1998-99

Budget for Current Operations

UNIVERSITY OF CALIFORNIA
Office of the President
October 1997

THE PRESIDENT'S MESSAGE

In its optimism and its orientation to the future, The Regents' 1998-99 Budget reflects the past three years of much-needed fiscal stability and growing public recognition of UC's importance to California. Thanks to the Governor's and the Legislature's commitment to higher education and the talent and dedication of our faculty and staff, the University has sustained its excellence despite the unprecedented cuts of the early 1990s. To mention just a few recent indicators of UC's remarkable academic quality:

- A recent national study of research universities, *The Rise of American Research Universities,* ranks all eight UC general campuses in the top group of public research universities with respect to faculty research productivity. This finding confirms what the National Research Council had shown in its 1995 study of American graduate programs: academic quality is spread throughout the UC system, not just concentrated in its older and larger campuses.

- Seven of the University's nine campuses are included in the top thirty universities nationwide in terms of memberships in the prestigious National Academy of Sciences, a record unmatched by any other university system.

- Six of the University's eight general campuses are members of the Association of American Universities, an organization composed of 65 of the most distinguished public and private universities in the country--an achievement also unequalled by any other university system.

None of this would have been possible without the help of the State, which has more than honored the four-year compact with higher education and provided the University with funds to buy out proposed student fee increases; the alumni and friends who for a third consecutive year have pledged more than $700 million to support the University; and the Congress and President, who have made federal research a high priority and have provided financial relief for our students and their families. All of these actions have been critical to our ability to maintain quality and access for the citizens of California.

We have accomplished much these last few years. We have enrolled more students than are provided for in the budget. We have continued to offer the classes our students need to graduate in a timely fashion, because our faculty have continued to maintain increased workloads. We have significantly stepped up our outreach efforts. We are working more closely than ever with our colleagues in the community colleges to ensure a seamless transition from one segment to the other. We have maintained our commitment to provide students with financial support.

The Regents' Budget for 1998-99 is an assessment of what we need to meet our responsibilities to California and a blueprint of our aspirations for the future. Both are reflected in the initiatives and priorities this budget proposes for next year.

With this budget, we are taking what we believe will be the last step in a multi-year plan to increase faculty salaries so that we can level the playing field in competition with other distinguished universities, and thereby continue to attract and retain the best and the brightest.

The funding provided in this budget will enable us to continue to honor the Master Plan and provide a space to all eligible California high school graduates wishing to attend the University.

We are asking the State to help us continue our progress in creating the California Digital Library, which will move California into an era in which our libraries, at the press of a button, can come to students, scholars, and citizens wherever they are, whenever they wish.

We are expanding our investment in research targeted to critical sectors of the State's economy. The biotechnology industry--born of university-based research and fueled by a constant flow of ideas and talented people from UC and other leading research institutions--is a success story we are seeking to replicate in semiconductor manufacturing, multimedia and digital telecommunications, and other industries ripe for additional investments.

We are accelerating our investments in instructional technology so that our students will continue to have access to state-of-the-art instruction. Our faculty have long been pioneers in using and developing this technology. Given the speed with which the digital environment is evolving, new investments are needed.

We will be devoting major efforts to implementing the Outreach Task Force report, an ambitious plan to attract students from all backgrounds consistent with The Regents' decision to seek new paths to diversity. There is no university in the world that offers students greater opportunities to study and work with people who represent every walk of life and every variety of intellectual perspective. With the help of our colleagues at all levels of education, I am confident that the University will be a leader in the future as it has been in the past. We will work hard this year to secure the resources we need for this critical effort.

We are putting special emphasis on repairing and renovating our aging facilities. The budget plan includes a proposal for systematic funding to make our classrooms, laboratories, offices, and other facilities more adequate to the demands of teaching, scholarship, and research.

We are poised to move ahead with planning for the tenth campus and the expansion of academic programs in the San Joaquin Valley. With a targeted enrollment of 1,000 students beginning in 2005, this would be the first new University of California campus in over 30 years. We intend that it will truly be a campus for the twenty-first century,

taking advantage of the stunning advances in technology that have taken place in recent years.

Looking to the future, it is clear that the University must be ready to face some sobering realities:

- *Student demand is expected to grow dramatically in the next fifteen years.* Our enrollment has expanded during the 1980s and 1990s, and is expected to continue expanding moderately over the next several years. After this period of moderate growth, however, we are expecting a dramatic increase in student enrollment. I am concerned about whether the University will have adequate resources to accommodate this growth, keep UC affordable, and maintain our quality, especially because we have not recovered from the deep and painful cuts of the early 1990s.

- *We are in the last year of the compact with the State.* Competing constitutional and statutory demands on the State's general fund have profoundly affected the State's funding priorities. Given these competing demands, we have been working closely with the Legislature and the Governor to craft a long-term funding policy that would ensure funding for our minimum budget needs and recognize enrollment growth. This hallmark legislation, which represents one of the best hopes for the University's future, is now before the Governor for action.

- *The President and the Congress have reaffirmed their commitment to balance the federal budget by 2002.* The University of California is a major recipient of federal funds: the federal government provides nearly 55 percent of our research expenditures, over half of the financial aid our students receive, and about one-third of the net operating revenue of our teaching hospitals. Because the economy has grown at a fast rate in 1997 we will see increases in domestic discretionary funding in 1998-99, and the cuts needed to bring the federal budget into balance by 2002 will be delayed until at least 2000. We continue to be concerned, however, with proposed changes in federal Medicaid and Medicare programs which are expected to hit academic medical centers especially hard.

Research universities like the University of California are among the nation's greatest treasures and wisest investments. They are also among the most dynamic and resilient of our institutions. I am proud of what UC has been able to accomplish during a decade remarkable for the challenges it has posed to colleges and universities throughout the nation. And I am deeply grateful to the faculty and staff whose tremendous talent and loyalty have enabled the University, despite all obstacles, to keep its promises to the citizens of California.

Richard C. Atkinson
October 1997

UNIVERSITY OF CALIFORNIA

FOREWORD

The University of California was founded in 1868 as a public, State-supported land grant institution. It was written into the State Constitution as a public trust to be administered under the authority of an independent governing board, The Regents of the University of California. There are nine campuses: Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. All of the campuses offer undergraduate, graduate, and professional education; one, San Francisco, is devoted exclusively to the health sciences. 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 in all parts of the State. The University's Agricultural Field Stations, Cooperative Extension offices, and the Natural Reserve System benefit people in all areas of California. In addition, the University provides oversight of the three Department of Energy Laboratories.

Organization of The Regents' Budget

The Introduction and Executive Summary provide an overall perspective on the major policy issues, specific objectives, and priorities for 1998-99. The subsequent sections discuss programs in more detail and provide fuller justification of requests for funding increases. The budget is structured to accommodate the reader who does not go beyond the Executive Summary or who wants information on selected topics only. Therefore, important themes are repeated throughout the budget.

