

A smiling woman with her hair in a bun, wearing a dark top and a floral skirt, is holding a large stack of books. The background is a blurred outdoor setting with a brick wall and a tree.

UNIVERSITY
OF
CALIFORNIA

Budget for Current Operations

SUMMARY AND DETAIL

2012-13

UNIVERSITY of CALIFORNIA

**2012-13 BUDGET FOR CURRENT OPERATIONS
BUDGET SUMMARY**

MESSAGE FROM THE PRESIDENT

Access. Affordability. Quality. These characteristics are the hallmarks of the University of California and the foundation of its public service commitment. Their preservation remains the University's highest priority.

The proposed 2012-13 UC budget seeks to address this priority and at the same time stabilize the system's fiscal health.

Among the key features of this proposed budget are:

- a commitment to increasing access by investing in modest enrollment growth;
- an expansion of financial support for both lower- and middle-income students;
- the preservation of quality faculty, staff, and facilities;
- and the aggressive pursuit of new revenues and cost reductions.

We undertake these challenges against a backdrop of chronically unreliable and inadequate State funding. For the first time in UC history, students are contributing more to their education than the State.

The recent State funding reductions should be seen in the context of what has been a 20-year decline in State financial support.

Our current fiscal budget from the State is only 10% higher (in non-inflation adjusted dollars) than our 1990-91 allocation. During those 20 years, enrollment has grown 51%, and we've opened a 10th campus.

At the same time, California high school enrollment has soared and demand for UC admission is at its highest. By 2025, according to the Public Policy Institute of California, our state will face a shortage of one million college-educated workers. To fill the jobs of the future, we need to increase college enrollment, not curtail it.

You will read more in the pages of this proposed budget about the negative impact the State funding crisis is having on our campuses and the steps UC has taken to mitigate them.

We are working hard to achieve cost savings and efficiencies while exploring new sources of revenue. The systemwide *Working Smarter* initiative has a five-year goal of achieving \$500 million in savings and revenue generation.

But those efforts alone cannot fill UC's growing budget gap. We need the State's financial investment to retain UC's competitiveness and protect the quality of its academic, health, and research programs.

As we embark on an effort to develop a long-term fiscal plan, it is important to remind ourselves that the stakes are high for California. The University is both a creation of and the catalyst for the forward-looking, can-do spirit that has made California a world leader in social and technological innovation.

The UC system performs an essential role in educating California's work force, creating new jobs and inspiring discoveries. We need a reliable partnership with the State to continue delivering these services that are so vital to California's economic future.

I look forward to continuing to work with our Governor and legislators to restore California's commitment to public higher education and to the families that are counting on that education being accessible to their children.

Mark G. Yudof
President
October, 2011

KEY ELEMENTS OF THE UNIVERSITY OF CALIFORNIA 2012-13 BUDGET

Amid a period of unprecedented State funding reductions, the University's primary focus is to preserve its essential role in educating the state's workforce and incubating research discoveries. Consistent with this goal, the University's budget proposal for 2012-13 attempts to protect access, maintain quality and affordability, and stabilize fiscal health.

The key features of the budget proposal are as follows:

Enrollment and Instructional Program Expansion: The University proposes to begin to reinvest in enrollment growth, particularly at the Merced campus, as well as in PRIME and nursing programs, and to continue development of a new medical school at the Riverside campus.

Retirement Plan Stabilization: Employer contributions to the UC Retirement Plan will rise by 3%, from 7% of compensation in 2011-12 to 10% in 2012-13. Funding of retiree health contributions will also increase as numbers of retirees grow and health costs rise.

Maintenance of Quality: In order to keep pace with inflation and market pressures, UC will provide modest compensation increases for faculty and staff, and address cost increases for employee health benefits and other inflationary increases in non-salary costs. UC will also pursue deferred maintenance projects necessary to maintain its high-quality facilities and infrastructure.

Restoration of Excellence: Over the next several years, the University proposes to reinvest in academic and service programs to restore quality and functionality.

Cost Reductions and Alternative Revenue Sources: UC will continue to pursue cost reductions, including administrative efficiencies, reductions in central administration and programs, and controlled growth in employee health care benefit costs. In addition, UC will pursue alternative revenue strategies, including increased research indirect cost recovery, increased fungibility in philanthropy, nonresident enrollment, and professional and self-supporting program expansion.

Other Revenues: To achieve the University's goals to provide access and maintain quality and affordability, while stabilizing fiscal health, the University is requesting support from the State and is exploring sources of additional revenues. Revenue alternatives will be discussed more fully at future meetings of the Regents, and it is expected that a 2012-13 revenue proposal, including tuition and fee levels for 2012-13, will be presented to the Regents in March 2012.

This document provides a summary of the current status of the University's operating and capital budgets and proposed changes for 2012-13. The document following this summary, the *2012-13 Budget for Current Operations – Budget Detail*, provides explanatory detail for all aspects of the University's operating budget, including both sources of funding and expenditure program areas. The University's capital budget program is described in more detail in the *2011-2021 Consolidated State and Non-State Capital Financial Plan* document.

2012-13 EXPENDITURE PROPOSAL

Display 1: 2012-13 Expenditure Proposal (Dollars in Millions)

2011-12 Current Operating Budget

State General Funds	\$	2,374.1
UC General Funds	\$	792.3
Student Tuition and Fees	\$	<u>2,965.4</u>
Total Core Funds	\$	6,131.8
Student Financial Aid	\$	<u>(976.6)</u>
Core Funds Net of Financial Aid	\$	5,155.2

2012-13 Proposed Increases in Expenditures

Enrollment Growth and Instructional Programs	\$	36.6
Compensation and Non-salary Items		
Academic Merit Increases	\$	30.0
Other Compensation Increases	\$	97.6
Employee Health Benefits	\$	22.8
Instructional Equipment, Library Materials, and Other Non-salary Items	\$	21.8
Deferred Maintenance	\$	25.0
Post-employment Benefits		
UCRP Contributions	\$	87.6
Retiree Health Programs	\$	5.2
Savings, Alternative Revenues, and Restorations		
Efficiencies and Other Savings	\$	(100.0)
Alternative Revenue Sources	\$	(125.0)
Reinvestment in Excellence	\$	310.0
Financial Aid		TBD
Total Increase in Expenditures	\$	411.6
Percentage Increase ¹		8.0%

¹ Calculated as a percentage of core funds net of financial aid.

OVERVIEW OF THE UNIVERSITY BUDGET FOR CURRENT OPERATIONS

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

In addition to providing instruction for more than 230,000 students annually and maintaining a multi-billion dollar research enterprise, the University engages in a broad spectrum of ancillary activities, including the operation of teaching hospitals, maintenance of world-class libraries, development of academic preparation programs, management of national laboratories, and provision of housing and dining services. In 2011-12, the University's endeavors are generating \$22.5 billion from a wide range of revenue sources for support of the University's operations. The University's annual budget plan is based on the best estimates of funding available from each of these sources.

Core Funds

Core funds, totaling \$6.1 billion in 2011-12, provide permanent funding for core mission and support activities, including faculty salaries and benefits, academic and administrative support, student services, operation and maintenance of plant, and student financial aid. Comprised of State General Funds, UC General Funds, and student tuition and fee revenue, core funds represent 27% of the University's total expenditures. Much of the focus of the University's strategic budget process and negotiation with the State is the use of these fund sources.

Historically, State funding has been the largest single source of support for the University. Totaling \$2.37 billion in 2011-12, State funds have provided and remain a critical core investment, enabling UC to attract funds from federal, private, and other sources. However, the volatility of State support and the failure to keep pace with enrollment and inflation, particularly over the last 20 years, have eroded the University's competitiveness and jeopardized the quality of the academic program. The unprecedented cuts in State funding in recent years have brought the University to an insufficient support level that threatens to replace excellence with mediocrity.

Over the last two decades, student tuition and fees have helped to make up for a portion of lost State support for UC, but at considerable cost to students and their families. Even with tuition and fee increases, overall core funding per student has declined by 19% in inflation-adjusted dollars.

Non-Core Fund Sources

While other sources of funds help augment and complement the University's core activities of instruction and research, providing support functions; public service to the state and its people; and a rich social, cultural, and learning environment on UC campuses, these other sources cannot supplant core funding from the State. In fact, inadequate core funding will negatively affect the continued robustness of these other sources.

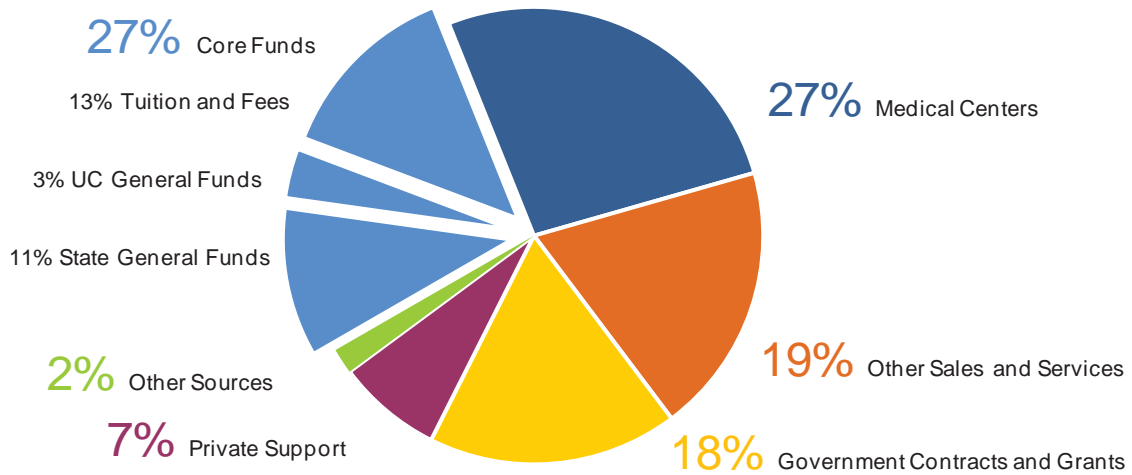
Sales and Services Revenue. These revenues directly support the University's academic medical centers and clinical care staff; auxiliary enterprises such as housing and dining services, parking facilities, and bookstores; University Extension; and other complementary activities, such as museums, theaters,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

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

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

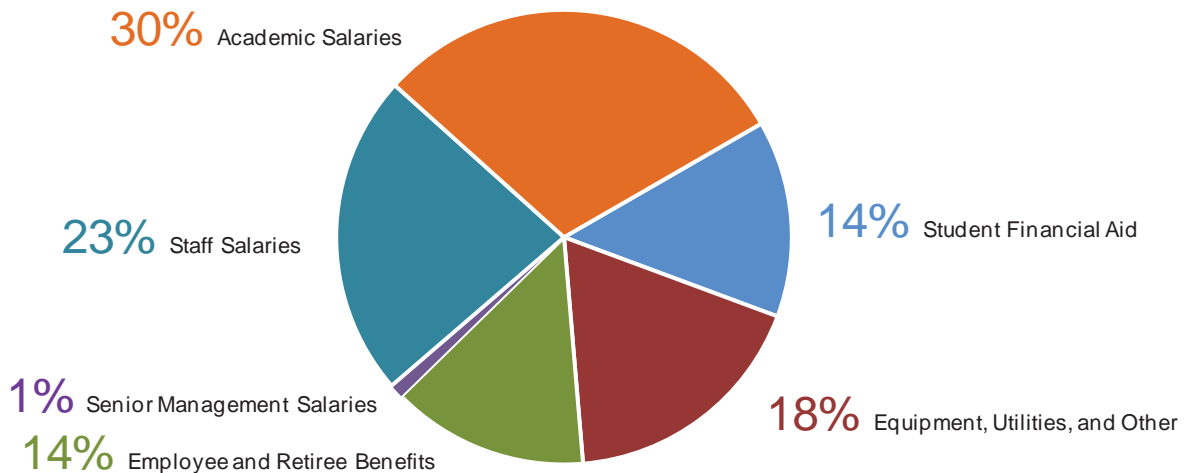
Other Sources. Other sources include indirect cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of Department of Energy laboratories.

Display 2: 2011-12 Sources of Funds



UC's \$22.5 billion operating budget consists of funds from a variety of sources. State support, which helps attract other dollars, remains most crucial.

Display 3: 2010-11 Expenditures from Core Funds



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

Non-core fund sources cannot be easily redirected to support core mission activities. In the case of gift, grant, and contract funds, uses are often contractually or legally restricted; funds can be used only for purposes stipulated by the donor or granting agency. For other sources, such as hospital and auxiliary revenues, 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 services and products being provided, but also to the price the market will bear.

The historic investment from the State helped develop one of the finest public university systems in the world, one that serves the economically and ethnically diverse young minds of California, who will go on to drive the economic health of the state. The State's investment must be restored if the University is to remain among the world's top public universities and continue to provide the state with the economic and social benefits that derive from a great institution of research and learning.

CALIFORNIA'S FISCAL CRISES SHAPE THE UNIVERSITY'S BUDGET PLAN

The development of the 2012-13 budget plan occurs in a context shaped by the State's enduring fiscal challenges and the University's efforts to respond to inadequate and unreliable State funding.

Since 1990-91, State funding for the University of California has been marked by dramatic reductions due to recurring fiscal crises followed by temporary increases tied to ambitious plans to restore support.

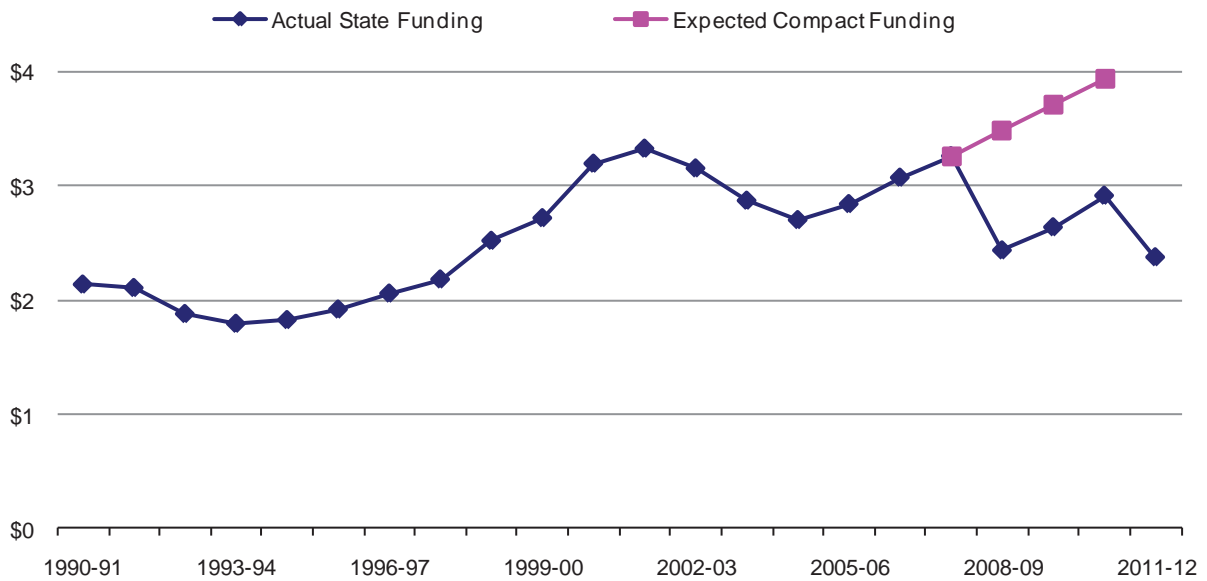
- In the early 1990s, the University lost the equivalent of 20% of its State support.
- Later in the decade, under agreements with Governors Wilson and Davis, significant funding increases were provided for enrollment growth necessary to maintain the University's commitment to the Master Plan, to avoid student fee increases, and to maintain quality.
- Another State fiscal crisis during the early 2000s meant a significant step back in State support during a time of rapid enrollment growth due to increases in the number of California high school graduates.
- In the middle of the last decade, UC entered a six-year Compact with Governor Schwarzenegger to provide the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution. From 2005-06 through 2007-08, the Compact served the University, students, and the State well, allowing UC to continue enrollment growth, provide compensation increases for faculty and staff, and avoid a student fee increase in 2006-07.
- The State's ongoing budget shortfalls, compounded by the onset of the global financial crisis, led the State to renege on the Governor's Compact, and resulted in significant reductions in State support at the end of the decade. For two years, no funding was provided for enrollment growth and the base budget was reduced at a time when demand for UC was soaring. Federal economic stimulus funds provided temporary support.

- When contributions to the UC Retirement Plan (UCRP) were restarted in April 2010, the State failed to contribute its fair share, which only increased the budgetary pressure on the University. The State is neglecting this obligation for UC while continuing to pay for the pension costs of CSU and the Community Colleges.
- In 2011-12, due to the slow economy and the State's inability to extend temporary tax increases, State support is more than \$1.5 billion less than it would have been under the most recent agreement with the Governor and nearly \$900 million less than provided in 2007-08.

The net result of these swings is that State support for UC in 2011-12 is just \$240 million above the amount provided in 1990-91 in non-inflation-adjusted dollars, reflecting average growth of just 0.5% annually.

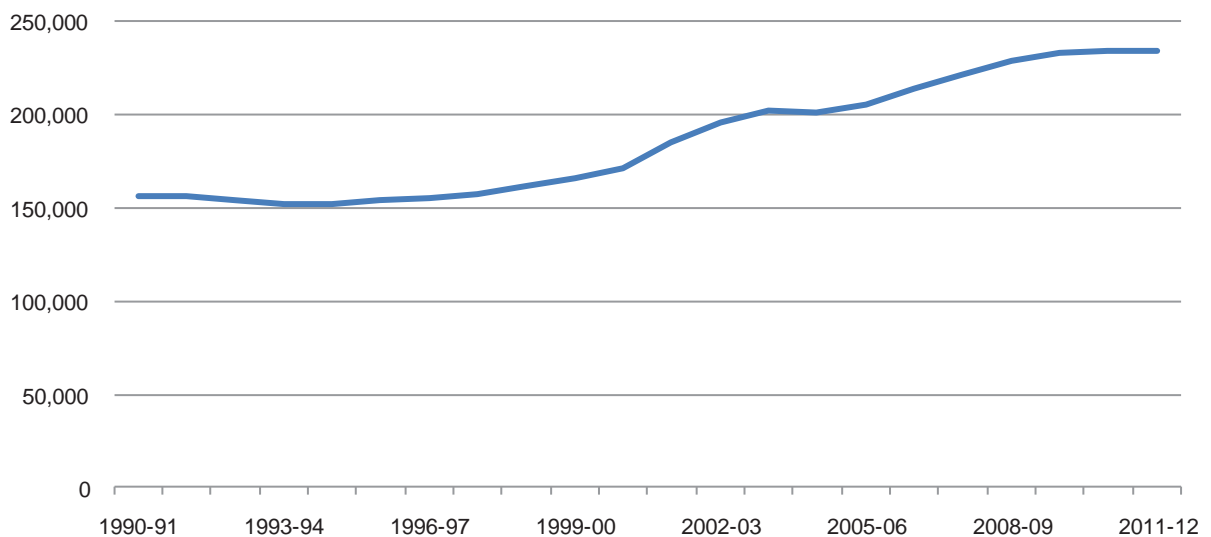
During this same period of volatility in State funding, the number of California high school graduates has soared. The University accepted the challenge to accommodate growing numbers of students prepared for and seeking a quality university education in order to preserve access for California residents, and succeeded in enrolling many more students. Since 1990-91, student enrollment has risen 51% and UC has opened a tenth campus, while State support has risen only 10% in non-inflation-adjusted dollars. This discrepancy is further exacerbated by the inflation that has occurred since 1990-91, as described later.

Display 4: State Funding for UC (Dollars in Billions)



Volatility in State support for UC has meant that funding in 2011-12 is just 10% above the amount provided in 1990-91 in non-inflation-adjusted dollars and more than \$1.5 billion below expected workload funding as pledged in the last Compact.

Display 5: Student Enrollment Over Time



Since 1990-91, student enrollment has increased by more than 50% as the University has kept its promise to accommodate eligible California residents.

To help address the inadequacy of State funding and maintain quality, UC has been obligated to increase student tuition and fees. In 1990-91, tuition and fees were just \$1,624 for all California residents. In 2011-12, mandatory systemwide tuition and fees total \$12,192 for California resident undergraduates and graduate academic students, and are even higher for graduate professional students. Tuition and fee increases have always been a direct result of inadequate and volatile State support.

Even so, tuition and fee increases have only partially made up for inadequate State support. As shown in Display 6, resources for educational programs for general campus students have declined on an inflation-adjusted per-student basis – UC is spending less per student.

- The average expenditure per student for a UC education has declined more than 19% over 20 years – from \$21,370 in 1990-91 to \$17,390 in 2011-12.
- State funding per student declined significantly – by 60% over a 20-year period. In 1990-91, the State contributed \$16,720 per student – 78% of the total cost. In 2011-12, the State share declined to \$6,770, just 39%.
- As the State subsidy has declined, the share students pay has more than tripled. In 1990-91, students contributed 13% of the cost of their education; students are paying 49% of the cost of their education in 2011-12.

The fiscal problems associated with the inability of the State to provide the funding called for in the Compact with Governor Schwarzenegger – including funding for 2.5% enrollment growth annually – and subsequent funding reductions have been further compounded for UC by unfunded cost increases for academic merit increases, collective bargaining agreements, health benefits, purchased utilities, and, beginning in 2009-10, employer contributions to the UC Retirement Plan.

The inadequacy of State support to address inflationary cost increases during a period of rapid enrollment growth has led the University to take a number of actions, some positive, but many negative. Positive actions include operational improvements such as development of information technology systems that reduce personnel effort, strategic sourcing, shared library resources, energy savings programs, curriculum redesign, elimination or consolidation of redundant operations, new financial investment strategies, and alternative instructional delivery.

More significant, however, are the austerity measures necessitated by the lack of support which have a negative impact on quality and functionality:

- faculty and staff salaries that significantly lag the market;
- reduced faculty hiring, leading to higher student-faculty ratios, larger class sizes, and less depth and breadth in course offerings;
- reductions in services and service hours;
- inadequate graduate student support;
- deferral of library material purchases and equipment replacement;
- deferral of maintenance and capital renewal; and
- increased risk due to constraints on administrative oversight.

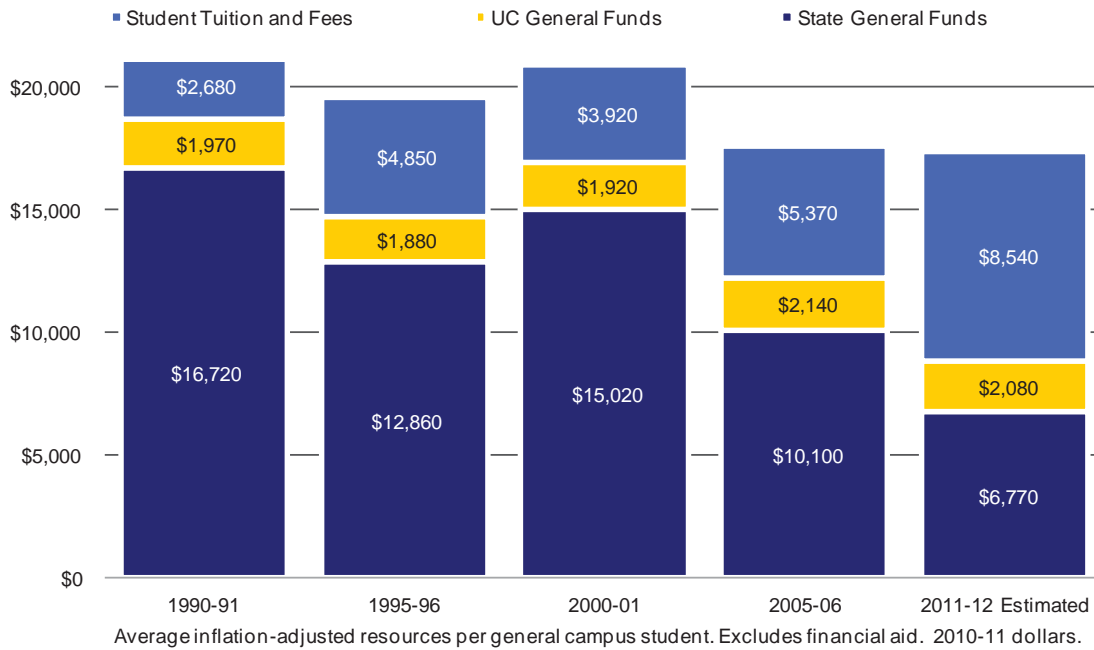
In 2011-12, the University was faced with a budget shortfall of \$1 billion due to a \$650 million reduction in State support and mandatory cost increases of more than \$360 million. About 26% of the shortfall was addressed through tuition and fee increases. Additional actions included short-term revenue strategies as well as program reductions and cost avoidance.

Looking ahead, without substantial new revenues, the University's budget shortfall will grow dramatically over the next four years due to a variety of cost pressures, including:

- expected enrollment growth of 1% annually,
- salary increases for faculty and staff,
- rising employer contributions to the UCRP and costs of retiree health benefits,
- employer contributions to employee health and welfare benefits,
- high priority deferred maintenance needs, and
- other non-salary costs.

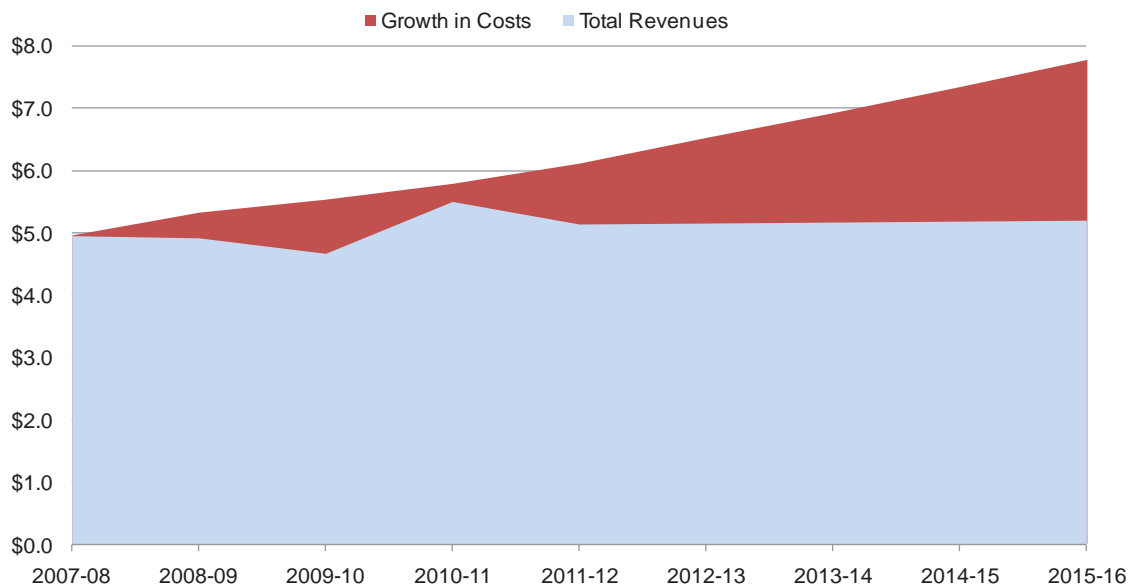
As a result of these cost pressures, the University's budget shortfall is projected to grow to \$2.5 billion by 2015-16 if no additional revenues or other solutions are identified and there are no further changes in State support.

Display 6: Per-Student Average Expenditures for Education (2010-11 Dollars)



Since 1990-91, average inflation-adjusted expenditures for educating UC students have declined by more than 19%. The State's share of expenditures has plunged even more steeply – by nearly 60%. Over this period, the student share, net of financial aid, has tripled, from 13% to 49%, while the State now contributes just 39%.

Display 7: 2015-16 Budget Gap (Dollars in Billions)



Due to a combination of previous budget reductions and upcoming cost increases, the University faces a looming budget shortfall of \$2.5 billion by 2015-16 if no additional revenues or other solutions are identified and there are no further changes in State support.

ACTIONS TO ADDRESS BUDGET SHORTFALLS

The State's enduring fiscal challenges, the long-term decline in State support, and substantial mandatory cost increases are forcing the University to reexamine all aspects of its operations and develop new strategies.

To help address the University's growing budget shortfall, efforts are being made centrally as well as at the campus level to reduce costs and identify alternative revenue sources, both over the short term and the long term.

Earlier and Ongoing Systemwide Actions

Facing significant cuts in State support during 2008-09, 2009-10, and again in 2011-12, the University has taken several actions to help achieve immediate savings providing budgetary relief in the short-run and to develop long-term cost reductions and alternative revenues.

- **Administrative Efficiencies:** The University community has identified 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, with the specific objective of redirecting \$500 million of annual positive fiscal impacts in five years from administrative costs to the academic and research mission of the University.

Among these efforts, the University's Strategic Sourcing initiative has achieved \$260 million in cumulative cost savings since its inception in 2004-05. Through the Statewide Energy Partnership Program, the University is pursuing \$262.6 million in energy conservation projects that are expected to generate \$18 million in annual energy savings after debt service.

- **Salary Reduction/Furlough Plan:** During 2009-10, UC employees were subject to a one-year salary reduction and furlough plan that saved nearly \$240 million across all fund sources on a one-time basis.
- **Debt Restructuring:** UC took steps to delay principal payments totaling \$150 million over 2009-10 and 2010-11, providing additional temporary relief.

- **Senior Management Compensation Actions:** Salary freezes for Senior Management Group (SMG) members were imposed for 2008-09 and 2009-10. Also, SMG members are not eligible for the merit salary increase program for 2011-12.
- **UCOP Restructuring:** During 2007-08 and 2008-09, UCOP undertook a thorough restructuring and downsizing. Further reductions in central administration and programs were implemented in 2011-12. Since 2007-08, reductions in core administrative units at UCOP and systemwide programs' have totaled \$86.8 million, including \$38.9 million in 2011-12.
- **Other Actions:** Certain bonus and incentive programs were cancelled or deferred. Merit salary increase programs for non-represented staff were not implemented for 2008-09, 2009-10, or 2010-11. Significant restrictions have been placed on travel and other purchasing. As an example, travel expenditures at UCOP are down over 60% as a result of the travel constraints.

Campus Actions

Campuses also are taking individual actions to address funding shortfalls. Academic and administrative units on the campuses have been assigned cuts ranging in general from 6% to 35%, determined through a series of consultative processes on each campus. More than 4,400 staff have been laid off and another 3,570 positions have been eliminated since the fiscal crisis began. Scores of programs have been eliminated and others consolidated for an estimated savings of over \$155 million.

No campus is applying across-the-board cuts; each is using a consultative, deliberative process to determine how reductions should be allocated. All campuses are applying

disproportionate cuts to administrative programs in order to reduce the impact on academic programs.

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

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

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

In 2011, UC commissioned a study of its economic contribution to the state, quantifying what has been long known – UC touches the lives of all Californians and is a major economic engine in the state. For example, UC generates about \$46.3 billion in economic activity in California and contributes about \$32.8 billion to the gross state product annually. Every dollar the California taxpayer invests in UC results in \$9.80 in gross state product and \$13.80 in overall economic output. One out of every 46 jobs in California – approximately 430,000 jobs – is supported by UC operations and outside spending by the

University's faculty, staff, students, and retirees. UC is the state's third-largest employer, behind only the State and federal governments, and well ahead of California's largest private-sector employers. UC attracts about \$8.5 billion in annual funding from outside the state. Every \$1 reduction in State funding for UC has the potential to reduce State economic output by \$2.10 due to ripple effects of UC activities across the entire California economy.

GOALS FOR FUTURE COST REDUCTIONS AND ALTERNATIVE REVENUE SOURCES

As part of a multi-year strategy to help address inadequate State funding and looming cost increases without sacrificing quality, the University is engaged in a series of efforts to generate new cost savings and alternative revenues. These include:

Systemwide Efficiencies. The University has committed to achieve \$500 million in administrative efficiencies over a five-year period, with two-thirds of these savings, or \$335 million in total, accruing to core fund sources by 2015-16.

Philanthropy. The University has set a goal to raise \$50 million annually in unrestricted or more flexible philanthropy. This additional revenue will require a considerable expansion of UC's fundraising efforts, as well as efforts to request the elimination of endowment restrictions from donors.

Research Cost Recovery. UC is pursuing increased research indirect cost recovery (ICR) of \$30 million annually above current levels over four years, through negotiated increases in federal ICR rates reductions in ICR waivers for private and State contracts and grants.

Nonresident Enrollment. As described later, all campuses are attempting to increase enrollment of nonresident undergraduates. Increases of 10% annually (approximately 860 students per year), would yield \$92 million in additional revenue, net of instructional costs, in 2015-16.

Professional Degree Supplemental Tuition Increases. The University is seeking revenue increases from tuition increases and expansion of professional degree programs (both State-supported and self-supporting) equivalent to 8% annual increases in Professional Degree Supplemental Tuition revenue, totaling \$60 million in 2015-16.

Other Cost Reductions. The University is attempting to achieve savings through efficiencies in central functions, reductions and eliminations of earmarked programs that do not advance the core mission of UC, and limits on increases in the cost of employee and retiree health benefits. These efforts could yield \$120 million in savings.

THE NEED FOR MULTI-YEAR PLANNING AND FISCAL STABILITY

Fostering and maintaining quality at the caliber of the University of California requires long-term planning and investments that, in turn, require fiscal stability.

The University of California is a world-class institution constantly on the cutting edge of knowledge development. The excellence that has made UC one of the very best universities in the world is based on a long-term investment that has taken many decades to develop. And yet, that excellence is fragile and can rapidly disappear if the current disinvestment by the State is not addressed.

The volatility in State funding in recent years has made it difficult for campuses to plan and yet thoughtful long-term planning is fundamental to an institution like UC. Decisions to hire and tenure faculty; enroll students; add or expand academic programs; build new residence halls, classrooms, or research facilities; and invest in books or digital technology for libraries all involve long-term investments that must be based on some assurance of stable funding in the future. Put another way, the University is unlike many businesses, which can quickly increase or reduce production and inventories depending on market conditions.

Without the assurance of stable funding, UC is inhibited from making decisions that are essential to operating a major research institution and allowing it to move forward. The swings in State support, now deeper and of longer durations, prevent the University from working towards a longer-term vision, instead forcing UC simply to react to each change.

Many of the measures campuses are taking to address the current fiscal crisis, such as those listed above, are unsustainable in the long run if the quality of the institution is to be preserved. The State's continued failure to develop a budget solution that addresses its ongoing structural deficit is a signal that disinvestment in UC may not be a

temporary problem and that models for sustaining the University in a new environment requiring more self-sufficiency must be pursued aggressively.

UC's high-quality faculty is its most precious asset. The unpredictability and uncertainty that characterize the current environment have led to a growing lack of confidence among many faculty about UC's ability to maintain quality and provide competitive compensation and benefits in the years ahead. Continued instability of UC's core funding will jeopardize the institution's ability to recruit and retain high quality faculty.

At the same time, students and their families have been hit with large, frequent, unpredictable, and untimely tuition and fee increases, while also feeling the effects of budget cuts on the instructional program through reduced course offerings, increased class sizes, and curtailed student services. The instability of the University's budget promotes uneasiness among students and their families about whether the high quality education to which students work hard to gain access will be available in future years.

At meetings in March, May, and September of 2011, the Regents discussed the viability of a multi-year plan to secure adequate resources; provide parameters from which campuses, students, and their families may plan; and reassure concerned faculty and staff that the University is taking the necessary steps to reestablish a secure funding base. Discussion of alternative revenue sources will continue over the next several months.

SUMMARY OF THE UNIVERSITY'S 2012-13 EXPENDITURE PLAN

To achieve its goals in the coming years, UC must strive to protect access, affordability, and quality, and at the same time maintain fiscal health through key investments, administrative efficiencies, and new sources of revenue.

Achieving these goals means that the University must support instructional program growth; reinvest in its faculty and staff; renew facilities, instructional equipment, and library holdings; and develop stronger financial aid programs for students from lower- and middle-income families in 2012-13. The University must also address shortfalls resulting from earlier State funding reductions in order to restore quality.

To address the costs associated with these investments, UC will aggressively pursue a number of cost reduction and alternative revenue initiatives. As mentioned earlier, revenue alternatives and budgetary tradeoffs will be discussed more fully at future meetings of the Regents, and it is expected that a 2012-13 revenue proposal will be presented to the Regents in March 2012.

Summary of Expenditure Proposals

- **Enrollment and Instructional Program Expansion:** Funding would be provided to support enrollment growth of 1%, including permanent support for PRIME and nursing programs. In addition, permanent funding would be provided to support the base budget of a new medical school at the Riverside campus.
- **Retirement Plan Stabilization:** Funding would be provided to support increases in employer contributions to the UC Retirement Plan and to support cost increases for retiree health benefits due to growth in the number of retirees and health care premiums.
- **Maintenance of Quality:** In order to keep pace with inflation and market pressures, funding would be provided for compensation increases for faculty and staff, to address cost increases for employee health benefits and inflationary increases in other non-salary costs, and to pursue deferred maintenance projects necessary to maintain high-quality facilities and infrastructure.

- **Reinvesting in Academic Excellence:** While State budget cuts have led UC to implement a number of positive efficiency measures, they have also necessitated a number of undesirable austerity measures – inadequate funding of faculty to accommodate growing enrollment, reductions in services and service hours, and deferral of equipment, to name a few. Over the next several years, the University proposes to restore quality and functionality.

These expenditure proposals are described more fully in the following pages.

Cost Reductions and Alternative Revenues

As described earlier, UC is taking steps to reduce costs and identify alternative revenue in a variety of areas. These efforts are expected to reduce the long-term budget shortfall by at least \$1 billion over the next four years. For 2012-13, UC's budget plan includes the following cost savings and alternative revenue assumptions:

- administrative efficiencies, targeted at \$100 million, \$67 million of which should accrue to core fund sources;
- reductions in targeted programs, saving \$22 million;
- reductions in cost increases associated with employee and retiree health benefits totaling \$11 million;
- increases in research indirect cost recovery through negotiated federal rate increases and reductions in waivers, resulting in \$30 million in additional revenue;
- identification of unrestricted philanthropic funding of \$50 million;
- growth in enrollment of nonresident students, whose supplemental tuition payments help promote program quality and access for California residents, generating \$30 million in new revenue; and
- expansion of professional degree and self-supporting instructional programs, providing \$15 million.

The proposed budget plan represents an increase of \$411.6 million, or 8%, over the current year.

ENROLLMENT GROWTH AND INSTRUCTIONAL PROGRAM EXPANSION

Accommodating enrollment without sufficient resources means that new and continuing students alike are denied the highest quality academic experience.

California Resident Enrollment Growth

UC has long accepted its obligation, as a land-grant institution and in accordance with the Master Plan for Higher Education, to provide a quality education to all eligible California resident undergraduate students who wish to attend. This commitment was underscored in the Compact with Governor Schwarzenegger, which included an expectation of enrollment growth of about 2.5% annually through 2010-11 as growth in the number of high school graduates peaked. Funding for this growth was provided during the first three years of what was intended to be a six-year Compact.

In addition, the University planned to rebalance the proportions of graduate and undergraduate students to better meet state workforce needs, particularly in the health science disciplines. UC was planning for continued growth in graduate and professional enrollments after 2010-11, when demographic projections indicated there would be a significantly slower rate of growth in undergraduates.

The State was unable to provide funding for enrollment growth that occurred during 2008-09 and 2009-10. As a result, in 2009-10, UC enrolled more than 15,000 FTE students for whom the State had not provided enrollment growth funding.

In response to the State's inability to provide the resources necessary to support enrollment demand, the University took steps to slow enrollment growth, reducing the number of new California resident freshmen by more than 2,000 students in 2009-10 and by 1,800 during 2010-11. During these years, fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation, primarily at Merced. As a result, students had fewer UC campus choices and, in some cases, chose to pursue their education at other institutions.

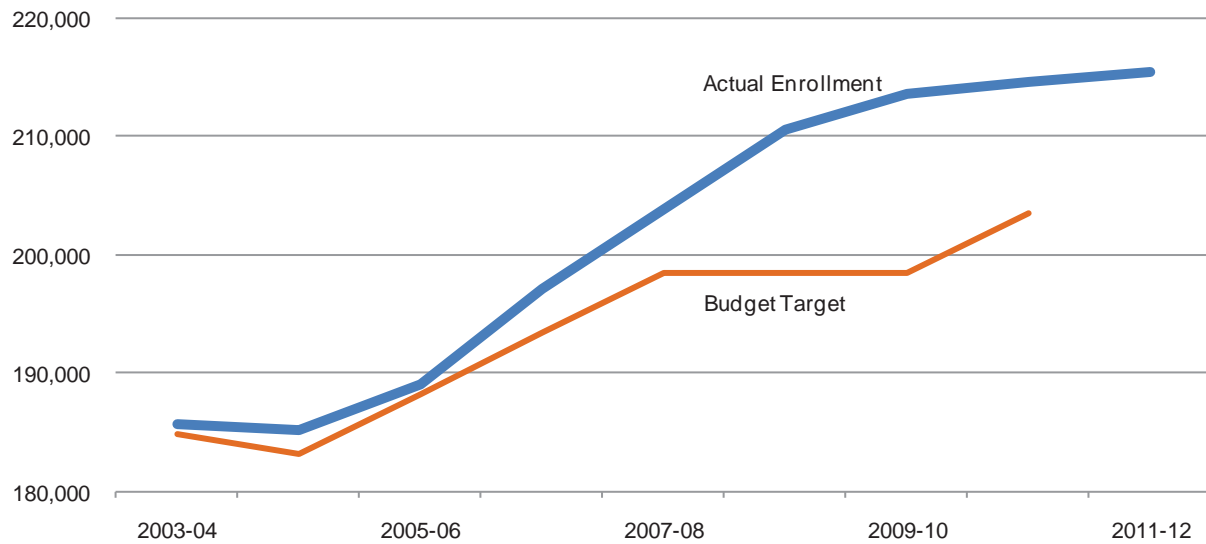
The freshman reductions were partially offset by a planned increase of more than 1,000 California Community College (CCC) transfer students. UC took this action in order to preserve the transfer option in difficult economic times.

In 2010-11, the State budget provided enrollment growth funding of \$51.3 million to support 5,121 FTE students at UC. Even with these new resources, the extraordinary reduction in State support over the last several years effectively means that the State is not providing support for more than 24,000 California residents.

Accommodating enrollment without sufficient resources (as student tuition and fees do not cover the cost of instruction) means that new and existing students alike are affected by the lack of resources needed to support a high quality academic experience. Though campuses are employing a variety of measures to deal with the budget shortfall – dramatically slowing the hiring of permanent faculty, narrowing course offerings, increasing class sizes, curtailing library hours, and reducing support services for students – these are negatively impacting what has historically been an educational program characterized by excellence and opportunity.

