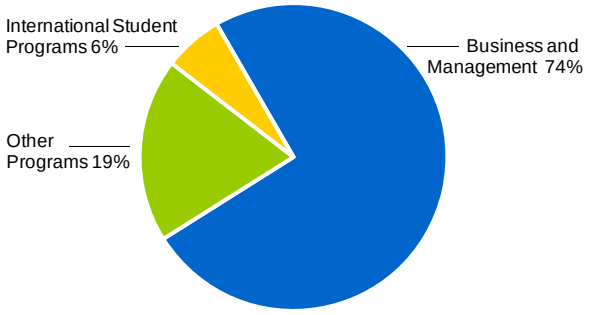
The University operates more than 40 self-supporting graduate degree programs. These programs, developed in accordance with the Regents' *Policy on Self-Supporting Part-Time Graduate Professional Degree Programs*, are intended to provide flexible pathways to graduate professional degrees for academically qualified adults who need an opportunity to further their education and upgrade their skills. Extending the opportunity to working professionals to enroll in these programs is another way that the University helps the state meet its workforce needs.

Self-supporting graduate professional degree programs adhere to the same UC academic standards as do other graduate degree programs, but are not supported with State funds. Full program costs, including but not limited to, faculty instructional costs, program support costs, student services costs, and overhead, are covered by student fees or other non-State funds. Since fees for these programs are set at market rates and programs are self-supporting, any excess funds generated by these programs also support UC's core academic mission. Some of these programs are administered through University Extension, while others are offered directly by professional schools or academic departments.

The University's oldest and largest self-supporting programs are evening/weekend and executive MBA programs for employed professionals. More recently, programs have been established in a range of disciplines, and include online programs, off-site programs, joint programs with other institutions, and programs for foreign-trained students. The University is reviewing its policies for establishing self-supporting graduate programs, with the intent to facilitate the establishment of additional programs in the future.

During 2009-10, over 4,200 individuals and nearly 3,200 FTE students enrolled in the University's self-supporting programs. These programs generated nearly $121 million in fee revenue during 2009-10.

Display VI-1: 2009-10 Self-Supporting Program Headcount Enrollment by Discipline



Nearly three-fourths of self-supporting program enrollment is in MBA and other management programs for working professionals.

"UC discoveries – from medicines and food production to transportation systems and new energy sources – touch the lives of Californians and people all over the world every day."

Steven Beckwith
University of California
Vice President for Research and Graduate Studies

Research

The University of California is one of the leading academic research enterprises in the world. UC's outstanding graduate students, postdoctoral scholars, faculty, and professional research staff work diligently in the name of science and progress, searching for cures, developing technologies, creating new knowledge, and training the next generation of innovative thinkers. UC researchers are finding new ways to fight drought, fire, and earthquakes; reduce traffic and greenhouse gas emissions; improve public health; and identify sustainable sources of energy. With over 800 research centers, institutes, laboratories and programs, UC research tackles some of the most pressing problems facing California and the world.

The tremendous size, scope, and quality of UC's research enterprise are the result of California's long-term planning and investment, dating back to 1960 and the Master Plan for Higher Education, which established UC as California's primary academic research institution.

Over time, this investment has resulted in new technologies, new companies, and new industries – all within California. UC trains the highly skilled scientists, doctors, and engineers who shape California's knowledge economy and support its large technology, agricultural, and medical sectors. The State's investment in UC has created one of the most competitive research enterprises in the nation, securing nearly $8 in extramural funding for every State research dollar spent.

UC's research capabilities, built over many years, reflect a long-term investment that will not disappear overnight. However, with continuing State disinvestment in higher education over the past two decades, and increasing competition for the best faculty and graduate students from national and international universities, UC's preeminence is threatened. UC's faculty are extremely successful at attracting federal and private funds to the State, but if they are lured away by institutions with a more reliable financial structure, their research dollars go with them. To sustain the research enterprise at UC and its beneficial impact on the economy, California must renew its investments in UC's faculty and research infrastructure.

THE IMPORTANCE OF STATE INVESTMENT IN THE RESEARCH ENTERPRISE

To be successful, a world-class research enterprise such as UC's requires top-notch faculty and graduate students, state-of-the-art equipment and supplies, and adequately supported facilities in which to conduct research. State funds are critical to this formula for success and will be paramount for its sustainability and continued excellence. Not only do State funds support the majority of the salaries paid to faculty during the academic year, but they also provide seed money to purchase equipment, staff laboratories and other research enterprises, support graduate student research assistants needed to bring new ideas to fruition, and maintain the facilities in which cutting-edge research is conducted.

As the principal investigators on research grants, UC faculty were responsible for attracting $4.3 billion in extramural research awards in 2009-10, averaging $668,000 per principal investigator. The total represents an increase of nearly 16% over the previous year, much greater than the increases in extramural research awards in recent years. The sharp increase is largely attributable to a temporary influx of ARRA (American Recovery and Reinvestment Act) awards, many of which were grants for equipment or facilities. The University's success in attracting extramural funds to California is a critical element in the state's economic prosperity. However, this success is only as good as the investment that supports it.

Also important to the UC research enterprise are exceptional graduate students, postdoctoral scholars, professional researchers, and specialists supported by

State funds. Each year, UC trains more than 14,600 graduate student researchers and employs or hosts nearly 7,400 postdoctoral scholars, exclusive of health science interns and residents. Funding for graduate enrollment growth helps expand this pool of individuals who engage in and support research programs.

Another critical aspect of UC's research enterprise is the quality of research facilities, many of which were financed using California state bonds. The California Institutes for Science and Innovation, four world class centers of research excellence, were built with State support and hold the promise of returning California to the cutting edge of engineering and technology. In addition, the California Institute of Regenerative Medicine (CIRM), a state bond-funded award mechanism to support stem cell research, to date has awarded UC $368 million in research grants, $125 million of which are major facilities grants awarded to four campuses. Without continued support for UC research facilities, faculty will be less competitive for extramural funds and the research enterprise will suffer in both the short and long term, which in turn directly impacts the California economy.

Unfortunately, State support for the University and its research programs is declining at a time when global competition is increasing, raising concerns about the nation's ability to maintain its competitive edge. The cost of doing cutting-edge research in science and engineering is growing, and more research connected to economic competitiveness requires large interdisciplinary research teams. Research is increasingly more infrastructure-dependent and the costs of compliance with extramural contract and grant requirements have risen rapidly, yet core support for the University's research staff and infrastructure has not kept pace with the amount of extramurally funded research.

RESEARCH ENTERPRISE FUNDING

During 2009-10, direct research *expenditures* (contrasted with *awards* as discussed in the previous section) totaled $4.2 billion, an increase of 5% over the prior year.[1]

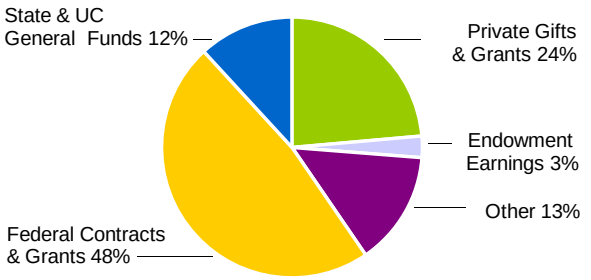
[1] This rate of growth differs from the 16% rate of growth in extramural awards noted earlier, reflecting the multi-year nature of research grant expenditures.

Federal, State, and private sources are major providers of UC research funding. Display VII-1 shows actual research expenditures by fund source for 2009-10, and Display VII-2 presents growth over time among the major providers.

Federal Funds

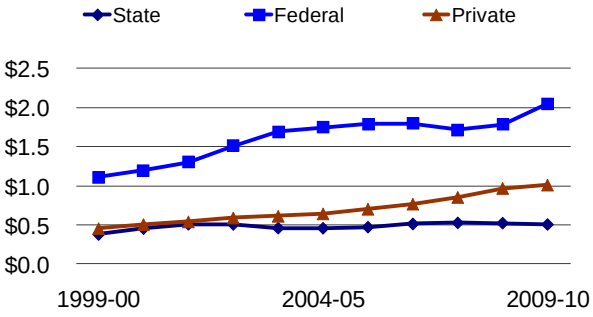
Federal funds are the University's single largest source of support for research, accounting for approximately 48% of all University research expenditures in 2009-10. About 64% of the University's federal research awards in 2009-10 came from Health and Human Services, primarily through the National Institutes of Health (NIH). Other agencies that figure prominently in the University's awards are the National Science Foundation (NSF), Department of Defense, National Aeronautics and Space Administration, and Department of Energy (DOE). The distribution of research funds by agency is shown in Display VII-3.

Display VII-1: 2009-10 Direct Research Expenditures by Fund Source



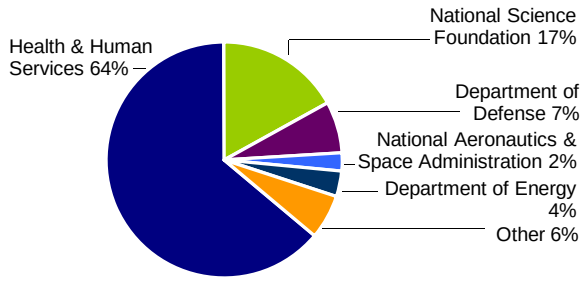
Nearly 75% of research funding is derived from federal agencies and private sources.

Display VII-2: Trends in Research Expenditures by Source (Dollars in Billions)



UC federal direct research expenditures increased rapidly with the doubling of the NIH research budget between 1998-99 and 2002-03, but slowed recently. Private support for research has doubled over the last 10 years.

Display VII-3: 2009-10 Federal Research Awards by Sponsor



Federal awards supply about two-thirds of all of UC's extramural funding. NIH and NSF awards provide over 80% of federal research awards.

Display VII-4: History of Federal Funding for UC Research

1982-83 – 1992-93	Annual increases in federal support for UC averaged nearly 10%.
1992-93 – 1996-97	Focus on reducing the federal deficit results in much slower growth; federal support for UC rose 4% annually on average, with no increase in 1996-97.
1997-98 – 2001-02	Exceptionally strong growth in the national economy led to funding increases for federal research and development, including a bipartisan commitment to double the NIH budget over 5 years. UC support grew 7% to 9% each year.
2002-03 – 2003-04	After the terrorist attacks of September 11, 2001, federal budgets contained record increases for federal R&D due in part to new spending on homeland security and defense. UC support grew by more than 10% each year.
2004-05 – 2008-09	The federal budget was constrained due to military commitment to Iraq and Afghanistan, and growth of entitlement programs such as Medicare. Growth in research funding for UC again slowed, with annual increases of less than 4%.
2009-10	Due to an influx of funding from the American Recovery and Reinvestment Act (ARRA), research funding from the federal government has increased. As of September 2010, UC has received $1.1 billion in ARRA awards.

In 2009-10, UC successfully competed for nearly 6% of the NIH appropriation, and over 7% of the NSF budget, together representing over $2.9 billion in federal research dollars for California.

Fluctuations in UC's funding from federal agencies closely parallel trends in the budgets of federal research granting agencies. Thus, each year the outcome of the annual federal budget process has important ramifications for the University's budget. In 2009-10, direct federal research increased 22.4% over the previous year. While ARRA awards are driving a large part of the increase, without ARRA grants, direct federal research funding still increased $148 million, or 5%.

Although federal government funding for University research decreased between 2006 and 2008, the influx of ARRA funding temporarily reversed the downward trend, as noted earlier. As of September 2010, UC researchers have been awarded $1.1 billion in ARRA grant funding for research and research infrastructure. The largest amounts of ARRA funding awarded to UC have come from NIH ($446 million) and NSF ($207 million). Because many awards are multi-year, these research funds will have an impact on UC beyond the 18-month term of ARRA.

Private Funds

In recent years, private sources have become an increasingly important source of research funding. From 1998-99 to 2009-10, private support for research through gifts, grants, and contracts doubled, as shown in Display VII-2.

Major sources of private funding for research are foundations, industry, and partnerships with faculty at other institutions. Research expenditures funded by private sources in 2009-10 made up 24% of total research expenditures. The global economic recession began to cause a decline in new private gifts and grant awards, and while corporate support showed a slight increase in 2008, total corporate sponsorship remains lower than in the previous year. The slow increase in corporate support suggests that the business community, while not abandoning its interest in university research and development, is still not ready to invest as in pre-recessionary years. Non-profit sponsorship has been

declining with the exception of two prominent sources: the Bill and Melinda Gates Foundation awarded UC over $32 million in 2010 for a number of health-related projects, and $29.5 million was received from ARRA flow-through awards from other institutions. Overall, non-profit sponsorship remains well below 2008 and 2009 levels.

State Funds

State funds spent directly for research constitute about 12% of total research funding, including State General Funds, Special State funds to support coordinated statewide programs, and state agency agreements. For many University research programs, State funds are the core that attracts extramural funds, providing seed money for research projects vital to California, whether the subject is earthquake engineering or improved crop varieties. UC leverages the initial investment of State funds by attracting grants from federal and private sources.

In addition to support for faculty salaries and other core support, State General Funds, combined with UC General Funds, provide $328 million for direct research, including:

- agricultural research through the Agriculture Experiment Stations;
- systemwide programs to support research on AIDS, Geriatrics, and UC Discovery Grants;
- The California Institutes of Science and Innovation;
- organized research units on individual campuses; and
- multi-campus research programs and initiatives (MRPIs).

The funds also support permanent and one-time funding for other research activities not formally constituted as MRPIs, including, among others, Internet2, programs in substance and alcohol abuse prevention, neuro-developmental disorders, and spinal injury research, and individual faculty research.

In addition to State General Funds support for direct research, "State special funds," that are appropriated from restricted State fund sources, provided more than $25 million in funding to support a range of research initiatives, including a coordinated statewide program of tobacco-related disease research administered by the University ($12.5 million for 2010-11), but available to researchers from other institutions on a competitive basis. Another tobacco tax provides support for the Breast Cancer Research Program ($11.2 million), which also receives funds from the California Breast Cancer Research Fund ($600,000), the California Cancer Research Program ($250,000), and the California Ovarian Cancer Research Fund ($250,000), derived from the state personal income tax check-off.

Similar to federally-sponsored research, California State agencies provide contracts and grants to the University for research. In 2010-11, State agency agreements are expected to generate nearly $168 million in revenue for UC. Major providers of state agency agreements are the departments of health care services, social services, transportation, food and agriculture, and education.

Other Funds

The major source of funds in the "other funds" category is performance fee revenue from the management of the Department of Energy (DOE) laboratories. The Labs conduct research important to the state and the nation, including research on bioterrorism, nuclear nonproliferation, and energy efficiency and new energy resources. While the Laboratories are separate entities, research at the Labs has direct and indirect benefits for University faculty and students. The Laboratories are discussed in more detail in the *Department of Energy Laboratory Management* chapter of this document.

IMPACTS OF UNIVERSITY RESEARCH

UC research has contributed to California's emergence as the intellectual and economic power that it is today. Almost all of the industries in which California leads the world – biotechnology, telecommunications, digital media, computers and semi-conductors, and environmental technologies – grew out of university-based research. UC's world class faculty have attracted and trained graduates that make up one of the world's best educated workforces to meet the demands of the changing economy. In addition, UC researchers have made discoveries and inventions that have benefited the people and industries of California and, in many cases, become the basis for companies that provide jobs for Californians.

Technology Transfer

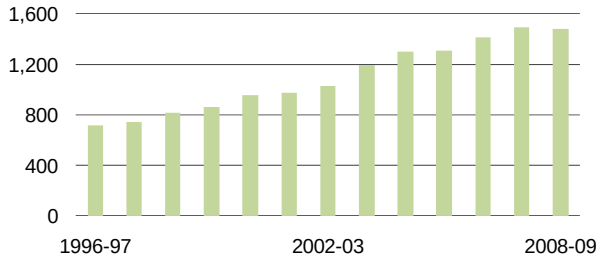
UC is an important generator of ideas and technologies, which can be measured in part by the number of inventions created, patented, and licensed by UC researchers with University resources. For the past 13 years, UC has led the nation in developing patents, and its faculty and graduates are responsible for 9,343 active inventions (as of June 30, 2009). During 2008-09 alone, faculty and researchers at the UC campuses disclosed a total of 1,482 inventions, as shown in Display VII-5. A portion of these inventions are patented and licensed to companies that further develop them into processes and products that enhance the lives of Californians.

Spin-off Companies and Job Creation

As the foundation for start-up firms, many technologies developed in the UC system also serve as an effective stimulus for economic growth. As shown in Display VII-6, 461 start-up companies have been founded based on UC inventions since 1976.

These businesses provide jobs for the people of California as well as tax revenue streams for the state. It is projected that UC will have had a hand in creating more than 2 million California jobs between 2002 and 2012.

Display VII-5: UC Invention Disclosures



As of June 30, 2009, faculty and researchers at UC campuses disclosed a total of 1,482 inventions — a 1% decrease over the prior year.

Display VII-6: Impact of UC Technology Transfer*

UC Portfolio of Active Inventions	9,343
UC Portfolio of Active US Patents	3,617
Number of Active Licenses	1,932
Companies founded based on UC technologies	461

*as of June 30, 2009.

Development and Support of Critical Industries

UC research has played a crucial role in the development of some of the state's most successful industries. The modern biotechnology industry was born from the discovery of recombinant DNA technology by scientists at UC San Francisco and Stanford. Since then, UC faculty and alumni have founded one in every four biotechnology companies in California, and the state is home to approximately one-third of the U.S. biotechnology industry. The California biotechnology industry has grown to employ more than 40,000 people and accounts for nearly half of the industry's annual sales.

For many decades UC has worked closely with California's agricultural industry. In the late 1800s, UC researchers discovered how to remove salts from the soils of California's Central Valley, turning what was once barren alkaline land into the most productive agricultural region in the world. Since then, UC has remained committed to supporting the industry by bringing to bear new technologies in crop management and pest control and helping it adapt to changing regulations while remaining competitive. Additional information about UC's Agricultural Experiment Stations appears later in this chapter.

Impacts on the Daily Lives of Californians

While much of the University's research seems beyond the common understanding of most Californians, the fact is that discoveries and technology developed at UC touch the lives of people in the State and the world every day.

UC medical research has led to dramatic improvements in the diagnosis and treatment of disease. The University assumed a major leadership role in the battle against AIDS, and its researchers were among the first to describe the syndrome and its associated malignancies, and to isolate the causative agent for AIDS in humans. Genetic engineering technologies being developed at UC promise to help find cures for some of the most serious health problems, such as cancer, Alzheimer's disease, cardiovascular disease, and arthritis. Other medical advances growing out of UC research include a laser treatment for previously untreatable eye conditions; high energy shock waves to disintegrate urinary stones without surgery; a nicotine skin patch worn on the upper arm to

wean smokers off cigarettes; corrective surgery before birth for formerly fatal abnormalities; an inner-ear implant that enables the deaf to recognize tones and thus understand language; and a simple, inexpensive blood test to determine the risk of having a Down's syndrome baby, among other important advances.

In other areas, University researchers are exploring methods for predicting the time and location of earthquakes and ways to design new buildings and modify existing buildings to better withstand earthquake effects. Research on global climate and earth systems is benefiting California fisheries and agriculture by leading to better predictions of hazards such as drought, flooding, and other natural disasters, and to more effective means of mitigating their effects. New materials are being developed that could lead to better synthetic products, such as prosthetic devices more acceptable to the body and longer-lasting, easy-care contact lenses.

Social science research is furthering our understanding of issues critical to California's social and political well-being. Examples include collaborative research between California and Mexico focusing on issues such as trade and economic development, immigration, language acquisition and development, educational access, international relations, public policy issues around homeland security, population growth, the Pacific Rim, and a wide range of other policy-relevant research areas.

In the humanities, research at the University of California has flourished across the system, placing many programs at the top of the National Research Council rankings. The UC Humanities Technology Council brings together the top thinkers within UC from the California Digital Library, UCTV, the California Institutes for Science and Innovation, the San Diego Supercomputer Center, the UC Digital Arts Research Network, the Museum Online Archive of California, and other major projects to promote collaboration and develop new ways of linking humanities resources around the state, across the country, and internationally.

Value to the Instructional Program

Undergraduate and graduate students alike pursue an education at UC because of the high quality of the University's faculty, quality that includes excellence in teaching, cutting-edge research, and leadership in academia. For students, formal instruction is supplemented and enhanced by myriad informal learning opportunities that occur across the system including through the research enterprise. The 2009 UC Undergraduate Experience Survey found that 86% of senior undergraduates had participated in research or other creative activities with faculty as part of their coursework. The opportunity to learn from professors who are leaders in their fields in the informal settings of the research laboratory or fieldwork site is one of the unique and unsurpassed benefits of being a UC student for both undergraduates and graduates.

KEY RESEARCH PROGRAMS

Agriculture

The UC Division of Agriculture and Natural Resources (ANR) is a statewide network of UC researchers and educators dedicated to the creation, development, and application of knowledge in agricultural, natural, and human resources. ANR's mission is to maintain and enhance connections that fully engage UC with the people of California and achieve innovation in fundamental and applied research and education that supports sustainable, safe, nutritious food production and delivery systems; economic success in a global economy; a sustainable, healthy, productive environment; and science literacy and youth development programs.

ANR programs are delivered through two organizational units: The Cooperative Extension, and the Agricultural Experiment Station (AES).

AES develops cutting-edge research that can be applied to real-world problems in agriculture and natural resources. AES is located within three colleges on the Berkeley, Davis, and Riverside campuses, as well as the School of Veterinary Medicine at Davis. AES comprises more than 650 scientists housed in 38 academic departments. These scientists represent a variety of disciplines and are charged with conducting fundamental and applied research that fulfills the mission of the AES.

ANR is unique in its three-way partnership with federal, state, and county governments to provide local and statewide research and extension programs that address the critical issues of California. Statewide programs focus

on specific issues that engage ANR academics and faculty from all UC campuses, allowing integrated teams to work on complex issues that require multidisciplinary approaches. In addition, research and extension centers (RECs), located in a variety of ecosystems across the state, provide a core research and extension base.

The State's fiscal crisis dealt an extraordinary blow to the University through very large reductions in support over a short period of time. These unprecedented reductions led to major restructuring of ANR to achieve $9 million in permanent budget reductions and unfunded mandates and position ANR to implement a new strategic vision. A number of statewide programs were closed and others will be reduced by 20%, with ANR refocusing resources, including existing competitive grant funds and endowment income (as appropriate), to support five strategic initiatives: Sustainable Food Systems; Endemic and Invasive Pests and Diseases; Sustainable Natural Ecosystems; Healthy Families and Communities, and Water Quality, Quantity and Security, which is integrated within the other initiatives. Program functions of closed statewide programs will be addressed through the initiatives.

Following are examples of research conducted by AES scientists that is helping to address challenges and inform policy:

Plant Breeding. ANR researchers working with an international group of colleagues have successfully introduced an existing rice gene into modern rice varieties that makes them flood resistant and allows them to thrive when floodwaters recede.

Food Safety. UC researchers are engaged in a joint environmental study of the occurrence of the strain of *E. coli* that caused the disease outbreak in central California agricultural fields in 2006 to understand if wildlife species are sources of *E. coli* contamination. The study findings will assist resource agencies and growers in developing strategies, prevent crop contamination in the fields, protect the public health, and protect wildlife and their habitats.

Pest Management. ANR provides a forward-looking approach to managing pest and disease invasions in California. For example, ANR scientists have been educating growers and the public about a new pest, Asian citrus psyllid, and its ability to spread the bacterium that causes huanglongbing, or citrus greening disease, which kills citrus trees. Research is under way to identify short-term strategies and long-term solutions to manage the insect and prevent introduction of the disease into the state.

In another example, ANR researchers developed hot-water treatments that have eliminated vine mealybug from grapevines in nurseries. Now efforts are focused on controlling the insect in vineyards to prevent grape production decline and spread of leafroll viruses.

Water Resources. ANR researchers are leading a water quality study to clarify the impact of cattle on purity of the water in the Sierra Nevada, in collaboration with a variety of local, state and federal agencies. The project will identify if, and under what conditions, water quality problems that need to be addressed are caused by cattle.

Energy. UC Berkeley researchers and Lawrence Berkeley National Laboratory energy experts are collaborating on two of the most significant energy efforts ever undertaken at the Berkeley Institute of the Environment. The Helios Project aims to convert sunlight to carbon-neutral energy sources and transportation fuels, while the Energy Biosciences Institute (EBI) initiative, a partnership with the energy company British Petroleum and the University of Illinois, will develop agricultural and microbial sources of clean, renewable bioenergy. The Berkeley Institute of the Environment also is working to design, disseminate, and assess secure energy technologies that minimize environmental impacts.

Multi-campus Research Programs and Initiatives

Multi-campus Research Programs and Initiatives (MRPIs) grants support innovative multi-campus collaborative efforts to advance scholarship, student training, and knowledge, particularly in areas of importance to the University and the state. While they have relatively modest budgets, typically in the range of $30,000 to $1.5 million, the University's MRPIs dynamically link the work of the ten campuses and three national labs into a network of shared information, resources, dissemination, and public engagement. MRPIs provide seed funding on a peer-reviewed basis for innovative research, provide support for graduate student traineeships, and work directly with state agencies to

disseminate the expertise of the UC faculty and their research. Among these are:

- a new UC transportation research initiative that will team UC researchers from more than 30 disciplines on six UC campuses to work on reducing congestion, oil use, air pollution, and greenhouse gas emissions;
- the newly-launched Center for Hydrologic Modeling that will link researchers at eight UC campuses and the three national labs to forecast how water availability will shrink because of climate change and diminishing snowpack;
- the California Advanced Solar Technologies Institutes – a new initiative focused on the next generation of solar energy. Researchers at Merced, Berkeley, and Santa Barbara will use nanotechnology and non-imaging optics to develop new solar cell materials and methods to cool and heat buildings or generate electricity; and
- a new program, Collaborative Research for an Equitable California, will bring UC researchers together with community organizers and policy-makers to tackle the state's interconnected crises in education, employment, health, nutrition, housing, and the environment, researching how disparities and inequities in these areas are linked.

California Institutes of Science and Innovation

At the start of this decade, the State of California, UC, and hundreds of the state's leading-edge businesses joined together in an unprecedented partnership to create the California Institutes for Science and Innovation. The four Institutes, each jointly operated by multiple UC campuses, engage UC's world-class research faculty directly with California, national, and international companies in attacking large-scale issues critical to the state's economy and its citizens' quality of life. Information technology, telecommunications, nanotechnology, quantitative biosciences, health care, environmental management, homeland security, and energy systems are among the areas of focus for new research within these Institutes.

To establish the Institutes, the State provided $400 million in capital funding, which was matched two-to-one from federal and private sources. While the facilities needs of the Institutes have been largely met, core support for the Institutes is needed to ensure that each has an adequate level of support with which to operate, including funding for advanced technology infrastructure, personnel and other academic support; to provide seed money for building new research teams across disciplines and campuses; and attracting large scale extramural contracts and grants from industry and governmental sources. The State annually provides $4.75 million for support of the Institutes, which is matched by an additional $5.25 million in University funds and campus matching funds. In recent years, UC has requested additional State support for the Institutes without success. Temporary funding has been provided from University sources, but permanent support is still needed.

Labor Research and Education

Growing international economic integration, policy changes, transformations in business organization, new technology, and other changes have brought many positive developments, but have also resulted in emerging issues and concerns for communities, researchers, and policy makers. The UC labor program engages in research and education that advances knowledge and understanding of these new challenges and opportunities from a variety of perspectives and disciplines, including historical, comparative, and institutional approaches.

State funding for a new Institute for Labor and Employment (ILE) was first provided in 2000-01, when the Legislature proposed and the Governor sustained an additional $6 million in the University's budget to establish a multi-campus research program focused on issues related to labor and employment. However, since that time, funding for the program has been unsteady. During the early 2000s, the State's fiscal crisis necessitated cuts to the University's State-funded research budget, including the funding provided for ILE, and funding was eliminated entirely in 2005-06. State funding was restored for 2006-07 and 2007-08, but not for the ILE. Instead, $6 million was provided for labor research and, of that amount, budget language authorized 40% ($2.4 million) for labor education and training programs. The ILE as it had been established was disbanded. The State has not provided funding in the budget for labor research since 2007-08. The University has continued support for labor research by providing $4 million in 2008-09 and $2 million in 2009-10 and 2010-11. This funding has been entirely redirected from existing programs. Funding this program by implementing cuts to other programs is not sustainable in the long run. If this program is to continue, stable, permanent funding must be identified.

Institute of Transportation Studies

With worsening traffic congestion threatening economic growth and quality of life, as well as daunting energy and climate change challenges, California and the nation need new forms of transportation and new ways of thinking about transportation. The Institute of Transportation Studies (ITS), an MRPI, is recognized as the premier center of transportation research in the world. It has been funded with a small portion of the fuel taxes that support the Public Transportation Account (PTA) since 1947. The initial PTA funding of $920,000 has only risen to $980,000 over the past 60 years, supplemented by $250,000 of State General Funds cost increase funding over time. Due to inflation, its purchasing power has shrunk to about one-eighth of its initial value.

Despite this, ITS has been extraordinarily successful in attracting $60 million annually in extramural funding, leveraging the core funding from the State's PTA account at a ratio of at least 60:1. However, minimal core funding has a significant disadvantage: it forces ITS to be almost entirely reactive to funding opportunities defined by outside agencies and companies, rather than focusing on specific immediate and long-term needs of the state.

"UC serves the vital needs of California, supporting the agriculture industry with research and community advising and aiding K-12 education with programs that prepare young people for college and enhance teacher training."

Lawrence Pitts
University of California
Provost

Public Service

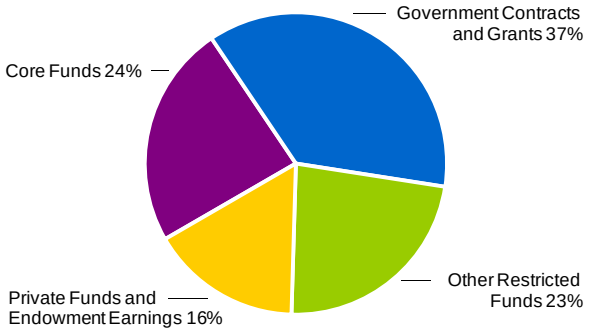
Public service includes a broad range of activities organized by the University to serve state and local communities; students, teachers and staff in K-12 schools and community colleges; and the public in general. Consistent with its mission as a land grant institution, UC's public service programs help improve the quality of life in California by focusing on major challenges, whether in business, education, health care, community development, or civic engagement, that impact the economic and social well-being of its citizens.

State funds support a variety of public service programs at UC. This chapter describes five major State-supported public service efforts:

- Student Academic Preparation and Educational Partnerships,
- the California Subject Matter Project,
- COSMOS,
- Cooperative Extension, and
- the Charles R. Drew University of Medicine and Science.

Campuses also conduct other public service programs that are supported by State funds, as well as by student fees, user fees, and other non-State fund sources; these programs include arts and lecture programs and student- or faculty-initiated community service projects.

Display VIII-1: 2009-10 Public Service Expenditures by Fund Source



While State funds play an important role in UC's public service programs, significant funding for Cooperative Extension and other major programs is generated from government contracts and grants and private sources.

STUDENT ACADEMIC PREPARATION AND EDUCATIONAL PARTNERSHIPS

Student Academic Preparation and Educational Partnerships (SAPEP) programs seek to raise student achievement levels and to close achievement gaps among groups of students throughout the K-20 pipeline, tasks critical to keeping California's economy competitive. August 2010 data show that 55.7% of public high school students enrolled at UC come from just 20% of the state's high schools; schools with lower Academic Performance Index (API) scores tend to have lower college-going rates. With a focus on serving students who attend California's more challenged schools, in 2008-09 UC's 16 academic preparation programs reached students at more than 700 K-12 public schools and 110 community colleges, raising college eligibility rates, increasing transfer from community college to baccalaureate-degree granting institutions, and preparing undergraduates for graduate or professional education.[1] The Regents have identified closing achievement gaps, improving access to college, and increasing diversity at UC as among the University's highest priorities.

Through SAPEP programs, UC is reaching those students and schools in most need of assistance. The majority of high schools in California served by UC SAPEP programs are among the most challenged in the state, with 72% in the five lowest API deciles. UC further works with schools that are located in communities where median family incomes are low. According to census data, 66% of SAPEP schools are in communities with median family

[1] Data are from the most recent SAPEP legislative report, available at www.ucop.edu/edpartners/research.html, and are from the 2008-09 year unless otherwise noted.

incomes of less than $50,000, compared to about 50% of high schools statewide. In addition, 89% of students in SAPEP's three largest high school programs are from groups underrepresented at the University.

The impact of the University's SAPEP programs on educationally disadvantaged and underrepresented minority students is significant. While enrollment at UC is not the specific goal of UC's academic preparation programs, the ability of students to compete successfully for UC admission is a strong indicator of increased access to postsecondary opportunities. At the same time, these programs increase the diversity of the University. In Fall 2008, 16.1% of African-Americans and 21.6% of Chicano and Latino students in the incoming freshman class at UC campuses had been participants in UC's student academic preparation programs. Furthermore, CPEC eligibility data shows that in 2007, 6.3% of African-American students were eligible for UC, compared to just 2.8% in 1996. For Chicano and Latino students, eligibility gains were equally strong, with 6.9% eligible in 2007 compared with only 3.8% in 1996. Significant budget cuts after 2000-01, however, reduced opportunities for more than 50,000 students to participate in the University's student academic preparation programs, and fewer schools and teachers are served. (The SAPEP budget was cut more than 60% between 2000-01 and 2008-09.)

Budget constraints notwithstanding, UC has created innovative ways to help generate systemic changes in California's educational system through long-term partnerships with K-12 schools, businesses, and community-based organizations. For example, the University's K-20 (Kindergarten - University) Intersegmental Alliances align SAPEP programs with their local and regional K-12, community college, educational, community, and business partners. Activities and strategies vary by region depending on the needs and priorities of partner schools, but include direct student and family services, including academic enrichment and student academic and career advising; dissemination of research and best practices on teaching and learning; professional development and coaching in specific content for teachers; and collaboration with schools, districts, and community agencies on grant writing and resource development.

STUDENT ACADEMIC PREPARATION PROGRAMS WERE DEVELOPED NEARLY 40 YEARS AGO

As early as 1872, then-President Daniel Coit Gilman called on the University to collaborate with schools in enhancing student preparation for a college education so that the "work of the University shall clearly forward the welfare of the state, of the whole body politic."

The current generation of student academic preparation programs took shape in the 1960s, when the civil rights movement drew attention to issues of access to the University. During this period when there were no fiscal constraints on enrollments, the Regents addressed access issues primarily through aggressive and innovative admissions policies.

In the 1970s, the University began providing under-represented students academic assistance and information to help them meet University admission standards. The Legislature passed the Meade Bill in 1975, marking the first time that State resources were devoted to increasing the number and persistence of eligible minority students. With it was born the concept of developing a pipeline of academic preparation programs beginning with students in the 7th grade and continuing through their college careers. Academic preparation programs expanded gradually during the 1980s and early 1990s.

In July 1995, the Regents adopted Resolution SP-1, which eliminated consideration of race, ethnicity, and gender in UC admissions. At the same time, the Board called on the President to appoint the Outreach Task Force (OTF) to identify ways in which outreach programs could help to ensure that the University remain accessible to students from educationally disadvantaged backgrounds. Coupled with the passage by California voters of Proposition 209 in Fall 1996, which essentially placed the tenets of SP-1 in the State's Constitution, these events elevated academic preparation programs to become the University's most critical tool for promoting access to the University for educationally disadvantaged students in California.

The University used these partnerships to implement the Transcript Evaluation Service (TES), which tracks coursework progress and UC/CSU eligibility for both individual students and entire schools. In addition, TES, for the first time, provides aggregate data for school administrators to diagnose course completion obstacles and improve UC/CSU course requirement completion on a schoolwide basis. TES has been recognized by the Campaign for College Opportunity as a "Practice with Promise" for transforming the educational opportunities in California's schools.

Program Descriptions and Outcomes

In addition to partnerships with K-12 and community organizations, UC's portfolio of SAPEP programs raises college eligibility rates, increases transfer from community colleges to baccalaureate-degree granting institutions, and prepares undergraduates for graduate programs.[2]

College Access and Preparation. With a focus on academic advising and building college knowledge, the ***Early Academic Outreach Program (EAOP)***, UC's largest academic preparation program, helps disadvantaged students complete a rigorous college preparatory curriculum in high school, complete UC and CSU coursework and exam requirements, and apply for college and financial aid. EAOP provides academic enrichment, such as intensive workshops and summer courses; advising; test preparation; information for parents, e.g., how to apply for financial aid and college options in California; and support for schools, such as assistance in establishing school structures that have a direct link to students' completion of college preparatory course requirements.

With a focus on education and workforce preparation, the ***Mathematics, Engineering, Science Achievement (MESA)*** program helps middle and high school students excel in math and science so they can graduate from college with degrees in science, engineering, computer science, or other math-based fields. MESA offers classes during the school day that allow advisors to work with students on academics and MESA activities. MESA's academic development curriculum includes math and science coursework based on California Math and Science Standards. MESA also offers individualized academic planning, tutoring, math workshops, study groups, and career exploration. Parent involvement helps parents learn how to become effective advocates for their children's academic success.

With a focus on literacy development, ***The Puente Project*** prepares high school students – many of whom are English language learners – for college through rigorous academic instruction in writing and literature, intensive college-prepartory counseling, and mentoring from successful members of the community. Students in the program study with the same Puente-trained English teacher for ninth and tenth grades in a college-preparatory English class, work closely with a Puente-trained counselor to prepare an academic plan and stay focused on their goals, participate regularly in community involvement activities, and attend field trips to college campuses.

SAPEP FUNDING SINCE 1997-98

In 1997-98, after the adoption of SP-1 and Proposition 209, the Legislature considered the University's academic preparation programs to be an effective means by which to increase access to college for educationally disadvantaged students and promote diversity at UC. The University's budget for student academic preparation programs grew from $18.1 million in State and University funds in 1997-98 to a peak of $85 million in 2000-01. Due to the State's fiscal crisis in the early 2000s, the SAPEP budget was subsequently reduced by $55.7 million over several years, bringing the total budget to $29.3 million in 2005-06. In 2006-07, a $2 million augmentation to expand community college transfer programs brought the SAPEP budget to $31.3 million.

The Governor's proposed budget for 2009-10 originally slated SAPEP programs for elimination, but the Legislature converted the cut to an undesignated reduction. As permitted by the 2009-10 Budget Act, campuses were instructed to limit cuts to any program within the portfolio to no more than 10%, which is only half the percentage cut to the University's State funds in 2009-10. For 2010-11, the Budget Act calls for the University to maintain funding for SAPEP programs at 2009-10 levels.