TABLE OF CONTENTS

1998-99 BUDGET FOR CURRENT OPERATIONS AND EXTRAMURALLY FUNDED OPERATIONS

EXPENDITURES

BUDGET FOR CURRENT OPERATIONS	1997-98 Budget ($000s)	1998-99 Proposed ($000s)	Change Amount ($000s)	%
Instruction				
General Campus	$ 1,274,797	$ 1,303,314	$ 28,517	2.2%
Health Sciences	598,181	614,881	16,700	2.8%
Summer Session	30,700	32,200	1,500	4.9%
University Extension	195,600	205,600	10,000	5.1%
Research	312,993	314,993	2,000	0.6%
Public Service	137,771	137,771	--	0.0%
Academic Support	--	--	--	--
Libraries	191,257	194,257	3,000	1.6%
Other	364,186	394,336	10,150	2.6%
Teaching Hospitals	1,956,322	1,995,448	39,126	2.0%
Student Services	215,549	217,516	1,967	0.9%
Institutional Support	328,439	328,439	--	0.0%
Operation and Maintenance of Plant	357,591	359,943	2,352	0.7%
Student Financial Aid	232,987	236,178	3,191	1.4%
Auxiliary Enterprises	483,979	503,179	19,200	4.0%
Provisions for Allocation	34,243	44,504	10,261	30.0%
Special Regents' Programs	115,083	115,083	--	0.0%
Program Maintenance: Fixed Costs, Economic Factors	--	111,400	111,400	--
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 6,849,678	$ 7,109,042	$ 259,364	3.8%
EXTRAMURALLY FUNDED OPERATIONS				
Sponsored Research	$ 1,315,584	$ 1,361,715	$ 46,131	3.5%
Other Activities	773,599	806,368	32,769	4.2%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 2,089,183	$ 2,168,083	$ 78,900	3.8%
TOTAL OPERATIONS	$ 8,938,861	$ 9,277,125	$ 338,264	3.8%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 2,588,000	$ 2,640,000	$ 52,000	2.0%

INCOME

BUDGET FOR CURRENT OPERATIONS	1997-98 Budget ($000s)	1998-99 Proposed ($000s)	Change Amount ($000s)	%
General Funds				
State of California	$ 2,181,616	$ 2,316,616	$ 135,000	6.2%
UC Sources	280,572	282,924	2,352	0.8%
Total General Funds	$ 2,462,188	$ 2,599,540	$ 137,352	5.6%
Restricted Funds				
State of California	$ 67,913	$ 67,913	$ -	0.0%
U. S. Government				
Appropriations	19,000	19,000	--	0.0%
Student Fees	890,246	912,821	22,575	2.5%
Teaching Hospitals	1,904,592	1,943,718	39,126	2.1%
Auxiliary Enterprises	481,415	500,615	19,200	4.0%
Endowments	81,000	87,000	6,000	7.4%
Other	943,324	978,435	35,111	3.7%
Total Restricted Funds	$ 4,387,490	$ 4,509,502	$ 122,012	2.8%
TOTAL BUDGET FOR CURRENT OPERATIONS	$ 6,849,678	$ 7,109,042	$ 259,364	3.8%
EXTRAMURALLY FUNDED OPERATIONS		0		
State of California	$ 108,376	$ 111,676	$ 3,300	3.0%
U.S. Government	1,111,830	1,134,030	22,200	2.0%
Private Gifts, Contracts & Grants	497,432	532,232	34,800	7.0%
Other	371,545	390,145	18,600	5.0%
TOTAL EXTRAMURALLY FUNDED OPERATIONS	$ 2,089,183	$ 2,168,083	$ 78,900	3.8%
TOTAL OPERATIONS	$ 8,938,861	$ 9,277,125	$ 338,264	3.8%
MAJOR DEPARTMENT OF ENERGY LABORATORIES	$ 2,588,000	$ 2,640,000	$ 52,000	2.0%

INTRODUCTION TO THE 1998-99 BUDGET

The University's annual budget is a statement of resources needed to maintain access and ensure the continued excellence of University programs. Funding requests in the budget reflect both long-term and short-term academic program objectives that have been identified and reaffirmed in the University's ongoing planning process. The budget is developed through a decision-making process that involves faculty, students, administrators, and The Regents.

University Missions

The University's fundamental missions are teaching, research, and public service. Undergraduate instructional programs are available to all eligible California high school graduates and transfer students from the California Community Colleges who wish to attend the University of California. The California Master Plan for Higher Education designates the University as the primary State-supported academic agency for research with exclusive jurisdiction in public higher education over instruction in law and graduate instruction in medicine, dentistry, and veterinary medicine. Sole authority among public higher education institutions is also vested in the University to award doctoral degrees in all fields, except that joint doctoral degrees with the California State University may be awarded.

The Master Plan was comprehensively reviewed in March 1985, first by a blue-ribbon citizens' commission and later by the Joint Legislative Committee for Review of the Master Plan for Higher Education. Subsequently, the Legislature approved and the Governor signed legislation that reaffirms the University's missions.

University Programs

The University of California is internationally renowned for the quality of its academic programs and the distinction of its faculty. UC faculty are well represented in the membership of prestigious organizations such as the National Academy of Sciences and among winners of the Nobel Prize and Guggenheim Fellowships. In this past year three UC faculty were awarded the National Medal of Science, the nation's highest honor for ground breaking scientific research. In May of 1997 eleven University of California scientists and researchers were among 60 new members elected to the National Academy of Sciences, bringing the University's total membership in the academy to 266. This past winter UC Davis and UC Irvine were admitted as members of the Association of American Universities (AAU) bringing to six the number of University of California campuses elected to the AAU. UC is the only university system in the nation with more than one AAU member.

In a recent book, "*The Rise of American Research Universities: Elites and Challengers in the Postwar Era*," authors Graham and Diamond found that UC is in the forefront of research productivity and in creating new knowledge. The book ranked Berkeley number one, and Santa Barbara number two, with the six other general campuses ranked in the top 26 among the nation's public research universities. The Graham-Diamond book reinforced the findings of the most recent rankings of the prestigious National Research Council. Analyzing the doctoral programs of 274 universities, the Council ranked over half of the University's 230 graduate programs at the nine campuses in the top 20 of their field--a performance unmatched by any university system in the country.

In an unprecedented survey, the National Science Foundation (NSF) showed that the University of California and its affiliated national laboratories produce more research leading to patented inventions than any other public or private research university or laboratory. This study, which is the most thorough examination to date of the scientific foundation of American patents, highlights the importance of publicly financed scientific research.

All of these distinctions are evidence of the University's preeminence among the nation's leading universities, an accomplishment that benefits all of California. The quality of programs developed and maintained within the University over the years owes much to the citizens of California, who have long recognized the benefits to the State of supporting a public university of national and international distinction. These benefits are discussed in the sections that follow.

Instruction

Instructional programs at the undergraduate level transmit knowledge and skills to students and also develop their appreciation of the creative process and their ability to acquire knowledge and evaluate evidence outside the structured classroom environment. At the graduate level, students experience with their instructors the processes of developing and testing new hypotheses and fresh interpretations of knowledge. Education for professional careers, grounded in understanding of relevant sciences, literature, and research methods, provides individuals with the tools to continue intellectual development over a lifetime and to contribute to the needs of a changing society.

Research

As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students strive together to expand fundamental knowledge of human nature, society, and the natural world. The University's basic research programs yield a multitude of benefits, ranging from increases in industrial and agricultural productivity to advances in health care and

improvements in the quality of life. A stimulating research environment at the University attracts outstanding faculty, enhancing the quality of education available to students at all levels. The University, with the support of the State, is now expanding its research partnerships with industry.

Public Service

Through its public service programs, the University disseminates research results and translates scientific discoveries into practical knowledge and technological innovations that benefit California and the nation. Through these programs, the faculty and students apply their knowledge and special skills that help to solve the problems of today's society.

EXECUTIVE SUMMARY OF THE 1998-99 BUDGET REQUEST

The University's 1998-99 budget plan was developed on the basis of the four-year compact with higher education, which has been supported by the Governor and the Legislature for the past three years. Under the compact, the University expects to receive average annual increases of four percent in State general funds plus funds for debt service on capital outlay. The compact also assumes that student fees will increase, on average, by ten percent a year with one-third of the revenue being set aside for financial aid to offset the fee increases and the remainder going to help fund the budget. In each of the last three years the State has provided sufficient State general funds to fully fund the University's expenditure plan, eliminating the need to increase student fees. On the last night of the legislative session the Legislature approved a measure (AB 1318) which provides for a five percent reduction in systemwide general fees for California undergraduate resident students. This measure is now before the Governor. Given these actions, it is premature to propose any changes in mandatory systemwide student fees at this time. A final decision will be made after the Governor's Budget is released in January.