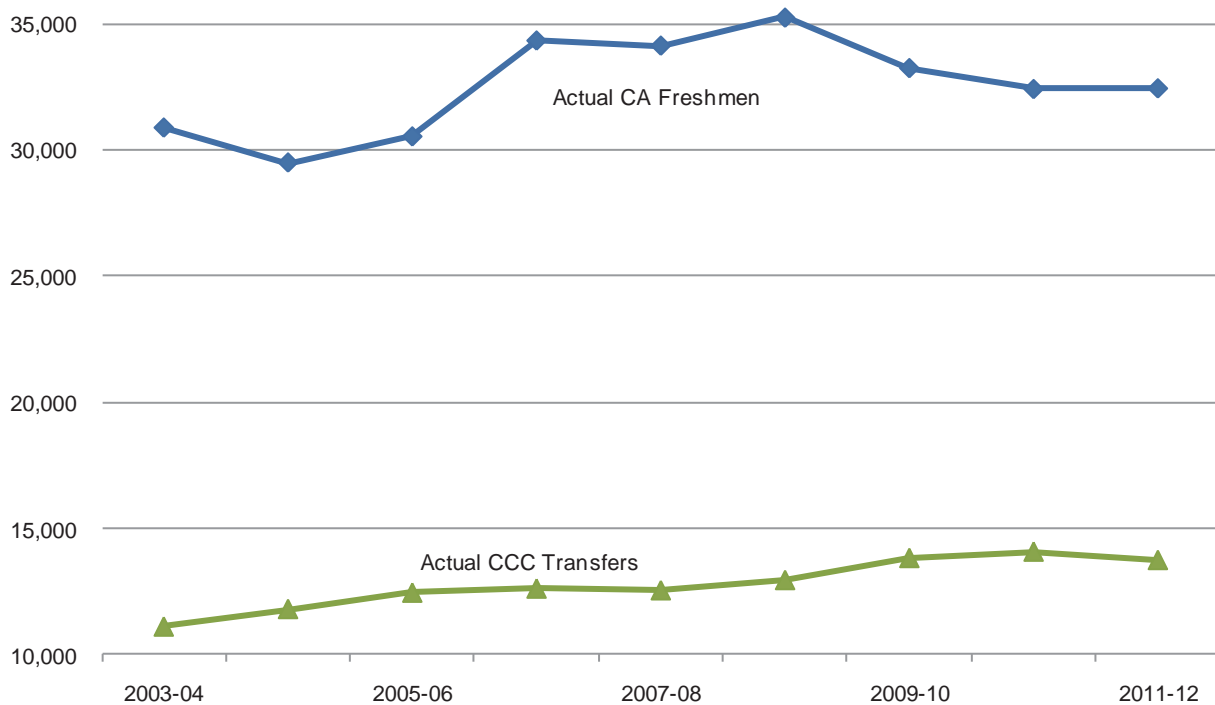
During a budget crisis, such steps are necessary. But these actions are not sustainable over a long period of time if the quality of the University is to be preserved. Revenue from student tuition and fees has helped, but it has been insufficient to fully address the loss of State funding. While access is important, the University cannot indefinitely accommodate larger numbers of students without adequate resources to provide them a UC-caliber education. The dilution of State funding over larger numbers of students results in a lower quality experience for all students.

Display 8: 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 from 2005-06 to 2007-08. 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 and efforts to slow growth, the extraordinary reduction in State support during 2011-12 effectively means that the State is not providing support for more than 24,000 California residents.

Display 9: California Resident Freshman and California Community College Transfer Entrants



In order to slow enrollment growth, 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 California Community College transfers.

While growth in the number of California high school graduates will be slower in the next several years than it has been over the last decade, UC expects continuing growth in demand for a UC education from high school graduates and community college transfers. Graduate enrollments should also increase to meet the State's workforce needs: the last decade's undergraduates are this decade's graduate students. The University's expenditure plan includes funding for enrollment growth of 1% during 2012-13, an increase of 2,100 FTE.

Nonresident Enrollment Growth

While UC's priority is to enroll eligible California residents for whom the State has provided funding, 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.

In addition, because nonresident students pay supplemental tuition not charged to California residents, (\$22,878 in 2011-12 for undergraduates, an amount that far exceeds the State support provided for California residents) they provide extra revenue that enables UC to improve educational programs for all students.

Systemwide nonresident undergraduate enrollment represents only 7% of the undergraduate population at UC; all campuses are attempting to increase their nonresident undergraduate enrollments.

UC Merced

Adding to the difficulty of addressing State budget reductions, cost increases, and unfunded enrollments is the need for UC to maintain enrollment growth at Merced. The Merced campus commenced its seventh year of operation in 2011-12 with a total enrollment of 5,258 FTE students, reflecting strong student interest in Merced's unique educational environment and programs. Deferring growth at Merced is undesirable because it delays the point at

which the new campus reaches "critical mass" enrollment and achieves economies of scale. Given its small size, Merced is not capable of absorbing, even temporarily, the additional instructional costs incurred by enrollment growth without State support.

In order to maintain the enrollment growth trajectory needed to reach critical mass at the Merced campus, during 2008-09 and 2009-10, the University redirected resources from the other campuses and used savings realized from UCOP restructuring to support planned enrollment increases. For 2010-11, enrollment growth funding provided by the State supported another 675 students at Merced and allowed the University to restore funding to other campuses. However, without State support for enrollment growth in 2011-12, the University was again forced to redirect resources to support growth at Merced. It is essential Merced's growth funding over the next four years be maintained.

Display 10: General Campus and Health Sciences FTE Student Enrollment

	2010-11 <u>Actual</u>	2011-12 <u>Estimated</u>
Berkeley	36,315	36,227
Davis	31,710	31,971
Irvine	28,265	29,062
Los Angeles	38,678	39,853
Merced	4,488	5,258
Riverside	20,295	20,757
San Diego	30,401	30,584
San Francisco	4,363	4,558
Santa Barbara	22,920	22,371
Santa Cruz	17,437	17,172
Total	234,872	237,813

DILUTION OF STATE FUNDING

Accommodating enrollment without sufficient State support (since the tuition income associated with enrollments only partially offsets the loss of State support) affects students and faculty alike, denying them the highest-quality academic experience they deserve and have come to expect. The lack of funding for recent growth dilutes the resources of the University.

For students, this means, among other things:

- fewer high-caliber faculty hired,
- fewer and narrower course offerings,
- larger class sizes,
- reduced interaction with leading faculty,
- a lack of functional and modern instructional equipment, and
- constrained library holdings and longer waits for library and student services.

For faculty, some of the impacts include:

- fewer competitive offers to attract and retain the best faculty and graduate students,
- less time spent on research and public service as more time must be spent teaching a larger number of students,
- working with outdated equipment in inadequately maintained buildings, and
- impaired morale at a time when offers from other institutions are becoming more attractive.

For students and faculty alike, dilution of resources leads to reduced quality and increasing dissatisfaction with the academic experience. Ultimately, any loss of UC's preeminence would have an impact beyond the campuses.

Medicine

During the last decade, the University began to expand medical school enrollment through PRIME programs (PRograms In Medical Education), designed to attract and prepare more medical students to provide care to underserved populations in the state. Some initial funding for these programs was provided during 2005-06 through 2007-08, but since then, no State funding has been added to support these programs. As a result, reductions in regular MD enrollments have been made in order to continue development of the PRIME programs. To fully fund the PRIME programs, the University is seeking funding for 218 MD and 61 MS students.

Nursing

In recent years, the University began a multi-year plan to increase undergraduate and graduate nursing programs to help meet the state's critical shortage of both practitioners and nursing faculty. The University expects to receive \$12 million of Workforce Investment Act funding over five years (\$3 million during 2012-13) through the Governor's Nursing Education Initiative to train and graduate limited single cohorts totaling about 350 nursing students across multiple degree programs. In addition, the University is seeking \$4.8 million to support a total of 426 nursing students on a permanent basis.

Establishing a New Medical School

Responding to the state's need for more physicians in the workforce, the Riverside campus plans to establish a four-year school of medicine that would be the first new allopathic medical school to open in California in more than 40 years. The mission of the Riverside campus' School of Medicine will be to improve the health of the people of California and to serve inland southern California by training a diverse physician workforce and developing innovative research and health care delivery programs.

The 2010-11 State budget included a provision requiring the University to redirect \$10 million from existing resources to continue planning for the medical school. However, redirecting resources to fund a major new initiative such as a medical school is not sustainable. UC is requesting permanent State funding of \$15 million for 2012-13.

Core funding of \$15 million is proposed to develop academic programs and support the salaries of initial medical school staff and faculty. Specific start-up activities that will occur during 2012-13 include pursuing accreditation for the medical school curriculum and graduate medical education (residency) programs, establishing additional affiliations with community-based hospitals and clinic partners, recruiting and appointing faculty and administrative staff necessary to open and teach in the school, preparing to recruit the first class of medical students for Fall 2013, developing a faculty practice plan, and acquiring private and other non-State funding.

COMPENSATION FOR ACADEMIC AND STAFF EMPLOYEES

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

Faculty and Staff Salaries

Earlier cuts to the University's budget have resulted in significant disparities in faculty and staff salaries compared to the market. In 2010-11, UC faculty salaries lagged the market by 12.8%, and there is a similar or greater problem with respect to staff salaries in most workforce categories. The University is deeply concerned about the widening gap between funds available for compensation and the resources needed to fund competitive salaries. The most recent study of UC's total compensation program indicates that, in general, average UC salaries are significantly below the market median, but the total compensation package, including salaries and health and welfare benefits for employees as well as post-employment benefits (pension and retiree health), was close to market.

Plans to eliminate the salary lags for faculty over four years and for staff over a longer period were initiated in 2007-08, but the State's ongoing fiscal crisis has delayed implementation of those plans. While the merit and promotion system for academic employees has been maintained, no general salary increases were provided for faculty or non-represented staff in 2008-09, 2009-10, or 2010-11. In 2011-12, faculty and non-represented staff (excluding executives and those with salaries at or above \$200,000) are eligible to receive merit increases representing 3% of salary funding, though these increases are already partially offset by increases in employee contributions to the UC Retirement Plan (UCRP).

Changes in the costs and structure of the University's employee benefits programs will intensify pressure for salary increases over the next several years. While the initial 2% member contributions to UCRP during 2010-11 were made by redirecting previous employee payments to the Defined Contribution Plan, the 1.5% increase in member contributions beginning on July 1, 2011 and further increases in subsequent years will have an impact on employee take-home pay. In addition, inflationary cost

increases in health and welfare benefits will likely require that employees pay an increased amount in medical insurance premiums. Although the benefits provided by UC are an important component of the packages offered to candidates, the salary component itself must be competitive to attract and retain quality faculty and staff employees if the University is to retain its preeminent stature.

Furthermore, a national economic recovery is likely to have daunting repercussions on recruitment and retention of high-performing faculty and staff for UC. Campuses are already experiencing significant faculty retention challenges from other institutions within California, across the country, and around the world. Similarly, economic recovery will generate new competitive opportunities for staff.

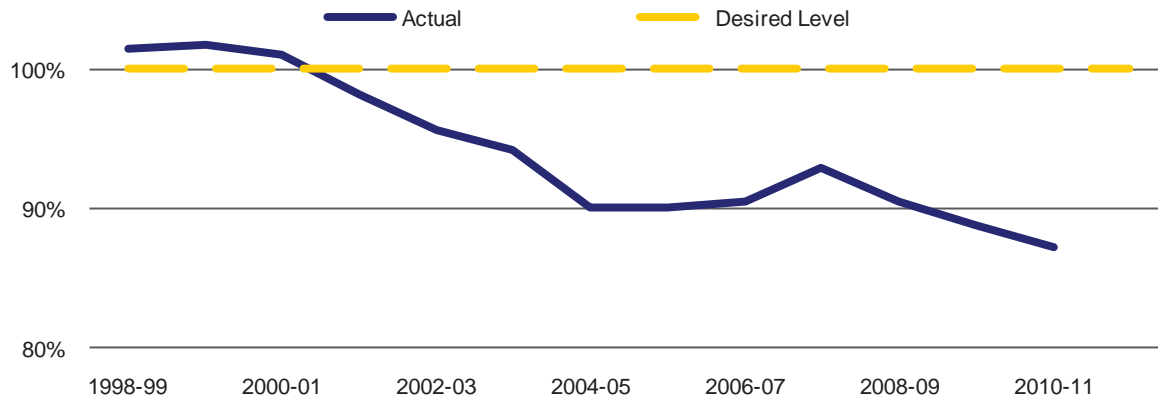
To ensure that UC is able to recruit and retain faculty and avoid further growth in salary lags for both faculty and staff, the University must develop a stable, predictable program for compensation increases. In 2012-13, the expenditure plan includes an assumption of funding for the normal merit salary increase program for faculty and a 3% salary increase pool for all employees.

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

Employee Health Benefits

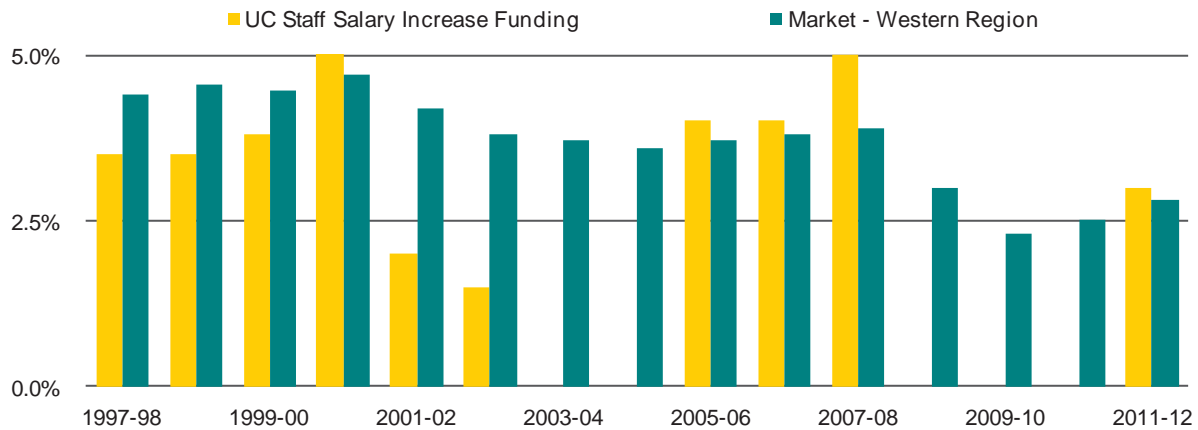
Employee health benefit costs are rising at a rapid rate, typically between 8.5% and 11% in recent years, much more so than the 5% rate of growth anticipated when the Compact was developed in 2004-05. Thus, funds received during the early years of the Compact for employee benefit costs fell far short of the amounts actually needed, and as previously noted, no State funds have been provided for this purpose since 2007-08, while costs continued to rise, dramatically exacerbating an already difficult problem.

Display 11: Faculty Salaries as a Percentage of Market



Due to inadequate State funding over the last ten years, faculty salaries at UC have declined relative to UC's comparison institutions. In 2010-11, UC's faculty salaries are 12.8% below those of UC's comparison institutions.

Display 12: Increases in Funding for Staff Salaries



Annual percentage increases in funding for UC staff salaries lagged increases in funding for salaries in the Western Region market in 10 out of the 15 years since 1997-98. In 5 of those years, UC was unable to provide any increases, resulting in significant market disparities. (Source: World at Work Annual Salary Budget Survey, 2010)

Campuses have been forced to redirect funds from existing programs to address these cost increases – beyond the redirections necessary to absorb base budget cuts. In 2011, through negotiations and the addition of new programs to the employee benefit plan portfolio, UC was able to limit health benefit cost increases to 7.1%.

In addition, employees have been required to bear a larger responsibility for the rising costs of these benefits, partially offsetting earlier salary increases. In 2002-03, the University instituted a progressive medical premium rate structure (based on full-time salary rates) designed to help offset the impact of medical premium increases on lower-

paid employees. Although UC pays approximately 86% of monthly medical premiums for employees on an aggregate basis, the University made a strategic decision to cover an even larger portion of the premium for those in the lower salary brackets. In the current environment, with limited new funding and growing cost pressures, it is expected that some of the increases in cost will continue to be borne by most employees. UC will continue to review its total compensation program to ensure that all elements move toward being more competitive in the market.

Employee health benefit costs for core-funded programs are projected to increase by \$22.8 million in 2012-13.

RETIREMENT BENEFITS

Rising retirement plan contribution levels, necessary to ensure the fiscal health of the program, are adding financial pressure on both employees and UC as employer.

Pension Benefits

The University of California Retirement Plan (UCRP) provides pension benefits for more than 56,000 retirees and survivors and has nearly 116,000 active employee members as of July 1, 2011. UCRP's defined-benefit plan promotes recruitment of talented individuals and provides incentives for long careers with UC.

Prior to November 1990, contributions to UCRP were required from both the University as employer and from employees as members. In the early 1990s, the Regents suspended University contributions to UCRP after actuaries confirmed that it was adequately funded to provide plan benefits for many years into the future.

In the nearly 20 years during which employer and member contributions were not required, the State saved more than \$2 billion. However, the funded status of UCRP has declined as both annual payouts and the accrued liability have risen. Furthermore, the recent national economic crisis has depleted the actuarial value of UCRP assets, which had fallen to a funded status of 83% by July 2011.

The University restarted contributions to UCRP in April 2010, with an employer contribution of 4% and member contributions of 2% through the 2010-11 fiscal year. Because the State has as yet not provided funding, the State's share is being funded by redirecting resources from existing programs and student tuition and fee increases.

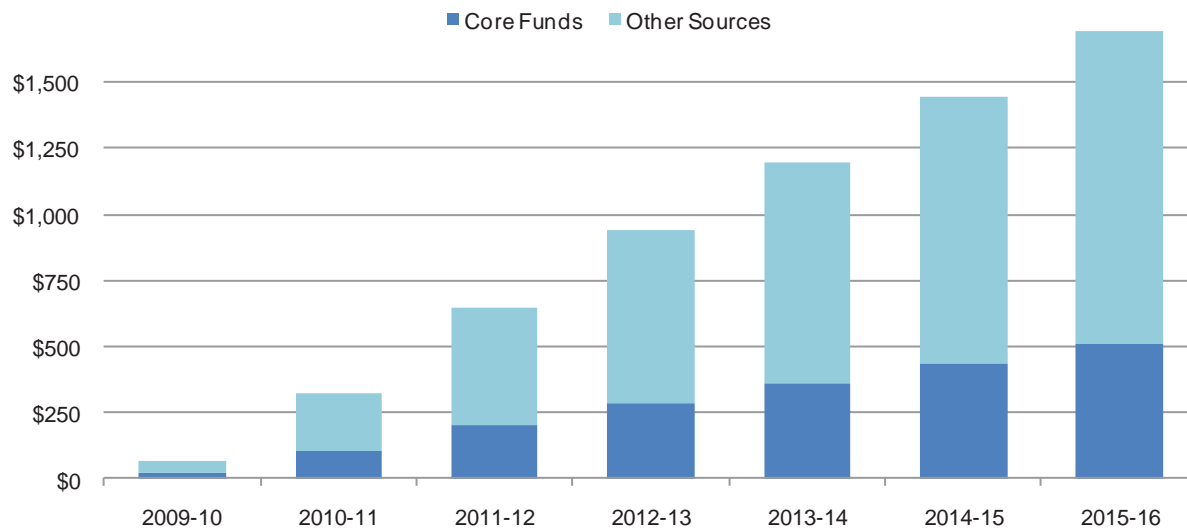
In September 2010, the Regents approved increases to both the employer and employee contributions for 2011-12 and 2012-13. Employer contributions rose from 4% to 7% for 2011-12 and will rise to 10% for 2012-13. Member contributions rose from 2% to 3.5% for 2011-12 and will rise to 5% for 2012-13. At the November 2011 meeting, the Regents will consider increasing employer and member contribution rates to 12% and 6.5%, respectively, effective July 1, 2013. Employer contributions are expected to continue to rise by 2% annually through at least 2015-16.

In December 2010, the Regents took further action to make changes to retirement plan benefits that will reduce long-term costs. Most significantly, the Regents approved the establishment of a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55 and the maximum age factor from 60 to 65, but otherwise retain many of the features of the current plan.

In 2011-12, the University is projected to contribute more than \$200 million from core fund sources and nearly \$450 million from other sources to UCRP. To date, the State has provided no funding for UCRP contributions. As employer contribution rates rise over the next several years, UC contributions are expected to rise to at least \$500 million from core funds and nearly \$1.2 billion from other sources. The State's share, based on State and student tuition and fee-funded employees, is projected to be approximately \$256 million in 2012-13 and will rise to \$450 million in 2015-16.

The cost pressures created by these rising contributions are far too vast to be addressed through efficiencies or cost-cutting at the margin. If the State is unable to provide funding for contributions to UCRP, the University will need to identify alternative sources of new revenue or savings to cover the growing cost.

Display 13: Actual and Projected Employer Contributions to UCRP by Fund Source (Dollars in Millions)



Employer contributions to UCRP restarted in April 2010. Contribution rates are projected to rise to at least 16% of employee compensation by 2015-16, at a cost of about \$500 million for core-funded programs.

Retiree Health Benefits

As part of the benefit package, UC also provides medical and dental benefits for about 48,900 eligible retirees and their dependents. Unlike UCRP, UC retiree health benefits are currently funded on a pay-as-you-go basis – that is, from current operating funds rather than from a trust account. In 2011-12, the cost to the University for retiree health benefits is estimated to exceed \$270 million. This amount is projected to increase significantly over the next several years, as both health benefit premiums and the number of annuitants rise rapidly. The University requests that the State continue its practice of funding its share of cost increases for retiree health benefits, which in 2012-13 is projected to be \$5.2 million.

Because accumulated future retiree health benefits costs are not pre-funded, UC has an unfunded liability for retiree health representing the cost of benefits accrued to date by current faculty, staff, and retirees based on past service. In December 2010, in order to reduce long-term costs and the unfunded liability for retiree health, the

Regents approved changes to retiree health benefits.

Changes included reductions in the University's aggregate annual contribution to the Retiree Health Program to a floor of 70% of premiums (from a projected level of 83% during calendar year 2012), a new eligibility formula for all employees hired on or after July 1, 2013 and for existing employees with fewer than five years of service credit or whose age plus service credits is less than 50 as of June 30, 2013. Including the future cost savings resulting from these changes the retiree health liability is estimated to be \$14.6 billion as of July 1, 2011.

OTHER EXPENDITURE DRIVERS

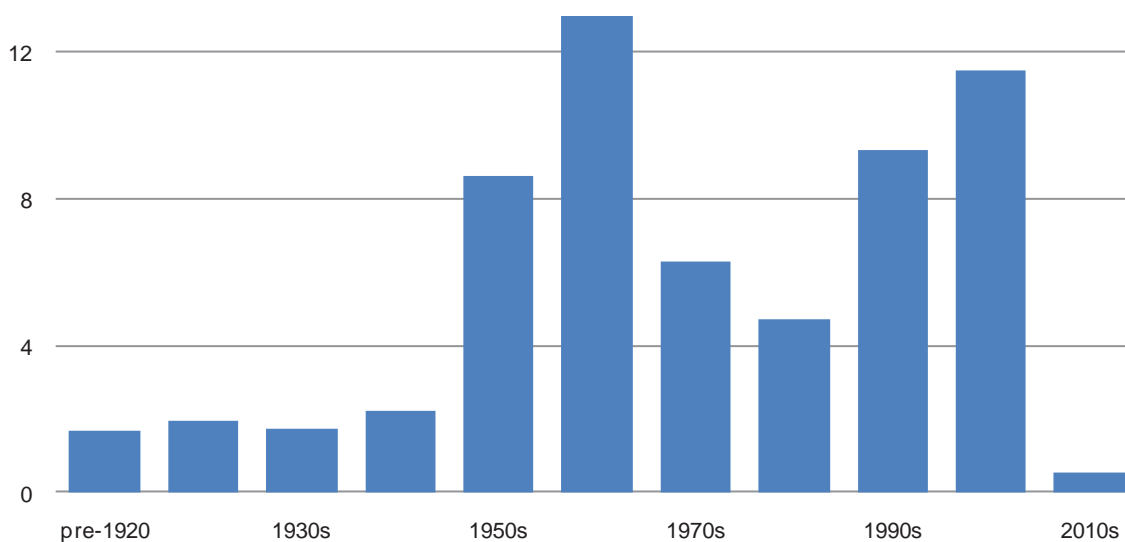
To compliment the University's world-renowned faculty and support activities, the University must also address facilities renewal needs and rising costs of instructional equipment, library materials, and other non-salary items.

Deferred Maintenance

Before the mid-1990s, the State provided the University with nearly \$20 million a year in permanent deferred maintenance funding. While not sufficient to meet the University's deferred maintenance needs, it was a reliable and predictable source of funding. In subsequent years, the State provided between \$7.1 million and \$25 million in permanent and one-time funding for deferred maintenance. With the State's fiscal crisis deepening, however, State support for deferred maintenance was eliminated in 2002-03 and since that time, the State has provided no funding, either one-time or permanent, to address UC's deferred maintenance backlog. Yet the need for this funding has never been more acute as the University's inventory of aging buildings continues to grow (about 60% of University facilities are more than 30 years old) and

severe cuts in operation and maintenance funding have forced campuses to reduce building maintenance services and curtail, or in some instances eliminate, preventive maintenance programs. Without reliable and predictable funding to address the highest priority needs, campuses face an ever-increasing risk of catastrophic failure of building and infrastructure systems. The University's budget plan includes \$25 million in permanent funding to support restoration of a modest deferred maintenance program. While not sufficient to address the University's substantial backlog of deferred maintenance, this amount would provide an initial, predictable source of funding which campuses could use for their most urgent deferred maintenance needs. The University would seek to increase the budget for deferred maintenance in future years.

Display 14: State-Maintained Space by Decade of Construction (Gross Square Feet in Millions)



The University's physical plant expanded rapidly in the 1950s and 1960s and again in the late 1990s and 2000s.

Keeping Pace with Inflation

To maintain the quality of the instructional program and all support activities, the University must regularly replace, upgrade, or purchase new instructional equipment, library materials, and other non-salary items. The University must also purchase utilities to provide energy to its facilities. Just as costs for salaries and benefits for employees rise, the University's non-salary spending is affected by inflation. Costs of goods and services employed for education generally rise faster than the typical basket of goods and services used to measure inflation. In addition, between 1999-00 and 2009-10, costs of electricity and natural gas have risen by over 120%, resulting in significant cost increases for UC campuses despite only modest increases in consumption. Yet, with the continuing fiscal crisis, the State has not funded non-salary price increases for several years. Even with the efficiencies described earlier, to offset the impact of inflation and maintain the University's purchasing power, without State funding to support cost increases, the University has been forced to redirect funds from existing resources to cover non-salary price increases. The University's 2012-13 expenditure plan includes \$21.8 million for non-salary price increases.

Reinvesting in Academic Excellence

As described earlier, State funding cuts and unfunded cost increases have forced the University to redirect funds and have led to academic program reductions across the system. Despite enrollment growth in recent years, campuses have delayed hiring of new faculty and eliminated course sections, resulting in larger class sizes, narrower offerings for students, and less opportunity for students to interact with faculty. Furthermore, in order to fund cost increases such as rising retirement plan contributions, library hours have been shortened and campuses have delayed purchases of necessary instructional equipment and technology.

Savings achieved through cost reduction efforts and new revenues will allow the University to restore program budgets. This in turn will enable campuses to reinvest in faculty, course offerings, instructional and academic support, and student services.

STUDENT TUITION AND FEES

Despite efficiencies achieved by UC in the delivery of education and research, in recent years student tuition and fees have increased significantly in order to maintain quality in the face of inadequate State support.

Student tuition and fees provided \$2.5 billion for the University's basic operations and student financial aid during 2010-11. In 2011-12, revenue from tuition and fees exceeds State support for the first time in UC history and students are now paying 49% of the cost of education.

No increases in tuition and fees are being proposed at the November meeting of the Regents. As mentioned earlier, the University is exploring alternative revenue sources and it is expected that a revenue proposal will be presented to the Regents at the March 2012 meeting.

Mandatory Systemwide Tuition and Fees

Mandatory systemwide tuition and fees consist of Tuition (formerly the Educational Fee) and the Student Services Fee (formerly the Registration Fee).

Tuition provides general support for the University's operating budget, including costs related to faculty and instructional support, libraries and other academic support, student services, institutional support, operation and maintenance of plant, and student financial support. In 2011-12, Tuition is \$11,220 for all students.

The Student Services Fee funds services that are necessary to students, but not part of the University's programs of instruction, research, or public service. The majority of these funds are spent on student services, including counseling and career guidance, cultural and social activities, and student health services. Some Student Services Fee revenue is used for capital improvements that provide extracurricular benefits for students and student financial support. In 2011-12, the Student Services Fee is \$972 for all students.

Professional Degree Supplemental Tuition

Professional Degree Supplemental Tuition provides UC's professional degree programs with supplemental funds to maintain quality – to recruit and retain excellent faculty, provide a top-notch curriculum, and attract high-caliber students – following significant budget cuts over the last two decades. Tuition levels vary by program and are based on an evaluation of program resources and needs, comparison institution fees, and affordability for students. In 2011-12, Professional Degree Supplemental Tuition varies by program from \$4,000 to \$35,148.

Nonresident Supplemental Tuition

In addition to mandatory student tuition and fees, nonresident students pay Nonresident Supplemental Tuition in lieu of State support. Campuses use Nonresident Supplemental Tuition to support the instructional enterprise. For nonresident undergraduates, Nonresident Supplemental Tuition is \$22,878 during 2011-12. The supplemental charges for nonresident graduate academic and graduate professional students are \$15,102 and \$12,245, respectively.

Total Charges and Comparison Institutions

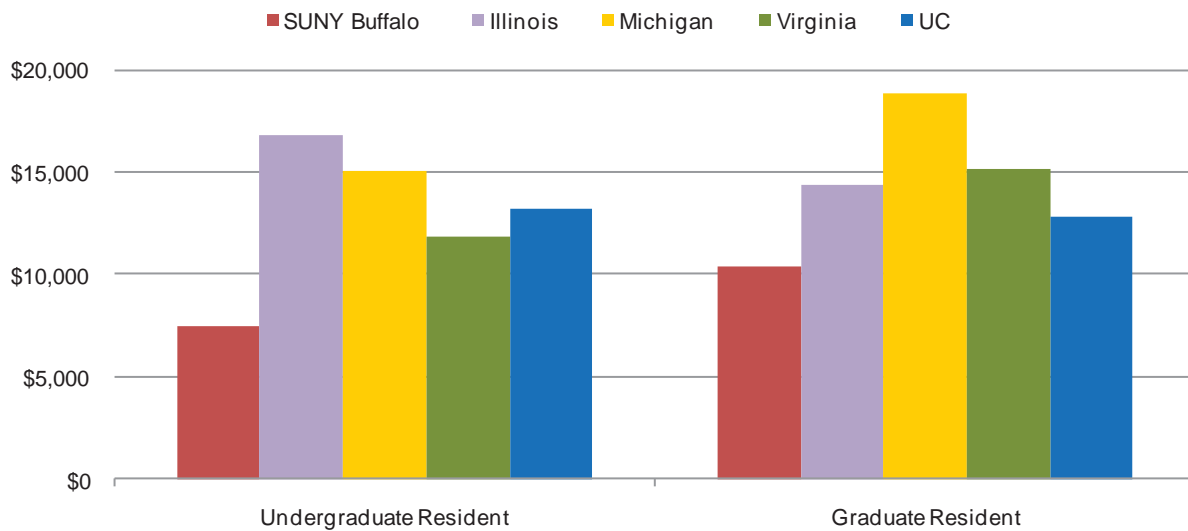
In addition to the charges described above, students also pay campus-based fees. Display 15 shows total charges for undergraduate and graduate academic students by residency status for 2011-12.

Despite recent fee increases, UC's in-state fees remain competitive with public comparison institutions for resident undergraduates and graduate academic students. During 2011-12, average fees for resident undergraduates remain below two of the University's four public comparison institutions, and average fees for resident graduate students remain below three of the four comparison institutions, as shown in Display 16.

Display 15: 2011-12 Total Charges by Student Level and Residency Status

	<u>Undergraduate Students</u>		<u>Graduate Academic Students</u>	
	<u>Resident</u>	<u>Nonresident</u>	<u>Resident</u>	<u>Nonresident</u>
Tuition	\$11,220	\$11,220	\$11,220	\$11,220
Student Services Fee	\$972	\$972	\$972	\$972
Subtotal, Mandatory Systemwide Charges	\$12,192	\$12,192	\$12,192	\$12,192
Nonresident Supplemental Tuition		\$22,878		\$15,102
Average Campus-based Fees	<u>\$989</u>	<u>\$989</u>	<u>\$606</u>	<u>\$606</u>
Average Total Charges	\$13,181	\$36,059	\$12,798	\$27,900

Display 16: 2011-12 UC and Comparison Institution Tuition and Fees for In-State Students



In 2011-12, the University's average tuition and fees for California resident students remain below two of four public comparators for undergraduates and three of four comparators for graduate academic students.

Note: Comparison institution figures include tuition and required fees as reported on campus websites. UC figures include mandatory systemwide tuition and fees, campus-based fees, and Nonresident Supplemental Tuition for nonresident students. Waivable health insurance fees are not included.

STUDENT FINANCIAL AID

Student financial aid from federal, State, UC, and private sources has helped UC maintain access and affordability at the undergraduate level while also attracting graduate students with exceptional potential.

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

Undergraduate Aid

At the undergraduate level, the goal is to ensure that UC remains financially accessible to all academically eligible students so that financial considerations are not an obstacle to student decisions to enroll at UC. During 2009-10, 58% of UC undergraduates received grant or scholarship aid, averaging \$12,753 per student. UC has become nationally recognized as a leader in enrolling an economically diverse pool of undergraduate students.

Despite tuition and fee increases, the University has remained accessible to undergraduate students from all income groups. Enrollments of low-income Pell Grant recipients at other research institutions range from below 10% to nearly 20%. About 35% of UC undergraduates were Pell Grant recipients during 2009-10, more than at any other comparably selective research institution.

For many years, the enrollment of students from middle-income families also has remained relatively stable, at about 43% between 2000-01 and 2006-07, despite fee increases in most of those years. Since then the percentage has declined slightly, to 39% in 2009-10, which may reflect a statewide decline in middle-income families attributable to the economic recession. The University is closely monitoring this trend, together with income trends among California families generally.

Financial aid also contributes greatly to the University's undergraduate ethnic diversity. African-American, Chicano/Latino, and Asian American students are disproportionately low-income. Collectively, these students receive 72% of all undergraduate gift assistance. For all of these reasons, maintaining a robust financial aid program remains a top University budget priority.

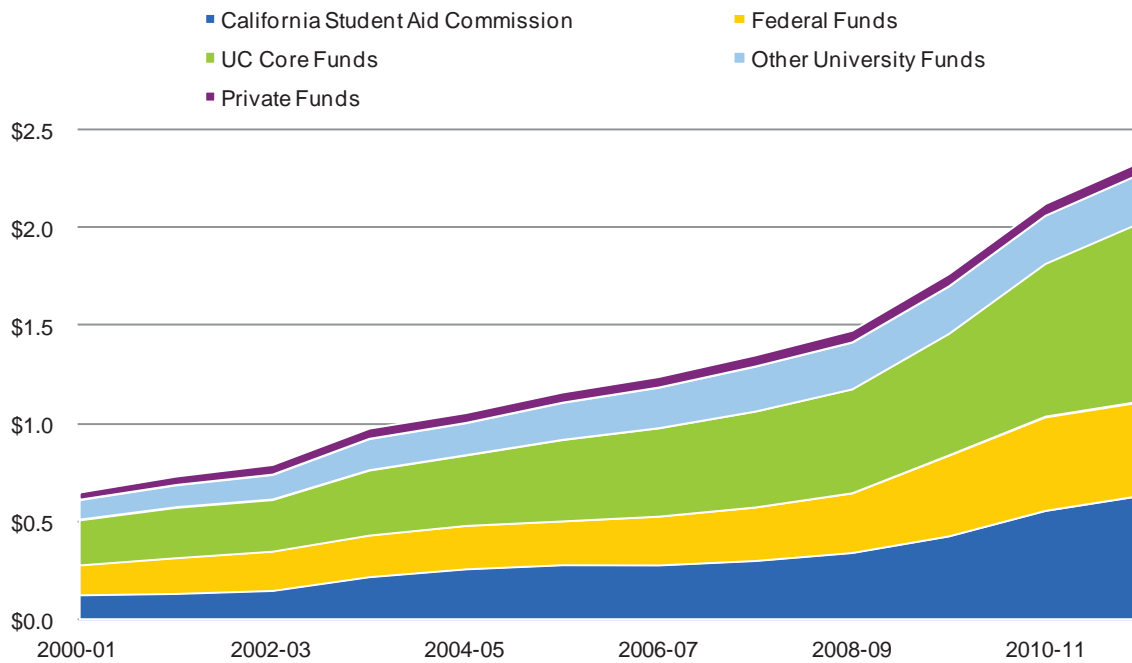
In recent years, several significant factors have helped UC maintain affordability for undergraduates:

- increases in the maximum federal Pell Grant;
- full funding of the State's Cal Grant program;
- continuation of UC's 33% return-to-aid policy;
- development and expansion of the Blue and Gold Opportunity Plan, which in 2011-12 ensures that all eligible students with household incomes below \$80,000 receive gift aid covering systemwide tuition and fees up to their need level;
- expansion of middle-income fee grants, covering one-half of tuition and fee increases for needy middle-income students, to students from families earning up to \$120,000; and
- temporary expansion of federal education tax credits.

As a result of these and other ongoing programs, financial support generally has covered systemwide fee increases for Cal Grant and UC Grant recipients in recent years and is providing some coverage of other cost increases as well.

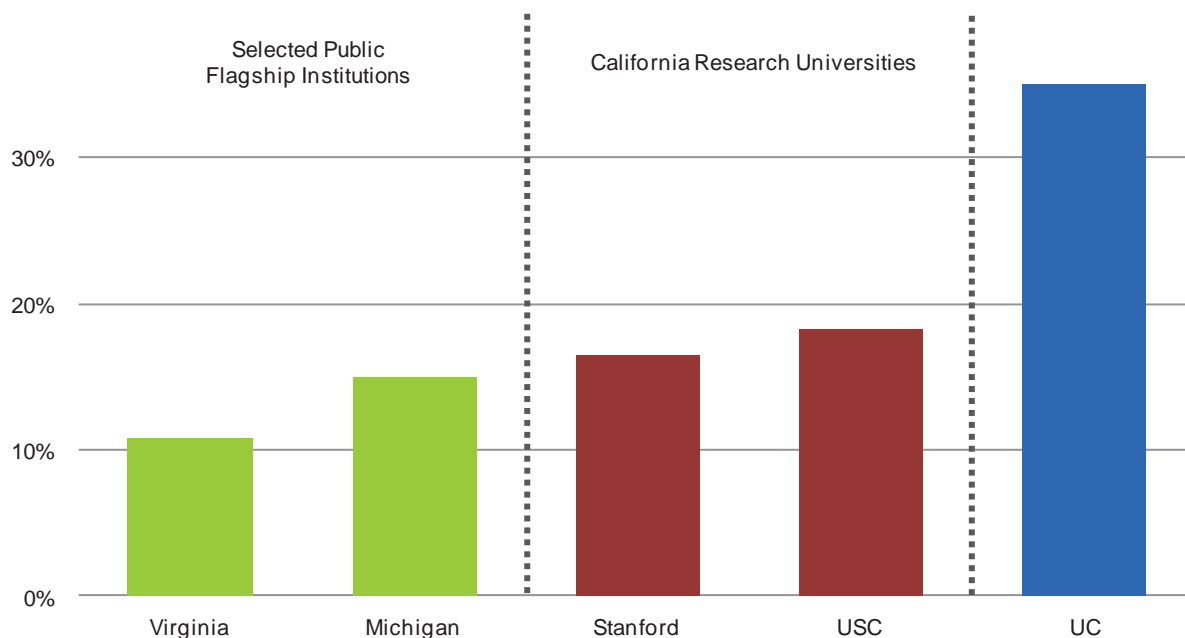
In 2012-13, the University proposes to set aside the equivalent of 33% of new undergraduate fee revenue for financial aid. In addition, the University will continue to ensure that tuition and fee increases do not deter talented, low-income students from aspiring to attend UC by fully funding the Blue and Gold Opportunity Plan, which provides full coverage of mandatory systemwide tuition and fees for eligible resident undergraduates with family incomes up to \$80,000 (up to a student's need) and provide assistance to financially needy middle-income families.

Display 17: Total Gift Aid by Source (Dollars in Billions)



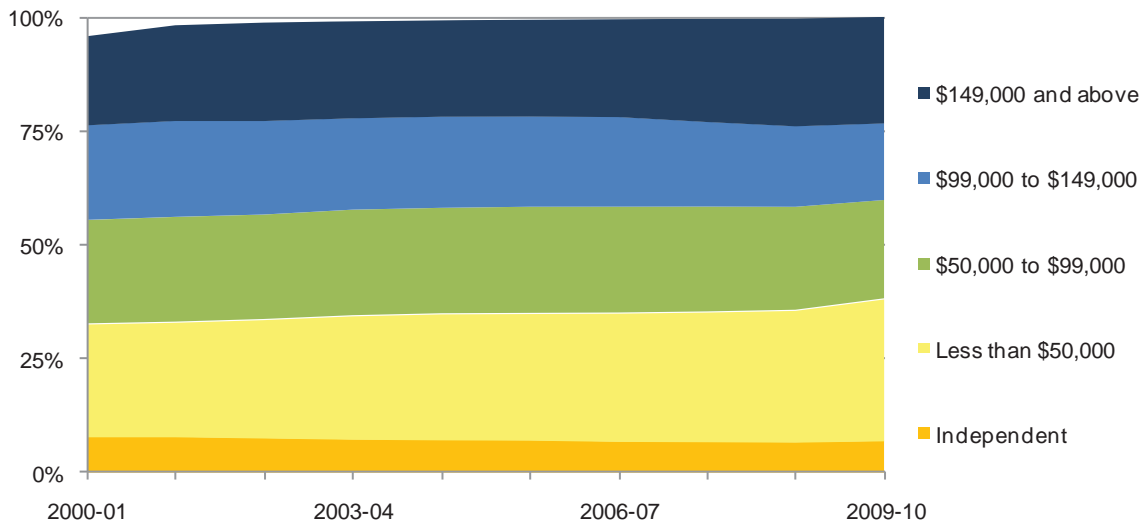
To offset tuition and fee increases and maintain the promise of higher education for all Californians, both the University and the State have invested heavily in student financial support. During 2011-12, total gift aid is projected to reach nearly \$2.35 billion, nearly half of which is generated from UC sources.

Display 18: 2009-10 Undergraduate Pell Grant Recipients



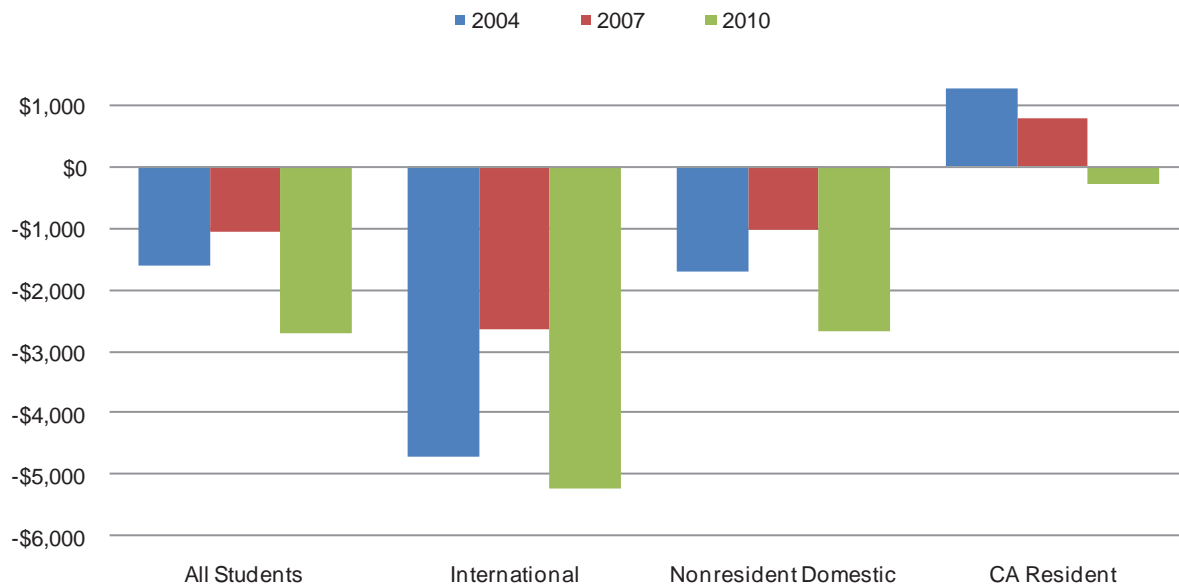
UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 35% during 2009-10, which was more than at any comparable public or private institution.

Display 19: Undergraduate Enrollment by Family Income (2009-10 Dollars)



The percentage of middle-income students enrolled at the University remained relatively stable, at around 43% between 2000-01 and 2006-07, despite tuition and fee increases in most of those years. Since then the percentage has declined slightly, to 39% in 2009-10, which may reflect a decline in middle-income families statewide attributable to the economic recession.

Display 20: Competitiveness of UC Financial Support Offers to Academic Doctoral Students



For academic doctoral students, UC narrowed the gap between its financial support offers and those of competing institutions between 2004 and 2007, but lost ground between 2007 and 2010.