From 2004-05 to 2007-08 – and again for 2009-10, as noted above – State funding for SAPEP programs was the subject of debate and negotiations during each budget cycle, contributing to uncertainty as to whether or not programs would be able to continue from year to year. The University believes stability in the funding of these programs is critical to their success. To that end, the University has reported to the Legislature each year on goals and accountability data demonstrating scope and effectiveness for individual programs.[3]

SAPEP programs use State resources efficiently. The cost per student of most programs is substantially less than the cost per student of comparable federally funded programs. In 2008-09, programs supplemented the State and University investment of $31.3 million by raising an additional $54 million in support of K-14 efforts to be expended during the next 3-5 years.

[2] Detailed descriptions for each of the SAPEP programs can be found in the most recent SAPEP legislative report, available at www.ucop.edu/edpartners/research.html.

[3] The SAPEP Accountability Framework is available at www.ucop.edu/edpartners/research.html.

Other programs promoting college access and preparation include ***ArtsBridge***, the ***Preuss School*** at UC San Diego, ***Student-Initiated Programs***, ***UC College Preparation (UCCP)***, ***University Community Engagement (UCE)***, and ***UC Links***.

UC's college access and preparation programs have been recognized nationally as models of best practice. Among specific program achievements are the following:

- Increased high school graduation: 96% of participants graduate from high school;
- Increased college eligibility: Participants are twice as likely to complete the 'a-g' courses for UC/CSU eligibility, and the eligibility rate for UC is 150% greater for participants than students statewide. In addition, in 2008-09, a higher proportion of students took the SAT or ACT than did non-participants in the same schools; for example, on average, 67% of EAOP-MESA-Puente students at API 1 and 2 schools took the SAT or ACT compared to 38% of non-participants at the same schools; and
- Increased college attendance: Approximately 70% of participants attend college the first year after high school.

Community College Transfer. SAPEP programs also promote transfer from community college to baccalaureate-granting institutions.

Community College Articulation Agreements are agreements between individual community colleges and individual UC campuses that define how specific community college courses can be used to satisfy subject matter requirements at UC.

ASSIST, California's official statewide repository for course articulation and transfer information, provides counselors and students with detailed course transfer and articulation information to help streamline the transfer process.

The ***MESA Community College Program (CCP)*** provides rigorous academic development for community college students who are pursuing transfer to four-year universities in majors that are calculus-based. All MESA CCP students are required to attend Academic Excellence Workshops, student-led supplemental instruction/study groups that emphasize the most challenging aspects of classes within the student's major. Additional services include individualized academic planning, college orientation for math-based majors, career exploration and professional development, and summer internships in business, industry, and academia.

Students enrolled in ***The Puente Community College Program*** take a rigorous two-course English sequence, receive transfer requirement counseling, and meet regularly with a Puente-trained mentor from the professional community. Teachers and counselors receive training in innovative counseling and teaching methodologies for educationally disadvantaged students.

Community College Transfer Programs increase opportunities for community college students to transfer to four-year institutions by providing comprehensive academic guidance and support for prospective transfers. Services include assistance with course selection, informational workshops on academic requirements for transfer admissions, and professional development and training for community college counselors and faculty. Students enrolled in these transfer programs are more likely to transfer to a baccalaureate-granting institution than other students. Other achievements include:

- In 2008-09, over 1.5 million different individuals used ASSIST to view over 13 million articulation agreements;
- In 2007-08, UC completed transfer preparation paths to facilitate the smooth transfer of California Community College (CCC) students into UC's top 20 transfer majors;
- Almost all of MESA's Community College Program participants transfer to a baccalaureate-degree granting college or university, and in 2008-09, 100% of those students chose majors in math or science fields; and
- More than 86% of Puente students are retained in community college for a year following participation in the program. The one-year persistence rate for all CCC students statewide is about 68%.

Graduate and Professional School Preparation. SAPEP programs also prepare and encourage high-caliber undergraduates from educationally disadvantaged communities to pursue graduate and professional level training. ***Leadership Excellence through Advanced Degrees Program (UC LEADS)*** places juniors and seniors who have experienced conditions that have adversely impacted their advancement in their field of study in two-year intensive research experiences with faculty mentors.

Summer Research Internship Programs (SRIP) also provide intensive research experience. ***UC Law Fellows*** and ***Post-baccalaureate Medical School Programs*** provide preparation for graduate study through academic skills building, test preparation, and mentoring.

Achievements of these programs include:

- More than three-quarters (80%) of graduate and professional school academic preparation program participants enroll in graduate or professional school; and
- Independent research confirms that UC's post-baccalaureate premedical programs improve applicants' chances of admission to medical school.

CALIFORNIA SUBJECT MATTER PROJECT

The California Subject Matter Project (CSMP) is a statewide network of subject-specific professional development programs for teachers. CSMP engages K-12 educators with faculty in the various disciplines from the University of California, California State University, and private higher education institutions to develop and deliver intensive institutes for education professionals. During 2009-10, CSMP served over 40,000 teachers and school administrators at 6,000 schools, more than a third of which were low-performing schools.

CSMP has worked with an external evaluator (SRI International) to understand the impact of CSMP on teachers, their professional community, and their students. In recent evaluations, SRI has concluded that teachers consistently rate CSMP professional development more highly than other professional development programs, and that CSMP has been successful in meeting its goals to serve teachers from low-performing schools and teachers of English learners. Nearly all teachers report that CSMP influenced their instructional practices and content knowledge more than other professional development. In addition, teachers report that their participation contributed to students' achievement (92%), conceptual understanding (82%), engagement in activities (80%), and ability to explain their reasoning (64%).

State funding has remained at $5 million since 2003-04 and an additional $4.35 million was added from the federal No Child Left Behind Act, Title II, Part A program. Total CSMP funding was $9.35 million in 2009-10.

In 2009-10, CSMP generated approximately $12 million in cash from foundation grants and $1 million in in-kind contributions from district contracts to augment state and federal support. As CSMP remains a vital part of the state's capacity to develop California's teacher workforce, UC will continue to seek additional funding for the program.

The CSMP was originally authorized in 1998 and was reauthorized in 2002 and again in 2007. The 2007 bill extends authorization to January 1, 2013.

COSMOS

The California State Summer School for Mathematics and Science (COSMOS) provides an intensive academic experience for students who wish to learn advanced mathematics and science and prepare for careers in these areas. COSMOS is a month-long residential academic program for top high school students in mathematics and science. COSMOS course clusters address topics not traditionally taught in high schools such as astronomy, aerospace engineering, biomedical sciences, computer science, wetlands ecology, ocean science, robotics, game theory, and more. The program takes place each summer on the Davis, Irvine, Santa Cruz, and San Diego campuses. Cluster sizes vary from 18-24 students and the student to academic staff ratio is typically 5:1. In summer 2010, 680 students, drawn from an applicant pool of over 2,000 students, were selected to attend COSMOS.

In 2009-10, COSMOS received $1.87 million in State funds, the same amount COSMOS received in 2008-09, but a 10% reduction from State support in 2007-08. The California Education Code specifies that the State fund at least 50%, but not more than 75%, of the program's actual costs; funds are also provided by participants with the ability to pay and from private sources.

COOPERATIVE EXTENSION

The UC Division of Agriculture and Natural Resources (ANR) is a statewide network of UC researchers and educators dedicated to the creation, development, and application of knowledge in agricultural, natural, and human resources. ANR programs are delivered through two organizational units: Cooperative Extension and the Agricultural Experiment Station. The Agricultural

Experiment Station is described in more detail in the *Research* chapter of this document.

Cooperative Extension (CE) links educational and research activities and resources of the U.S. Department of Agriculture (USDA), land grant universities, and county administrative units to solve local issues in agriculture, natural resources, and human development. CE academics are doing this in 57 of 58 counties in California in partnership with campus faculty, state and federal agencies, and local clientele.

Through CE, academic county advisors are situated in local communities to conduct applied research and translate and test campus research findings into solutions for local problems. This statewide network of local CE sites is often the face of UC to local clientele and stakeholders who may never set foot on a UC campus. CE advisors work with teams of staff and volunteers to deliver applied research and science-based education programs in the areas of agriculture, natural resources, nutrition and related human resources. Collaboration with citizen volunteers is an integral part of educational efforts in the 4-H Youth Development, Master Gardener, and Master Food Preserver programs. Advisors provide local residents and industry groups with information though workshops, demonstrations, field days, classes, print and other media, and web sites.

In addition to academic county advisors, CE specialists, scholars integrated into academic departments on the Berkeley, Davis, and Riverside campuses, conduct research, develop new technologies, and serve as the campus link to the county CE advisors.

Statewide programs, such as Integrated Pest Management; Youth, Families and Communities; and the Agriculture Issues Center focus on specific issues that engage ANR academics and faculty from all UC campuses, allowing integrated teams to work on complex issues that require multidisciplinary approaches. In addition, 9 research and extension centers (RECs), located in a variety of ecosystems across the state, provide a core research and extension base.

ANR is unique in its three-way partnership with federal, state, and county governments to provide local and statewide research and extension programs that address the critical issues of California. In 2009-10, the CE base budget was supported with 63% state, 16% federal, and 21% county funds. Through its partnerships and collaborations, CE is able to generate additional extramural grant funding (at approximately 2 to 1), which further increases its ability to address local and statewide issues.

The State's fiscal crisis has dealt an extraordinary blow to the University. The unprecedented reduction in State funds for UC led to a major restructuring of ANR to achieve $9 million in permanent budget reductions and redirections, and position ANR to implement a new strategic vision.

Several statewide programs are being closed and others will be reduced by 20%, with ANR refocusing resources, including existing competitive grant funds and endowment income (as appropriate), to support five strategic initiatives: Sustainable Food Systems; Endemic and Invasive Pests and Diseases; Sustainable Natural Ecosystems; Healthy Families and Communities, and Water Quality, Quantity and Security. Program functions of closed statewide programs are being consolidated into new initiative structures.

Following are examples where CE and AES scientists are working to address challenges and inform policy:

Healthy Food Systems. Responding to local grower issues, CE advisors played a key role in introducing new UC-developed varieties of strawberries and blueberries to California growers through field days, workshops, industry meetings and publications. A CE-led project on alternative irrigation systems for rice fields led to a 98.5% reduction in the mass flow of rice herbicides in the Sacramento River, improving water quality for local residents and demonstrating that alternative water quality management strategies can be developed.

Healthy Environments. California communities continually face danger from wildfires. In San Diego County, CE advisors coordinated and implemented a regional wildfire education and outreach program named Wildfire Zone about wildfire risks and what to do before, during and after a fire. The primary components to the program are a comprehensive website, www.wildfirezone.org, and a series of 12 wildfire

information tip cards. Information on the program was disseminated through workshops, print media and cooperating agencies. On a statewide basis, a CE specialist developed a Fire Information Engine Toolkit on an interactive website to help communities and individual residents assess their risk of wildfire and prepare for and deal with the aftermath. In the Sacramento Valley, ANR research and educational programs helped rice producers dramatically reduce rice straw burning through demonstrations of the benefits of winter flooding of harvested fields that resulted in improved air quality and created more than 100,000 acres of seasonal wetland habitat for migratory waterfowl.

Healthy Communities. ANR houses the 4-H Youth Development Program, one of the largest youth development programs in the nation, with 20,000 volunteers throughout the State. In California, 4-H reaches youth (ages 5 to 19) through after-school and classroom enrichment programs, science literacy activities, and traditional club programs delivered in every county. Through ANR's Master Gardener Program, ANR academics train local community members with research-based information on landscape management and horticulture, including plant selection, reduced pesticide use, water conservation, and implementing "green" practices. In 2008-09, over 4,100 UC Master Gardeners volunteered more than 300,000 hours, the equivalent of 145 full-time positions.

Healthy Californians. In response to the leafy greens *E. coli* outbreaks in the Salinas Valley, Monterey County CE advisors immediately partnered with food safety CE specialists from UC Davis to conduct field experiments designed to investigate the ability of *E. coli* to survive and spread in a production environment. UC academics have initiated efforts to provide science-based information that can be used to guide industry in food safety policies. An early result indicates that it is likely that soil moisture may significantly influence the persistence of *E. coli* in the field.

In San Luis Obispo and Santa Barbara counties, ANR's Lunch Box program reached 3,600 families and improved the nutritional quality of children's packed lunches. Five educational handouts and a poster in English and Spanish were developed to assist parents in packing healthy lunches. The Lunch Box handouts were provided to parents through their child's preschool, an ideal place for parents to learn positive ways to contribute to their child's overall health and well-being. Working with a Tulare school district, CE advisors and specialists delivered the EatFit program to 6th graders. The program includes nine lessons with an online assessment (www.eatfit.net) and uses guided goal setting to help students make positive behavior changes. Students apply math concepts in EatFit while learning how to improve their food choices and increase physical activity. An evaluation of ANR's EatFit program for low-income students found that this approach not only improves eating and physical activity habits, but also math and language arts performance.

CHARLES DREW UNIVERSITY OF MEDICINE AND SCIENCE

The Charles Drew University of Medicine and Science (CDU), a private, nonprofit corporation with its own Board of Trustees, conducts educational and research programs in south central Los Angeles. Since 1973, the State has appropriated funds to UC to support a medical student education program operated by the Los Angeles campus in conjunction with CDU. State General Funds are provided to CDU under two contracts, each administered by the University. One contract provides State support for medical education while the second supports a separate public service program that funds activities and programs in the Watts-Willowbrook community.

Drew Medical Program

Historically, CDU received State funds through the University's budget for the training of 48 medical students (including 24 third-year and 24 fourth-year students) and 170 medical residents. The activities encompassed in the joint Drew/UCLA instructional program are described in two affiliation agreements with the UCLA School of Medicine and the UCLA School of Dentistry for student clerkships. Students participating in the joint medical education program earn a Doctor of Medicine (MD) degree, which is granted by the David Geffen School of Medicine at UCLA.

In the early 2000s, CDU experienced increasing difficulties involving the accreditation of its graduate medical education (or residency) programs. In response to these problems,

the Legislature passed Assembly Concurrent Resolution 139 (Dymally, 2003), which asked that the University engage with leadership at CDU to address and remedy various accreditation issues. The University actively worked with CDU to successfully resolve most of these concerns.

Unfortunately, however, serious concerns involving patient care activities occurred at Los Angeles County's King/Drew Medical Center (KDMC), the primary teaching hospital for CDU. Given the seriousness of these matters, the Los Angeles County Board of Supervisors, which has administrative and fiscal responsibility for the hospital, closed KDMC in 2007. As a result of the closure of the hospital, CDU voluntarily closed all of its residency programs. Although no residents are currently in training, the University will be working with state, county and other local officials to develop a plan for reestablishing residency training once the new hospital is reopened. Medical student education through the joint UCLA-Drew program continues successfully and at full enrollment.

The State support provided to Drew in the 2010-11 Budget Act for both the instructional and public service programs is $8.7 million. Of this amount, $500,000 is contingent upon the University continuing to provide an additional $500,000 in matching funds (currently funded from a redirection of funds from the medical centers' clinical teaching support). The University also provides cost-of-living adjustments from the State General Fund (when funded in the State budget), support from University funds, and medical student professional fee revenue to support the program. The total from all University sources available to Drew for 2010-11 is approximately $11.5 million. CDU is developing a proposal requesting continuation of State support during this transitional period as efforts are made to reestablish residency training programs in the community.

CDU School of Nursing

CDU also is working to launch a new school, the Mervyn M. Dymally School of Nursing, in an effort to address the shortage of both nurses and nursing faculty in California. To provide infrastructure to increase nursing educational opportunities in the state, $10 million of UC general obligation bond funds were allocated in 2009-10 to partially fund construction of a Life Sciences Research and Nursing Education facility at CDU, pursuant to collaboration and consultation as described in a cooperative agreement signed by both UC and CDU. Legislative language stipulates that release of these funds is contingent on matching funds from CDU, formal agreements relating to the ownership and occupancy of the building and the operation of the nursing program, and determination by the State Public Works Board that these conditions have been met.

UC and CDU previously developed a new affiliation agreement providing for the rotation of UCLA nursing students at an urgent care clinic operated by CDU: a cooperative agreement through which UCLA faculty would provide advice and assistance in support of CDU's efforts to develop new nursing education opportunities to meet community needs, and a lease and operating agreement defining the operational aspects of the facility. The State Public Works Board conditionally confirmed that the requirements for the release of State funds were satisfied at their October 2009 meeting.

In January 2010, however, CDU notified UC of the closure of its Urgent Care Clinic. As a result, the previously approved and signed UC/CDU affiliation agreement (naming this clinic) was immediately void. Since then, UC has negotiated an alternative arrangement for an affiliation agreement with Los Angeles County, which now provides for the rotation of UCLA nursing students at an ambulatory care clinic that is owned by LA County and located near the new CDU nursing educational building. Accordingly, the UC/CDU cooperative agreement was updated in September 2010. UC is currently in discussion with the Department of Finance regarding the release of the $10 million to CDU for its intended purpose.

Display VIII-2: SAPEP State General Funds and University Funds Budgets (Dollars in Thousands)

	1997-98	2000-01	2008-09	2009-10
Direct Student Services Programs				
Community College Transfer Programs	$1,718	$5,295	$3,279	$3,058
EAOP	4,794	16,094	8,914	8,416
Graduate and Professional School Programs	1,893	8,575	2,661	2,623
MESA Schools Program	4,169	9,355	4,861	4,394
MESA Community College Program	22	1,309	327	327
Puente High School Program	-	1,800	1,051	980
Puente Community College Program	162	757	450	419
Student-Initiated Programs	-	-	440	440
UC Links	-	1,656	694	622
Statewide Infrastructure Programs				
ASSIST	360	360	429	389
Community College Articulation	-	-	600	600
Longer-Term Strategies				
K-20 Regional Intersegmental Alliances (formerly School-University Partnerships)	-	15,591	1,395	1,361
Direct Instructional Programs				
Preuss Charter School	-	1,000	1,000	1,000
UC College Preparation (online courses)	-	8,400	3,106	3,059
Other Programs				
Evaluation	-	1,386	1,180	1,077
Other Programs (currently includes Community Partnerships, ArtsBridge, Other)	203	3,887	936	829
Programs that have been eliminated or consolidated into others, including Test Preparation, Dual Admissions, Gateways, Informational Outreach and Recruitment, Central Valley Programs, UC ACCORD	4,750	9,717	-	-
Total	$18,071	$85,182	$31,323	$29,594
General Funds	$16,996	$82,243	$19,323	$17,594
University Funds	$1,075	$2,939	$12,000	$12,000

During the late 1990s, SAPEP budgets received significant augmentations and funding reached its peak in 2000-01. In 2008-09, SAPEP budgets consisted of $19.3 million in State funds and $12 million in University funds. As permitted by the 2009-10 Budget Act, the University implemented reductions to SAPEP budgets. The SAPEP portfolio experienced an overall budget reduction of 6% in 2009-10, bringing the total SAPEP budget to $29.6 million. Consistent with language in the 2010-11 Budget Act, during 2010-11 SAPEP budgets will be maintained at their 2009-10 levels.

"The University of California libraries support the entire lifecycle of scholarship: we collect, research, publish, preserve and, most importantly, share information through traditional and ever-advancing digital resources."

Dan Greenstein
University of California
Vice Provost

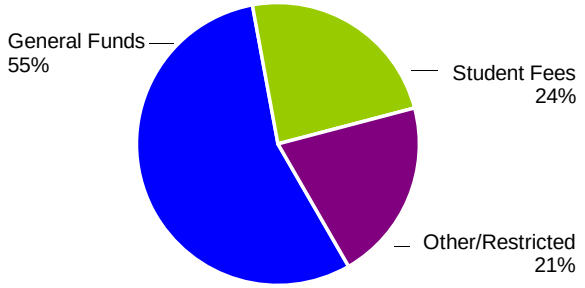
Academic Support — Libraries

Great universities have great libraries for four reasons. First, information resources are at the foundation of academic excellence, which requires effective and convenient access to the information resources that libraries provide. Second, universities provide significant services to their communities, both to the University itself and to the public at large. Third, the quality of the library is often seen as a tangible symbol of an institution's commitment to support instructional and research excellence. Finally, in an increasingly knowledge-based society, the University's role in facilitating access to knowledge in all its forms takes on broader significance and value. The latest UC Undergraduate Experience Survey (UCUES) shows that 75% of upper division students thought having access to a world-class library was "essential," "very important," or "somewhat important." This was the highest ranking received by any of the rated components of UC research opportunities.

Over the last decade, rapid advances in the development and use of new technologies to create, publish, store, search for, and deliver information have begun to transform libraries, allowing campuses to provide access to information without having to physically possess and store it. This increases efficiencies in print collections management, yielding cost savings and improving access to scholarly materials. At the same time, UC's growing digital information services and collections are becoming more extensive and readily accessible to not only the scholarly community, but all California residents.

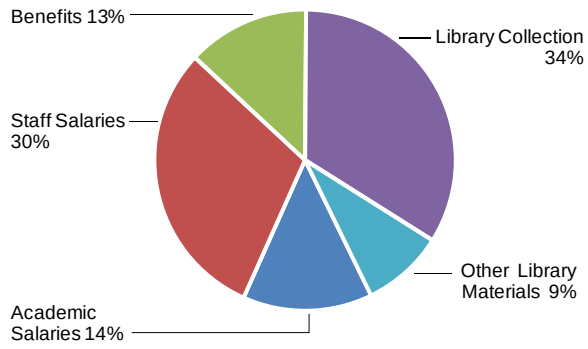
The UC Commission on the Future's second round of recommendations noted that the libraries, as the heart of UC's research mission, are among the University's most essential activities. "The intellectual capital of UC libraries – their acclaimed research collections, innovative services, user-friendly facilities, and highly trained staff – constitute an unparalleled resource that must be thoughtfully cultivated in order to ensure its continued support for students, scholars, and the people of California."

Display IX-1: 2009-10 Library Expenditures by Fund Source



About four-fifths of the library budget is derived from core funds. Endowment earnings, private gifts, and other sources provide additional support.

Display IX-2: 2009-10 Library Expenditures by Category



About 45% of the library budget provides for the purchase and preparation for use of library materials. As in other functions of the University, salaries and benefits are the largest expenditures at the library, supporting staff in reference and circulation services, library automation, and the California Digital Library, among other areas.

The UC library system includes over 100 libraries at the 10 campuses and two Regional Library Facilities. UC's library system has the second largest number of volumes held in the United States, over 39 million (36.6 million print), surpassed only by the Library of Congress. In 2009-10, the economic value of the physical collection was estimated at

Display IX-3: UC Libraries At-A-Glance, 2008-09

Number of Libraries	100+
Library Holdings	
Total volumes	39,179,729
CDL/Shared print collection	77,428
Manuscript units	228,267
Maps	2,258,788
Microcopy and microfilm	30,215,940
Audio, video, and visual materials	20,854,193
Computer files	113,204
Pamphlets & government documents	2,997,134
Library Loans	
Total library loans	3,295,057
Intercampus loans	165,021
Regional facility loans	146,621

$898 million and the special collections at $308 million, or 6.7% of UC net capital assets. Over 3.2 million items were loaned by UC libraries in 2009-10, including 165,000 intercampus library loans and copies. Use of the libraries' digital collections continues to escalate, as more materials are available primarily or solely online. In 2009, over 28 million journal articles were downloaded within UC.

THE LIBRARY BUDGET

The total budget of the libraries is $277 million in 2010-11. About four-fifths of the library budget is derived from core funds (State support, UC General Funds, and student fee revenue). Significant restricted funding is provided from endowment earnings and private gifts and grants.

As in other areas of the University, the libraries' greatest expenses are salaries and benefits for more than 2,400 employees, including professional librarians, IT professionals, and support staff, as well as hundreds of student workers. Compensation and benefits comprised over 55% of library expenditures in 2009-10. Library materials, including such things as books and binding, subscriptions and memberships, and reproduction made up another 43%.

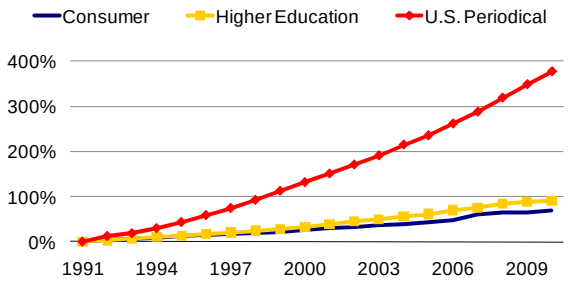
Over the last 25 years, the State has provided substantial support for UC's strategy to promote library development on a systemwide basis. Over the last decade, however, the State has been unable to provide full funding to meet the impact of persistent price increases for library materials, which consistently outpace the rate of inflation.

The Partnership agreement with former Governor Davis included a commitment to support a 1% annual increase in State support to address shortfalls in four core areas of the budget, including library materials. Between 1998-99 and 2000-01, consistent with provisions of the Partnership, the State provided $8.7 million for library materials and expanded sharing of library collections that began to address the permanent budget shortfall, supplemented by $14 million in one-time funds. In addition, the State provided $7 million to support the development and expansion of the California Digital Library. However, as a result of the State's fiscal crisis during the early part of this decade, the 1% increase to address core needs, including libraries, was funded only twice, in 1999-00 and 2000-01. From 2002-03 through 2004-05, permanent funds for core academic support were cut by a total of $81.9 million. As a result, earlier budgetary gains were largely erased.

Under the provisions of the Compact with Governor Schwarzenegger, funds to address the permanent shortfall in the library collections budget and other core needs were scheduled to once again become available beginning in 2008-09; however, the State's latest fiscal crisis has prevented implementation of this provision.

In order to address the funding shortfalls in the library budget, the University has identified and developed several strategies to reduce costs and promote broader and more efficient use of library resources. As shown in Display IX-5, these include reduced purchasing costs through interlibrary

Display IX-4: Consumer, Higher Education, and Periodical Price Increases



Over the last 20 years, the cost of periodicals has risen more than 375%, while the consumer price index has risen only 68% during the same period. This cost increase has not changed in the digital environment.

Display IX-5: Estimated Annual Savings from Library Innovations and Efficiencies (Dollars In Millions)

Resource Sharing	$37.9
Regional Libraries Facilities	17.3
California Digital Library	55.0
Shared Print Journal Collection	4.0
Total	$114.2

lending, lower capital costs resulting from use of shared off-site facilities, savings from systemwide digital collections development, and shared journal subscriptions. Through the California Digital Library, the UC libraries have negotiated dozens of favorable contracts with large publishers and vendors, resulting in millions of dollars in savings for digital serial licenses and other digital materials.

THE LIBRARY PROGRAM

Over the last 25 years, the University has employed a systemwide strategy that emphasizes not only campus collaboration and application of new technology to create a multi-campus library system with capabilities for coordination and sharing of resources that are unequalled by the research libraries of comparable university systems, but also innovations in organization and technology resulting in millions of dollars in avoided costs. Through their campus libraries, UC faculty and students have enjoyed increasingly faster and more convenient access to a larger universe of information in a wider variety of formats, even in the face of rising costs and constrained budgets. The UC Libraries have developed numerous programs that increase access for and decrease cost to the University and Californians.

Discovery and Delivery Services for print and digital library materials connect faculty, students, and staff with seamless access to the UC libraries' extensive research collections. These core services include the MELVYL catalog, direct linking to online journal articles via UC-eLinks, and the Request Service to facilitate intercampus lending and document delivery. The Request Service, developed by the UC libraries, sends interlibrary loan requests directly to the lending institutions. Request users can get journal articles delivered via the web, save their profile information, and get automatic citation information, all of which saves time and effort for patrons.

UC's Resource Sharing Program, including overnight courier services, facilities for immediate scanning and electronic delivery of journal articles and other brief items, and interlibrary lending, expedites the borrowing of materials across the system.

UC's Regional Library Facilities (RLFs) in Richmond and Los Angeles house over 12 million volumes of infrequently-used materials of enduring research value deposited by campus libraries. The RLFs also house the UC Shared Print Collection, which contains single print copies of material widely available in electronic format, for systemwide use or archival purposes. The existence of a designated shared print collection enables individual campuses to discard duplicate print copies with the secure knowledge that there is a central collection available.

In order to achieve even further economies of scale, the UC libraries are leading an initiative to establish a regional shared print journal archive with other institutions in the western region of the United States. The **Western Storage Regional Trust** is charged to develop a sustainable, scalable model for the collective storing and managing of print materials, which will help libraries at UC and beyond make collection decisions that make more efficient use of limited shelf and storage space.

The **California Digital Library** supports the development of systemwide digital collections and facilitates the sharing of materials and services used by libraries across the UC system. Through systemwide co-investments with the campus libraries, the CDL makes approximately 44,000 online journals available to students, faculty, and staff from all UC campuses. The CDL maintains the Online Archive of California, which includes 170,000 digital images and documents from 150 libraries, archives and museums across the state; a Web Archiving Service; a data curation center; eScholarship for publishing open access scholarly materials; and Calisphere, a compendium of freely accessible online collections for California K-20 education.

Scholarly publishing initiatives sponsored by the libraries and CDL benefit the entire UC system by rapidly making cutting-edge and in-process research available. The libraries have developed and promoted alternative means of publishing, including infrastructure that supports open

access more cost-effectively than options made available by publishers.

Mass Digitization. Millions of books from the UC libraries are being scanned through participation in mass digitization projects, and made available through the Melvyl catalog and partnerships with Google and the Internet Archive.

The UC Libraries are founding partners in the **HathiTrust**, a collaboration of top-tier research universities to archive and share their digital collections. Through the HathiTrust, UC gains access to millions of digitized materials and a reliable back up for the archiving of UC's materials.

The **UC Curation Center (UC3)**, a partnership of the CDL and UC libraries, will help ensure that research data archiving and preservation meet the requirements of funding agencies by leveraging expertise and resources across UC to provide management, curation, and preservation of scholarly data.

UC libraries are continuing to create high-quality collections in digital and traditional formats, expanding their collaborative activities for increased efficiency, and leading the way in the development of new licensing approaches, new publishing models, and pioneering solutions for the preservation and curation of digital materials. The libraries ensure that faculty, students, staff and the general public have access to the world of UC's scholarly collections and beyond. The services offered by the libraries demonstrate that investments in technologies to improve service for students and staff also have enormous potential to benefit all Californians in knowledge creation, technology transfer, economic development, and lifelong learning.

The wider availability of scholarly materials promises to stimulate greater innovation in UC research, expand access for the people of California to the University's rich scholarly information resources, help ensure the preservation of holdings, and enable significant efficiencies in collection management. These advances, in turn, support the mission of UC as a leading research engine in the growth of California, the advancement of knowledge, and the education of California's youth for a competent workforce.

"Our campuses support world-class museums, performance venues, botanical gardens and marine centers that extend learning for our students while sharing our vast cultural resources with the public."

Lawrence Pitts
University of California
Provost

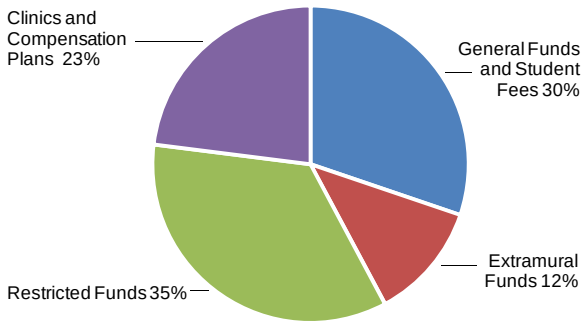
Academic Support — Other

Academic Support — Other includes various clinical or other support activities that are operated and administered in conjunction with schools and departments. The University's clinics are largely self-supporting through patient fees. State funds for Clinical Teaching Support are appropriated to the University for the hospitals, dental clinics, and neuropsychiatric institutes operated by UC, in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes.

In addition, a variety of other, non-clinical activities provide academic support to campus programs, experiences for students, and valuable community services. Their financial support is derived from a combination of State funds, student fees, contracts and grants, and other revenue.

The State's ongoing fiscal crises have resulted in significant budget reductions throughout the University's budget. Academic and Institutional Support budgets were targeted by the State for specific cuts of $36.5 million in 2003-04 and another $45.4 million in 2004-05. Since then, campuses have instituted additional targeted cuts to these programs associated with more recent budget shortfalls.

Display X-1: 2009-10 Other Academic Support Expenditures by Fund Source



Expenditures totaled $1.2 billion in 2009-10. Clinics and other services are largely self-supporting through revenue other than core funds.

UNIVERSITY CLINICS AND HEALTH CENTERS

Occupational Health Centers

The occupational health centers at Berkeley, Irvine, and Los Angeles were created as a joint project of the California Department of Industrial Relations and UC to help serve the occupational health needs of California. Each center serves as the focal point for occupational health-related activities on the campuses in its geographical area, thereby strengthening the University's programs of teaching and research in these fields.

Veterinary Clinics

The veterinary medicine clinical teaching facilities at Davis and in the San Joaquin Valley, and the satellite site in San Diego, are specialized teaching hospitals and clinics that support the School of Veterinary Medicine. Students enrolled in veterinary medicine are trained at these facilities by faculty of the School of Veterinary Medicine in the clinical aspects of diagnosis, treatment, prevention, and control of diseases in animals.

Community Dental Clinics

The on-campus and community dental clinics at Los Angeles and San Francisco serve primarily as teaching laboratories in which graduate professional students pursue organized clinical curricula under the supervision of dental school faculty. The clinics provide a spectrum of teaching cases that are generally not available in the on-campus clinics, thus enhancing the required training in general and pediatric dentistry. While providing valuable clinical experience for students, the clinics also serve to meet the dental health needs of thousands of low-income patients, many of whom would not otherwise receive dental care.

Optometry Clinic

The optometry clinic at Berkeley serves primarily as a clinical teaching laboratory for the School of Optometry, while providing a complete array of visual health care

services for patients. At the clinic, optometry faculty supervise students in the clinical aspects of the prevention, diagnosis, and remediation of visual problems. In addition, students receive clinical experience at various Bay Area community health centers, which exposes them to a broad range of cases and provides a much-needed public service to the community.

Neuropsychiatric Institutes

UC's two neuropsychiatric institutes are among the state's principal resources for the education and training of psychiatric residents and other mental health professionals, and for the provision of mental health services. The primary missions of the institutes are to treat patients with diseases of the nervous system and to strive for excellence in the development of approaches to problems associated with mental retardation, and psychological and neurological disorders.

OTHER ACADEMIC SUPPORT PROGRAMS

In addition to the clinics, UC operates a wide variety of other programs administered with schools and departments. Selected programs are discussed below.

Demonstration School

The demonstration school at UCLA serves as a teaching laboratory for experimentation, research, and teacher training in the field of education. The schools educate children and contribute to the advancement of education through research efforts and application of results.

Vivaria and Herbaria

Vivaria and herbaria are centralized facilities for the ordering, receiving, and care of all animals and plants essential to instruction and research.

Museums and Galleries

The University operates many museums and galleries. These cultural resources are open to children and adults throughout the state and are largely self-supporting, generating revenue through ticket sales.

Other major activities under Academic Support — Other include academic computing, centralized support for schools and colleges, and support for the arts and specialized physical sciences and engineering projects.

"The financial success of our hospitals and health professional schools are inextricably linked. The financial climate will, in the future, stress this linkage."

Dr. John Stobo
University of California
Senior Vice President for Health Sciences and Services

Teaching Hospitals

The University operates academic medical centers at the Davis, Irvine, Los Angeles, San Diego, and San Francisco campuses. A critical mission of the medical centers is to support the clinical teaching programs of the University's five schools of medicine as well as programs in the University's other health sciences schools.

To a large extent, the core clinical learning experiences in the health sciences take place in the UC medical centers, although changing needs in medical education have required the development of more out-of-hospital educational sites and primary care networks. The University's academic medical centers operate in urban areas, and three of the five centers are former county hospitals whose operation the University assumed at the request of the State rather than constructing new teaching hospitals of its own. Each medical center has several primary care and specialty clinics distributed in the communities they serve. The medical center at Irvine operates two federally qualified health clinics, serving underserved populations. In 2006, UC led the initiative on behalf of the state to create a digital highway that would expand health care access to all corners of California. Officially launched in August 2010, the California Telehealth Network (CTN) will connect more than 800 facilities over the next three years, allowing over 300 California healthcare providers in underserved areas access to medical expertise and specialist knowledge around the state and nationwide through a live interactive video-conferencing network.

The medical centers provide a full range of health care services and are sites for testing the application of new information and the development of new diagnostic and therapeutic techniques. Four of the five medical centers currently operate as Level 1 Trauma Centers, capable of providing the highest level of specialty expertise and surgical care to trauma patients twenty-four hours a day, 365 days a year.

Display XI-1: UC Medical Centers At-A-Glance

The University's five academic medical centers constitute the fourth largest health care system in California.

Licensed acute care inpatient bed capacity	3,144
Patient days	851,591
Outpatient clinic visits	3,755,097
MDs awarded per year	637
Nursing degrees awarded per year	476

With their tripartite mission of teaching, public service, and research, the UC academic medical centers benefit both California and the nation. They provide excellent training for tomorrow's health professionals, educational opportunities for community health professionals who participate in the University's clinical teaching and continuing education programs, and health care services to thousands of patients each day.

UC's patients generally have more complex medical conditions than patients at many other institutions, which often can only be managed in tertiary referral hospitals such as UC's academic medical centers. The complexity of the patient population is reflected in the specialty and regional nature of the care provided. In alignment with the mission of advancing medical science and educating health professionals, the UC academic medical centers also play a critical role in maintaining healthcare access to medically vulnerable populations. This includes being major providers of care to Medicare and Medi-Cal eligible patients. Three of the medical centers have historically served a disproportionately high percentage of Medi-Cal patients, as well as uninsured patients, whose care may be covered only partially by county indigent care programs.

TEACHING HOSPITAL FUNDING SOURCES

The University's teaching hospitals earn revenue from a variety of sources, each with its own economic constraints, issues, and policies. The shifting political environment of

health care signals the possibility of changes to the hospitals' revenue sources over the next several years.

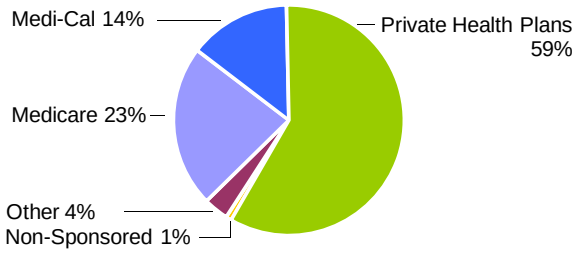
Medicare

Patient care reimbursements from Medicare, the federal governmental health insurance system for eligible elderly and disabled persons, constituted 22.7%, or $1.3 billion, of medical center revenues in 2009-10. Each of the medical centers is currently certified as a provider for Medicare services and intends to continue to participate in the Medicare program. Periodically, the requirements for Medicare certification change, which can require UC to alter or upgrade facilities, equipment, personnel, billing processes, policies, and services in order to remain certified.