The goals of the University's 1998-99 budget plan are to fund enrollment of an additional 2,000 students, which is the workload growth the University committed to under the compact; restore competitive faculty salaries; continue to fund the University's merit program which is key to recruiting, retaining and rewarding the best faculty and staff; and provide for other inflationary adjustments. The 1998-99 budget plan provides funding to operate and maintain new space as well as increased funding for ongoing building maintenance, instructional technology and for the successful Industry-University Cooperative Research Program. The 1998-99 budget plan includes funding for two new initiatives. One initiative is the development of a California Digital Library. The second is a proposal to use up to five percent of the *increase* in State and UC general funds to pay for debt service related to deferred maintenance.

The budget plan assumes a $10 million budget reduction, representing the final of four $10 million reductions called for in the four-year compact that are to be addressed through productivity improvements. Additional funds are requested to cover the debt service related to capital outlay.

The budget request is the minimum needed to maintain quality, to be able to offer a space to all eligible students wishing to attend, and to provide the classes students need to graduate. The budget plan does not address all of the University's pressing financial problems, nor does it seek funding to recover losses incurred during the early 1990s.

While the University has not recovered the fiscal ground lost in the 1990s, the University has been helped enormously by the four-year compact. The compact, which is now in its last year, has provided the University with the fiscal stability needed to begin planning for the future. With the compact coming to an end, the University's ability to maintain the quality of its academic programs and to preserve access is vulnerable.

For over thirty years the State has provided higher education with the resources necessary to realize the vision of an educational system characterized by access, quality and low fees. However, competing constitutional and statutory demands on the State's general funds have profoundly affected the State's funding priorities. Studies done by RAND and the Department of Finance suggest that programs without constitutional or statutory protection, like the University, could see their State support erode significantly over the next five to ten years—at the same time enrollments are projected to grow dramatically.

With this in mind and with the compact coming to an end, the University turned its attention to working with the Governor and the Legislature to develop a long-term funding plan that would establish the basis for the State to provide the University with support in the future for basic budget needs and enrollment growth.

The funding plan, which has been approved by the Legislature and as of this writing is before the Governor for action, is incorporated into AB 1415 (Bustamante). AB 1415 would establish a partnership, beginning July 1, 1999, in which the State would provide the University (and the California State University) with: (1) at least its proportional share of the State's general fund budget, consistent with the proportion received in 1998-99; and, (2) additional resources for annual enrollment growth in excess of 1.5 percent. The adjustment for enrollment would be based on the current agreement with the State regarding the level of support the State is willing to provide for each new budgeted student. In turn, the University would commit to honor several important goals, including the following: (1) maintain the quality of academic programs and help California remain competitive in the global economy; (2) admit all eligible California high school graduates wishing to attend the University; (3) provide students with the classes they need to graduate in a timely manner; (4) expand student academic outreach efforts; and (5) ensure students have a smooth transition from one segment of public higher education to another.

Under the provisions of AB 1415 it is assumed that there will be sufficient State general fund revenue and, thus, no increases in general student fees. AB 1415 does not fully fund all of the University's needs, but would provide fiscal stability and allow the University to meet basic budget needs, including projected enrollment demand, without having to increase general student fees. This funding strategy would be reviewed in four years, and a decision made whether it should be continued or modified.

This document describes the University's basic budget needs included in the 1998-99 plan. It is possible that the State will continue to benefit from a robust economy and be able to provide the University with greater increases in State general funds than assumed under the compact. Therefore, this document also describes high priority needs that warrant funding if additional State funds are available.

Historical Perspective

The University of California experienced budget reductions of about 20 percent 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 percent. In the late 1970s and early 1980s, the University again experienced a number of budget cuts. By the early 1980s, faculty salaries lagged far behind 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 came virtually to a halt.

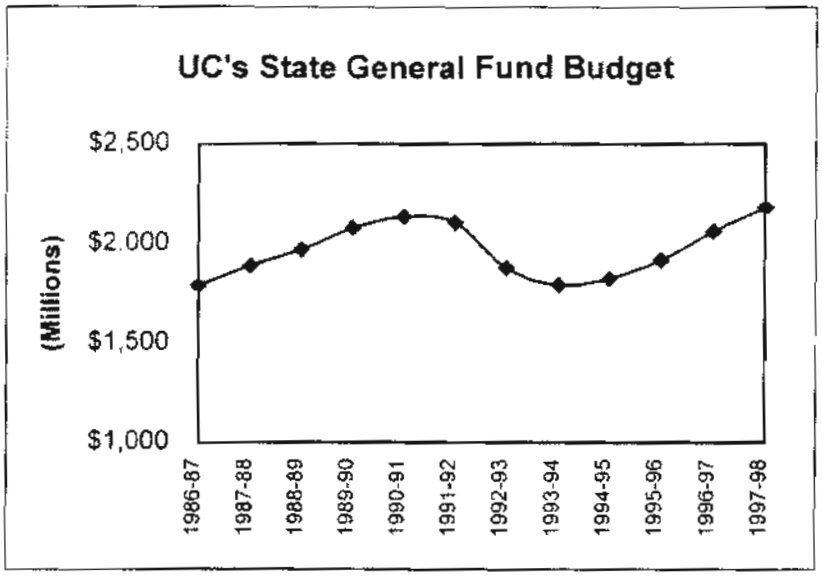
The situation improved significantly in the mid-1980s when a period of rebuilding was initiated. Faculty and staff salaries were returned to competitive levels; funds became available for basic needs such as instructional equipment replacement and building maintenance; and research efforts expanded. 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. A complicated mix of political and demographic forces and fiscal problems at the State level led to a growing erosion of gains made during the mid-1980s. By 1989-90, the University was already struggling with the early stages of a fiscal problem that subsequently turned into a major crisis.

1990-91 Through 1993-94

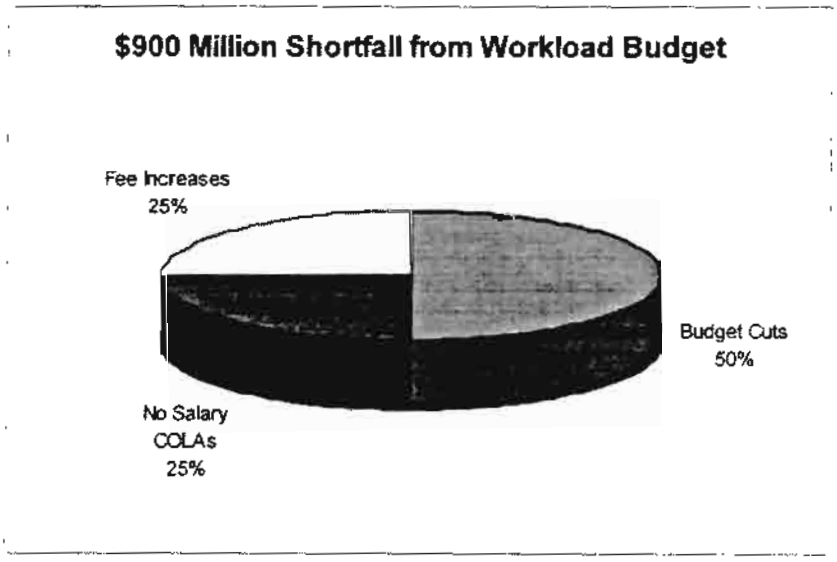
The University experienced sudden and dramatic shortfalls in State funding during the first four years of the 1990s. Although State funding increased in 1990-91, it was below the level needed to maintain the base and fund a normal workload budget. Over the next three years, State funding for the University dropped by $341 million. At the same time, the University had to cope with inflation, fixed cost increases, and workload growth. Consequently, the University had to make budget cuts totaling $433 million, equivalent to roughly one out of every five dollars in its State general fund budget in 1989-90. In addition, normal salary cost-of-living increases could not be provided for employees and salaries were cut on a temporary basis one year. Student fees were raised, though significant increases in financial aid helped to mitigate the impact.