Graduate Aid

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 the cost of other institutions. This competitive context reflects the fact that graduate student enrollment is tied most directly to the University's research mission and helps the state meet its academic and professional workforce needs. Graduate awards must be sized not only to make the University accessible, but also to be competitive with awards prospective students receive from other institutions.

Graduate academic students received support from fellowships, grants, and assistantships averaging about \$29,000 per student during 2009-10. However, in recent years, the financial aid packages awarded by UC fell short of the packages offered by competing institutions. While

UC narrowed the gap between its offers and those of competing institutions by more than \$500 between 2004 and 2007, findings from 2010 suggest UC is once again losing ground to its competitors. To help mitigate this problem, UC returns 50% of any new graduate academic tuition and fee revenue to students in the form of financial aid.

For graduate professional students, UC ensures that an amount equivalent to 33% of tuition and fee increases is returned to students as financial aid. Even so, about two-thirds of aid awarded to graduate professional students is in the form of loans, primarily from federal loan programs.

The University provides loan repayment assistance programs in certain disciplines, and since 2009-10, students may avail themselves of an Income-Based Repayment plan for federal student loans.

2012-13 BUDGET FOR STATE CAPITAL IMPROVEMENTS

Sustaining the excellence of the University's teaching and research programs requires ongoing investment in state-of-the-art facilities.

Current financial and economic challenges have compelled the State of California to delay sales of bonds needed to fund capital projects approved by the State Legislature. Approximately \$476.9 million of previously approved Lease Revenue and General Obligation bonds for the UC system have been stalled, some dating from 2007. The State currently proposes to sell Lease Revenue bonds in November 2011 for three projects at the Berkeley, Los Angeles, and Merced campuses, totaling \$268 million. If this bond sale is successful, UC will still have a backlog of \$208.9 million in approved but unfunded projects.

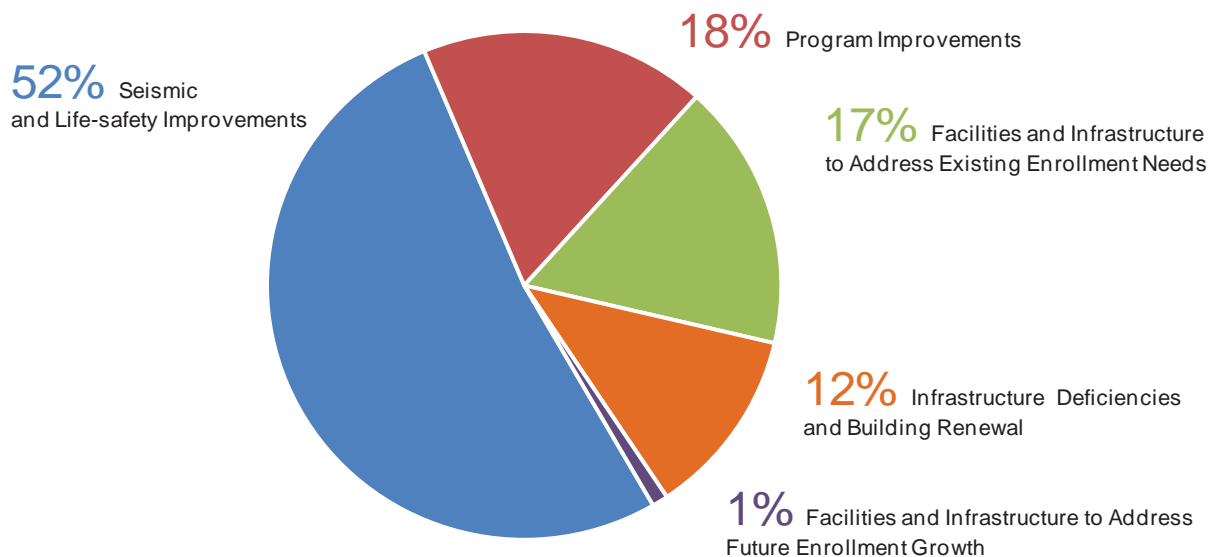
Because of current economic conditions, the State has instituted long delays in selling bonds; these delays will seriously affect UC's projects, which may no longer be viable at the amounts approved.

To avoid that outcome, UC proposes to pursue special legislation to provide interim financing from UC's commercial paper program. Because UC has a higher

credit rating than the State, it can arrange interim financing for these projects at interest rates lower than those for State bonds. A Memorandum of Understanding (MOU) with the State Treasurer's Office (STO), the Department of Finance (DOF), and the State Public Works Board (SPWB) has been proposed wherein the parties agree that the Regents of the University of California will provide interim financing for construction costs and related interest expense in the amount of \$163 million for its approved lease-revenue bond projects.

Although the STO, the DOF, and the SPWB are in agreement to move forward, the DOF's bond Counsel has opined that the relevant statute allows UC to be reimbursed only for the principal amount financed and not for interest costs or costs of issuance. Therefore, the University proposes that this statute be modified through legislation to permit repayment of interest costs and costs of issuance, as well as for the principal, from SPWB bond proceeds.

Display 21: 2012-13 Capital Budget Proposal (Millions of Dollars)



More than half of the University's 2012-13 budget request for capital improvements consists of seismic and life-safety improvements to existing facilities.

The University's State capital budget proposal for the 2012-13 year totals \$1.13 billion for critical seismic and life-safety improvements, for facilities to accommodate enrollment growth that has already occurred, and for facilities renewal.

Of this need for State funding, approximately 52% will address critical seismic and life-safety corrections, 18% will address needed programmatic improvements, 17% will address existing enrollment needs, 12% will be directed to infrastructure deficiencies and building-systems renewal, and 1% will address infrastructure for future enrollment growth at Merced and Riverside.

The University also proposes to pursue legislation to place a new general obligation bond on the ballot for the November 2012 statewide general election. There has been no higher education facilities bond measure since 2006, and consequently a serious backlog of capital projects has developed. The proposed measure would

provide funding for capital projects over a four-year period, 2012-13 through 2015-16. The projects to be funded from the proposed four-year bond would address some of the University's highest capital priorities, which include seismic-corrections, life-safety, and modernization projects.

The State of California's recovery from the economic recession has been slow and halting, and unemployment rates in California remain the second highest in the nation. The construction industry has been particularly hard-hit, experiencing the most severe employment decline of California's economic sectors, losing over 400,000 jobs since the peak of August of 2006, when 966,000 workers were employed in construction. In April 2011, that number had fallen to 554,000, a decrease of 43% since August 2006. Bonds to finance capital projects at the University of California will help both to improve student access to higher education and result in immediate job creation and thus improve economic activity in the state.

UNIVERSITY of CALIFORNIA

**2012-13 BUDGET FOR CURRENT OPERATIONS
BUDGET DETAIL**

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 10 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 2012-13 BUDGET FOR CURRENT OPERATIONS — BUDGET DETAIL

The companion to this document provided at the front of this volume, the *Summary of the Budget Request*, provides a brief overview of the major policy issues, revenue needs, and expenditure plans and objectives of the University for 2012-13. 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 \$22.5 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.

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, diversity, information technology needs, and funding for academic support activities.

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.

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 tuition and 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.

The Appendix includes various tables providing current and historical budget, enrollment, and tuition information.

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

A separate volume, the *2011-21 Consolidated State and Non-State Capital Financial Plan* provides information about the University's capital facilities needs.

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"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 far-sighted public investments in higher education have fueled economic prosperity, social mobility, and cultural opportunity for decades. The State's historic commitment has enabled the University of California not only to educate the brightest students – over 234,000 last year alone – but to touch the lives of every Californian:

- **UC educates the workforce** needed by high-technology, 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 groundbreaking 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.

UC's excellence is well-documented by the many honors and awards conferred upon faculty, departments, and campuses. That excellence, in turn, attracts billions of dollars in federal and private funding every year and supports the discovery and dissemination of new

knowledge that promotes economic, social, and cultural development. UC has long been a major contributor to California's vibrancy and strength. To maintain California's leadership role and to meet the changing needs of future generations, California must continue to invest in the future by reinvesting in its world-class public research university system.

THE STATE'S HISTORIC INVESTMENT IN UC

The University's operating budget, totaling \$22.5 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.

Historically, State funding has been the largest single source of support for the University. However, 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. In 2011-12, total State support is \$2.37 billion, just \$240 million above the amount provided in 1990-91 in non-inflation-adjusted dollars, reflecting average annual growth of just 0.5%. Due to enrollment growth and inflation that has occurred since 1990-91, the value of the State's contribution has dwindled. The unprecedented cuts in State funding since 2008-09 have reduced UC's support to a level that threatens to replace the institution's excellence with mediocrity.

Over the last two decades, student tuition and fees and other sources of general funds, such as federal indirect cost recovery funding, have helped to mitigate the impact of declines in State support for UC, but overall core funding per student has declined by 19% in inflation-adjusted dollars. Other fund sources help augment and complement the University's core activities of instruction and

Display I-1: UC At-A-Glance, 2011-12

Founded in 1869, the University of California consists of:

- 10 campuses serving more than 237,000 FTE students in over 800 degree programs;
 - 5 academic medical centers providing care for over 142,000 admitted patients per year;
 - a \$4.4 billion research enterprise, seeking new knowledge and solutions to critical problems;
 - 100 libraries, housing 37 million print volumes;
 - 5,000 buildings comprising 127 million square feet; and
 - approximately 137,000 employees across the system.
-

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, and is the public segment primarily responsible for awarding the doctorate and many professional degrees in areas such as medicine and law.
- **Research.** UC is the primary State-supported academic agency for research. Research is inextricably linked with teaching at the graduate level and increasingly 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 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 of importance to the state and society at large.

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. Each year, UC attracts more than \$8 billion from outside the state and generates more than \$46 billion in economic activity in California. 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 the finest public university system 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 2012-13 budget is proceeding in the context of the State's persisting fiscal problems. UC has moved aggressively to reduce operating costs and to

identify alternative sources of revenue to help offset lost State support. Yet even under the most optimistic assumptions, efficiency improvements and alternative revenue generation are sufficient to address only a portion of the projected budget shortfall over the next few years. For the first time in California history, as a result of a \$650 million State General Fund reduction in the 2011-12 State budget, students are now contributing more to their UC education than the State. That student contribution could continue to grow as the University is forced to address the existing budget gap and substantial mandatory costs going forward from other non-State sources.

UC'S COLLEGE GRADUATES AND THE CALIFORNIA 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 high 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.

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 (CSU) 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."

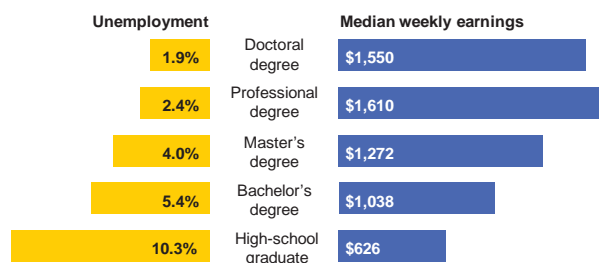
While 41% of California's 45- to 64-year-olds hold an associate's degree or higher, only 36% of 25- to 34-year-olds are as educated. The report projects, moreover, that occupations in California requiring an associate's degree or higher will grow by more than 46% between 2002 and 2022, while occupations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

The industries that will be driving California's longer-term economic competitiveness will be knowledge-based industries. California's fastest growing occupational categories are professional and managerial jobs. In the early 1980s, professionals and managers held one-fourth of all jobs in California. 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 graduate degree. 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 the *General Campus Instruction* chapter of this document), college attendance and completion rates are still low.

Display I-2: Earnings and Unemployment by Level of Education



Source: Bureau of Labor Statistics, 2010.

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.

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, as shown in Display I-2. 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 salaries.

Echoing the PPIC's report, 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. Additional 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 need for more college graduates is evident, but the solutions are less so. Already, the California Community Colleges (CCC), CSU, and UC systems account for nearly 60% of California's higher education enrollment, and the CSU and UC systems award nearly three-fourths of the baccalaureates conferred annually in California. In order to

generate the additional one million baccalaureates needed by 2025, PPIC suggests that California would need to graduate another 60,000 students each 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.** Over 80% of UC students graduate within six years.

A lack of public investment in education will continue to erode the economic advantages and quality of life that Californians have long enjoyed. Unfortunately, because the State has been unable to fully fund recent enrollment growth, UC, like CSU, took steps to constrain enrollment growth in recent years, thus limiting UC's ability to contribute to increasing college attendance. Moreover, because graduation rates at UC are already quite high, UC's ability to improve graduation rates is also relatively limited. The University can, however, make inroads with improving the transfer rate. President Yudof has made increasing transfer enrollments a priority for UC, and UC has several initiatives to this end. In the future, California will also be in need of students with graduate-level training. Recent enrollment trends, efforts to expand transfer enrollment, and the need for more graduate students are discussed in the *General Campus Instruction* chapter of this document.

UC'S CONTRIBUTION TO THE STATE ECONOMY

In 2011, UC commissioned a study of its economic contribution to the state of California. Though it has been long known that UC-related economic activity touches every corner of California, making important contributions even in regions without a UC campus, the report quantified many of UC's economic impacts.

- UC generates about \$46.3 billion in economic activity in California and contributes about \$32.8 billion to the Gross State Product annually.

- Every dollar the California taxpayer invests in UC results in \$9.80 in Gross State Product and \$13.80 in overall economic output.
- One out of every 46 jobs in California – approximately 430,000 jobs – is supported by UC operations and outside spending by the University's faculty, staff, students, and retirees.
- UC is the state's third-largest employer, behind only the State and federal governments, and well ahead of California's largest private-sector employers.
- UC attracts about \$8.5 billion in annual funding from outside the state.
- Every \$1 reduction in State funding for UC has the potential to reduce State economic output by \$2.10 due to ripple effects of UC activities across the entire California economy.

The University of California is an inextricable part of the California economy, truly touching the lives of all the state's citizens. The fortunes of UC and the state are intrinsically linked, such that disinvestment in UC on the part of the State represents a disinvestment in the state of California and its citizens as well.

The state is at a crossroads. While California remains among the highest educated and earning states in the nation, that advantage is declining and will disappear 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 by the State in UC 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, researchers, programs, and campuses singled out for awards and distinctions, election to academic and scientific organizations, and other honors.

- 57 Nobel laureates – more than any other public university, including a 2011 winner of the Physics prize, Saul Perlmutter
- 63 Medal of Science winners
- 360 National Academy of Science members
- 377 American Academy of Arts and Sciences members
- More than 200 Institute of Medicine members
- 996 American Association for the Advancement of Science members
- 82 recipients of MacArthur Foundation “genius” grants since their start in 1981
- 1,488 Guggenheim fellowships since 1930 – more than any other university or college
- For 18 years running, UC has developed more patents than any university in the United States
- *Washington Monthly* 2011 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.
- In 2010, the National Research Council reviewed 322 UC programs in science, math, engineering, social sciences, and humanities, ranking 141 among the top 10 in their fields.
- Eight campuses were among the top 45 public American universities, as ranked by *US News and World Reports* for 2012, including the Berkeley and Los Angeles campuses ranked as the top two.
- The medical centers at Los Angeles and San Francisco were ranked fifth and seventh by *US News* in their 2011 Best Hospitals survey.
- The Institute of Higher Education at Shanghai Jiao Tong University in China annually ranks worldwide universities based on several indicators of academic or research performance. In 2011, nine campuses were included in the top 150 and four in the top 20.

"Every State dollar invested in UC builds a foundation that results in \$14 of economic output. That's fueling a powerful economic engine."

Peter Taylor
University of California
Chief Financial Officer

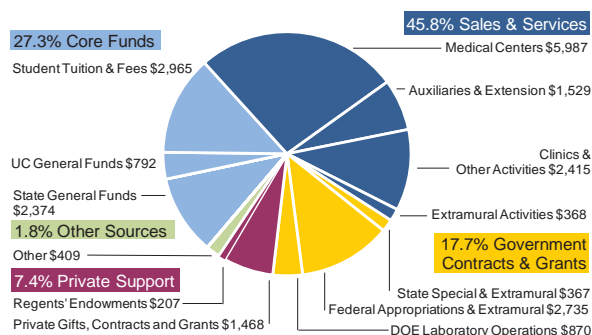
Sources of University Funds

The University's operating revenues, estimated to be \$22.5 billion in 2011-12, 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.

Historically, State funding has been the largest single source of support for the University, but other sources of funds help augment and complement the University's core activities of instruction and research, providing support functions; public service to the state and its people; and a rich social, cultural, and learning environment on UC campuses. As shown in Display II-1, the University's sources of funds include:

- **Core funds**, consisting of State General Funds, UC General Funds, and student tuition and fees, provide permanent funding for UC's core mission and support activities, including faculty salaries and benefits, academic and administrative support, student services, operation and maintenance of plant, and financial aid.
- **Sales and services revenues** directly support the University's academic medical centers and clinical care staff; auxiliary enterprises such as housing and dining services, parking facilities, and bookstores; University Extension; and other complementary activities such as museums, theaters, conferences, and publishing.
- **Government contracts and grants** provide direct support for specific research endeavors, student financial support, and other programs.
- **Private Support**, including Regents' endowment earnings; grants from campus foundations; and other private gifts, grants, and contracts, funds a broad range of activities typically restricted by the donor or contracting party. Private support comes from alumni and friends of

Display II-1: 2011-12 Sources of Funds (Dollars in Millions)



UC's operating budget, totaling \$22.5 billion in 2011-12, consists of funds from a variety of sources. State support, which helps leverage other dollars, remains critical.

the University, foundations, corporations, and through collaboration with other universities.

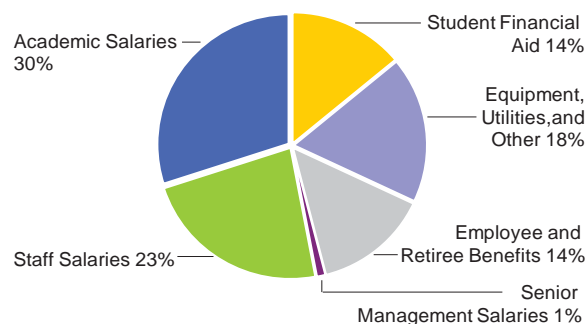
- **Other sources** include indirect cost recovery funds from research contracts and grants, patent royalty income, and fees earned for management of Department of Energy (DOE) laboratories.

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.

CORE OPERATING FUNDS: GENERAL FUNDS AND STUDENT TUITION AND FEES

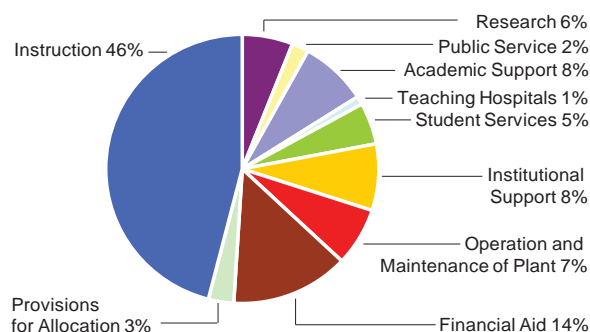
The University's "core funds," comprised of State General Funds, UC General Funds, and student tuition and fee revenue, provide permanent support for the core mission activities of the University, as well as the administrative and support services needed to perform these activities. Totalling \$6.1 billion in 2011-12, these funds represent 27% 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.

Display II-2: 2010-11 Core Funds Expenditures by Type



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

Display II-3: 2010-11 Core Funds Expenditures by Function



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

State General Funds

State General Fund support for UC, \$2.37 billion in 2011-12, 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 designated for specific programs or activities. For example, 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 2011-12, the State is also providing a \$5 million one-time allocation for start-up activities at Merced. The history of State support for UC is described briefly later in this chapter, and in greater length in the *Historical Perspective* chapter of this document.

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 indirect cost recovery on federal and State contracts and grants,
- Nonresident Supplemental 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 \$792.3 million in UC General Funds during 2011-12. The largest sources of UC General Funds are Nonresident Supplemental Tuition, (\$354.6 million) and indirect cost recovery on federal contracts and grants (\$306 million).

Student Tuition and Fees

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

- Tuition (formerly the 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 2011-12, Tuition is \$11,220, and will generate \$2.5 billion.
- Student Services Fee (formerly the 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 for student life facilities. The Student Services Fee, currently set at \$972, will generate \$218.5 million during 2011-12.
- Professional Degree Supplemental Tuition (formerly Professional Degree Fees) 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 \$35,148, depending on the program, campus, and student residency status and will generate \$248.5 million in 2011-12.

These and other UC student fees are discussed in detail in the *Student Tuition and 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. Each year, UC attracts more than \$8 billion from outside the state and generates more than \$46 billion in economic activity in California.

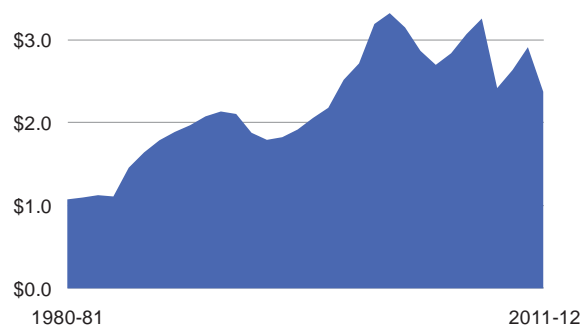
State funding for UC has fluctuated over time, as shown in Display II-4. Funding increases and reductions have largely coincided with changes in the state's economy.

- In the late 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.
- Since 1990-91, State funding for the University of California has been marked by dramatic reductions due to recurrent fiscal crises followed by temporary increases tied to ambitious plans to restore support.
- In the early 1990s, the University lost the equivalent of 20% of State support.
- Later in the decade, under agreements with Governors Wilson and Davis, significant funding increases were provided for enrollment growth, to avoid student fee increases, and to maintain quality.
- Another State fiscal crisis during the early 2000s meant a significant step back in State support during a time of rapid enrollment growth.
- In the middle of the last decade, UC entered a six-year Compact with Governor Schwarzenegger to provide the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution. From 2005-06 through 2007-08, the Compact served the University, students, and the State well, allowing UC to continue enrollment growth, provide compensation increases for faculty and staff, and avoid a student fee increase in 2006-07.
- The State's ongoing budget shortfalls, compounded by the global financial crisis, led to the abrogation of the Governor's Compact, and significant reductions in State support at the end of the decade. For two years, no funding was provided for enrollment growth, at a time when demand for UC was soaring. Federal economic stimulus funds provided temporary support.
- In 2011-12, due to the State's inability to provide adequate support, State funding for UC is more than \$1.5 billion less than it would have been under the most recent agreement.

The net result of these swings is that State support is just \$240 million above the amount provided in 1990-91, reflecting average annual growth of just 0.5%. During this same period of volatility in State funding, the number of California high school graduates has soared. The University accepted the challenge to accommodate growing numbers of students prepared for and seeking a quality university education, and succeeded in enrolling many more students. Student enrollment in 2011-12 is 51% greater than 1990-91 levels, and UC has opened a tenth campus, while State support for UC has grown just 10% in non-inflation-adjusted dollars. This discrepancy is further exacerbated by the inflation that has occurred since 1990-91, as described below.

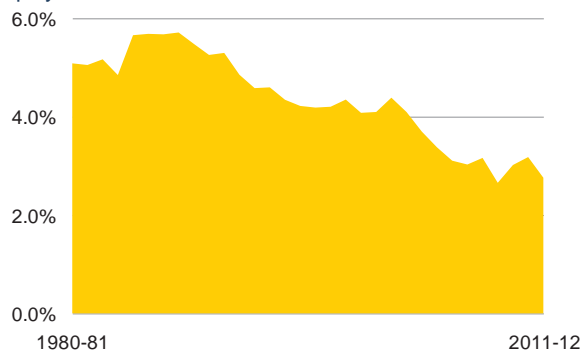
Furthermore, while funding from the State in real dollars tripled during the period from 1980-81 through 2007-08, the University's share of the total State General Fund budget

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



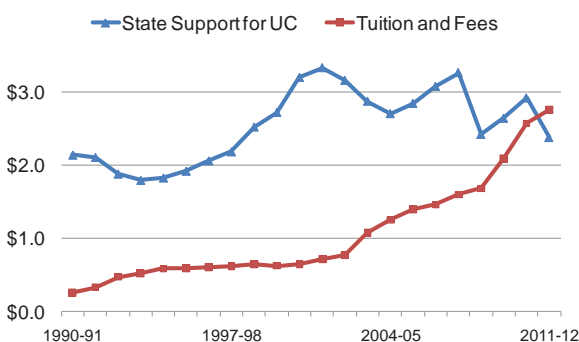
State support for UC has fluctuated over time, coincident with the state's economy. The past decade has been particularly volatile for the State and the University.

Display II-5: UC Share of Total State General Funds



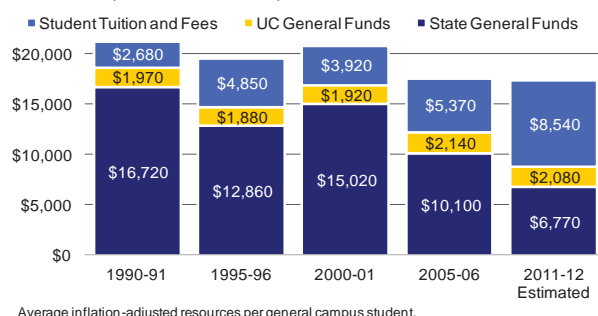
UC's share of the total state budget has declined markedly over the long term. In the late 1980s, more than 5% of the State General Fund was dedicated to UC. By 2011-12, the UC share has declined to 2.8%.

Display II-6: State Support versus Student Tuition and Fee Revenue (Dollars in Billions)



Over the last 21 years, while State support has fluctuated, tuition and fees have become a larger share of UC's core funds budget, due both to enrollment growth and tuition and fee increases. In 2011-12, for the first time, tuition and fee revenue exceeds State support.

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



Average inflation-adjusted resources per general campus student.

Since 1990-91, average inflation-adjusted expenditures for educating UC students declined 19%. The State's share of expenditures plunged even more steeply – by 60%. Over this period, the student share of core funds, net of financial aid, has tripled, from 13% to 49%.

declined markedly (see Display II-5). In 1980-81, the State dedicated 5% of the State General Fund to the University. In 2011-12, funding for UC represented just 2.8% of the State budget. Other State operations, and the prison system in particular, have taken increasingly larger shares. In 1990-91, the State's corrections budget was slightly less than support for UC. Today, State funding for corrections exceeds State support for UC, CSU, and the community colleges combined.

Another critical issue for the University is the degree to which funding has kept pace with the costs of providing postsecondary instruction as they rise with 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 tuition and fees. Display II-7 shows the core funding components of UC average per-student expenditures for education in HEPI-adjusted dollars and yields several key findings:

- The average expenditure per student for a UC education has declined more than 19% over 20 years —from \$21,370 in 1990-91 to \$17,390 in 2011-12.
- State funding per student declined significantly — by 60% over a 20-year period. In 1990-91, the State contributed \$16,720 per student — 78% of the total cost. In 2011-12, the State share declined to \$6,770, just 39%.
- As the State subsidy has declined, the share students pay has more than tripled. In 1990-91, students contributed 13% of the cost of their education; students are paying 49% of the cost of their education in 2011-12.

These findings raise several additional points. First, the funding gap that has developed since 1990-91 represents lost support totaling nearly \$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. While the University has been able to reduce costs through efficiencies that do not affect program quality, some of the reduced cost has come in the form of austerity measures that are detrimental to the quality of a UC education. Such austerity measures include increases in the student-faculty ratio; faculty and staff

salary lags; reductions in purchases of instructional equipment and library materials; and deferred maintenance of classrooms, laboratories and other facilities.

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

Third, despite rising fees for students, UC has successfully maintained student access and affordability. While tuition and 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.

SALES AND SERVICES REVENUES

About 46% 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. For example, the cutting-edge research occurring in UC medical schools helps attract patients to UC's medical centers. Conversely, damage to UC's core operations may 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 and 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 (\$38.1 million in 2011-12), 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 \$6 billion during 2011-12. 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, faculty housing, and, on three campuses, a portion of intercollegiate athletics or recreational activities. 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 \$915 million in 2011-12.

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

In addition to the tuition and fees charged for regular degree programs, the University also generates fee

revenue from enrollment in University Extension courses and self-supporting instructional 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 tuition and 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 \$613.8 million in 2011-12.

Educational and Support Activities

Income from sales and services of educational and support activities is projected to total \$2.4 billion in 2011-12. 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 about \$4 billion annually 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 UC in three primary ways: research contracts and grants, student financial aid, and health care programs.

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 project offices, academic departments, and research units. This is the source of the University's Off-the-Top Fund, estimated to be \$105 million in 2011-12.

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 \$306 million in 2011-12).

The remaining 45% is the source of the University Opportunity Fund (estimated to be \$250 million in 2011-12, which is used to make strategic investments in University and campus priorities, such as to enhance faculty recruitment packages through laboratory alterations, equipment purchases, and support for graduate student researchers; to provide innovative instructional programs; and to augment funding for capital outlay. About \$145 million will support the operating budget while remaining funds will support capital improvements.

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 23 facilities have been fully financed using this mechanism.

With the implementation of the Funding Streams Initiative in 2011-12, each campus retains all the indirect cost recovery funding generated by research activity at the campus. A discussion of efforts to improve indirect cost recovery is included in the *Research* chapter of this document.

Federal funds are the University's single most important source of support for research, generating \$2.2 billion and accounting for nearly 50% of all University research expenditures in 2010-11. 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% of UC's federal research contract and grant awards in 2010-11. In the past, federal funds for UC research have grown dramatically, though more recently constraints on federal spending have led to more modest growth. UC has benefited significantly in the last several years from temporary federal economic stimulus funding provided to federal agencies that support academic research.

Indirect cost recovery funding reimburses the University for costs of facilities and administration associated with research activity, but that cannot be identified as solely benefiting a particular contract or grant. During 2011-12, indirect cost recovery funding from federal contract and grant activity is projected to exceed \$750 million and is dedicated to support contract and grant administration, core mission activities (in the form of UC General Funds) and special programs. Federal research funds are discussed in more detail in the *Research* chapter of this document.

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 \$870 million in 2011-12.

In 2009-10, 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 2009-10. 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,

Display II-8: Estimated 2010-11 Federal Support for UC and UC Students (Dollars in Millions)

Program Support

Research Grants and Contracts	\$2,232.5
Indirect Cost Recovery	\$752.0
DOE National Laboratory Operations	\$937.8
DOE Laboratory Management Fees	\$29.7
Other Contracts and Grants	\$205.4

Student Financial Aid

Pell Grants	\$352.7
Other Undergraduate Grants and Scholarships	\$49.7
Graduate Fellowships and Scholarships	\$71.9
Student Loans	\$1,125.9
Work-Study	\$37.2

Patient Care

Medicare	\$1,329.0
Medicaid	\$966.0
Estimated Total Federal Support	\$8,089.7

such as the National Science Foundation and the National Institutes of Health. The *Student Financial Aid* chapter of this document 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 \$2.3 billion in 2010-11.

As noted earlier, during the last several years, UC has benefited from additional federal funds provided through the American Recovery and Reinvestment Act (ARRA), signed by President Obama in February 2009. Significantly, ARRA included funding for states to help maintain support for education. Between 2008-09 and 2010-11, UC received a total of \$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. ARRA also provided additional funding for research grants, for clinical operations through an increase in Medicaid matching assistance, and for increases in federal financial aid for students.

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

\$301 million in revenue for the University during 2011-12. 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 2011-12 includes \$66.2 million in appropriations from State special funds. These include:

- \$30 million from the California State Lottery Education Fund, which is used to support instructional activities;
- \$12.7 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program;
- \$10.4 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;
- \$425,000 for cancer research from the California Cancer Research Fund;
- \$3.9 million for the Umbilical Cord Blood Collection Program; and
- \$3 million in one-time federal Workforce Investment Act funding for nursing education programs.

ENDOWMENT EARNINGS AND PRIVATE GIFTS, GRANTS, AND CONTRACTS

Private funds include endowment earnings as well as gifts, grants, and contracts. The Regents' endowment annually provides support for a wide range of activities. 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, and other activities.

Endowments

Combined Regents' and campus foundation endowments were valued at approximately \$10.6 billion as of June 2011, an increase of 20.5% over 2010. This increase is attributable primarily to strong investment returns. Final values for combined endowments for 2010-11 will not be presented to the Regents until February 2012. Payments from the Regents' General Endowment Pool (GEP), computed as a trailing 5-year moving average, increased by 5% during 2010-11.

Expenditures of endowment payouts are highly restricted but support a range of activities, including endowed faculty chairs, student financial aid, and research. Approximately 95% of UC's 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.

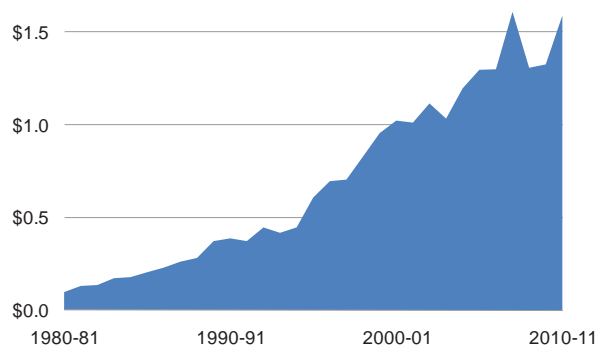
Payouts from the Regents' endowments are permanently budgeted, while payouts from campus foundations are recorded as extramural (non-permanent) private grants. In 2010-11, the expenditure of the payout distributed on endowments and similar funds was \$196.4 million from the Regents' endowments and approximately \$140 million from campus foundations. For 2011-12, payout expenditures from Regents' endowments are projected to total \$206.9 million. Payouts from campus foundations in 2011-12 are expected to be slightly higher than those realized in 2010-11.

Private Support: Gifts and Grants

Private funds, even gift funds, are typically 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.

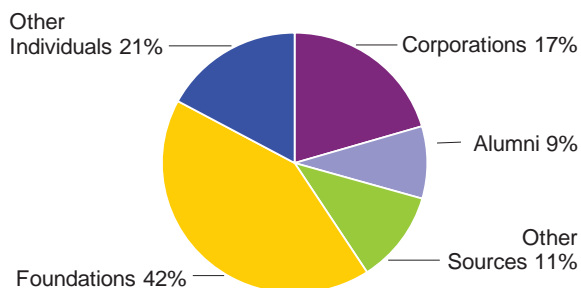
Since 1990, the University has experienced large, steady increases in private gifts received. In 2010-11, new gifts and private grants to the University totaled nearly \$1.6 billion, reflecting an increase of almost 20% over 2009-10, and only slightly below the record total in 2007-08,

Display II-9: Private Gift and Grant Support (Dollars in Billions)



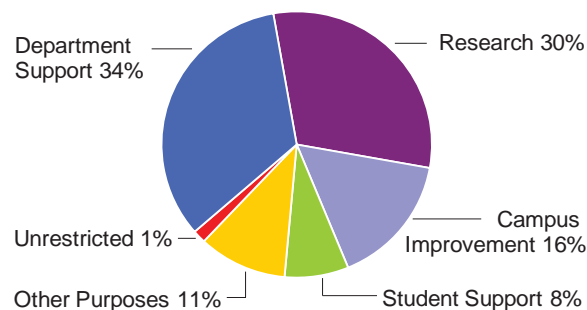
In 2010-11, gifts and pledge payments totaled almost \$1.6 billion, near the record level achieved in 2007-08.

Display II-10: 2010-11 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-11: 2010-11 Private Gift and Grant Support by Purpose



Academic departments and research receive two-thirds of private gift and grant support.

before the economic downturn. Approximately \$400 million of this total was designated for endowments, thus helping to ensure a strong future for UC, but making these funds unavailable for current expenditure. Health science disciplines receive nearly half of all private support. 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 2011-12, expenditures of private gifts and grants to the University are expected to be similar to the expenditures in 2010-11.

The University is aggressively pursuing increased philanthropic giving as a means to help address budget shortfalls and expand student financial aid. Over the last two years, UC has launched two systemwide fundraising initiatives — Project You Can, an effort on all 10 campuses to raise \$1 billion for student financial support over a four-year period; and a companion initiative intended to attract funding from California corporate institutions to support financial accessibility for UC students, who are a critical part of California's future workforce.

Private Contracts

In 2010-11, awards from private contracts totaled \$694.2 million, a 6.5% increase over 2009-10. Over the last 10 years, awards have more than doubled, making private contracts an increasingly important source of University funding. 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 institutions of higher education.

OTHER FUND SOURCES

DOE National Laboratory 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 2011-12, 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 (\$29.7 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, net of indirect cost recovery associated with facilities developed using the Garamendi financing mechanism. 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. Beginning in 2011-12, with the implementation of the Funding Streams Initiative, as described later in this chapter, each campus retains all federal indirect cost recovery funding generated by

research activity at the campus. This approach represents a reinvestment in research and an incentive to further develop UC’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 and support for graduate student researchers, to provide innovative instructional programs, and to augment funding for capital outlay, equipment purchases, and other institutional support.

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 historical trends. This revenue appears in the University budget in two categories: as a component of UC General Funds and under Other Funds. Income distributions after mandatory payments to joint holders and law firms (for legal expenses) were \$92.7 million in 2009-10, the most recent year for which data are available. While 1,811 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 2009-10, 2,092 inventors received \$38.9 million.
- **General Fund Share:** In 2009-10, the portion of net income allocated to the UC General Fund was \$12.1 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 million in 2009-10.
- **Income after Mandatory Distributions:** All income remaining after deductions and other distributions is allocated to the campuses. These funds, totaling

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*, 1979.

\$38.8 million in 2009-10, are used by the chancellors to support education and research priorities.

FUNDING STREAMS INITIATIVE

Historically, certain revenues have been collected centrally by the UC Office of the President (UCOP) and redistributed across campuses to promote systemwide priorities. These included all State General Funds; Tuition (formerly the Educational Fee); indirect cost recovery of federal, state, and private research contracts and grants; application fee revenue; and a share of patent revenue. The funds were used to the benefit of the campuses, such as to assist campuses with cost increases, enrollment growth, and development of new schools or programs or for central administration and programs. Other funds, such as hospital and auxiliary revenues, Student Services Fees, and campus-based fee funds, have historically been retained by source campuses. Over time, the University's budget practices and authority have become more decentralized and policies have changed so that more revenue has been retained by or returned to source campuses.

Following lengthy consultation with campus leadership, in 2011-12, the University is making comprehensive changes in the way funds flow within the University and in the way central administration and programs are funded.

In order to simplify University financial activity, improve transparency, and incentivize campuses to maximize

revenue, beginning in 2011-12, all campus-generated funds – tuition and fees, research indirect cost recovery, patent and investment income – will be retained by or returned to the source campus.

In order to support central operations, the University has established a broad-based flat assessment on campus funds. Central operations are being defined as UCOP administration, UCOP-provided central services, (both administrative and academic), and systemwide initiatives, such as multi-campus research programs and initiatives and Cooperative Extension.

As an exception to the overarching principle that source campuses will retain all funds generated by the campus, redistribution of some funds across campuses will continue as a means to support the systemwide goals of the Education Financing Model (EFM) for undergraduate student financial aid. A key goal of the EFM is to equalize the expected student contribution level from employment and/or loans across the system, such that each individual undergraduate student would face the same net costs regardless of which campus the student chooses to attend. The EFM is described in more detail in the *Student Financial Aid* chapter of this document.

"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 but instead cut across multiple areas. This chapter provides detailed information about several of these cross-cutting issues for 2012-13: systemwide and campus actions to address budget shortfalls, long range planning, 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 2011-12 State-funded budget is nearly \$900 million less than support provided in 2007-08, representing a 27% reduction in State support. While UC was grateful for a partial restoration in 2010-11, those gains were erased with cuts in 2011-12 that are unprecedented and 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 its 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.

Systemwide Actions

The following is a brief summary of actions that have occurred or 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 in other chapters of this document.

- Enrollment: Campuses were asked to reduce enrollment of California resident freshmen by 3,800 students

between 2008-09 and 2010-11. This curtailment was partially offset by a goal of increasing transfers from the community colleges by 1,000 students. Slowing enrollment growth allowed campuses to offer fewer classes and other activities and avoid spreading instructional resources too thinly. For 2011-12, enrollment of California residents remains fairly level. All campuses are planning to increase nonresident enrollment.

- Salary Reduction/Furlough Plan: In July 2009, the Regents approved a one-year salary reduction/furlough plan that provided \$136 million in one-time General Fund savings and nearly \$236 million in savings from all fund sources. This plan ended for most employees on August 31, 2010, although some represented employee groups remained on furlough several months later due to delayed starts. A Furlough Exchange Program for faculty generated an additional \$21 million in General fund savings.
- Due to budget constraints, the University did not provide regular merit increases or range adjustments to a significant portion of its staff for three years. For example, UC has not had a staff merit program in four of the last seven years, affecting positions 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 12.8%.

- **Debt Restructuring:** UC took steps to delay debt service payments on capital projects during 2009-10 and 2010-11. The Regents authorized campuses to restructure \$75 million in debt in each of the two years for temporary relief to campuses. Further opportunities for reduction or consolidation of debt service are under review.
- **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, 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. Further, while most nonrepresented staff will receive a 3% merit increase for 2011-12, Senior Management Group members and other staff earning more than \$200,000 per year are ineligible for this salary increase.
- **UCOP Restructuring and Downsizing:** During 2007-08 and 2008-09, the Office of the President (UCOP) underwent a thorough restructuring. Since that time, budget reductions have necessitated additional reviews of UCOP operations. Actions to date have resulted in a reduction of 536 FTE (net of program transfers), an 18% decrease over a four-year period (from 2,069 to 1,533). Savings achieved over that time total \$87 million in unrestricted fund sources. In addition, increased transparency and an improved budget system have made the Office of the President budget more understandable and accessible. Savings generated by the restructuring have been offset somewhat by increased obligations, including retirement contributions, the return of FTE to the UCOP budget associated with a trial program to outsource certain Human Resource functions, the need to hire more in-house legal counsel to decrease the funding spent on outside legal counsel, and the effort to establish a uniform payroll system for the entire University.

Campus Actions

At the same time steps to achieve both short- 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, 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 reductions.
- 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 reflects a wide variety of actions each campus is adopting.

- **Program Elimination/Consolidation** – Scores of programs have been eliminated or consolidated with other programs for an estimated savings of over \$155 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.
- **Layoffs/Positions Eliminated** – More than 4,400 staff have been laid off and another 3,570 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.

- **Travel/Purchasing** – Significant restrictions have been placed on travel and other purchasing. As an example, travel expenditures at the Office of the President declined by more than 60% as a result of the travel constraints.
- **Faculty Recruitment** – All campuses have curtailed the number of faculty recruitments, in many cases by 50% or more, despite the fact that several campuses have continued to enroll growing numbers of students. However, deferred hiring cannot be sustained indefinitely and campuses must begin to fill many of the positions that have been left vacant.
- **Program Assessments** – All campuses impose some level of assessment upon auxiliaries to help defray the cost of campus infrastructure. Many campuses are reviewing this assessment and most are considering or have already increased this assessment to some degree to ensure auxiliaries and other non-State funded programs are paying their fair share.
- **Other Cost-Cutting Measures** – Most campuses are developing centralized service centers to reduce redundancy in administrative functions across departments. The *Operational Excellence* initiative at the Berkeley campus is designed to achieve efficiencies and cost avoidance, allowing campuses to realize a projected \$75 million in permanent cost savings across all fund sources over five years. Several campuses are streamlining their academic personnel review process. The Davis, Irvine, and Riverside campuses report elimination of one or more senior level positions and consolidation of units under a single senior manager. *Challenge 45* at the Los Angeles campus is an initiative already adopted by 40 majors designed to reduce the number of units undergraduates must take to graduate while still maintaining quality. The San Diego campus implemented a pilot project to allow simulcast instruction in three classrooms, which will enable campuses to accommodate more students in large courses. The San Francisco and Berkeley campuses are exploring joint strategic sourcing initiatives for e-procurement, common business practices, and other business operations. Several campuses are reporting elimination of some intercollegiate athletics programs.

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.

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 access, affordability, and excellence for 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.