Medicare Graduate Medical Education Payments. Medicare also provides teaching hospitals with Graduate Medical Education payments to help pay for the direct medical costs of providing medical education and for direct programmatic costs allowable under Medicare, such as salary and benefits for medical residents.

Furthermore, Medicare indirect medical education payments are provided to teaching hospitals for some of the indirect costs associated with medical education, such as the extra demands placed on the medical center staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents. The combined direct and indirect medical education payments in 2009-10 were $169 million, or 13.4% of Medicare reimbursement to the five medical centers.

Display XI-2: 2009-10 Medical Center Revenue by Source



In 2009-10, the medical centers generated $5.5 billion from patient care and other activities. While nearly 60% of medical center revenues are derived from private health care plan reimbursements, approximately 37% of medical center revenue comes from federal Medicare and Medi-Cal, jointly funded by the state and federal governments.

Medicaid/Medi-Cal

Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependents. Under Medicaid, the federal government provides grants to states that have medical assistance programs that are consistent with federal standards. Medicaid programs are operated by states and use various mechanisms to pay hospitals in their states.

Known as Medi-Cal in California, Medicaid provided 14.3%, or $795.8 million, of medical center revenue in 2009-10. The State selectively contracts with general acute care hospitals to provide inpatient services to Medi-Cal patients and each of the medical centers currently has a Medi-Cal contract.

Current Medi-Cal Waiver. The Medi-Cal Hospital/ Uninsured Care Demonstration Waiver, enacted through SB 1100 in 2005, is a five-year demonstration project that began in July 2005. The Centers for Medicare and Medicaid Services (CMS) grants waivers to some states, allowing them to set up a modified Medicaid financing system through Section 1115 of the Social Security Act, such as through a demonstration project.

Under the current Waiver, hospitals receive:

- fee-for-service reimbursement for inpatient hospital costs;
- disproportionate share payments, which are supplemental payments to hospitals, such as UC's medical centers, that serve a disproportionately large share of Medi-Cal beneficiaries and other low income patients; and
- Safety Net Care Pool payments, which are payments for otherwise uncompensated care provided to certain uninsured patients.

The current Waiver expired on August 31, 2010 and is being extended.

Successor Waiver. The waiver program that would replace the current waiver is being negotiated between hospitals and the California Department of Health Care Services, which administers the Medi-Cal program, and is subject to approval by CMS. The new waiver seeks to expand access to seniors, persons with disabilities, children

with special health care needs, and persons who are eligible under both Medicare and Medi-Cal (dual-eligibles).

Provider Fee. To help cover safety net hospitals' Medi-Cal costs that are not reimbursed by the Medi-Cal program, California's hospitals have developed a provider fee through AB 1653 (Statutes of 2010). Hospitals would assess fees on themselves and the resulting funds would then serve as the non-federal share to draw matching federal funds.

Due to timing of events and the economic downturn, the Waiver renewal and the implementation of the provider fee have been interwoven into the plan to rescue the state from its budget crisis.

Clinical Teaching Support. State General Funds are appropriated to the University in recognition of the need to maintain a sufficiently large and diverse patient population at the medical centers for teaching purposes. These funds, called Clinical Teaching Support (CTS), are generally used to provide financial support for patients who are essential for the teaching program because their cases are rare or complicated (providing good training experience), but who are unable to pay the full cost of their care. Prior to recent budget cuts, CTS funds represented about $45 million, about 1% of the total operating revenue for the medical centers in 2007-08. During the recent fiscal crisis, campuses have had the flexibility to reduce CTS funds to help address budget shortfalls. In 2009-10, CTS funds declined to $37.5 million.

County Funding Programs. Counties in the State of California reimburse hospitals for certain indigent patients covered under the county's adult indigent program. Counties use local tax dollars from their general fund to subsidize health care for the indigent. The downturn in the state's economy also affected local county revenues, creating increased competition among local services for reduced funds, severely constraining the ability of local governments to adequately fund health care services to the uninsured. Measures enacted to mitigate the impacts have not provided full relief. Total county funding represented $69.2 million, or 1.2% of teaching hospital funding.

Private Health Plans and Managed Care

Private health plans, in all forms, represent the largest source of revenue for the medical centers. Revenue from this source is about $3.3 billion in 2009-10, or about 58.7% of the total. Health care, including hospital services, is increasingly paid for by "managed care" plans that incentivize reduced or limited cost and utilization of health care services. Managed care plans pay providers in various ways, including:

- negotiated fee-for-service rates, and
- "capitation" payments under which hospitals are paid a predetermined periodic rate for each enrollee in the plan who is assigned or otherwise directed to receive care at a particular hospital.

Under each model of managed care, providers assume a financial risk for the cost and scope of institutional care provided to a plan's enrollees. If a medical center is unable to adequately contain its associated costs, net income is adversely affected; conversely, medical centers that improve efficiency or reduce incurred costs maximize revenue.

CURRENT CHALLENGES AND ISSUES

UC medical centers are subject to the same pressures currently confronting most hospitals, including:

- changes to the federal Medicare program that affect direct and indirect support for medical education and reimbursement for patient care;
- changes to federal Medi-Cal payments for patient care, including aggregate caps on supplemental payments;
- increasing unreimbursed costs related to medically uninsured patients;
- rising costs of pharmaceuticals and medical supplies;
- increasing salary and benefit costs, including reinstatement of employer contributions to UC's retirement system;
- financing seismic retrofit and other significant capital needs, such as upgrades necessary for programmatic changes;
- increasing demand for services and capacity constraints;
- a shortage of key personnel, particularly nurses, laboratory technicians, and radiology technicians, resulting in increased use of temporary labor;
- community preparedness activities, such as establishing procedures for responding to epidemics; and

- compliance with government regulations, such as AB 394, which established licensed nurse-to-patient ratio requirements, effective January 1, 2004.

Despite these economic issues, the UC medical centers must generate sufficient funds to meet their teaching mission and support their schools of medicine. The financial viability of the UC medical centers depends upon payment strategies that recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment, invest in infrastructure and program expansion, support medical education, and allow care for the poor.

HEALTH CARE REFORM

The enactment of health care reform in March 2010, through the Patient Protection and Affordable Care Act and the accompanying reconciliation bill, the Health Care and Education Reconciliation Act, is a historic opportunity to improve the nation's health care delivery system by expanding health insurance coverage by the year 2019 to 32 million Americans who are currently uninsured. Health care reform expands Medicaid coverage, offers coverage to adults not currently covered by safety net programs for the uninsured, provides broader access to insurance through the establishment of insurance exchanges, and includes many other provisions that would expand coverage.

Disproportionate Share Hospital Payments. UC medical centers and other safety net hospitals that provide care to a large number of low-income individuals stand to receive lower federal supplements through the federal Disproportionate Share Hospital (DSH) payments, which serve to compensate hospitals for this type of more costly care, and to help provide low-income individuals access to treatment. In order to expand health insurance coverage to another 32 million people, the health reform law reduces DSH payments to California hospitals, including UC teaching hospitals.

Medical Education Training. Because UC operates the nation's largest health sciences training program, changes to medical education training will have a major impact on funding for UC. There are four important components relevant to medical training at UC in the new health care bill:

- No reduction in Graduate Medical Education (GME) payments, despite many instances of payment reductions for other program providers in the health care reform bill. This is welcome news since UC has fought strongly to maintain Medicare's GME payments.
- Stable residency cap. No additional residency slots will be subsidized by Medicare.
- Added reimbursement for resident time spent in non-hospital settings, which will help train doctors to treat patients with chronic diseases such as diabetes.
- New rules for counting resident time for didactic/scholarly activities such as seminars.

Geographic Variations. UC's five academic medical centers are a major part of California's hospital safety net and provide complex care to a diverse population that includes many low-income patients. Health care costs are significantly higher in areas of poverty, where patients have less access to care and tend to be sicker when they arrive at hospitals, requiring more extensive, and thus more expensive, care.

"The University has a responsibility to provide its students with services that help them achieve the highest level of their aspirations in a safe and inclusive environment."

Judy K. Sakaki
University of California
Vice President – Student Affairs

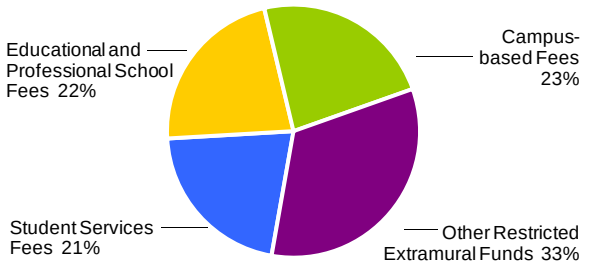
Student Services

Student services programs and activities contribute to the intellectual, cultural, and social development of students outside of the formal instructional process. These services can have a significant influence on students' academic outcomes and personal development, and can help build bridges between what students learn in the classroom and how they apply their knowledge and skills on campus and in the broader community.

Student services are supported entirely from non-State funds. In 2010-11, the student services budget is $621.9 million, most of which is generated from student fees. Student services include a variety of programs:

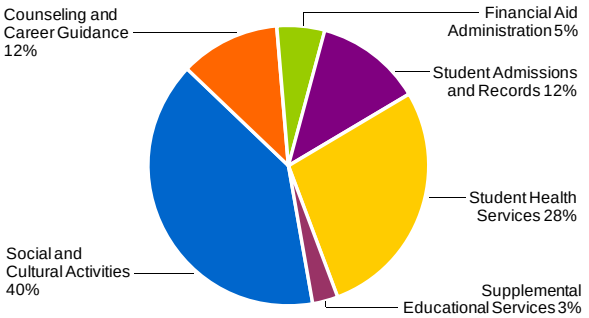
- **Counseling** assists students with personal concerns, academic performance, choice of major, assessing interests and aptitudes, and career opportunities.
- **Academic support services** offer individual and group tutorial services in writing, mathematics, and study skills, as well as preparation for graduate school exams.
- **Cultural and social activities** enhance quality of life for students and the campus community. Activities include music, dance, drama events, speakers, and sports.
- **Student health services** provide primary care and other services to keep students healthy, including general outpatient medical care; specialty medical care, including mental health services; and health education.
- **Campus admissions and registrar operations** include the processing of applications for admission, course registration, scheduling of courses, maintaining and updating student academic records, preparing of diplomas, and reporting of statistics.
- **Campus financial aid offices** counsel students about their financing options; determine and monitor the eligibility of students for financial assistance; and develop financial aid packages for students, which include scholarships, fellowships, grants, fee waivers/remissions, loans, and work-study jobs from federal, State, UC, and private sources.
- **Services to students with disabilities** include readers for the blind, interpreters for the deaf, note-takers, mobility assistance, adaptive educational equipment, disability-related counseling, and other services.

Display XII-1: 2009-10 Student Services Expenditures by Fund Source



Student fee revenue, including campus-based fee revenue, provides nearly 70% of the funding for student services.

Display XII-2: 2009-10 Student Services Expenditures by Program Category



In 2009-10, 80% of student services expenditures were for non-administrative activities in counseling, cultural and social activities, and student health services.

In the last year, questions have been raised about the fund sources used to support athletics programs. As a quality of life program for students, Student Services Fee revenue (formerly known as Registration Fee) is a legitimate source of funds for athletics and recreation. Under recently revised Regental policy, the fee "may be used to support services which benefit the student and which are complementary to, but not a part of, the instructional program."[1]

[1] The University of California Student Fee Policy is available at www.universityofcalifornia.edu/regents/policies/3101.html.

Athletics and recreation are primarily budgeted as a student service rather than an auxiliary enterprise, although three campuses manage a portion of their intercollegiate athletics and recreation programs as auxiliaries with self-supporting revenue sources, such as ticket sales and concessions.

Student services programs, as with most University programs, suffer from underfunding. Student services were adversely affected by severe budget cuts during the early 1990s, when the University was forced to make reductions due to the State's fiscal crisis; those cuts have not been restored. In 2002-03, student services programs were again reduced by a mid-year cut of $6.3 million, which grew to $25.3 million in 2003-04 – equivalent to a 20% reduction in Student Services Fee-funded programs. These reductions occurred when student enrollment increased with corresponding growth in demand for student services, including during summer.

Due to the University's continued budget shortfall across the system, campuses estimate that they will continue to reduce staffing during this fiscal year. Student Services positions have been eliminated, frozen, and consolidated, even though the demand for student services continues to grow on each of the campuses.

As student needs change and as greater numbers of students enroll at UC campuses, it is becoming increasingly difficult to provide adequate services for students in the face of severely reduced budgets. Achieving adequate support for student services remains a high priority.

REGISTRATION FEE TASK FORCE

Revenue from the Student Services Fee, formerly known as the Registration Fee, provides about one-fourth of all University funds spent on student services. (As noted in the *Student Tuition and Fees* chapter, revenue from the Student Services Fee supports services that are necessary to students, but not part of UC's programs of instruction, research, or public service.) In 2009-10, a systemwide Registration Fee Task Force, consisting of executive vice chancellors, leadership from student affairs, planning and budget, student leadership, and faculty from throughout the University system, convened and ultimately proposed a number of revisions to the policy governing the fee. In May 2010, the Regents approved the proposed revisions, which included changing the name of the Registration Fee to the Student Services Fee, establishing a return-to-aid component for future increases in the fee, adding factors for Presidential consideration when recommending the appropriate fee level to the Board, and an expanded articulation of the role of students in setting the fee level. The Task Force also created guidelines, approved by the President in July 2010, for campus implementation of the policy governing the Student Services Fee; the guidelines discuss the use of fee revenue, the responsibilities and structure of Student Fee Advisory Committees, the content of student fee websites, and annual campus reports on expenditures for Student Services Fee-funded programs.

STUDENT MENTAL HEALTH SERVICES

In recent years, student mental health issues have become a growing concern at UC as well as at other higher education institutions across the nation. Psychological counseling has become an area of major importance, given the increasing numbers of students arriving annually who are on medications or who otherwise manifest behavioral or other psychological issues that negatively impact their wellness and academic performance or that of other members of the UC community.

A comprehensive systemwide review of student mental health issues and the challenges associated with providing these necessary services, which was presented to the Regents in September 2006, found the following:

- consistent with national trends, UC students are presenting mental health issues with greater frequency and complexity;
- budget constraints limit campus capacity to respond to mental health issues and result in longer student wait times, difficulty retaining staff, and decreased services and programs; and
- increasing demand and declining capacity pose a threat to the learning environment because of the significant adverse impacts on faculty, staff, and fellow students when students are inadequately cared for through the existing mental health system.

Recommendations in the final report were organized within a three-tier model: Critical Mental Health Services, Targeted Interventions for Vulnerable Groups, and Creating Healthier Learning Environments. The model was created to provide a framework for meeting the fundamental mental

health needs of students and for providing safe and healthy campus environments across the system.

The recommendations include:

- Tier 1, restoring critical mental health services to fully respond to students in distress or at risk;
- Tier II, implementing and augmenting targeted interventions through education, support, and prevention programs, and restoring staffing levels in those units best poised to assist high-risk students; and
- Tier III, taking a comprehensive approach to creating healthier learning environments by enhancing the full spectrum of student life services, and by revising administrative policies and academic practices that influence communication and collaboration around these issues.

In response to the urgent priority to enhance mental health services, in 2007-08 and 2008-09 the University dedicated $12 million in funding from Student Services Fee increases for this purpose. As reported to the Regents in March 2009, campuses have made substantial progress in expanding mental health services. For example, between 2005 and 2007, counseling wait times decreased from 31 to 8 days, and the psychologist-to-student ratio improved by 26%. The University continues to monitor student mental health and the effectiveness and adequacy of new initiatives and programs supported by this new funding. Student mental health issues remain a serious concern at the University and further investment in improving these services may be needed.

OTHER FUTURE NEEDS

Campuses have identified the following critical needs for additional student services funding, should the State's fiscal situation permit new initiatives at some future point:

- Campuses need increased funding for academic support programs, including tutoring in writing, mathematics, and study skills, as well as preparation for graduate and professional school exams. Additional funds are also needed to help bridge the digital divide between those students who enter the University with high levels of experience using technology and other students, particularly those from lower income or disadvantaged backgrounds who do not have the skills necessary to take full advantage of the available technological resources on campuses.
- The strain on student services budgets has been exacerbated over time by the increasing demand for services to students with disabilities, many of which are very expensive and cause limited student services funds to be spread even more thinly. There has been an increase in the number of students needing interpreting and/or real-time captioning services (costs have increased for interpreters), as well as services for those suffering from repetitive stress injuries, and who require multiple forms of auxiliary services and assistive technology.
- Additionally, larger numbers of veterans are enrolling at UC and many of these students have a combination of physical and emotional disabilities that require greater levels of service.
- Campuses have not had the resources to invest sufficiently in major student information systems (e.g., student information services; web-based services; and registration, admission, student billing, financial aid, and accounting services) to meet the current and future needs of students and student service organizations.

"Throughout the UC system we are exploring ways to work smarter and reduce operating expenses in order to sustain the quality of our academic programs."

Nathan Brostrom
University of California
Executive Vice President for Business Operations

Institutional Support

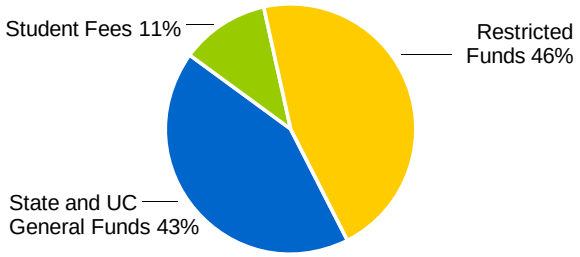
Institutional support services provide the administrative infrastructure for the University's operations. Grouped into five broad categories, institutional support activities include:

- **Executive Management** — offices of the President, Vice Presidents, Chancellors, Vice Chancellors, the Academic Senate, and planning and budget;
- **Fiscal Operations** — accounting, audit, contract and grant administration, and insurance management;
- **General Administrative Services** — information technology, human resources, and environmental health and safety;
- **Logistical Services** — purchasing, mail distribution, police, construction management, and transportation services; and
- **Community Relations** — alumni and government relations, development, and publications.

State funding for institutional support has failed to keep pace with enrollment and other program growth and general inflation. Moreover, the University faces a growing body of unfunded mandates affecting institutional support, including new accounting standards, growing accountability requirements, and increased compliance reporting in areas ranging from environmental health and safety to fair employment practices and compensation issues. To comply with these unfunded mandates, the University has absorbed increased costs of new data collection processes, changes to existing information and reporting systems, and analytical staff.

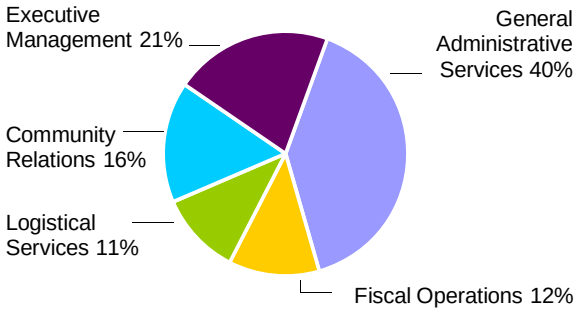
Despite these added expenses, institutional support expenditures as a proportion of total University expenditures have actually decreased over the last 30 years. Institutional support budgets are often one of the first areas of the budget to be reduced in difficult economic times. In response, UC administrative units have implemented new processes and improved use of technology to increase productivity in order to meet increasing workload demands under constrained budget situations.

Display XIII-1: 2009-10 Institutional Support Expenditures by Fund Source



Core funds provide 54% of institutional support funding. Significant other sources include private funds, endowment earnings, and indirect cost recovery for contract and grant administration.

Display XIII-2: 2009-10 Institutional Support Expenditures by Category

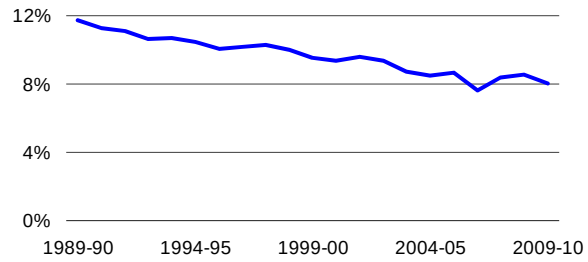


Logistical services, fiscal operations, and general administrative services comprise nearly two-thirds of institutional support expenditures.

Since the early 1990s, institutional support budgets have been deeply impacted as a result of the State's fiscal problems. Due to legislative intent language and the shared desire of the University and the State to protect core academic programs, institutional support has often been targeted for additional cuts over the years:

- Between 1995-96 and 1998-99, budget reductions totaled $40 million, consistent with productivity improvements mandated under a four-year Compact between then-Governor Wilson and higher education.

Display XIII-3: Institutional Support as a Percentage of University Spending



Since 1989, spending on institutional support as a percentage of total UC expenditures has dropped steadily, from nearly 12% in 1989-90 to 8.0% in 2009-10.

- In 2003-04 and 2004-05, institutional support and academic support budgets were reduced by a total of $81.9 million.
- For 2008-09, the State directed that $32.3 million be reduced from institutional support.

In addition to these base budget cuts, unavoidable cost increases related to faculty merits, employee health benefits, purchased utilities, and maintenance of new space have often been funded by redirecting resources from institutional support. Reduced funding of institutional support limits essential investment in UC's technology infrastructure and constrains fund raising and development activities at a time when such activities are more critical than ever to sustaining the institution.

To address the $32.3 million reduction required in 2008-09, as well as the University's own desire and efforts to streamline and improve the effectiveness of administrative services, savings were generated through the restructuring of the Office of the President (UCOP). Additional savings were realized through campus administrative efficiencies as campuses have downsized in response to budget cuts. The *Cross-Cutting Issues* chapter of this document includes a discussion of systemwide efforts to reduce operating costs.

UCOP RESTRUCTURING

In April 2007, the University began an initiative to improve the administrative efficiency and effectiveness of UCOP, which has had a beneficial impact across the UC system. A lengthy assessment recommended rebuilding UCOP as an efficient and high performing organization that is both smaller and more focused in mission.

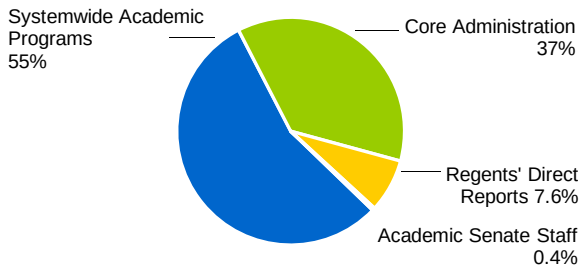
Since 2007-08, total reductions, including core administrative units at UCOP, the Academic Senate, and the Regents' Offices, are estimated to have reduced the budget by a total of 16%, from $523.8 to $438.5 million. Roughly $30 million of the budget reduction has been achieved through the transfer of programs to campuses. The remainder ($55 million) has been the result of voluntary separations, layoffs, consolidations and restructuring, new administrative efficiencies, and expenditure reductions. Since 2007-08, staff reductions have totaled 29%, or nearly 600 FTE—from 2,069 to 1,480.

Restructuring of UCOP has included thorough department-by-department functional analyses, providing the basis for consolidation of many functions. These measures include consolidation of fragmented functions within UCOP to reduce redundancy, establishment of new "service centers" for important systemwide functions, and elimination or reduction of low priority activities.

As shown in Display XIII-4, over half of the UCOP budget supports systemwide academic programs. Core administration accounts for another 37% and the remainder is Regents' direct reports and Academic Senate staff.

In 2010-11, the UCOP budget increased slightly, reflecting several new obligations, including $7.6 million in retirement contributions and increased benefits costs, $4 million to restore funding for the Discovery Grants Program, $4 million in new one-time investments in systemwide

Display XIII-4: 2010-11 UCOP Budget by Category



The majority of the UCOP budget supports systemwide academic programs, including centrally-managed research programs, the UC Education Abroad Program, the California Digital Library, and a number of student academic preparation programs.

information technology initiatives that are being launched to achieve significant future administrative efficiencies, and a technical adjustment in the way multi-year state research funding is recorded in the current year.

The UCOP budget represents about 2% of the overall University of California budget, with less than 1% supporting core administrative functions. This level of support compares favorably to other public university systems, most of which have central administrations that do not have responsibility for such things as systemwide retirement and benefits programs, centralized undergraduate admissions, and administration of national laboratories.

UCOP remains critical to the success of the UC system. A well-operated central administration can reduce redundancy across the system and help strategically position the campuses to excel at the University's core mission.

GROWTH IN NON-ACADEMIC PERSONNEL

The growth in academic versus non-academic personnel is a topic that reemerges periodically, particularly during times of budgetary shortfalls and during salary negotiations for specific employee groups. The current budget crisis has rekindled concerns that growth in "administration" is outpacing growth in student enrollments, and has come at the expense of faculty growth and the University's instructional program. An analysis of financial and payroll data from fiscal years 1997-98 and 2008-09 helps to clarify where personnel growth has occurred and identifies primary factors driving such growth.

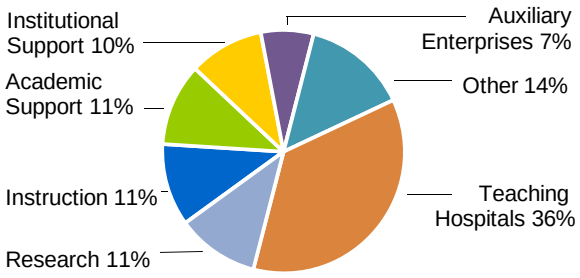
Almost three-quarters of the 152,400 full-time equivalent (FTE) personnel at the University in 2008-09 were employed in non-academic personnel categories—Professional Support Staff (PSS), Managers and Senior Professionals (MSP), and the Senior Management Group (SMG). This proportion has been stable since 1997-98.

The high percentage of non-academic staff reflects the complexity of the institution, the extraordinary array of functions that support its tripartite mission of teaching, research, and public service, and in part the way that personnel are classified. Non-academic personnel include thousands of employees at UC's medical centers and the campuses, many of whom provide direct services to students, faculty, and the public. These non-academic staff include the following:

- health care and allied service professionals at medical centers and campus health centers;
- food service workers in UC dining halls and restaurants;
- UC police forces;
- gardeners, janitors, and others who tend to UC's grounds and buildings;
- student mental health advisors;
- student services and activities coordinators and advisors;
- athletic coaches and recreational staff;
- accountants, budget analysts and other fiscal services professionals;
- compliance and audit analysts;
- architects and engineers;
- community relations, alumni outreach, and development staff;
- laboratory, supervisors and support personnel; and
- clerical employees throughout University operations.

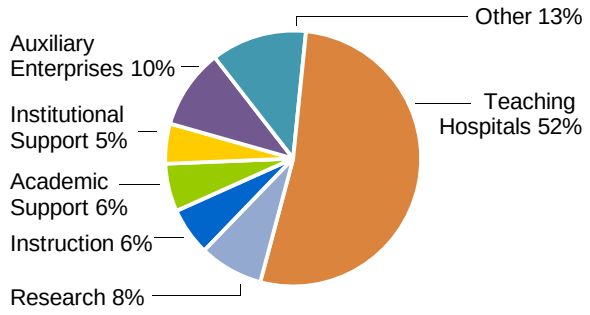
As shown in Display XIII-5, non-academic personnel are distributed broadly across the University. Over one-third are employed at the teaching hospitals; another third are employed in research, support faculty and instructional activities in the academic departments or work in UC's libraries, museums and galleries, IT support, and other ancillary support activities; about 7% of UC's non-academic staff work in auxiliary enterprises, such as housing and dining services; and 10% are employed in areas covered by institutional support. The remaining 12% of non-academic

Display XIII-5: Non-Academic FTE Employees by Function, 2008-09



Teaching hospitals employ over one-third of UC's non-academic staff, with the rest of staff positions distributed more or less equally across other functional areas of the institution.

Display XIII-6: Distribution of Growth in Non-Academic FTE Employees by Function, 1997-98 to 2008-09



Over half the growth in UC's non-academic FTE since 1997-98 has occurred at the teaching hospitals. Relatively lower growth in instruction, academic support, and institutional support reflect reduced State support for core programs.

staff are involved in student services, maintenance and operation of campus facilities, and public service.

While increases in student enrollment have played a role in employment growth across the University, increases in employee FTE have been driven primarily by expansion in teaching hospitals, research, and auxiliary enterprises (as shown in Display XIII-6), areas largely supported from fund sources other than State General Funds and student fees. Combined, non-General Fund sources support over 73% of all UC FTE, an increase from 68% in 1997-98. This reflects, as well, the relative decline in State fund support over this period.

Academic appointees continue to make up the same relative percentage (26%) of total FTE employee as they did in 1997-98. This reflects growth in instruction in combination with the expanding research enterprise. Academic employees include instructional faculty, professional researchers, librarians, and postdoctoral scholars. Growth in FTE faculty (36%), including ladder rank and non-ladder rank faculty, as well as lecturers, slightly outpaced growth in student enrollments (33%).

Although non-academic staff have remained relatively constant as a percentage of all UC personnel, an increasingly complex University system requires greater professionalization of its staff, who must meet higher technical and competency standards. This transformation is consistent with current national trends. Increasing staff professionalization is reflected in a decrease in FTE employees in entry-level titles and an increase in more advanced PSS titles. Staff in the higher-level Assistant III titles in the basic clerical/administrative series of the PSS personnel program increased 85%, while staff in the mid-range Assistant II titles fell 31%, and Assistant I titles, populated with entry-level positions, declined by 78% between 1997-98 and 2008-09. There has also been a modest shift in the distribution of employees from the PSS to the MSP category, with MSP titles growing from 3% to 5% of all FTE personnel, while PSS titles experienced a corresponding decline of 2% — from 70% to 68%. The MSP category includes not only managers but a wide variety of other class titles—among them Computer Programming and Analysis, Physicians and Dentists, Nursing Services, Engineering, and Administrative Budget/Personnel Analysis. While still comprising over half of the FTE in the MSP category, Manager class titles have declined slightly from 58% in 1997-98 to 54% in 2008-09, while Computer Programmer and Analyst titles have increased from 13% to 17%. There have also been small increases in the relative proportion of MSP FTE employees in Nursing Services and Engineering.

The number of executive leadership personnel (SMG) declined during this period from 315 to 293 FTE, and continues to represent well below 1% of total FTE employees.

"Our campuses are living laboratories for many of the sustainable, energy-efficient innovations that derive from our faculty. We like to practice what we teach."

Patrick J. Lenz
University of California
Vice President for Budget and Capital Resources

Operation and Maintenance of Plant

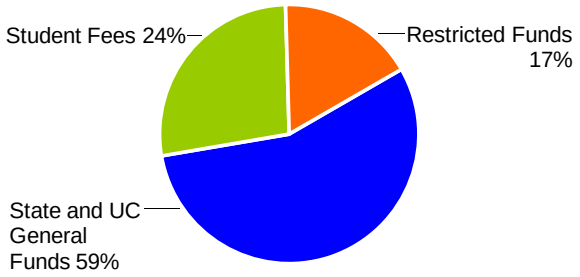
An essential activity in support of the University's core mission of instruction, research, and public service is the operation and maintenance of plant (OMP), including facilities, grounds, and infrastructure. UC maintains 125 million gross square feet of space in over 5,000 buildings at the ten campuses, five medical centers, and agricultural field stations. Over 60.5 million square feet (nearly 50%) is eligible to be maintained with State funds. The remaining space houses self-supporting activities, such as the medical centers and other auxiliary enterprises. OMP costs of facilities housing these self-supporting programs are included in their budgets. The OMP budget for the State-eligible space totals $567.6 million in 2010-11.

Three types of funding are required to operate, maintain, and preserve facilities and supporting campus infrastructure:

- **ongoing support for operation and maintenance of plant (OMP)** – includes building maintenance and purchased utilities;
- **capital renewal** – the systematic replacement of building systems and campus infrastructure to extend useful life; and
- **deferred maintenance** – the unaddressed backlog of renewal resulting from chronic underfunding of OMP and the lack of regular and predictable investment in capital renewal.[1]

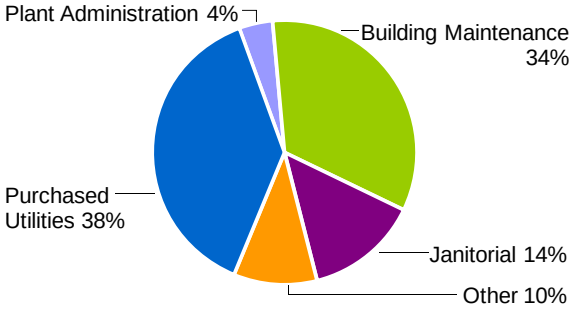
The impact of severe State budget cuts in 2008-09 and 2009-10 on funding of University facilities must be viewed against the backdrop of the existing challenges campuses have faced in recent years as they have sought to maintain facilities that can effectively support the University's vast array of instruction, research, and public service programs. The latest budget cuts compound years of underfunding, particularly for basic building maintenance, and the historical absence of systematic funding of capital renewal. Chronic underfunding of OMP shortens the useful life of building systems, accelerating capital renewal costs.

Display XIV-1: 2009-10 OMP Expenditures by Fund Source



The bulk of OMP expenditures are supported by State and UC General Funds and student fees funds.

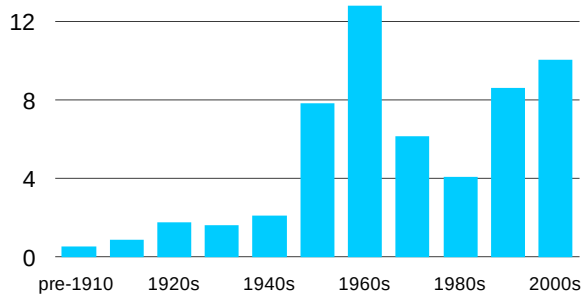
Display XIV-2: 2009-10 OMP Expenditures by Category



Purchased utilities to light and heat UC facilities account for nearly 40% of OMP expenditures. Building maintenance accounts for another third.

[1] Deferred maintenance is a catch-all phrase that is often used to mean different things. As used in this chapter, deferred maintenance is more accurately defined as "deferred renewal," since it refers to the accumulated backlog of deferred capital renewal of building and infrastructure systems. In its more traditional usage, deferred maintenance refers to the deferral of basic maintenance due to insufficient operating funds. Deferred maintenance in this traditional sense is addressed here in the context of chronic underfunding of ongoing operation and maintenance.

Display XIV-3: State-Maintained Space by Decade of Construction (Gross Square Feet in Millions)



Due to the rapid expansion of the University during the 1950s and 1960s, about 60% of State-eligible space is more than 30 years old.

Problems arising from underfunding of OMP have been further compounded by rising costs to operate and maintain the University's vast inventory of aging facilities. About 60% of the University's State-eligible space is more than 30 years old, with the majority of that space built between 1955 and 1975. These aging facilities are more expensive to maintain and, with building systems at or beyond their useful life, a principal driver of the University's escalating capital renewal needs. Moreover, specialized research facilities comprise a growing percentage of the University's inventory of State-eligible space. These facilities strain limited OMP funds with higher maintenance and utility costs. Nearly a decade of dramatically rising purchased utilities costs and a growing inventory of State-eligible but unfunded space also exacerbate the OMP funding shortfall.

With operation and maintenance budgets already reduced, most campus facilities departments have been required to implement reductions in OMP staff to absorb the cuts over the last several years. These reductions in operation and maintenance budgets coincide with the State's inability to provide adequate funding to support new space at the University, increases in basic operating costs due to continuing growth in campus physical plants, and substantial new compensation commitments from recently-negotiated collective bargaining agreements that affect many OMP staff.

OMP funding supports several facilities service functions, including regular building and grounds maintenance, janitorial services, utilities operations, and purchased utilities. OMP funding of building maintenance and other facilities service functions (excluding purchased utilities) was estimated to fall between 60% and 70% of standard before the recent fiscal crisis, based on workload standards developed in the early 1980s by the University and CSU in conjunction with the Department of Finance and the Legislative Analyst's Office.[2]

In recognition of more than two decades of chronic underfunding of the University's OMP needs, the Legislature proposed a funding plan in 1996-97 to begin to eliminate over four years an estimated $60 million funding shortfall for ongoing maintenance services by providing $7.5 million in State funds each year to be matched by an equal amount of University funds. The University provided its share of the funding during the first two years of the plan, for a total of $13.5 million; however, due to the State's fiscal constraints, the State was unable to provide its share.

Beginning in 1999-00, the Partnership Agreement with Governor Davis called for annual improvements in OMP funding to be provided as part of a 1% increase to UC's General Fund base, with a goal of funding two-thirds of the OMP funding shortfall over a four-year period. Increases were provided for OMP of $4 million in 1999-00 and $4.5 million in 2000-01, but none thereafter due to the deterioration of the State's fiscal situation.

For 2008-09 through 2010-11, the Compact with Governor Schwarzenegger also called for an additional 1% base budget adjustments to be used to address critical shortfalls in State funding for core academic support functions, including ongoing building maintenance. Due to the State's fiscal crisis, this provision of the Compact was not funded.

[2] The OMP workload standards developed over 25 years ago established minimum baseline costs for operating and maintaining average buildings at UC and CSU. In the years since those standards were developed, however, programmatic changes, particularly in the sciences and engineering, have required that the University construct more facilities to support a complex array of advanced research and technology-oriented programs to meet evolving teaching and research missions. These facilities, in general, are more energy intensive and contain technology and complex mechanical systems that are more costly to operate and maintain, and have higher capital renewal requirements than other University facilities. As the University's building mix shifts, the OMP workload standards developed in the early 1980s grow increasingly obsolete and fail to reflect full OMP funding requirements.

SUPPORT FOR NEW SPACE

Funding for operation and maintenance of new space is an essential annual budget need. Unfortunately, the State's ongoing fiscal crisis has prevented the State from providing adequate operation and maintenance funding for much of the last decade, including no funding in 2008-09 and 2009-10, at a time when the University has added considerably to its building inventory to meet the demands of a decade of enrollment growth. The cumulative shortfall in funding of new space over the last eight years has exacerbated the effects of the long term underfunding.

