



State budget update

Even after the Legislature and governor adopted a 2003-04 state budget that made major cuts across state government, the State of California is facing a major budget deficit going into the 2004-05 budget cycle. As a result, institutions across the state are being asked to develop options for accommodating further deep budget cuts.

The University of California has begun the planning process for 2004-05. At the September meeting of the Board of Regents, the board discussed a variety of budget options for the coming year.

No decisions about the 2004-05 budget have yet been made. The options reviewed by The Regents should not be considered likely or probable; rather, they were presented in order to give The Regents a sense of the broad spectrum of approaches that could be taken in the event of an additional major budget reduction. The University is in the early stages of discussing the 2004-05 budget and is simply taking an “all options on the table” look at its budget situation. More specifics will become available in January, when the governor’s budget proposal for 2004-05 is released.

Nature of the problem

Over the last three years, UC’s state-funded budget has fallen 14 percent while its student enrollments, driven by growth in California’s college-age population, have grown 18 percent.

The falling state funding has meant that most University programs have been cut significantly; these include research, libraries, student services, administration, K-12 outreach, Cooperative Extension, and many others. Student fees are increasing, UC employees are not receiving cost-of-living increases, the University is borrowing money to cover operating costs for the first time since the early 1990s, and the opening of its new campus at Merced is being delayed. The UC system is operating on roughly \$3 billion in state funds for 2003-04, at a time when it had expected to be receiving \$4 billion from the state.

Options that may be considered

In November, The Regents approved a set of budget principles addressing the University’s funding priorities in 2004-05, including maintaining quality, access and affordability. However, given the budget realities, the University also is planning for further cuts. At their September meeting, The Regents discussed a variety of options for addressing the possibility of further budget cuts in the 2004-05 fiscal year. No decisions were made, and the discussion will continue at future meetings.

UC representatives stressed that none of the options is attractive and that the University would prefer to avoid cuts of any kind, given those that have already occurred. However, given a request from the state Department of Finance that state institutions begin considering how to accommodate budget cuts of up to 20% in 2004-05, prudent planning is needed. In general, The Regents reviewed the kinds of options that could be pursued in three general areas:

- **Program cuts (affecting quality)** – For example, salary cuts, reductions in faculty, or further cuts to UC programs that were cut in 2003-04 by as much as 50%. All of these options would seriously affect the quality of the University of California and its ability to serve the people of California at the level they have come to expect. Many programs were already cut deeply in the California budget crisis of the early 1990s. (For example: Each 1% cut to state-funded research programs would save \$2.2 million, but research already has been cut 20% in the last two years and was cut 20% in the early 1990s.) Faculty salaries are currently 9% behind those of UC’s comparison institutions, and UC has a similar challenge with respect to staff salaries.

- **Student fee increases (affecting affordability)** – For example, further increases in mandatory systemwide student fees, further increases in professional school fees, further increases in nonresident tuition, income-indexed fee surcharges, or additional fees for students taking large numbers of classes beyond those needed for graduation. Fees have already increased substantially this year after seven years without a systemwide increase. Expanded financial aid protects lower-income and many middle-income students from the full impact of the fee increases, and this commitment to financial aid would continue.
- **Enrollment restrictions (affecting accessibility)** – For example, reductions in the number of new freshmen UC accepts; reductions in the number of community college transfer students UC accepts; redirection of some UC-eligible students to the community colleges for their lower-division instruction, followed by transfer to UC; or a further delay in the opening of UC Merced. Such constraints on enrollment are a source of great concern to the University, given its history under the Master Plan for Higher Education of offering a place on one of its campuses to every applicant who meets UC eligibility requirements.

All further budget cuts will have some impact on UC's foundation of quality, access, and affordability.

The Schwarzenegger administration recently proposed a series of mid-year cuts for the University of California. The governor's proposal requires approval by the Legislature before taking effect. In the coming months, the University hopes to work with state leaders on a budget that minimizes long-term damage to the University's ability to fulfill its obligations to the people of California.

Included in the governor's proposed mid-year cuts are:

- An **unallocated reduction** of \$18.4 million in the current year, growing to a \$55.1 million reduction in 2004-05. UC's current state-funded budget is \$2.9 billion.
- Elimination of funding for **K-12 outreach** programs, effective January 1, 2004, representing a \$12.2 million current-year and \$33.3 million full-year reduction.
- Reduction of funding for UC **labor institutes**, effective January 1, 2004, representing a \$2 million reduction in the current year, growing to \$4 million in 2004-05.

For continuing updates

Details on the current state budget for UC are at <http://www.ucop.edu/news/archives/2003/july30art1.htm>.

Information on the overall state budget situation facing the University is at <http://www.ucop.edu/news/budget/>.