DISPLAY 1



The enormity of the budgetary losses during the early 1990s is difficult to grasp. One way to convey the magnitude of the problem is to consider that the University's 1993-94 State general fund budget was less than it was in 1987-88, even though there had been inflation of over 25 percent and enrollments had grown by about 6,500 students in the interim. Or consider that the University's budget would be about $900 million greater if the State had maintained the base and funded normal cost increases and workload growth over the four years from 1990-91 through 1993-94. The University coped with

DISPLAY 2



this shortfall, initially, in ways that reflected the limited nature of its options in the short term. As illustrated in Display 2, about half of the loss was taken through budget cuts, approximately another quarter by providing no salary cost-of-living increases for employees, and the remaining quarter was made up through student fee increases accompanied by increases in student financial aid.

Display 3 shows that University budgets were cut by $433 million. Of the total cut, $53 million represents a cut made in 1994-95 in order to restore base salary levels following a one-time salary reduction in 1993-94. The University's February 1994 report, *Program Impact of Budget Reductions*, provides extensive detail on the impact of the budget cuts.

During this time, the University's general fund workforce declined by a net total of around 5,000 full-time equivalent (FTE) employees. While much of this decline occurred through early retirements, a more humane approach than layoffs, the result was that many fewer people were available to handle the same workload. 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 maintenance. Administration, especially, was assigned deep cuts both on the campuses and in the Office of the President. In addition, purchase of scholarly journals for the libraries was severely curtailed; the backlog of deferred maintenance projects continued to grow; and the budget for instructional equipment replacement declined to only about half of the amount needed. Although instructional resources were eroded by the budget cuts, the University honored the California Master Plan for Higher Education by continuing to offer a place to all eligible California resident students seeking admission at the undergraduate level and to provide the classes they needed.

Display 4 shows that faculty and staff received no cost-of-living salary increase for three years in a row, and in the third year salaries were cut by 3.5 percent for one year. In addition, in 1991-92, staff received no merit increase and faculty merits were delayed for one year.

Display 5 shows that student fees increased by about 125 percent over the four years. However, student financial aid also increased. As shown in this display, financial aid grants from University funds increased by over $97 million on a permanent basis over the four-year period.

The measures described above represented near-term responses to sudden budgetary losses. Recognizing that these cuts would have lasting effects, the University began looking for long-term solutions to maintaining access and the quality of its academic programs.

DISPLAY 3

Permanent Cuts to Campus and Office of the President Budgets 1990-91 through 1993-94 (Including impact on 1994-95)

			Cuts (000's)
1990-91	5% cuts in research, public service, and administration.	$	25
1991-92	Workforce reductions in both instructional and non-instructional programs; cuts in nonsalary budget; undesignated cut.		120
1992-93	Permanent cut of $200 million phased in over two years.		200
1993-94	Reductions in campus and Office of the President budgets, resulting in further workforce reductions. Part of the cut was based on hospitals and health sciences clinical programs; remainder of the cut was to be accommodated through improved management efficiencies.		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

DISPLAY 4

COLA (Range) and Merit Increases

1990-91 through 1994-94

		Faculty %	Staff %
1990-91	COLA	4.8	5.0
	Merit	2.0	2.0
1991-92	COLA	0	0
	Merit	0	0
1992-93	COLA	0	0
	Merit related to 1991-92	2.0	0
	Merit for 1992-93	2.0	2.0
1993-94	COLA	0	0
	Merit	2.0 (full year)	2.0 (half year)
	Pay Reduction*	-3.5	-3.5

*1993-94 only: base salary levels were restored in 1994-95.

DISPLAY 5

Undergraduate Resident Student Fees
Registration, Educational, and Miscellaneous Campus Fees
1990-91 through 1993-94

1989-90 Total Fees	$1,634
1990-91 increase	+186
1991-92 increase	+666
1992-93 increase	+558
1993-94 increase related to 1992-93 budget cut (Implementation deferred to 1993-94)	+455
1993-94 increase related to 1993-94 budget cut	+175
1993-94 average increase in campus-based fees	+53
1993-94 Total Fees	$3,727

Amount of new financial aid provided from UC sources

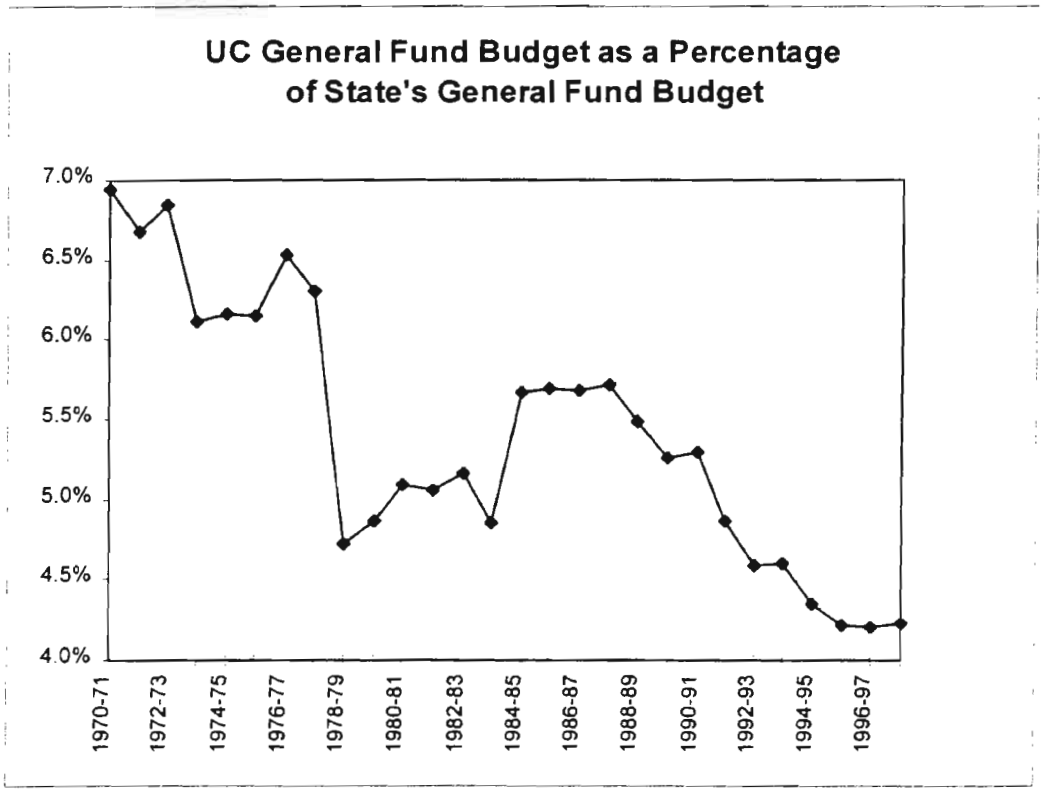
	Amount ($ in millions)
1990-91	$5.9
1991-92	26.0
1992-93	26.6
1993-94	39.1
Total	$97.6

1994-95

In 1994-95, after four years of steady erosion, the University finally stopped losing ground fiscally. The State provided the University with a budget increase instead of a decrease for the first time in four years, an increase of about three percent excluding revenue bond payments. Base salary levels were restored following a temporary salary cut in 1993-94, and funding for faculty and staff cost-of-living salary increases (three percent) was provided for the first time since 1990-91. The student fee increase was held to ten percent through a compromise agreement to fund deferred maintenance with debt financing. Increases in financial aid accompanied the fee increase, helping to offset the impact on needy students. 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 percent. A one-time shift of State-funded Clinical Teaching Support from the teaching hospitals, recognizing temporary net gains, helped to meet urgent one-time needs in several critically underfunded areas such as deferred maintenance, instructional equipment replacement, and library books.