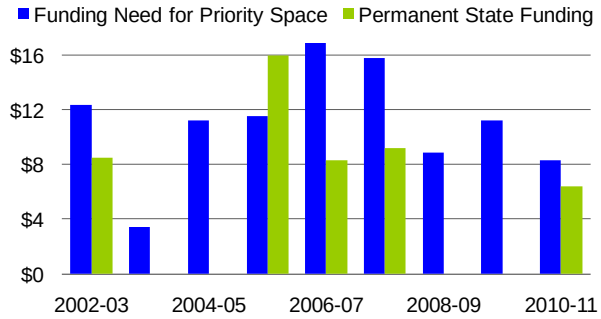
In 2002-03, the State provided OMP support for utilities and maintenance costs for only about two-thirds of the new core instructional and research space. During 2003-04 and 2004-05, the State provided no funding for new space and the University redirected $7 million from existing University resources to address the most critical operation and maintenance needs for the new space added during that period. In 2005-06, $16 million of funding was provided by the State to support space added that year and to partially backfill the unfunded space that had opened during the preceding two years.

In response to legislative supplemental language, the Department of Finance, the Legislative Analyst's Office, UC, and CSU revised the marginal cost of instruction calculation formula in 2006-07 to reflect more accurately the cost of hiring new faculty, as well as of maintenance of new space. Using the new methodology[3], $8.3 million was provided in 2006-07 and another $9.2 million was provided in 2007-08 for new space.

With no State funding for OMP in 2008-09 due to the State's fiscal crisis, the University redirected $9.7 million of permanent savings from restructuring at the Office of the President to ensure that campuses had basic operating and maintenance funds to open 983,000 gross square feet of new space.

Given the absence of State funding again in 2009-10 and the State's continuing fiscal difficulties, the University redirected one-time savings from debt restructuring to provide $11.2 million in 2009-10 and $19.5 million in 2010-11 to cover maintenance of new space. This funding did not address the significant permanent budget need to support this new space, but it did provide temporary relief, especially to those campuses opening large core instructional and research buildings at a time of significant cuts to operating budgets. This temporary funding covered operation and maintenance costs of approximately 1.1 million gross square feet of new space in 2009-10 and additional space anticipated to open in 2010-11.

Display XIV-4: Annual Need and State Funding for Maintenance of New Space (Dollars in Millions)



During six of the last seven years, the need for funding to maintain new space has exceeded State appropriations.

The 2010-11 State budget provides $51.3 million for 5,121 new full-time-equivalent students (based on a marginal cost of instruction of $10,012). Of this amount, approximately $6.4 million covers maintenance costs of new space.

State funding of the marginal cost of instruction for the remaining 11,570 FTE students enrolled in UC for whom the State has not provided funding would provide over $12.5 million in additional funding for maintenance of new space—an amount that would cover most of the remaining unfunded new space opened since 2009-10, but not the shortfalls before 2009-10. Continuing to redirect funds from within strained existing resources to operate and maintain facilities is not sustainable over the long term.

PURCHASED UTILITIES

For 2011-12, the University estimates an increase in purchased utilities costs of only $5.5 million, based on a projected increase of 2% for electricity and 3.5% for natural

[3] A discussion of the marginal cost methodology may be found in the *General Campus Instruction* chapter.

gas.[4] This softening of energy commodity costs is a significant change from recent years. As discussed below, however, longer term forecasts identify a number of factors that may potentially drive a resurgence of higher energy costs in the next few years.

Purchased Utilities Costs and Funding Since 2001

Since the energy crisis of 2001, rising electricity and natural gas prices have had a severe impact on the ability of campuses to manage overall OMP costs. The University's expenditures for commodity costs for electricity and natural gas have jumped by 120% since 1999-00. Escalating energy costs have forced campuses to redirect funds from other programs and make cuts within constrained OMP budgets. The University would have faced even greater cost increases had it not negotiated longer-term direct access electricity contracts with third parties and procured natural gas through the State's procurement program.

The University first experienced steep increases in purchased utility costs in 2000-01 and 2001-02 as a result of the statewide energy crisis. While the UC/Enron "direct access" contract protected several UC campuses from the volatility of statewide electricity rates until March 2002, the University paid increasingly higher rates for natural gas throughout 2000-01 and 2001-02. The State appropriated $75 million in 2000-01 and 2001-02 to help the University offset these increases in purchased utility costs, with $20 million intended as a permanent allocation. However, mid-year budget cuts in 2001-02 eliminated $25 million of this total, including all of the permanent allocation, leaving only $50 million of one-time funds to address the substantial ongoing shortfall in the purchased utilities budget. Since 2001-02, no State funding to offset increasing utility costs has been appropriated beyond that provided in the Compact, which was only sufficient to cover increases of about 4% per year. After the big price surge in 2001-02, the University's purchased utilities costs continued to rise at an average rate of 8% annually through 2007-08. Since 2008-09, overall energy commodity costs have softened due largely to declining natural gas prices. New pressures in the energy markets are anticipated to push prices up again in the next few years.

In the absence of additional State funding, campuses have absorbed the steep rise in energy commodity costs by reducing other operation and maintenance expenditures—a difficult tradeoff during a time of declining State funding and against the backdrop of historical underfunding of OMP—and by redirecting other program funds. Even with its aggressive efforts to reduce overall energy use, UC will need to continue to reallocate resources to cover shortfalls in purchased utilities funding.

Impact of UC Growth on Purchased Utility Costs

Purchased utilities costs are affected by both commodity rates and consumption levels. Higher commodity rates for electricity and natural gas have accounted for most of the steep rise in purchased utilities costs since 1999-00. Consumption has also increased, but at a slower rate than enrollment-driven growth in new space.

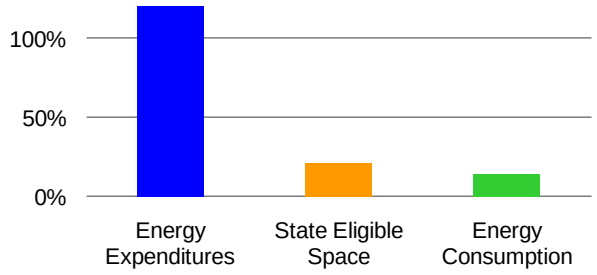
Between 1999-00 and 2008-09, the University's State-eligible space increased by 20% while consumption increased by only about 13%. This slower growth in energy consumption is noteworthy because much of the University's new space has been laboratory and other specialized research facilities, which can typically consume more than twice as much energy as basic classroom and office buildings. Complex buildings, which now comprise slightly less than half of the total State-eligible space, account for nearly two-thirds of the energy use in the University's State-eligible space, as shown in Display XIV-6. Energy efficiency measures have helped to mitigate much of this increased energy demand. With its requirement that new facilities be designed so that energy use is 20% below existing Title 24 State standards, the University's Policy on Sustainable Practices dictates that energy efficiency remain a priority for new construction. Nevertheless, as it continues to replace buildings with more complex laboratories and specialized research facilities supporting programs in engineering and the physical and biological sciences, the University will face challenges as it seeks to reduce energy consumption and keep costs down.

[4] The projection of electricity prices is based on investor-owned utility rate cases as filed for the period beginning in 2012. The natural gas forecast was provided by the Department of General Services.

Energy Efficiency to Mitigate Cost Increases

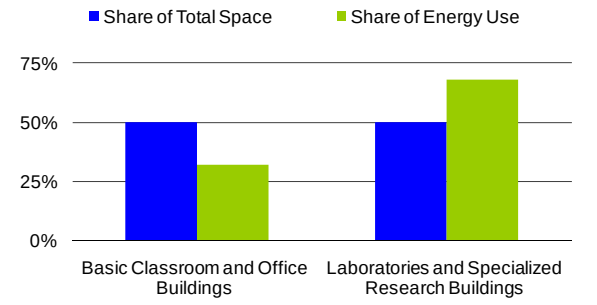
Without additional State funding, UC has sought to mitigate rising purchased utilities costs by moving aggressively to manage overall energy consumption. UC has continued to implement stringent energy conservation measures, undertaken capital improvements to maximize the efficiency of new buildings, taken measures to purchase energy at the lowest rates possible by negotiating with and procuring from third parties, and invested in energy efficiency projects, such as installing energy monitoring and metering systems and retrofitting existing facilities to install and upgrade temperature controls, efficient lighting systems, motors, and pumps. Other large scale conservation projects have included the development of new energy efficient co-generation facilities at the San Francisco, Los Angeles, Irvine, and San Diego campuses and the Davis Medical Center, and thermal storage facilities at the Davis, Irvine, Merced, and Riverside campuses.

Display XIV-5: Growth in Energy Expenditures, State-Eligible Space, and Energy Consumption between 1999-2000 and 2009-10



Between 1999-00 and 2008-09, the University's total maintained space has grown by 20%, energy consumption by 13%, and commodity expenditures for electricity and natural gas by 120%.

Display XIV-6: Energy Use by Building Type



Laboratories and specialized research facilities consume on average more than two times the energy used by campus classroom and office buildings.

Many of the University's energy efficiency projects have been subsidized through partnership programs with the state's investor-owned utilities. Between 2004 and 2009, the University implemented approximately $46 million of energy projects, garnering $23.5 million in incentive grants and $5 million in annual energy savings.

The University is currently implementing an ambitious new three-year partnership program (2010-12) to help meet its 2014 energy reduction policy. To support this larger incentive program, the University developed a Strategic Energy Plan that identifies opportunities for reducing energy use at each of the campuses and medical centers. Based on findings of the Strategic Energy Plan, the University has made a commitment to the state's utility providers to deliver a specified level of energy savings over the duration of the program. In March 2009, the Regents approved a $247 million program, with external financing providing $178 million, and utility incentive payments and other campus funds providing the rest. In September 2010, the Regents approved an augmentation to the program, authorizing $15.7 million of additional external financing for new projects at two campuses. The authorized financing ensures that campuses are able to fund project costs not covered by utility incentive awards. UC has also negotiated provisional budget language with the State to allow campuses to pledge operating funds for debt service on externally financed projects in State-supported facilities.

The partnership program is expected to include more than 900 energy conservation projects over the three-year period, to generate over $60 million in incentive payments from the utilities to offset project costs, and to deliver over $36 million in annual energy savings to the campuses. Debt service for both State- and non-State-supported projects completed over the three-year program is expected to be about $18 million annually for the 15-year term of the financing. The program is expected to reduce systemwide electricity consumption by 11%, natural gas consumption by 8%, and greenhouse gas emissions by 9%.

Coupled with other conservation and energy efficiency efforts, the scale of the partnership program offers a real

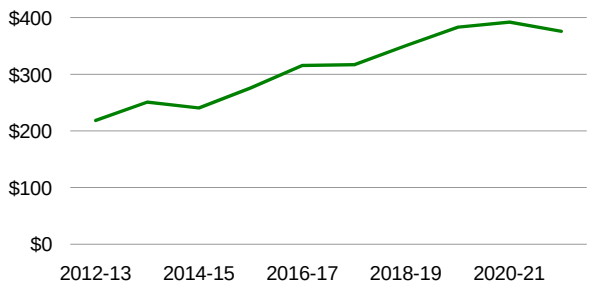
opportunity for the University to make significant progress toward meeting the systemwide goal of reducing growth-adjusted, nonrenewable energy consumption by at least 10% below 2000 levels by 2014.

Strategic Efforts to Manage Purchased Utility Costs

In addition to pursuing energy conservation opportunities, the University has continued efforts to obtain favorable contracts for electricity and natural gas. Last year, the University executed a 20-month "direct access" electricity supply contract with RBS Sempra Commodities that will extend through April 2011. Recent legislative activity has allowed for additional campus participation in the direct access program. The University is currently negotiating commodity contracts for up to two years beyond April 2011 to further stabilize utility spending. Based on current projections, the electricity supply component that is furnished by the utilities is expected to increase by 2% in 2011-12, while the commodity portion furnished by the third party provider will see a 10% decrease. Increases in the cost of natural gas also affect the cost of electricity, as natural gas is the preferred fossil fuel to generate electricity in California and other western states. Most campuses have been managing natural gas costs by developing a portfolio of longer-term natural gas contracts, many with the State pool through the Department of General Services.

Longer term, purchased utility costs will be driven higher by State-mandated procurement of renewable energy. While all electricity suppliers must meet a 20% renewal energy goal by the end of 2010, the State requires a gradual increase to 33% by 2020. Because of scarcity and regulatory uncertainty, renewable energy is currently procured at a premium price. To position the University in a more predictable energy market, the University is actively pursuing a long term procurement strategy that is intended to deliver renewable energy from remote sites to the campuses at a reasonable cost. The direct access program will further facilitate the delivery of non-conventional energy sources to the University's participating campuses and medical centers.

Display XIV-7: 10-Year Projected Annual Capital Renewal Needs (5-year Smoothed Average, Dollars in Millions)



Between 2012-13 and 2021-22, the University's annual capital renewal needs for buildings are projected to increase significantly.

CAPITAL RENEWAL AND DEFERRED MAINTENANCE

Forty percent of the University's State-eligible space was constructed between 1955 and 1980, as shown in Display XIV-3 (page 93). Over the next decade, many of the electrical, heating, ventilation and air conditioning (HVAC), elevator and conveying, plumbing, and other systems in these buildings will reach the end of their useful life. As a result, the University's annual capital renewal needs are projected to increase significantly over the next decade, as shown in Display XIV-7.

This annual investment is needed for the normal replacement and renewal of building systems and components. Replacement and renewal cycles may occur several times during the life of a building. Campus infrastructure, including utility generation and distribution systems, roads, bridges, hardscape, and seawater systems, also requires a substantial ongoing investment in renewal. Regular funding for the systematic replacement of building systems and campus infrastructure is currently not included in either the operating or capital budgets (though such funding is proposed in the University's ten-year capital plan). It is estimated that at least $100 million is needed annually to address critical deferred renewal across the system. Without systematic investment in capital renewal, this backlog will continue to grow.

The estimates of funding needs for capital renewal and deferred maintenance are based on a budget model developed by the University in 1998. The model includes a detailed inventory of all State-maintained facilities at each campus and breaks down infrastructure and buildings into systems that need to be renewed on a predictable basis

Display XIV-8: History of Programmatic Funding for Capital Renewal and Deferred Maintenance

Pre-1994-95	The State provided nearly $20 million annually for deferred maintenance.
1994-95 to 1997-98	The State provided $8 to $25 million annually.
1998-99 to 2001-02	The State provided $7.1 million each year. UC invested $289 million over four years for capital renewal and deferred maintenance from bonds (that were to be repaid from a portion of the annual increase in UC General Funds).
2002-03	The State eliminates the remaining $7.1 million in permanent deferred maintenance funding.
2002-03 to present	UC initiates a program to allow campuses to pledge a portion of their UC General Fund income to finance urgent capital renewal and deferred maintenance work. Only some campuses have sufficient revenues to participate. Bonds have financed $211 million for high priority capital renewal and deferred maintenance projects. In the absence of State and other funding, the University has continued to use the capital outlay program to address critical capital renewal needs.
2008-09	UC proposed to implement a capital renewal program to be funded with State general obligation bonds. The program has not been implemented due to lack of funding.

and have life cycles between 15 and 50 years. These systems include components such as roofs, fire alarm systems, heating and ventilation systems, central plant chillers, and underground utility cabling. The model assumes standard life cycles and costs for renewing each system, and from these elements develops a profile for each building and infrastructure system, projecting the renewal date and cost for a 50-year period. The model also estimates the backlog of deferred renewal by tracking those systems that have deteriorated to the point that they need major repair, replacement, or renewal to stop deterioration and reverse increases in maintenance costs required to keep the systems operating.

Funding for capital renewal and deferred maintenance has not been stable or predictable since the mid-1990s. A brief history of this funding is provided in Display XIV-8.

The University's capital renewal needs cannot be met until ongoing building maintenance is adequately supported and the University secures predictable ongoing funding to invest in capital renewal. In the long term, failure to invest adequately in capital renewal and ongoing maintenance represents a growing risk to the University. The risk ranges from the disruptions of programs that may be caused by a breakdown of a building mechanical system or a facility's underperformance to the impact of a catastrophic failure of a mission-critical utility distribution system that could shut down an entire campus.

As also displayed in the companion to this document, the *2010-20 Consolidated State and Non-State Capital Financial Plan,* the University has a strategic plan to dedicate State capital resources for capital renewal of existing facilities. With considerable uncertainty over the availability of State bonds, it is unclear how much of the proposed capital renewal work will ultimately be funded. As the State's fiscal condition improves, the University intends to seek additional funding to help meet its substantial ongoing capital renewal needs and manage its large deferred maintenance backlog.

"As State support for public higher education has decreased, students have had to pay a greater share of their educational costs. While we rely on increasing student fees as a mechanism of last resort, UC's fees remain lower than many other selective U.S. research universities."

Patrick J. Lenz
University of California
Vice President for Budget and Capital Resources

Student Tuition and Fees

Revenue from student tuition and fees is a major source of funding for the University's core educational program, providing approximately $2.36 billion[1] in 2009-10 to supplement State funding and other sources and help support basic operations.

Throughout the University's history, but particularly since 1990, reductions in State support of higher education in California have jeopardized UC's commitment to affordability, an impact that is recognized in the University of California Student Fee Policy established by the Regents in 1994. The policy specifically authorizes the use of Educational Fee revenue for general support of the University, including costs related to instruction. As noted in the *Sources of University Funds* chapter, students now pay approximately 41% of the cost of education. Over the past 20 years, the State's inflation-adjusted contribution per UC student has declined by more than 50%; fee levels have been increased to help backfill reductions in State funding but have not made up the entire loss. Unfortunately, in a period of declining State support, student fee increases have been and will continue to be necessary if UC is to sustain its mission to provide access to a high-quality instructional program for the State's most talented students.

Students at the University of California pay five different types of fees[2]:

- The **Educational Fee**, a mandatory systemwide fee assessed to all registered students providing general support for the University's budget;
- The **Student Services Fee** (formerly known as the Registration Fee), another mandatory systemwide fee assessed to all registered students that supports services which benefit students;
- **Professional School Fees**, paid by students enrolled in a number of professional degree programs to support instruction and specifically to sustain and enhance program quality;
- **Nonresident Tuition**, charged to nonresident students in addition to mandatory fees and any applicable professional school fees, in lieu of State support for the cost of education; and
- **Fees Charged at the Campus Level**, which vary across campuses and by student level and fund a variety of student-related expenses not supported by other fees.

Despite significant fee increases in recent years, the University's ongoing commitment of apportioning a percentage of student fee revenue to financial aid, discussed in the *Student Financial Aid* chapter of this document, has helped maintain the affordability of a UC education. At the undergraduate level, 33% of new revenue from fee increases and 30% of total fee revenue is used for student financial aid to ensure that the University

2011-12 PROPOSED FEE ACTIONS

At the Board's November 2010 meeting, the Regents are being asked to approve the following actions for 2011-12:

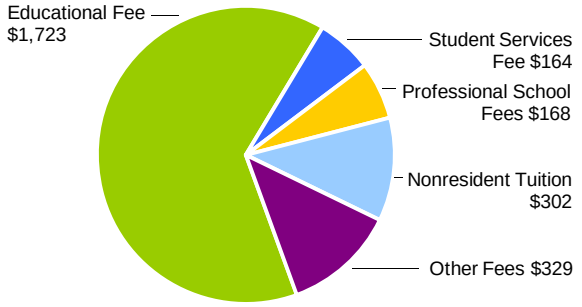
- An increase in mandatory systemwide fees (Educational Fee and Student Services Fee) of 8% for all students;
- Increases in professional school fees ranging from 0% to 31%, depending on the campus and program;
- The renaming of several student charges as "tuition," reflecting the now longstanding use of the revenue for the University's basic operations.
  - The Educational Fee would be renamed "Tuition";
  - Fees for Selected Professional School Students would be renamed "Professional Program Supplemental Tuition"; and
  - Nonresident Tuition would be renamed "Nonresident Supplemental Tuition;" and
- Elimination of differences in Educational Fee levels by student level and residency, by shifting differentials to nonresident tuition and professional school fees.

[1] Includes mandatory systemwide fees, professional school fees, and nonresident tuition, but excludes fees charged at the campus level and UC Extension fees.
[2] Although counted as students, medical and other health sciences residents are not charged student fees.

Display XV-1: 2010-11 Student Fee Levels

Student Services Fee		$900
Educational Fee		
Undergraduate	Residents	$9,402
	Nonresidents	$10,260
Graduate Academic	Residents	$9,402
	Nonresidents	$9,810
Graduate Professional		$9,312 - $11,106
Professional School Fees		$4,000 - $31,355
Nonresident Tuition		
Undergraduate		$22,021
Graduate Academic		$14,694
Graduate Professional		$12,245
Campus-based Fees[3]		
Undergraduate		$479 - $1,656
Graduate		$168 - $1,082

Display XV-2: 2009-10 Student Fee Revenue (Dollars in Millions)



In 2009-10, student fees generated $2.36 billion to support the University's operating budget as well as student financial aid. Campus-based fees totaling $329 million support specific programs outside the core budget, such as student government and transportation.

remains financially accessible so that costs are not a barrier for academically eligible students in seeking and obtaining a UC degree.

In light of the University's continued funding shortfall, at their November 2010 meeting, the Regents will be asked to approve Educational Fee, Student Services Fee, and Professional Degree Fee increases for 2011-12. Revenue from the 8% increase in the Educational Fee will be used to help fund the University's operating budget. The revenue from the 8% increase in the Student Services Fee will help address mandatory cost increases for student support services, including student mental health. Proposed increases in professional school fees vary by program and campus from 0% to 31%; revenue from these increases will support program quality enhancements. Due to the already high levels of total charges for nonresident students, nonresident tuition will not increase for 2011-12, although nonresident students will experience increases in their mandatory fees equivalent to those for California residents.[4] Combined, these fee increases will generate $211.8 million. A portion of the total revenue will augment the University's student aid programs: 33% of new fee revenue from undergraduate and professional degree students and 50% of new fee revenue from graduate academic students – totaling approximately $74.4 million – will be set aside for financial aid purposes.

To date, UC fees have remained competitive with those of the University's four public comparison institutions for resident undergraduates and resident graduate academic students. In 2010-11, the University's average fees for California resident undergraduate students remain below the tuition and fees at two of the University's four public comparison institutions. At the graduate level, UC's charges for resident students are below the tuition and fees of three of UC's four comparators.

TYPES OF FEES

Educational Fee

The Educational Fee, first established in 1970 and charged to all registered students, provides general support for the University's operating budget, including costs related to general campus and health sciences faculty and instructional support; libraries and other academic support; student services; institutional support; and operation and maintenance of plant. Educational Fee revenue is also used to provide student financial support. In 2009-10, the Educational Fee generated $1.723 billion for operations. The Regents set Educational Fee levels annually as described in the 1994 Student Fee Policy.[5] The policy

[3] Campus-based fee levels for undergraduate and graduate students do not include waivable health insurance fees.

[4] Nonresident undergraduate and graduate academic students will experience a slight increase in the nonresident tuition charge in 2011-12, which will be offset by the elimination of differentials in the Educational Fee for nonresidents. The change will be cost-neutral to students.

[5] www.universityofcalifornia.edu/regents/policies/3101.html.

DIFFERENTIAL EDUCATIONAL FEE LEVELS

Over the course of 13 years and through a series of State and UC actions, the Educational Fee has evolved from a single amount charged to all students to six different amounts charged depending on student level, residency, and program of study. These Educational Fee differentials are unnecessary because nonresident tuition and professional differential fees exist explicitly for the purposes of charging differential fee amounts to nonresident and professional degree students. In addition, the Educational Fee differentials complicate UC's communications with students, their families, and the general public about fee levels and fee increases, and inhibit transparency for UC websites and publications.

To improve transparency and facilitate communication about fee levels, at their November 2010 meeting the Regents will be asked to adjust all Educational Fee levels to the level charged to California resident undergraduate and graduate academic students. These changes will be accompanied by adjustments to nonresident tuition and professional degree fee levels such that the changes are cost-neutral to students and revenue-neutral to campuses.

FEES VS. TUITION

The State and UC have long held the position that State support for the University's instructional mission enabled the University to avoid charging "tuition." This view was enshrined in the 1960 Master Plan. Historically, the University established modest "fees" for specific, limited purposes that supplemented the instructional mission.

Since the fiscal crisis of the 1990s, however, the University has been forced to increase fee levels significantly to offset State budget cuts and, in doing so, expand the uses of student fee revenue to include instruction and instructional support activities. Several of these fees are equivalent to tuition charged by other universities.

At their November 2010 meeting the Regents will be asked to approve the renaming of several student charges as "tuition." Using the word "tuition" will increase transparency about UC's costs for the general public, students and families; make UC's terminology consistent with its public comparison institutions and entities to which UC reports its student charges; and help UC avoid problems with the implementation of federal financial assistance programs for students.

directs the President of the University to recommend the annual Educational Fee levels to the Regents after taking the following factors into consideration: 1) the resources necessary to maintain access under the Master Plan, to sustain academic quality, and to achieve the University's overall mission; 2) the full cost of attending the University; 3) the amount of support available from different sources to assist needy students; 4) overall State General Fund support for the University; and 5) the full cost of attendance at comparable public institutions.

Under the 1994 Student Fee Policy, Educational Fees are limited to the general support of UC's operating budget and cannot be used for capital expenditures. Fee increases have been needed primarily to offset reductions in State support – in fact, every fee increase since 1990-91, with one exception (in 2007-08), has been levied to make up for inadequate State funding.

In 2010-11, Educational Fee levels vary by student level, residency, and program, from $9,402 for California resident undergraduates and graduate academic students to $11,106 for nonresident students in certain professional degree programs. In November 2010, as part of the fee increase item, the Regents will be asked to eliminate Educational Fee differentials.

Also at their November 2010 meeting, the Regents will be asked to change the name of the Educational Fee to "Tuition," reflecting the now longstanding use of the revenue for the University's basic operations.

Student Services Fee

Also charged to all registered students, revenue from the Student Services Fee (formerly known as the Registration Fee) funds services that are necessary to students, but not part of the University's programs of instruction, research, or public service. In 2009-10, the fee generated $164 million. The majority of these funds are spent on student services, including counseling and career guidance, cultural and social activities, and student health services. In addition, some Student Services Fee revenue is used for capital improvements that provide extracurricular benefits for students. As with the Educational Fee, the Regents set Student Services Fee levels annually in accordance with the 1994 Student Fee Policy. In 2010-11, the Registration Fee is $900 for all students.

Chancellors are authorized to determine specific allocations of Student Services Fee income on their campuses, within applicable University policies and guidelines. Each campus has a Student Fee Advisory Committee, the membership of

which is at least 50% students, to advise the Chancellor on pertinent issues.

In 2009-10, a systemwide Registration Fee Task Force reviewed a number of issues related to the Registration Fee, including the policy governing the fee and the use of fee funds, and made recommendations to the Regents and the President for changes to policy and practice. The *Student Services* chapter of this document provides additional information about these policy revisions, which were adopted by the Regents in May 2010, and guidelines issued by the President in July 2010.

Professional School Fees

Professional school fees were established in 1994-95[6] to allow UC's professional schools to offset reductions in State support and maintain program quality. More recently, the Compact called for the University to develop a long-term plan for increasing professional school fees, and stated that revenue from these fees would remain with the University and not be used to offset reductions in State support.

In 2010-11, these fees are charged to students enrolled in graduate professional degree programs in architecture; business; dentistry; environmental design; information management; international relations and Pacific studies; law; medicine; nursing; optometry; pharmacy; physical therapy; preventive veterinary medicine; public health; public policy; social welfare; theater, film, and television; urban planning; and veterinary medicine.

In addition to fee increases for existing professional degree fees, at their November 2010 meeting, the Regents will be asked to establish new professional degree fees for programs in art, educational leadership, engineering, and health informatics. Charged in addition to mandatory student fees and, if applicable, nonresident tuition, during 2010-11, professional school fees range from $4,000 to $31,355 depending on the program, campus, and student residency. In 2009-10, these fees generated $168 million.

Historically many of UC's professional schools have held a place of prominence in the nation, promising a top-quality education for a reasonable price. Budget cuts have devastated the resources available to the professional schools to such a degree that the schools are extremely concerned about their ability to recruit and retain excellent faculty, provide an outstanding curriculum, and attract high-caliber students. New revenue generated from professional school fee increases is one of the ways to regain the excellence threatened by budget cuts.

The Regents' Policy on Fees for Selected Professional School Students specifies that professional school fees will be approved by the Regents in the context of multi-year plans that advance the mission and academic plans of each professional school program. Multi-year planning with regard to fees for professional degree students is a vital and fiscally prudent strategy that:

- Provides a more stable planning environment for the professional schools;
- Allows the schools to consider and act on long-term investment needs such as new faculty positions, facility needs, and financial aid program development;
- Provides each program with the opportunity to comprehensively analyze its program needs, the costs to address those needs, and the revenue available to support those needs;
- Allows each program to examine its competitiveness with other institutions on a number of measures, including the "sticker price" of attendance, financial aid programs and their impact on the net cost to students, and other indicators of national competitiveness of the program; and
- Helps inform decision making by clearly identifying each degree program's goals and objectives and the steps that are needed to achieve them.

The Regents' policy also includes specific conditions for ensuring that the University's commitment to access, affordability, diversity, and students' public service career decisions are not adversely affected by increases in fees for professional degree students.

As noted earlier, professional school fee increases for 2010-11 varied by program but ranged between 0% and 30%. One-third of the programs charging professional school fees prior to 2010-11 determined that within their current marketplace, annual increases in the professional degree fees for 2010-11 of 7% or less were sufficient to meet their program goals and objectives; selected law and business programs were at the higher end of the range. These fee increases were approved in the context of the programs' multi-year plans and will enable programs to act

[6] www.universityofcalifornia.edu/regents/policies/3103.html.

on investment needs such as new faculty positions, facility needs, and financial aid program development.

At their November 2010 meeting, the Regents are being asked to change the name of Fees for Selected Professional School Students to "Professional Program Supplemental Tuition." The Regents are also being asked to approve increases in professional degree fees ranging from 0% to 31%, depending on the campus and program.

Nonresident Tuition

In addition to all other applicable fees, UC students who do not qualify as California residents are required to pay nonresident tuition, consistent with the State's policy not to provide support for nonresident students. Enrollment of approximately 19,000 nonresident students, including both international students and domestic students from other states, generated $302 million in 2009-10.

STATE LAW REGARDING NONRESIDENT TUITION

Section 68052 of the California Education Code directs California's public institutions of higher education to address the following when establishing nonresident student tuition levels:

- Nonresident tuition methodologies used by California's public postsecondary education segments should consider: 1) the total nonresident charges imposed by each of their public comparison institutions, and 2) the full average cost of instruction;
- Nonresident tuition plus required fees should not fall below the marginal cost of instruction;
- Increases in the level of nonresident tuition should be gradual, moderate, and predictable; and
- In the event that State revenues and expenditures are substantially imbalanced due to factors unforeseen by the Governor and the Legislature, nonresident tuition will not be subject to the law's provisions.

Nonresident tuition levels in 2010-11 vary by student level and program: $22,021 for undergraduate students, $14,694 for graduate academic students, and $12,245 for professional students. Doctoral students advanced to candidacy are not charged nonresident tuition while enrolled within normative time to degree. The California Education Code provides direction to UC about setting nonresident tuition levels.

Typically it is very difficult for undergraduate students to be reclassified from nonresident to resident status, as often both students and their families must demonstrate establishment of permanent residence in California, determined by meeting a variety of criteria specified in State law. Reclassification is more common at the graduate level; this is not the case with international students, however, who cannot establish California residency. Thus undergraduate students and international graduate students typically pay nonresident tuition each term that they attend UC, while domestic graduate students typically pay nonresident tuition for only one year.

Prior to 2007-08, nonresident tuition revenue was collected centrally and distributed to the campuses along with other General Fund revenue to cover costs associated with faculty and staff salaries, other operating costs, and financial aid. As of 2007-08, each campus retains the nonresident tuition revenue that is generated at that campus. With the exception of covering financial aid costs, campuses now have the flexibility to determine how the nonresident tuition revenue will be spent, taking into account their overall expenditure needs.

A significant concern associated with nonresident tuition is the University's ability to attract high quality nonresident undergraduate and graduate students. For several years during this decade, the University fell short of its goals for nonresident enrollment and tuition revenue. For undergraduates, UC's total charges for nonresident are among the highest in the country. Moreover, concern over the inadequacy of graduate student support has been the underlying reason that UC has not increased nonresident tuition levels for graduate academic students since 2004-05 and graduate professional students since 2003-04. The University annually monitors the numbers of nonresidents applying to and enrolling at UC. Future increases in nonresident tuition will be carefully considered, given the potential impact on nonresident enrollment.

Regarding nonresident tuition for academic graduate students, the faculty has expressed interest in eliminating this charge. State policy constrains the extent to which the University can reduce nonresident tuition levels, however, and budgetary issues must be considered as well.

Nevertheless, the University continues to take steps to help address the impact of nonresident tuition on its ability to fund competitive awards. By forgoing increases in graduate nonresident tuition over the past few years, the University has effectively reduced the need for graduate awards to cover nonresident tuition. Continuing to do so will further ease the pressure on the fund sources that currently provide such coverage.

At their November 2010 meeting, the Regents are being asked to change the name of Nonresident Tuition to "Nonresident Supplemental Tuition" to distinguish this charge from the base charge of Tuition, formerly the Educational Fee, also paid by nonresident students.

Fees Charged at the Campus Level

Campuses may also charge fees for specific needs related to instruction or campus life and safety.

Campus-based Fees. Campus-based fees cover a variety of student-related expenses that are not supported by the Educational Fee or the Student Services Fee. These fees help fund programs such as student government, the construction, renovation, and repair of sports and recreational facilities, and other items such as transit.[7] The number and dollar amounts of campus-based fees vary across campuses and between graduate and undergraduate students. Campus-based fees for 2010-11 range from $168 at San Francisco (graduates) to $1,656 at Davis (undergraduates); in 2010-11, average campus-based fees are $977 for undergraduates and $602 for graduates.[8] Generally, students must vote to establish or increase campus-based fees, but these fees can also be set by Chancellors (with the concurrence of the Regents) if a fee is necessary to help ensure the safety of students, e.g., to pay for the seismic retrofit of a building funded by student fees. In recent years, a return-to-aid component has been built into newly established campus-based fees. Displays XV-6 through XV-9 show average campus-based fee levels over time by type and level of student.

Course Materials and Services Fees. Other fees charged at the campus level include Course Materials and Services Fees; these fees cover costs specific to a course, such as materials to be used in a studio arts class, travel costs for an archeological dig, or information technology materials and services as they relate to a specific course. The fees are set by the Chancellors but may not exceed the actual cost per student of the materials and services provided for the course in question. In 2009-10, these fees generated more than $13.7 million at UC's ten campuses.

UC AND COMPARISON INSTITUTION FEES

As an overall measure of the University's position in the market, the University annually monitors fee levels relative to those charged by its four public comparison institutions. As discussed in the *Student Financial Aid* chapter of this document, the University also monitors the net cost of attendance — i.e., total charges for fees and living expenses, net of financial aid — compared to net costs at these public institutions. The net cost of attendance provides a more complete representation of the actual financial impact of student fee levels and other costs.

In addition, to facilitate recruitment of high quality academic doctoral students, UC regularly conducts surveys assessing the competitiveness of its graduate student financial aid offers relative to those of other doctoral institutions.

Display XV-3: 2010-11 University of California and Public Comparison Institution Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Comparison Institutions				
SUNY Buffalo	$7,136	$15,546	$9,978	$15,388
Illinois	$13,508	$27,650	$13,498	$26,764
Michigan	$12,590	$37,265	$17,973	$36,133
Virginia	$10,628	$33,574	$13,870	$23,866
UC	$11,279	$34,158	$10,904	$26,006

In 2010-11, the University's average fees for California resident students remain below two of four comparators for undergraduates and three of four comparators for graduate students.

Note: Comparison institution figures include tuition and required fees as reported by the Association of American Universities Data Exchange (AAUDE). UC figures include mandatory systemwide fees, campus-based fees and nonresident tuition for nonresident students. Waivable health insurance fees are not included.

[7] The University's Policy on Compulsory Campus-Based Student Fees is available at www.ucop.edu/ucophome/coordrev/ucpolicies/aos/uc80.html.

[8] Campus-based fee figures do not include waivable health insurance fees of $1,048 for undergraduates and $2,031 for graduates.

Despite the significant fee increases implemented after 2001-02, in 2010-11 UC's average fees for *resident undergraduate* students (excluding health insurance fees) remain below the fees charged at two of the University's four public comparison institutions, as shown in Display XV-3. UC fees for *resident graduate* academic students remain lower than the tuition and fees charged at three of the University's four public comparison institutions.

For nonresidents, UC's tuition and fees remain below only one of the four comparators at the undergraduate level and below two of the four comparators at the graduate level. Maintaining the University's competitiveness for nonresident undergraduate and graduate academic students is a serious concern, as mentioned above and discussed further in the *Student Financial Aid* chapter of this document. Notably, in 2010-11 UC's fees remain significantly lower than those of its private comparison institutions (Harvard, MIT, Stanford, and Yale).

Professional School Comparisons. For 2010-11, UC fees for many resident professional students fall within the range of the resident tuition and fees charged by comparable public institutions. UC professional degree programs recruit students nationally and internationally as well as from within California, and they compete with private as well as public institutions of comparable quality. These factors are among those taken into consideration by the programs as they develop their three-year plans for professional degree fees.

HISTORY OF STUDENT FEES

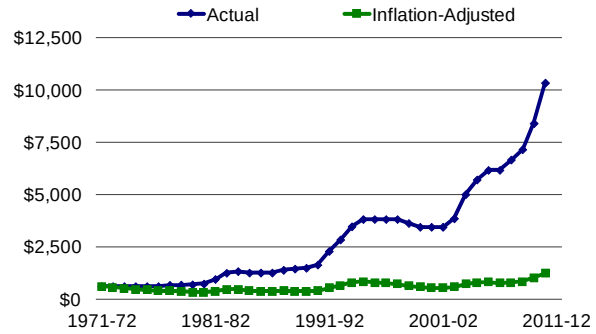
Student fees were first charged by the University in the 1920s with the establishment of an incidental fee. In 1960, the California Master Plan for Higher Education affirmed that UC should remain tuition-free (a widely held view at the time), but allowed that fees could be charged for costs not related to instruction. In the late 1960s, the incidental fee was renamed the Registration Fee, and revenue was used to support student services and financial aid.

The Educational Fee was established in 1970-71 and was originally intended to fund capital outlay. However, each year a greater proportion of the Educational Fee was allocated for student financial aid; thus in the late 1970s the Regents established that Educational Fee income was to be used exclusively for student financial aid and related programs. In 1981, the Regents extended the Educational Fee's use to include basic student services, which had lost State General Fund support.