In November 2010, the Commission released its final report of 20 recommendations covering five broad topic areas: teaching and curriculum, undergraduate enrollment and access, research and graduate education, fiscal discipline and administrative reform, and advocacy and other measures. The Commission's recommendations were developed over the course of a year from the work of the Commission's five working groups, feedback from campus listening tours and public forums, and comments received from the UC community and general public. In December 2010, the Regents endorsed the principles of the final report.

These recommendations offer options for addressing the University's near- to mid-term challenges while preserving critical components of quality and access. Many of the recommendations offer suggestions for educating students and operating more efficiently, including:

- Encouraging a shorter time-to-degree by adopting strategies to enable more students to earn a bachelor's degree in four years or fewer and creating a pathway for a three-year degree,

- Developing ways to further streamline the transfer pathway to UC for community college students,
- Continuing to explore expanded use of online instruction to potentially reduce costs while providing broad access to UC's high-quality educational offerings,
- Increasing the enrollment of nonresident undergraduate students and capping their number at 10% of systemwide undergraduate enrollment,
- Expediting systemwide administrative reforms already underway that could save \$500 million annually,
- Increasing recovery of indirect costs generated by federal contracts and grants, and
- Exploring the expansion and development of self-supporting programs to generate more revenue.

Other proposals call for strengthening the research infrastructure and graduate student involvement, redoubling fundraising efforts, expanding public advocacy for UC, and reaffirming UC's commitment to its obligations under the state Master Plan for Higher Education.

Given the budgetary challenges facing the University, in addition to the 20 recommendations endorsed by the Commission, the final report also contains contingency recommendations that the Commission did not endorse but said might be necessary should UC's financial situation worsen. These measures include strategies to further increase revenues, such as increasing tuition, increasing nonresident enrollment, and charging differential tuition by campus, as well as those that further decrease costs, such as limiting student enrollment, downsizing faculty and staff, and foregoing new capital and building projects.

Each of the Commission's final recommendations, available online at http://ucfuture.universityofcalifornia.edu/presentations/cotf_final_report.pdf, includes specific assignments, deadlines, and follow-up reports.

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 five 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.

Many of the *Working Smarter* projects are still in the development phase or in the early stages of implementation, and thus the fiscal impacts of these projects have not yet been determined. However, at their July 2011 meeting, the Regents were given an update on the fiscal impacts of seven of the 29 current *Working Smarter* projects. The seven were selected because they have been more fully implemented than other projects, and reasonably complete fiscal impact information is available for the 2010-11 fiscal year (or other appropriate time frame). As summarized in Display III-1, these seven projects have generated a combined total of over \$157 million in direct cost savings and new revenue over the last year or comparable time frame.

UC Campus Connexions provides insurance coverage to faculty, staff, students, and supporting third parties (e.g., foundations, alumni associations) for events and activities held on campus. Previously, UC insurance programs did not cover such events. By offering this program on a systemwide basis, savings of about 10% can be achieved through volume purchasing. The program has reduced insurance costs for these individuals and organizations by over \$4 million during 2010-11, at the same time protecting the University against property damage or lawsuits arising from student and other supporting organizations' activities.

Display III-1: 2010-11 *Working Smarter* Projects: Cost Savings and New Revenue (Dollars in Millions)

UC Campus Connexions	\$4.3
UC Travel Insurance Program (UC TRIPS)	\$0.7
UC Equipment Maintenance Insurance Program (UCEMIP)	\$0.6
Statewide Energy Partnership Program (SEP)	\$25.0
Enterprise Risk Management (ERM)	\$82.9
Purchase Card Program	\$3.9
Liquidity Management (STIP/TRIP)	<u>\$40.0</u>
Total	\$157.4

UC Travel Insurance Program (UC TRIPS) provides a web portal to capture travel information that enables UC to procure better coverage to protect the health, safety, and security of faculty, students, and staff while traveling on UC business. While the program is focused primarily on providing better protection and maintaining a centralized source for data, it also reduces costs for members of the UC community while broadening coverage and reduces administrative costs by centralizing purchasing. By purchasing this insurance on a systemwide basis, the University has achieved volume savings of nearly \$700,000 through in 2010-11.

UC Equipment Maintenance Insurance Program (UCEMIP) is a systemwide management tool aimed at allowing all departments to manage and plan for scheduled preventive equipment maintenance and resumption of critical functions as quickly as possible after a machinery breakdown. By allowing systemwide sharing of equipment reliability data, repair costs, and vendor services, the program has delivered to date over \$600,000 in savings to campuses in 2010-11.

The **Statewide Energy Partnership Program (SEP)** provides campuses with financing and utility incentives to reduce purchased utility costs through energy efficiency projects. Since the Regents authorized financing in March 2009, the program has reduced campus energy costs by approximately \$25 million after debt service.

As a strategic approach to managing enterprise-wide risk, the **Enterprise Risk Management (ERM)** program has reduced the University's overall cost of risk by over \$80 million in fiscal year 2010-11. These savings are based on the University's overall cost of risk associated with both hazard risks (such as workers' compensation, general liability, employment practices liability, professional liability, auto liability, and property) and other strategic, operational, financial, and reputational risks. These savings represent the reduction in overall premium costs in 2010-11 over the average costs of a previous three-year period (2006-07 through 2008-09).

The new **Purchase Card Program** generated nearly \$3.9 million in direct savings for the campuses in calendar

year 2010. The program provided additional savings to the UC-operated national laboratories.

Liquidity Management. By optimizing the allocation of campus working capital between the University's Short-Term Investment Pool (STIP) and the longer-term Total Return Investment Pool (TRIP), the University has generated \$40 million in additional investment income during 2010-11. Over \$1 billion has been moved from STIP to TRIP since October 2010, bringing the total working capital portfolio to 70% STIP/30% TRIP.

These early estimates are encouraging, given the University's goal of achieving \$500 million in positive fiscal impact over five years through the *Working Smarter* initiative. It will be important to maintain the momentum of the program and continue to identify strategies for achieving additional efficiencies.

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, in December 2010, the Regents approved changes to provisions for both pension and retiree health benefits that will reduce long-term costs. Additional information about post-employment benefits is available in the *Compensation, Employee and Retiree Benefits, and Non-Salary Price Increase* chapter of this document.

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, gender identity, 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 quality of a UC education. An important aspect of this environment is the ability to take advantage of the important social, cultural, and intellectual contributions enabled by 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. The President will next report to the Regents in January 2012.

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.

In June 2011, President Yudof announced that UC will undergo a campus climate study in order to gather a variety of data and assess the quality of life at UC for students, faculty, and staff. The study will include all populations – students, faculty, and staff – at the campuses, medical centers, the Office of the President, the Division of Agriculture and Natural Resources, and the Lawrence Berkeley National Laboratory. In doing so, UC is taking a leading role in proactively creating more welcoming and inclusive campus environments. UC is the first higher education institution of its size to commit to such a project. Study findings will be available in Spring 2013.

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 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 34% of the population in California. For African-Americans, the UC community more closely reflects the state – 5% of the UC community is African-American, compared to 7% of the state. 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%

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

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 American Association of Universities (AAU) public and private institutions. However, UC's 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 national availability by 2%, but is below estimated national availability in other disciplines. At the associate and full professor levels, UC hiring exceeds the available national pool in humanities and social sciences by 2%, but again, hiring is below 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 is true for whites, among whom only 45% of enrolled students are women. Across all racial and ethnic groups, men receive more Ph.D.s in the physical sciences, mathematics, 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 receive the greatest percentage of professional degrees in business. For women, the greatest percentage of professional degrees awarded is in "other health" fields (dentistry, nursing, optometry, pharmacy, public health, and veterinary medicine) with the exception of Chicana/Latina women, who receive the highest percentage of their degrees in education.

Undergraduates. Since the 1980s, UC has enrolled greater numbers of underrepresented minorities, as discussed in the *General Campus Instruction* chapter of this document. While the proportions of African-American and Chicano/Latino enrollments at UC are comparable to the

proportions of eligible California high school graduates (about 3.5% for African-Americans and 18.5% for Chicano/Latinos in 2007), California's population as a whole is more diverse, including about 7% African-Americans and 40% Chicano/Latinos. These gaps are largely due to challenges in academic preparation.

INFORMATION TECHNOLOGY

Information technology (IT) is ubiquitous at UC. 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 effectively and efficiently.

The University has engaged in extensive IT planning activities in recent years for the purpose of enhancing its IT infrastructure to enable researchers to compete and lead on an international scale; to promote innovative teaching and learning methods; and to support business operations that ensure effective stewardship, accountability, and transparency.

Building on these initiatives, in July 2010, the Regents passed a resolution directing the University to "design and implement common best-practice administrative systems" that 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, which 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 evolves.

IT and Instruction

Instruction increasingly relies on technology within classrooms and laboratories, as well as 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. 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 also promise efficiency in administering the instructional enterprise.

The University's online education initiative is discussed in the *General Campus Instruction* chapter of this document.

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 theory and experimentation. In order to compete and excel, 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' ability to attract large-scale research funding from state, federal, philanthropic, and corporate entities.

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's higher education system.

IT and Business Operations

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, 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. Through UC's *Working Smarter* initiative, a number of high-profile projects are planned or underway to support the Regents' resolution directing the University to share administrative systems and solutions and implement best practices.

The first major initiative is replacement of the University's aging and highly customized and complex payroll system, which integrates payroll, human resources, and financial functions. To achieve essential improvements, the University must make a significant investment in a vendor that offers modern capabilities and implements standardized business processes. The sustainable and long-term cost savings to be gained will far outpace the costs of replacement.

This initiative is part of a larger vision to invest now in standardized administrative systems across the University that offer significant returns in savings and efficiency for the future. To support this vision, the Information Technology Leadership Council (ITLC), composed of campus, medical center, and national laboratory chief information officers, has proposed the creation of a new, centralized Technology Shared Services group that will enable the effective deployment of not only new UC-wide payroll and human resources systems, but also future multi-campus and systemwide information systems initiatives.

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 information 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 and benefit from 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 and make available 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.

"It is our mission to educate California's best students, at the undergraduate, graduate, and professional levels. Failure of the State to provide adequate funding puts that mission in jeopardy."

Lawrence Pitts
University of California
Provost

General Campus Instruction

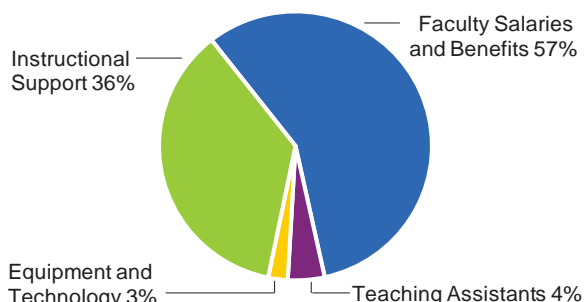
Consistent with the California Master Plan for Higher Education, UC provides undergraduate, professional, and graduate academic education through the doctoral degree level and serves as the primary State-supported academic agency for research. A fundamental mission of the University is to educate students 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.

The University offers bachelor's, master's, and doctoral degrees in nearly 800 instructional programs from agriculture to zoology and professional degrees in a growing number of 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 2010-11, conferred over 60,000 degrees.

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 \$2.6 billion in 2010-11, over 85% of which comes from core fund sources (State General Funds, UC General Funds, and student tuition and fees). Additional resources for instruction are derived from self-supporting program fees, course materials and services fees, and other restricted sources.

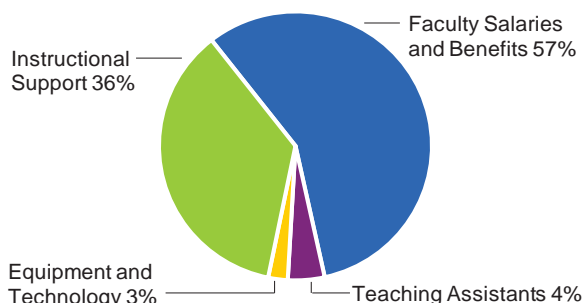
¹ The San Francisco campus exclusively offers health sciences programs, which are discussed in the *Health Sciences Instruction* chapter.

Display IV-1: 2010-11 General Campus Instruction Expenditures by Fund Source



Core funds – State General Funds, UC General Funds, and mandatory and professional school student tuition and fees – provide over 85% of funding for general campus instruction.

Display IV-2: 2010-11 General Campus Instruction Expenditures by Category



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

Major budget elements and their proportions of the general campus I&R base budget are faculty and teaching assistant salaries and benefits, 57%; instructional support, 36%, which includes salaries and benefits of instructional support staff (such as laboratory assistants, supervisory, clerical, and technical personnel; and some academic administrators) and costs of instructional department supplies; and instructional equipment replacement and technology, 3%.

Historically, State support was provided each year to support proposed enrollment growth. In recent years, due to the State's fiscal crisis, State support has not fully funded the enrollment growth that has occurred at UC. Moreover, budget cuts that have occurred since 2008-09 have exacerbated the problem of unfunded enrollment. As a result, UC is currently educating about 24,000 California residents for whom the State is not contributing its share.

In order to provide access to California residents and meet the State's workforce needs, the University is considering growth from current unfunded enrollment levels of at least 1% annually for the next four years. A key component of this growth is the continuing expansion of UC Merced. Both the overall need for enrollment growth funding and the need to continue expansion of Merced are discussed later in this chapter.

ENROLLMENT

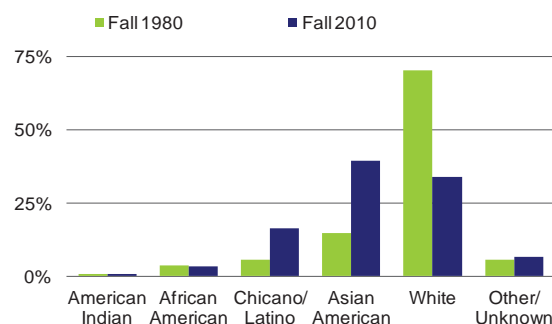
The California Master Plan for Higher Education calls for UC to offer access to all eligible applicants in the top 12.5% of the state's high school graduating class who choose to attend. University policy has been to establish eligibility criteria designed to identify the top 12.5% of the high school 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, for the University to be able to fulfill its promise over the long term of providing access to all qualified students who wish to attend, either the State must increase funding for enrollment or the University must increase tuition to a level that can both support growth in order to

Display IV-3: Characteristics of Fall 2010 Undergraduate Students

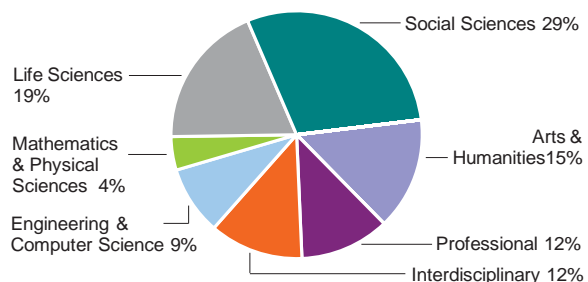
Headcount Enrollment	179,581
▪ Female	53%
▪ Underrepresented minority	22%
▪ First-generation college students	39%
▪ Full-time students	97%
▪ California residents	93%
▪ Domestic nonresidents	4%
▪ International students	3%
▪ Upper division	63%
▪ Lower division	37%

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



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

Display IV-5: 2010-11 Bachelor's Degrees Conferred by Broad Discipline



In 2010-11, UC undergraduates earned 46,900 bachelor's degrees. Nearly one-third were earned in sciences, mathematics, technology, and engineering. Social sciences remains the most popular discipline among UC undergraduates.

meet demand and maintain quality so as to provide the level of excellence the University represents. As discussed in the *Cross-Cutting Issues* chapter of this document, actions the University is taking during the fiscal crisis to continue its commitment to access under the Master Plan are of necessity short-term and not indefinitely sustainable.

Framers of the Master Plan also envisioned maintaining or enhancing the proportion of graduate student enrollment at UC. Though providing undergraduate access for a rapidly growing high school graduate population over the past several decades has been a compelling state priority, 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.

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:

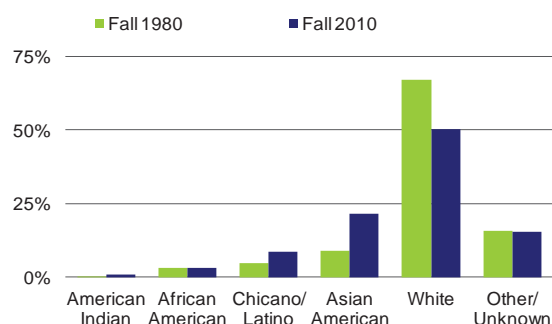
- Department of Finance projections of high school graduates;
- assumptions about the proportion of high school graduates who actually enroll in the University (consistent with the Master Plan, the University establishes eligibility criteria designed to identify the top 12.5% of the high school class, but in recent years about 7% to 8% actually enroll);
- 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 have reached its planned target of 216,500 FTE students. However, in the early part

Display IV-6: Characteristics of Fall 2010 Graduate Students

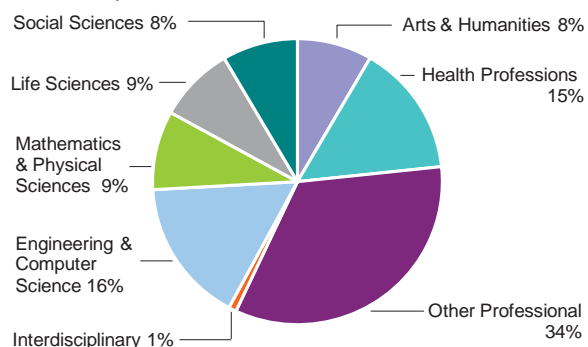
Headcount Enrollment	54,883
▪ Female	47%
▪ Underrepresented minority	11%
▪ General campus majors	74%
▪ Health science majors	26%
▪ California residents	75%
▪ Domestic nonresidents	10%
▪ International students	15%

Display IV-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 IV-8: 2010-11 Graduate Degrees Conferred By Broad Discipline



In 2010-11, UC awarded 15,585 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	9,609
▪ Doctoral degrees	3,877
▪ Professional degrees	2,099

of the last decade, the University experienced far more rapid enrollment growth than projected in the 1999 plan (in fact, UC has exceeded this target by more than 20,000 students). Following a State-enforced 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.

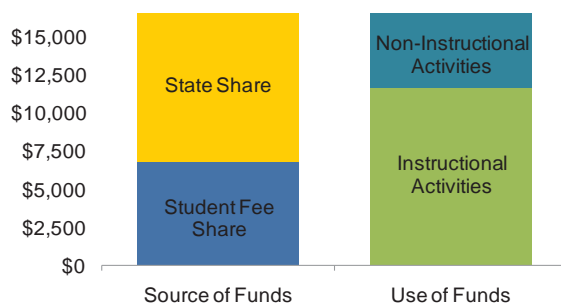
The University's projections through 2020, published in March 2008, included modest growth as numbers of high school graduates stabilize, slowing to approximately 1% from 2010-11 to 2020-21, and reaching 265,000 in 2020-21. According to the projections, increasing undergraduate enrollment would expand 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 sciences, engineering and mathematics, and professional disciplines would fuel California's economy and provide social and economic mobility. To help the state remain competitive in a knowledge-based global economy, UC proposed to increase graduate enrollments by roughly 22,000 students by 2020-21.

While many of the goals of the March 2008 long-term enrollment plan still stand, 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, actual enrollment growth and admissions patterns have diverged from the projections almost from the time they were completed. Prospects for State support for further enrollment growth during the next decade are a matter of concern, and solutions are temporary and not sustainable in the long term. The University is now developing a strategy for enrollment planning over the next four years, which will need to balance the University's continuing commitment to maintaining access under the Master Plan against the need to maintain quality in a period of declining State resources.

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," calculated using an agreed-upon methodology with the State, intended to reflect the level of resources needed to educate additional students at UC's historical level of quality. 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. Activities that the State has chosen not to support, such as student health services, plant administration, executive management, and logistical services, are excluded. The methodology identifies the State subsidy provided toward the cost of education as well as the portion of this cost that is paid from student tuition and fees. During 2010-11, the State provided enrollment growth funding at a marginal cost rate of \$10,012 per FTE student.

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



State marginal cost funding for enrollment growth is needed to provide the necessary instructional resources required to educate additional students.

Funding for enrollment growth at the marginal cost of instruction 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.

DILUTION OF STATE FUNDING

Accommodating enrollment without sufficient resources (as the student fee income associated with enrollments is less than the cost of instruction) has impacted new and existing students alike by the lack of resources needed 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 the 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.

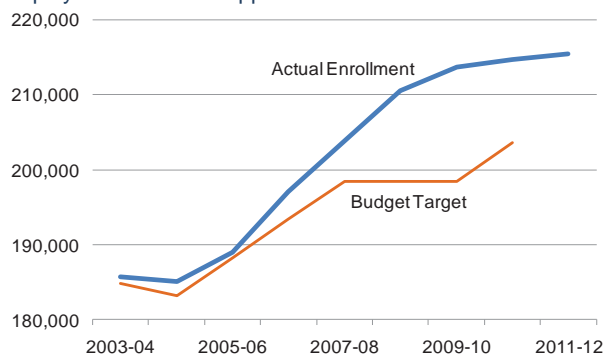
For faculty, the impact is similar. As the funding gap widens, fewer competitive offers can be made to new faculty. Existing faculty find themselves spread increasingly thinly in order to manage the needs of ever larger classes, with less assistance from additional faculty and graduate students and less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

The State's ongoing fiscal woes led to reductions in support for UC – and no new funding for enrollment growth – during 2008-09 and 2009-10. 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 planned before the onset of budget cuts. This enrollment growth, including growth planned in MD students in the PRograms In Medical Education (PRIME), 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 has continued to grow since 2008-09.

In 2009-10, 2010-11, and 2011-12, the University took action to slow enrollment growth by reducing the targeted

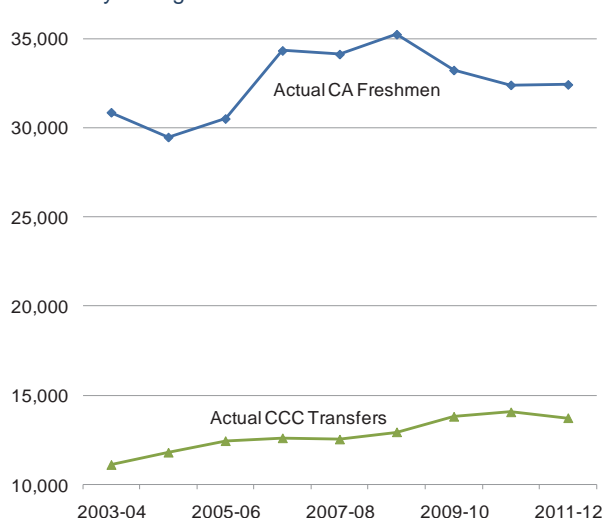
number of new California resident freshmen enrolled by 3,800 students. To achieve this reduction, fewer students were admitted to the campus or campuses of their choice and more applications were sent to the referral pool for accommodation at Riverside and Merced. Students had fewer campus choices for 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.

Display IV-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.

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



In order to slow enrollment growth, the University has taken action since 2009-10 to reduce numbers of new California resident freshmen by a total of 3,800 students, offset by an increase of 1,000 CCC transfers.

In 2010-11, the State budget provided \$51.3 million to support enrollment growth of 5,121 FTE students at UC at a marginal cost rate of \$10,012, but again in 2011-12, no funding for enrollment was provided. Considering the devastating cuts in State support over the last several years, during 2011-12, the University is enrolling approximately 24,000 California resident students for whom the State is not providing support.

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 the quality of the University will be irrevocably damaged if these actions are sustained. While access is one of the University's highest goals, attempting to accommodate larger numbers of students without adequate resources needed to provide them a UC-caliber education can only degrade the quality of the University.

Over the next four years, the University is considering growth beyond current enrollment levels by at least 1% annually. Such growth is necessary to develop the Merced campus to an enrollment level sustaining the breadth and depth necessary for a world-class research institution, to meet California's workforce needs, and to provide access to growing numbers of California resident students seeking a UC-quality education.

Resources for current enrollments would be derived from administrative efficiencies and other cost reductions, alternative revenue sources (such as Nonresident Supplemental Tuition), and Tuition increases. Funding for growth beyond current enrollment levels, along with funding for health sciences programs, would be requested from the State. As described in the *Summary of the 2012-13 Budget Request*, if the State is unable to provide funding, additional

Tuition increases or new funding from other sources would be necessary to support growth.

For 2012-13, the University is requesting that the State provide enrollment funding for 2,100 FTE students, representing \$20 million in marginal cost funding.

UC MERCED

The Merced campus was established as the tenth 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, the Merced campus 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 to Merced 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 the Merced campus will emerge as a world-class center of research, knowledge, and intellectual relevance and significance.

Educational Access

A significant milestone was achieved in Fall 2011 as the Merced campus enrolled more than 5,000 students. As the UC system experienced unprecedented enrollment growth throughout the last decade, student interest in the Merced campus has grown and has yielded an 8.9% increase in freshmen choosing the Merced campus this fall over Fall 2010, and a 27.7% increase over Fall 2009. More than 13,500 students applied for admission for Fall 2011. The Merced campus expects to expand by another 675 FTE students in 2012-13, when it is estimated that the campus will reach a population of nearly 5,700 FTE students.

The Merced campus 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. In fact, the Merced campus now serves as the sole referral pool campus, thus helping to maintain UC's commitment to the California Master Plan for Higher Education. Faced with severe budget reductions, the UC system has had to curtail overall enrollment growth, despite increased demand from qualified California applicants. With enrollment growth support provided by savings from restructuring efforts at the Office of the President and temporary redirection of funding from other campuses, the Merced campus has been able to help offer admission to growing numbers of students. While temporary redirection of funds has helped to sustain development during the State's fiscal crisis, permanent support is needed.

Close to one-third of the incoming undergraduate class in 2011-12 at the Merced campus has come from the Central Valley region. Moreover, among freshmen, over half are first-generation college students. In Fall 2010, over 47% 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.

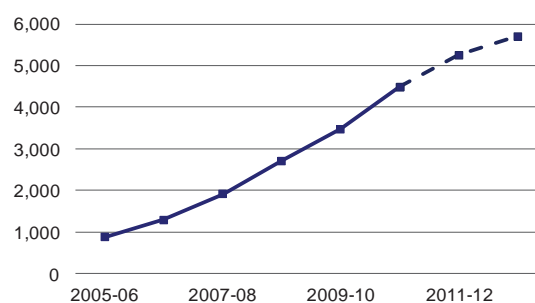
As a research university, the Merced campus is particularly focused on increasing the number of students in California who complete advanced degrees. In Fall 2011, the campus is enrolling about 250 graduate students. Graduate students work closely with distinguished Merced faculty on groundbreaking research across a wide array of disciplines.

Academic Innovation and Excellence

The Merced campus is in many ways an educational laboratory, its faculty and students deeply engaged in innovative programs in both education and research. The Merced campus' 145 ladder-rank faculty members, drawn from all over the world, are leading the way in advancing cutting-edge curricula in majors that will support a vibrant range of academic offerings. Currently, students are able to choose from 19 majors and 22 minors.

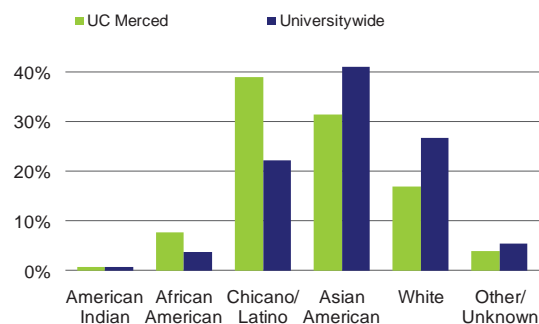
In terms of developing its research enterprise, the Merced campus continues to demonstrate remarkable achievement. For example, the campus maintained its impressive track record in attracting research dollars in 2010-11 with a total of over \$15 million dollars in research

Display IV-12: UC Merced FTE Student Enrollment



Enrollment at the Merced campus has grown to over 5,250 FTE students in 2011-12. Interest in the Merced campus continues to grow. Enrollment is expected to reach over 5,675 FTE students by 2012-13.

Display IV-13: Fall 2010 California Resident Freshmen by Race/Ethnicity



Among UC Merced freshmen, over 47% are students from underrepresented groups.

expenditures 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 the Merced campus' innovative faculty and students to conduct trailblazing, multidisciplinary research in the campus' 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 the Merced campus' core mission as a research university with a strong commitment to graduate education.

A distinctive mark on research at the Merced campus is being made by its signature organizations: the Sierra

Nevada Research Institute, the UC Solar Research Institute, the Health Sciences Research Institute, and the Center for Health Disparities. At the Merced campus, opportunities for undergraduates to become involved in research projects are a high priority. As with the instructional programs, the Merced campus' research institutes foster collaboration across disciplinary areas – the relationships among environmental science, human health, and environmental and health policy are examples of issues that are particularly important for the San Joaquin Valley. Partnerships with other UC campuses, Lawrence Livermore National Laboratory, Sequoia and Kings Canyon National Parks, and Yosemite National Park enhance education and research at Merced.

Economic Development

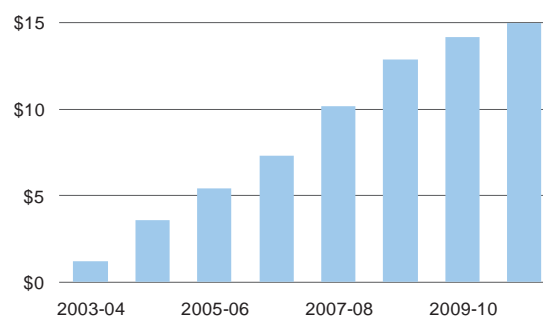
UC Merced serves the San Joaquin Valley as an economic engine. As the employer of more than 1,200 FTE staff, faculty, and student workers and a major user of local services, the campus continues to be a significant and growing contributor to the regional and state economy. The cumulative local economic impact since July 2000 is over \$648 million, and the economic impact of the Merced campus on the state totals over \$1.2 billion, including salaries, goods, and construction awards. Most importantly, the campus will continue to produce an educated workforce that will benefit the region and state.

Essential Growth Funding and Supplemental One-Time Funding

In order to keep the Merced campus on its intended trajectory, permanent enrollment growth funding is essential. Given its small size, the campus is not yet able to realize the economies of scale required to absorb growth and instructional needs without additional support. The Merced campus' own recognition of its cost pressures has led it to place less emphasis on growth in the biological and physical sciences and instead expand programs in business administration and social sciences.

During this period of rapid growth, State supplemental funding has been required for faculty costs, as well as instructional technology, library materials, and expanded general support needed to fully operate the campus. In recent years, the State's supplemental funding has decreased from \$14 million to \$5 million in one-time

Display IV-14: Federal and Private Research Expenditures at 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.

allocations. These decreases were offset by permanent funding for enrollment growth on the campus. The campus continues to rely on this allocation from the State, as it has experienced extraordinary cost pressures associated with developing a new research campus. Earlier estimates of the core budget needed to fund a new research campus did not reflect the complexity and scope of modern higher education. As such, it is anticipated that even when the campus reaches a point of critical mass where the core budget, enrollment funding, and student tuition revenue are sufficient to support enrollments, eliminating the \$5 million would place the campus in deficiency again. Moreover, because of the high cost of regulatory compliance that was not anticipated when original projections were developed, continuation of this funding is essential for the basic operation of the campus. UC is requesting that the State continue to provide \$5 million in supplemental funding for the Merced campus, in recognition of the Merced campus' commitment to the referral pool process and the growing interest of students to enroll at the Merced campus.

FACULTY EXCELLENCE

As documented in the *UC's Role in the State of California* chapter of this document, the University of California faculty is among the best and brightest internationally, leading the world in research excellence and productivity at higher education institutions. UC faculty members provide stellar instructional programs, research and creative work,

professional leadership, and public service. The faculty fulfill the University's goals on behalf of the State of California by:

- delivering excellence in teaching;
- driving intellectual engagement and discovery, community health, economic vitality, and cultural vibrancy;
- educating the workforce to keep the California economy competitive; and
- attracting billions of research dollars, creating new products, technologies, jobs, companies, advances in health care, and improvements in the quality of life.

UC faculty continue to take on new challenges, such as online education, increased enrollment, and interdisciplinary initiatives. UC faculty comprise the core of an eminent university, combining their roles as classroom teachers and mentors with research and creative activities that bring recognition throughout the nation and the world.

In Fall 2010, UC employed around 9,300 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 UC's mission. In 2010-11, expenditures on base salaries for appointments in all faculty series (from all revenue sources including State funds, student tuition and fees, contracts and grants, gifts and endowments, and clinical services) totaled \$1.8 billion dollars.

Current data reveal continuing faculty achievement alongside increasing challenges to recruiting and retaining quality faculty:

- Faculty continue to perform at top levels marked by career awards for both established and early career faculty.
- Despite considerable enrollment increases since 2007-08 that would normally call for adding additional faculty, the size and composition of the faculty remain relatively stable, with the notable exception of increases in the number of non-Senate faculty in the health sciences. Recently, the University experienced a slight decrease in the number of general campus ladder rank faculty, from 9,500 in 2009 to 9,400 in 2010.
- The distribution of faculty by age has shifted, with more faculty members in older age cohorts.
- Average UC salaries remain lower than at peer

universities, while the most intense competition for faculty is with private universities, where salaries have continued to rise.

- Challenges of hiring a diverse faculty vary by discipline. Campus efforts to increase the representation of women and underrepresented minorities on the faculty have yielded limited progress.
- In the last five years, UC has hired 2,556 ladder rank faculty, or 26% of the current number, to accommodate enrollment growth and replace faculty who have retired or otherwise left the University. During 2009-10, the number of new hires dropped dramatically from 607 the preceding year to 379, the lowest number of hires in a decade.

Since 1994, the University has maintained a budgeted student-faculty ratio of 18.7:1. Preserving and improving the student-faculty ratio at the University has been among the highest priorities of the Regents. Improving student-faculty ratios would permit the University to:

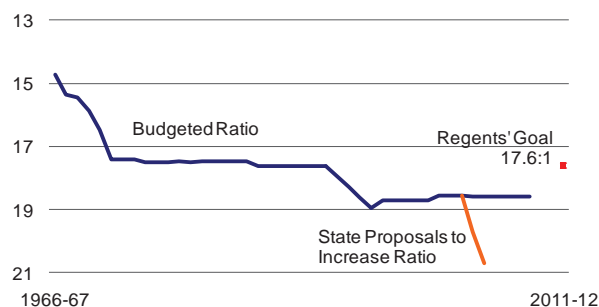
- offer smaller class sizes in some subjects,
- improve the quality of the educational experience and richness of course offerings, and
- help students complete requirements and graduate more quickly.

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 to address critical areas of instructional and other core support needs. 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.

Display IV-15: General Campus Student-Faculty Ratio



State cuts have led to increases in the 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.

Maintaining the quality of the faculty is critical to both the University and the State. Due to the significant decline in State support during the last several years, campuses have 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 diluted due to departmental and campus-wide academic leadership responsibilities being shared by a smaller faculty workforce.

MAINTAINING FRESHMAN STUDENT ACCESS

In spite of increasing financial 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 increased significantly and the University has grown to accommodate all eligible students. Campuses received applications for Fall 2011 admission from 85,023 California high school seniors, a one-year increase of 3.6%. 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 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. Under the new policy, effective for the entering Fall 2012 class, prospective freshmen are required, as they were in the past, 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 the SAT Reasoning Test, and achieve a GPA in their 'a-g' courses of at least 3.0. All students who meet these requirements are entitled to a full review of their application. Applicants are no longer 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.

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.

Guaranteed admission. Beginning in Fall 2012, there are 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 guarantee a space at UC, though not necessarily to the campus of choice. Consistent with past practice, for California residents who are guaranteed admission but are not accepted by any campus to which they apply, students are 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 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.

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 2010-11 academic year alone, UC reviewed over 37,000 high school courses for UC and CSU eligibility. UC's 'a-g' course lists are widely used nationally 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 9,979 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.

Over the past decade, UC enrollment of new CCC transfer students has grown by one-third. In Fall 2010, UC enrolled 13,901 new California resident CCC transfer students, and the freshman to transfer ratio stood at 2.3:1. Reflecting the priority the University places on its transfer mission, the President recommended increasing CCC transfer enrollments at the same time that UC was obligated to constrain the enrollment of new freshmen. Enrollment estimates for 2011-12 indicate that UC is enrolling approximately 1,100 more CCC transfer students than it did in Fall 2008.

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.

Transfer Eligibility

The vast majority of transfer students are admitted to the University at the junior level. Community college students who have completed 60 semester units with a 2.4 GPA or

TRANSFER ELIGIBILITY

Guaranteed admission to at least one UC campus, though not necessarily to the campus(es) of choice, is offered to transfer applicants who:

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

better and who have completed a specific seven-course pattern are guaranteed admission to the system, although not necessarily to their campus of choice.

Admission as a Transfer

All UC campuses are open to new transfer students for each fall term and the Merced campus accepts students in the spring term. 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, and intellectual curiosity.

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 other transfer initiatives, such as the online Transfer Admission Guarantee tool. 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 112 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 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). 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 universityofcalifornia.edu/admissions/transfer/preparation-paths/index.html.

The University supported the recently signed Associate Degree for Transfer legislation (AB 2302, Fong), which calls for UC to participate in a statewide effort to create associate degree programs as a way to prepare transfer students to be admitted to and graduate quickly from the state's public university systems. In 2010, faculty and administrative leaders began an examination of UC's lower-division major preparation coursework in order to identify commonalities across campuses, therefore informing the transfer curricula being developed by the community colleges. The UC Board of Admissions and Relations with Schools (BOARS) has drafted a policy that would guarantee a comprehensive review to any applicant who has completed an approved associate degree for transfer. A report on the progress made by the University was submitted to the legislature in July 2011.

NONRESIDENT ENROLLMENT

UC's priority is to enroll all 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 and campus growth plans. Enrollment targets for nonresident students, however, are currently established at the campus level rather than at the system 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 7% 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 nonresidents.

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 (\$22,878 in 2011-12 for undergraduates), 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 Supplemental 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, renew instructional equipment and technology, and otherwise ameliorate the dilution of quality described earlier in this chapter.

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 Instruction* chapters of this document, 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.

One of the recommendations of the UC Commission on the Future, as described in the *Cross-Cutting Issues* chapter of this document, is to increase UC's undergraduate nonresident population, though in recognition of UC's commitment to maximizing the number of California residents enrolling at UC, the Commission recommended capping systemwide undergraduate nonresident enrollment at 10%. UC's enrollment of nonresident students is – and will continue to be – low relative to comparable institutions.

Already, five campuses have experienced significant nonresident enrollment increases between 2010-11 and 2011-12, with a systemwide total of 1,800 additional undergraduate nonresidents estimated for 2011-12. While systemwide undergraduate nonresident enrollment represents only 7% of the undergraduate population at UC, all campuses are attempting to increase their nonresident undergraduate enrollments. Nonresident enrollment will continue to be an important issue in the years to come.

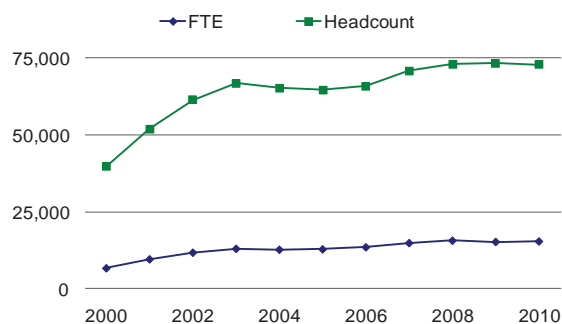
SUMMER INSTRUCTION

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 2010, nearly 73,000 students participated in summer instruction, or nearly 15,500 FTE students.

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 nearly 5,500 in 2010. 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.

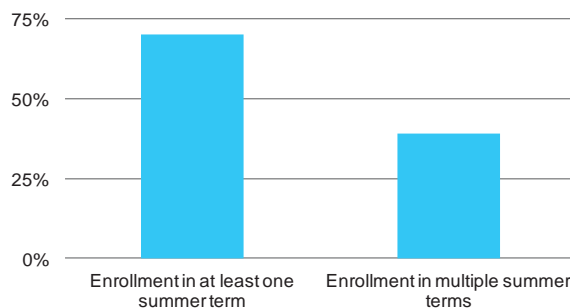
Summer enrollment at UC has likely reached its point of maximum efficiency and further growth in the summer may be difficult to achieve for several reasons. In recent years, over 70% of undergraduate students have enrolled in at

Display IV-16: Summer Headcount and FTE Enrollment



FTE enrollment in summer instruction has grown by 127% since 2000, and 43% of undergraduates enroll in summer session annually.

Display IV-17: Summer Enrollment Patterns of UC Undergraduates



Among undergraduates who entered UC in 2005 and 2006, fully 70% enrolled during at least one summer term during their undergraduate careers, and 39% enrolled in summer courses during more than one year.

least one summer session, and 39% 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 9.5 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

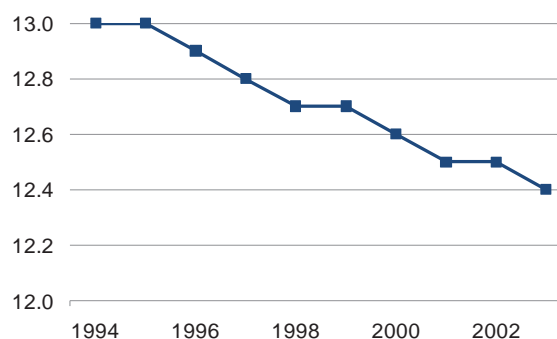
persistence and graduation rates among all students. Accordingly, campuses have developed advising and administrative initiatives to facilitate persistence and timely degree completion. Campuses continue to ensure course availability by sustaining increases in faculty teaching effort, creatively managing 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 12.4 for the 2003 cohort. About 60% 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, about 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; nearly 80% of the 2004 entering freshmen earned a baccalaureate degree within five years and 83% within six years. UC graduation rates far exceed the national average; among first-time students entering four-year institutions nationwide, only about 59% earn bachelor's degrees within six years.

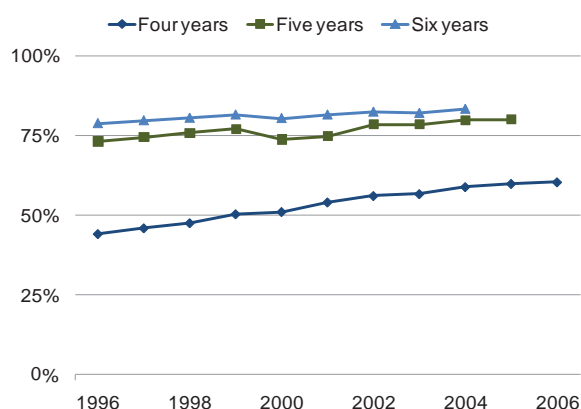
Students beginning their higher education at a community college have historically done very well after transferring to UC. Among CCC transfer students, 92% persist to a second year and nearly 86% earn a UC degree within four years, taking on average 7.0 quarters at UC to complete their degrees. Transfer students' UC grade point averages upon graduation are about the same as those of students who entered as freshmen.

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



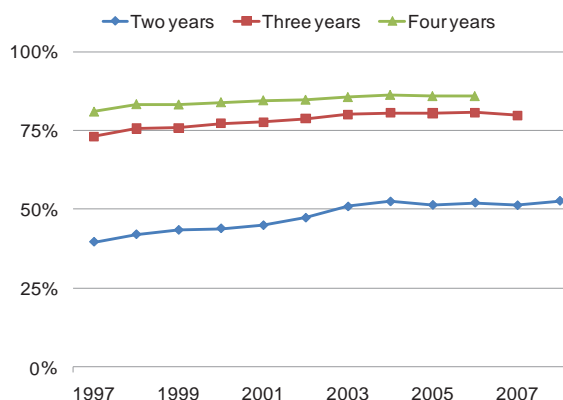
Time-to-degree, measured in quarters enrolled, has declined from 13 to 12.4 among recent freshman cohorts.

Display IV-19: Graduation Rates among Freshmen by Cohort



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

Display IV-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.