While the 1994-95 budget represented a substantial improvement over the previous years, the University nonetheless remained in a precarious financial condition. Its share of the State general fund budget was at the lowest point in 20 years (see Display 6). It was almost as low in the late 1970s and early 1980s, but in those days it

DISPLAY 6



was possible to recover from a low point. Recovery seemed much less likely in 1994-95 given the stalled California economy and the increasing share of the State budget consumed by workload growth in prisons, health and welfare programs, the K-12 schools, and the community colleges. Adding to the problem were the constitutional or statutory protections most of those programs enjoy, compared to higher education's unprotected status.

Governor's Four-Year Compact with Higher Education: 1995-96 Through 1998-99

A major turning point came with the introduction of the Governor's 1995-96 Budget which included the following statement:

> Unfortunately, the fiscal difficulties of the early 1990s prevented the State from fully meeting the needs of higher education, and California's competitiveness has been jeopardized. Now that the State's resources have begun to improve, the investment in higher education must be renewed....A strong system of higher education is critical to our social fabric and our ability to compete in the global markets of the 21st Century.

Translating this perspective into action and signaling a very welcome message about the priority of higher education, the Governor's Budget included a compact with higher education covering the four years through 1998-99. Its goal is to provide fiscal stability and allow for growth through a combination of State general funds and student fee revenue. The compact committed to provide general fund budget increases averaging four percent a year over the four year period ending in 1998-99. The compact includes general student fee increases averaging about ten percent a year as well as fee increases for students in selected professional schools. At least one-third of new student fee revenue is to be earmarked for financial aid, with the remainder used to help fund the budget. Additional financial aid is to be provided through the State's Cal Grant Program. The compact provides additional funds to cover debt service related to capital outlay projects and deferred maintenance.

Based on the premise that there is a continuing need for efficiencies in order to maintain student access and program quality within available resources, the compact also includes a $10 million budget reduction each year for four years, reflecting savings to be achieved through productivity improvements. This will reduce the University's base budget by $40 million by 1998-99. For the capital budget, the compact provides $150 million a year, with priority given to seismic and life-safety projects, infrastructure, and educational technology.

The compact with higher education will allow the University to continue taking all eligible students under the Master Plan and providing the classes they need. It supports growth in general campus budgeted enrollments averaging about one percent annually. In the health sciences, enrollment levels will remain stable while an increased emphasis is placed on training of primary care physicians. Faculty salaries are to be restored to competitive levels by 1998-99, recognizing that recruitment and retention of quality faculty are fundamental to the quality of instruction and research. Under the compact, the University will maintain and renew its commitment to teaching undergraduates and enabling them to graduate in timely fashion, which means that faculty must continue to teach more than in the past. The University also will continue working toward improved cooperation and coordination among the higher education segments, particularly with respect to transfer of students and course credits.

In January 1995, the University developed a 1995-96 budget plan based on the Governor's compact. The plan received widespread support in the Legislature and was generally approved. The only change concerned the proposed ten percent student fee increase. A compromise agreement was worked out among the Governor, the Legislature, and the University which provided that there would be no general student fee increase in 1995-96; instead, an additional $28.5 million in State funds was provided to help offset the loss of fee revenue. The added funds represented about three-quarters of the revenue that would have been generated by a ten percent student fee increase net of financial aid, leaving the University with a budget shortfall of $9.5 million. This shortfall was dealt with through one-time actions, pending restoration of the funds in 1996-97.

1996-97 Budget

The University's 1996-97 budget plan was developed on the basis of the compact; and again, it received widespread support in the Legislature. In addition to providing the University with $82.9 million under the compact, the Legislature and the Governor provided an additional $27 million in State general funds so that UC students would not have a general fee increase in 1996-97. The 1996 State Budget Act also provided funding, above the compact, for several high priorities. These priorities included $5 million for the first phase of the Industry-University Cooperative Research Program, $1 million for the California Supercomputer Center, and $1 million to expand the University's academic outreach programs. The 1996 State Budget also included $147 million in general obligation bonds to support the University's capital outlay program and an additional $5 million in general obligation bonds for high priority deferred maintenance projects.

1997-98 Budget

The University's 1997-98 budget, also developed on the basis of the compact, received widespread support by both houses of the Legislature during the budget process. The 1997-98 budget provides the University with $78.5 million under the compact and an additional $37 million in State general funds, eliminating the need to increase general student fees for a third consecutive year. The 1997 State Budget Act also provides funding to support the California Supercomputer Center ($2 million), expand student academic outreach ($1 million), and make permanent the $5 million for the Industry-University Cooperative Research Program. In addition, funds are provided for several initiatives. These initiatives include $4.9 million to begin planning for the tenth campus and to expand academic programs in the San Joaquin Valley, $4.5 million for the UCSF-Fresno Rural Health Initiative, and $1.1 million for other legislative initiatives. The 1997 State Budget also includes $150 million in general obligation bonds to support the University's capital outlay program and an additional $21.7 million in general obligation bonds to be used to match Federal Emergency Management Agency (FEMA) funds to replace the earthquake-damaged medical center at UCLA.

As a result of a court-ordered payment to the Public Employees Retirement System (PERS), the State found it necessary to make last-minute cuts of more than $1.5 billion. While the University's budget is a reasonable budget given these circumstances, it does include an undesignated cut of $12 million. The University views this as a one-time cut given the one-time nature of the PERS payment, and is seeking restoration in the 1998-99 budget plan. This is consistent with the provisions of the compact which committed to provide average annual increases equivalent to a four percent increase in State general funds and a ten percent increase in student fees in each year of the four-year period through 1998-99.

Given the Legislature's general approval of the University's budget plan during the last three years (1995-96 through 1997-98), and based on discussions with the Governor and the Department of Finance, the University developed its 1998-99 budget request on the basis of the four-year compact with higher education. In a departure from the budget plans developed in the previous three years this plan does not include a proposal to increase mandatory systemwide student fees. Given the history of the last three years, projections of continued economic growth, and the Legislature's approval of AB 1318 which provides for a five percent reduction in general student fees for California undergraduate resident students, it is premature to propose an increase at this time. This decision will be revisited after the Governor's Budget is released in January.

1998-99 Budget

The 1998-99 budget request is summarized below under the heading, "Overview of 1998-99 Budget Request." In addition to the funding requested as part of the compact, the University has identified several high priority needs for which additional funding will

be requested if the State's revenue situation permits. Immediately following the overview of the 1998-99 budget request is a brief discussion of these high priority needs. The University is hopeful that the California economy will continue to be robust, and that there will be sufficient revenue to fund some, if not all, of these needs.

Planning for the Longer Term Beginning in 1999-2000

Consistent with its commitment to maintain access under the Master Plan, the University is continuing to focus its planning process on long-term enrollment growth. Enrollment has grown by 3,500 FTE under the compact, and by 1998-99 is expected to be about the same as in the early 1990s. In 1998-99 the University expects to enroll 145,000 full-time equivalent (FTE) students, about 2,000 more students than provided for under the compact. After that, the University anticipates a period of limited and gradual growth to the year 2005 and then, a very dramatic increase in enrollment.

There is substantial uncertainty about the State's ability to provide the resources necessary to accommodate this upsurge in demand. Therefore, the University, in coordination with CSU, began working with the Legislature and the Governor to craft a long-term funding plan to provide fiscal stability and the resources needed to maintain access and quality. As discussed earlier in this section, the proposal is incorporated into AB 1415 (Bustamante) which has been approved by the Legislature and, as of this writing, is before the Governor for action.

Between now and 2010, the University projects growth of 45,000 students, with about one-half of this growth occurring between now and 2005, and one-half between 2005 and 2010. By 2005, existing University campuses would accommodate more than 20,000 additional students—nearly equivalent to the enrollment of a new campus—and another 20,000 in the following five years. Another 5,000 students could be accommodated at a tenth campus by 2010.