RECENT HISTORY OF UNIVERSITY OF CALIFORNIA STUDENT FEES

1990-91 – 1994-95	Fees increase by 157% over five-year period in response to significant State funding reductions.
1994-95	The Regents approve a new Student Fee Policy, the Fee Policy for Selected Professional School Students, and the Financial Aid Policy.
1995-96 – 2001-02	Due to strong support from the State, mandatory systemwide fee levels for resident students do not increase for seven consecutive years.
2002-03 – 2005-06	A series of fee increases over four years results from the State's deteriorating fiscal situation. Fees double for resident undergraduate and graduate academic students. Increases for nonresident and professional students are even higher.
2006-07	The State provides supplementary funding to avoid student fee increases.
2007-08 – 2008-09	Mandatory systemwide fees charged to undergraduate and graduate resident students increase by 8% in 2007-08 and 7% in 2008-09. Professional school fees increase by 7-12% in 2007-08 and 5-20% in 2008-09, varying by program.
2009-10 – 2010-11	In May 2009, the Regents approved an increase of 9.3% in mandatory student fees for all students for 2009-10. Due to budget cuts representing nearly 20% of State support, in November 2009 the Regents approved 2009-10 mid-year increases in mandatory fees of 15% for undergraduate and graduate professional students and 2.6% for graduate academic students, effective January 2010. For 2010-11, the Regents approved additional 15% increases in mandatory student fees for all students. Professional school fees increased from 0% to 25% in 2009-10 and from 0% and 30% in 2010-11.

Display XV-4: Resident Undergraduate Student Fees in Real and Constant Dollars



Over time, UC's undergraduate student fee levels have largely tracked the State's economy and State support for UC. Fees increased 104% from 1971-72 to 2010-11 when adjusted based on California per capita personal income.

In 1994, the University of California Student Fee Policy established that the Educational Fee may be used for general support of the University's operating budget. (As noted earlier, the Educational Fee and professional school fees are equivalent to tuition charged at other universities.) In addition, a goal of the policy is to maintain the affordability of a high-quality educational experience at the University for low- and middle-income students.

The Higher Education Compact, established in May 2004, included Governor Schwarzenegger's proposed long-term student fee policy, which called for increases in student fees to be based on the annual increase in California per capita personal income. However, the Compact provided that fiscal circumstances in some years would require greater increases to provide sufficient funding for programs and to preserve quality. In those years, UC could decide, after consultation with the Governor, to increase fees up to 10%. This fee policy was contingent on State resources being provided for the basic budget at the level called for in the Compact and on no further erosion of the University's base budget. It assumed that revenue from student fees would remain with UC, rather than being used to offset to reductions in State support. However, due to the depth of the current State fiscal crisis, the fee policy proposed in the Compact was not followed for 2010-11.

Over time, UC's student fee levels have largely tracked the State's economy. In good years, such as during the mid-1980s and the late 1990s, fees were held steady or were reduced. In years of fiscal crisis – during the early 1990s and again during the early 2000s – student fees increased dramatically in response to significant reductions in State funding. As shown in Display XV-5, over the last 40 years UC's fees have grown 104% from 1971-72 to 2010-11, relative to growth in per capital personal income.

KASHMIRI AND LUQUETTA LAWSUITS

As mentioned earlier, a lawsuit against the University, *Kashmiri v. Regents*, has impacted Educational Fee levels for all students. The lawsuit was filed against the University in 2003 by students who had been enrolled in UC's professional degree programs prior to December 16, 2002. The class action suit alleged that the increases in the Fee for Selected Professional School Students that were approved by the Regents for Spring 2003 (and for all subsequent years) violated a contract between the University and students that the professional school fee would not be increased while they were enrolled. Subsequently, the trial court entered an order granting a preliminary injunction against the University, prohibiting the University from collecting the professional school fee increases approved by the Regents for 2004-05 and 2005-06 from students affected by the lawsuit. At the end of 2008-09, the University had lost $23 million in uncollected professional school fee revenue.

In March 2006, the trial court entered judgment in favor of plaintiffs in the amount of $33.8 million, and the judgment was made final in January 2008. Currently, a temporary Educational Fee surcharge of $60 is being assessed to all students until the lost revenue is fully replaced and the judgment is fully paid in three to four years.

A second lawsuit, *Luquetta v. Regents,* was filed in 2005 and seeks to extend the professional fee claim to professional students who enrolled during the 2003-04 academic year. The financial impact of this lawsuit, should the trial court rule in favor of the plaintiffs, is uncertain but would exceed $20 million. If the case is ruled in the plaintiffs' favor, it is proposed that the current $60 surcharge would be extended to cover the judgment.

Display XV-5: UC Mandatory Student Fee Levels

	Student Services Fee	Educational Fee					
		Undergraduate		Graduate Academic		Professional[1]	Surcharge[2]
		Resident	Nonresident	Resident	Nonresident		
1975-76	300	300	300	360	360	360	
1976-77	300	300	300	360	360	360	
1977-78	357	300	300	360	360	360	
1978-79	371	300	300	360	360	360	
1979-80	385	300	300	360	360	360	
1980-81	419	300	300	360	360	360	
1981-82	463	475	475	535	535	535	
1982-83	510	725	725	785	785	785	
1983-84	523	792	792	852	852	852	
1984-85	523	722	722	782	782	782	
1985-86	523	722	722	782	782	782	
1986-87	523	722	722	782	782	782	
1987-88	570	804	804	804	804	804	
1988-89	594	840	840	840	840	840	
1989-90	612	864	864	864	864	864	
1990-91	673	951	951	951	951	951	
1991-92	693	1,581	1,581	1,581	1,581	1,581	
1992-93	693	2,131	2,131	2,131	2,131	2,131	
1993-94	693	2,761	2,761	2,761	2,761	2,761	
1994-95	713	3,086	3,086	3,086	3,086	3,086	
1995-96	713	3,086	3,086	3,086	3,086	3,086	
1996-97	713	3,086	3,086	3,086	3,086	3,086	
1997-98	713	3,086	3,086	3,086	3,086	3,086	
1998-99	713	2,896	3,086	3,086	3,086	3,086	
1999-00	713	2,716	3,086	2,896	3,086	3,086	
2000-01	713	2,716	3,086	2,896	3,086	3,086	
2001-02	713	2,716	3,086	2,896	3,086	3,086	
2002-03[3]	713	3,121	3,491	3,301	3,491	3,491	
2003-04	713	4,271	4,751	4,506	4,751	4,751	
2004-05	713	4,971	5,451	5,556	5,801	4,751	
2005-06	735	5,406	5,922	6,162	6,429	5,357	700
2006-07	735	5,406	5,922	6,162	6,429	5,357	1,050
2007-08	786	5,790	6,342	6,594	6,888	5,736	60
2008-09	864	6,202	6,789	7,062	7,374	6,144	60
2009-10[4]	900	7,998	8,742	7,998	8,352	7,920	60
2010-11	900	9,342	10,200	9,342	9,750	9,252	60
2011-12[5]	972	10,092	10,092	10,092	10,092	10,092	60

[1] Charged to resident and nonresident professional degree students. Excludes students paying International Relations and Pacific Studies, Preventive Veterinary Medicine, Public Health, and Public Policy professional degree fees. In 2010-11, also excludes students paying Architecture, Environmental Design, Information Management, Physical Therapy, Social Welfare, and Urban Planning professional degree fees.

[2] Before 2007-08, surcharges were only charged to professional school students.

[3] Mid-year fee increases were applied to spring academic term. Figures shown are annualized fee levels.

[4] Mid-year fee increases were applied in January 2010. Figures shown are annualized fee levels.

[5] Proposed to be approved by the Regents in November 2010.

Display XV-6: UC Average Annual Student Fees for Resident Undergraduate Students

	Mandatory Fees	Increase	Campus-based Fees[1]	Total Charges	Total Increase
1975-76	600	0.0%	47	647	0.3%
1976-77	600	0.0%	48	648	0.1%
1977-78	657	9.5%	49	706	9.0%
1978-79	671	2.1%	49	720	1.9%
1979-80	685	2.1%	51	736	2.2%
1980-81	719	5.0%	57	776	5.4%
1981-82	938	30.5%	60	998	28.6%
1982-83	1,235	31.7%	65	1,300	30.3%
1983-84	1,315	6.5%	72	1,387	6.7%
1984-85	1,245	-5.3%	79	1,324	-4.5%
1985-86	1,245	0.0%	81	1,326	0.2%
1986-87	1,245	0.0%	100	1,345	1.4%
1987-88	1,374	10.4%	118	1,492	10.9%
1988-89	1,434	4.4%	120	1,554	4.2%
1989-90	1,476	2.9%	158	1,634	5.1%
1990-91	1,624	10.0%	196	1,820	11.4%
1991-92	2,274	40.0%	212	2,486	36.6%
1992-93	2,824	24.2%	220	3,044	22.4%
1993-94	3,454	22.3%	273	3,727	22.4%
1994-95	3,799	10.0%	312	4,111	10.3%
1995-96	3,799	0.0%	340	4,139	0.7%
1996-97	3,799	0.0%	367	4,166	0.7%
1997-98	3,799	0.0%	413	4,212	1.1%
1998-99	3,609	-5.0%	428	4,037	-4.2%
1999-00	3,429	-5.0%	474	3,903	-3.3%
2000-01	3,429	0.0%	535	3,964	1.6%
2001-02	3,429	0.0%	430	3,859	-2.6%
2002-03[2]	3,834	11.8%	453	4,287	11.1%
2003-04	4,984	30.0%	546	5,530	29.0%
2004-05	5,684	14.0%	628	6,312	14.1%
2005-06	6,141	8.0%	661	6,802	7.8%
2006-07	6,141	0.0%	711	6,852	0.7%
2007-08	6,636	8.1%	881	7,517	9.7%
2008-09	7,126	7.4%	901	8,027	6.8%
2009-10[3]	8,958	25.7%	938	9,896	23.3%
2010-11	10,302	15.0%	977	11,279	14.0%
2011-12[4]	11,124	8.0%	1,026	12,150	7.7%

[1] Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

[2] Mid-year fee increases were applied to spring academic term. Figures shown are annualized fee levels.

[3] Mid-year fee increases were applied in January 2010. Figures shown are annualized fee levels.

[4] Proposed to be approved by the Regents in November 2010. Assumes a 5% increase in campus-based fees.

Display XV-7: UC Average Annual Student Fees for Nonresident Undergraduate Students

	Mandatory Fees	Increase	Campus-based Fees[1]	Nonresident Tuition	Increase	Total Charges	Total Increase
1975-76	600	0.0%	47	1,500	0.0%	2,147	0.1%
1976-77	600	0.0%	48	1,905	27.0%	2,553	18.9%
1977-78	657	9.5%	49	1,905	0.0%	2,611	2.3%
1978-79	671	2.1%	49	1,905	0.0%	2,625	0.5%
1979-80	685	2.1%	51	2,400	26.0%	3,136	19.5%
1980-81	719	5.0%	57	2,400	0.0%	3,176	1.3%
1981-82	938	30.5%	60	2,880	20.0%	3,878	22.1%
1982-83	1,235	31.7%	65	3,150	9.4%	4,450	14.7%
1983-84	1,315	6.5%	72	3,360	6.7%	4,747	6.7%
1984-85	1,245	-5.3%	79	3,564	6.1%	4,888	3.0%
1985-86	1,245	0.0%	81	3,816	7.1%	5,142	5.2%
1986-87	1,245	0.0%	100	4,086	7.1%	5,431	5.6%
1987-88	1,374	10.4%	118	4,290	5.0%	5,782	6.5%
1988-89	1,434	4.4%	120	4,806	12.0%	6,360	10.0%
1989-90	1,476	2.9%	158	5,799	20.7%	7,433	16.9%
1990-91	1,624	10.0%	196	6,416	10.6%	8,236	10.8%
1991-92	2,274	40.0%	212	7,699	20.0%	10,185	23.7%
1992-93	2,824	24.2%	220	7,699	0.0%	10,743	5.5%
1993-94	3,454	22.3%	273	7,699	0.0%	11,426	6.4%
1994-95	3,799	10.0%	312	7,699	0.0%	11,810	3.4%
1995-96	3,799	0.0%	340	7,699	0.0%	11,838	0.2%
1996-97	3,799	0.0%	367	8,394	9.0%	12,560	6.1%
1997-98	3,799	0.0%	413	8,984	7.0%	13,196	5.1%
1998-99	3,799	0.0%	428	9,384	4.5%	13,611	3.1%
1999-00	3,799	0.0%	474	9,804	4.5%	14,077	3.4%
2000-01	3,799	0.0%	535	10,244	4.5%	14,578	3.6%
2001-02	3,799	0.0%	430	10,704	4.5%	14,933	2.4%
2002-03[2]	4,204	10.7%	453	12,009	16.6%	17,137	14.8%
2003-04	5,464	30.0%	546	13,730	10.0%	19,740	15.2%
2004-05	6,164	12.8%	628	16,476	20.0%	23,268	17.9%
2005-06	6,657	8.0%	661	17,304	5.0%	24,622	5.8%
2006-07	6,657	0.0%	711	18,168	5.0%	25,536	3.7%
2007-08	7,188	8.0%	881	19,068	5.0%	27,137	6.3%
2008-09	7,713	7.3%	901	20,021	5.0%	28,635	5.5%
2009-10[3]	9,702	25.8%	938	22,021	10.0%	32,661	14.1%
2010-11	11,160	15.0%	977	22,021	0.0%	34,158	4.6%
2011-12[4]	11,124	-0.3%	1,026	22,878	3.9%	35,028	2.5%

[1] Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

[2] Mid-year fee increases were applied to spring academic term. Figures shown are annualized fee levels.

[3] Mid-year fee increases were applied in January 2010. Figures shown are annualized fee levels.

[4] Proposed to be approved by the Regents in November 2010. Mandatory fee and nonresident tuition levels reflect proposed elimination of Educational Fee differentials. Assumes a 5% increase in campus-based fees.

Display XV-8: UC Average Annual Student Fees For Resident Graduate Academic Students

	Mandatory Fees	Increase	Campus-based Fees[1]	Total Charges	Total Increase
1975-76	660	0.0%	34	694	-0.3%
1976-77	660	0.0%	36	696	0.3%
1977-78	717	8.6%	37	754	8.3%
1978-79	731	2.0%	38	769	2.0%
1979-80	745	1.9%	39	784	2.0%
1980-81	779	4.6%	45	824	5.1%
1981-82	998	28.1%	45	1,043	26.6%
1982-83	1,295	29.8%	51	1,346	29.1%
1983-84	1,375	6.2%	58	1,433	6.5%
1984-85	1,305	-5.1%	63	1,368	-4.5%
1985-86	1,305	0.0%	64	1,369	0.1%
1986-87	1,305	0.0%	82	1,387	1.3%
1987-88	1,374	5.3%	100	1,474	6.3%
1988-89	1,434	4.4%	125	1,559	5.8%
1989-90	1,476	2.9%	222	1,698	8.9%
1990-91	1,624	10.0%	482	2,106	24.0%
1991-92	2,274	40.0%	557	2,831	34.4%
1992-93	2,824	24.2%	608	3,432	21.2%
1993-94	3,454	22.3%	703	4,157	21.1%
1994-95	3,799	10.0%	786	4,585	10.3%
1995-96	3,799	0.0%	836	4,635	1.1%
1996-97	3,799	0.0%	868	4,667	0.7%
1997-98	3,799	0.0%	923	4,722	1.2%
1998-99	3,799	0.0%	839	4,638	-1.8%
1999-00	3,609	-5.0%	969	4,578	-1.3%
2000-01	3,609	0.0%	1,138	4,747	3.7%
2001-02	3,609	0.0%	1,305	4,914	3.5%
2002-03[2]	4,014	11.2%	1,327	5,341	8.7%
2003-04	5,219	30.0%	1,624	6,843	28.1%
2004-05	6,269	20.1%	1,606	7,875	15.1%
2005-06	6,897	10.0%	1,811	8,708	10.6%
2006-07	6,897	0.0%	1,973	8,870	1.9%
2007-08	7,440	7.9%	2,281	9,721	9.6%
2008-09	7,986	7.3%	2,367	10,353	6.5%
2009-10[3]	8,958	12.2%	2,505	11,463	10.7%
2010-11[4]	10,302	15.0%	602	10,904	-4.9%
2011-12[5]	11,124	8.0%	632	11,756	7.8%

[1] Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

[2] Mid-year fee increases were applied to spring academic term. Figures shown are annualized fee levels.

[3] Mid-year fee increases were applied in January 2010. Figures shown are annualized fee levels.

[4] Beginning in 2010-11, campus-based fee figures for graduate students do not include waivable health insurance fee.

[5] Proposed to be approved by the Regents in November 2010. Assumes a 5% increase in campus-based fees.

Display XV-9: UC Average Annual Student Fees For Nonresident Graduate Academic Students

	Mandatory Fees	Increase	Campus-based Fees[1]	Nonresident Tuition	Increase	Total Charges	Total Increase
1975-76	660	0.0%	34	1,500	0.0%	2,194	-0.1%
1976-77	660	0.0%	36	1,905	27.0%	2,601	18.5%
1977-78	717	8.6%	37	1,905	0.0%	2,659	2.2%
1978-79	731	2.0%	38	1,905	0.0%	2,674	0.6%
1979-80	745	1.9%	39	2,400	26.0%	3,184	19.1%
1980-81	779	4.6%	45	2,400	0.0%	3,224	1.3%
1981-82	998	28.1%	45	2,880	20.0%	3,923	21.7%
1982-83	1,294	29.8%	51	3,150	9.4%	4,495	14.6%
1983-84	1,375	6.2%	58	3,360	6.7%	4,793	6.6%
1984-85	1,305	-5.1%	63	3,564	6.1%	4,932	2.9%
1985-86	1,305	0.0%	64	3,816	7.1%	5,185	5.1%
1986-87	1,305	0.0%	82	4,086	7.1%	5,473	5.6%
1987-88	1,374	5.3%	100	4,290	5.0%	5,764	5.3%
1988-89	1,434	4.4%	125	4,806	12.0%	6,365	10.4%
1989-90	1,476	2.9%	222	5,799	20.7%	7,497	17.8%
1990-91	1,624	10.0%	482	6,416	10.6%	8,522	13.7%
1991-92	2,274	40.0%	557	7,699	20.0%	10,530	23.6%
1992-93	2,824	24.2%	608	7,699	0.0%	11,131	5.7%
1993-94	3,454	22.3%	703	7,699	0.0%	11,856	6.5%
1994-95	3,799	10.0%	786	7,699	0.0%	12,284	3.6%
1995-96	3,799	0.0%	836	7,699	0.0%	12,334	0.4%
1996-97	3,799	0.0%	868	8,394	9.0%	13,061	5.9%
1997-98	3,799	0.0%	923	8,984	7.0%	13,706	4.9%
1998-99	3,799	0.0%	839	9,384	4.5%	14,022	2.3%
1999-00	3,799	0.0%	969	9,804	4.5%	14,572	3.9%
2000-01	3,799	0.0%	1,138	10,244	4.5%	15,181	4.2%
2001-02	3,799	0.0%	1,305	10,704	4.5%	15,808	4.1%
2002-03[2]	4,204	10.7%	1,327	11,132	4.0%	16,663	5.4%
2003-04	5,464	30.0%	1,624	12,245	10.0%	19,333	16.0%
2004-05	6,514	19.2%	1,606	14,694	20.0%	22,814	18.0%
2005-06	7,164	10.0%	1,811	14,694	0.0%	23,669	3.7%
2006-07	7,164	0.0%	1,973	14,694	0.0%	23,831	0.7%
2007-08	7,734	8.0%	2,281	14,694	0.0%	24,709	3.7%
2008-09	8,298	7.3%	2,367	14,694	0.0%	25,359	2.6%
2009-10[3]	9,312	12.2%	2,505	14,694	0.0%	26,511	4.5%
2010-11[4]	10,710	15.0%	602	14,694	0.0%	26,006	-1.9%
2011-12[5]	11,124	3.9%	632	15,102	2.8%	26,858	3.3%

[1] Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

[2] Mid-year fee increases were applied to spring academic term. Figures shown are annualized fee levels.

[3] Mid-year fee increases were applied in January 2010. Figures shown are annualized fee levels.

[4] Beginning in 2010-11, campus-based fee figures for graduate students do not include waivable health insurance fee.

[5] Proposed to be approved by the Regents in November 2010. Mandatory fee and nonresident tuition levels reflect proposed elimination of Educational Fee differentials. Assumes a 5% increase in campus-based fees.

Display XV-10: Total Fees for Professional Degree Students by Program and Campus

In addition to the Professional Degree Fees shown below, professional school students also pay mandatory Universitywide fees, campus-based fees, and health insurance fees, which are included in the "Total Charges" columns below.

	2010-11 (Actual)				2011-12 (Proposed)			
	Professional Degree Fees		Total Charges		Professional Degree Fees[1]		Total Charges	
	Residents	Nonresidents	Residents	Nonresidents	Residents	Nonresidents	Residents	Nonresidents
Architecture								
Los Angeles	$8,000	$8,000	$20,581	$33,234	$8,000	$8,000	$21,609	$33,854
Art								
Los Angeles	n/a	n/a	12,580	27,682	8,000	5,000	21,609	30,854
Business								
Berkeley	28,820	24,542	41,680	49,647	31,430	26,164	45,335	52,314
Davis	20,332	20,332	33,500	45,745	22,176	22,176	36,369	48,614
Irvine	19,985	18,714	33,326	44,300	21,384	18,714	35,754	45,329
Los Angeles	27,447	23,150	40,987	48,935	29,717	24,667	44,376	51,571
Riverside	19,770	19,770	32,503	44,748	21,354	21,354	35,191	47,436
San Diego	22,378	16,040	34,926	40,833	25,824	17,644	39,465	43,530
Dental Hygiene								
San Francisco	n/a	n/a	12,939	25,184	12,036	12,036	26,134	38,379
Dentistry								
Los Angeles	22,256	19,461	36,795	46,245	24,160	21,115	39,817	49,017
San Francisco	22,880	22,880	35,819	48,064	25,068	25,068	39,177	51,422
Educational Leadership								
Davis	n/a	n/a	13,258	28,360	4,002	4,002	18,195	30,440
Engineering								
Berkeley	n/a	n/a	12,950	28,052	30,000	22,000	43,905	48,150
Environmental Design								
Berkeley	6,000	6,000	19,775	34,877	6,000	6,000	19,905	32,150
Health Informatics								
Davis	n/a	n/a	13,258	28,360	6,000	6,000	20,193	32,438
Information Management								
Berkeley	6,000	6,000	18,950	31,603	6,400	6,400	20,305	32,550
International Relations and Pacific Studies								
San Diego	5,248	5,054	18,984	31,491	7,100	7,100	20,591	32,836
Law								
Berkeley	31,355	27,110	44,245	52,245	35,148	27,110	49,084	53,291
Davis	28,599	25,186	41,763	50,595	31,218	27,480	45,408	53,915
Irvine	27,225	25,003	40,551	50,574	29,404	27,004	43,759	53,604
Los Angeles	27,225	25,003	40,616	50,639	29,404	27,004	42,913	53,758
Medicine								
Berkeley	17,531	17,531	30,452	42,697	18,636	18,636	32,602	44,847
Davis	17,531	17,531	34,321	46,566	18,636	18,636	36,570	48,815
Irvine	17,531	17,531	30,948	43,193	18,636	18,636	33,082	45,327
Los Angeles	17,531	17,531	30,082	42,327	18,636	18,636	32,306	44,551
Riverside	17,531	17,531	30,325	42,570	18,636	18,636	32,540	44,785
San Diego	17,531	17,531	29,990	42,235	18,636	18,636	32,188	44,433
San Francisco	17,531	17,531	30,474	42,719	18,636	18,636	32,754	44,999

[1] Proposed for approval by the Regents in November 2010. Professional Degree Fee levels include adjustments due to the proposed elimination of Educational Fee differentials for 2011-12.

Display XV-10: Total Fees for Professional Degree Students by Program and Campus (continued)

In addition to the Professional Degree Fees shown below, professional school students also pay mandatory Universitywide fees, campus-based fees, and health insurance fees, which are included in the "Total Charges" columns below.

	2010-11 (Actual)				2011-12 (Proposed)			
	Professional Degree Fees		Total Charges		Professional Degree Fees[1]		Total Charges	
	Residents	Nonresidents	Residents	Nonresidents	Residents	Nonresidents	Residents	Nonresidents
Nursing								
Davis	$4,866	$4,866	$18,034	$30,279	$5,730	$5,730	$19,923	$32,168
Irvine	4,866	4,866	18,192	30,437	5,730	5,730	20,085	32,330
Los Angeles	4,866	4,866	17,356	29,601	5,730	5,730	19,339	31,584
San Francisco	4,459	4,459	17,323	29,568	5,730	5,730	19,753	31,998
Optometry								
Berkeley	13,220	13,220	26,080	38,325	14,674	14,674	28,579	40,824
Pharmacy								
San Diego	17,155	17,155	29,553	41,798	18,354	18,354	31,845	44,090
San Francisco	17,155	17,155	30,043	42,288	18,354	18,354	32,411	44,656
Physical Therapy								
San Francisco	11,000	11,000	27,685	39,930	11,772	12,108	29,902	42,483
Preventive Veterinary Medicine								
Davis	4,280	4,280	18,786	31,487	5,742	6,198	19,935	32,636
Public Health								
Berkeley	6,317	6,317	20,515	33,216	6,758	6,758	20,663	32,908
Davis	5,199	5,199	21,245	33,946	6,810	7,266	22,682	35,383
Irvine	5,345	5,345	20,009	32,710	5,612	5,612	19,967	32,212
Los Angeles	5,199	5,199	19,027	31,728	6,811	7,267	20,420	33,121
Public Policy								
Berkeley	5,494	5,494	19,692	32,393	7,290	7,746	21,195	33,896
Irvine	5,199	5,199	19,863	32,564	5,563	5,563	19,918	32,163
Los Angeles	5,199	5,199	19,028	32,087	6,811	7,267	20,420	33,121
Social Welfare								
Berkeley	4,000	4,000	18,198	30,899	4,000	4,000	17,905	30,150
Los Angeles	5,199	5,199	17,779	30,432	5,563	5,971	19,172	31,825
Theater, Film, and Television								
Los Angeles	7,954	7,954	20,444	32,689	8,659	8,659	22,268	34,513
Urban Planning								
Los Angeles	5,199	5,199	17,779	30,432	5,563	5,971	19,172	31,825
Veterinary Medicine								
Davis	14,664	14,664	30,246	42,491	15,216	15,216	31,946	44,191

[1] Proposed for approval by the Regents in November 2010. Professional Degree Fee levels include adjustments due to the proposed elimination of Educational Fee differentials for 2011-12.

"UC enrolls more low-income students than any comparable U.S. research university. Maintaining accessibility is one of our highest priorities."

Kate Jeffery
University of California
Director of Student Financial Support

Student Financial Aid

Guided by the policy adopted by the Regents in 1994, the University's financial aid program is closely linked to the University's goals of student accessibility and helping the state meet its professional workforce needs.[1] In 2008-09, UC students received $3.1 billion in financial aid, of which $783 million (31%) was provided by UC. Maintaining a robust financial aid program for UC undergraduate and graduate students remains a top University budget priority.

At the undergraduate level, the goal of the University's financial aid program is to ensure that the University remains financially accessible to all eligible students so that financial considerations are not an obstacle to enrollment. In 2008-09, 55% of UC undergraduates received grant/scholarship aid averaging $11,055 per student. Despite fee increases, the University of California is nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students. In 2008-09, over 30% of UC undergraduates were low-income Pell Grant recipients — more than at any comparably selective research institution.

At the graduate level, the Regents' financial aid policy calls upon the University to attract a diverse pool of highly qualified students by providing a competitive level of support relative to 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 workforce needs. In 2008-09, 59% of graduate students received grant or fellowship support averaging about $14,400 per student, in addition to substantial support from teaching assistantships and research assistantships. The competitiveness of support packages for UC graduate academic students and its impact on the ability of the University to enroll top students from around the world has been a longstanding concern at UC.

FINANCIAL AID PROPOSALS FOR 2011-12

In 2011-12, the University proposes to:

- Return 33% of new systemwide fee revenue from undergraduate and professional students, and 50% of new systemwide fee revenue from graduate academic students to student support;
- Expand the Blue and Gold Opportunity Plan to ensure full coverage of mandatory systemwide fees for eligible resident undergraduates with family incomes up to $80,000 (up to the students' need);
- Cover 100% of 2011-12 fee increases for students from financially needy families earning less than $120,000;
- Continue a fundraising effort that aims to raise $1 billion for student support over four years; and
- Invest another $10 million in graduate student support if the University's request for State funding is fulfilled.

At the State level, UC will work with segments of higher education and other stakeholders to ensure that the Cal Grant program continues to be funded at necessary levels.

At the national level, maximum Pell Grant awards increased beginning in 2009-10. Students and their families are also able to take advantage of federal tax credits.

The University has faced several challenges in recent years related both to affordability at the undergraduate level and competitiveness at the graduate level. At the undergraduate level, fee increases implemented in response to declining State support for the University's budget contributed to an increase in the University's cost of attendance. These fee increases occurred while other elements of the total cost of attendance — including living expenses and books and supplies — also increased. For graduate academic students, increases in fees and nonresident tuition threatened the University's ability to offer competitive student support packages and placed

[1] The University of California Financial Aid Policy is available at www.universityofcalifornia.edu/regents/policies/3201.html.

additional strain on the fund sources that cover those costs. Increases in the Fee for Selected Professional School Students, which were implemented to help professional schools maintain the quality of their programs, have increased the demand for financial aid for these students as well. The University has responded to these challenges by adopting measures that both expanded the availability of student support and mitigated student cost increases, by increasing University funding for grants and fellowships, limiting nonresident tuition increases for graduate students, expanding loan repayment assistance programs for professional degree students choosing public interest careers, and improving information about the availability and terms of private loans for students.

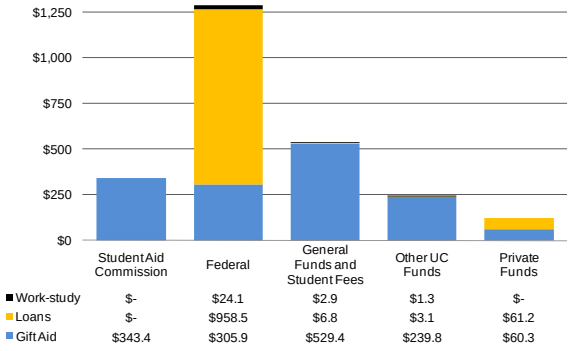
To increase funding for grants and fellowships, the University has continued to use a portion of the revenue derived from student fee increases to support financial aid for both undergraduate and graduate students. In recent years, UC has set aside 33% of new fee revenue from undergraduate and graduate professional students and 50% of new fee revenue from graduate academic students to augment UC's "return-to-aid" funds.

In 2011-12, the University plans to continue to augment its student aid programs with a return-to-aid of 33% for new undergraduate fee revenue. These funds, together with Cal Grant award increases, will provide additional support that will generally cover the systemwide fee increases for UC's grant-eligible undergraduates and provide some coverage of other cost increases. The University also proposes to use a portion of these funds to assist middle-income families by covering 100% of the 2011-12 fee increase for financially needy undergraduates from families earning less than $120,000.

In addition, in 2011-12 the University proposes to expand the Blue and Gold Opportunity Plan to ensure that all mandatory systemwide fees are covered by scholarships or grants for eligible resident undergraduates with family incomes below $80,000, up to the students' need, as discussed later in this chapter.

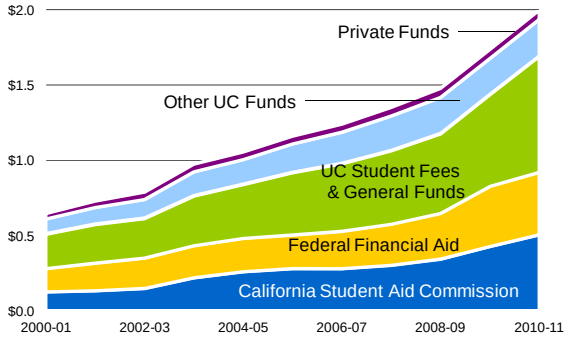
To help mitigate the impact of fee increases on the competitiveness of UC graduate student support, in 2011-12 the University will continue its current policy

Display XVI-1: 2008-09 Financial Aid by Type and Source of Funds (Dollars in Millions)



The amount of financial aid provided in 2008-09 represents an increase of about $216 million, or 9%, over the amount received in 2007-08.

Display XVI-2: Gift Aid Expenditures by Source (Dollars in Billions)



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 reach $2 billion in 2010-11, an average of over $7,500 per student.

of returning 50% of new systemwide fee revenue from graduate academic students to student support. The University's 2011-12 budget plan includes a request to restore State funds cut during the recent budget crisis. If these funds are provided, UC will invest additional funds in graduate student support in 2011-12. However, if the University's budget plan is not funded by the State, the University will be unable to increase supplemental graduate student support.

For graduate professional students, the University's professional degree programs will be expected to supplement financial aid resources by an amount equivalent to at least 33% of new professional school fee

revenue in 2011-12, or to maintain a base level of financial aid equivalent to at least 33% of the total professional school fee revenue. The University continues to monitor indicators of program affordability, including demographic trends in enrollment and cumulative debt levels. The availability of flexible loan repayment plans is becoming increasingly important to these students. For 2011-12, the University expects that campuses will continue to provide loan assistance repayment programs (LRAPs) where appropriate to help borrowers with public interest employment meet their student loan repayment obligations.

As mentioned in the *Student Tuition and Fees* chapter, the University also proposes to freeze nonresident tuition for graduate academic students for the seventh consecutive year and to freeze nonresident tuition for graduate professional students for the eighth year in a row.[2] By forgoing any increase in graduate nonresident tuition, the University has effectively reduced the real cost of nonresident tuition in each of the past few years.

In 2009-10 and 2010-11, enhancements to financial resources available to students have had a significant impact on undergraduates. The enhancements included:

- Augmentations to Cal Grants and UC grants to cover fee increases for lower-income students, along with a portion of increases in these students' other costs (e.g., room and board);
- Pell Grant expansion, raising the maximum award by $819, from $4,731 in 2008-09 to $5,550 in 2010-11;
- Temporarily increasing the maximum federal tuition tax credit from $1,800 to $2,500, raising the income ceiling from $116,000 to $180,000, and increasing the length of eligibility from two to four years of education; and
- Introduction of the Blue and Gold Opportunity Plan, ensuring systemwide fees are covered for resident undergraduates with financial need and parent income up to $70,000 in 2010-11.

As discussed in the *Student Tuition and Fees* chapter, the University is proposing fee increases of 8% in 2011-12. UC anticipates that increases in financial resources from UC grants and Cal Grants for 2011-12 will be sufficient to cover the proposed fee increase for over one-half of all UC undergraduates, including over 90% of students with financial need.

Each year UC prepares a comprehensive report for the Regents describing how undergraduate and graduate students finance their education.[3] In 2010-11 and beyond, the University will continue to closely monitor the effectiveness of its financial support to evaluate its success in adhering to the principles, articulated by the Regents, of affordability at the undergraduate level and competitiveness at the graduate level.

FUND SOURCES FOR FINANCIAL AID

UC students may receive scholarships, fellowships, grants, loans, work-study jobs, and fee remission to assist them in paying the educational costs of attending UC. The cost of attendance includes fees, living expenses, books, and other expenses. UC students receive assistance from four major fund sources: State aid programs, federal aid programs, University funds, and private entities.

State Aid Programs

Students at all California institutions of higher education may receive financial support from a number of State programs. These programs, administered on behalf of the State by the California Student Aid Commission (CSAC), include the Cal Grant A and B Programs, described below.

- The Cal Grant A Program is the largest of the State's aid programs and provides grants covering UC systemwide fees for needy, meritorious undergraduates.
- The Cal Grant B Program provides grants covering systemwide fees and a small stipend for living expenses to undergraduates from particularly low-income or disadvantaged backgrounds. First-year recipients generally receive the stipend only.

The programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education. Cal Grant awards for recipients attending UC and CSU currently cover systemwide student fees, but provide only minimal assistance to help students cover other costs of attendance. In 2008-09, over 51,000 UC students were

[2] Graduate academic students will experience a slight increase in the nonresident tuition charge in 2011-12, which will be offset by the elimination of differentials in the Educational Fee for nonresident students. The change will be cost-neutral to students.

[3] Annual student financial support reports, compiled by the Student Financial Support unit in the Student Affairs department at the UC Office of the President, are available at www.ucop.edu/sas/sfs/reports_data.html.

awarded $343 million in financial aid from all programs administered by CSAC, representing 32% of all scholarships and grants received by UC undergraduates that year. Cal Grant funding for UC students has increased in recent years as UC's fees have increased. It is anticipated that the State would provide additional funding to cover proposed 2011-12 fee increases for UC Cal Grant recipients. UC will work with the other segments of higher education and other stakeholders to ensure that the State maintains its historic commitment to the Cal Grant program and that the program continues to be funded at necessary levels, including funding to cover the proposed increases.

Federal Aid Programs

UC students receive federal support in three ways:

- Federal grants and scholarships worth $306 million in 2008-09, which comprised 21% of all grants and scholarships received by UC students that year;
- Loans totaling $958 million in 2008-09; and
- Federal tax credits and income tax deductions, from which many UC families benefitted. Nationally, the value of these federal benefits has grown steadily since their introduction in 1997; tax credits and deductions are described in greater detail at the end of this chapter.

Augmentations to federal aid programs resulting from the American Recovery and Reinvestment Act of 2009 affected funding for 2009-10 and 2010-11 and are discussed later in this chapter.

University Funds

University Funds consist of two components, UC core operating funds, and other University aid funds. The University designates $539 million in UC core operating funds – i.e., student fee revenue, UC General Funds and State General Funds – for student financial support. Other University aid funds are provided through various campus-based programs funded by endowment income, current gifts, and campus discretionary funds. In 2008-09, $244 million from these other University aid funds was awarded to students. Nearly all of the support ($240 million) in this category was awarded in the form of fellowships, scholarships, and grants.

Private Support for Financial Aid

Private agencies and firms also provide student financial support through scholarships and other forms of aid.

UNIVERSITY OF CALIFORNIA RETURN-TO-AID

Historically, the University has funded UC student financial support needs in part by setting aside a portion of revenue from fee increases for financial aid for needy students, a practice called "return-to-aid." As UC more fully recognized student financial need not covered by external resources and as student need increased over time, the percentage of revenue from fee increases dedicated to financial aid also increased.