GRADUATE STUDENT ENROLLMENT

Graduate education and research at the University of California have long fueled California's innovation and development, helping establish California as one of the 10 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 40 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 185,000 FTE, more than 280% over 46 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 34,900 FTE, only 79%, 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 15.8% in 2010-11. 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 2010, 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 33% of public and roughly 61% 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 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 major universities to take advantage of access to the pool of specialized workers and to benefit from knowledge

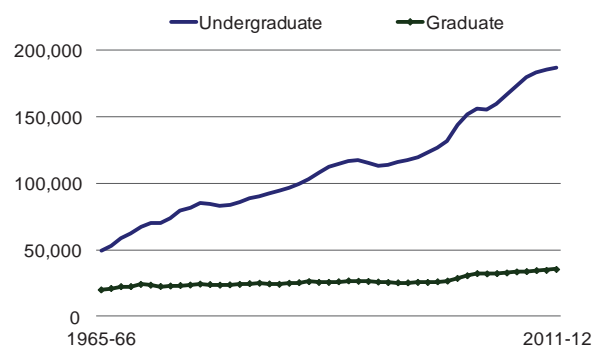
transfers from the concentration of research, innovation, and specialization.

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.

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 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.

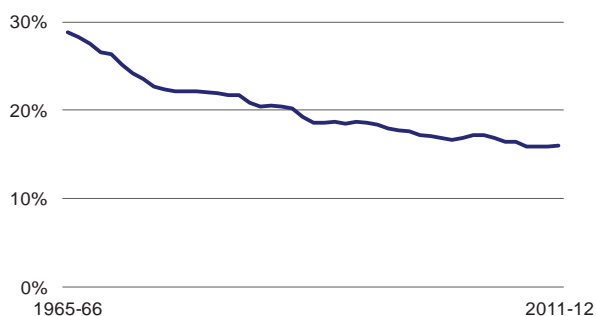
- Notwithstanding the current economic climate, professional and managerial jobs are California's fastest growth occupations, creating thousands of jobs for financial managers, marketing executives, computer scientists, engineers, consultants, and many other professionals. These professional and managerial 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,

Display IV-21: Undergraduate and Graduate General Campus FTE Enrollment



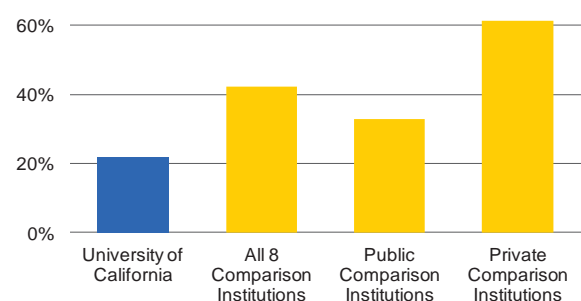
Since the 1960s, UC's undergraduate enrollment has grown rapidly, but graduate enrollment has not kept pace. While undergraduate enrollment has grown over 280%, graduate enrollment has grown only 79%.

Display IV-22: 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 about 16% in recent years.

Display IV-23: Graduate Enrollment at UC and Comparison Institutions



In Fall 2010, 22% of total UC enrollment was graduate academic and professional students (including health sciences and self-supporting enrollments), compared to 33% at its four public comparison universities and 61% at its 4 private comparison universities.

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.² 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. New faculty members are attracted to UC in part because of the high caliber of graduate students with whom they can work. In 2009-10, UC attracted 20-30% of the prestigious National Science Foundation, Ford Foundation, and Javitz fellowship students in science, the arts, and humanities. In 2010-11, UC was again a top choice for such outstanding scholars, attracting 15-35% of these prestigious fellowship recipients. Graduate students also work as teaching assistants, helping to meet UC's overall instructional needs, though 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 vital to UC's discovery and innovation enterprise. Especially in the sciences and engineering, the research process entails teamwork, 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 in all cases. While recent increases in undergraduate enrollments have served to provide access for Tidal Wave II, many members of this second wave will seek to further their education beyond the baccalaureate level in the coming years. Following the extraordinary growth of high school graduates during the last decade, California's 25-34 year-old population 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 — 46% 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.

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

² *Closing the Gap: Meeting California's Need for College Graduates*, Public Policy Institute of California 2009 report.

support first provided in 2005-06 and 2006-07 totaling \$1.1 million, matched with additional lottery funds. 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. In 2009-10, 980 individual UC undergraduates enrolled in CalTeach courses and worked in K-12 classrooms with experienced mentor teachers. Between Spring 2007 and Spring 2010, 1,802 individual graduates enrolled in at least one CalTeach course. 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 had graduates. The State's fiscal crisis has resulted in significant cuts to UC's budget, and virtually no program has been protected from reductions, including SMI; as a result, UC did not attain its goal of 1,000 SMI graduates by 2010-11. Efforts associated with this program will continue, however, at reduced levels.

ONLINE INSTRUCTION

Today, the University finds itself confronting a tremendous challenge: increasingly, technology plays a central role in students' lives, affecting everything from how they gain knowledge to how they communicate with others. In response to this transformation, the University has launched an Online Instruction Pilot Project in order to test whether online instruction can use technology to give undergraduates educational opportunities comparable to the superb classroom instruction that helped build UC's stellar reputation worldwide.

UC has been offering online instruction for many years. Not only have thousands of courses included at least some element of instruction materials that were delivered online, the University also has substantial experience with fully online courses. Currently, the University offers about 1,100 such courses, mostly through its extension programs, with about 100 available to students for UC degree credit.

The Online Instruction Pilot Project is an effort to build upon UC's track record in this arena, striving whenever possible for innovation. The pilot project is a research-based effort to establish how students at a highly selective public research university learn most effectively in an online setting and which technological tools are most helpful to them during the learning process.

Based in part on the recommendation of the UC Commission on the Future, initial plans for the Online Instruction Pilot Project were presented to the Regents in July 2010. Beginning in October 2010, faculty submitted proposals for online courses, 29 of which were selected by a faculty committee to move forward to the implementation phase. Faculty engaged with instructional designers and other project team members to further discuss course design principles, the development of the learning environment, and the project evaluation framework, defining learning objectives and developing measures of success in meeting those objectives. The Online Instruction Pilot Project will also examine existing best practices for ensuring and evaluating the security and integrity of the online learning environment, including ensuring that students do their own work.

During 2011, the project is finalizing evaluation and assessment frameworks to be incorporated into course design and learning environments, and selecting a technology service provider. Online instruction will begin in January 2012. Courses will be reviewed and revised for subsequent offering, and more courses will be offered for instruction as they are ready. In December 2012, the Online Instruction Pilot Project will report on preliminary data produced from course and project evaluation.

If the Pilot Project is deemed a success by faculty, students, and administrators, and if UC's faculty determine that online courses are of UC quality, UC may expand its

offering of online courses to more undergraduates, and possibly later to community colleges and high schools offering AP courses, enabling students to take UC-taught online courses and later transfer or apply to college with already-earned UC credits. The Online Instruction Pilot Program's dedicated focus is on evaluating all aspects of online instruction at the University before moving forward, basing UC's course of action on the analysis of faculty and others working on the project.

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 has 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 three 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 protecting academic quality. As discussed in the *Cross-Cutting Issues* and *Historical Perspective* chapters 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, conducting scientific research on health-related issues, and delivering high quality health services.

- UC operates the largest health sciences instructional program in the nation, enrolling more than 14,000 students across 16 schools at seven campuses. These include schools of dentistry, medicine, nursing, optometry, pharmacy, public health, and veterinary medicine. Across the health professions, UC programs provide an unparalleled integration of education, research, and patient care.
- 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 research contracts and grants, UC's contributions to the prevention and treatment of chronic medical conditions such as cardiovascular disease, asthma, and diabetes help improve health outcomes, and achieve savings and economic productivity.
- UC operates five academic medical centers, providing high quality health services to millions of Californians every year, as described in greater detail 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 outcomes through state-of-the-art research; and to deliver high quality health services in California and beyond.

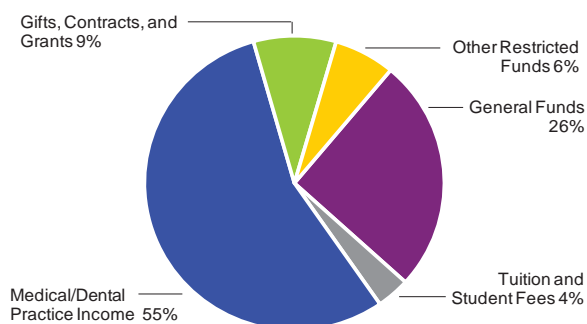
FUNDING FOR HEALTH SCIENCES

The 2011-12 budget for Health Sciences Instruction is \$1.8 billion, of which \$471 million is UC and State General Funds. The patient care services provided by UC health sciences faculty also generate significant revenue, which provides valuable 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 initially established for each profession and category of students enrolled. These lower student-faculty ratios reflect the intensity and requirements of both basic sciences and clinical instruction, including associated medical and legal responsibilities for supervision of students engaged in direct patient care.

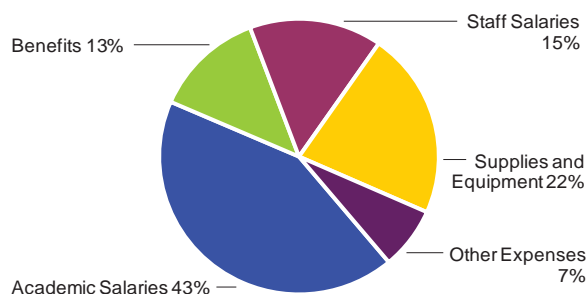
Because of the high costs associated with health sciences education, State support for these programs remains a critical resource. As a result of substantial multi-year budget cuts, however, other revenue sources have become essential. Physician and other professional service fees, and increasingly, Professional Degree Supplemental

Display V-1: 2010-11 Health Sciences Instruction Expenditures by Fund Source



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

Display V-2: 2010-11 Health Sciences Instruction Expenditures by Category



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

Tuition (formerly referred to as Professional Degree Fees) charged to students in medicine, dentistry, veterinary medicine, nursing, optometry, public health, physical therapy, and pharmacy are needed to support UC 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 Degree Supplemental Tuition has increased in order to maintain quality and academic excellence. The collective impact of these rapid increases raises serious concerns about the significant rise in educational debt for UC graduates.

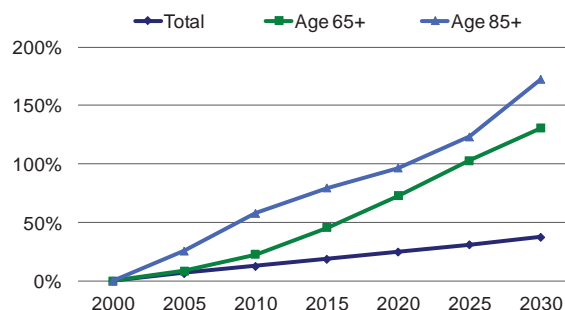
HEALTH SCIENCES INITIATIVES FOR 2012-13

For 2012-13, the University is requesting permanent State support for three major health sciences instruction initiatives, including funding for Programs in Medical Education (PRIME), Nursing, and a new School of Medicine at the Riverside campus, each of which is described in more detail later in this chapter. While enrollment growth in pharmacy and public health are also vitally needed, the University is deferring these initiatives due to the State's fiscal crisis.

STATE NEEDS FOR HEALTH SCIENCES EXPANSION

Already the most populous state in the nation, California is projected to grow by an estimated 37% through 2030, faster than the nation as a whole. California's elderly

Display V-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%.

population will grow even more rapidly, with the population age 85 or older growing by more than 150% by 2030, as shown in Display V-3. California's population is already more racially and culturally 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 one in 10. Notwithstanding this growth, UC has added virtually no new capacity in health sciences programs for more than three decades. In fact, only recently has the University begun to expand medicine (through PRIME) 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 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 that 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 socioeconomic status, limited English proficiency, and low health literacy. Health sciences graduates must be prepared and better trained to address 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.

In 2004, UC launched a major new systemwide medical education initiative, PRograms In Medical Education (PRIME), which are innovative training programs focused on meeting the health needs of California's underserved populations in both rural and urban areas by combining

PROGRAMS IN MEDICAL EDUCATION (PRIME)

PRIME-RC (Rural California) at Davis

Incorporates the Davis campus' 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 (San Joaquin Valley)

Provides specialized training with an emphasis on community-based research and educational experiences to improve the health of populations in the central valley region of California.

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.

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. Because 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, UC PRIME programs will also help address regional health shortages.

PRIME's focus on medically underserved communities has also resulted in extraordinary increases in racial, ethnic, and socioeconomic diversity across the UC medical education system. Of the 306 medical students currently enrolled in UC PRIME programs, 56% are students who come from underrepresented groups in medicine. The PRIME initiative will continue to be an important element of the University's efforts to train more physicians who reflect the diversity of California's growing population.

State funding increases for PRIME have not been provided since 2007-08. However, in order to maintain momentum in the development of this program, the University temporarily redirected funds from other programs to PRIME to support planned enrollment growth. These unfunded enrollments will not be sustainable without permanent State support. Although redirecting funding from core medical student enrollments to support PRIME offers a potential mechanism for support, this approach would undermine efforts to address state needs to increase the number of medical students that UC is able to graduate.

As of 2012-13, UC will enroll 218 MD students and 61 master's students in PRIME for whom no State support has been received. UC is seeking full funding of PRIME, a total of \$5.9 million in State support.

TELEHEALTH AT THE UNIVERSITY OF CALIFORNIA

An additional element of the University's PRIME programs involves 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 approximately 500 primarily rural California healthcare facilities to a statewide and nationwide broadband telehealth network and to provide distance learning, clinical services, 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.

Notwithstanding recent efforts by the Governor's Nurse Education Initiative to increase the state's capacity to train nurses, California remains among the states with the lowest

number of registered nurses per capita (644 versus the U.S. average of 860 per 100,000). Causes of the nursing shortage include rapid population growth (especially of those over age 65) and an aging nursing workforce (half of California's licensed nurses are age 50 and older). 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 would likely 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. It also has re-established and added new undergraduate nursing programs as a strategy to rebuild the pool of nurses eligible to pursue future graduate work to become nursing faculty, as well as to allow college-bound high school graduates interested in nursing the opportunity to pursue such a degree at UC.

Baccalaureate Nursing. In Fall 2006, UC re-established the Los Angeles campus' bachelor's degree program in nursing and added a new undergraduate program at the Irvine campus. In recent years, the health care industry has seen increased demand for nurses with bachelor's degrees. In a 2010 statewide survey of new nursing graduates at all degree levels, undertaken by a coalition of six organizations, including the Los Angeles campus, to better understand why some newly licensed registered nurses were having difficulty finding employment, 35% of respondents stated that they were informed that a baccalaureate degree in nursing was preferred or required.

Graduate Nursing. The Los Angeles and San Francisco campuses have expanded programs for professional nurses and nursing faculty. The Irvine campus added a

graduate program in 2009-10 and has plans to expand the program over the next four years.

New Initiatives. In 2007, the Gordon and Betty Moore Foundation (GBMF) announced \$100 million in founding support, the largest commitment ever made to a nursing school, to launch the Betty Irene Moore School of Nursing at the Davis campus. 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. Although no direct State support has yet been provided, instructional costs were provided, in part, through temporary federal Workforce Investment Act (WIA) funds for enrollment. A baccalaureate-level nursing program is also planned for the future. When full enrollment is reached in all degree programs, the school is projected to have a total enrollment of 456 students. The expectation of the GBMF, as memorialized in the grant agreement executed with the University of California, was that as students are enrolled in the school, funding to support those students would be provided by the State in a manner consistent with funding provided to UC nursing programs at other campuses. This commitment was affirmed by the Regents in their approval of the school in March 2009. The GBMF commitment is disbursed in multi-year grants, and ongoing disbursements are contingent upon the school and University meeting expected goals and commitments, including reaching target enrollments and securing core State funding for the school. To date, permanent State funding for Davis nursing enrollments has not been provided.

Workforce Investment Act. Because of a 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 to train and graduate a limited number of new California nurses. Under this proposal, UC must provide matching funds, and will train and graduate nearly 350 additional nurses across multiple degree programs. This one-time funding provides only for a limited number of one-time cohorts of students to

complete their nursing programs. After this program is completed in 2013-14, enrollment will return to State-budgeted levels, and no growth will occur until State support is provided.

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 the last four years, no permanent State funding has been provided.

Because California's workforce need for nurses is ongoing and because UC is committed to long-range enrollment growth to help meet these needs, the University is seeking \$4.8 million in permanent State funding to support 426 nursing students (150 bachelor's, 41 doctoral, and 235 master's level nurses). The University recognizes that there may be \$3 million in temporary, one-time WIA resources available in 2012-13 to support 235 of these nursing graduate students. However, it is the University's strong view that core permanent funds are needed to support these students, and to sustain momentum in enrollment growth at newly developed nursing programs at the Irvine and Davis campuses.

The University remains committed to assessing the feasibility of future enrollment growth. Plans for future nursing growth will be contingent upon the availability of core State support.

PLANNING AND PROGRESS TOWARD A NEW UC RIVERSIDE MEDICAL SCHOOL

The need to address physician workforce shortages by training 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 demonstrates that even if existing medical schools were to expand to maximum capacity, the state would still fall far short of achieving the number of doctors needed in the coming years. Future demand for physician services will grow even more rapidly than anticipated when the provisions of healthcare reform go into effect in 2014, as

described in the *Teaching Hospitals* chapter of this document.

A new school of medicine at Riverside, the first new medical school proposed to open in California in over 40 years, 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 that will help improve the health of people living in the region.

Among the goals of the new School of Medicine at the Riverside campus is transforming the way healthcare is delivered to the community by focusing on:

- improving the population's health through proactive primary and preventive care services and effective management of chronic diseases;
- enhancing the patient care experience by providing conveniently located, timely, and culturally sensitive services;
- lowering the costs of care through such interventions as reducing variations in practice and outcome and improving efficient use of specialty care services; and
- developing research and clinical expertise in population-based assessment of health and wellness, health interventions, healthcare disparities, and access.

In 2010-11, the State required that UC redirect \$10 million of General Funds from the existing base budget to support start-up costs at the Riverside campus' School of Medicine. In 2010-11, funds were used to establish the operational and capital infrastructure needed in advance of opening the school, including necessary appointments of leadership and establishing the initial clinical affiliations needed for the educational platform. In 2011-12, the University is also using support from the County of Riverside and other extramural funds to continue building the operational infrastructure, recruiting core teaching faculty for expanded medical student enrollments, securing additional resources

to build a diversified funding base, and launching its clinical enterprise. It should be emphasized, however, that an initiative of this magnitude and complexity cannot be launched through redirection of University resources. For 2012-13, the University is again requesting a permanent increase of \$15 million in State funding to support start-up activities as well as provide a secure base of recurring resources to open, operate, grow, and maintain the medical school on an ongoing basis. Specific start-up activities that will occur during 2012-13 include pursuing accreditation for the medical school curriculum and graduate medical education (residency) programs, establishing additional affiliations with community-based hospitals and clinic partners, recruiting and appointing faculty and administrative staff necessary to open and teach in the school, preparing to recruit the first class of medical students with a target to open in August 2013, developing a faculty practice plan, and acquiring private and other non-state funding.

Permanent core support from the State is not only essential for securing accreditation, but will also enable the Riverside School of Medicine to move forward and develop all facets of the UC mission: education through the expansion of the medical student enrollment and residency programs; research to create new basic science, clinical, and translational knowledge; provision of clinical services to a medically underserved region; and service by expanding student pipeline programs.

This funding is requested on a permanent basis because future enrollments can be adequately funded through the normal marginal cost (plus supplemental funding for MDs) only if the State makes an initial investment in its core operations before the school increases enrollment. The opening of a medical school is comparable to opening a new campus, and as such, UC is requesting permanent core support for the new School of Medicine at Riverside.

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 graduate degree programs.

UNIVERSITY EXTENSION

University Extension is the largest continuing education program in the nation, annually providing courses to 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 2010-11, University Extension expenditures, derived from student fee revenue, were \$211.3 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. Programs are presented through open-enrollment courses for individuals as well as through organizational partnerships supported by contracts and grants with public agencies, non-profit organizations, and corporations. 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, across 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 replicas 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-supported to a State-supported program in 2001-02 and completed the conversion of all general campuses in 2006-07. Funding for summer sessions was shifted to the general campus instruction budget; however, declining State support has resulted in greater reliance on tuition and fee revenues. 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 2010, 10,218 non-UC students registered for UC summer sessions, many of whom are

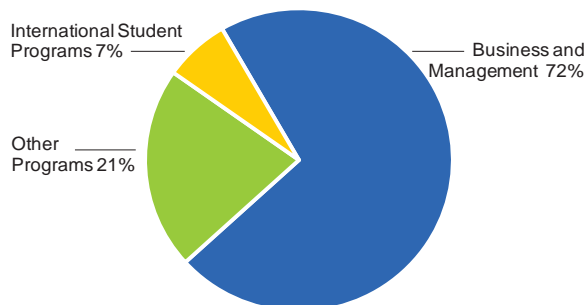
regularly enrolled at California State University, California Community Colleges, or other institutions. Non-UC students pay higher fees to help support the cost of their education, and are not eligible for financial aid. During 2010, approximately \$11.6 million of summer sessions expenditures were funded from non-UC student tuition and fees.

SELF-SUPPORTING DEGREE PROGRAMS

The University operates nearly 50 self-supporting graduate degree programs. These programs, developed in accordance with the Presidential *Policy on Self-Supporting Graduate Degree Programs*, are intended to provide alternative 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 by 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.

Display VI-1: 2010-11 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.

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. UC has revised its policies for self-supporting graduate programs, with the intent to facilitate the establishment of additional programs in the future.

During 2010-11, over 4,300 individuals and nearly 3,600 FTE students enrolled in the University's self-supporting programs. These programs generated over \$132.5 million in fee revenue during 2010-11.

"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 graduate students, postdoctoral scholars, faculty, and professional research staff are among the best in the world at finding new cures for disease, developing technologies that produce new industries, creating new knowledge through basic research, and training the next generation of innovative thinkers. UC researchers have discovered better ways to fight drought and fire; and prepare for 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 and creates the knowledge that will improve lives over many decades.

The tremendous size, scope, and quality of UC's research enterprise are the fruits 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.

This investment has resulted in new technologies, new companies, and new industries over the last half century – many within California. UC trains the 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 created one of the most competitive research enterprises in the nation, securing over \$7 in extramural funding for every State research dollar invested.

UC's research capabilities, built over many years, reflect a long-term investment that has done well even during times of economic difficulty. These capabilities are now threatened because of the sustained State disinvestment in higher education over the past two decades combined with increasing competition for the best faculty and graduate

students from other universities throughout the world. UC's faculty have been extraordinarily successful at attracting federal and private funds to the State. These funds will disappear if the faculty are lured away by institutions with a more reliable financial structure. Reinvestment in UC's faculty and research infrastructure is critical to sustain the research enterprise at UC and its beneficial impact on the State's economy.

THE IMPORTANCE OF STATE INVESTMENT IN THE RESEARCH ENTERPRISE

UC's world-class research enterprise requires the best faculty and graduate students, state-of-the-art equipment and supplies, and well-supported facilities in which to conduct research. State funds are the basis for its success and are essential to its sustainability and continued excellence. Not only do State funds support a large portion of the salaries paid to faculty during the academic year, but they also provide start-up money to purchase equipment, staff laboratories, support graduate student research assistants needed to bring new ideas to fruition, and maintain facilities to conduct cutting-edge research.

As principal investigators on research grants, UC faculty attracted \$4.36 billion total in research awards in 2010-11, averaging \$631,000 per principal investigator. The University's success in attracting extramural funds to California has been a critical element in the state's economic prosperity, a success jeopardized by the declining State investment in UC.

Underpinning the UC research enterprise are exceptional graduate students, postdoctoral scholars, professional researchers, and specialists supported by State funds. Each year, UC trains more than 12,900 graduate student researchers and employs or hosts nearly 4,860 postdoctoral scholars, exclusive of health science interns and residents. Funding for graduate enrollment growth

helps expand the pool of individuals who engage in and support research programs.

UC enables the success of its researchers by providing very high quality research facilities, many of which were financed using California state bonds. State funding provided the core support to build the California Institutes for Science and Innovation, four world class centers of research excellence in telecommunications, quantitative biosciences, nano-technology, and advanced electronics, some of the most promising new areas of growth for high-tech industries. They hold the promise of keeping California industry at the forefront as new technologies emerge. The California Institute of Regenerative Medicine (CIRM) created a state bond-funded award mechanism to make California a world leader in stem cell research, one of the most promising new ways to cure disease. To date, CIRM has awarded UC \$445 million in research and facility grants. These are only two examples of how investment in UC research is expected to help the California economy recover and improve the lives of its citizens.

Unfortunately, State support for the University and its research programs is declining at a time when global competition is increasing, raising concerns about California's ability to maintain its competitive edge. The cost of conducting cutting-edge research in science and engineering is growing, and much of the research connected to economic competitiveness requires large interdisciplinary teams. Research depends increasingly on modern infrastructure. The costs of compliance with extramural contract and grant requirements have also risen rapidly as the federal government has added new regulations, 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

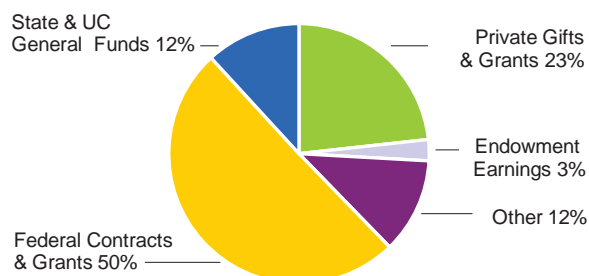
Direct research *expenditures* (contrasted with *awards* as discussed in the previous section) totaled \$4.44 billion, an increase of 7% over the prior year.¹ Federal, State, and private sources are major providers of UC research

funding. Federal funds are the University's single largest source of support for research, accounting for 50% of all University research expenditures in 2010-11. Display VII-1 shows actual research expenditures by fund source for 2010-11, and Display VII-2 presents growth over time among the major providers.

Federal Funds

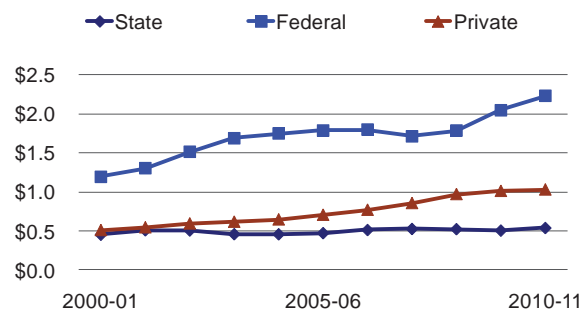
UC is a leader among universities receiving research awards. The University was awarded \$3.5 billion in federal research funding alone in 2010-11. Awards from the National Institutes of Health (NIH) and National Science Foundation (NSF) accounted for nearly 80% of the University's federal research funding. Other agencies that figure prominently in awards to UC are the Department of Defense (DOD), National Aeronautics and Space Administration (NASA), and Department of Energy (DOE). During 2009-10, UC researchers competed

Display VII-1: 2010-11 Direct Research Expenditures by Fund Source



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

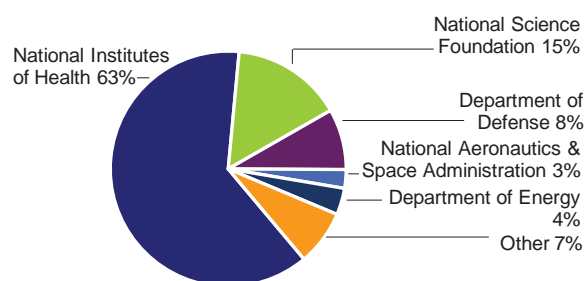
Display VII-2: Trends in Research Expenditures by Source (Dollars in Billions)



UC federal and private research expenditures have doubled since 2000-01, while State expenditures have remained at almost the same funding level.

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

Display VII-3: 2010-11 Federal Research Awards by Sponsor



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

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

1982-83 – 1991-92	Annual increases in federal support for UC averaged nearly 10%.
1992-93 – 1996-97	Focus on reducing the federal deficit resulted 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 commitments 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), federal contracts and grants funding to UC increased by 9%.
2010-11	As ARRA funding ends, a modest decline in total federal funding is expected. Awards from non-federal fund sources are projected to exceed the prior year.

successfully to win nearly 6% and 9% of the NIH and NSF budgets; respectively, accounting for over \$2.7 billion in federal research dollars for California. Display VII-3 shows the distribution of federal research awards by agency.

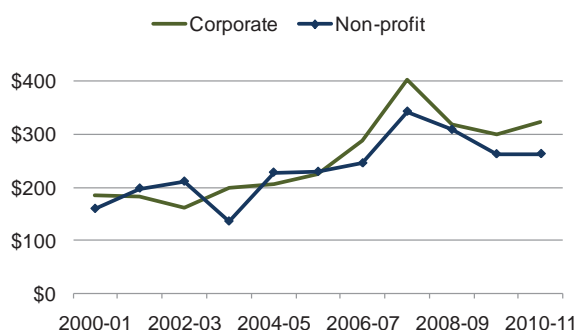
Due to the dominance of federal funds as a source of research funding, the outcome of the annual federal budget process has the largest impact on the University's research budget. Fluctuations in UC's funding from federal agencies closely parallel trends in the budgets of federal research granting agencies.

Although federal government funding for university research decreased in 2008, an influx of American Recovery and Reinvestment Act (ARRA) funding temporarily reversed the downward trend. As of September 2011, UC researchers have been awarded \$1 billion in ARRA contract and grant funding for research and research infrastructure. Consistent with overall federal research funding, the largest amounts of ARRA funding awarded came from NIH and NSF. Because many awards are multi-year, these funds will impact UC beyond the 18-month term of ARRA. As ARRA grants are completed, federal research expenditures are expected to decline modestly.

Private Funds

Over the last decade, growth in research investment in UC by private organizations has kept pace with federal funds as an important source of research funding. From 2000-01 to 2010-11, private support for research through gifts, grants, and contracts doubled, and private foundations, industry, and partnerships with faculty at other institutions contributed 23% of total research expenditures in 2010-11. The global economic recession caused a decline in new private gifts and grant awards, as shown in Display VII-5. Corporate support increased slightly during 2010-11, suggesting that the business community is reinvesting in University research, but not yet at pre-recession levels. The decline in non-profit sponsorship appears to have stopped, and awards held steady from 2009-10 to 2010-11. Two prominent sources of large awards are the Bill and Melinda Gates Foundation (\$15.6 million) and the Gordon and Betty Moore Foundation (\$44 million).

Display VII-5: Private Research Awards by Type of Sponsor (Dollars in Millions)



Corporate and non-profit awards account for nearly 60% of all private research funding to UC. Private sponsorship, on the rise since 2004, peaked in 2007-08. In 2010-11, corporate sponsorship increased, while non-profit funding held steady.

State Funds

State funds spent directly for research constitute about 12% of total research funding, including State General Funds, State Special Funds to support coordinated statewide programs, and State agency agreements. For many University research programs, State funds provide the base support to attract extramural funds by providing seed money for research projects vital to California, whether the subject is earthquake engineering or improved crop varieties.

In 2010-11, State and UC General Funds provided \$273 million for direct research, including:

- the California Institutes of Science and Innovation;
- Proof of Concept funds to stimulate greater development of products and new companies from UC research;
- organized research units on individual campuses;
- multi-campus research programs and initiatives (MRPIs);
- systemwide programs to support research on AIDS, geriatrics, and collaborative research with industry; and
- agricultural research through the Agriculture Experiment Stations.

State Special Funds appropriated from restricted State fund sources provided more than \$34 million in funding for a range of research initiatives, including a coordinated statewide program of tobacco-related disease research administered by the University (\$12.7 million for 2011-12), but available to researchers from other institutions on a competitive basis. Part of the State's tobacco tax supports

the Breast Cancer Research Program (\$9.9 million). The State personal income tax check-off also supports the California Breast Cancer Research Fund (\$484,000) and the California Cancer Research Program (\$250,000). The California Ovarian Cancer Research Fund was eliminated due to unmet minimal statutory funding requirements.

California State agencies also provide contracts and grants to the University for research similar to federal awards. In 2010-11, State agency agreements generated \$181 million for UC research. Major providers of State agency agreements are the departments of health care services, social services, transportation, food and agriculture, and education.

Other Funds

Other funds supporting research include performance fee revenue from the management of the Department of Energy laboratories, which is used to fund collaborative projects between UC and DOE laboratory researchers. The Lab Fees Research Program supports research on issues important to the state and the nation, including bioterrorism, nuclear nonproliferation, energy efficiency, and new energy resources. Collaborative research between UC and the DOE laboratories has many benefits for University faculty and students, giving them access to premier researchers in fields of strategic importance to the nation, as well as unique research facilities that are generally not found at other universities. UC has managed the DOE laboratories since their creation during and immediately after World War II, and it maintains close intellectual ties to the DOE laboratories through this program. The DOE laboratories are discussed in more detail in the *Department of Energy Laboratory Management* chapter of this document.

INDIRECT COST RECOVERY

Budgets for externally funded research projects include direct and indirect cost components. The direct cost is the actual amount of salaries, benefits, equipment, and materials needed to conduct the project. Indirect cost recovery (ICR) covers the facilities and administrative expenses attributable to research. At present, UC's federal ICR rates lag 5-10 percentage points behind comparison institutions. Additionally, research projects funded by the

State of California, foundations, gifts, and corporations often have policies that preclude payment of indirect costs. These policies and practices place an even greater burden on the University's limited resources, which are already suffering from decreased State funding. As part of the *Working Smarter* initiative, the University seeks to generate \$30 million annually in additional ICR revenue by increasing federal rates and improving waiver management.

IMPACTS OF UNIVERSITY RESEARCH

UC research 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 attract and train the graduates that make up one of the world's best educated workforces to meet the demands of the changing economy. In addition, UC researchers make discoveries and invent new technologies that benefit the people and industries of California and, in many cases, become the basis for new companies that provide jobs for Californians.

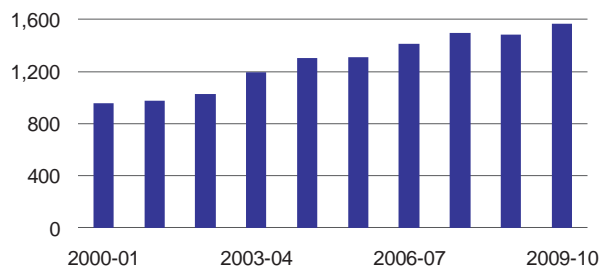
Technology Transfer

As of June 30, 2010, UC faculty and researchers disclosed 1,565 new inventions (Display VII-6), the largest number among universities in the United States, and nearly a 6% increase from last year. A portion of these inventions are patented and licensed to companies that further develop them into products that enhance the lives of Californians. For the past 18 years, UC has led the nation in developing patents, and its faculty and graduates are responsible for 9,883 active inventions.

Spin-off Companies and Job Creation

As the foundation for startup firms, many technologies developed in the UC system also serve as an effective stimulus for economic growth. In 2009-10, 75 startup companies based on UC technology were founded nationwide, a 53% increase over the previous year. Since 1976, a total of 536 startup companies have been founded based on UC inventions, as shown in Display VII-7. Over 80% of the new startup companies are located in California and contribute to the state's economy. These businesses

Display VII-6: UC Invention Disclosures



As of June 30, 2010, faculty and researchers at UC campuses disclosed a total of 1,565 inventions — nearly a 6% increase over the prior year.

Display VII-7: Impact of UC Technology Transfer*

Royalty and Fee Income	\$104.4 million
UC Portfolio of Active Inventions	9,883
UC Portfolio of Active U.S. Patents	3,802
Number of Active Licenses	1,983
Companies founded based on UC technologies	536

*as of June 30, 2010.

provide jobs for Californians as well as tax revenue streams for the state.

To further enhance the rate of business creation from UC research, UC recently created a \$3 million program to fund "Proof of Concept" proposals, which will provide UC researchers the seed capital to make prototype products that can then be used to seek investors for new products.

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 the San Francisco campus and Stanford University. 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 biotechnology industry has grown to employ an estimated 268,000 people in California and generates \$114 billion in revenue annually.²

For many decades, UC has worked closely with California's agricultural industry. In the late 1800s, UC researchers

²2011 California Biomedical Industry Report (<http://www.chi.org/industry/data.aspx>)

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 agriculture 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

UC's discoveries and development of new technologies touch the lives of Californians and people around the world every day.

UC medical research 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 will help find cures for 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 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 baby with Down syndrome.

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 for 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, and 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: many UC programs are at the top of the National Research Council rankings for excellence in research. 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 enhanced by extraordinary informal learning opportunities that occur across the system 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

California Institutes for 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, using \$400 million in State-supported capital funding matched two-to-one from federal and private sources. 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.

The Institutes have vastly increased technology development and exchange with California's industry and government. For example:

- California Institute for Telecommunications and Information Technology (Calit2) has worked with the San Diego Police, CalFire, and the San Diego Metropolitan Medical Strike Team to customize information and telecommunication technologies to their needs. They subsequently devised wireless video systems to put on the helmets of HazMat responders, allowing remote commanders to see and talk with front line responders in dangerous environments.
- California Institute for Quantitative Biosciences (QB3) has created low-cost "garage bench" space for aspiring entrepreneurs from UC who want to start biotechnology companies in San Francisco. This approach has been so successful in stimulating new start-up firms that the original space quickly filled up, and QB3 is seeking ways to create a new building on the Mission Bay site dedicated to fostering more young companies from UC research.
- California Institute for Technology Research in the Interest of Society (CITRIS) created new programs in demand response and programmable communicating thermostats, and developed an intelligent infrastructure to explore the degradation of underground power distribution cables at the request of the California Energy Commission – demonstrating CITRIS's active partnership with state entities to address its most pressing energy problems.
- California Nanosystems Institute (CNSI) researchers at the Los Angeles and Santa Barbara campuses explore the power and potential of manipulating structures atom by atom to engineer new materials, devices, and systems that will revolutionize virtually every aspect of our quality of life, including medical delivery and health care, information technologies, and innovations for the

environment. The CNSI technology incubator encourages University collaboration with industry and enables the rapid commercialization of discoveries in nanoscience and nanotechnology.

While capital funding allowed the development of these state-of-the-art facilities, funding to ensure operations has been inadequate. Operations require funding for advanced technology infrastructure, specially trained technical personnel to operate the advanced instrumentation, and seed money for building new research teams across disciplines and campuses, as well as attracting large scale extramural contracts and grants from industry and governmental sources.

The State annually provides \$4.8 million for support of the Institutes. In recent years, this funding has been supplemented by \$20 million from other UC sources, for total funding of \$24.8 million. In 2011-12, due to the significant reductions in State support for UC, funding for the institutes is being reduced.

In recent years, UC requested additional State support for the Institutes without success. Lack of permanent operating funds threatens the viability of these newly vibrant institutes and the potential loss of a large capital investment, as well as their ability to create new jobs through their spin-off companies and technologies.

Multi-campus Research Programs and Initiatives

UC's unique strength among national university systems is distributed excellence across all its campuses: six of the UC campuses are members of the prestigious American Association of Universities. This strength gives UC the ability to create multi-campus collaborations drawing the best talent from throughout the system for the most difficult and emerging areas of research. UC's 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.

The MRPIs use relatively modest UC support, typically in the range of \$30,000 to \$1.5 million annually, to dynamically link the work of the 10 campuses and three national labs into a network of shared information, resources, dissemination, and public engagement, which in turn helps secure outside support in emerging areas. The

MRPIs provide seed funding on a peer-reviewed basis to provide innovative research, support for graduate student traineeships, and to work directly with State agencies to disseminate the expertise of the UC faculty and their research.

- The Athena Breast Cancer network initiative ties together UC's five medical centers for breast cancer research, creating a patient base larger than any other in the United States. Subsequent to UC's initial year MRPI award of \$900,000 (projected to be about \$5 million over five years), the program leveraged this award to attract another \$10 million from Safeway Corporation to enhance the program. Overall, the network expects to attract three times as much outside support as UC support for this initiative.
- A new UC transportation research initiative teams 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 links 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 is a new initiative focused on the next generation of solar energy. Researchers at the Merced, Berkeley, and Santa Barbara campuses use nanotechnology and non-imaging optics to develop new solar cell materials and methods to cool and heat buildings or generate electricity.
- Collaborative Research for an Equitable California, brings UC researchers together with community organizers and policy-makers to tackle the state's crises in education, employment, interconnected health, nutrition, housing, and the environment, researching how disparities and inequities in these areas are linked.
- Studies of Food and the Body, a five-campus collaboration led by a UC Davis professor of American Studies used a \$70,000 MRPI grant to help secure \$800,000 of outside support from the Mellon Foundation for humanities research at UC for their novel approach to collaborative research in the humanities.
- Dark Matter Search Initiative, UC's multi-campus research at the Lick and Keck observatories has helped create one of the strongest programs in astrophysics in the world. UC astronomers are responsible for the discovery of dark energy (and shared the 2011 Nobel Prize in Physics for this discovery), the discovery of planets orbiting other stars, and the discovery of a black hole in the center of the Milky Way. UC researchers have won every prestigious prize in astronomy for research conducted within UC facilities.

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 nearly \$60 million annually in extramural funding, leveraging the core funding from the state's PTA account at a ratio of nearly 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.

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 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 agricultural issues of California. ANR programs are delivered through two organizational units: Agricultural Experiment Station (AES) and Cooperative Extension (CE). CE is described in more detail in the *Public Service* chapter of this document.

AES is located within three colleges on the Berkeley, Davis, and Riverside campuses, as well as at the School of Veterinary Medicine at Davis, and comprises more than 650 scientists housed in 38 academic departments. AES scientists represent a variety of disciplines and are charged with conducting fundamental and applied research that can be applied to contemporary and relevant problems facing agriculture, natural resources, nutrition, and youth development. ANR statewide programs focus on specific issues that engage AES academics and faculty from all UC campuses, allowing 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 most recent 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. Administrative restructuring resulted in the reduction of statewide programs by 20%, the closure of several programs, the elimination of a research and extension center, staff layoffs, and 13 academic positions vacated through retirement during the 2008-09 cuts left unfilled. ANR is 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.

Examples of research conducted by AES scientists that is helping to address challenges and inform policy include:

Plant Breeding. ANR researchers working with international 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 2006 central California disease

outbreak to understand if wildlife species are sources of *E. coli* contamination. Study findings will assist resource agencies and growers in developing strategies to prevent crop contamination in the fields, promote public health, and protect wildlife and their habitats.

Pest Management. 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. Researchers are working on developing short-term strategies and long-term solutions to manage the insect and prevent introduction of the disease into the state.

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. ANR researchers at the Berkeley campus 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), a partnership with the energy company British Petroleum and the University of Illinois, will develop agricultural and microbial sources of clean, renewable bioenergy.

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, 2010-11, and 2011-12. Temporary funding has been entirely redirected from existing programs. Funding the Labor Centers 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.

"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 six major State-supported public service efforts:

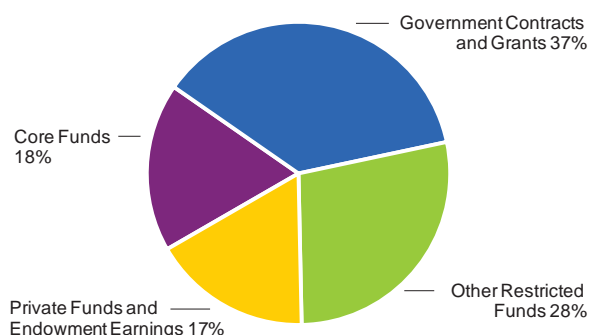
- Student Academic Preparation and Educational Partnerships,
- the California Subject Matter Project,
- COSMOS,
- Cooperative Extension,
- the Umbilical Cord Blood Collection Program, and
- the Charles R. Drew University of Medicine and Science.

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

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 2011 data show that 52% 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.

Display VIII-1: 2010-11 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.

With a focus on serving students who attend California's more challenged schools, in 2009-10 UC's 16 academic preparation programs reached students at more than 850 K-12 public schools and 111 community colleges, raising college eligibility rates, increasing transfer from community college to four-year 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 71% 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, 73% of SAPEP schools are in communities with median family

¹ Data are from the most recent SAPEP legislative report, (www.ucop.edu/edpartners/research.html), and are from the 2009-10 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 2009, 15.6% of African-Americans and 18.4% 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 1996.² Significant budget cuts since 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.