Assuming the availability of adequate resources both to develop a new campus and to ensure the continued financial health and enrollment expansion at existing campuses, the University could begin to enroll the first on-campus students at a tenth campus in fall 2005, with a total enrollment of 1,000 students. Enrollment would increase by 800 students annually, for a total enrollment of 5,000 FTE by fall 2010.

Undergraduate projections are based largely on estimates of the number of California high school graduates and the proportion that will choose to enroll at UC, together with projections of transfer students. On an annual basis, the University monitors the key demographic and financial indicators as well as studies and policy changes that affect enrollment. A review of these factors in 1997 continued to highlight the uncertainties in longer-term projections. One factor affecting this uncertainty is the actual rate of UC eligibility of public high school graduates. A new high school eligibility study will be completed by the California Postsecondary Education Commission (CPEC) in fall 1997.

The University's enrollment projections will be reviewed again when the University has had an opportunity to review the findings of the CPEC Eligibility Study.

At the graduate level, growth is planned by projecting the needs of higher education, the State and the nation, and balancing that assessment with the State's and the federal government's willingness to provide sufficient resources to support it. The University is in the beginning stages of developing a new long-term graduate education plan that will take into account State and national needs for graduate and professional degree-holders, the availability of financial support for graduate students, and other factors. Because graduate students add significantly to the transfer of the University's research findings into California's economy, high priority must be given to maintaining the quality of the University's graduate academic programs.

Funding even the modest level of growth projected through 2005 may be a challenge. On the plus side, there is improvement in California's economy and a continued priority afforded to funding higher education, evident in the Legislature's and the Governor's support for the compact over the last three years. On the other hand, higher education must continue to compete for State funds with programs such as K-14 education, health and welfare, and prisons, many of which are protected budgetarily and all of which have escalating needs.

At minimum, the University will need funding increases to support enrollment growth (i.e., faculty positions and related instructional support), maintain competitive faculty salaries, provide salary and merit increases for other employees that maintain the University's merit program, and meet fixed cost increases and inflation in the nonsalary budget. Funding to meet these basic needs can be achieved through the provisions of AB 1415 (Bustamante) which would provide the University with its proportional share of the State general fund budget, using 1998-99 as the base, as well as an adjustment for annual enrollment growth above 1.5 percent. If signed by the Governor, AB 1415 would be effective beginning with the 1999-2000 budget. This level of funding would not, however, solve some critical long-term funding problems such as the underfunding of instructional technology, ongoing building maintenance, deferred maintenance and facilities renewal, libraries, and instructional equipment replacement.

With respect to the capital budget, campuses should now have adequate space to accommodate existing enrollments, although the University must continue to make progress to improve seismic safety and infrastructure, as well to renovate and modernize existing facilities. Beginning in 1998, the University will need more than the $150 million per year agreed to under the higher education compact. Beyond 1998-99 annual capital outlay funding is needed in four areas: about $200 million to maintain the quality of existing facilities, including seismic and life-safety improvements; about $25-$50 million for deferred maintenance; about $125 million to accommodate projected enrollment growth; and about $35 million for the tenth campus. In total, the University estimates it will need about $400 million a year in capital outlay funding. While the University is committed to meeting a portion of this need through private

fundraising and by using a percentage of the *increase* in State and UC general funds for long-term financing to address deferred maintenance and infrastructure needs, a minimum of $250 million a year is needed from the State through bond funding.

For both the operating and capital budgets, it is possible that the resources needed to maintain quality and handle projected enrollment growth through 2005 will be available. Increases in State funds and student fee revenue alone, however, will not achieve the goal. Considerable belt-tightening will be required. As discussed in the University's January 1997 report titled, *1996-97 Budget Plan for Productivity Improvements*, efficiencies have been initiated that affect many aspects of the University as efforts have been made to become more economical and efficient. Changes in administrative processes, academic program support, student services and business practices as well as cost-saving measures have been implemented. The campuses continue to pursue these efforts, which grew out of the fiscal difficulties of the early 1990s. Two UC campuses were among seven universities that won management improvement awards from the National Association of College and Business Officers (NACUBO). These awards were given for improving administrative programs and reducing costs. The University must continue with productivity improvements and restructuring efforts, including reallocation of funds to meet high priorities.

The University continues to be aggressive in searching out and developing non-State revenue sources, particularly private funds. In 1997, the University received more than $700 million in gifts, private grants and pledges for a third consecutive year. While the outlook for federal funds to support research in the *immediate* future is encouraging, there is concern about the level of cuts that will be required beginning in 2000 in order to achieve a balanced federal budget by the year 2002. Great concern remains with respect to federal funding for the University's teaching hospitals. Increases in the rate of federal Medicare and Medicaid funding provided for educational institutions are expected to be significantly less than previously authorized.

Overview of the 1998-99 Budget Request

This budget document discusses how the base budget is spent as well as the need for funding increases. As indicated earlier, University budgets have already been cut by a total of $433 million and additional budget reductions totaling $40 million are anticipated by 1998-99 related to productivity improvements. On top of this, the 1997-98 budget includes a $12 million undesignated budget cut. The University views this as a one-time cut because it is the direct result of a one-time payment to the Public Employees Retirement System (PERS), made at the direction of the courts. The goal of the 1998-99 budget request is to maintain fiscal stability and allow for modest enrollment growth, consistent with the four-year compact with higher education. Funding increases requested for 1998-99 reflect the University's minimum needs if it is to maintain quality and provide student access in the near term.

The University's 1998-99 budget plan was developed on the basis of the four-year compact with higher education, which has been supported by the Governor and the Legislature for the last three years. The budget request does not solve all of the University's pressing financial problems. Some of these needs, such as instructional technology, are discussed in terms of additional needs that represent high priorities for funding should sufficient State general funds be available. For other critical needs, such as deferred maintenance and facilities renewal, the University is proposing multi-year funding plans with funding beginning in 1998-99.

The 1998-99 budget request primarily seeks to support budgeted enrollment growth of 2,000 students, recognize the impact of inflation and fixed cost increases, restore competitive faculty salaries, maintain the University's merit program, provide for the operation and maintenance of new space as well as provide increased funding for instructional technology, ongoing building maintenance, and the Industry-University Cooperative Research Program. Funds for debt service related to capital outlay are requested as well. The budget also assumes a $10 million budget reduction, representing the final of four annual $10 million reductions called for in the compact that are to be addressed through productivity improvements. Included in the 1998-99 budget plan are two new initiatives, one related to the development of a California Digital Library and the second which takes a first step to address the growing problems of deferred maintenance and facilities renewal.

Display 7 identifies the components of the 1998-99 request for a budget increase totaling $153.9 million. Each component is discussed in more detail below. The display also identifies proposed fund sources to meet the budget request, including: (1) an increase in State general funds of $135 million comprising a four percent increase in State General funds, consistent with the higher education compact, plus $39.5 million in revenue equivalent to what would be available if general student fees were increased by ten percent (net of financial aid). For purposes of this document, the revenue from both sources is combined, recognizing that this is dependent upon actions taken by the Governor and the Legislature. The $135 million increase also reflects restoration of the one-time $12 million cut included in the 1997-98 budget; (2) increased UC General Fund income, including revenue from a $400 increase in nonresident tuition, net of financial aid; and (3) revenue from planned increases in professional school fees, net of financial aid.