In 1987-88, the percentage of new fee revenue dedicated to financial aid was 16%; this proportion has increased over time to 33% for undergraduates, which will continue in 2011-12. A return-to-aid rate of 50% on new fee revenue will augment financial aid funding for graduate academic students in 2011-12, while 33% of all new fee revenue will augment financial aid for students in professional degree programs. In addition, campuses are expected to set aside a minimum of 25% of the revenue from newly enacted campus-based fees for return-to-aid.

UNIVERSITY OF CALIFORNIA BLUE AND GOLD OPPORTUNITY PLAN

In 2010-11, the Blue and Gold Opportunity Plan ensures that financially needy California undergraduates with total family income under $70,000 have systemwide fees covered (up to the students' need) by scholarship or grant awards. This initiative, introduced in 2009-10, helps ensure that UC fee charges do not deter the half of California households with incomes below $70,000 from aspiring to a UC education. More than 60,000 UC undergraduates will qualify for the Plan in 2010-11.

In 2011-12, the Blue and Gold Opportunity Plan will offer full coverage of mandatory systemwide fees for eligible resident undergraduates with family incomes up to $80,000 (again, up to the students' need). This program expansion is anticipated to cost $4.9 million and is expected to increase the number of students eligible for the Plan by approximately 4,600 students.

Funds in this category range from traineeships and fellowships from private firms (e.g., Hewlett Packard and IBM), to funds from associations and foundations (e.g., the Gates Millennium Scholars program and the American Cancer Society), to small scholarships from community organizations. Nearly all funds in this category are awarded to students in the form of scholarship or grant support. In 2008-09, $60 million was awarded to UC students from private agency programs, representing 4% of the scholarships, grants, and fellowships students received during that year.

Private loans are an important financing option for students with unique circumstances, such as international students with no U.S. co-signers and students who have already borrowed the maximum allowable amount under federal student loan programs. Such loans are particularly important for students in professional degree programs due to the relatively high cost of those programs. UC students borrowed $61 million from private lenders in 2008-09. For 2006-07, 2007-08, and 2008-09, UC was successful in identifying lenders that offered private student loans with competitive terms and were willing to lend to any student, including high-risk borrowers. In 2010-11, the University has continued to provide information to students on the availability and terms of private student loans but, given the changing credit environment, can no longer guarantee access to private loans for high-risk borrowers.

Other smaller sources of financial assistance, including exemptions and tax credits, are described in more detail at the end of this chapter.

UNDERGRADUATE STUDENT FINANCIAL AID

As noted earlier in this chapter, the University has remained accessible to undergraduate students from all income groups, particularly low-income students, despite recent fee increases and increases in non-fee costs that have also occurred. Over 30% of UC students are low-income Pell Grant recipients, more than at any other comparably selective research institution. Early data for Fall 2010 estimates that 39% of all UC undergraduates qualify for Pell Grants in 2010-11, the largest percentage in the University's history.

Financial aid also contributes greatly to the University's undergraduate diversity. African-American, Chicano/Latino, and Asian American students are disproportionately low income; 44%, 46%, and 34%, respectively, of these students are either financially independent students (who are generally low-income) or have parent incomes less than $40,000. Collectively, these students receive 72% of all undergraduate gift assistance.

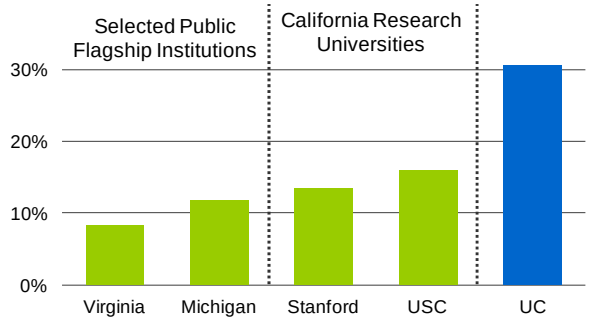
For many years, the percentage of students from middle-income families enrolled at the University also has remained relatively stable, staying around 43% between 2001-02 and 2006-07, despite fee increases in most of those years. Since then, the percentage has declined slightly, to 39% in 2008-09. The University intends to closely monitor this trend, together with income trends among California families generally, and proposes to expand financial aid programs targeted to middle-income students for 2011-12.

A general measure of the University's affordability is its average net cost of attendance, which represents the actual cost of attending UC for undergraduates after taking into

Display XVI-3: Undergraduate Student Financial Aid At-A-Glance (2008-09)

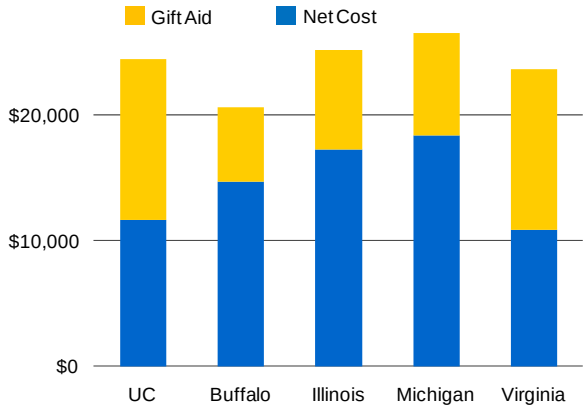
Total Aid	$1.7 billion
Aid Recipients	64%
Gift Aid	
Total gift aid	$1.1 billion
Gift aid recipients	55%
Average gift aid award	$11,055
Gift aid awards based on need	89%
Student Loans	
Students who took out loans	41%
Average student loan	$6,217
Students graduating with debt	50%
Average debt at graduation among borrowers	$15,806
Student Employment	
Students who worked	54%
Students who worked more than 20 hours per week	10%

Display XVI-4: 2008-09 Undergraduate Pell Grant Recipients



UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – over 30%, which is more than at any comparable public or private institution. Early data for Fall 2010 estimates that 39% of all UC undergraduates qualify for Pell Grants in 2010-11, the largest percentage in the University's history.

Display XVI-5: 2009-10 Net Cost of Attendance for Undergraduate Aid Recipients



Undergraduate need-based aid recipients at UC received an average of $12,800 in gift aid, resulting in a net cost of $11,600. UC's net cost in 2009-10 was lower than the net cost at three of its four public comparison institutions.

account scholarship and grant assistance. In 2009-10 (the most recent year for which information is available), the University's average *total* cost of attendance (before financial aid) represented the midpoint among its four public comparison institutions, as shown in Display XVI-5. After adjusting for gift aid, however, the *net* cost of attendance for resident need-based aid recipients was lower than the estimated net cost at three of the University's four public comparison institutions.

The Education Financing Model

Consistent with the financial aid policy adopted by the Regents in January 1994, the University uses an integrated framework — the "Education Financing Model" (EFM) — to assess UC's role in funding its financial support programs, to allocate financial aid across campuses, and to guide the awarding of aid to individual students. The framework is based on four principles:

1. The University must acknowledge the total cost of attendance: resident student fees, living and personal expenses, and costs related to books and supplies, transportation, and health care;
2. Financing a UC education requires a partnership among students, their parents, federal and state governments, and UC;
3. To maintain equity among undergraduate students, all students, no matter which campus they attend or their income level, are expected to make a similar contribution from student loans and employment to help finance their educations; and
4. Flexibility is needed for students in deciding how to meet their expected contributions and for campuses in implementing the EFM to serve their particular student bodies.

These principles are reflected in a relatively simple framework for determining the components of a student's financial aid package, illustrated below.

Parent Contribution. Parents are expected to help cover the costs of attending the University if their children are considered financially dependent. The amount of the parental contribution is determined by the same formula used to determine need for federal and state aid programs, which takes into account parental income and assets (other than home equity), the size of the family, the number of family members in college, and non-discretionary expenses. Particularly low-income parents have an expected contribution of zero.

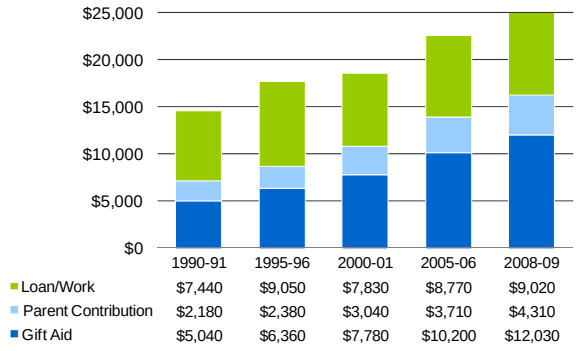
Student Contribution. Undergraduates are expected to make a contribution to their educational expenses from earnings and borrowing. The expected contribution should be manageable so students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. The EFM includes ranges for loan and work expectations based on the University's estimates of the minimum and maximum manageable loan/work levels, adjusted annually for inflation and periodically for market changes in student wages and expected post-graduation earnings.

The University's goal is to provide sufficient systemwide funding to ensure that students' loan/work expectations fall within the range established by the EFM.

UC GRANT ASSISTANCE UNDER THE EDUCATION FINANCING MODEL

The Total Cost of Attendance	
Less	A reasonable contribution from parents
Less	Grants from federal and state programs
Less	A manageable student contribution from work and borrowing
Equals	University grant aid needed

Display XVI-6: Cost of Attendance by Expected Source of Funding Among Undergraduate Need-Based Aid Recipients (2008-09 Dollars)



The total cost of attendance, average parental contribution, and average amount of grant, scholarship and fellowship assistance have increased over time for undergraduate need-based aid recipients.

The determination of funding levels for its need-based grant program, how these funds are allocated across the campuses, and guidelines for awarding those funds to students are made in accordance with the EFM principles.

Outcomes of the Undergraduate Aid Program

Display XVI-6 illustrates how undergraduate need-based aid recipients at UC have financed their cost of attendance from 1990-91 through 2008-09, and also illustrates several noteworthy trends:

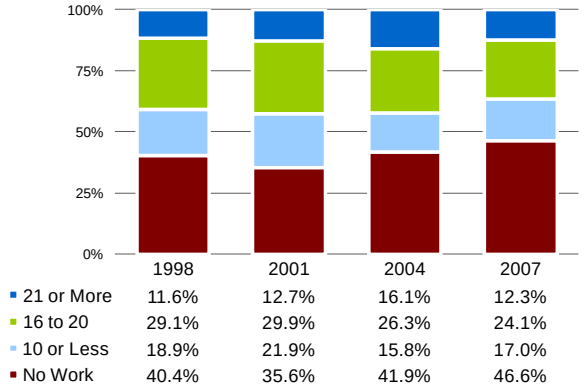
- The total cost of attendance for need-based aid recipients has generally increased over time, due to increases in both fee and non-fee expenses;
- Since 1990-91, the average parental contribution of need-based aid recipients has increased, due largely to higher-income families becoming eligible for aid;
- The average amount of grant, scholarship, and fellowship assistance received by need-based aid recipients has also risen in inflation-adjusted dollars; and
- The amount to be covered by student work and borrowing has remained relatively constant when adjusted for inflation.

For 2010-11, it is estimated that UC grant recipients will be expected to work or borrow, on average, approximately $8,600 to finance their education, although students can compete for UC scholarships and outside awards that effectively reduce their expected contribution. During the 2008-09 academic year, one in four undergraduates received scholarships worth $3,400 on average.

The University monitors a variety of outcome measures related to student support to evaluate the effectiveness of its undergraduate financial aid programs. These outcome measures are designed to answer the following questions:

- **Does the University enroll students from all income levels?** As noted earlier, the University has achieved remarkable success at enrolling a high percentage of low-income undergraduate students. In addition, the enrollment patterns of first-year students do not appear to be driven by fee levels or changes in the University's net cost; rather, trends in the income of UC freshmen generally reflect similar trends among California's population as a whole.
- **Do UC students work manageable hours?** The University funds and administers its financial aid programs such that no student is expected to work more than 20 hours per week in order to finance their education. Surveys conducted between 1998 and 2008 depict similar patterns of work, indicating that the increase in UC's cost of attendance that occurred during this time period has not significantly impacted this outcome measure. Display XVI-7 shows the results of several Student Expenses and Resources Surveys (SEARS); periodic SEARS indicate that the number of students working more than 15 hours per week has not increased.

Display XVI-7: Trends in Student Work Hours, 1998-2007



Student Expenses and Resources Survey figures from 1998 to 2007 (the most recent year available) show no consistent trend with students' work hours during this period.

- **Do students' financial circumstances affect their academic success?** Despite recent increases in fees and non-fee expenses, trends in student persistence remain stable for students at every income level. In addition, financial considerations do not seem to influence students' abilities to make progress towards meeting their baccalaureate degree requirements.
- **Do students graduate with manageable debt?** Under the EFM, debt that requires between 5% and 9% of a student's annual postgraduate earnings is considered to be manageable. The percentage of students who graduate with student loan debt has declined among every income group in most years during the period from 2000-2008, although the percentage of undergraduates with student loans did increase in 2008-09. Among those who do borrow, average cumulative debt has changed little during the past few years. (A slight increase in average cumulative debt among middle- and upper-income students may partly reflect increased federal loan limits.) Among students who graduated in 2008-09, 50% borrowed at some point while enrolled at UC; their average cumulative borrowing at graduation was $15,806. In comparison, among students who graduated in 2000-01, 55% borrowed while enrolled at UC, and their average cumulative borrowing at graduation was $15,709 (in constant 2008 dollars).

GRADUATE STUDENT FINANCIAL AID

At the undergraduate level, the Cal Grant and Pell Grant programs insulate many needy low- and middle-income families from the effects of systemwide fee and other cost increases and play an important role in maintaining the affordability of the University. No comparable State or Federal programs exist at the graduate level. For graduate students, the burden of covering increases in fees and nonresident tuition falls upon the University, research and training grants funded by federal and other extramural sources, private foundations, and students.

Graduate academic and graduate professional programs differ in a number of ways, including the intended outcomes of the programs, typical program length, and competitive markets for students. Because of these differences the types of financial support provided to these two groups of graduate students differ greatly. In general, graduate academic students receive more grant aid and traineeships and graduate professional student receive more loans.

Display XVI-8: Graduate Student Financial Aid At-A-Glance (2008-09)

Total Aid	$1.4 billion
From gift aid	30%
From loans/work-study	30%
From assistantships	41%
Aid recipients	86%
Gift Aid	
Gift aid recipients	59%
Average gift aid award	$14,364

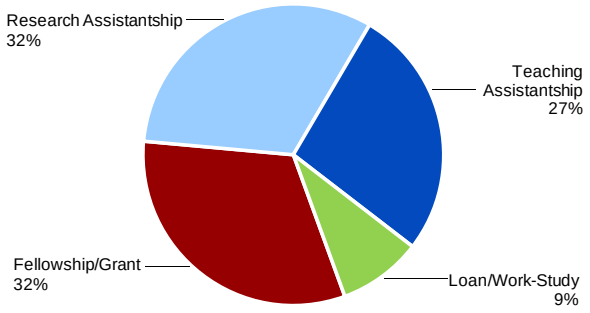
As shown in Display XVI-9, 32% of support for graduate academic students was in the form of fellowships and grants. Graduate academic students also serve as teaching and research assistants and hence receive significant funding from extramural faculty research grants and University teaching funds. Fellowship, grant, and assistantship support is viewed as more effective and loans less effective for recruiting and retaining doctoral students whose academic programs are lengthy and whose future income prospects are relatively low. Combined, fellowships, grants, and assistantships represent over 90% of all support received by graduate academic students.

In contrast, 69% of the support for graduate professional students was in the form of student loans and work-study and only 31% was in the form of fellowships, grants, and assistantships, as shown in Display XVI-10. In 2008-09, per capita borrowing among graduate academic students averaged only $2,585, while per capita borrowing among graduate professional students was $19,643.

Graduate Academic Student Aid

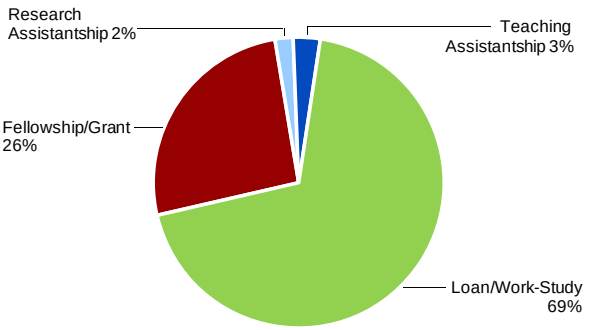
As noted above, the competitiveness of student support for UC graduate academic students and its impact on the ability of the University to enroll top students from across the world has been a longstanding concern. This issue has been joined by concerns about the impact of cost increases — especially increases in nonresident tuition and systemwide fees — that were instituted in response to declining State support for UC's budget.

Display XVI-9: 2008-09 Graduate Academic Financial Support by Program Type and Aid Type



More than 90% of graduate academic financial aid is in the form of fellowships and grants, teaching assistantships and research assistantships.

Display XVI-10: 2008-09 Graduate Professional Financial Support by Program Type and Aid Type



In contrast to graduate academic financial aid, most aid for professional school students is in the form of loans.

In 2006, the University established an ad hoc Graduate Student Support Advisory Committee (GSSAC) to advise the Provost and other senior University officials on matters related to graduate student support. The final report of the Committee included three principal findings:

- Anticipated increases in traditional funding levels for graduate student support would be inadequate to allow the University to achieve its twin goals of closing the competitive gap and meeting its enrollment growth targets. The Committee estimated that an additional $122 million of support would be necessary for the University to improve the competitiveness of its awards and to achieve its graduate academic enrollment goals.
- The cost of covering tuition for first-year nonresident students and for international students who have not yet advanced to candidacy limits the extent to which UC graduate programs can compete for these students.
- Research and training grants cannot be relied upon both to fully cover all future tuition and fee increases and help increase the University's competitiveness.

More recent estimates developed by the University's Task Force on Planning for Doctoral and Professional Education (PDPE) suggest that an additional $158 million in graduate student support funding will be required in order to achieve the 2016-17 graduate enrollment targets articulated in the University's Long Range Enrollment Plan and to fully close the competitive gap.

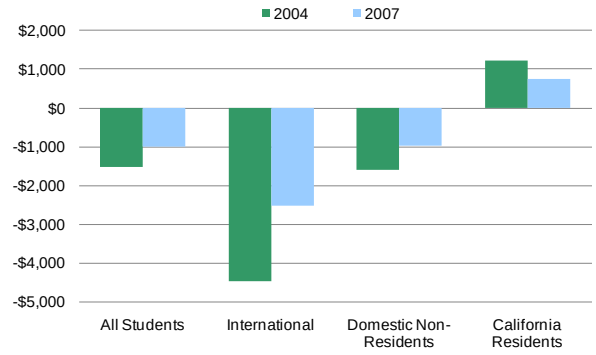
Over the past few years the University has taken several steps to address the gap between graduate student support demand and supply. First, the University increased the percentage of new fee revenue from graduate academic students set aside for graduate student support. The percentage was 20% in 2004-05 and is currently 50%. In 2010-11, these funds allow the University to cover cost increases associated with University-funded teaching assistantships and fellowships that currently cover students' fees.

Second, between 2005-06 and 2008-09, the University included in its annual budgets an additional $40 million from a combination of campus and systemwide fund sources for graduate student support programs. This approach reflects a shared responsibility at the systemwide and campus level to address the widespread concern about the University's ability to provide competitive award packages for academic graduate students, especially international students faced with the added expense of nonresident tuition.

Third, the University has not increased graduate academic nonresident tuition levels since 2004-05. The foregone revenue is seen as a worthwhile trade-off in order to avoid further demands on limited fellowship and research assistantship funding. By maintaining nonresident tuition for graduate academic students at the 2004-05 level, the University has reduced, in real terms, the costs associated with covering nonresident tuition for out-of-state and international students.

Fourth, the University has worked to reduce costs for academic doctoral candidates. Effective in Fall 2006, graduate doctoral students who have advanced to candidacy are exempt from paying any nonresident tuition for a maximum of three years. This policy provides an incentive for these students to complete their dissertation work promptly and reduces the burden on research grants

Display XVI-11: Competitiveness of UC Financial Support Offers to Academic Graduate Students



For academic doctoral students, UC narrowed the gap between its offers and those of competing institutions by more than $500 between 2004 and 2007.

and other fund sources that are often used to fund this cost as part of a student's financial support package. From 1997-98 through 2005-06, academic doctoral students who had advanced to candidacy were assessed only 25% of nonresident tuition for up to three years.

As a result of these steps UC narrowed the gap between its offers for academic doctoral students and those of competing institutions by more than $500 between 2004 and 2007, as shown in Display XVI-11. UC's competitiveness improved the most for international students, where the gap was reduced by almost $2,000. UC 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. Moreover, preliminary findings from the 2010 survey suggest that UC may have lost ground in terms of the competitiveness of its offers to academic graduate students.

Professional School Student Aid

The Regents' Fee Policy for Selected Professional School Students[4], approved in 1994, stipulates that an amount of funding equivalent to at least one-third of the total revenue from Professional School Fees be used for financial aid. The policy was amended in July 2007, at which time the Regents adopted specific conditions for ensuring that the University's commitments to access, affordability, diversity, and students' public service career decisions are not adversely affected by professional fee increases.

About two-thirds of aid awarded to graduate professional students is in the form of loans, primarily from federal loan programs, rather than fellowships or grants. The University also sets aside less return-to-aid funding for professional school students (33%) than for graduate academic students (50%). A greater reliance on loans and a smaller return-to-aid percentage are appropriate for professional school students because their programs are shorter, and their incomes after graduation tend to be higher, than those of other graduate students.

University funds are also used for loan repayment assistance programs (LRAPs) in certain disciplines. These programs acknowledge the fact that students who choose careers in the public interest often forego higher incomes; thus, these students may be less able to meet their debt repayment obligations. Other LRAPs are funded at the federal, state, or regional level to encourage students to serve specific populations (e.g., to work as a physician in a medically underserved area). In recent years, every UC law school has significantly expanded its LRAP to provide a higher level of debt repayment relief to a broader population of graduates. Other professional schools are continuing to evaluate the appropriate mix of loan assistance and fellowship support to ensure that public interest careers remain a viable choice for their graduates.

Starting in 2009-10, students can avail themselves of an Income Based Repayment plan (IBR) for federal student loans, which is designed to make loan repayments easier for students who take jobs with lower salaries. The amount of debt repayment is determined not by the loan amount but by the borrower's discretionary income, and repayment will never exceed 15% of net disposable income.

As noted earlier in this chapter, the University will continue to monitor enrollment trends and debt levels for graduate professional students.

[4] www.universityofcalifornia.edu/regents/policies/3103.html.

OTHER SOURCES OF FINANCIAL ASSISTANCE

The federal government and the State provide a number of vehicles to help students and their families finance education.

Cal Vet Fee Exemptions. Consistent with provisions of the California Education Code, by University policy, dependents of veterans whose death or disability was service-connected are generally eligible for exemption from mandatory systemwide fees. In 2008-09, over 2,500 UC students took advantage of such exemptions, worth a total of $18.5 million.

AB 540 Tuition Exemption. Consistent with Section 68130.5 of the California Education Code, by University policy, certain nonresident students who attended a California high school for at least three years and who graduated from a California high school may be eligible for exemption from nonresident tuition at UC. Potentially eligible students include undocumented students and domestic students who fail to meet the University's requirements for residency. In 2008-09, 2,100 UC students qualified for exemptions worth $36.1 million.

Federal Tax Credits. The Taxpayer Relief Act of 1997 established two tax credit programs, the Hope Tax Credit and the Lifetime Learning Tax Credit, designed to provide tax credits to qualified taxpayers for tuition and fees paid for postsecondary education. Under the American Recovery and Reinvestment Act of 2009, the Hope Tax Credit was expanded and renamed the American Opportunity Tax Credit (AOTC). The AOTC's key enhancements include an increase in the maximum credit from $1,800 to $2,500; an increase in the income ceiling from $116,000 to $180,000 for married filers; and an increase in the length of eligibility from two to four years of education. The Lifetime Learning Tax Credit provides smaller tax credits, and taxpayers are not limited to payments made during the first four years. In general, middle- and lower-middle-income students and their families benefit from these tax credit programs. The estimated value of the Hope and Lifetime Learning tax credits for UC students exceeded $80 million in 2008-09 and may grow by up to $88 million in 2010-11 due to the expansion noted above. At present, it is unclear whether the expansion of these tax credits will remain in effect for tax year 2011.

Tax Deduction for Higher Education Expenses. In 2001, a new higher education expense deduction was established to provide relief to families whose incomes disqualify them from participation in the federal education tax credits. Eligible families can qualify for a deduction of up to $4,000.

Scholarshare Trust College Savings Program. This tax-exempt college savings program administered by the California State Treasurer encourages families to save for college expenses.

Penalty-Free IRA Withdrawals. Taxpayers may withdraw funds penalty-free from either a traditional Individual Retirement Account (IRA) or a Roth IRA for postsecondary education expenses. This provision is intended to assist middle-income families.

Coverdell Education Savings Account. The Economic Growth and Tax Relief Reconciliation Act of 2001 established the Coverdell Education Savings Account (ESA) to replace the Education IRA and assist middle-income families. Although contributions are not tax-deductible, earnings on the ESA are tax-free and no taxes are due upon withdrawal if used for qualified higher education expenses.

U.S. Savings Bonds. The interest on U.S. savings bonds is, in certain circumstances, tax-free when bond proceeds are used to cover education expenses. Eligibility is a function of income level when the bond is redeemed and is intended to assist middle-income families.

Student Loan Interest Deduction. Borrowers may take a tax deduction for interest paid on student loans. Middle- and lower-middle-income borrowers with high debt are the primary beneficiaries of this deduction.

Loan Repayment Assistance Programs. Loan repayment assistance programs (LRAPs), loan assumption programs, and loan forgiveness programs are available to graduates who enter certain professions or who serve specific populations after graduation.

Veterans Education Benefits. Several federal programs provide financial assistance to help veterans and their dependents finance a college education. In particular, the newly enacted GI Bill provides eligible veterans attending UC with up to $22,000 per year beginning in 2010-11.

"Our housing, dining services, and bookstores are an essential part of the campus experience. The University has been working to achieve cost-savings in all its self-supporting auxiliary services without sacrificing quality."

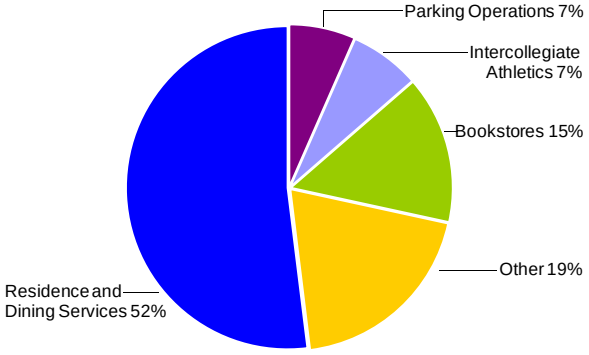
Peter Taylor
University of California
Chief Financial Officer

Auxiliary Enterprises

Auxiliary enterprises are self-supporting services that are primarily provided to students, faculty, and staff. Student and faculty housing, dining services, and campus bookstores are the largest auxiliaries, with intercollegiate athletics and parking also major components. No State funds are provided for auxiliary enterprises; therefore, revenues are derived from fees directly related to the costs of goods and services provided to cover all of their direct and indirect operating costs. The annual budget is based upon income projections; all budget increases are funded by corresponding increases in revenue. Operating expenditures for auxiliary enterprises are estimated to total $1.1 billion in 2010-11.

Auxiliary enterprises, as all functional areas of the University, have sought to reduce costs through increased efficiencies in administration and operations. Savings achieved in these programs are necessary to meet higher assessments being charged to auxiliaries for campus-wide operating costs as a way to help address budget shortfalls. They will also be important as these programs restart employer contributions to the UC Retirement Plan.

Display XVII-1: 2009-10 Auxiliary Enterprises Expenditures by Service Type



Residence and dining services account for over half of the expenditures by auxiliary enterprises.

Display XVII-2: Auxiliary Enterprises At-A-Glance

Student Housing:	
Single student residence bed spaces	68,477
Student family apartments	5,494
Student housing occupancy rate	106.7%
Planned growth by 2010	83
Faculty Housing:	
Faculty rental housing units	967
Mortgage loans provided	6,109
Faculty provided housing assistance	4,022
Parking:	
Parking spaces	117,257

STUDENT, FACULTY, AND STAFF HOUSING

UC's largest auxiliary enterprise is student housing, comprising 68,477 University-owned residence hall and single student apartment bed-spaces and 5,494 student family apartments, for a total of 73,971 spaces in Fall 2010.

Affordable student housing is an important component of the University's ability to offer a high-quality education and residential life experience. Campus housing is also important in addressing the University's sustainability goals and long range planning targets. Rapid enrollment growth over the last decade has presented the University with many challenges; creating affordable, accessible student housing to accommodate this growth has been high among those challenges. In accommodating demand, campuses identified guaranteed housing for freshmen as one of their highest priorities. Providing additional housing options for transfer and graduate students is also a top priority.

While the University was better prepared in Fall 2009 to meet the housing demand of students than in previous years, most campus residence halls continued to be occupied at over 100% design capacity (systemwide occupancy of residence halls was 106.7% in 2009-10). Campuses accommodate high excess occupancy by converting doubles to triples, as well as modifying study areas into temporary quarters. Campuses housed all

freshmen that met enrollment and housing application deadlines. With slowing enrollment growth, campuses expect to convert fewer double occupancy rooms to triples.

The California housing market is a continuing deterrent to UC's faculty recruitment efforts, particularly for junior faculty, and adding faculty and staff rental housing units continues to be a high priority. Various programs to alleviate this problem have been implemented since 1978:

- Rental housing units are made available to newly appointed faculty according to criteria established by each campus. These units are self-supporting without subsidy from student rental income.
- Home loan programs provide mortgage loans with favorable interest rates and/or down payment requirements to faculty members and other designated employees.
- The Faculty Recruitment Allowance Program provides faculty members with housing assistance during their first years of employment with the University.
- Six campuses have developed for-sale housing on land owned by the University. The land is leased to the purchaser of a unit built by a private developer. Resale restrictions control prices and determine eligibility for new buyers.

BOOKSTORES

Nine of the ten campuses own and operate bookstores providing a broad selection of general books, textbooks, computer products, supplies, insignia apparel and souvenirs, sporting goods, dormitory and apartment living supplies, newsstand materials, groceries, and a variety of other products. The Berkeley campus is the only campus that contracts the management of the campus bookstore to a private operator.

Although each campus bookstore serves the unique needs of the campus within the context of the surrounding competitive marketplace, there are several common trends among UC bookstores and among their cohort stores serving other research universities:

- Declining disposable income among students, faculty, staff, and parents and lower enrollment growth, the result of the economic downturn in both the state and the nation, continues to have a negative impact on total revenue from book and merchandise sales.
- Textbook sales, traditionally comprised of both new and used titles, now include custom content textbooks, digital textbooks, custom course packs, loose-leaf books, computer software and rental textbooks.
- Declines in the number of textbooks and general books sold have accelerated in recent years, and this trend is expected to continue in 2010-11.
- As the sale of course materials content declines, bookstore sales of computer products (the tools to access that content) have increased.
- UC bookstores are striving to add merchandise categories to add value and convenience to the quality of life on campus and to offset the decline in revenue from the sale of textbooks.
- Growth in revenues from on-line sales continues.

PARKING

UC's parking program is another major auxiliary, with approximately 117,257 spaces for students, faculty, staff, and visitors. Campuses encourage students, faculty, and staff to commute to campus via alternative modes to reduce trips and greenhouse gas emissions. In support of the UC Policy on Sustainable Practices and in conformance with campus Long Range Development Plan Environmental Impact Reports, all campuses have implemented extensive Transportation Demand Management programs, including carpools, vanpools, shuttles, transit pass subsidies, and similar initiatives. These transportation programs are funded, in part, by parking revenues. Campus Long Range Development Plan Environmental Impact Reports require mitigation of traffic impacts that the University creates, thus the more the campus population commutes via alternative transportation modes, the less impact UC will have on off-campus intersections.

INTERCOLLEGIATE ATHLETICS

Most UC campuses operate recreation and intercollegiate athletics programs exclusively as student services (see the *Student Services* chapter of this document). However, the Berkeley and Los Angeles campuses—both campuses with large intercollegiate sports programs—operate a portion of their recreational and intercollegiate athletics programs as auxiliary enterprises with revenue generated from ticket sales, concessions and other self-supporting sources. The San Francisco campus also runs its recreational facilities and programs as self-supporting auxiliary enterprises, with modest subsidies from Student Service Fees.

"The University has launched a systemwide operational efficiency initiative that requires a major culture shift at our institution. Achieving its success is one of our top administrative goals."

Peter Taylor
University of California
Chief Financial Officer

Provisions for Allocation

Provisions for allocation serve as a temporary repository for certain funds until final allocation decisions are made. For instance, funds allocated for across-the-board cost increases, such as salary adjustments, employee benefit increases, and price increases that occur in most program areas, may be held in provision accounts pending final allocation. Such cost increases are discussed in the *Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases* chapter of this document. Provisions for allocation also include negative appropriations, specifically undesignated reductions in State General Fund budgets awaiting allocation decisions and budgetary savings targets.

RENTAL PAYMENTS FOR FACILITIES FUNDED FROM LEASE REVENUE BONDS

Funds to pay for rental payments for University facilities constructed from lease revenue bonds were initially appropriated to the University in 1987-88. Under the conditions of this funding mechanism, the University contracts with the State to design and construct facilities, provides the State Public Works Board (SPWB) with a land lease for the site on which buildings will be constructed, and enters into a lease purchase agreement for the facilities with the SPWB.

Annual lease payments are appropriated from State funds and used to retire the debt. At the end of the lease term, ownership of the facilities automatically passes to the University. In 2010-11, the State allocation to UC includes $201.5 million for revenue bond lease payments. Typically, the budgeted amount is adjusted by the State during the year based on actual debt service payments, but this adjustment does not have an impact on other parts of the University's State-funded budget allocation. Consistent with past practice, the funding level needed for lease revenue bond debt service payments for 2011-12 will be determined by the state Department of Finance and included in the final budget.

Display XVIII-1: Lease Purchase Revenue Bond Debt Service (Dollars in Millions)

2006-07	$159.6
2007-08	$160.6
2008-09	$158.3
2009-10	$142.3
2010-11 (budgeted)	$201.5

DEBT SERVICE PAYMENTS FOR DEFERRED MAINTENANCE PROJECTS

In 1994-95 and again in 1995-96, the State authorized $25 million in long-term debt financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. All projects funded by this mechanism are required to have a useful life of at least 15 years. It was determined that the University should provide the financing and that funds to repay the principal and interest would be appropriated in the annual State budget.

Each year from 1996-97 through 2008-09, the State Budget Act has appropriated a total of $5.1 million to pay for the principal and interest related to the 1994-95 and 1995-96 deferred maintenance projects. A portion of this obligation ($2.7 million) was fully paid off in 2009-10, with the remainder ($2.4 million) to be fully paid in 2010-11. This funding will no longer appear in the University's budget beginning in 2011-12.

"Like many public and private employers, UC is undergoing a restructuring of health and pension benefits aimed at balancing the need for competitive compensation with long-term financial sustainability."

Nathan Brostrom
University of California
Executive Vice President for Business Operations

Compensation, Employee and Retirement Benefits, and Non-Salary Cost Increases

This chapter discusses funding for employee salaries and benefits and for price increases required to maintain the University's purchasing power at present program levels. Salary increases are largely driven by the need to remain competitive with the market. Benefits and other non-salary increases are driven by inflation and price increases imposed by providers. To a large extent, increases and adjustments to the University's budget plan reflect these rising costs of doing business, rather than initiation of new programs.

An area of ongoing concern, as a result of years of underfunding of the University's budget, is the continuing lag in faculty and staff salaries compared to market. Due to the State's fiscal crisis, staff merit increases and general range adjustments for academic and staff employees were not provided in 2008-09 or 2009-10, and have not been implemented for 2010-11. Three years without salary increases has exacerbated an already significant problem with respect to the University's ability to provide competitive salaries. Compounding this problem, UC faculty and staff faced furloughs in 2009-10, resulting in salary reductions from 4% to 10%. The lack of general salary increases and the temporary salary reductions resulting from the furlough plan have had serious consequences for UC faculty and staff and their families.

Historically, one of the University's highest priorities has been to achieve and maintain market-competitive total compensation for its employees. Continuing to achieve this priority will require providing sufficient funds, through a combination of merit, general range, market, and equity adjustments to raise UC faculty salaries to the average of the salaries provided at its eight comparison institutions, and to provide salary increases for all other employees that, on average, remain competitive with the market. However, the current fiscal crisis has prevented progress toward the goal of paying competitive salaries. Thus, instead of closing market gaps, the lack of general salary increases over a multi-year period is creating profound talent management challenges in retaining high-performing faculty and staff at UC. These challenges will grow more difficult, particularly as the economy recovers and other institutions are in a position to recruit UC's top performers.

Display XIX-1: 2009-10 Compensation and Benefits At-A-Glance

	Core Funds	Total
Salaries and Wages	$2.9 billion	$9.8 billion
Employee Health Benefits	$310 million	$1.1 billion
UC Retirement Plan		
Active members		114,928
Normal Cost		$1.4 billion
Retirees and survivors		53,902
Benefits payout		$1.6 billion
Annuitant Health Benefits		
Retirees and family members		53,000
Cost		$255 million

COMPENSATION FOR ACADEMIC AND STAFF EMPLOYEES: SALARY INCREASES

In a normal year in which the University would expect some level of budget increase in core funds (through a combination new State funding, revenue from student fees, or other sources), the University would include in its budget plan a proposal to fund a compensation increase package for employees. This package would typically include funding for the following elements for eligible employees:

- continuation costs for salaries and health and welfare benefits provided in the previous year,

- funding for merit salary increases,
- general range adjustments effective October 1,
- market-based equity salary increases, and
- health and welfare benefit cost increases.

Consistent with past practice, compensation increases for employees funded from other fund sources — including teaching hospital income, auxiliary enterprises, federal funds, and other sources —would normally be accommodated from within those fund sources and would conform to the University's established systemwide salary programs for State-funded employees.

In 2009, a recent study was updated to review UC's total compensation program. The results of the study indicated that, in general, average salaries were significantly below the market median, but the total compensation package, including salary and health and welfare benefits for employees as well as post-employment benefits (pension and retiree health), was close to market. However, it is anticipated that the employer-provided value of the benefit package will decrease in the next few years as employer and employee contributions to the UC Retirement Plan, re-introduced in the spring of 2010, are increased to ensure the solvency of the retirement program. In addition, funding over the next several years likely will not be adequate to match the inflationary increases of health benefit costs, which will likely require that employees contribute a larger share toward their medical premiums. UC's long-range plan is to rebalance the components of the compensation package and bring salaries closer to market-competitive levels so that total compensation remains competitive.