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.

² California Postsecondary Education Commission (CPEC) report. University Eligibility Study for Class of 2007.

STUDENT ACADEMIC PREPARATION PROGRAMS WERE DEVELOPED NEARLY 40 YEARS AGO

As early as 1872, then-University 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 (AB 2412), 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 seventh 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 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.³

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 science, technology, engineering and mathematics (STEM) 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 services. Parent involvement workshops and events help 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-

³ Detailed descriptions of each SAPEP program can be found in the most recent SAPEP legislative report, available at www.ucop.edu/edpartners/research.html.

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 reduced by \$55.7 million over several years, including a 56% reduction in 2003-04, 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 was only half the percentage cut to the University's State funds.
- For 2010-11, the Budget Act called for the University to maintain funding for SAPEP programs at 2009-10 levels.
- Consistent with budget act language, during 2011-12 individual SAPEP programs are being reduced by up to 21.3%, reflecting the percentage loss of total State support.

From 2004-05 to 2007-08 – and again for 2009-10 and 2011-12, 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 State funding of these programs is critical to their success. To that end, the University collects and analyzes accountability data demonstrating the scope and effectiveness of individual programs.⁴

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.

⁴ The SAPEP Accountability Framework is also available at www.ucop.edu/edpartners/research.html.

preparatory 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.

Other programs promoting college access and preparation include **ArtsBridge**, **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 college eligibility: Participants are twice as likely to complete the 'a-g' courses for UC/CSU eligibility. In 2009-10, a higher proportion of students took the SAT or ACT than did non-participants in the same schools; for example, on average 66% of EAOP-MESA-Puente students at API 1 and 2 schools took the SAT or ACT compared to 34% of non-participants; 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 program achievements include:

- In 2009-10, 2 million different individuals used ASSIST to view over 13.8 million articulation agreements;
- UC continues to improve its 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 2009-10 100% of those students chose majors in math or science fields; and
- More than 81% 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 69%.

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 various disciplines from UC, CSU, and private higher education institutions to develop and deliver intensive institutes for education professionals. During 2009-10, CSMP served over 23,000 teachers and school administrators at 3,133 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 is provided from the federal No Child Left Behind Act, Title II, Part A program.

In 2010-11, CSMP generated approximately \$12 million 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, 2007, and again in 2011. The 2011 bill (SB 612) extends authorization to June 30, 2017 and incorporates all nine projects into the legislation.

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 18-25 students and the student to academic staff ratio is typically 5:1. In summer 2010, 701 students, drawn from an applicant pool of over 2,000 students, were selected to attend COSMOS.

In 2010-11, COSMOS received \$1.9 million in State funds, a 10% reduction from State support in 2007-08. Consistent with budget act language, the University reduced State support for COSMOS in 2011-12 to \$1.7 million, a 10% reduction. 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'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 is unique in its three-way partnership with federal, state, and county governments to provide local and statewide research and extension programs that address critical issues of California. ANR programs are delivered through two organizational units: Cooperative Extension (CE) and the Agricultural Experiment Station (AES). AES is described in more detail in the *Research* chapter of this document.

Cooperative Extension (CE) links educational and research activities to the 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 partner with campus faculty, state and federal agencies, and local clientele in 57 of California's 58 counties.

CE specialists (i.e., scholars integrated into academic departments on the Berkeley, Davis, and Riverside campuses) conduct research, develop new technologies, and serve as the campus link to county CE advisors. 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 through workshops, demonstrations, field days, classes, print and other media, and web sites.

Statewide programs, such as Integrated Pest Management; Youth, Family, and Communities; and the Agriculture

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

In 2010-11, the CE base budget was composed of 52% State, 15% federal, 14% county, and 19% other funds. Through its partnerships and collaborations, CE is able to generate additional extramural grant funding (at a state to extramural ratio of approximately 2 to 1), further increasing its ability to address local and statewide issues.

The most recent state 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, which achieved \$9 million in permanent budget reductions, included unfunded mandates, and positioned ANR to implement a new strategic vision. Several statewide programs have closed and the budgets of others have been reduced by 20%. Restructuring reduced three CE Regional offices to one statewide office, cut 14 statewide programs to six, and resulted in staff layoffs and unfilled positions of retired academics. Considerable efforts are currently focused on reducing ANR's administrative footprint by forming multi-county partnerships, rather than single county units, in order to administer UC's research and educational programs more efficiently and effectively. In addition, ANR is 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.

Following are examples of CE programs 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 of 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.

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 2010-11, over 5,400 UC Master Gardeners volunteered more than 296,000 hours, the equivalent of 145 full-time positions.

Healthy Californians. 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.

In addition, working with a Tulare school district, CE advisors and specialists delivered the EatFit program to sixth 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.

UMBILICAL CORD BLOOD COLLECTION PROGRAM

Developed pursuant to legislation chaptered in 2010 (AB 52, Portantino), UC established the Umbilical Cord Blood Collection Program (UCBCP) to increase the collection and availability of genetically diverse umbilical cord blood for public use, including purposes such as life-saving transplantation and adult stem cell research.

Revenue for the program will be provided, in part, through a new \$2 fee for certified copies of birth certificates, with these fees estimated to generate \$3 million annually. The administrative home for the UCBCP is at the Davis campus with program activities extending across the state, within the limits of available resources.

CHARLES R. DREW UNIVERSITY OF MEDICINE AND SCIENCE

The Charles R. 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 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 historical activities encompassed in the joint CDU/UCLA instructional program are described in two affiliation agreements with the David Geffen School of Medicine at the Los Angeles campus and the Los Angeles campus' 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 Geffen School.

In 2008, CDU expanded its medical student enrollment by four students (per class) as part of the UC PProgram in Medical Education (PRIME) initiative. The Los Angeles campus' PRIME program is designed to train physician leaders to be experts and advocates for improved healthcare delivery systems in disadvantaged communities. There are currently 108 medical students enrolled in the joint UCLA-CDU program, including 52 first- and second-year students at CDU.

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, 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 its residency programs.

Although no residents are currently in training, the University has worked with state, county, and other local officials to develop a plan for opening the hospital under new governance. This work is on schedule with a projected goal for reopening the hospital in the fourth quarter of 2014. Plans for re-establishing residency training are now in the early stages of discussion.

Consistent with provisional language in the budget act, UC reduced support for CDU by 5% in 2011-12. Funding for CDU instructional and public service programs is \$8.3 million in State Specific Funds and \$425,000 in matching funds. The University provides additional support from medical student Professional Degree Supplemental Tuition revenue and other University funds to support CDU.

CDU School of Nursing

CDU has recently launched 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 support nursing educational opportunities at CDU, \$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 stipulated that release of these funds was to be contingent upon matching funds from CDU, formal agreements relating to the ownership and occupancy of the building, agreement regarding the operation of the nursing program, and determination by the State Public Works Board that these conditions have been met. These agreements were reached in 2010-11, enabling release of this \$10 million to help fund the new building. CDU's new nursing school admitted its first class of students to an entry level Master of Science in Nursing program in Fall 2010.

"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

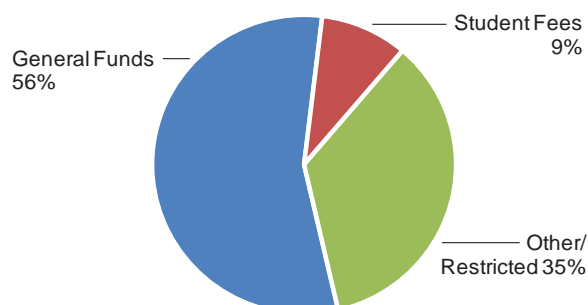
Academic Support — Libraries

Individually and collectively, the University of California libraries provide access to the world's knowledge for the UC campuses and the communities they serve. In so doing, they directly support UC's missions of teaching, research, and public service. The latest UC Undergraduate Experience Survey showed that 75% of upper division students believed that 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. 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 Californians.

In an increasingly knowledge-based society, the University's role in facilitating access to information in all its forms takes on broader significance and value. 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. 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.

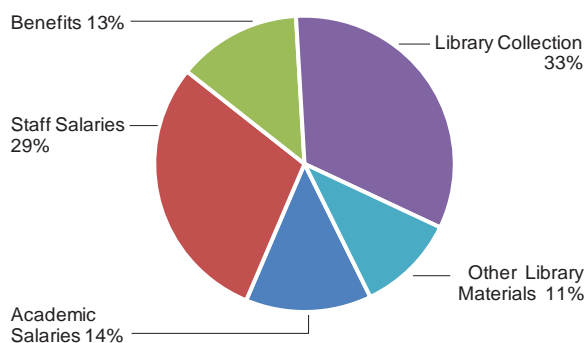
The UC library system includes more than 100 libraries at the 10 campuses and two regional library facilities. UC's library system has the second largest number of volumes held in the United States, more than 39 million (37 million print), surpassed only by the Library of Congress. In 2010-11, the economic value of the physical collection was estimated at \$1.1 billion and the special collections at

Display IX-1: 2010-11 Library Expenditures by Fund Source



About three-quarters of the libraries' budget is derived from core funds. Endowment earnings, private gifts, and other sources provide additional support.

Display IX-2: 2010-11 Library Expenditures by Category



About 45% of the libraries' budget provides for the purchase, preparation and use of library materials in a variety of formats (print, digital, multimedia, and objects). As in other functions of the University, salaries and benefits are the largest collective expenditure.

\$327 million, or 5.7% of UC's net capital assets. More than 2.9 million items were loaned by UC libraries in 2010-11, including 139,000 intercampus library loans and copies. Use of the libraries' digital collections continues to escalate, as more materials are available primarily or solely online. In 2010, more than 28 million journal articles were downloaded within UC.

Display IX-3: UC Libraries At-A-Glance, 2009-10

Number of Libraries	100+
Library Holdings	
Total print volumes	37 million
Average e-book titles on each campus	525,000
E-journal titles licensed systemwide	49,550
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 and government documents	2,297,134
Library Loans	
Total library loans	2,901,511
Intercampus loans	139,521
Regional facility loans	128,566

THE LIBRARY BUDGET

The total budget of the libraries is \$259 million in 2011-12. About two-thirds of the library budget is derived from core funds (State support, UC General Funds, and student tuition and 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 2010-11. Library materials, including books, subscriptions, and licensing of digital materials made up another 44%.

Campus library funding cuts have averaged approximately 20% since fiscal year 2008-09, while the cost of library materials continues to outpace inflation, further increasing budgetary pressures. Expansion in academic and research programs continues to increase demand for library collection growth in all formats, and students continue to demand long hours and extended access to library facilities that provide technologically well-equipped and flexible learning environments.

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

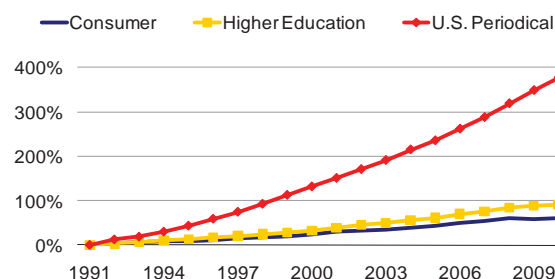
impact of persistent price increases for library materials, which consistently outpace the rate of inflation, as shown in Display IX-4.

To address past funding shortfalls for library collections and services, the libraries identified and developed 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 lending, lower capital costs resulting from use of shared off-site facilities, and 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 technologies 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

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 61% 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	\$32.1
Regional Libraries Facilities	\$18.4
California Digital Library	<u>\$59.2</u>
Total	\$109.7

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 to and decrease cost for the University and Californians.

Discovery and Delivery Services for print and digital library materials provide 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 lending institutions, saving time and effort by delivering journal articles online, retaining users' profile information, and providing citation information.

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 more than 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, secure in the knowledge that there is a copy available in the central collection that will be preserved and available.

In order to achieve even further economies of scale, the UC libraries are leading the **Western Storage Regional Trust (WEST)** initiative to establish a regional shared print journal archive with other institutions in the western region of the United States. The initiative 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 (CDL)** 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 203,000 digital images and documents from 238 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.

Mass Digitization. Millions of books from the UC libraries have been 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 own materials.

The **UC Curation Center (UC3)** 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 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, which supports 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 competitive 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, discussed further in the *Teaching Hospitals* chapter of this document, 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.

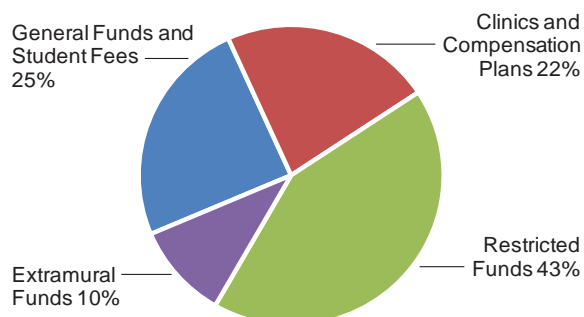
The State's ongoing fiscal crises have resulted in significant budget reductions throughout the University's budget. Academic and Institutional Support budgets were targeted by the State for specific cuts of \$36.5 million in 2003-04 and another \$45.4 million in 2004-05. Since then, campuses have instituted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

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.

Display X-1: 2010-11 Other Academic Support
Expenditures by Fund Source



Expenditures totaled \$1.2 billion in 2010-11. Clinics and other services are largely self-supporting through revenue other than core funds.

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.

Laboratory School

The laboratory school at the Los Angeles campus serves as a teaching laboratory for experimentation, research, and teacher training in the field of education. The school educates children and contributes 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, support for the arts, and specialized physical sciences and engineering projects.

"UC's medical centers — which provide the highest standard of care to thousands of Californians — offer our health science students an unparalleled opportunity to observe and learn high-quality, safe, patient-centered care."

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.

The core clinical learning experiences in the health sciences take place in the UC medical centers and other UC-sponsored teaching programs. The University's academic medical centers operate in urban areas and serve as regional referral centers providing tertiary and quaternary clinical services that are often available only in an academic setting. Additionally, the medical centers provide the entire spectrum of clinical services, including primary and preventive care. For example, the medical center at Irvine operates two federally qualified health clinics, providing primary and preventative services to the underserved community. 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 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 victims.

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

Display XI-1: UC Medical Centers At-A-Glance, 2010-11

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

Licensed acute care inpatient bed capacity	3,185
Patient days	856,263
Outpatient clinic visits	3,837,210
MDs awarded per year	635
Nursing degrees awarded per year	439

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

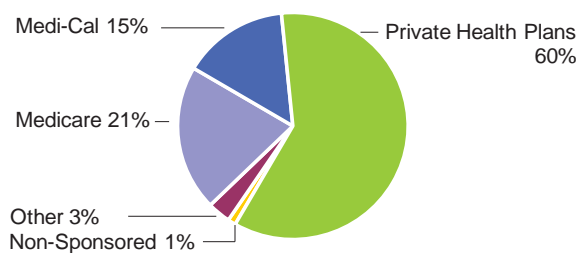
Patient care reimbursements from Medicare, the federal governmental health insurance system for eligible elderly and disabled persons, constituted 20.8%, or \$1.35 billion, of medical center revenues in 2010-11. Each of the medical centers is currently certified as a provider for Medicare services and 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 medical center staff as a result of teaching activity or additional tests and procedures that may be ordered by residents. The combined direct and indirect medical education payments in 2010-11 were \$195 million, or 14% of Medicare payments to the five medical centers.

Display XI-2: 2010-11 Medical Center Revenue by Source



In 2010-11, the medical centers generated over \$6 billion from patient care and other activities. While 60% of medical center revenues are derived from private health care plan reimbursements, approximately 36% 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 14.9%, or \$967 million, of medical center revenue in 2010-11. 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 in 2010, is a five-year demonstration project that began in November 2010 and expires in 2015. 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 payments 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;
- Uncompensated Care Pool payments, which are payments for otherwise uncompensated care provided to certain uninsured patients; and
- Delivery System Reform Incentive Payments, which are payments that compensate the medical center for quality improvement activities.

Additionally, the Waiver expands access and better coordinates care for 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

program. Hospitals are assessed fees and the resulting funds 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.

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 nearly \$4 billion in 2010-11. 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.

Other Sources

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 2010-11, CTS funds declined to \$32.9 million.

County Funding Programs. Counties in the State of California reimburse certain hospitals for selected 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 \$72.1 million, or 1.1% of teaching hospital funding.

CURRENT CHALLENGES AND ISSUES

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

- increased linkages between clinical payments and clinical outcomes, including reduced or no payment for adverse or unexpected events and outcomes;
- 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 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 its 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 health care acts:

- 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 consistently 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 Variation. 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.

"Just as we give our students a rich classroom experience, we also expose them to a wealth of opportunities to grow culturally and socially outside the classroom."

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

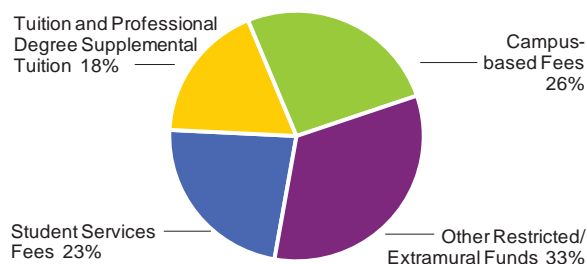
Student Services

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 2011-12 the student services budget is \$599.4 million, most of which is generated from student fees. Student services include a variety of programs:

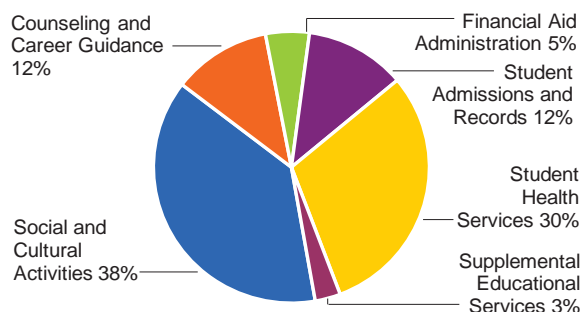
- **Counseling** assists students with personal concerns, academic performance, choice of major, assessing interests and aptitudes, and career opportunities.
- **Academic support services** offer individual and group tutorial services in writing, mathematics, and study skills, as well as preparation 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: 2010-11 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: 2010-11 Student Services Expenditures by Category



In 2010-11, 80% of student services expenditures were for non-administrative activities in counseling, cultural and social activities, and student health services.

Recently, questions have been raised about the fund sources used to support athletics programs. As a quality of life program for students, athletics and recreation programs are appropriately supported from Student Services Fee (formerly known as Registration Fee) revenue. Under 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 Tuition and 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. Issues about funding for intercollegiate athletics were examined as part of the recent audit by the Bureau of State Audits. The audit found no issue with UC's policies or procedures with regard to funding for athletics.

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 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.

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 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 (e.g., suicide ideation, depression, stress, and anxiety) with greater frequency and complexity (e.g., prescribed psychotropic medications in combination with psychological counseling);
- budget constraints limit campus capacity (e.g., increasing psychological counseling staff) 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 I, 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 in order to promote communication and collaboration.

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 a number of 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 demand for interpreting and/or real-time captioning services (costs have increased for interpreters), and services for those suffering from repetitive stress injuries 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 (e.g., Post Traumatic Stress Disorder and Traumatic Brain Injury) 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 pinpointing 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

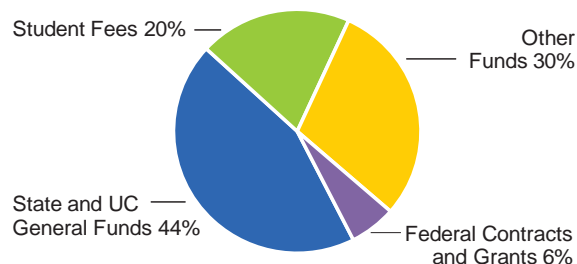
Institutional support services provide the administrative infrastructure for the University's operations. Grouped into five broad categories, institutional support activities include:

- **Executive Management** — offices of the president, vice presidents, chancellors, vice chancellors, Regents' officers, 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 address these unfunded mandates, the University has absorbed increased costs of new data collection processes, changes to existing information and reporting systems, and analytical staff.

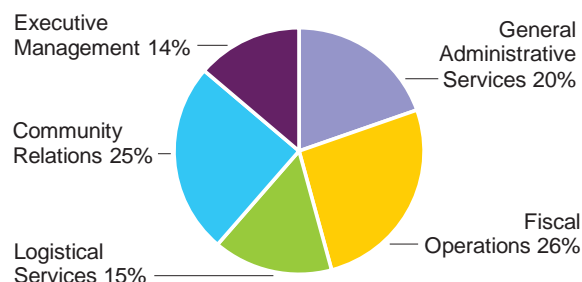
Despite these added expenses, institutional support expenditures as a proportion of total University expenditures have actually decreased over the last 30 years. Institutional support budgets are often one of the first areas of the budget to be reduced in difficult economic times. In response, UC administrative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

Display XIII-1: 2010-11 Institutional Support Expenditures by Fund Source



Core funds provide 64% of institutional support funding. Significant other sources include private funds, endowment earnings, and indirect cost recovery for contract and grant administration.

Display XIII-2: 2010-11 Institutional Support Expenditures by Category

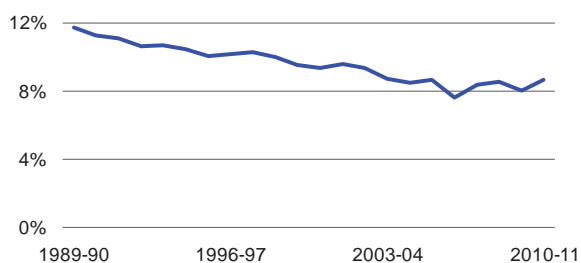


Logistical services, fiscal operations, and general administrative services comprise nearly two-thirds of institutional support expenditures.

Since the early 1990s, institutional support budgets have been significantly reduced 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 with then-Governor Wilson.

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 from nearly 12% in 1989-90 to nearly 9% in 2010-11.

- 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 fundraising 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 in accordance with 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 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 on mission.

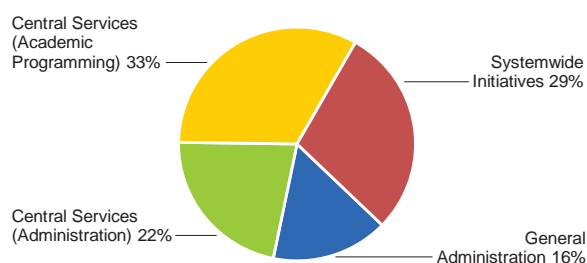
Since 2007-08, reductions in core administrative units at UCOP, the Academic Senate, and the Regents' Offices have totaled \$86.8 million, including \$38.9 million in 2011-12. Since 2007-08, staff positions have been reduced by more than 26% – over 500 FTE – from 2,069 to 1,533.

Restructuring of UCOP included thorough department-by-department functional analyses, providing the basis for consolidation of many functions. These measures included 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.

In addition to this major restructuring, UCOP has also been affected by implementation of a new funding model for the University. The Funding Streams Initiative significantly changes the way funds are distributed between UCOP and the campuses. The model is designed to simplify University financial activity, improve transparency, and incentivize campuses to maximize revenue. Additional information on the Funding Streams Initiative is provided in the *Sources of University Funds* chapter of this document.

The 2011-12 budget approved for UCOP¹ reflects the new funding model and a clarified vision of the appropriate role

Display XIII-4: 2011-12 UCOP Budget by Category



The majority of the UCOP budget supports central academic and administrative services, such as the California Digital Library, the Education Abroad Program, and various research and academic preparation programs, while nearly 29% supports systemwide initiatives, such as the California Institutes for Science and Innovation.

¹ Available at www.universityofcalifornia.edu/regents/regmeet/jul11/f9.pdf.

of the central administration in support of the 10 campuses. In this new vision, UCOP performs three distinct and separate functions:

General administration, which includes those responsibilities that UCOP performs on behalf of the entire University of California system, including the campuses, the medical centers, and the Lawrence Berkeley National Laboratory. These responsibilities include governance, as performed by the direct reports of the Board of the Regents (the Secretary and Chief of Staff, the Chief Compliance and Audit Officer, the Treasurer, and the General Counsel of the Regents) and the Academic Senate.

Central services, which UCOP provides to the entire system as an efficiency to avoid redundancy of functions. These services include:

- Administrative functions, including systemwide budget management and external relations, management of the single retirement and benefit systems, and the financial management of the University, including banking services, cash management, corporate accounting, risk services, and strategic sourcing; and
- Academic programs, including central administration of a single digital library system, UC Press, campus-based research, admissions, and student academic preparation.

Systemwide initiatives, which are administered at and/or funded from the center to the benefit of the entire UC system. These initiatives include critical academic and research programs, such as the UC Observatories and the California Institutes for Science and Innovation; external relations, advocacy and public service activities conducted on behalf of the system; the statewide cooperative extension program administered by Agriculture and Natural Resources; and the administration of non-campus-based facilities, such as the UC Washington Center.

As shown in Display XIII-4, over half of the UCOP budget supports central services, both administrative and academic. General administration, including the Academic Senate and Regents' Officers, accounts for another 16%.

In 2011-12, the UCOP budget decreased slightly, about 4%, from 2010-11. This decrease includes an 11% reduction in the unrestricted portion of the budget and a 6.7% increase in the restricted portion, reflecting expanded activity in such restricted-funding areas as the Treasurer's

Office, the University of California Retirement System administration, and State special research programs.

The total UCOP budget represents about 2.5% of the overall University of California budget, with less than one-fifth 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 functions as systemwide retirement and benefits programs, labor relations, centralized undergraduate admissions, and administration of Department of Energy 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.

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 growth in faculty and the University's instructional program. An analysis of financial and payroll data from fiscal years 1997-98 and 2010-11 helps to clarify where personnel growth has occurred and identifies primary factors driving such growth.

Almost three-quarters of the 137,313 full-time equivalent (FTE) personnel at the University in 2010-11 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. In particular, non-academic personnel include thousands of employees at UC's medical centers and at the campuses, who provide direct services

to students, faculty, and the public. These non-academic staff include the following:

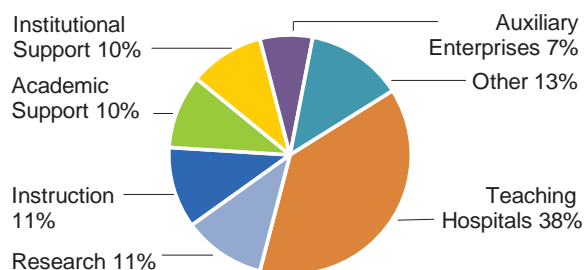
- health care and allied service professionals at medical centers and campus health centers;
- food service workers in UC dining halls and restaurants;
- UC police forces;
- gardeners, janitors, and others who tend to UC's grounds and buildings;
- student mental health advisors;
- student services and 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 13% of non-academic 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 personnel have been driven primarily by expansion in teaching hospitals and research (as shown in Display XIII-6), areas largely supported from fund sources other than State General Funds and student tuition and fees. Combined, other sources support 76% of all UC FTE, an increase from 68% in 1997-98. This reflects, as well, the decline in State fund support that was not offset by tuition revenue over this period.

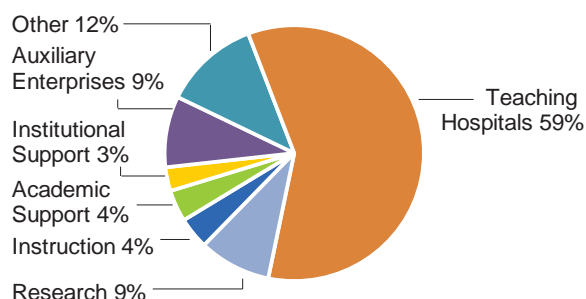
Academic appointees continue to make up the same relative percentage (27%) of total FTE employee as they did in 1997-98. This reflects growth in instruction in

Display XIII-5: Non-Academic FTE Employees by Function, 2010-11



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 2010-11



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.

combination with the expanding research enterprise. Academic employees include instructional faculty, professional researchers, librarians, and postdoctoral scholars. Growth in FTE faculty (37%), including ladder rank and non-ladder rank faculty, as well as lecturers, kept pace with growth in student enrollments (38%).

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 74%, while staff in the mid-range Assistant II titles fell 43%, and Assistant I titles, populated with entry-level positions, declined by 80% between 1997-98 and 2010-11. 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 6% of all FTE personnel, while PSS titles experienced a corresponding decline from 70% to 67%. The MSP category includes not only managers but a wide variety of other professional occupations – among them computer programmers and analysts, physicians and dentists, engineers, and administrative budget/personnel analysts. While still comprising over half of the personnel in the MSP

category, manager positions have declined slightly from 58% in 1997-98 to 54% in 2010-11, while computer programmer and analyst positions 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 192 FTE. This decline reflects in large part a realignment of about 100 academic deans and other faculty administrator titles from the SMG personnel category to the academic personnel program. The SMG category continues to represent well below 1% of total FTE employees.

“World-class research and teaching require facilities of equal caliber to meet faculty instruction needs and serve the growth in student enrollment. We can’t let outdated buildings hamstring how we teach and learn.”

*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 over 127 million gross square feet of space in over 5,000 buildings at the 10 campuses, five medical centers, and nine agricultural research and extension centers. Over 61.6 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 auxiliary enterprises. OMP costs of facilities housing these self-supporting programs are included in their budgets. OMP expenditures for State-eligible space totaled \$527.2 million in 2010-11.

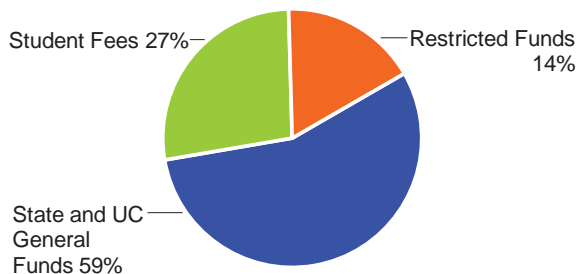
Three types of funding are required to operate, maintain, and preserve facilities and campus infrastructure:

- **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

Between 2007-08 and 2010-11, the University has been forced to cut funding for the operation and maintenance of

facilities to help protect core academic programs. While some of this reduction represents efficiencies that have increased operational efficiency that is good for the fiscal health of the University, much of the reduction represents negative austerity measures, such as cuts in building maintenance activities, scaled back or eliminated preventive maintenance programs, and reduced, often drastically, custodial and grounds maintenance services. Substantial as they have been, recent reductions in OMP spending 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: 2010-11 OMP Expenditures by Fund Source

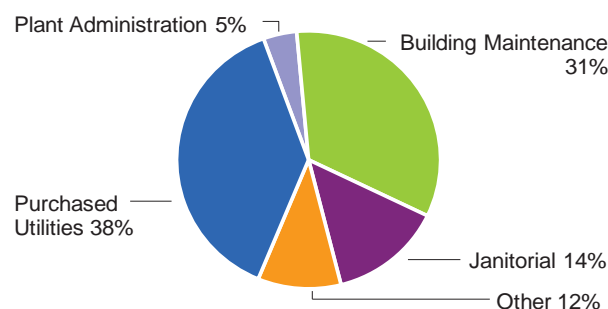


The bulk of OMP expenditures are supported by State and UC General Funds and student fees funds.

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. Nearly 60% of the University’s State-eligible space is more than 30 years old, with the majority of that space built between

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-2: 2010-11 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.

1955 and 1980. These aging facilities are more expensive to maintain, and, with building systems at or beyond their useful life, are 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, as well as increases in basic operating costs due to continuing growth in campus physical plants.

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 UC 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 increases in OMP funding to be provided as part of a 1% increase to UC's State support, 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. Most recently, between 2008-09 and 2010-11, the Compact with Governor Schwarzenegger called for an additional 1% base budget adjustment each year to be used to address critical shortfalls in State funding for core academic support functions, including ongoing building maintenance. Due to the State's second fiscal crisis of the decade, this provision was not funded.

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

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 at UC, 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.

adequate operation and maintenance funding for much of the last decade, 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 long term underfunding of OMP.

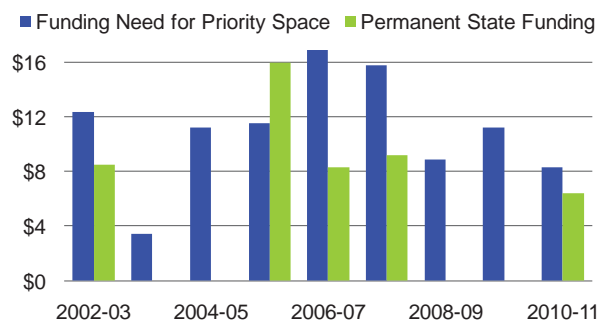
In 2002-03, the State provided support for utilities and maintenance costs for only about two-thirds of the new core instructional and research space. During 2003-04 and 2004-05, the State provided no funding for new space and the University redirected \$7 million from existing University resources to 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 budget 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 both hiring new faculty and maintenance of new space. Using the new methodology³, \$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, UC 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

Display XIV-3: Annual Need and State Funding for Maintenance of New Space (Dollars in Millions)



In eight of the last nine years, UC's need exceeded State appropriations.

cuts to operating budgets. This temporary funding, supporting operation and maintenance of approximately 1.1 million gross square feet of new space in 2009-10 and additional space anticipated to open in 2010-11, ended in 2011-12.

The 2010-11 State budget provided \$51.3 million for 5,121 new FTE (based on a marginal cost of instruction of \$10,012), of which approximately \$6.4 million covered the cost for maintenance of new space. With the additional \$650 million cut in State support, no marginal cost funding was provided for maintenance of new space in 2011-12. The University is now operating over 4 million square feet of core program space that is eligible for State support but unfunded by the State. Campuses have been forced to redirect other resources or reduce other OMP expenditures to operate these unfunded facilities. 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 above inflation of 2% for electricity and 3.5% for natural gas.⁴ This slowdown in energy commodity cost increases is a significant change from recent years. As discussed below, however, longer term forecasts

³ A discussion of the marginal cost methodology may be found in the *General Campus Instruction* chapter.

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 is based on current projections by the California Energy Commission.

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 jumped 120% between 1999-00 and 2009-10.

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, declining natural gas prices have reduced annual increases in overall energy commodity costs. New pressures in the energy markets and aging utility-owned distribution systems that require significant investment 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 redirect resources to cover shortfalls in purchased utilities funding.

Impact of UC Growth on Purchased Utility Costs

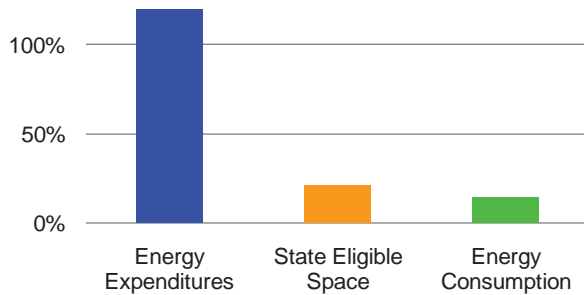
Purchased utilities costs are affected by both commodity rates and consumption levels. Higher commodity rates for electricity and natural gas account for most of the steep rise in purchased utilities costs since 1999-00, although cost increases have slowed moderately over the last two years. Consumption has also increased, but at a slower rate than enrollment-driven growth in new space as a result of aggressive energy efficiency standards for new buildings and efficiency retrofits in existing facilities.

Between 1999-00 and 2009-10, 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. Such buildings with complex mechanical systems, 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-5. 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.

Energy Efficiency to Mitigate Cost Increases

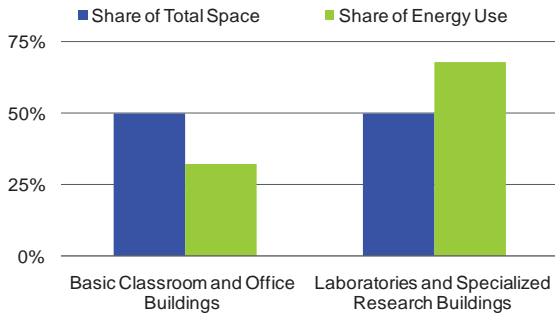
Without additional State funding, UC has sought to mitigate rising purchased utilities costs by moving aggressively to

Display XIV-4: Growth in Energy Expenditures, State-Eligible Space, and Energy Consumption between 1999-00 and 2009-10



Between 1999-00 and 2009-10, the University's total maintained space grew by 20%, energy consumption by 13%, and commodity expenditures for electricity and natural gas by 120%.

Display XIV-5: 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.

manage overall energy consumption. UC has continued to implement stringent energy conservation measures, undertaken capital improvements to maximize the efficiency of new buildings, sought to purchase energy at the lowest rates possible by negotiating with and procuring from third parties, and invest 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 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.

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 balance. 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%.

To date, the partnership program has resulted in energy savings of 130,000 million kWhs, 9.8 million therms, and 95,000 metric tons of greenhouse gas emission reduction. This was accomplished by the campuses and medical

centers through the implementation of 418 projects requiring an investment of \$161 million, offset by \$39.5 million in utility incentives. The program has resulted in avoided energy costs of over \$21 million (over \$9 million after debt service).

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 while developing a long-term strategy for energy procurement that will reduce costs and advance efforts to meet the University's Policy on Sustainable Practices. The policy mandates that the University reduce overall growth-adjusted energy consumption by 10% below 2000 levels by 2014. The policy also requires reducing greenhouse gas emissions to 2000 levels without a growth adjustment by 2014 and to 1990 levels by 2020.

Electricity. UC was able to take advantage of favorable market conditions in early 2011 that provided an attractive window for commodity pricing, with several campuses continuing contracts with the University's direct access provider through April 2013 and other campuses benefiting from shorter term contracts. Once the current direct access contracts expire in April 2013, UC intends to launch a long-term procurement strategy that is intended to position the University in a more predictable energy market by delivering renewable energy from remote sites to the campuses at a reasonable cost. To date, efforts to expand the University's use of renewable power has been delayed due to slow development, regulatory hurdles, and premium costs. The direct access program will also facilitate the delivery of non-conventional energy sources to the University's participating campuses and medical centers.

Based on current projections, the electricity supply cost component that is furnished by the utilities is expected to increase by 2% above inflation in 2011-12, while the

commodity portion furnished by the third party provider has stabilized at 6% below the equivalent utility cost. The projected increases in electricity prices are primarily due to compliance with California's mandate to increase the renewable energy content of the statewide generation component, currently at 20%, to 33% in 2020.

Aside from the renewable energy commodity cost impacts, the State is bracing for major transmission grid upgrades to accommodate the new generation sources that will require significant investments by all of California's investor-owned utilities (an estimated \$5.5 billion in Southern California Edison's territory alone). Further regulation by the California Air Resources Board (CARB) resulting from recent legislation (Assembly Bill 32) will add to the effective energy charges through utility tariff mechanisms and assessments by CARB that are still under development. CARB actions will have a direct impact on UC, as campuses are regulated under the cap-and-trade program starting in 2013. The cost impact of the cap-and-trade program on UC is uncertain but is expected to be about \$12 million in 2013 and rising from there.

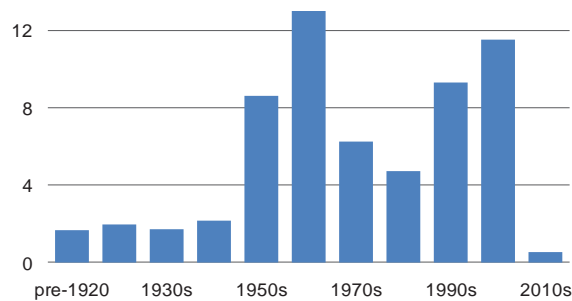
Natural Gas. Most campuses have been managing natural gas costs by developing a portfolio of longer-term natural gas contracts, many with the State pool through the Department of General Services (DGS). Due to uncertainty of the DGS commitment to continue in the role of procuring natural gas, and the anticipated need for acquiring biogas assets for fueling the University's co-generation plants, the University is exploring alternative procurement methods.

CAPITAL RENEWAL AND DEFERRED MAINTENANCE

The University faces growing costs to maintain and renew its inventory of aging buildings and supporting infrastructure. About 45% of the University's State-eligible space was constructed between 1950 and 1980, as shown in Display XIV-6.

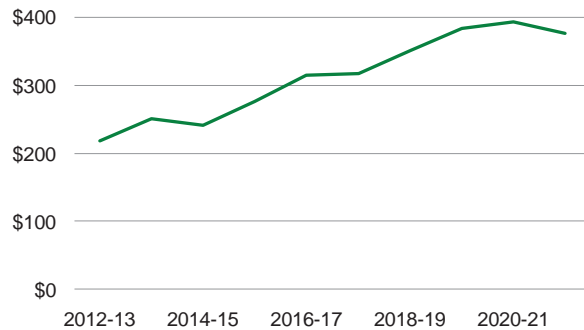
Over the next decade, many of the electrical, heating, ventilation and air conditioning (HVAC), elevator and conveying, plumbing, and other systems in these buildings will reach the end of their useful life. As a result, the University's annual capital renewal needs are projected to

Display XIV-6: State-Maintained Space by Decade of Construction (Gross Square Feet in Millions)



The University's physical plant expanded rapidly in the 1950s and 1960s and again in the late 1990s and 2000s.

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.

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.

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 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

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	UC initiated 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 had sufficient revenues to participate. Bonds have financed \$221.1 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 to 2010	UC proposed to implement a capital renewal program to be funded with State general obligation bonds. With no bonds being placed on the ballot in 2008 and 2010, the program has not been implemented.

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 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 discussed in the companion to this document, the *2011-21 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 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.

"For the first time, as a result of the continuing loss of state funding, the amount parents and students pay for a UC education has surpassed the state of California's investment in the University of California. This is a sad reality for America's premier public university and the instruction, research, and public service we provide our citizens."

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; in 2010-11, these sources provided approximately \$2.54 billion¹ 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 Tuition and Fee Policy established by the Regents in 1994. The policy specifically authorizes the use of Tuition revenue for general support of the University, including costs related to instruction. As noted in the *Sources of University Funds* chapter of this document, students now pay approximately 49% of the cost of education. Over the past 21 years, the State's inflation-adjusted contribution per UC student has declined by 60%; in 2011-12, the contribution of students through their tuition and fees has surpassed the State's funding contribution for the first time in the University's history.

Tuition and 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 tuition and 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. Given the large share of instructional costs currently funded from student tuition and fees, annual tuition and fee increases are increasingly necessary for the University to address rising costs, barring extraordinary reinvestment by the State. All tuition and fee increases since 1990-91 have been a direct result of inadequate and volatile State support.

¹ Includes mandatory systemwide charges, Professional Degree Supplemental Tuition, and Nonresident Supplemental Tuition, but excludes fees charged at the campus level and UC Extension fees.

Students² at the University of California pay five different types of charges:

- **Tuition** (formerly known as the Educational Fee), a mandatory systemwide charge assessed to all registered students providing general support for UC's budget;
- The **Student Services Fee** (formerly known as the Registration Fee), another mandatory systemwide charge assessed to all registered students that supports services benefiting students;
- **Professional Degree Supplemental Tuition**, paid by students enrolled in a number of professional degree programs to support instruction and specifically to sustain and enhance program quality;
- **Nonresident Supplemental Tuition**, charged to nonresident students in addition to mandatory charges and any applicable Professional Degree Supplemental Tuition charges, 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 tuition and fee increases in recent years, the University's ongoing commitment of setting aside a percentage of student tuition and fee revenue for financial aid, discussed in the *Student Financial Aid* chapter of this

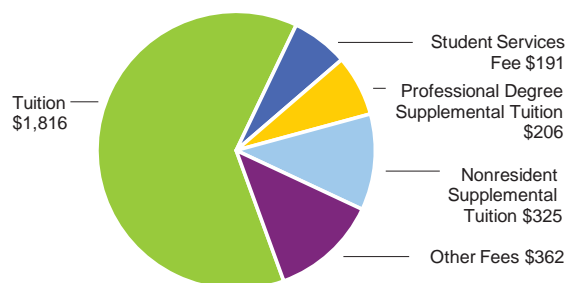
Display XV-1: 2011-12 Student Tuition and Fee Levels

Student Services Fee	\$972
Tuition	\$11,220
Professional Degree Supplemental Tuition	\$4,000-\$35,148
Nonresident Supplemental Tuition	
Undergraduate	\$22,878
Graduate Academic	\$15,102
Graduate Professional	\$12,245
Campus-based Fees ³	
Undergraduate	\$494 - \$1,668
Graduate	\$168 - \$1,087

² Although counted as students, medical and other health sciences residents are not assessed student charges.