Although the higher education compact calls for annual student fee increases averaging ten percent, no general student fee increase is proposed at this time. Given the actions taken by the Governor and the Legislature in each of the last three years to "buy out" proposed student fee increases, and the Legislature's approval of AB 1318, which would reduce systemwide fees for undergraduate resident students by five percent, it is

DISPLAY 7

SUMMARY OF 1998-99 REQUESTED BUDGET INCREASE
($ millions)

1997-98 Operating Budget—State General Funds	$2,090 (a)
Total State and UC General Funds plus Student Fee Revenue	2,986 (a)

Base Budget – Based On The Compact

Fixed Costs & Economic Factors	
Restoration of undesignated cut	
Continuation costs associated with one-month salary delay	$6.0
Restoration of one-time cuts	6.0
Three-month continuation costs of 1997-98 salary increases	15.8
Merit salary increases for eligible employees	35.2
Funding equivalent to an average 2% cost-of-living salary increase for employees on 10/1/98	31.6
2.5% parity salary increase for ladder rank faculty on 10/1/98	14.6
2.5% price increase	12.2
Productivity improvements	(10.0)
Workload Increases/New Initiatives	
Funding for 1.4% enrollment growth (2,000 FTE students)	14.6
Professional school expenditures funded by professional school fees	3.9
Instructional technology	4.0
New space to be maintained	3.0
Building maintenance	6.0
Industry-University Cooperative Research Program	2.0
California Digital Library	3.0
Deferred maintenance/capital renewal (debt financed)	6.0
Total Increase Requested Under the Compact	**$153.9**(b)
% increase over base (State and UC General Funds)	5.1%
Fund Sources	
State General Funds (or combination of State general funds and student fee revenue)	$135.0
UC General Fund income increase (including 4.5% increase in nonresident tuition)	15.0
Planned increases in professional school fees (net of financial aid)	3.9
Total Funds Available	**$153.9**

(a) Excludes debt service for capital outlay

(b) For purposes of this table, this assumes revenue equivalent to a combination of a 4% increase in State general funds and a 10% increase in student fees, recognizing that this is dependent upon future actions of the Governor and the Legislature. Pending action by the Governor is AB 1318 which would reduce fees by 5% for undergraduate resident students, and provides for a 2-year freeze in fees for resident students in graduate and professional school programs. AB 1318 appropriates funds to offset the fee reduction.

premature to propose any changes at this time. The question will be revisited after the Governor's Budget is released in January.

As of this writing, the budget assumes continued implementation of the plans approved previously by The Regents to bring selected professional school fees to the average of fees charged by schools of comparable quality around the nation. This decision will be revisited once the Governor takes action on AB 1318 (Ducheny). In addition to reducing fees for undergraduate resident students, this bill provides a two-year freeze in fees for California resident students enrolled in graduate or professional school programs.

Also included in the budget is a proposal to increase nonresident tuition by 4.5 percent ($400) which is equivalent to the estimated growth in the California per-capita personal income. Nonresident tuition, which remained at $7,699 from 1991-92 through 1995-96, was increased to $8,984 in 1997-98. Statewide policy calls for consideration of the following in setting the level of nonresident tuition: (1) the total nonresident charges imposed by the public salary comparison institutions and (2) the cost of instruction. With a $400 increase, total fees and tuition charged to nonresident students at the University will be about the same as projected charges at the public salary comparison institutions.

The total requested budget increase from all fund sources is 5.1 percent when calculated on a base that includes programs funded from State and UC General funds and student fees (Educational Fee, University Registration Fee, and the Fee for Selected Professional School Students).

Fixed Costs and Economic Factors

Restoration of Funds Cut Temporarily in 1997-98

The 1998-99 budget plan includes restoration of the one-time undesignated $12 million cut sustained in 1997-98. The University plans to absorb about one-half by delaying the implementation of salary increases for faculty and staff by one month. Restored funds will pay for the continuation costs associated with this delay.

The other half will be dealt with by utilizing 1996-97 excess general fund income that the University had planned to provide, consistent with authority in the Budget Act, for deferred maintenance and instructional equipment. Every effort will be made during the current budget year to make other one-time cuts so that these funds can be restored to help address the University's growing deferred maintenance problems.

Continuation Cost of 1997-98 Salary Increases

The 1997-98 budget includes funding equivalent to an average two percent cost-of-

living salary increase (COLA) for University employees and an additional three percent parity salary increase for faculty only, both effective October 1, 1997. Because 1997-98 funding is sufficient to pay the salary increases for only nine months, from October through June, full-year funding must be provided in 1998-99.

Merit Salary Increases for All Eligible Employees

Funding for merit salary increases, which are increases within existing salary scales, is again among the University's highest budget priorities. The merit salary program recognizes and rewards excellence and is critical to the preservation of quality. Merit salary increases are not automatic. Academic merit salary increases are awarded only after extensive review of individual achievements. Staff merit salary increases are awarded to eligible individuals on the basis of performance.

Cost-of-Living Salary Increase on 10/1/98

Within the framework of the compact with higher education, the University is requesting funding equivalent to an average two percent cost-of-living salary increase for University employees. In addition, funding equivalent to an additional 2.5 percent parity salary increase for faculty only is requested as the final step in the plan to restore competitive faculty salaries by 1998-99.

Historically, requests for faculty salary increases have been based on salaries at eight institutions used for salary comparison and requests for staff salary increases have been based on equivalent treatment with State employees. Until 1995-96, other academics received, on average, the same salary increases as faculty. Under the compact with higher education, the University's goal is to restore faculty salaries to the average salary level at the comparison institutions by 1998-99 and through a combination of merits and COLAs, to provide salary increases for other employees that, on average, at least keep pace with inflation. Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA).

University employees received a two percent cost-of-living increase in 1997-98, allowing salary increases to essentially catch up with increases previously provided to State employees. State employees did not receive a COLA in 1997-98. Before they adjourned, however, the Legislature and the Governor reached agreement on several major issues. One of these agreements was that State employees should receive a cost-of-living salary adjustment in 1998. Contract talks are now underway. Given an anticipated increase in COLAs for State employees and projected inflation, the 1998-99 budget plan includes an average two percent cost-of-living adjustment for University employees combined with normal merit increases.

2.5 Percent Faculty Parity Salary Increase on 10/1/98

Funding equivalent to an additional 2.5 percent parity salary increase for faculty only is requested as the final step in the University's plan to restore faculty salaries to the average salary level at the eight comparison institutions by 1998-99. With funding for normal merit increases, a cost-of-living salary increase averaging two percent, and a parity salary increase averaging 2.5 percent, preliminary estimates indicate that by 1998-99 salaries of University faculty will again be competitive with faculty salaries at the comparison institutions. Updated projections will be available in November.

The lag in faculty salaries sent a negative message about the University across the nation, making it more difficult to recruit and retain individuals who meet UC's traditional high standards. Nothing is more certain to undermine quality than a persistent inability to offer competitive salaries. Maintenance of the University's historic position in the marketplace is absolutely essential if its quality is to be maintained.

Price Increases

In order to offset the impact of inflation on the nonsalary budget and maintain the University's purchasing power, funds are requested to cover price increases averaging 2.5 percent. Although the University purchases many commodities--library materials, technical supplies, specialized equipment, whose costs exceed current inflation estimates, the request for funding is limited to estimates of general inflationary increases.

Productivity Improvements

Consistent with the terms of the four-year compact, the University's 1998-99 budget proposal includes a $10 million budget reduction to be addressed through productivity improvements. The compact calls for productivity improvements of $10 million in each of four years, resulting in a total base budget reduction of $40 million by 1998-99. The basic premise is that there is a continuing need for productivity improvements in order to maintain student access and program quality within available resources. This is not a new concept. The University had to cope with budget cuts totaling $433 million dollars in the early 1990s and, thus, is very familiar with the need to do more with less.

The University issued a January 1997 report titled *1996-97 Budget Plan for Productivity Improvements*. This report, which will be updated in early 1998, discusses ongoing efforts to streamline administrative processes and improve services to students. It also describes plans to achieve $10 million of productivity improvements in 1996-97.

Workload

Funding for Enrollment Growth of 2,000 FTE Students

The University is committed to maintaining access under the Master Plan. Throughout the years of budget cuts, the University managed to keep its historic promise to the citizens of California by continuing to offer admission to all eligible Californians applying at the undergraduate level and providing a quality education.