COMPONENTS OF A COMPENSATION PACKAGE

- **Continuation costs** are costs incurred from salary and benefits increases provided in the previous year, but not fully funded because salary increases are often implemented on October 1 and benefit costs increase on January 1, rather than July 1 at the beginning of the budget year. Therefore, the unfunded portion must be recognized in the following budget year.
- **Merit increases** recognize and reward excellence, and are critical to the preservation of the quality of the University. Merit salary increases for faculty and other academic employees in particular provide an incentive to maintain and expand teaching and research skills, and enable the University to compete with other major research universities in offering long-term career opportunities. Merit increases are never automatic.
- **General range adjustments** for eligible employees are pay increases that reflect changes in the cost of living.
- **Market and equity adjustments** help bring an individual's salary to market level for employees in jobs with the biggest external market gaps and/or internal equity issues, or to address recruitment and retention challenges.

Funding Shortfalls and the Salary Gap

The fiscal crises faced by the State over the past ten years have contributed significantly to gaps between UC salaries for faculty and other employees and the market. As part of the State's actions to reduce budgets in 2001-02 and 2002-03, the University lost funding that had been targeted for general range, market, and equity increases for faculty and staff. The University instituted additional internal budget cuts in order to fund academic merit increases for 2003-04 and 2004-05, but no employees received a general range adjustment and staff employees received no merit increases. While the Compact provided funding for academic and staff salary increases from 2005-06 through 2007-08, this was not enough to reverse the effects of years without adequate salary increases. Due to the latest crisis, general salary increases were not provided to faculty or staff in 2008-09 and 2009-10, and are not budgeted for 2010-11, although the University has continued to fund faculty merit increases by redirecting funds from existing resources. In 2009-10, faculty salaries (excluding furlough reductions) were almost 11.2% behind UC's comparison institutions. A similar problem exists for other academic and staff employees in most workforce segments.

2009-10 Salary Reduction/Furlough Plan

As part of the University's plan to address State funding reductions, in July 2009, the Regents approved a one-year salary reduction/furlough plan effective September 1, 2009 to August 31, 2010. The plan instituted a tiered system of furloughs and pay reductions, based on employee pay; employees were furloughed from 10 to 26 days per year, with the lowest paid employees (up to $40,000) subject to the fewest furlough days. Pay reductions ranged from 4% to 10% per year for employees. To protect patient safety

Display XIX-2: Range of Furlough Days and Corresponding Salary Reduction

Tier	Salary	Furlough Days	Salary Reduction
1	$0 – 40,000	11	4%
2	$41,000 – 46,000	13	5%
3	$46,001 – 60,000	16	6%
4	$60,001 – 90,000	18	7%
5	$90,001 – 180,000	21	8%
6	$180,001 – 240,000	24	9%
7	Over $240,000	26	10%

Note: Senior Management Group members received a maximum of 10 furlough days, regardless of pay scale.

and maintain essential services, UC medical centers were allowed to develop an alternate plan, intended to generate the same level of savings as employee furloughs. Certain employees were exempt from the furlough plan, including most student employees, Lawrence Berkeley National Laboratory personnel, foreign national employees working with H visas, and employees whose funding comes entirely from extramural project funds. For those employees whose salaries were partially funded from extramural funds, the exclusion applied only to that portion of their salary.

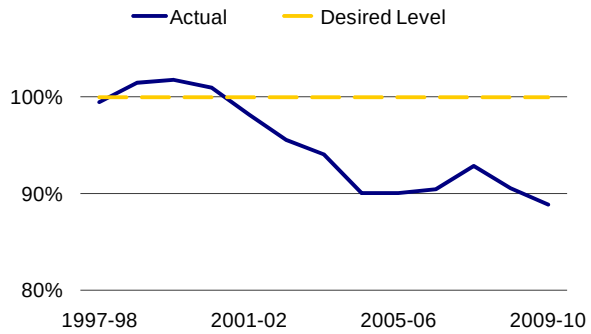
As of October 2010, the plan is estimated to have saved $136.5 million in General Funds to help address the State funding shortfall and nearly $237 million from all fund sources. More will be saved in the coming months as furloughs continue for some employee groups that started the program on a delayed schedule. Actual savings are less than projected for several reasons. First, through hiring freezes and layoffs, the University downsized its workforce more quickly than expected, achieving permanent savings directly, rather than through furloughs. In addition, under a Furlough Exchange Program, certain faculty who were subject to the furlough and who received extramural research funding were eligible to exchange furlough time with an equivalent amount of extramural funding. Under this program, savings from General Funds were still realized, while faculty devoted extra effort towards their extramurally funded projects. For represented employees, implementation of the plan was subject to collective bargaining agreements; due to the bargaining process, implementation of the furlough plan was delayed for some groups. Final savings figures will be available after all furloughs end in December 2010.

Faculty Salary Gap

In 2007-08, the University instituted a four-year plan to eliminate the 9.6% faculty salary lag that existed in 2006-07 and return faculty salaries to market. After one year of the plan, the faculty salary gap was reduced to 7.1%. However, the current fiscal crisis has delayed continuation of this plan, and the gap widened again to 11.2% in 2009-10, as shown in Display XIX-3.

While the merit and promotion system for academic employees has been maintained, estimated at an incremental annual cost of nearly $30 million, the University is deeply concerned about the effects of the salary lag on faculty retention, particularly for UC's promising junior faculty, who often are supporting young families in a high-cost environment. A national economic recovery is likely to have daunting repercussions on recruitment and retention of high-performing faculty 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 faculty away from other universities. UC will likely find itself struggling to retain its own high quality faculty. Additionally, recruitment of new faculty, which has been significantly slowed due to the fiscal crisis, remains a concern. Salaries that lag the market create major challenges in attracting the best faculty candidates.

Display XIX-3: Ladder Rank Faculty Salaries as a Percentage of Market



After one year of the faculty salary plan, the market lag of UC's faculty salaries improved from 9.6% in 2006-07 to 7.1% in 2007-08. However, with no general range adjustments, the gap widened again to 11.2% in 2009-10, excluding the impact of the furlough reductions. Without a general salary increase in 2010-11, the gap is expected to widen further.

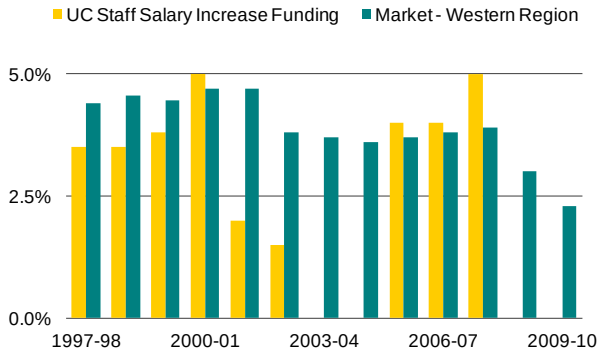
Staff Salary Gap

The funding gap with respect to staff salaries in most workforce segments presents a similar competitive market problem for the University. Compared to market data, annual salary increase funding for UC staff employees lagged in 9 out of the 13 years since 1997-98, as noted in Display XIX-4. Market salaries over the period have been increasing at nearly 4% per year, but funding for UC staff salary increases has not kept pace. In fact, during four of the last 13 years, UC was unable to provide any increases for staff salaries.

In Fall 2005, the Regents adopted a plan calling for annual increases of 5% to 5.5% in staff salaries over a period of ten years to close the staff salary gap. From 2005-06 to 2007-08, with funding from the Compact, UC slightly exceeded market increases, but during 2008-09 and 2009-10, no funding was provided for staff salary increases. Further implementation of the Regents' plan has been delayed due to the ongoing fiscal crisis.

Similar to faculty, retention and recruitment of staff has become a heightened concern due to the salary lag. Economic recovery in California will generate new opportunities for staff, and UC may face challenges in retaining its employees without competitive salaries.

Display XIX-4: Increases in Funding for Staff Salaries Compared to Market



Annual percentage increases in funding for UC staff salaries lagged in 9 out of the last 13 years, compared to increases in funding for salaries in the Western Region market. In four of those years, UC was unable to provide any increases, resulting in significant market disparities. (Source: World at Work Annual Salary Budget Survey. Represents data from over 800 employers from all sectors in the western United States.)

For employees represented by unions, the University has collective bargaining agreements that specify compensation increases for their members. Non-represented employees are eligible for salary increases through performance-based merit salary programs. These are funded from a pool created by combining budgeted funds for general range adjustments with those provided for merit increases.

Actual merit or other salary and benefit actions for UC employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA).

EMPLOYEE HEALTH AND WELFARE BENEFITS

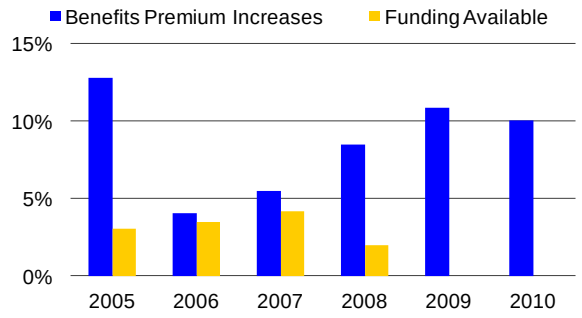
As part of the total compensation package for faculty and staff, the University offers competitive health and welfare benefits. Depending upon appointment type, the University may pay as much as 40% of an employee's annual base salary in employer benefit costs over and above salary. While salary packages lag the market for both faculty and staff, the total compensation package at the University currently remains competitive when health and welfare and retirement benefits are included.

Chief among these benefits are medical and dental plans for active employees. The University has a continuing commitment to controlling employee health benefit costs; however, these efforts have been impacted by state and national trends of dramatically increasing health insurance costs. Increases in health premiums have outpaced core funding available in each of the last six years, as shown in Display XIX-5.

While the UC share of premiums for employee health benefits increased by 8.5% to 11% over the last several years, State funding reductions meant that no new funds were available to cover these cost increases.

As a result, campuses have been and will continue to be forced to redirect funds from existing programs to address these costs; however, it is likely that some of the increases in health benefit costs will again be borne by employees themselves. This would result in further decreases in employee take home pay, in the absence of general salary increases.

Display XIX-5: Health Benefit Cost Increases and Core Funding Available



UC's share of annual increases in medical and dental benefit premiums have outpaced the core funding available to cover costs.

Implemented in 2002-03, UC's progressive medical premium rate structure is designed to help offset the impact of the employee's share of the medical plan premiums on lower paid employees. UC pays approximately 87% of medical premiums for employees on an aggregate basis, and has made a strategic decision to cover an even larger portion of the premium for those in lower salary brackets.

In developing the University-sponsored health and welfare plans for calendar year 2011, the University faced a number of challenges, including high rate increase proposals from medical plan vendors (exceeding 17% in some instances) and compliance with health care reform legislation. Based on the initial proposals from vendors, the UC employer contribution towards medical insurance premiums was estimated to increase 13%. However, through a combination of negotiations and the addition of new programs to the employee benefit plan portfolio, the University was able to limit the increase to 7.1%, a savings of $64 million across all fund sources. The overall projected increase in health and welfare benefits costs for the University during calendar year 2011 will be 6.6%. The estimated cost of increases in employee health benefits for 2011-12 is $22.8 million from core funds.

While the University has historically had a very competitive benefit package compared to those of other institutions, it is anticipated that within the next few years there will be an unavoidable decrease in the employer-provided value of the overall benefit package due in part to increases in employee paid health premiums.

RETIREMENT BENEFITS

Pension Benefits

The University of California Retirement Plan (UCRP) provides pension benefits for nearly 54,000 retirees and survivors and has nearly 115,000 active employee members, as of July 1, 2009. UCRP's defined-benefit plan promotes recruitment of talented individuals and provides incentives for long careers with UC. Because UCRP provides guaranteed benefits, career faculty and staff gain income security over the span of their retirement years. Currently, UCRP pays out $1.6 billion annually in retirement benefits.

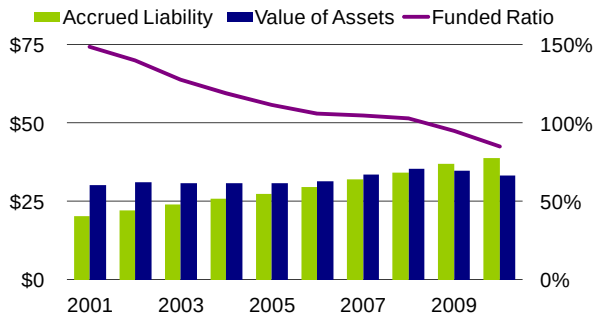
Prior to November 1990, contributions to UCRP were required from all employer fund sources and from member employees. In the early 1990s, the Regents suspended University contributions to UCRP after actuaries confirmed that UCRP was adequately funded to provide plan benefits for many years into the future.

The University estimates that over the 19 years during which employer contributions were not required, the State saved over $2 billion in contributions for those UCRP members whose salaries were State-funded.

The total cessation of contributions, which was desirable at the time for a variety of reasons, has created a serious problem today. For almost 20 years, faculty and staff continued to earn additional benefits as they accumulated service credit, yet no funds were collected and invested from the various fund sources that were supporting employee salaries to offset the annual increase in liabilities in UCRP. Plan liabilities currently increase by $1.4 billion (17.6% of covered payroll) annually as active members earn an additional year of service.

Due both to the increasing liability and the recent turmoil in the financial markets, the actuarial funded status of UCRP fell from 156% in July 2000 to 87% in July 2010. The accrued liability exceeds the actuarial value of assets by $6.3 billion. However, this valuation does not include full recognition of investment losses in recent years. If the deferred losses were recognized immediately, the funded percentage would decrease to 73%. The extent to which this unfunded liability grows is dependent on future

Display XIX-6: UCRP Historical and Projected Funded Status (Dollars in Billions)



The surplus in the UC Retirement Plan has diminished over time and is estimated to have fallen to 87% funded level in July 2010. Even with employer and employee contributions to the UCRP beginning in April 2010, the funded status of the plan will continue to decline.

investment returns, as well as employer and employee contributions to UCRP and changes in plan provisions.

It has been clear since at least 2005 that resumption of contributions is necessary to cover the cost of additional service credit accrued each year. Unfortunately, in 2007 the State of California was unwilling to restart contributions to UCRP due to the Plan's overfunded status at that time. Because UC cannot charge different rates for benefits costs to various fund sources, the lack of State funding to support retirement contributions delayed the restart of contributions from other fund sources as well.

Recognizing the need to ensure a strong and viable retirement plan, the Regents approved a series of actions to address projected funding shortfalls in the plan, beginning in March 2006, when the Board approved a targeted funding level of 100% and the resumption of contributions, subject to funding availability. In 2008, the Regents adopted a new funding policy that would determine recommended contributions based on the Plan's Normal Cost and its under-funded or over-funded status, and requested $228 million from the State for retirement contributions for 2009-10, which was equivalent to the proposed employer contribution rate of 9.5%. The 2009-10 Governor's Budget acknowledged the need to provide $96 million for its share of employer contributions (covering employees funded from State funds and student fees), representing a rate of 4% to begin on July 1, 2009, rather than the proposed 9.5% employer rate. However, the Governor's budget proposal reduced this amount to $20 million.

In response to the decreased funding expected from the State, the Regents in February 2009 approved a plan to begin contributions to UCRP in April 2010 at a much lower rate than the Plan's annual increase in liabilities. Employer funding sources were to contribute 4% and employees 2% (in aggregate). However, shortly after the Regents approved the restart of contributions, the Legislature rejected the Governor's proposal to fund the $20 million. Despite this action by the State, the University restarted employer and employee contributions in April 2010, with the State's share funded by redirecting resources from existing programs and student fee increases.

Due to the need to more adequately fund the Plan and its growing unfunded liabilities, in September 2010, the Regents approved increases to both the employer and employee contributions for 2011-12 and 2012-13. Employer contributions will rise from 4% in 2010-11 to 7% for 2011-12 and to 10% for 2012-13. Employee contributions will rise from 2% in 2010-11 to 3.5% for 2011-12 and to 5% for 2012-13. Because the combined contribution rate of 15% in 2012-13 remains below the current normal cost of annually accrued benefits as a percentage of salary (17.6%), these contribution rates will slow, but not eliminate, the growth in the unfunded liability. In order to cover the normal cost of accrued benefits each year and make progress toward eliminating the unfunded liability over a 30-year period, combined employer and employee contributions equivalent to over 20% of covered compensation would be required.

General Accounting Standards Board (GASB) rules required the University to report accrued unfunded pension liabilities on its financial statements. For 2009-10, the University recorded an unfunded pension liability accrual of $1.6 billion.

For 2011-12, the retirement-covered compensation base is estimated to be nearly $2.9 billion from core funds and $8.3 billion from all fund sources. The incremental cost to UC for the 3% increase in the employer contribution is estimated to be $85.8 million from core funds and

$260 million overall. Of this amount, funding requested from the State, associated with State and student-fee funded employees, is $76.1 million. In addition, UC requests funding for the State's share of employer contributions during 2010-11 ($95.7 million), for a total of $171.8 million.

Annuitant Health Benefits

As part of the benefit package, UC provides medical and dental benefits for more than 50,000 eligible retirees and their dependents. Eligible individuals who retire from UC with a monthly pension have health care coverage options similar to those offered to active employees. On average, in 2010, UC is paying 89% of retiree medical premiums.

Currently, the University does not pre-fund retiree health benefits and pays its share of health benefits for annuitants on a "pay-as-you-go" basis, whereby current plan premiums and costs are paid from an assessment on payroll of 3.31%. During 2010-11, the University's expenses related to annuitant health are estimated to be $255 million from all fund sources. With no changes to the current program, costs are projected to increase to $291 million in 2011-12 and to $383 million by 2013-14.

Because future retiree health benefits costs are not pre-funded and because health care costs have risen rapidly, as of July 2010, UC has an unfunded liability for retiree health of $14.9 billion. This amount represents the cost of benefits accrued to date by current faculty, staff, and retirees based on past service. The retiree health liability is projected to grow to $19.9 billion in 2014, if no program changes are implemented.

GASB rules require the University to report in its financial statements all post-employment benefits expense, including 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. The accrual may be amortized over a number of years, and for 2009-10, the University's financial statements recorded $3.7 billion of the total liability.

Consistent with the principles of the Compact, the University is requesting funding that is equivalent to the funding provided for the State's annuitants. The Department of Finance traditionally calculates these costs based on the most recent available data.

Post-Employment Benefits Task Force

Faced with increasing challenges to sustain retirement benefits, at the request of the Regents, in 2009 President Yudof established the Post-Employment Benefits Task Force to help the University develop a comprehensive long-term approach to post-employment benefits (both pension and retiree health), and recommend funding, policy, and benefits design alternatives. The task force consisted of senior leadership, faculty and staff representatives, and UC retirees and considered issues of market competitiveness, workforce behavior and development, affordability, and sustainability.

Following more than a year of study, the final report of the Task Force was submitted to the President in August 2010. The report included a number of recommendations related to pension benefits, health benefits, and financing for both. Task Force recommendations include:

Rapid increases in UCRP contributions. As mentioned earlier, at the September 2009 meeting, the Regents took action to increase employer and employee contribution rates annually by 3% and 1.5%, respectively, for 2011-12 and 2012-13. At a future meeting, the Regents will consider options for Plan funding beyond 2012-13.

Establishment of a new tier of pension benefits for employees newly hired starting July 1, 2013. This new tier plan would maintain certain features of the current plan, but include changes to post-retirement cost-of-living adjustments (COLAs) and eliminate certain features, such as the lump sum cash payout, inactive member COLAs, and subsidized survivor benefits. More significantly, the new tier would shift the minimum retirement eligibility age to 55 (from the current age 50) and establish the maximum age factor at age 65 (from the current age 60).

One of several options under consideration, a new tier could be structured to take Social Security benefits into account and require higher contributions from employees with salaries above the Social Security-covered compensation level. The new tier would reduce the long-term employer cost of pension benefits, but would not address the current unfunded liability.

Offer Current UCRP Members Choice. For all service after June 30, 2013, current employees could potentially choose either to move to the new tier benefit accrual design or to stay in the current UCRP plan design at a higher member contribution rate.

Explore a defined contribution plan option for the clinical enterprises. Market studies indicate that defined contribution plans are the norm for clinical enterprise comparator groups. Such a plan might assist in recruiting key workforce segments.

Change retiree health eligibility. To encourage later retirement, a new graduated eligibility formula for retiree health benefits would be established based on age and service, aligned with the new tier proposed for pension benefits.

Grandfather some faculty and staff under current retiree health eligibility rules. A Task Force recommendation is that current faculty and staff with age plus UCRP service credit greater than or equal to 50 and at least five years UCRP service credit as of July 1, 2013 would remain under the current graduated eligibility rules for retiree health benefits.

Reduce the University maximum contribution to retiree health programs. Additionally the Task Force recommended reducing the UC contribution to retiree health by about 3% per year over time to a floor of 70% of the premium; retirees would pay the remaining amount of the premium.

Amortize UCRP gains and losses over 30 years. Previous UC policy required amortization of gains or losses over 15 years. In September 2010, the Regents acted to revise the amortization policy to a 30-year period, consistent with many other governmental plans.

Based on the recommendations of the Task Force, the President will present his recommendations to the Regents for discussion at their November 2010 meeting. It is expected that the Regents will take action on these recommendations as early as December 2010.

NON-SALARY PRICE INCREASES

Prices of equipment, supplies, utilities, and other non-salary items purchased by the University are also rising. Non-salary items include instructional equipment and supplies such as chemicals, computers, or machinery, library materials, and purchased utilities. Increases in non-salary costs without corresponding increases in budgeted funds oblige campuses to find alternative fund sources or efficiencies to cover these costs.

Historically, price increases are included as part of the University's base budget adjustment; however, the continuing State fiscal crisis means funding for a price increase is not likely for 2011-12. Based on an average non-salary price increase of 1.5%, cost increases are estimated at $24.0 million for 2011-12. The Consumer Price Index (CPI) showed a decrease of nearly 2% in 2008-09, but since the beginning of 2009, the CPI has slowly risen, increasing by 1.25% over 2009-10. Costs of goods and services employed for education, as measured by the Higher Education Price Index (HEPI), typically rise faster than the CPI. In addition to funds for other non-salary items, the budget plan includes $5.5 million to address an anticipated 6.5% increase in the price of purchased utilities. Since 1999-00, prices of electricity and natural gas have risen more than 120%, resulting in large cost increases for UC campuses despite only modest increases in consumption. The costs of purchased utilities to operate UC campuses are discussed in greater length in the *Operation and Maintenance of Plant* chapter of this document.

"Through our partnership with the U.S. Department of Energy, UC's three national labs are global leaders in scientific and technological innovation, solving problems in energy, climate change, health, and national security."

Bruce Darling
University of California
Executive Vice President of Laboratory Management

Department of Energy Laboratory Management

For more than 60 years, the University has played a major public service role as a manager of three Department of Energy (DOE) National Laboratories. UC's partnership with the DOE has provided extensive research opportunities for faculty and, in consideration for the University's management service, UC generates revenue to support operations and the research enterprise.

Lawrence Berkeley National Laboratory (LBNL). The University was awarded a new management and operating contract for LBNL on April 19, 2005. This contract, which has an initial five-year term, has been extended through 2014, following a favorable DOE evaluation. The contract may be extended further through an award term provision that adds contract years based on excellent performance for additional years not to exceed 20 years in total.

LBNL has been successful in acquiring federal economic stimulus funds totaling over $300 million as of August 2010. Much of this funding will support laboratory construction and infrastructure. Federal ARRA funds are temporary in nature and these funds are not expected in future years.

Los Alamos National Security and Lawrence Livermore National Security Limited Liability Companies. The University's original contracts for the Los Alamos National Laboratory (LANL) and the Lawrence Livermore National Laboratory (LLNL) expired on May 31, 2006 and September 30, 2007, respectively. Both laboratories are now managed by limited liability companies (LLCs) partially owned by the University. The Los Alamos National Security LLC (LANS) was awarded a new management and operating contract for LANL on December 21, 2005 and commenced full operations on June 1, 2006. The Lawrence Livermore National Security LLC (LLNS) was awarded a new management and operating contract for LLNL on May 8, 2007, and commenced full operations on October 1, 2007. Both contracts have initial seven-year terms and may be extended further based on performance through an award term provision for additional years not to exceed 20 years in total. In 2009-10, the LANS contract was extended to nine years and the LLNS contract was extended to eight years after a DOE evaluation.

REVENUE STREAMS

Indirect Cost Reimbursement

Under its contract for LBNL and its earlier contracts for LANL and LLNL, the University received indirect cost reimbursement from DOE. Earlier this decade, this funding amounted to more than $10 million annually. In accordance with a *Memorandum of Understanding between the University and the State Department of Finance*, this indirect cost reimbursement contributes to UC General Fund income and helps to support the University's operating budget, in particular its research programs. Since the University no longer directly manages LANL and LLNL, the University no longer receives indirect cost reimbursement related to LANL and LLNL.

Furthermore, beginning in October 2009, the DOE moved from indirect cost reimbursement to direct budget appropriations for corporate services rendered to LBNL by UC. The final indirect cost reimbursement for LBNL, covering the first quarter of 2009-10, provided $285,000 to support the UC General Fund budget. Negotiations with the DOE are ongoing regarding the amounts of direct appropriation, which will replace the indirect cost reimbursement.

DOE Management Fee

Performance management fees from LBNL are gross earned amounts before the University's payments of unreimbursed costs. During 2011-12, LBNL is eligible to earn a maximum of $4.5 million in management fee revenue related to LBNL, which will be used for costs of LBNL research programs, reserves for future claims, and unallowable costs associated with LBNL.

LLC Income

Net income to UC from LANS and LLNS reflects UC's net share of fee income remaining after payment of unreimbursed costs incurred by the LLCs at the two laboratories and shares to other LLC owners. UC's LLC income is estimated to be $29.5 million for 2010-11, with $600,000 in carryover funds from the previous year. At the May 2010 meeting, the Regents approved an expenditure plan for the total of $30.1 million, as shown in Display XX-1.

UC's projected fee income share from LANS and LLNS for 2011-12 is not available until first quarter 2011. Because the accepted LLC proposals provided for a smaller fee opportunity after the first three years of each contract, the amount of net fee income may decrease in future years unless laboratory budgets increase. In May 2011, an expenditure plan for 2011-12 income will be presented to the Regents.

Display XX-1: 2010-11 Expenditure Plan for Income from LANS and LLNS (Dollars in Millions)

Research	$19.9
Competition Review and Award Process	0.3
Laboratory Oversight	4.0
Supplemental Compensation	2.0
Contingencies (post-contract, research)	3.9
Total	$30.1

"Access to a quality public university education has long been part of the California dream. Even in times of fiscal crisis, we must work together to keep that dream of opportunity alive for future generations."

Mark G. Yudof
University of California
President

Historical Perspective

Historically, the University's State-funded budget has reflected the cyclical nature of the State's economy. During times of recession, the State's revenues have declined and appropriations to the University either held constant or were reduced. When the State's economy has been strong, there have been efforts to catch up. The last four decades have all begun with significant economic downturns followed by sustained periods of moderate, and sometimes extraordinary, economic growth. This chapter details the history of State funding of the University[1].

1967-1990: FOUR CYCLES OF CRISIS

The University experienced budget reductions of about 20% in real dollars during the late 1960s and early 1970s. Faculty positions and research funding were cut, and the student-faculty ratio deteriorated by about 20%.

In the late 1970s and early 1980s, the University again experienced a series of budget cuts. By the early 1980s, faculty salaries lagged far behind those at the University's comparison institutions and top faculty were being lost to other institutions; buildings needed repair; classrooms, laboratories, and clinics were poorly equipped; libraries suffered; and the building program virtually came to a halt.

The situation improved significantly in the mid-1980s when a period of rebuilding was initiated. Faculty and staff salaries returned to competitive levels, funds became available for basic needs such as instructional equipment replacement and building maintenance, and research efforts were expanded. The capital budget also improved dramatically. There was significant growth in private giving, and the University once again became highly competitive for federal research funds. By the late 1980s, however, the situation began to change. Fiscal problems at the State level led to a growing erosion of gains made during the mid-1980s. By 1989-90, UC was struggling with the early stages of a fiscal problem that subsequently turned into a major crisis.

1990-91 THROUGH 1994-95: BUDGET CRISIS

The University experienced dramatic shortfalls in State funding during the first four years of the 1990s. Although State funding increased in 1990-91, it was below the level needed to maintain the base budget and fund a normal workload budget. Over the next three years, State funding for UC dropped by $341 million. At the same time, the University had to cope with inflation, fixed cost increases, and workload growth. Consequently, the University made budget cuts totaling $433 million, equivalent to roughly 20% of its State General Fund budget in 1989-90, as depicted in Display XXI-1. (By way of comparison to the current fiscal crisis, the proportion by which the UC's budget was reduced over a four-year period in the 1990s is equivalent to the one-year proportional reduction in 2009-10).

Display XXI-1: Permanent Cuts to UC Budgets 1990-91 through 1994-95 (Dollars in Millions)

1990-91	5% cut in research, public service, and administration.	$ 25
1991-92	Workforce reduction in both instructional and non-instructional programs, cut in non-salary budgets, undesignated cut.	120
1992-93	Permanent cut of $200 million phased in over two years.	200
1993-94	Reduction in campus and Office of the President budgets, resulting in further workforce reductions.	35
1994-95	Reductions in campus and Office of the President budgets in order to fund restoration of salary funds cut temporarily in 1993-94.	53
	Total	$433

[1] Information about State funding is also available in the *Sources of University Funds* chapter.

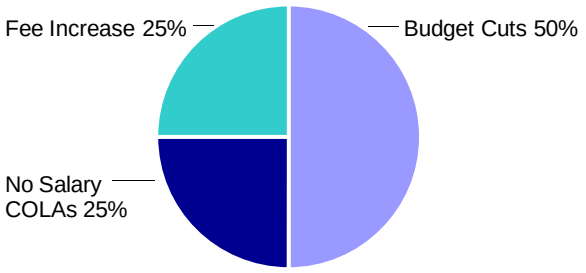
At the time, the budgetary losses during the early 1990s were unprecedented. The University's 1993-94 State General Fund budget was less than it was in 1987-88, even though in the interim there had been inflation, other cost increases, and enrollment growth. The University's budget would have been about $900 million greater in 1993-94 if the State had maintained the base and funded normal cost increases and workload growth. The University coped with this shortfall in ways that reflected the limited nature of its options in the short term. As illustrated in Display XXI-2, about half of the loss was taken through budget cuts, approximately another quarter by providing no cost-of-living increases for employees, and the remaining quarter through student fee increases accompanied by increases in student financial aid.

While regrettable, the fee increases were the only potential source of increased revenue to address budget cuts of such significant magnitude. At the same time, the University mitigated the impact of these fee increases on financially needy low- and middle-income students through a significant increase in financial aid grants (as opposed to loans). Over five years, through 1994-95, financial aid grants and other gift aid funded from University sources increased by approximately $118 million, or nearly 170%, to help mitigate the impact of increased fees.

During the early 1990s, UC's General Fund workforce declined by a net total of approximately 5,000 full-time equivalent (FTE) employees. The instructional program was protected to the extent possible by making deeper cuts in other areas such as administration, research, public service, student services, and facilities maintenance. In particular, administration was assigned deep cuts both on the campuses and in the Office of the President. Although instructional resources were eroded by the budget cuts, the University honored the Master Plan by continuing to offer a place to all eligible California residents who sought admission at the undergraduate level and providing students with the classes they needed to graduate on time.

In 1994-95, after years of steady erosion, the University's budget finally stopped losing ground. For the first time in four years, the State provided UC with a budget increase of about 3%. Base salary levels were restored following a temporary salary cut in 1993-94, and funding for faculty and staff cost-of-living salary increases of about 3% was provided for the first time since 1990-91. The student fee increase was held to 10%, and, once again, increases in financial aid accompanied the fee increase, helping to offset the impact on needy students.

Display XXI-2: Actions Taken to Address the Budget Shortfall of the Early 1990s



During the early 1990s, UC addressed the cumulative budget shortfall of $900 million through reductions to academic programs and administrative budgets, increases in student fees, and foregone cost-of-living adjustments for faculty and staff.

While the 1994-95 budget represented a substantial improvement over previous years, the University nonetheless remained in precarious financial condition. The University's share of the State General Fund budget had declined by 1% to 4.3%. Faculty salaries lagged the average of the University's comparison institutions by 7%, the workforce had been reduced by 5,000 FTE without a corresponding decline in workload, and the budget was severely underfunded in several core areas that have a direct relationship to the quality of instructional programs — instructional equipment, instructional technology, libraries, and facilities maintenance, for example.

1995-96 THROUGH 1999-00: THE COMPACT WITH GOVERNOR WILSON

A major turning point came with the introduction of Governor Wilson's 1995-96 budget, which included a Compact with Higher Education that ultimately was operational through 1999-00, described in Display XXI-3. Its goal was to provide fiscal stability after years of budget cuts and allow for enrollment growth through a combination of State General Funds and student fee revenue.

Display XXI-3: Provisions of the Compact with Governor Wilson (1995-96 through 1999-00)

- State funding increases averaging 4% per year
- Student fee increases averaging about 10% annually
- Further fee increases in selected professional schools
- At least 1/3 of new student fee revenue dedicated to financial aid
- Added financial aid through State Cal Grant Program
- Additional funding and deferred maintenance
- $10 million budget reduction each year for four years
- $150 million a year for capital budget
- Priority for life-safety and seismic projects, infrastructure, and educational technology

The funding provided under the Compact was to be sufficient to prevent a further loss of financial ground as the University entered a period of moderate enrollment growth of about1% per year. The Compact was not intended to provide restoration of funding that had been cut during the early 1990s, but it did provide UC with much-needed fiscal stability after years of cuts as well as a framework to begin planning for the future.

The Compact of 1995-2000 was remarkably successful, allowing the University to maintain the quality, accessibility, and affordability that have been the hallmarks of California's system of public higher education. The University enrolled more students than the Compact anticipated, particularly at the undergraduate level, and the State provided funding to support them. Faculty salaries were restored to competitive levels, allowing the University to once again recruit the nation's best faculty. Declining budgets were stabilized and further deterioration of the University's budget was halted.

In fact, the Legislature and the Governor not only honored the funding principles of the Compact, but also provided funding above the levels envisioned in the Compact. This additional funding allowed buyouts of student fee increases, even allowing for reductions in student fees for California resident students, helped restore UC faculty salaries to competitive levels more quickly, provided $35 million for a number of high priority research efforts, and increased funding for K-14 and graduate outreach by $38.5 million to expand existing programs and develop new ones.

In all, the State provided nearly $170 million in funding above the level envisioned in the Compact. In addition, general obligation bonds and/or lease revenue bonds were provided each year for high priority capital projects.

2000-01: A NEW PARTNERSHIP AGREEMENT WITH GOVERNOR DAVIS

Governor Davis entered office in January 1999 with a commitment to improve California public education at all levels. For UC, his commitment manifested itself in a new Partnership Agreement, described in Display XXI-4, a comprehensive statement of the minimum resources needed for the University to maintain quality and accommodate enrollment growth projected throughout the decade. The Agreement was accompanied by the expectation that the University would manage these resources in such a way as to maintain quality, improve relationships with K-12 schools, and increase community college transfer, among other goals.

The significant infusion of State funding over this period was welcome support for the University. Faculty salaries had once again reached competitive levels, the University was beginning to address salary lags for staff employees, enrollment growth was fully funded, progress was being made to reduce shortfalls in funding for core areas of the budget, student fees were kept low, and support was provided for a variety of research and public service initiatives of importance to the State and the University.

2001-02 THROUGH 2004-05: ANOTHER STATE FISCAL CRISIS

Unfortunately, by 2001-02, the State's fiscal situation began to deteriorate. The University based its budget request on the Partnership Agreement and included information about other high priorities for the University and the State to be funded when the State's economic situation improved. While the Governor's Budget, released in January 2001, proposed full funding for the University's budget request as well as additional funds for initiatives beyond the Partnership Agreement, by the time the May Revise was issued, the State's financial situation had weakened to the point of requiring reductions to funding levels the Governor had originally proposed, and the State was fully engaged in a major fiscal crisis that was to last four years.

Display XXI-4: Provisions of the Partnership Agreement with Governor Davis

- 4% increase to the base budget each year to provide adequate funding for salaries and other cost increases
- Marginal cost funding for enrollment growth
- Further 1% annual increase to the base budget to address chronic underfunding of State support for core areas of the budget
- Acknowledgement of the need to either increase fees or provide equivalent revenue
- Commitment to provide State support for summer instruction
- State bond funding of $210 million annually

Display XXI-5: State Funding Changes under the Partnership Agreement 2000-01 (Dollars in Thousands)

For the first year of the Partnership, the University's basic budget request was fully funded consistent with the funding principles of the Partnership. The State was also provided additional funding in several areas.

Partnership Funding	
Annuitant Health and Dental Benefits	$1,753
Base Budget Increase	$104,437
Core Academic Support	$26,109
Enrollment Growth	$51,234
Other Initiatives	
K-12 Internet Connectivity	$32,000
UC Internet Connectivity (One-Time)	$18,000
California Subject Matter Project	$40,000
MIND Institute (One-Time)	$28,000
Professional Development Programs	$31,000
Teaching Hospitals (One-Time)	$25,000
Academic Support	$20,000
Buyout of 4.5% Student Fee Increase	$19,300
Additional 1.5% for Low-Paid Workers	$19,000
Research Programs	$35,000
Other Academic and Outreach Initiatives	$6,109
Summer Session Fee Buy-down	$13,800
Charles R. Drew Medical Program	$7,850
UC Merced Base Budget Funding	$9,900
Geriatrics Endowed Chairs (One-Time)	$6,000
English Learners Teacher's Institute	$5,000
Expand AP Program Development	$4,000
Outreach	$2,000
Algebra and Pre-Algebra Academies	$1,700
Summer School for Math and Science	$1,000
Governor's Education Programs	$1,000
New Teacher Center at UCSC	$600
Reapportionment Data Base	$100

Total State Funding = $3.131 billion

Display XXI-6: State Funding Changes under the Partnership Agreement 2001-02 (Dollars in Thousands)

Partnership Funding	
Base Increase (4%)	$59,853
Enrollment Growth	$65,022
Annuitant Health and Dental Benefits	$829
Reductions	
Increased Natural Gas Costs	$50,620
California Subject Matter Project	($250)
Professional Development Institutes	($11,000)
Undesignated Reduction	($5,000)
K-12 Internet	($4,850)
Outreach Redirection	($3,250)
Labor Studies	($500)
Substance Abuse Research	($310)
Other Initiatives	
Buyout of 4.9% Student Fee Increase	$21,542
Year-round Instruction	$20,654
MESA and Puente	$1,500
Clinical Teaching Support Hospitals	$5,000
Spinal Cord Injury Research	$1,000
Aging Study	$250
CPEC Eligibility Study	$28
UC Merced (one-time)	$2,000

Total State Funding = $3.32 billion

The final 2001-02 budget was the first budget in seven years that did not provide full funding of the Partnership Agreement or the Compact (see Display XXI-6). Partnership funds totaling $90 million were eliminated from the University's proposed budget, thereby significantly reducing the funding available for compensation and other fixed costs and eliminating the additional 1% ($30 million) originally proposed for core needs.