³ Campus-based fee levels for undergraduate and graduate students do not include waivable health insurance fees.

Display XV-2: 2010-11 Student Tuition and Fee Revenue
(Dollars in Millions)



In 2010-11, student tuition and fees generated \$2.54 billion to support the University's core operating budget and student financial aid. Campus-based fees totaling \$362 million support specific programs outside the core budget, such as student government and transportation.

document, has helped maintain the affordability of a UC education. At the undergraduate level, 33% of new revenue from tuition and fee increases and 30% of total tuition and fee revenue is used for student financial aid to ensure that the University remains financially accessible so that costs are not a barrier for academically eligible students in seeking and obtaining a UC degree.

To date, UC's charges have remained competitive with those of the University's four public comparison institutions for resident undergraduates and resident graduate academic students. In 2011-12, the University's average fees for California resident undergraduate students remain below the tuition and fees at two of the 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

Tuition

Tuition (formerly known as 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. Tuition revenue is also used to provide student financial support. In 2010-11, Tuition generated \$1.816 billion for operations.

The Regents set Tuition levels annually as described in the 1994 Student Tuition and Fee Policy.⁴ The policy directs the President of the University to recommend annual Tuition 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 Tuition and Fee Policy, Tuition revenue is 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 has been levied to make up for inadequate State funding.

In 2011-12, Tuition is \$11,220 for every student, regardless of student level, residency, and program.

Student Services Fee

The Student Services Fee (formerly known as the Registration Fee) is also charged to all registered students. Revenue from the fee funds services that are necessary to students but not part of the University's programs of instruction, research, or public service. In 2010-11, the fee generated \$191 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 Tuition, the Regents set Student Services Fee levels annually in accordance with the 1994 Student Tuition and Fee Policy. In 2011-12, the Student Services Fee is \$972 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.

⁴ www.universityofcalifornia.edu/regents/policies/3101.html.

FEES VERSUS 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 approved the renaming of two student charges as "tuition." Using the word "tuition" increases transparency about UC's costs for the general public, students, and families; makes UC's terminology consistent with its public comparison institutions and entities to which UC reports its student charges; and helps UC avoid problems with the implementation of federal financial assistance programs.

Professional Degree Supplemental Tuition

Professional Degree Supplemental Tuition (formerly known as professional degree fees) were established in 1994-95 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 Degree Supplemental Tuition, and stated that revenue from these fees would remain with the University and not be used to offset reductions in State support.

In 2011-12, these fees are charged to students enrolled in graduate professional degree programs in architecture; art; business; dental hygiene; dentistry; educational leadership; engineering; environmental design; health informatics; 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.

Assessed in addition to mandatory student charges and, if applicable, Nonresident Supplemental Tuition, Professional Degree Supplemental Tuition levels during 2011-12 range from \$4,000 to \$35,148 depending on the program, campus, and student residency. In 2010-11, these charges generated \$206 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 professional school deans 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 Degree Supplemental Tuition increases is one of the ways to regain and maintain the excellence threatened by budget cuts.

The Regents' Policy on Professional Degree Supplemental Tuition⁵ specifies that these charges 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 Professional Degree Supplemental Tuition 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.

Professional Degree Supplemental Tuition increases for 2011-12 varied by program but ranged between 0% and 31%. Almost half of the programs charging Professional

⁵ www.universityofcalifornia.edu/regents/policies/3103.html.

Degree Supplemental Tuition prior to 2011-12 determined that within their current marketplace, annual increases in Professional Degree Supplemental Tuition charges for 2011-12 of 7% or less were sufficient to meet their program goals and objectives; nursing, as well as selected law and business programs, were at the higher end of the range of percentage increases. These increases were approved in the context of the programs' multi-year plans and are enabling programs to act on investment needs such as new faculty positions, facility needs, and financial aid program development.

The Regents will be asked to approve increases in existing Professional Degree Supplemental Tuition charges for 2012-13 at a future meeting. In addition, the Regents will be asked to establish new Professional Degree Supplemental Tuition charges for a number of programs. Proposals have been received for supplemental charges for programs in applied economics and finance, biotechnology management, development practice, engineering management, genetic counseling, product development in chemistry, and statistics.

Nonresident Supplemental Tuition

In addition to all other applicable tuition and fees, UC students who do not qualify as California residents are required to pay Nonresident Supplemental Tuition, consistent with the State's policy not to provide support for nonresident students. Enrollment of 20,180 nonresident students, including both international students and domestic students from other states, generated \$325 million in 2010-11.

Nonresident tuition levels in 2011-12 vary by student level and program: \$22,878 for undergraduate students, \$15,102 for graduate academic students, and \$12,245 for graduate professional students. Doctoral students advanced to candidacy are not charged Nonresident Supplemental Tuition while enrolled within normative time to degree. The California Education Code provides direction to UC about setting Nonresident Supplemental 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

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.

establishment of permanent residence in California, determined by meeting a variety of criteria specified in State law. In addition, nonresident undergraduates must prove financial independence from their parents to be reclassified as residents, and very few undergraduates can meet that standard. Reclassification is more common at the graduate level, although this is not the case with international students, who cannot establish California residency. Thus undergraduate students and international graduate students typically pay Nonresident Supplemental Tuition each term that they attend UC, while domestic graduate students typically pay Nonresident Supplemental Tuition for only one year.

A significant concern associated with Nonresident Supplemental Tuition is the University's ability to attract high quality nonresident undergraduate and graduate students. For several years between 2000 and 2010, the University fell short of its goals for nonresident enrollment and tuition revenue. For undergraduates, UC's total charges for nonresidents 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 Supplemental Tuition levels for graduate academic students since 2004-05 and graduate professional students since

2003-04.⁶ The University annually monitors the numbers of nonresidents applying to and enrolling at UC. Future increases in Nonresident Supplemental Tuition will be carefully considered, given the potential impact on nonresident enrollment. UC campuses are engaged in efforts to increase enrollment of nonresident undergraduates to help generate revenue to replace lost State support, as discussed in the *General Campus Instruction* chapter of this document.

Regarding Nonresident Supplemental Tuition for graduate academic students, the faculty has expressed interest in eliminating this charge. State policy constrains the extent to which the University can reduce Nonresident Supplemental 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 Supplemental Tuition on its ability to fund competitive awards. By forgoing increases in graduate Nonresident Supplemental Tuition over the past few years, the University has effectively reduced the need for graduate awards to cover Nonresident Supplemental Tuition. Continuing to do so will further ease the pressure on the fund sources that currently provide such coverage.

Fees Charged at the Campus Level

Campuses may also charge fees for specific needs related to campus life and safety or instruction.

Campus-based Fees. Campus-based fees cover a variety of student-related expenses that are not supported by Tuition 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 programs and activities such as transit.⁷ The number and dollar amounts of campus-based fees vary across campuses and between undergraduate and graduate students. Campus-based fees for 2011-12 range from \$168 at San Francisco (graduates) to \$1,668 at Davis

Display XV-3: 2011-12 Campus-based Fee Levels

<u>Campus</u>	<u>Undergraduate</u>	<u>Graduate</u>
Berkeley	\$643	\$643
Davis	\$1,668	\$913
Irvine	\$930	\$770
Los Angeles	\$494	\$370
Merced	\$878	\$617
Riverside	\$731	\$598
San Diego	\$1,010	\$542
San Francisco	n/a	\$168
Santa Barbara	\$1,403	\$763
Santa Cruz	\$1,224	\$1,087
Average	\$989	\$606

(undergraduates); in 2011-12, average campus-based fees are \$989 for undergraduates and \$606 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. Display XV-3 shows campus-based fee levels during 2011-12.

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 2010-11, these fees generated more than \$17 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 tuition and 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

⁶ Nonresident graduate academic students experienced a slight increase in Nonresident Supplemental Tuition in 2011-12, which was offset by the elimination of differentials in the Tuition charge for nonresidents. The change was cost-neutral to students.

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, which average \$1,175 for undergraduates and \$2,091 for graduates in 2011-12.

Display XV-4: 2011-12 University of California and Public Comparison Institution Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Comparison Institutions				
SUNY Buffalo	\$7,482	\$16,932	\$10,408	\$17,198
Illinois				
Lowest	\$14,414	\$28,556	\$14,390	\$27,656
Highest	\$19,238	\$33,380		
Average	\$16,826	\$30,968		
Michigan				
Lower division	\$12,634	\$37,782	\$18,860	\$37,920
Upper division	\$17,466	\$42,654		
Average	\$15,050	\$40,218		
Virginia	\$11,794	\$36,788	\$15,108	\$25,104
UC	\$13,181	\$36,059	\$12,798	\$27,900

In 2011-12, 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 on campus websites. UC figures include mandatory systemwide charges, campus-based fees, and Nonresident Supplemental Tuition for nonresident students. Waivable health insurance fees are not included. Figures for Illinois represent the minimum base rate and the maximum charge for higher-cost programs.

monitors the net cost of attendance – i.e., total charges for tuition and 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 tuition and 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.

Despite the significant fee increases implemented over the last ten years, in 2011-12 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-4. 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 two of the four comparators at the undergraduate level and below only one 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 2011-12 UC's tuition and fees remain significantly lower than those of its private comparison institutions (Harvard, MIT, Stanford, and Yale).

Professional School Comparisons. For 2011-12, UC charges 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 multi-year plans for Professional Degree Supplemental Tuition.

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. In 2010, the Registration Fee was renamed the Student Services Fee.

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.

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. 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. In 2011, the Educational Fee was renamed Tuition.

RECENT HISTORY OF UNIVERSITY OF CALIFORNIA STUDENT TUITION AND FEES

1990-91 to 1994-95	Fees increased by 157% over the five-year period in response to significant State funding reductions.
1994-95	The Regents approved a new Student Fee Policy, the Fee Policy for Selected Professional School Students, and the Financial Aid Policy.
1995-96 to 2001-02	Due to strong support from the State, mandatory systemwide charge levels for resident students did not increase for seven consecutive years.
2002-03 to 2005-06	Due to the State's deteriorating fiscal situation, fees doubled for resident undergraduate and graduate academic students. Increases for nonresident and professional students were even higher.
2006-07	The State provided supplementary funding to avoid student tuition and fee increases.
2007-08 to 2008-09	Mandatory systemwide charges increased by 8% in 2007-08 and 7% in 2008-09. Professional Degree Supplemental Tuition increased by 7-12% in 2007-08 and 5-20% in 2008-09, varying by program.
2009-10 to 2010-11	In May 2009, the Regents approved an increase of 9.3% in mandatory student charges 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 charges 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 charges for all students. Professional Degree Supplemental Tuition increased from 0%-25% in 2009-10 and from 0-30% in 2010-11.
2011-12	In November 2010, mandatory systemwide charges assessed to undergraduate and graduate resident students increased by 8%. Professional Degree Supplemental Tuition increased by 0-31%, varying by program. Two UC charges were renamed "tuition" instead of "fees." Due to reductions in State support for UC, mandatory systemwide charges increased by an additional 9.6% in July 2011.

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, during the early 2000s, and more recently – student tuition and fees increased dramatically in response to significant reductions in State funding. The Appendix to this document includes historical tuition and fee levels for UC students by level and residency.

KASHMIRI AND LUQUETTA LAWSUITS

A lawsuit against the University, *Kashmiri v. Regents*, has impacted Tuition 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 Professional Degree Supplemental Tuition that were approved by the Regents for Spring 2003 (and for all subsequent years) violated a contract between the University and students that Professional Degree Supplemental Tuition levels 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 Degree Supplemental Tuition increases approved by the Regents for 2004-05 and 2005-06 from students affected by the lawsuit. At the end of 2009-10, the University had lost \$23.5 million in uncollected Professional Degree Supplemental Tuition 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 Tuition surcharge of \$60 is being assessed to all students until the lost revenue is fully replaced and the judgment is fully paid in two to three years.

A second lawsuit, *Luquetta v. Regents*, was filed in 2005 and seeks to extend the Professional Degree Supplemental Tuition claim to professional students who enrolled during the 2003-04 academic year. In April 2010, the trial court entered judgment in favor of the plaintiffs in the amount of \$39.4 million. The University's appeal is currently pending. Post-judgment interest is accruing at 10% annually.

"More than six out of ten UC undergraduates receive scholarship or grant assistance. UC is steadfastly committed to maintaining accessibility. We continue to take significant measures to ensure students at all income levels can attain a UC degree."

Kate Jeffery
University of California
Director of Student Financial Support

Student Financial Aid

Guided by 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 2009-10, UC students received \$2.9 billion in financial aid, of which \$877 million (30%) 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. During the 2009-10 academic year, 58% of UC undergraduates received grant/scholarship aid averaging \$12,753 per student. Despite tuition and fee increases, the University of California is nationally recognized as a leading institution in enrolling an economically diverse pool of undergraduate students. In 2009-10, 35% 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 2009-10, 62% 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

FINANCIAL AID PRIORITIES FOR 2012-13

In 2012-13, the University proposes to:

- Set aside, as a minimum, amounts equal to 33% of new systemwide tuition and fee revenue from undergraduate and graduate professional students, and 50% of new systemwide tuition and fee revenue from graduate academic students, for student support;
- Continue to ensure that tuition and fee increases do not deter talented, low-income students from aspiring to attend UC by fully funding the Blue and Gold Opportunity Plan, which provides full coverage of mandatory systemwide tuition and fees for eligible resident undergraduates with family incomes up to \$80,000 (up to the students' need);
- Provide assistance to financially needy middle-income families to offset the impact of any tuition and fee increase proposed for 2012-13; and
- Continue a fundraising effort that aims to raise \$1 billion for student support over four years.

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.

University to enroll top students from around the world has been a longstanding concern at UC.

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, tuition and 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 tuition and 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 tuition and fees threatened the University's ability to offer competitive student support packages and placed additional strain on

¹ The University of California Financial Aid Policy is available at www.universityofcalifornia.edu/regents/policies/3201.html.

the fund sources that cover those costs. Increases in Professional Degree Supplemental Tuition, which was 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, augmenting University funding for grants and fellowships, limiting Nonresident Supplemental 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.

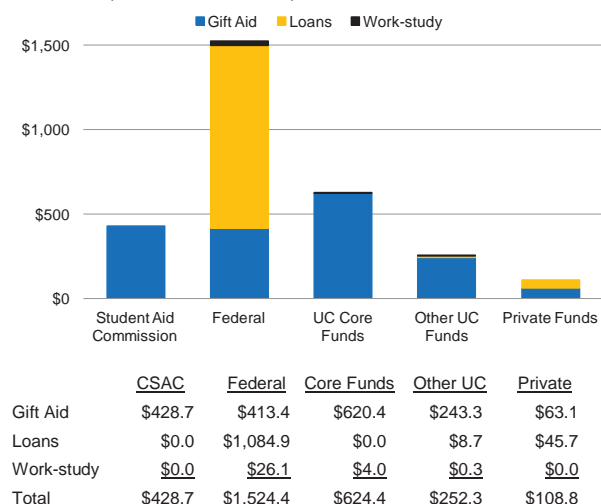
To increase funding for grants and fellowships, the University has continued to use a portion of the revenue derived from student tuition and fee increases to support financial aid for both undergraduate and graduate students. In recent years, UC has set aside 33% of new fee revenue from undergraduate and graduate professional students and 50% of new fee revenue from graduate academic students to augment UC's "return-to-aid" funds.

In 2012-13, the University plans to augment its student aid programs further by, at a minimum, an amount equivalent to 33% of new undergraduate tuition and fee revenue. This augmentation, together with Cal Grant award increases, would provide enough funding to cover the systemwide tuition and fee increases for students eligible for UC grant assistance under the University's primary undergraduate need-based aid program.

These additional resources will also allow the University to fully fund the Blue and Gold Opportunity Plan in 2012-13 to ensure that all mandatory systemwide tuition and fees are covered by scholarships or grants for eligible resident undergraduates with family incomes below \$80,000, up to the students' need. As in past years, UC will also provide grant support to financially needy middle-income students with family incomes up to \$120,000 to help these families transition to higher tuition and fee levels.

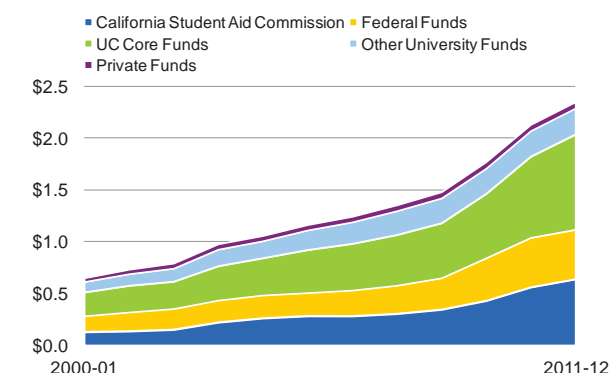
To help mitigate the impact of tuition and fee increases on the competitiveness of UC graduate student support, in 2012-13 the University will, at a minimum, provide an

Display XVI-1: 2009-10 Financial Aid by Type and Source of Funds (Dollars in Millions)



State, federal, and UC sources each provide large amounts of gift aid (scholarships and grants) for UC students, while federal funds provide the bulk of student loans.

Display XVI-2: Gift Aid Expenditures by Source (Dollars in Billions)



To offset tuition and 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 nearly \$2.35 billion in 2011-12, nearly half of which is generated from UC sources.

amount equivalent to 50% of new systemwide tuition and fee revenue from graduate academic students to student financial support.

The University will also set aside an amount equivalent to 33% of new tuition and fee revenue from graduate students in professional degree programs. In addition, these programs will be expected to supplement financial aid resources by an amount equivalent to at least 33% of new

Professional Degree Supplemental Tuition revenue in 2012-13, or to maintain a base level of financial aid equivalent to at least 33% of the total Professional Degree Supplemental Tuition 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 2012-13, UC 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 Supplemental Tuition for graduate academic students for the eighth consecutive year and to freeze Nonresident Supplemental Tuition for graduate professional students for the ninth year in a row.² By forgoing any increase in graduate Nonresident Supplemental Tuition, the University has effectively reduced the real cost of Nonresident Supplemental Tuition in each of the past few years.

In 2010-11 and 2011-12, 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 \$200, from \$5,350 in 2009-10 to \$5,550 in 2010-11; and
- Expansion of the Blue and Gold Opportunity Plan, ensuring systemwide fees are covered for resident undergraduates with financial need and parent income up to \$80,000 in 2011-12.

For 2012-13, the additional funding for financial aid derived from any increase in mandatory systemwide tuition and fees, together with funding provided by the Cal Grant program, will be used to mitigate the impact of the fee increase on both low- and middle-income students and families. Specific proposals will be finalized and presented

to the Regents once there is greater clarity about 2012-13 tuition and fees.

Each year UC prepares a comprehensive report for the Regents describing how undergraduate and graduate students finance their education.³ In 2011-12 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 tuition and fee remissions to assist them in paying the educational costs of attending UC. The cost of attendance includes tuition and 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 charges 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 charges, but provide only minimal assistance to help students cover other costs of

² Graduate academic students experienced a slight increase in the nonresident tuition charge in 2011-12, which was offset by the elimination of differentials in Tuition (formerly the Educational Fee) for nonresident students. The change was 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.

attendance. In 2009-10, over 52,000 UC students were awarded \$429 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 charges have increased. It is anticipated that the State would provide additional funding to cover proposed 2012-13 tuition and 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.

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 tuition and 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 tuition and fee increases dedicated to financial aid also increased. UC stands out as a national leader in the development of return-to-aid programs.

In 1987-88, the percentage of new tuition and fee revenue dedicated to financial aid was 16%; this proportion has increased over time to 33% for undergraduates, which will continue in 2012-13. A return-to-aid rate of 50% on new tuition and fee revenue will augment financial aid funding for graduate academic students in 2012-13, while 33% of all new tuition and 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 2011-12, the Blue and Gold Opportunity Plan ensures that financially needy California undergraduates with total family income under \$80,000 have systemwide tuition and fees covered (up to the students' need) by scholarship or grant awards. This initiative, introduced in 2009-10, helps ensure that UC tuition and fee charges do not deter the half of California households with incomes below \$80,000 from aspiring to a UC education. Approximately 65,000 UC undergraduates qualify for the Plan in 2011-12.

Federal Aid Programs

UC students receive federal support in three ways:

- Federal grants and scholarships worth \$413 million in 2009-10, which comprised 23% of all grants and scholarships received by UC students that year;
- Loans totaling \$1.1 billion in 2009-10; and
- Federal tax credits and income tax deductions, from which many UC families benefited. 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 2010-11 and 2011-12 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 \$612 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 provided through campus-based programs funded by endowment income, current gifts, and campus discretionary funds totaled \$264 million in 2009-10. Nearly all (99%) of the support provided by University funds was 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. 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 2009-10, \$63 million was awarded to UC students from private agency programs, representing 4% of the gift aid 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 \$46 million from private lenders in 2009-10. UC makes extensive efforts to identify lenders that offer private student loans with competitive terms in order to help students in various programs make well-informed decisions about private loans.

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 tuition and fee increases and increases in non-fee costs that have also occurred. In 2009-10 35% of UC students were low-income Pell Grant recipients, more than at any other comparably selective research institution. Preliminary data for 2010-11 indicate that 40% of all UC undergraduates qualified for Pell Grants in 2010-11, the largest percentage in the University's history.

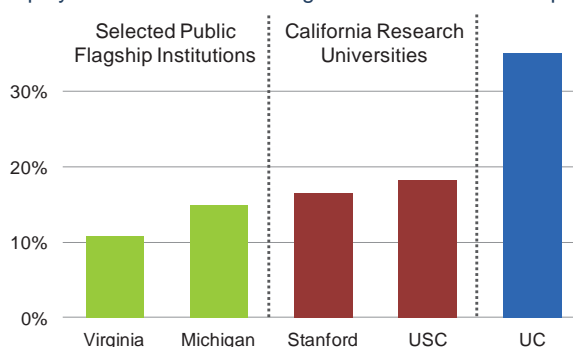
Financial aid also contributes greatly to the University's undergraduate diversity. African-American, Chicano/Latino, and Asian American students are disproportionately low income; 45%, 48%, and 36%, respectively, of these students are either financially independent students (who are generally low-income) 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 2000-01 and 2006-07, despite tuition and fee increases in most of those years. Since then, the percentage has declined slightly, to 39% in 2009-10, which may reflect a decline in middle-income families statewide attributable to the economic recession. The University is closely monitoring this trend, together with income trends among California families generally, as it refines its undergraduate financial aid programs for the 2012-13 academic year.

Display XVI-3: Undergraduate Student Financial Aid At-A-Glance, 2009-10

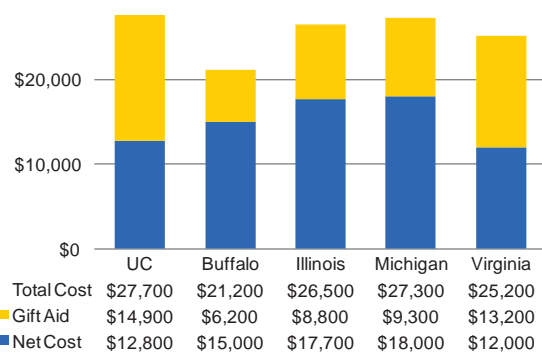
Total Aid	\$2.1 billion
Aid Recipients	67%
Gift Aid	
Total gift aid	\$1.3 billion
Gift aid recipients	58%
Average gift aid award	\$12,753
Gift aid awards based on need	Over 90%
Student Loans	
Students who took out loans	43%
Average student loan	\$6,386
Students graduating with debt	50%
Average debt at graduation among borrowers	\$16,795
Student Employment	
Students who worked	43%
Students who worked more than 20 hours per week	8%

Display XVI-4: 2009-10 Undergraduate Pell Grant Recipients



UC remains accessible for students from low-income families. UC has a very high proportion of federal Pell Grant recipients – 35% during 2009-10, more than at any comparable public or private institution.

Display XVI-5: 2010-11 Net Cost of Attendance for Undergraduate Aid Recipients



Undergraduate need-based aid recipients at UC received an average of \$14,900 in gift aid, resulting in a net cost of \$12,800. UC's net cost in 2010-11 was lower than the net cost at three of its four public comparison institutions.

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 account scholarship and grant assistance. In 2010-11 (the most recent year for which information is available), the University's average *total* cost of attendance (before financial aid) was higher than the total cost of attendance at UC's 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 the University;
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.

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

These principles are reflected in a relatively simple framework for determining the components of a student's financial aid package, as illustrated on this page.

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.

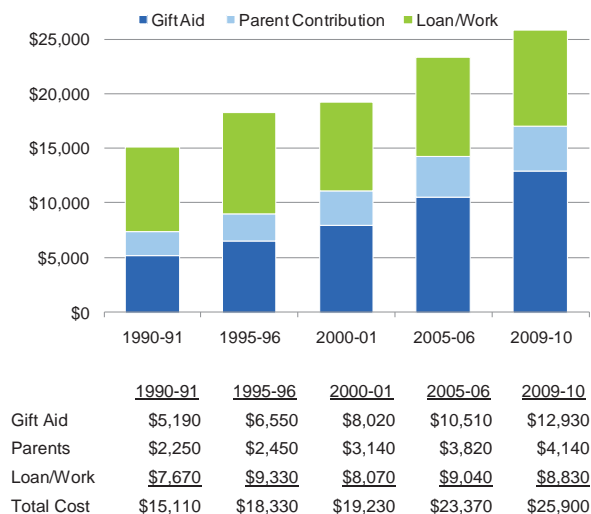
The determination of funding levels for its need-based grant program, how these funds are allocated across the campuses, and guidelines for awarding those funds to students are made in accordance with the EFM principles.

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 2009-10, and also illustrates several noteworthy trends:

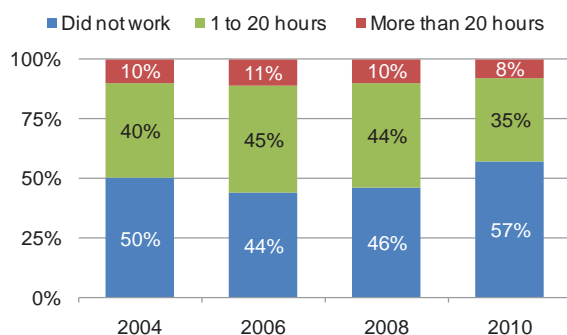
- The total cost of attendance for need-based aid recipients has generally increased over time, due to increases in both tuition and fee charges and other expenses, such as rent;
- Since 1990-91, the average parental contribution of need-based aid recipients has increased, due largely to higher-income families becoming eligible for aid;

Display XVI-6: Cost of Attendance by Expected Source of Funding Among Undergraduate Need-Based Aid Recipients (2009-10 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. Gift aid has more than doubled in inflation-adjusted dollars to help address the rising cost.

Display XVI-7: Trends in Student Work Hours, 2004-2010



University of California Undergraduate Engagement Survey figures from 2004 to 2010 show only slight changes in students' work patterns during this period.

- 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 increased at a much slower rate when adjusted for inflation.

For 2011-12, it is estimated that UC grant recipients will be expected to work or borrow, on average, approximately \$9,400 to finance their education, although students can compete for UC scholarships and outside awards that effectively reduce their expected contribution. During the

2009-10 academic year, one in four undergraduates received scholarships worth about \$3,600 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 over time and as recently as 2010 depict similar patterns of work, indicating that increases in UC's cost of attendance have not significantly impacted this outcome measure. Display XVI-7 shows the results of University of California Undergraduate Engagement Surveys (UCUES); periodic UCUES results indicate that the percentage of students working more than 20 hours per week has not increased. Indeed, the percentage of UC students who do not work during the academic year has increased in recent years.
- **Do students' financial circumstances affect their academic success?** Despite recent increases in tuition and fees and other 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 declined among every income group in most years during the period from 2003

to 2009. 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 2009-10, 50% borrowed at some point while enrolled at UC; their average cumulative borrowing at graduation was \$16,795. 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 2009 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 tuition and 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 tuition and fees falls upon the University, research and training grants funded by federal and other extramural sources, private foundations, and students.

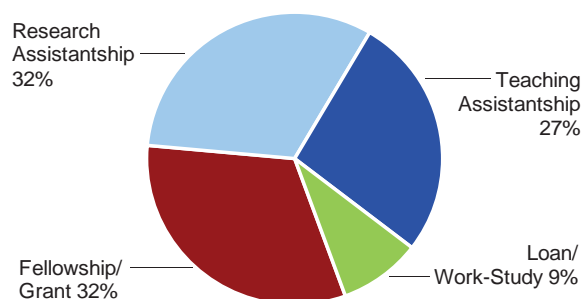
Graduate academic and graduate professional programs differ in a number of ways, including the intended outcomes of the programs, typical program length, and competitive markets for students. Because of these differences, the types of financial support provided to these two groups of graduate students differ greatly. In general, graduate academic students receive more grant aid and traineeships and graduate professional student receive more loans.

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.

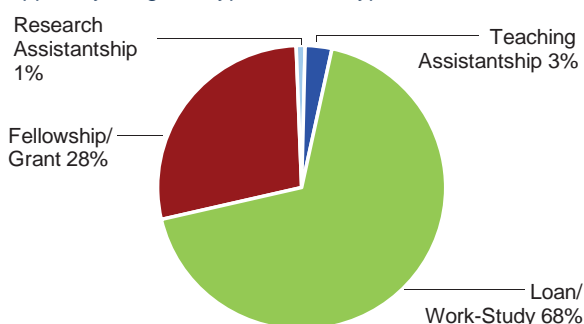
In contrast, 68% of the support for graduate professional students was in the form of student loans and work-study and only 32% was in the form of fellowships, grants, and assistantships, as shown in Display XVI-10. In 2009-10, the per-capita loan amount for graduate professional students accounted for over two-thirds of their assistance and was over 7 times that of graduate academic students.

Display XVI-9: 2009-10 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: 2009-10 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.

Display XVI-8: Graduate Student Financial Aid At-A-Glance, 2009-10

Total Aid	\$1.5 billion
From gift aid	30%
From loans/work-study	30%
From assistantships	40%
Aid recipients	87%
Gift Aid	
Gift aid recipients	62%
Average gift aid award	\$14,364

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 Supplemental Tuition and systemwide tuition and fees — that were instituted in response to declining State support for the University.

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 Nonresident Supplemental 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.

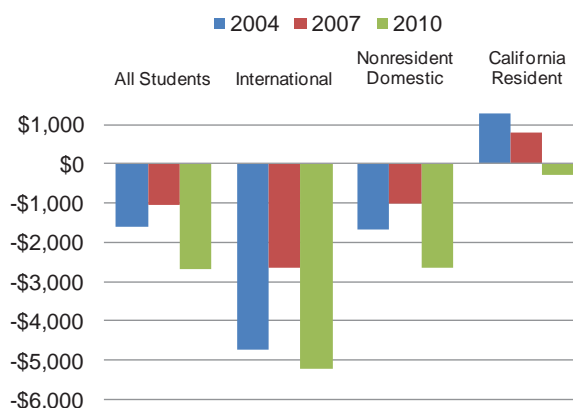
Over the past few years, the University has taken several steps to address the gap between graduate student support demand and supply. First, the University increased the percentage of new fee revenue from graduate academic students set aside for graduate student support. The percentage was 20% in 2004-05 and is currently 50%. In 2011-12, these funds allow the University to cover cost

increases associated with University-funded teaching assistantships and fellowships that currently cover students' tuition and fees.

Second, the University has not increased graduate academic Nonresident Supplemental 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 Supplemental Tuition for graduate academic students at the 2004-05 level, the University has reduced, in real terms, the costs associated with covering Nonresident Supplemental Tuition for out-of-state and international students.

Third, 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 Supplemental 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 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 Supplemental Tuition for up to three years.

Display XVI-11: Competitiveness of UC Financial Support Offers to Academic Doctoral Students



For academic doctoral students, UC narrowed the gap between its financial support offers and those of competing institutions between 2004 and 2007, but lost ground between 2007 and 2010.

Surveys of students admitted to the University's academic doctoral programs suggest that UC narrowed the gap between its offers and those of competing institutions by more than \$500 between 2004 and 2007, as shown in Display XVI-11. Nevertheless, findings from 2010 suggest that UC has lost ground in recent years in terms of the competitiveness of its offers to these students.

Professional School Student Aid

The Regents' Policy on Professional Degree Supplemental Tuition⁴, approved in 1994, stipulates that an amount of funding equivalent to at least 33% of the total revenue from Professional Degree Supplemental Tuition 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 Degree Supplemental Tuition 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.

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 2009-10, over 2,600 UC students took advantage of such exemptions, worth a total of \$22.6 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 Supplemental Tuition at UC. Potentially eligible students include undocumented students and domestic students who fail to meet the University's requirements for residency. In 2009-10, about 2,300 UC students qualified for exemptions worth \$43.5 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

⁴ www.universityofcalifornia.edu/regents/policies/3103.html.

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. While the total value of higher education tax credits benefitting UC students and their families is not known, it likely exceeded \$140 million for tax year 2010.

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, under 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 2011-12.

"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 parking and some intercollegiate athletics also major components. No State funds are provided for auxiliary enterprises; revenues are derived from fees directly related to the costs of goods and services provided to cover their direct and indirect operating costs. The annual budget is based upon income projections. Operating expenditures for auxiliary enterprises are estimated to total \$1.1 billion in 2011-12.

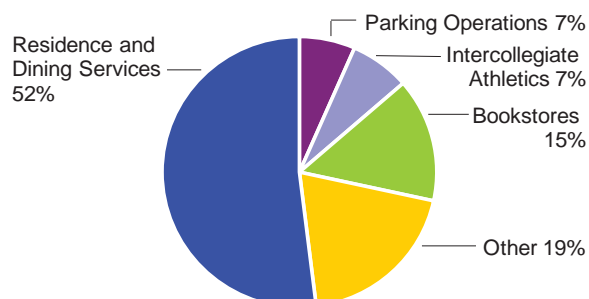
Auxiliary enterprises, as all functional areas of the University, have sought to reduce costs through increased efficiencies in administration and operations. Savings achieved in these programs are necessary to meet higher assessments being charged to auxiliaries for campus-wide operating costs and to cover rising pension contributions and other mandated cost increases such as compensation increases promised in collective bargaining agreements and higher health benefit and utility costs.

STUDENT, FACULTY, AND STAFF HOUSING

UC's largest auxiliary enterprise is student housing, comprising 70,109 University-owned residence hall and single student apartment bed-spaces and 5,585 student family apartments, for a total of 78,442 spaces in Fall 2011.

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

Display XVII-1: 2010-11 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, 2010-11

Student Housing:	
Single student residence bed spaces	70,109
Student family apartments	5,585
Student housing occupancy rate	104%
Planned growth by 2011	284
Faculty Housing:	
Faculty rental housing units	941
Mortgage loans provided	6,323
Faculty provided housing assistance	4,653
Parking:	
Parking spaces	121,175

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 2010 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 104% in 2010-11).

Campuses accommodate excess occupancy by converting doubles to triples, as well as modifying study areas into temporary quarters. Campuses housed all freshmen who met enrollment and housing application deadlines. While

enrollment growth has slowed, excess occupancy is expected to continue as campuses seek to meet increased demand by students other than freshmen.

The California housing market is a continuing deterrent to UC's faculty recruitment efforts, particularly for junior faculty, and adding faculty and staff 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.

BOOKSTORES

Nine of the 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 local marketplace, there are common trends among UC bookstores and their counterparts serving other research universities:

- Declining disposable income among students, faculty, staff, and parents and slower enrollment growth, the result of the economic downturn in both the state and the nation, continue 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 2012-13.
- In recent years, the sale of course materials content has declined while bookstore sales of computer products (the tools to access that content) have increased. However, more recently, sales of computer products have leveled off as the much coveted Educational Pricing is now available at Apple Computer stores as well as campus bookstores. UC bookstores are striving to add merchandise to add value to the quality of campus life and to offset the decline in textbook revenue.
- Growth in revenues from on-line sales continues.

PARKING

UC's parking program is another major auxiliary, with more than 121,000 spaces for students, faculty, staff, and visitors. Four new patient and visitor parking structures at the UC medical centers have been approved by the Regents and are in development. 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 (EIRs), all campuses have implemented extensive Transportation Demand Management programs, including carpools, vanpools, shuttles, transit pass subsidies, and similar initiatives. These programs are funded, in part, by parking revenues. Campus Long Range Development Plan EIRs require mitigation of University-created traffic impacts, thus the more the campus population commutes via alternative transportation modes, the less UC's impact 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 Fee revenue.

"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.

Display XVIII-1: Lease Purchase Revenue Bond Debt Service (Dollars in Millions)

2006-07	\$152.3
2007-08	\$159.1
2008-09	\$156.6
2009-10	\$141.7
2010-11	\$199.5
2011-12 (budgeted)	\$202.2

DEBT SERVICE PAYMENTS FOR FACILITIES FUNDED FROM LEASE REVENUE BONDS

Funds to pay for debt service 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 2011-12, the State allocation to UC includes \$202.2 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 2012-13 will be determined by the State Department of Finance.

"A key priority for the University is offering a competitive compensation package in order to recruit and retain the finest scholars and excellent staff."

*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 in order to retain faculty and staff and fairly compensate them for their services. 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 inadequate State support for UC, is the continuing lag in faculty and staff salaries compared to market. Due to the State's most recent fiscal crisis, no merit increases or general range adjustments for non-represented staff employees were provided in 2008-09, 2009-10, and 2010-11. Academic employees continued to receive salary increases through the normal academic merit salary review

program, but they received no general range adjustments. Three years without salary increases have 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%. In 2011-12, however, faculty and non-represented staff (excluding executives and those with salaries at or above \$200,000) are eligible to receive merit increases representing 3% of salary funding, though these increases have been largely offset by increases in employee contributions to the UC Retirement Plan and health plans. The lack of regular general salary increases in recent years, along with the temporary salary reductions resulting from the furlough plan, has had serious consequences for UC faculty, staff, and their families.

Among represented staff, most received salary increases based on their unions' collective bargaining agreements. The staff agreements, reached just before or at the beginning of the financial downturn, provided for a combination of range adjustments and step increases that generally ranged from 2% to 8%, varying by year and collective bargaining unit. The agreements for represented academic employees (i.e., lecturers/librarians), provided for continuation of the annual academic merit salary increase programs, generally paralleled the salary program for tenure-track faculty.

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

Display XIX-1: Compensation and Benefits At-A-Glance, 2010-11

Number of base FTE Employees as of April 2011	
Academic	41,388
Professional/Support Staff	87,103
Managers/Senior Professionals	8,625
Senior Management	197
Total	137,313
Salaries and Wages	\$10.3 billion
Employee Health Benefits	\$1.2 billion
UC Retirement Plan	
Active members	115,568
Normal Cost	\$1.4 billion
Retirees and survivors	56,296
Benefits payout for 2010-11	\$2.1 billion
Annuitant Health Benefits	
Retirees and family members	48,898
Projected Cost for 2011-12	\$259 million

of the salaries provided at its eight public and private comparison institutions, and to provide salary increases for all other employees that, on average, remain competitive with the market. However, past fiscal problems and the current fiscal crisis have 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 attracting and retaining high-performing faculty and staff at UC. These challenges will increase, particularly as the economy recovers and other institutions are in a position to recruit UC's top performers.

COMPENSATION FOR ACADEMIC AND STAFF EMPLOYEES: SALARY INCREASES

The University's budget plan for 2012-13 includes an expectation of resources available through revenue increases and cost-savings measures in order to provide a compensation increase package, which would generally include the following elements for eligible employees:

- continuation costs for salaries and health and welfare and retirement benefits provided in the previous year,
- funding for merit salary increases,
- general range adjustments,
- 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 – will be accommodated from within those fund sources and will conform to the University's established systemwide salary programs for State-funded employees.

In 2009, an updated study of UC's total compensation program indicated that, in general, average UC 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, the employer-provided value of the benefit package has been decreasing as employee contributions to the UC Retirement Plan, reintroduced in the spring of 2010,

COMPONENTS OF A COMPENSATION PACKAGE

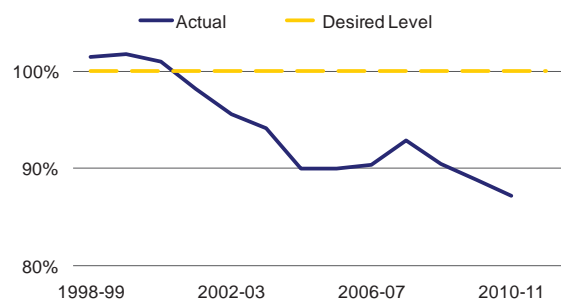
- **Continuation costs** are costs incurred from salary and benefits increases provided in the previous year, but not fully funded because salary increases are often implemented on October 1 and benefit costs increase on January 1, rather than July 1 at the beginning of the budget year. Therefore, the unfunded portion must be recognized in the following budget year.
- **Merit increases** recognize and reward relative levels of contribution, and are critical to the preservation of the quality of the University and to reinforce a pay for performance philosophy. Merit salary increases for faculty and other academic employees in particular provide a reward mechanism to recognize expansion of 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 and are based on demonstrated contributions.
- **General range adjustments** for eligible employees are pay increases that reflect changes in the cost of living.
- **Market and equity adjustments** help bring individual salaries to market level for employees in jobs with the biggest external market gaps and/or internal equity issues, or address recruitment and retention challenges.

have risen to 3.5%, and will increase further in the next few years to ensure the solvency of the retirement program. In addition, it is unlikely that funding over the next several years will be adequate to match the inflationary increases of health benefit costs, which will then require that employees contribute a larger share toward their medical premiums. Should funding improve in the future, UC's long-range plan is to rebalance the components of the compensation package and bring salaries closer to market levels so that total compensation remains competitive.

Faculty Salary Gap

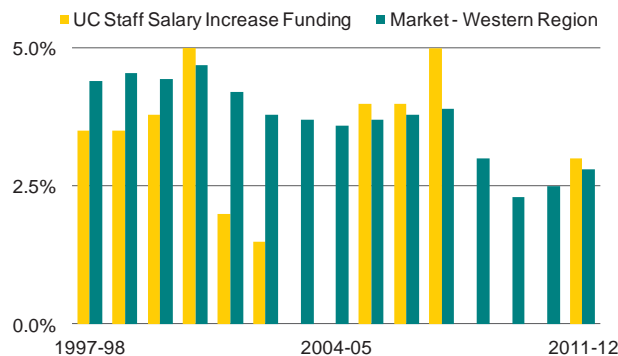
To evaluate its market position, UC compares its faculty salaries with eight peer institutions. Due to State budget cuts during the early 2000s, UC's average faculty salaries declined from parity with these comparators to a 9.6% lag by 2006-07. In 2007-08, the University instituted a four-year plan to eliminate the lag and return faculty salaries to market levels, and after one year of the plan, the faculty salary gap was reduced to 7.1%. However, the State's ongoing fiscal crisis delayed continuation of this plan, and the gap widened again to 12.8% in 2010-11.

Display XIX-2: Ladder Rank Faculty Salaries as a Percentage of Market



Due to inadequate State funding over the last ten years, faculty salaries at UC have declined relative to UC's comparison institutions. In 2010-11, UC's faculty salaries were 12.8% below those of UC's comparison institutions and it is estimated that this gap will continue in 2011-12.

Display XIX-3: Increases in Funding for Staff Salaries Compared to Market



Annual percentage increases in funding for UC staff salaries lagged in 10 out of the last 15 years, compared to increases in funding for salaries in the Western Region market. In five 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 1,000 employers from all sectors in the western United States.)

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 already finds 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. Salary lags create major challenges in attracting the best faculty candidates and there is a reputational cost associated with an inability to adequately compensate the faculty.

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 10 out of the 15 years since 1997-98, as noted in Display XIX-3. Market salaries over the period have been increasing at more than 3% per year on average, but funding for UC staff salary increases has not kept pace. In fact, during five of the last 15 years, UC was unable to provide any increases for staff salaries.

While much time and effort is spent on attracting and retaining the world-class faculty members who are the pillars of UC quality, the University must also have an administrative infrastructure capable of fostering excellence. An institution operating on the cutting edge of intellectual frontiers cannot function with average performers at its helm. This challenge is even greater during times of financial stress. Leadership and vision are key to the University's ability to find new ways of maintaining quality with less money.