The budget did, however, provide an increase of $131 million, including partial funding of the Partnership as well as funding above the Partnership for initiatives representing high priorities for the Governor and the Legislature. Several initiatives also were funded above the level called for under the Partnership, totaling $75 million in one-time and $3 million in permanent funds.

Funds for strengthening the quality of undergraduate education were not provided, however, and UC funding available for debt financing for deferred maintenance projects was reduced from $6 million to $4 million to help

fund compensation increases. UC's State General Fund budget for 2001-02 totaled $3.3 billion.

By the time development of the 2002-03 budget began, the State's fiscal situation had deteriorated markedly, necessitating the unusual action on the part of the Governor and the Legislature to adopt mid-year budget reductions for UC totaling $45.8 million for the 2001-02 budget. The State's budget deficit for 2002-03 eventually grew to $23.5 billion.

The final budget act for the 2002-03 budget, described in Display XXI-7, provided funding to the University for a 1.5% increase to the basic budget — instead of the 4% called for in the Partnership Agreement — to fund compensation, health and welfare benefits, and other increases. Increases to UC's State General Fund budget totaled $149 million. While the increases to the budget were welcome, the budget also included base budget reductions totaling $322 million. State General Funds provided to the University in the 2002-03 Budget Act totaled $3 billion.

Display XXI-7: State Funding Changes under the Partnership Agreement 2002-03 (Dollars In Thousands)

Partnership Funding	
Annuitant Health and Dental Benefits	$16,824
Enrollment Growth	$69,201
Reductions	
Base Increase (4% reduced to 1.5%)	$47,590
Base Reduction Offset by Fee Increases	($19,000)
Core Needs (one-time reduction)	($29,000)
Professional Development Institute	($50,866)
Research	($48,482)
Academic and Institutional Support	($20,000)
Student Financial Aid	($17,000)
Outreach	($14,396)
Student Services	($6,336)
K-12 Internet2	($6,250)
AP Online – Revert Savings (one-time)	($4,000)
Public Service Programs	($2,289)
California Subject Matter Project	($503)
Other Initiatives	
Year-round Instruction	$8,443
Dual Admissions Program	$2,500
CA Institutes for Science and Innovation	$4,750
CPEC Eligibility Study	$7
UC Merced (one-time)	$4,000
Total State Funding = $3.15 billion	

Mid-year cuts instituted in December 2002 (though not formally approved by the Legislature until March 2003) included $70.9 million in further base budget cuts for UC. In addition to cuts targeted at specific programs, $19 million was designated as an unallocated reduction, which the University offset by instituting an increase in mandatory systemwide student fees.

By the time the mid-year budget cuts were approved for 2002-03, the State was facing a deficit for 2003-04 that was unprecedented in magnitude. With the release of the May Revision, the Governor estimated the deficit to total $38.2 billion. For the University, cuts proposed by the Governor in January totaling $373.3 million and affecting nearly every area of the budget were all approved in the final budget act, including $179 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. The Regents again adopted an increase in mandatory systemwide student fees to offset this reduction in 2003-04.

The University took $34.8 million of the total cut that had been targeted at increasing the University's student-faculty ratio as an unallocated reduction instead. In addition to cuts proposed by the Governor, the Legislature proposed $98.5 million in unallocated cuts that ultimately were included in the final budget. Of the total, $80.5 million was designated as one-time and $18 million was designated as permanent.

The final budget did include some funding increases (see Display XXI-8), but most of the Partnership was not funded and the $29 million reduction in 2002-03 to core areas of the budget that had previously been specified as a one-time cut was not restored. The 2003-04 State General Fund budget approved in the budget act for the University was $2.87 billion, $282 million less than the State General Fund budget for 2002-03 adopted in September 2002.

A final round of mid-year reductions occurred in December 2003, totaling $29.7 million. While these mid-year reductions originally were intended by the Governor to be permanent reductions, the budget agreement for 2004-05 restored funding for some programs. Consequently, the mid-year reductions were taken on a temporary basis in 2003-04 and only the $15 million associated with the

Display XXI-8: State Funding Changes under the Partnership Agreement 2003-04 (Dollars In Thousands)

Partnership Funding	
Annuitant Heath and Dental Benefits	$16,089
Enrollment Increase	$117,200
Reductions	
Base Budget Reduction	($160,098)
Unallocated Reduction	($149,002)
Core Academic Support	($29,000)
Outreach	($45,532)
AP Online	($4,438)
Student Services	($19,008)
Research	($28,457)
Public Service	($12,500)
Academic and Institutional Support	($16,475)
California Subject Matter Project	($15,000)
K-12 Internet	($6,600)
Labor Institutes	($2,455)
Teaching Internships	($1,300)
San Diego Supercomputer	($360)
Other Initiatives	
UC Merced Base Budget Adjustment	$100
UC Merced (one-time)	$7,300
Total State Funding = $2.868 billion	

Display XXI-9: State Funding Changes under the Partnership Agreement 2004-05 (Dollars In Thousands)

Partnership Funding	
Annuitant Health and Dental Benefits	$34,416
Reductions	
Base Reduction Offset by Student Fees	($133,702)
Research	($11,626)
Academic & Institutional Support	($45,435)
Subsidy Reductions/Eliminations	($40,782)
Increase Student: Faculty Ratio	($35,288)
Reduce Freshman Enrollment 10%	($20,790)
Outreach/Reinstatement of Enrollment	$8,209
Unallocated Shift to Main Support	($18,000)
Eliminate K-12 Internet	($14,300)
Labor Institutes	$1,800
Other Initiatives	
UC Merced (one-time)	$10,000
Total State Funding = $2.699 billion	

unallocated reduction was ultimately approved as a permanent reduction. That reduction was taken as a temporary unallocated reduction for 2003-04 and offset on a permanent basis as part of the student fee increases approved for 2004-05.

The State remained in fiscal crisis for 2004-05 and the reductions to the University's budget were once again significant, as shown in Display XXI-9. State funds for 2004-05 totaled $2.72 billion, $147 million less than the funding level provided in the previous year. Base budget reductions included another cut to research and a reduction to academic and institutional support. Once again, another cut had originally been targeted at increasing the University's student-faculty ratio, but was instead taken by the University as an unallocated reduction.

Also included in the total reduction to the University's budget was $183.5 million in cuts offset by increases in student fees that otherwise would have been targeted at instructional programs. Undergraduate fees rose 14%, graduate academic fees rose 20%, and graduate professional fees rose 30%, which still generated $5 million less than expected. As a result of the shortfall, campuses were asked to absorb a temporary unallocated reduction of $5 million until fees could be raised again in 2005-06. Nonresident tuition was also increased by 20% in 2004-05 for undergraduate and graduate academic students.

One of the most difficult issues facing the University in the 2004-05 budget related to funding for enrollment. For the first time in recent history, the University was asked to reduce enrollment to help meet budget reductions. The Governor's January budget had proposed a 10%, or 3,200 FTE, reduction in University freshman enrollments and called for the campuses to redirect these students to the California Community Colleges for their first two years of study before accepting them to enroll for their upper division work at UC, a program referred to as the Guaranteed Transfer Option (GTO). As part of the actions taken on the final budget for 2004-05, the Governor and the Legislature reached a compromise that lowered the reduction in enrollment from 3,200 FTE to 1,650 FTE, which allowed the University to offer freshman admission to all students who originally received the GTO offer and preserve the Master Plan guarantee of access for eligible students.

Following the compromise, the University immediately sent offers of freshman admission to all eligible students who had not yet received a UC freshman offer. Among the roughly 7,600 applicants initially offered GTO and later

offered freshman admission, approximately 1,850 enrolled at UC during 2004-05. Another 500 remained as GTO students with plans to later transfer to the University as upper division students.

Among other actions, the Governor's January budget proposed elimination of all State funds for the Institute for Labor and Employment (ILE) and student academic preparation. As part of the final budget package, the Governor and the Legislature assigned ILE a $200,000 reduction and cut student academic preparation by only $4 million, leaving the program with a total of $29.3 million for 2004-05. The final budget did, however, eliminate all remaining funding for the Digital California Project (K-12 Internet) from UC's budget.

Also, the one-time reduction of $80.5 million from 2003-04 was restored, consistent with the prior year budget act and, consistent with past practice, funding for annuitant health benefits and lease revenue bond payments was provided.

With the 2004-05 budget, as a result of the State's fiscal crisis, the University's State General Fund budget was nearly $1.5 billion below what it would have been if a normal workload budget had been funded for the previous four years. About one-third of this shortfall was accommodated through base budget cuts to existing programs; and one-fourth was addressed through student fee increases. The remainder represented foregone salary and other unfunded cost increases.

A NEW COMPACT WITH GOVERNOR SCHWARZENEGGER

As the State's economic recovery remained slow, the Governor's proposed solution to the overall deficit included major budget reductions in most areas of the budget, heavy borrowing, and several one-time actions that would only delay further cuts into future years. The University was gravely concerned about the future of the institution and the potential long-term effect on quality of the academic enterprise as the State fought its way out of its economic crisis. Governor Schwarzenegger was equally concerned about the University's future and asked his administration to work with the University and with the California State University on a new long-term funding agreement for the four-year institutions.

Display XXI-10: Provisions of the Compact with Governor Schwarzenegger (2005-06 through 2010-11)

- Base budget adjustments of 3% in 2005-06 and 2006-07 and 4% for 2007-08 through 2010-11
- Additional 1% base budget adjustment for annual shortfalls in core areas beginning in 2008-09 and continuing through 2010-11
- Marginal cost funding for enrollment growth of 2.5% per year
- Student fee increases of 14% in 2004-05 and 2005-06 for undergraduates, 20% in 2004-05 and 10% in 2005-06 for graduate students, and fee increases consistent with Governor's proposed long-term student fee policy beginning in 2007-08
- Annual adjustments for debt service, employer retirement contributions, and annuitant health benefits
- One-time funds and new initiatives when the State's fiscal situation allowed
- At least $345 million of capital outlay annually

A new higher education Compact was announced by Governor Schwarzenegger in May 2004, shown in detail in Display XXI-10. Negotiation of the Compact with Governor Schwarzenegger helped stem the tide of budget cuts that had prevailed for four years.

According to the Compact, beginning in 2007-08, the University was to develop its budget plan each year based on the assumption that fees would be increased consistent with the Governor's proposed long-term student fee policy that student fee increases should be equivalent to the rise in California per capita personal income or up to 10% in years in which the University determines that to provide sufficient funding for programs and preserve academic quality would require more than the per capita increase rate. Revenue from student fees would remain with the University and would not be used to offset reductions in State support. The Compact also called for UC to develop a long-term plan for increasing professional school fees that considered average fees at other public comparison institutions, the average cost of instruction, the total cost of attendance, market factors, the need to preserve and enhance the quality of the professional programs, the State's need for more graduates in a particular discipline, and the financial aid requirements of professional school students. Revenue from professional school fees would remain with UC and would not be returned to the State.

As with the first iteration of the Compact under Governor Wilson, the new Compact included accountability measures relating to issues that traditionally had been high priorities for the State, including maintaining access and quality; implementing predictable and moderate fee increases; enhancing community college transfer and articulation; maintaining persistence, graduation rates, and time-to-degree; assisting the state in addressing the shortage in science and math K-12 teachers; returning to paying competitive salaries and closing long-term funding gaps in core areas of the budget; and maximizing funds from the federal government and other non-State sources. The University was to report to the Administration and the Legislature on its progress in these areas each year.

With the 2005-06 budget, the Compact represented a true turning point. The first three years of the Compact were very good for the University, as shown in Display XXI-11. In each year, the State provided a normal workload budget and UC began to address major shortfalls that had occurred in the recent fiscal crisis.

Over that three-year period, base budget adjustments helped support salary cost-of-living, market-based, and equity salary adjustments, merit salary increases, health and welfare benefit cost increases, and non-salary price increases. Enrollment workload funding was provided to support significant enrollment growth. In addition, the marginal cost of instruction methodology was revised in 2006-07 to more appropriately recognize the actual cost of hiring faculty and include a component for maintenance of new space, which had not been adequately funded by the State in recent years. In each of the three years, UC was also able to direct $10 million for a multi-year plan to restore $70 million of unallocated reductions that had originally been targeted at instructional programs. Thus, $30 million was put toward this goal. The State also funded several initiatives during this period, including the Science and Math Initiative, the labor and employment institutes, and the Gallo Substance Abuse Program.

Funding for student academic preparation programs was a major issue in the budget process for all three years. In each year, the Governor's January budget proposed eliminating State funds for this program, leaving only the University's $12 million in support for student academic preparation as called for in the Compact. In the end, the final budget act each year restored the State support, and in 2006-07 included an augmentation of $2 million

Display XXI-11: State Funding Changes under the Compact 2005-06 through 2007-08 (Dollars In Thousands)

2005-06 STATE FUNDING	
Compact Funding	
Base Budget Adjustment (3%)	$76,124
Annuitant Health and Dental Benefits	$521
Enrollment Growth	$37,940
Reductions	
One-time enrollment shortfall	($3,764)
Other Initiatives	
Labor Institutes	($3,800)
Science and Math Initiative	$750
UC Merced (One-Time)	$14,000
COSMOS	($1)
Total State Funding = $2.839 billion	
2006-07 STATE FUNDING	
Compact Funding	
Base Budget Adjustment (3%)	$80,489
Enrollment Growth	$50,980
Nursing Enrollment Growth	$963
PRIME (MD) Enrollment Growth	$180
Buyout of 8-10% Student Fee Increases	$75,015
Other Initiatives	
Student Academic Preparation	$17,300
Science and Math Initiative	$375
CA Community College Transfer	$2,000
Labor Institutes	$6,000
Substance Abuse Research	$4,000
UC Merced (One-Time)	$14,000
Total State Funding = $3.069 billion	
2007-08 STATE FUNDING	
Compact Funding	
Base Budget Adjustment (4%)	$116,734
Annuitant Health and Dental Benefits	$10,458
Enrollment Growth	$52,930
Nursing Enrollment Growth	$757
PRIME (MD) Enrollment Growth	$570
Reductions	
UC-Mexico Research	($500)
Other Initiatives	
UC Merced (One-Time)	$14,000
COSMOS	$500
Total State Funding = $3.257 billion	

for community college academic preparation programs. In 2007-08, the University's budget included $500,000 to support an increase for the California State Summer School for Mathematics and Science (COSMOS), an intensive academic four-week residential program for talented and motivated high school students.

Also in 2007-08, the Governor's January budget had proposed elimination of State funds for labor and employment research, but the Legislature augmented the University's budget by $6 million to restore funding for labor research to its original level when the program was initiated in 2000-01.

In 2005-06 and 2007-08, fee increases were implemented, but in 2006-07, the State provided funding to avoid planned increases in student fees.

There were several initiatives the University had proposed in 2007-08 that were not funded in the final budget. The University had requested that employer and employee contributions to the UC Retirement Plan be reinstated (at an estimated cost of $60 million during the first year); however, the final budget did not include these funds.

Also in 2007-08, the January Governor's budget proposed increasing core support for the four California Institutes for Science and Innovation by a total of $15 million to ensure that each Institute had a minimum level of support with which to operate, which in turn would serve as seed money to continue to attract funds from industry and governmental sources. Finally, for several years, the State budget had contained language authorizing the University to use operating funds (up to $7 million) to support renovations needed for the University's educational facility in Mexico City, *Casa de California*; however, it was agreed by the Governor and the Legislature that no State funds would be used for this facility going forward.

The State-funded budget rose 5% in 2005-06, 8.2% in 2006-07, and 5.9% in 2007-08, rising from $2.8 billion in 2005-06 to $3.26 billion in 2007-08.

2008-09 AND 2009-10: A SECOND STATE FISCAL CRISIS IN A DECADE

The 2008-09 academic year began, fiscally, as a very difficult year for the State. The State's ongoing structural deficit was estimated to be about $6 billion when the University developed its plan for 2008-09 in November 2008 and ended up totaling closer to $14.5 billion when the Governor and the Legislature negotiated a final budget in September. The State addressed its problem through a combination of budget cuts, borrowing, and revenue enhancements such as closing tax loopholes, among other actions.

For the University, the budget was constrained, falling short of funding basic costs. In developing the Governor's Budget, the Department of Finance first "funded" a normal workload budget consistent with the Compact with the Governor, and then proposed a 10% reduction (totaling $332 million) to that higher budget to address the State's fiscal situation. The net result in the Governor's January proposal between 2007-08 and 2008-09 was a reduction to the University's base budget of $108 million (excluding lease revenue bond payments and one-time funds). The Governor's May revision proposed to restore $98.5 million of the cut proposed in January, and this restoration was sustained through the signing of the budget act. With the adoption of a new State spending plan in September 2008, the University's State-funded budget was essentially flat compared to 2007-08, totaling $3.25 billion.

Unfortunately, the nation, and indeed the world, was entering the worst economic recession since the Great Depression of the 1930s. As a result, estimates of revenue contained in the State's September 2008 budget act proved unrealistic and the State began a process of budget negotiations over a 10-month period to resolve its deficit.

First, action occurred in October, after the final budget act had been passed, which required the University to achieve $33.1 million in one-time savings during 2008-09. During November, the Governor called a special session of the Legislature to deal with the State's fiscal crisis. That effort ended with a new 18-month budget package adopted in February 2009 that implemented mid-year cuts for 2008-09 and developed a spending plan for 2009-10 instituting additional cuts. Within a matter of weeks, it became evident the revenue estimates used to adopt the February Special Session budget were too optimistic. Late into the summer, the Legislature adopted its third budget for 2008-09 (after the fiscal year had ended) and a revised

spending plan for 2009-10 to resolve an estimated $24 billion deficit.

Again, the State used a combination of spending cuts, borrowing, transfers to the General Fund, and increased revenue (through accounting system changes rather than additional taxes) to resolve the budget deficit. The new 18-month State budget included unprecedented cuts for the University. Reductions in 2008-09 totaled $814 million and included both permanent and one-time cuts. These reductions were partially offset by $716.5 million in one-time funds provided by the federal government through the American Recovery and Reinvestment Act (ARRA) as part of a wide-ranging economic stimulus package intended to jump-start economic recovery in a number of sectors, including education. Many of the reductions for 2008-09 were not approved until after the fiscal year had ended. In addition, much of the ARRA money was not provided until the new fiscal year. Thus, the University carried forward a large negative balance at the end of 2008-09.

Display XXI-12: 2008-09 State Budget Actions (Dollars in Thousands)

Compact Funding	
Base Budget Adjustment (4%)	$123,832
Additional 1% for Core Academic	$30,958
Annuitant Health and Dental Benefits	$11,081
Enrollment Growth	$56,370
PRIME (MD) Enrollment Growth	$975
Other Adjustments	
10% Budget Reduction	($220,185)
May Revise Restoration	$98,548
Mid-year and Year-end Actions	
Mandatory Savings Target (one-time)	($33,051)
Mid-year Special Session Reduction	($65,497)
May Revise Reduction (one-time)	($510,000)
May 26 Reduction (one-time)	($207,500)
Conference Committee Restoration	$2,000
Other Initiatives	
UC Merced (one-time)	$10,000
Total State Funding = $2.418 billion	

Display XXI-13: 2009-10 State Budget Actions (Dollars in Thousands)

Compact Funding	
Base Budget Adjustment (5%)	$153,764
Annuitant Health and Dental Benefits	$11,332
Enrollment Growth	$56,180
PRIME (MD) Enrollment Growth	$1,460
Nursing Enrollment Growth	$1,087
Other Adjustments	
Elimination of Compact Funding	($209,944)
May Revise Restoration	$98,548
Subsequent Actions	
Special Session Vetoes (one-time)	($305,000)
May Revise Reductions	($81,300)
May 26 Reduction (two-year)	($167,500)
Conference Committee Adjustment	($17,800)
Other Initiatives	
UC Merced (one-time)	$5,000
Total State Funding = $2.591 billion	

The funding cuts for the University's 2009-10 budget reflected the continuing fiscal crisis in the State. When compared to the budget adopted in September 2008 before the mid-year cuts began, the University's 2009-10 State funded budget is $637 million less, totaling $2.6 billion, a reduction of 20%.

Displays XXI-12 and XXI-13 show the actions that occurred during 2008-09 and 2009-10. The *Cross-Cutting Issues* chapter of this document contains detail on the actions of the University to address the budget cuts.

FUNDING IN THE CURRENT YEAR: 2010-11

The fiscal turbulence that characterized the 20 months between December 2008 and August 2010 for the State of California did not subside with the adoption of the 2009-10 budget. The State remained unable to develop permanent solutions to address its ongoing fiscal deficit.

Thus, with the presentation in January 2010 of a proposed budget for 2010-11, the Governor once again had difficult choices to make. As a signal of the high priority he placed on maintaining funding for higher education, the Governor proposed additional funding totaling $370.4 million for UC, including the following:

- restoration of a $305 million one-time cut adopted as part of the 2009-10 budget package;
- $51.3 million to support 5,121 FTE students (at the time, UC estimated it had enrolled more than 14,000 students for whom it had not received State funding); and
- $14.1 million in annuitant benefits.

While the funding only partially addressed the shortfalls UC has experienced since 2007-08, the Governor's proposal

was welcome news for UC's students, faculty, and staff, signaling that adequate funding for UC continues to be important to the State of California.

Budget negotiations continued throughout the spring and summer with no agreement by the Governor and the Legislature. Ultimately, it was not until October 8th, more than 100 days into the fiscal year, that a final budget package for 2010-11 was signed into law. The package resolves the State's deficit (estimated at $19.3 billion by the Department of Finance) through a combination of actions including $7.5 billion in program reductions, $5.3 billion in Federal funds, $5.3 billion in fund shifts and other revenue actions, and other actions that include a recognition of workload increases as well as reductions.

Supporting the budget proposals Governor Schwarzenegger submitted in his January budget, the final budget includes an additional $264.4 million for the University of California; another $106 million in one-time ARRA funds was approved in early September. Of this amount, $199 million is permanent funding to partially restore the one-time budget cut agreed to as part of the 2009 State budget. When combined with the one-time $106 million in ARRA funds, the total amount restored is $305 million, which is the total restoration the Governor originally proposed. (A total of $637.1 million was cut from the UC budget in 2009-10, representing a 20% reduction in State General Fund dollars. The restoration approved for 2010-11 will return a little less than half of that reduction.) The total also includes the $51.3 million to address UC's unfunded enrollment. Another $14.1 million is included for the increase in health care costs for UC's retired annuitants.

An issue of great concern has been the funding of the State's share of the employer contribution to the University's retirement program, estimated to be $95.7 million in 2010-11. The final budget package does not contain the funding to support this cost. However, the Legislature did approve trailer bill language to eliminate the current statutory language prohibiting any new State General Fund dollars from supporting the State's obligation to the University of California Retirement Program. The Legislature also adopted budget bill language asking for the Legislative Analyst, the Department of Finance, and UC to work together to develop a proposal for how UC's retirement plan would be funded in future years. This language was vetoed by the Governor; however, the University has pledged to work with the Legislative Analyst and the Department of Finance on such a proposal for contributions to the retirement plan.

Display XXI-14: 2010-11 State Budget Actions (Dollars in Thousands)

Major Actions	
Restoration of One-time Cuts (permanent)	$199,000
Restoration of One-time Cuts (one-time)	$106,000
Annuitant Health and Dental Benefits	$14,121
Enrollment Growth	$51,272
Debt Service Adjustments	$52,190
Other Initiatives	
UC Merced (one-time)	$5,000
Redirections of Existing Funds	
UCR Medical School ($10 million)	$-
Reapportionment Database ($600,000)	$-
Total State Funding = $2.912 billion	

The Legislative budget package fully funds the Cal Grant program, thereby covering the fee increase implemented for 2010-11 for eligible students. Other actions approved in the final package include budget language requiring UC to redirect $10 million from existing resources to support planning for a new medical school at UC Riverside and $600,000 to be redirected from existing resources for the Institute of Governmental Studies at UC Berkeley.

Display XXI-14 summarizes the changes to the University's operating budget as approved in the final budget.

While every decade in recent history has begun with an economic downturn that has negatively affected the University's fiscal stability, the past decade was unprecedented as two major multi-year fiscal crises occurred within a ten-year period. Unfortunately, the State has not resolved its ongoing structural deficit and thus constrained budgets are expected to continue for several more years. It is critical for the future of the University of California that the State find solutions to its fiscal woes – until that occurs, the University of California will experience increasingly difficult fiscal challenges as it hopes to move forward. Display XXI-15 provides a brief outline of the actions since 2000-01.

Display XXI-15: The UC Budget Since 2000-01

2000-01

Partnership Agreement with Governor Davis funding allows increases to base, core needs, enrollment, research, and outreach, as well as new and expanded funding for initiatives, and fee buy-downs for students.

2001-02

While a fiscal crisis looms, the State is able to provide Partnership funding, but by the end of the year must make some cuts to research, outreach, and public service.

2002-03

With the State in fiscal crisis, Partnership funding is provided for enrollment and annuitant benefits, but UC's base increase is lower than planned and partially offset by fee increases, and cuts are made throughout the University.

2003-04

Large cuts are made throughout the enterprise, as high as 50% in outreach, but increases to enrollment and annuitant benefits are still provided.

2004-05

The State budget crisis' effect on UC peaks, with increases in student fees and the student-faculty ratio, a smaller freshman class, and large budget reductions throughout the University.

2005-06

A return to increases in base budget and enrollment funding and few targeted cuts through the new Compact with Governor Schwarzenegger signal a turning point in UC's budget after four years of reductions.

2006-07

The State provides Compact funding, as well as additional funding for outreach and research, and provides students with fee increase buyouts.

2007-08

Compact funding is again available, with some additional funding for outreach.

2008-09

With the onset of another fiscal crisis, the Compact is funded but equivalent unallocated cuts are assigned and institutional support is reduced.

2009-10

The Compact is again funded, but equivalent unallocated cuts are assigned, and large and wide-ranging cuts are assigned throughout the University.

2010-11

The Governor prioritizes investing in higher education, which is reflected in the final State budget with partial restoration of earlier cuts and new funding for enrollment.

Appendix Display 1: 2011-12 Budget Request (Dollars in Millions) – REVISED

2010-11 CURRENT OPERATING BUDGET	
State General Funds	$2,912.6
Total Core Funds (State General Funds, UC General Funds, Student Fee Revenue, and One-time ARRA Funds)	$6,275.7

PROPOSED INCREASES IN REVENUE		PROPOSED INCREASES IN EXPENDITURES	
State General Funds		Enrollment Growth and Instructional Programs	
Restoration of One-time Reductions	$106.0	Unfunded Enrollments	$115.7
Restoration of Two-year Reduction	167.5	PRIME Programs	5.5
Unfunded Enrollments (11,570 FTE)	115.7	Nursing Programs	4.1
Retirement Contributions[1]	171.8	UCR Medical School	15.0
Annuitant Health Benefits	10.5	Professional School Programs	21.6
Health Sciences Initiatives	24.6		
Subtotal	596.1	Compensation and Non-salary Items	
		Retirement Contributions[2]	182.3
		Employee Health Benefits	22.9
UC General Funds		Annuitant Health Benefits	10.5
Nonresident Tuition	16.7	Academic Merit Increases	27.7
Federal Indirect Cost Recovery	10.0	Compensation Increases	87.0
Subtotal	26.7	Collective Bargaining Agreements	6.0
		Purchased Utilities	5.5
		Non-salary Cost Increases	24.0
		Deferred Maintenance	60.0
Student Fees			
Educational Fee Increase (8%)	163.8	Other Actions	
Student Services Fee Increase (8%)	15.7	Reinvestment in Academic Excellence	273.5
Professional Fee Increases (0% to 31%)	32.3	Efficiencies and Redirections	(101.1)
Subtotal	211.8		
		Financial Aid	
		Mandatory Fee Increases	63.7
		Professional School Fee Increases	10.7
TOTAL INCREASE IN REVENUE	$834.6	TOTAL INCREASE IN EXPENDITURES	$834.6
		Percentage Increase[3]	13.5%

[1] Represents the State's share of retirement contributions, covering State and student fee-funded employees, totaling 7%. While employer contributions were restarted at 4% in April 2010 and will increase to 7% beginning July 2011, the State has not yet funded its share.

[2] Represents the total core funds cost of the 3% increase in employer contributions effective July 2011 and the State's share of the 4% contributions occurring during 2010-11, for which the State has not provided funding.

[3] Percentage increase calculated based on the permanent 2010-11 core funds budget, excluding ARRA funding totaling $106 million.

Appendix Display 2: 2011-12 Budget for Current Operations and Extramurally Funded Operations (Dollars in Thousands)

INCOME

	2010-11 Budget	2011-12 Proposed	Change Amount	%
BUDGET FOR CURRENT OPERATIONS				
General Fund				
State of California	$ 2,912,649	$ 3,508,749	$ 596,100	20.5%
State Fiscal Stabilization Funds	106,000	$ 0	$ (106,000)	-100.0%
UC Sources	717,238	700,667	(16,571)	-2.3%
Total General Funds	$ 3,735,887	$ 4,209,416	$ 473,529	12.7%
Restricted Funds				
State of California	$ 60,584	$ 60,584	$ 0	0.0%
U. S. Government Appropriations	19,000	19,000	0	0.0%
Educational, Student Services & Professional School Fees	2,565,823	2,777,589	211,766	8.3%
Extension, Summer Session & Other Fees	583,616	605,756	22,140	3.8%
Teaching Hospitals	5,520,618	5,907,318	386,700	7.0%
Auxiliary Enterprises	1,062,337	1,104,837	42,500	4.0%
Endowment Earnings	190,590	195,360	4,770	2.5%
Other	2,598,122	2,708,372	110,250	4.2%
Total Restricted Funds	$ 12,600,690	$ 13,378,816	$ 778,126	6.2%
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 16,336,577	$ 17,588,232	$ 1,251,655	7.7%
EXTRAMURALLY FUNDED OPERATIONS				
State of California	$ 285,922	$ 301,022	$ 15,100	5.3%
U.S. Government	2,555,000	2,712,000	157,000	6.1%
Private Gifts, Contracts & Grants	1,392,174	1,467,724	75,550	5.4%
Other	478,182	494,907	16,725	3.5%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 4,711,278	$ 4,975,653	$ 264,375	5.6%
TOTAL OPERATIONS	$ 21,047,855	$ 22,563,885	$ 1,516,030	7.2%
DEPARTMENT OF ENERGY LABORATORY (LBNL)	$ 740,113	$ 791,921	$ 51,808	7.0%

EXPENDITURES

	2010-11 Budget	2011-12 Proposed	Change Amount	%
BUDGET FOR CURRENT OPERATIONS				
Instruction:				
General Campus	$ 2,685,551	$ 2,706,748	$ 21,197	0.8%
Health Sciences	1,426,322	1,523,932	97,610	6.8%
Summer Session	13,491	14,435	944	7.0%
University Extension	216,855	216,855	0	0.0%
Research	729,831	740,501	10,670	1.5%
Public Service	268,751	268,988	237	0.1%
Academic Support: Libraries	276,761	276,761	0	0.0%
Academic Support: Other	905,578	939,626	34,048	3.8%
Teaching Hospitals	5,558,738	5,945,438	386,700	7.0%
Student Services	621,933	643,724	21,791	3.5%
Institutional Support	855,948	859,187	3,239	0.4%
Operation and Maintenance of Plant	567,636	567,636	0	0.0%
Student Financial Aid	993,235	1,071,405	78,170	7.9%
Auxiliary Enterprises	1,062,337	1,104,837	42,500	4.0%
Provisions for Allocation	153,610	119,992	(33,618)	-21.9%
Program Maintenance: Cost Increases	--	588,167	588,167	--
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 16,336,577	$ 17,588,232	$ 1,251,655	7.7%
EXTRAMURALLY FUNDED OPERATIONS				
Sponsored Research	$ 3,155,192	$ 3,265,833	$ 110,641	3.5%
Other Activities	1,556,086	1,709,820	153,734	9.9%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 4,711,278	$ 4,975,653	$ 264,375	5.6%
TOTAL OPERATIONS	$ 21,047,855	$ 22,563,885	$ 1,516,030	7.2%
DEPARTMENT OF ENERGY LABORATORY (LBNL)	$ 740,113	$ 791,921	$ 51,808	7.0%

Appendix Display 3: General Campus and Health Sciences Full-Time Equivalent Student Enrollment

	2009-10		2010-11[1]
	Budgeted	Actual	Estimated
BERKELEY			
General Campus	32,535	35,362	35,612
Health Sciences	761	805	761
Total	33,296	36,167	36,373
DAVIS			
General Campus	27,700	29,363	29,969
Health Sciences	1,910	2,250	2,268
Total	29,610	31,613	32,237
IRVINE			
General Campus	26,050	26,864	26,701
Health Sciences	1,184	1,438	1,451
Total	27,234	28,302	28,152
LOS ANGELES			
General Campus	33,390	35,157	35,159
Health Sciences	3,935	3,876	3,899
Total	37,325	39,033	39,058
MERCED			
General Campus	2,000	3,472	4,254
RIVERSIDE			
General Campus	17,159	19,185	20,178
Health Sciences	48	54	56
Total	17,207	19,239	20,234
SAN DIEGO			
General Campus	26,375	28,375	28,140
Health Sciences	1,409	1,716	1,745
Total	27,784	30,091	29,885
SAN FRANCISCO			
Health Sciences	3,784	4,286	4,358
SANTA BARBARA			
General Campus	22,000	23,250	22,747
SANTA CRUZ			
General Campus	16,075	17,160	17,711
TOTALS			
General Campus	203,284	218,188	220,471
Health Sciences	13,031	14,425	14,538
Reserve	(60)	-	-
Total	216,255	232,613	235,009

[1] In 2010-11, the State provided funding for an additional 5,121 FTE students. Due to the lateness of the final 2010 Budget Act, decisions about the allocation of new budgeted enrollment targets had not been made at the time of printing.

Appendix Display 4: General Campus Full-Time Equivalent Student Enrollment

	2009-10		2010-11[1]
	Budgeted	Actual	Estimated
BERKELEY			
Undergraduate	24,435	27,142	27,366
Graduate	8,100	8,220	8,246
Total	32,535	35,362	35,612
DAVIS			
Undergraduate	23,340	24,950	25,386
Graduate	4,360	4,413	4,583
Total	27,700	29,363	29,969
IRVINE			
Undergraduate	22,550	23,442	22,968
Graduate	3,500	3,422	3,733
Total	26,050	26,864	26,701
LOS ANGELES			
Undergraduate	25,690	27,274	27,151
Graduate	7,700	7,883	8,008
Total	33,390	35,157	35,159
MERCED			
Undergraduate	1,860	3,244	4,023
Graduate	140	228	231
Total	2,000	3,472	4,254
RIVERSIDE			
Undergraduate	15,059	16,990	17,995
Graduate	2,100	2,195	2,183
Total	17,159	19,185	20,178
SAN DIEGO			
Undergraduate	22,575	24,523	24,094
Graduate	3,800	3,852	4,046
Total	26,375	28,375	28,140
SANTA BARBARA			
Undergraduate	19,000	20,266	19,779
Graduate	3,000	2,984	2,968
Total	22,000	23,250	22,747
SANTA CRUZ			
Undergraduate	14,475	15,684	16,195
Graduate	1,600	1,476	1,516
Total	16,075	17,160	17,711
GENERAL CAMPUS			
Undergraduate	168,984	183,515	184,957
Graduate	34,300	34,673	35,514
Reserve	(60)	-	-
Total	203,224	218,188	220,471

[1] In 2010-11, the State provided funding for an additional 5,121 FTE students. Due to the lateness of the final 2010 Budget Act, decisions about the allocation of new budgeted enrollment targets had not been made at the time of printing.

Appendix Display 5: University of California Income and Funds Available (Dollars in Thousands)

	Estimated 2010-11	Proposed 2011-12	Proposed Changes
STATE APPROPRIATIONS			
General Fund	$2,912,649	$3,508,749	$596,100
Special Funds	60,584	60,584	--
TOTAL, STATE APPROPRIATIONS	2,973,233	3,569,333	596,100
STATE FISCAL STABILIZATION FUNDS [1]	106,000	--	(106,000)
UNIVERSITY SOURCES			
General Funds Income			
Nonresident Tuition	308,343	325,090	16,747
Application for Admission and Other Fees	27,700	27,700	--
Interest on General Fund Balances	10,000	10,000	--
Federal Contract & Grant Overhead	296,377	306,377	10,000
Overhead on State Agency Agreements	20,500	20,500	--
Other	11,000	11,000	--
Subtotal	673,920	700,667	26,747
Prior Year's Income Balance	43,318	--	(43,318)
Total UC General Fund Income	717,238	700,667	(16,571)
Special Funds Income			
GEAR UP State Grant Program	3,500	3,500	--
United States Appropriations	19,000	19,000	--
Local Government	96,639	96,639	--
Student Fees			
Educational Fee	2,143,288	2,307,053	163,765
Registration Fee	206,562	222,241	15,679
Professional School Fees	215,973	248,295	32,322
University Extension Fees	216,855	216,855	--
Summer Session Fees	13,491	14,435	944
Other Fees	353,270	374,466	21,196
Sales & Services - Teaching Hospitals	5,520,618	5,907,318	386,700
Sales & Services - Educational Activities	1,310,253	1,408,503	98,250
Sales & Services - Support Activities	564,024	564,024	--
Endowments	190,590	195,360	4,770
Auxiliary Enterprises	1,062,337	1,104,837	42,500
Contract and Grant Off-the-Top Overhead	133,000	136,000	3,000
DOE Management Fee	33,500	33,500	--
University Opportunity Fund	242,000	251,000	9,000
Other	215,206	215,206	--
Total Special Funds	12,540,106	13,318,232	778,126
TOTAL, UNIVERSITY SOURCES	13,257,344	14,018,899	761,555
TOTAL INCOME AND FUNDS AVAILABLE	$16,336,577	$17,588,232	$1,251,655

[1] One-time State Fiscal Stabilization Funds (SFSF) authorized by the American Reinvestment and Recovery Act of 2009 (ARRA) that the University received during 2010-11.

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