Highlighting the staff salary gap problem facing UC are salaries for UC chancellors, who are about 40% behind their market comparators. Among their peers at other public institution members of the Association of American Universities (an association of 61 leading research universities in the United States and Canada), salaries for UC chancellors fall in the bottom third, despite the size, complexity, and stature of UC.

Similar issues exist for staff employees at many levels. 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, 2009-10, and 2010-11, no funding was provided for staff salary increases. Further implementation 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.

In September 2011, the University announced a 3% merit pool increase for faculty effective October 1, 2011 and non-represented staff employees retroactive to July 1, 2011. This increase does not include employees who are a part of the senior management group or staff with base salaries above \$200,000. The purpose of this increase is to help UC recruit and retain leading faculty members who are

increasingly being courted by competing institutions and to demonstrate to non-represented staff members that the University understands and appreciates their contributions, through difficult times, on behalf of UC. Fairness dictates that the University take this step.

For employees represented by unions, the University has collective bargaining agreements that specify compensation increases for their members. 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 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-4.

While UC's cost for its share of premiums for employee health benefits has increased between 8.5% and 11% annually 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, negatively impacting employees' take-home pay. In addition, consideration is being given to capping

FUNDING SHORTFALLS AND THE SALARY GAP

2001-02 and 2002-03: Staff salary increases were lower than planned because of inadequate State funding.

2003-04 and 2004-05: The University instituted additional internal budget cuts in order to fund academic merit increases for faculty, but no employees received a general range adjustment and staff employees received no merit increases.

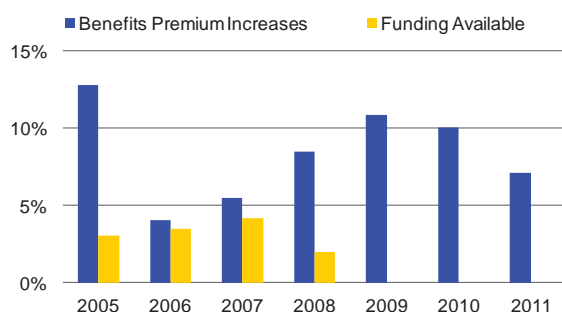
2005-06 through 2007-08: The Compact with the Governor provided funding for academic and staff salary increases, though not enough to reverse the effects of years without adequate salary increases.

2008-09 through 2010-11: Due to budget shortfalls, general salary increases were not provided to faculty or staff. However, the University continued to fund faculty merit increases by redirecting funds from existing resources.

2009-10: 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. The plan is estimated to have saved \$136 million in General Funds to help address the State funding shortfall and \$236 million from all fund sources.

2011-12: For the first time since 2007-08, non-represented staff are eligible for merit salary increases.

Display XIX-4: 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.

the share of health benefit premiums paid by UC, which would also affect take-home pay for employees. These potential changes require that UC maintain at least a minimal regular salary increase program to try to stabilize the competitiveness of total compensation.

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 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 University is continuing to explore options to control employer health benefit costs over the coming years.

The overall projected increase in health and welfare benefits costs for the University during calendar year 2012

is 8.5%. The estimated cost of increases in employee health benefits for 2012-13 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

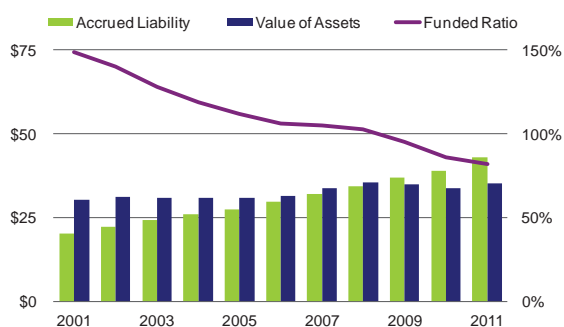
The University of California Retirement Plan ("UCRP" or "the Plan") provides pension benefits for more than 56,000 retirees and survivors and has nearly 116,000 active employee members as of July 1, 2011. UCRP's defined-benefit plan promotes recruitment of talented individuals and provides incentives for long careers with UC. Because UCRP provides guaranteed benefits, career faculty and staff gain income security over the span of their retirement years. UCRP disbursed \$2.1 billion in retirement benefits during 2010-11.

Prior to November 1990, contributions to UCRP were required from all employer fund sources and from employees (members). In the early 1990s, the Regents suspended University and member contributions to UCRP after actuaries determined that UCRP was adequately funded to provide benefits for many years into the future.

The University estimates that in the nearly 20 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 UCRP service credit, yet no funds were collected from the various fund sources that were supporting member salaries and invested in UCRP to offset the annual increase in liabilities. Plan liabilities currently increase by \$1.4 billion (17.6% of covered payroll) annually as active members earn an additional year of UCRP service credit.

Display XIX-5: 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 a level of 83% on an actuarial value of assets (AVA) basis by July 2011. Even with employer and member contributions to the UCRP beginning in April 2010, the AVA-funded status of the Plan will continue to decline as losses are incorporated from the past few years.

Due to both the increasing liability and the recent turmoil in the financial markets, the actuarial-funded status of UCRP fell from 156% in July 2000 to 83% in July 2011. The accrued liability exceeds the actuarial value of assets by \$9.1 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 81%. The extent to which this unfunded liability grows depends on future investment returns, as well as employer and member 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 was unwilling to restart contributions to UCRP due to the Plan's overfunded status at that time. The lack of State funding to support retirement contributions delayed the restart of contributions from other fund sources as well.

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, and ultimately, no funding for this purpose was included in the final budget act.

The University restarted employer and member contributions in April 2010, with an employer contribution of 4% and member contributions of 2% for the period from April 2010 through the 2010-11 fiscal year. The State's share was funded by redirecting resources from existing programs and student fee increases.

In September 2010, the Regents approved increases to both employer and member contributions for 2011-12 and 2012-13. Employer contributions rose from 4% in 2010-11 to 7% for 2011-12 and will rise to 10% for 2012-13. Member contributions rose from approximately 2% in 2010-11 to 3.5% for 2011-12 and will rise 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 (i.e., Normal Cost) as a percentage of salary (17.6%), these contribution rates will slow, but not eliminate, the growth in the unfunded liability. At the November 2011 meeting, the Regents will consider increasing employer and member contribution rates to 12% and 6.5%, respectively, effective July 1, 2013.

In December 2010 and March 2011, the Regents gave the President authority to transfer funds to UCRP to stop further increases in the unfunded liability. Approximately \$1.1 billion was transferred to UCRP from the UC Short Term Investment Pool (STIP) in April 2011. Another \$936 million was transferred to UCRP in July 2011, which was garnered from external borrowing through the issuance of a variable rate general corporate bond. Campus and medical center payroll funds will be assessed

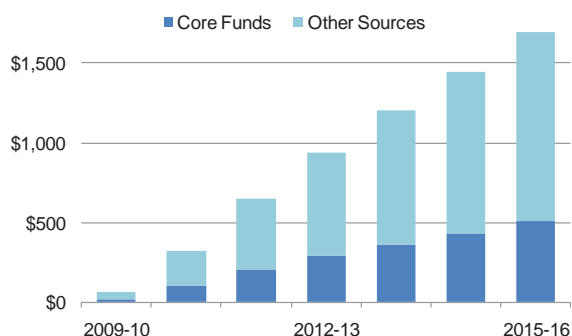
Display XIX-6: Actual and Projected Employer and Employee UCRP Contribution Rates

		Contribution Rates ¹	
		Employer	Member
2010-11	Actual	4.0%	2.0%
2011-12	Actual	7.0%	3.5%
2012-13	Approved	10.0%	5.0%
2013-14	Proposed	12.0%	6.5% ²
2014-15	Projected	14.0%	Undetermined
2015-16	Projected	16.0%	Undetermined

¹ Measured as a percentage of base pay. Member contribution amounts are pre-tax and less \$19 per month. Member contributions are subject to collective bargaining agreements. Contributions began in April 2010 at the 2010-11 rates.

² Member contributions for employees hired on or after July 1, 2013 will be 7%.

Display XIX-7: Actual and Projected Employer Contributions to UCRP by Fund Source (Dollars in Millions)



Employer contributions to UCRP restarted in April 2010. Contribution rates are projected to rise to at least 16% of employee compensation by 2015-16, at a cost of about \$500 million to core-funded programs and \$1.7 billion in total.

a fee to cover the principal and interest on the STIP note and bond debt. These cash transfers to UCRP were authorized to prevent future employer contributions to UCRP from rising to unsustainable levels. However, employer contributions are expected to continue to rise by 2% annually through at least 2015-16.

In December 2010, the Regents took further action to make changes to post-employment benefits, including retirement plan benefits that will reduce long-term costs. Most significantly, the Regents approved the establishment of a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55 and the maximum age factor from 60 to 65, but otherwise retain many of the features of the current plan. UC is continuing to explore further changes to retirement plan benefits to ensure that benefits are market competitive and cost effective.

General Accounting Standards Board (GASB) rules require UC to report accrued unfunded pension liabilities on its financial statements. For 2010-11, UC recorded an unfunded pension liability accrual of \$1.7 billion.

In 2011-12, the University is contributing \$201.5 million from core fund sources and \$447.4 million from other sources to UCRP. As employer contribution rates rise over the next several years, UC contributions are expected to rise to at least \$500 million from core funds and nearly \$1.2 billion from other sources by 2015-16. The State's

share, based on State and student tuition and fee-funded employees, is projected to rise to approximately \$256 million in 2012-13 and to \$450 million by 2015-16. To date, the State has provided no funding for UCRP. Understanding that it may take several years for the State to be able to fully fund its obligation to UC employees and retirees, the University is requesting that the State make an initial commitment of \$89.8 million toward UCRP contributions during 2012-13.

Annuitant Health Benefits

As part of the benefit package, UC provides medical and dental benefits for about 48,900 eligible retirees and their dependents.¹ 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 2012, UC will pay 83% 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 3.51%. During 2011-12, UC's costs for annuitant health benefits are estimated to exceed \$270 million from all fund sources.

Because future retiree health benefits costs are not pre-funded and because health care costs have risen rapidly, as of July 2011, UC has an unfunded liability for retiree health of \$14.6 billion. This amount represents the cost of benefits accrued to date by current faculty, staff, and retirees based on past service. In December 2010, in order to reduce long-term costs and the unfunded liability for retiree health, the Regents approved changes to retiree health benefits. Changes included gradual reductions in the University's aggregate annual contribution to the Retiree Health Program to a floor of 70% (subject to annual review) and a new eligibility formula for all employees hired on or after July 1, 2013, and for existing employees with fewer than five years of service credit or whose age plus UCRP service credit is less than 50 as of June 30, 2013.

GASB rules require the University to report in its financial statements all post-employment benefits expense, including

¹ Excludes retirees of Lawrence Berkeley National Laboratory and Hastings College of the Law.

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 a total liability of \$5.3 billion.

The University is requesting funding for increases in retiree health program costs consistent with the funding provided for the State's annuitants. For 2012-13, this amount is estimated to be \$5.2 million.

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, 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 2012-13. Based on an average non-salary price increase of 3.0%, cost increases are estimated at \$48.7 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. In 2010-11, the CPI increased by 2.7%. 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. Despite the recent slowdown in energy cost increases, purchased utility prices in the last two years are projected to increase 3% annually above inflation. The costs of purchased utilities to operate UC campuses are discussed 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
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 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 2016 following favorable DOE evaluations. 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 \$333 million as of August 2011. 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 2010-11, the LANS contract was extended to ten years and the LLNS contract was extended to nine years after DOE evaluations.

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. During the early 2000s, 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, DOE moved from indirect cost reimbursement to direct budget appropriations for corporate services rendered to LBNL by UC.

Negotiations with DOE are ongoing regarding the amounts of direct appropriation that 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 million for 2011-12, with \$700,000 in carryover funds from the previous year. At their May and July 2011 meetings, the Regents approved an expenditure plan for the total of \$29.7 million, as shown in Display XX-1.

UC's projected fee income share from LANS and LLNS for 2011-12 became available first quarter of calendar year

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.

Display XX-1: 2011-12 Expenditure Plan for Income from LANS and LLNS (Dollars in Millions)

Research	\$20.45
Competition Review and Award Process	\$0.40
UCOP Oversight	\$3.85
Supplemental Compensation	\$3.00
Contingencies (post-contract, research)	<u>\$2.00</u>
Total	<u>\$29.70</u>

"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 University¹.

1967-1990: TWO 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.

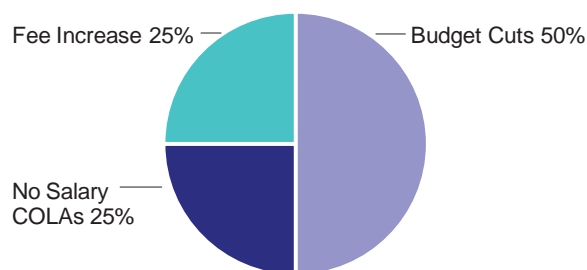
At the time, the budgetary losses during the early 1990s were unprecedented. The University's 1993-94 State General Fund budget was less than it was in 1987-88, even though in the interim there had been inflation, other cost increases, and enrollment growth. The University's budget would have been about \$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, 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 at 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

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.

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.

While the 1994-95 budget represented a substantial improvement over previous years, the University nonetheless remained in a 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 33% 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 about 1% 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 Internet Connectivity	(\$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 Health 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 Connectivity	(\$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
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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
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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

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)
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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)
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Other Initiatives

UC Merced (One-Time)	\$14,000
COSMOS	\$500

Total State Funding = \$3.257 billion

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

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 THROUGH 2010-11: 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 2007 and ended up totaling closer to \$14.5 billion when the Governor and the Legislature negotiated a final budget in September 2008. 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

Display XXI-12: 2008-09 State Budget Actions (Dollars in Thousands)

Compact Funding

Base Budget Adjustment (4%)	\$123,832
Additional 1% for Core Academic Support	\$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
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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
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Total State Funding = \$2.591 billion

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.

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 was \$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 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.

Supporting the budget proposals Governor Schwarzenegger submitted in his January budget, the final budget included 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 was permanent funding to partially restore the one-time budget cut agreed to as part of the 2009-10 State budget. When combined with the one-time \$106 million in ARRA funds, the total amount restored was \$305 million, which is the total restoration the Governor originally proposed. The total also included the \$51.3 million to address UC's unfunded enrollment. Another \$14.1 million was included for the increase in health care costs for UC's retired annuitants.

An issue of great concern had 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 did 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. While this language was vetoed by the Governor, the Legislative Analyst began to present the liability for contributions to the University's retirement program as an issue that must be addressed.

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.

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
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Redirections of Existing Funds

UCR Medical School (\$10 million)	\$0
Reapportionment Database (\$600,000)	\$0

Total State Funding = \$2.912 billion

FUNDING IN THE CURRENT YEAR – 2011-12

While some of the earlier cuts in State support imposed on the University in 2008-09 and 2009-10 were restored in 2010-11, the University continued to face significant mandatory cost increases and a significant budget shortfall. In November 2010, in addition to requesting further restoration of funding, support for contributions to the UC Retirement Plan, and funding to cover the costs of unfunded enrollments from the State, UC implemented an 8% student tuition and fee increase for 2011-12.

Despite the University's request for an increase in funding, in January 2011, newly-elected Governor Brown proposed the restoration of \$106 million that had been funded through ARRA during 2010-11, a \$7.1 million increase to support retiree health benefit cost increases, and a \$500 million undesignated reduction in State support for UC. This reduction was part of a budget package seeking the extension of temporary tax increases that were set to expire in 2011-12 through the referendum process. In spring 2011, the Legislature approved the Governor's proposal for UC for 2011-12. UC also faces \$362.5 million in unfunded mandatory costs, bringing UC's total budget gap for 2011-12 at that point to \$862.5 million.

Ultimately, the Governor was unable to gain approval for placing the tax extension referendum on the ballot for 2011-12. On June 30, 2011, the Governor signed a second budget package for 2011-12, as described in Display XXI-15, that includes additional targeted reductions for many State programs, including \$150 million each for UC

and CSU, an assumption of significant revenue increases, and a trigger mechanism for more cuts mid-year if revenue targets are not realized.

The additional reduction for UC means that State support declined by a total of \$650 million for 2011-12, representing a 21.3% percent decrease from 2010-11. Combined with the mandatory cost increases of \$362.5 million, the University's budget shortfall rises above \$1 billion.

The trigger mechanism included in the budget package means that if State revenues fall short of the projection for \$4 billion in additional revenue by more than \$1 billion (as determined by the Department of Finance in December), UC will face an additional mid-year budget reduction of up to \$100 million.

In response to the additional reduction of \$150 million, at their July meeting, the Regents approved a 9.6% increase in mandatory systemwide charges, effective for the Fall 2011 term, to replace the lost State funding. This increase, combined with the increases approved in November 2010, mean that mandatory charges rose by \$1,890, or 18.3%, over 2010-11 charges. These increases are covering about 26% of the University's budget shortfall for 2011-12.

The University sought endorsement by the Legislature of its plan to target specific cuts to programs that had received large increases from the State but had not been reviewed to determine their necessity or appropriate funding level. While many of the targeted program cuts were accepted, several were protected by the Legislature, as shown in Display XXI-16.

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-17 provides a brief outline of the actions since 2000-01. The *Cross-Cutting Issues* chapter

of this document contains detail on the actions of the University to address the budget cuts in recent years.

Display XXI-15: 2011-12 State Budget Actions (Dollars in Thousands)

Major Actions

Restoration of One-time Cuts	\$106,000
Annuitant Health and Dental Benefits	\$7,089
Undesignated Reduction (January)	(\$500,000)
Undesignated Reduction (June)	(\$100,000)

Other Initiatives

UC Merced (one-time)	\$5,000
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*Total State Funding = \$2.374 billion**

*Subject to additional trigger reductions of \$100 million if State revenues fall short of budget assumptions.

Display XXI-16: 2011-12 Targeted Budget Reductions (Dollars in Thousands)

	<u>Reduction</u>
<u>Elimination of State support</u>	
Earthquake Engineering Research	\$384
Lupus Research	\$624
Spinal Cord Research	\$1,246
Substance Abuse Research	\$13,770
Preuss School	\$1,000
<u>Reductions up to 21.3%</u>	
San Diego Supercomputer Center	\$690
Other SAPEP Programs (estimated)	\$4,056
COSMOS (estimated)	\$192
<u>Reductions up to 5%</u>	
AIDS Research	\$461
Charles R. Drew Medical Program	\$462
MIND Institute	\$156
CA Policy on Access to Care	\$50
US-Mexican Treaty Project	\$10
Study of Latino Health & Culture	\$30
<u>No reductions</u>	
Labor Institutes	\$0

Display XXI-17: 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.

2011-12

With the Governor unable to place a referendum to extend temporary tax increases on the ballot, higher education is assigned cuts totaling \$1.7 billion. Also, for the first time, revenue from student tuition and fees exceeded revenue from the State.

Appendix Display 1: Budget for Current Operations and Extramurally Funded Operations (Dollars in Thousands)

I N C O M E		
	2010-11 Actual	2011-12 Budgeted
BUDGET FOR CURRENT OPERATIONS		
<u>General Fund</u>		
State of California	\$ 2,910,697	\$ 2,374,059
State Fiscal Stabilization Funds	106,553	\$ 0
UC Sources	691,238	792,340
Total General Funds	\$ 3,708,488	\$ 3,166,399
<u>Restricted Funds</u>		
State of California	\$ 58,073	\$ 66,315
U. S. Government Appropriations	20,931	23,000
Educational, Student Services & Professional School Fees	2,212,691	2,965,399
Extension, Summer Session & Other Fees	584,560	613,750
Teaching Hospitals	5,595,563	5,987,252
Auxiliary Enterprises	912,201	915,000
Endowment Earnings	196,412	206,969
Other	2,709,591	2,823,401
Total Restricted Funds	\$ 12,290,022	\$ 13,601,086
TOTAL BUDGET FOR CURRENT OPERATIONS	\$ 15,998,510	\$ 16,767,485
EXTRAMURALLY FUNDED OPERATIONS		
State of California	\$ 303,923	\$ 301,022
U.S. Government	2,936,061	2,712,000
Private Gifts, Contracts & Grants	1,487,957	1,467,724
Other	350,765	368,303
TOTAL EXTRAMURALLY FUNDED OPERATIONS	\$ 5,078,706	\$ 4,849,049
DEPARTMENT OF ENERGY LABORATORY (LBNL)	\$ 937,870	\$ 870,000
TOTAL OPERATIONS	\$ 22,015,086	\$ 22,486,534
E X P E N D I T U R E S		
	2010-11 Actual	2011-12 Budgeted
BUDGET FOR CURRENT OPERATIONS		
Instruction:		
General Campus	\$ 2,419,195	\$ 2,577,747
Health Sciences	1,664,559	1,751,804
Summer Session	11,571	12,429
University Extension	211,345	216,855
Research	582,802	585,112
Public Service	219,971	228,813
Academic Support: Libraries	234,535	235,690
Academic Support: Other	939,413	905,485
Teaching Hospitals	5,628,442	6,025,372
Student Services	576,311	599,363
Institutional Support	844,462	794,130
Operation and Maintenance of Plant	518,608	487,492
Student Financial Aid	1,022,446	1,256,401
Auxiliary Enterprises	912,201	915,000
Provisions for Allocation	212,649	175,792
TOTAL BUDGET FOR CURRENT OPERATIONS	\$ 15,998,510	\$ 16,767,485
EXTRAMURALLY FUNDED OPERATIONS		
Sponsored Research	\$ 3,471,515	\$ 3,296,591
Other Activities	1,607,191	1,552,458
TOTAL EXTRAMURALLY FUNDED OPERATIONS	\$ 5,078,706	\$ 4,849,049
DEPARTMENT OF ENERGY LABORATORY (LBNL)	\$ 937,870	\$ 870,000
TOTAL OPERATIONS	\$ 22,015,086	\$ 22,486,534

Appendix Display 2: University of California Income and Funds Available (Dollars in Thousands)

	2010-11 Actual	2011-12 Budgeted
STATE APPROPRIATIONS		
General Fund	\$2,910,697	\$2,374,059
Special Funds	58,073	66,315
TOTAL, STATE APPROPRIATIONS	2,968,770	2,440,374
ARRA STATE FISCAL STABILIZATION FUNDS	106,553	0
UNIVERSITY SOURCES		
General Funds Income		
Nonresident Tuition	324,585	354,584
Application for Admission and Other Fees	28,420	27,700
Interest on General Fund Balances	3,814	5,000
Federal Contract & Grant Overhead	312,242	306,377
Overhead on State Agency Agreements	20,636	20,500
Other	25,402	11,000
Subtotal	715,099	725,161
Prior Year's Income Balance	43,318	67,179
Available in Subsequent Year	-67,179	
Total UC General Fund Income	691,238	792,340
Special Funds Income		
GEAR UP State Grant Program	3,500	5,000
United States Appropriations	17,431	18,000
Local Government	90,939	96,639
Student Fees		
Educational Fee	1,816,444	2,498,426
Registration Fee	190,703	218,482
Professional School Fees	205,544	248,491
University Extension Fees	211,345	216,855
Summer Session Fees	11,571	12,429
Other Fees	361,644	384,466
Sales & Services - Teaching Hospitals	5,595,563	5,987,252
Sales & Services - Educational Activities	1,610,464	1,731,249
Sales & Services - Support Activities	559,060	587,013
Endowments	196,412	206,969
Auxiliary Enterprises	912,201	915,000
Contract and Grant Off-the-Top Overhead	98,318	105,000
DOE Management Fee	29,748	33,500
University Opportunity Fund	149,136	145,000
Other	171,926	125,000
Total Special Funds	12,231,949	13,534,771
TOTAL, UNIVERSITY SOURCES	12,923,187	14,327,111
TOTAL INCOME AND FUNDS AVAILABLE	15,998,510	16,767,485

Note: Excludes extramural funds.

Appendix Display 3: SAPEP State General Funds and University Funds Budgets (Dollars in Thousands)

	1997-98	2000-01	2008-09	2009-10	2010-11
Direct Student Services Programs					
Community College Transfer Programs	\$1,718	\$5,295	\$3,279	\$3,058	\$3,058
EAOP	4,794	16,094	8,914	8,416	8,416
Graduate and Professional School Programs	1,893	8,575	2,661	2,623	2,623
MESA Schools Program	4,169	9,355	4,861	4,394	4,394
MESA Community College Program	22	1,309	327	327	327
Puente High School Program	-	1,800	1,051	980	980
Puente Community College Program	162	757	450	419	419
Student-Initiated Programs	-	-	440	440	440
UC Links	-	1,656	694	622	622
Statewide Infrastructure Programs					
ASSIST	360	360	429	389	389
Community College Articulation	-	-	600	600	600
Longer-Term Strategies					
K-20 Regional Intersegmental Alliances ¹	-	15,591	1,395	1,361	1,361
Direct Instructional Programs					
Preuss Charter School	-	1,000	1,000	1,000	1,000
UC College Preparation (online courses)	-	8,400	3,106	3,059	3,059
Other Programs					
Evaluation	-	1,386	1,180	1,077	1,077
Other Programs ²	203	3,887	936	829	829
Programs that have been eliminated or consolidated ³	4,750	9,717	-	-	-
Total	\$18,071	\$85,182	\$31,323	\$29,594	\$29,594
General Funds	\$16,996	\$82,243	\$19,323	\$17,594	\$17,594
University Funds	\$1,075	\$2,939	\$12,000	\$12,000	\$12,000

¹ Formerly School-University Partnerships.

² Currently includes Community Partnerships, ArtsBridge, and other programs.

³ Includes Test Preparation, Dual Admissions, Gateways, Information Outreach and Recruitment, Central Valley Programs, and UC ACCORD.

Appendix Display 4: Expenditures by Fund Category, 1980-81 Through 2011-12 (Dollars in Thousands)

	Core Funds ¹	Medical Centers	Other Sales and Services ²	Government Contracts and Grants ³	Private Support ⁴	Other Sources ⁵	Total
1980-81	\$1,238,071	\$464,817	\$395,382	\$1,491,715	\$97,746	\$66,024	\$3,753,755
1981-82	1,310,575	521,330	464,184	1,647,181	116,411	51,494	4,111,175
1982-83	1,356,921	552,051	487,739	1,762,389	134,328	55,801	4,349,229
1983-84	1,375,660	599,469	520,933	2,009,905	155,344	65,769	4,727,080
1984-85	1,713,333	656,730	585,721	2,301,626	173,915	99,711	5,531,036
1985-86	1,930,560	721,270	678,215	2,463,841	198,812	101,484	6,094,182
1986-87	2,060,597	791,311	786,544	2,624,563	222,154	120,950	6,606,119
1987-88	2,210,321	889,243	852,459	2,763,853	243,764	114,455	7,074,095
1988-89	2,341,127	1,002,931	934,816	3,004,112	272,735	126,654	7,682,375
1989-90	2,479,193	1,135,818	1,079,927	3,136,119	320,818	160,336	8,312,211
1990-91	2,553,581	1,384,994	1,120,365	3,177,571	339,355	159,856	8,735,722
1991-92	2,616,360	1,499,059	1,159,711	3,391,898	365,686	200,862	9,233,576
1992-93	2,583,420	1,570,590	1,253,884	3,549,713	392,237	249,080	9,598,924
1993-94	2,536,244	1,577,936	1,332,303	3,487,858	402,886	211,889	9,549,116
1994-95	2,652,691	1,609,225	1,461,064	3,541,181	456,243	210,963	9,931,367
1995-96	2,749,966	1,821,352	1,627,301	3,486,237	485,694	233,928	10,404,478
1996-97	2,924,341	1,906,454	1,660,431	3,789,774	540,194	245,973	11,067,167
1997-98	3,079,198	1,820,062	1,751,567	4,071,680	602,666	292,693	11,617,866
1998-99	3,461,295	1,811,702	1,936,911	4,459,237	675,989	343,902	12,689,036
1999-00	3,675,637	2,109,383	2,043,538	4,595,925	758,731	359,378	13,542,592
2000-01	4,206,044	2,662,843	2,055,110	4,831,201	851,127	335,733	14,942,058
2001-02	4,460,637	2,880,079	2,098,019	5,463,526	926,355	310,351	16,138,967
2002-03	4,395,681	3,114,683	2,218,477	6,294,983	1,002,227	352,736	17,378,787
2003-04	4,492,468	3,378,824	2,324,417	6,462,902	1,073,828	398,059	18,130,498
2004-05	4,490,079	3,579,653	2,510,067	6,575,227	1,107,101	432,874	18,695,001
2005-06	4,781,469	3,705,005	2,718,023	6,710,678	1,235,546	467,634	19,618,355
2006-07	5,083,748	4,126,066	3,049,629	4,755,621	1,338,356	516,046	18,869,466
2007-08	5,427,851	4,554,364	3,533,777	3,649,040	1,512,588	530,338	19,207,958
2008-09	4,980,495	4,913,330	3,693,711	3,324,549	1,632,435	517,999	19,062,519
2009-10	5,719,980	5,131,765	3,705,881	3,913,403	1,633,590	500,655	20,605,274
2010-11	5,921,179	5,595,563	4,107,989	4,254,994	1,684,369	449,128	22,013,222
2011-12	6,131,798	5,987,252	4,311,954	3,972,337	1,674,693	405,500	22,483,534

¹ **Core funds** consists of State General Funds, UC General Funds, American Recovery and Reinvestment Act (2009) funds, and student tuition and fees.

² **Other sales and services** revenue includes support for clinical care staff; auxiliary enterprises such as housing and dining services, parking facilities, and bookstores; University Extension; and other complementary activities such as museums, theaters, conferences, and publishing.

³ **Government contracts and grants** include direct support for specific research programs as well as student financial support and DOE Laboratory operations.

⁴ **Private Support** includes earnings from the Regents' endowment earnings, grants from campus foundations, and other private gifts, grants, and contracts from alumni and friends of the University, foundations, corporations, and through collaboration with other universities.

⁵ **Other sources** include indirect cost recovery funding from research contracts and grants and other fund sources.

Appendix Display 5: Core Funds Expenditures by Fund Source, 1980-81 Through 2011-12 (Dollars in Thousands)

	State General Funds	UC General Funds ¹	ARRA Funds ²	Tuition	Student Services Fees	Professional Degree Supplemental Tuition	Total
1980-81	\$1,074,584	\$66,219	-	\$42,958	\$54,310	-	\$1,238,071
1981-82	1,097,293	93,252	-	61,602	58,428	-	1,310,575
1982-83	1,125,425	86,349	-	85,705	59,442	-	1,356,921
1983-84	1,110,012	96,695	-	102,984	65,969	-	1,375,660
1984-85	1,457,144	89,100	-	97,322	69,767	-	1,713,333
1985-86	1,641,741	119,936	-	97,025	71,858	-	1,930,560
1986-87	1,788,304	97,462	-	99,357	75,474	-	2,060,597
1987-88	1,888,872	126,870	-	112,102	82,477	-	2,210,321
1988-89	1,970,047	160,524	-	124,815	85,741	-	2,341,127
1989-90	2,076,662	172,676	-	135,944	93,911	-	2,479,193
1990-91	2,135,733	166,407	-	148,891	100,750	\$1,800	2,553,581
1991-92	2,105,560	182,250	-	223,690	103,046	1,814	2,616,360
1992-93	1,878,531	237,954	-	360,883	104,232	1,820	2,583,420
1993-94	1,793,236	223,104	-	418,623	99,461	1,820	2,536,244
1994-95	1,825,402	246,121	-	473,374	104,423	3,371	2,652,691
1995-96	1,917,696	249,124	-	479,480	90,238	13,428	2,749,966
1996-97	2,057,257	270,258	-	473,991	102,182	20,653	2,924,341
1997-98	2,180,350	281,911	-	480,804	105,304	30,829	3,079,198
1998-99	2,517,773	301,996	-	489,944	114,096	37,486	3,461,295
1999-00	2,715,762	340,779	-	460,913	114,014	44,169	3,675,637
2000-01	3,191,614	370,631	-	472,287	127,904	43,608	4,206,044
2001-02	3,322,659	428,115	-	525,943	130,663	53,257	4,460,637
2002-03	3,150,011	480,256	-	577,056	130,956	57,402	4,395,681
2003-04	2,868,069	549,393	-	860,935	131,596	82,475	4,492,468
2004-05	2,698,673	544,258	-	993,607	143,548	109,993	4,490,079
2005-06	2,838,567	554,151	-	1,118,723	147,278	122,750	4,781,469
2006-07	3,069,339	560,594	-	1,171,290	161,427	121,098	5,083,748
2007-08	3,257,409	577,299	-	1,299,590	165,575	127,978	5,427,851
2008-09 ²	2,686,791	616,872	\$268,500	1,358,365	164,856	153,611	4,980,495
2009-10 ²	3,039,158	626,413	448,000	1,722,946	163,595	167,868	5,719,980
2010-11 ²	3,017,250	691,238	106,553	1,816,444	190,703	205,544	5,921,179
2011-12	2,374,059	792,340	-	2,498,426	218,482	248,491	6,131,798

¹ UC General Funds includes nonresident supplemental tuition, application fees, a portion of indirect cost recovery from federal and state contracts and grants, a portion of patent royalty income, and interest in General Fund balances.

² State Fiscal Stabilization Funds authorized by the 2009 American Reinvestment and Recovery Act.

Appendix Display 6: General Campus and Health Sciences Full-Time Equivalent Student Enrollment

	2010-11 Actual	2011-12 Estimated
Berkeley		
General Campus	35,510	35,466
Health Sciences	<u>805</u>	<u>761</u>
Total	36,315	36,227
Davis		
General Campus	29,469	29,666
Health Sciences	<u>2,241</u>	<u>2,305</u>
Total	31,710	31,971
Irvine		
General Campus	26,797	27,593
Health Sciences	<u>1,468</u>	<u>1,469</u>
Total	28,265	29,062
Los Angeles		
General Campus	34,765	35,915
Health Sciences	<u>3,913</u>	<u>3,938</u>
Total	38,678	39,853
Merced		
General Campus	4,488	5,258
Riverside		
General Campus	20,240	20,701
Health Sciences	<u>55</u>	<u>56</u>
Total	20,295	20,757
San Diego		
General Campus	28,667	28,844
Health Sciences	<u>1,734</u>	<u>1,740</u>
Total	30,401	30,584
San Francisco		
Health Sciences	4,363	4,558
Santa Barbara		
General Campus	22,920	22,371
Santa Cruz		
General Campus	17,437	17,172
Totals		
General Campus	220,293	222,986
Health Sciences	<u>14,579</u>	<u>14,827</u>
Total	234,872	237,813

Appendix Display 7: General Campus Full-Time Equivalent Student Enrollment

	2010-11 Actual	2011-12 Estimated
Berkeley		
Undergraduate	27,415	27,411
Graduate	<u>8,095</u>	<u>8,055</u>
Total	35,510	35,466
Davis		
Undergraduate	24,994	25,151
Graduate	<u>4,475</u>	<u>4,515</u>
Total	29,469	29,666
Irvine		
Undergraduate	23,288	23,684
Graduate	<u>3,509</u>	<u>3,909</u>
Total	26,797	27,593
Los Angeles		
Undergraduate	26,842	27,890
Graduate	<u>7,923</u>	<u>8,025</u>
Total	34,765	35,915
Merced		
Undergraduate	4,247	5,010
Graduate	<u>241</u>	<u>248</u>
Total	4,488	5,258
Riverside		
Undergraduate	18,032	18,499
Graduate	<u>2,208</u>	<u>2,202</u>
Total	20,240	20,701
San Diego		
Undergraduate	24,692	24,698
Graduate	<u>3,975</u>	<u>4,146</u>
Total	28,667	28,844
Santa Barbara		
Undergraduate	19,986	19,342
Graduate	<u>2,934</u>	<u>3,029</u>
Total	22,920	22,371
Santa Cruz		
Undergraduate	15,946	15,730
Graduate	<u>1,491</u>	<u>1,442</u>
Total	17,437	17,172
General Campus		
Undergraduate	185,442	187,415
Graduate	<u>34,851</u>	<u>35,571</u>
Total	220,293	222,986

Appendix Display 8: Enrollment History, 1980-81 Through 2011-12

	<u>General Campus</u>		<u>Health Sciences</u>		Total
	Undergraduate	Graduate	Undergraduate	Graduate	
1980-81	88,963	24,704	697	11,755	126,119
1981-82	90,476	25,037	492	12,030	128,035
1982-83	92,771	24,470	370	12,102	129,713
1983-84	94,469	24,192	354	11,807	130,822
1984-85	96,613	24,996	344	11,752	133,705
1985-86	99,392	25,440	344	11,752	136,928
1986-87	103,506	26,229	347	11,694	141,776
1987-88	108,141	25,676	358	11,808	145,983
1988-89	112,377	25,676	364	11,903	150,320
1989-90	114,365	26,142	380	11,976	152,863
1990-91	116,546	26,798	412	12,125	155,881
1991-92	117,297	26,511	407	12,156	156,371
1992-93	115,133	26,374	410	12,318	154,235
1993-94	113,548	25,930	400	12,324	152,202
1994-95	113,869	25,546	400	12,235	152,050
1995-96	116,176	25,346	356	12,320	154,198
1996-97	117,465	25,318	315	12,289	155,387
1997-98	119,852	25,682	278	11,999	157,811
1998-99	123,227	25,629	292	12,252	161,400
1999-00	127,208	26,114	274	12,304	165,900
2000-01	132,026	26,666	274	12,279	171,245
2001-02	143,853	28,725	287	12,439	185,304
2002-03	152,320	30,738	321	12,809	196,188
2003-04	156,243	32,385	162	13,106	201,896
2004-05	156,066	31,872	127	13,338	201,403
2005-06	159,515	32,397	131	13,325	205,368
2006-07	166,966	32,882	202	13,596	213,646
2007-08	173,703	33,652	350	13,608	221,313
2008-09	180,210	33,939	462	13,714	228,325
2009-10	183,515	34,673	512	13,913	232,613
2010-11	185,442	34,851	504	14,075	234,872
2011-12 (est.)	187,415	35,571	495	14,332	237,813

Appendix Display 9: UC Mandatory Student Charge Levels

	Student Services Fee	Tuition					Surcharge ²
		Undergraduate		Graduate Academic		Professional ¹	
		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	972	11,160	11,160	11,160	11,160	11,160	60

¹ Charged to resident and nonresident professional degree students. Through 2010-11, excludes students paying Architecture, Environmental Design, Information Management, International Relations and Pacific Studies, Physical Therapy, Preventive Veterinary Medicine, Public Health, Public Policy, Social Welfare, and Urban Planning Professional Degree Supplemental Tuition.

² Before 2007-08, surcharges were only charged to professional degree students.

³ Mid-year increases were applied to spring academic term. Figures shown are annualized levels.

⁴ Mid-year increases were applied in January 2010. Figures shown are annualized levels.

Appendix Display 10: UC Average Annual Student Charges for Resident Undergraduate Students

	Mandatory Charges	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	12,192	18.3%	989	13,181	16.9%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

Appendix Display 11: UC Average Annual Student Charges for Nonresident Undergraduate Students

	Mandatory Charges	Increase	Campus- based Fees ¹	Nonresident Supplemental 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	12,192	9.2%	989	22,878	3.9%	36,059	5.6%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

Appendix Display 12: UC Average Annual Student Charges For Resident Graduate Academic Students

	Mandatory Charges	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	12,192	18.3%	606	12,798	17.4%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

⁴ Beginning in 2010-11, campus-based fee figures for graduate students do not include waivable health insurance fee.

Appendix Display 13: UC Average Annual Student Charges For Nonresident Graduate Academic Students

	Mandatory Charges	Increase	Campus- based Fees ¹	Nonresident Supplemental 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	12,192	13.8%	606	15,102	2.8%	27,900	7.3%

¹ Beginning in 1998-99, campus-based fees are calculated on a weighted basis using enrollments.

² Mid-year charge increases were applied to spring academic term. Figures shown are annualized charge levels.

³ Mid-year charge increases were applied in January 2010. Figures shown are annualized charge levels.

⁴ Beginning in 2010-11, campus-based fee figures for graduate students do not include waivable health insurance fee.

Appendix Display 14: 2011-12 Total Charges for Professional Degree Students by Program and Campus

	<u>Professional Degree Supplemental Tuition</u>		<u>Total Charges¹</u>	
	Residents	Nonresidents	Residents	Nonresidents
Architecture				
Los Angeles	\$8,000	\$8,000	\$22,677	\$34,922
Art				
Los Angeles	8,000	\$5,000	22,677	31,922
Business				
Berkeley	31,430	26,164	46,403	53,382
Davis	22,176	22,176	37,437	49,682
Irvine	21,384	18,714	36,822	46,397
Los Angeles	29,717	24,667	45,444	52,639
Riverside	21,354	21,354	36,259	48,504
San Diego	25,824	17,644	40,533	44,598
Dental Hygiene				
San Francisco	12,036	12,036	27,202	39,447
Dentistry				
Los Angeles	24,160	21,115	40,885	50,085
San Francisco	25,068	25,068	40,245	52,490
Educational Leadership				
Davis	4,002	4,002	19,263	31,508
Engineering				
Berkeley	30,000	22,000	44,973	49,218
Environmental Design				
Berkeley	6,000	6,000	20,973	33,218
Health Informatics				
Davis	6,000	6,000	21,261	33,506
Information Management				
Berkeley	6,400	6,400	21,373	33,618
International Relations and Pacific Studies				
San Diego	7,100	7,100	21,659	33,904
Law				
Berkeley	35,148	27,110	50,152	54,359
Davis	31,218	27,110	46,476	54,613
Irvine	29,404	27,004	44,827	54,672
Los Angeles	29,404	27,004	44,981	54,826
Medicine				
Berkeley	18,636	18,636	33,670	45,915
Davis	18,636	18,636	37,638	49,883
Irvine	18,636	18,636	34,150	46,395
Los Angeles	18,636	18,636	33,374	45,619
Riverside	18,636	18,636	33,608	45,853
San Diego	18,636	18,636	33,256	45,501
San Francisco	18,636	18,636	33,822	46,067

¹ Total charges include campus-based fees and health insurance as estimated in November 2010; these amounts may have changed. Total charges also include mandatory systemwide charges (Tuition and Student Services Fee totaling \$12,192); Professional Degree Supplemental Tuition; and Nonresident Supplemental Tuition, disability, and other fees where applicable.

Appendix Display 14: 2011-12 Total Charges for Professional Degree Students by Program and Campus (continued)

	<u>Professional Degree Supplemental Tuition</u>		<u>Total Charges¹</u>	
	Residents	Nonresidents	Residents	Nonresidents
Nursing				
Davis	\$5,730	\$5,730	\$20,991	\$33,236
Irvine	5,730	5,730	21,153	33,398
Los Angeles	5,730	5,730	20,407	32,652
San Francisco	5,730	5,730	20,821	33,066
Optometry				
Berkeley	14,674	14,674	29,647	41,892
Pharmacy				
San Diego	18,354	18,354	32,913	45,158
San Francisco	18,354	18,354	33,479	45,724
Physical Therapy				
San Francisco	11,772	12,108	30,970	43,551
Preventive Veterinary Medicine				
Davis	5,742	6,198	21,003	33,704
Public Health				
Berkeley	6,758	6,758	21,731	33,976
Davis	6,810	7,266	23,750	36,451
Irvine	5,612	5,612	21,035	33,280
Los Angeles	6,811	7,267	21,488	34,189
Public Policy				
Berkeley	7,290	7,746	22,263	34,964
Irvine	5,563	5,563	20,986	33,231
Los Angeles	6,811	7,267	21,488	34,189
Social Welfare				
Berkeley	4,000	4,000	18,973	31,218
Los Angeles	5,563	5,971	20,240	32,893
Theater, Film, and Television				
Los Angeles	8,659	8,659	23,336	35,581
Urban Planning				
Los Angeles	5,563	5,971	20,240	32,893
Veterinary Medicine				
Davis	15,216	15,216	33,014	45,259

¹ Total charges include campus-based fees and health insurance as estimated in November 2010; these amounts may have changed. Total charges also include mandatory systemwide charges (Tuition and Student Services Fee totaling \$12,192); Professional Degree Supplemental Tuition; and Nonresident Supplemental Tuition, disability, and other fees where applicable.

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