The four-year compact supports growth in general campus budgeted enrollments averaging about one percent annually. Accordingly, the University is seeking $14.6 million in State funds, or $7,300 per student, to support an increase of 2,000 FTE students, bringing total budgeted general campus enrollment to 143,000 in 1998-99. The $7,300 per student is based on a negotiated agreement with the State regarding the level of support the State is willing to provide for each new budgeted student. The added funding will provide salary and benefits for 107 faculty positions; related instructional support such as clerical and technical personnel, supplies and equipment; support for teaching assistant positions; institutional support; and support for libraries and student services.

During the 1994-95 budget process, the University and the Legislature agreed on supplemental budget language that phased in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University's budgeted enrollment. This ratio represents a substantial deterioration from the budgeted ratio of 17.6 to one that was funded in the 1980s and early 1990s. An 18.7 to one ratio is less favorable than the average 17 to one ratio at the University's four public salary comparison institutions, and much less favorable than the average ratio of 10.4 to one at the four private institutions used for salary comparison.

By 1998-99, UC enrollments are expected to be about the same as they were in the early 1990s. Given annual growth in budgeted enrollments averaging one percent and an 18.7 to one student-faculty ratio, the University will be functioning with about 500 fewer faculty by 1998-99 than under the historic ratio. And, because of the University's commitment to maintain access, it expects to enroll about 2,000 more students than provided for in the budget.

Professional School Expenditures Funded by Professional School Fees

For general campus programs, State funds will be supplemented with income from the Fee for Selected Professional School Students (net of financial aid), which will be used to help fill vacant positions and meet related instructional costs in the schools of business/management, law and the school of theater/film/television at Los Angeles. Income from the Fee for Selected Professional School Students will be used for these same purposes in the schools of medicine, dentistry, optometry, pharmacy, nursing and

veterinary medicine, thereby treating the health sciences equivalent to the general campuses with respect to net budget cuts.

Instructional Technology

The 1998-99 budget plan includes $4 million to support the University's growing use of instructional technology. Technology is a critical element of the University's continued commitment to maintain the quality of its teaching and research programs. Computers have become nearly-universal tools in higher education. They are used to glean information from global networks, for communication and collaboration, and for every imaginable application from writing reports to laboratory simulation to architectural design. They have become the engines of inquiry in the sciences and of creative expression in the arts. Technological competence is an essential skill for students to succeed in the era of electronic information.

Instructional technologies permeate much of the curriculum, ranging from improvement of course administration to multi-media capabilities. UC campuses are providing students with connections from libraries, laboratories and dorm rooms to the Internet and the World Wide Web. Students use electronic mail to communicate with faculty and web browsers to access on-line course information and to register.

New investments are required. A fully functional digital environment for teaching and learning is not a steady state that can be achieved with a one-time expenditure. The rapid evolution of hardware and software requires a continuous cycle of replacement and upgrade, and technology-enhanced teaching and learning requires recurring expenditures for maintenance and support.

New Space To Be Maintained

Funds are requested to support basic maintenance of additional space to be occupied in 1998-99 by programs eligible for State funding.

Building Maintenance

Consistent with the concept supported by the Legislature to fully fund ongoing building maintenance over a number of years, the University is requesting an increase of $6 million for ongoing building maintenance. The $6 million represents the University's continued commitment to move ahead with a multi-year plan to properly fund the University's building maintenance program, which is currently underfunded by more than $50 million. This continues to be a high priority for the Legislature.

Industry-University Cooperative Research Program

The Industry-University Cooperative Research was established in 1996-97 to help fund

collaborative research projects in targeted fields critical to California's economy. In its first two years, the program has been supported with $3 million in University funds and annual allocations of $5 million in State general funds as well as matching funds from industry. The University's 1998-99 budget plan includes $2 million to expand the Industry-University Cooperative Research Program.

The major focus of the program in 1996-97 was on biotechnology. In its first year, 46 biotechnology research projects were funded. These included research on topics such as "biocompatible" materials for surgical implants, new antibiotics to fight increasingly pervasive antibiotic-resistant infections, new cancer drugs, and biomass technology that turns rice straw into alternative fuel sources such as ethanol. The 46 research projects are also providing training opportunities for 65 graduate students and postdoctoral investigators. In 1997-98 research support will be provided for two new fields. Under consideration are the fields of digital media, semiconductor manufacturing, wireless communications, and information technologies.

New Initiatives

California Digital Library

The University is embarking on a groundbreaking effort to create the California Digital Library, a resource that will eventually be accessible to all of California. The University's 1998-99 budget plan includes $3 million to initiate a number of strategies to guide the UC libraries through the transition to the digital future while maintaining and improving current collections and services. Initial strategies include the establishment of a digital library for UC named the California Digital Library (CDL), the development of a Science, Technology and Industry Collection as the charter collection of the Digital Library, and the creation of mechanisms to allow more effective resource-sharing and collaborative collection building among the University's libraries.

The CDL will provide digital library services for the University and serve as the mechanism for continued planning. Planning and development efforts over the next three-to-five years will focus in large part on implementing the digital library and integrating its operations and services with the other elements of the library system.

The CDL will license, acquire, develop and manage electronic (digital) content in support of campus academic programs and facilitate access to the collection. The CDL, which will complement the existing University library system, will focus initially on the needs of UC students, faculty and staff. During its first year of operation, the University will develop a delivery mechanism for electronic materials, support digitization of books and periodicals, establish policies and procedures for archiving digital content, encourage electronic publishing by faculty, and assist campuses in providing user support and training.

In 1997-98 the University will make an initial investment of $1 million to initiate this effort. The 1998-99 budget plan includes a request for $3 million in State funds to bring the permanent budget up to $4 million.

Deferred Maintenance and Facilities Renewal

The 1998-99 budget plan includes a special emphasis on facilities needs. Ongoing building maintenance is currently underfunded by about $50 million annually, there are no permanent general funds for deferred maintenance, the backlog of deferred maintenance projects now exceeds $500 million, and only a fraction of the University's capital improvement budget is used to replace worn-out building systems. There is no systematic funding to address these needs. Renovation of facilities to meet seismic and life-safety standards, and modern academic program needs, is generally carried out through the capital budget, which is severely constrained given the limited availability of State capital outlay dollars. The 1998-99 budget includes a proposal to authorize the University to use up to five percent of the *increase* in State and UC general funds as debt service to pay for the long-term financing of these needs. In 1998-99 the University is planning to use $6 million for this purpose and estimates that it will be able to fund deferred maintenance and infrastructure projects totaling $50 - $60 million.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the State budget continues to benefit from a healthy economy, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, if not all, of the priorities identified. Decisions on which needs to fund, and at what level, will be made after it is known whether additional resources will be made available for the University.

The 1998-99 budget plan reflects the minimum funding needed to maintain the University's basic needs. Under the four-year compact with higher education the budget plan is to be funded from a combination of increases in State general funds, general student fees, UC general funds (including an increase in non-resident tuition), and planned increases in selected professional schools fees.

In 1995-96, in 1996-97 and again in 1997-98, there were no general student fee increases. The Regents have been able to maintain general student fees at 1994-95 levels because the Legislature and the Governor provided sufficient revenues to fund the University's budget plans. In 1995-96, the State provided the University with $28.5 million to partially "buy out" the proposed student fee increase, leaving the University with a budget shortfall of $9.5 million. One-time actions were used to deal with the $9.5 million, which was restored by the State in 1996-97. In 1996-97, the State provided the

University with $27 million (as proposed in the Governor's budget) above the compact to "buy out" the proposed student fee increase. In 1997-98 the State provided the University with $37 million (consistent with the Governor's January Budget) to "buy out" proposed student fee increases. The actions taken by the Legislature and the Governor to "buy out" proposed fee increases were of great benefit to UC students and their families.

The Legislature also approved AB 1318 (Ducheny) which provides for a five percent reduction in fees for undergraduate resident students and a two-year freeze for California resident students enrolled in graduate or professional school. The University anticipates that, if signed by the Governor, the State would provide funding to offset the fee reduction and to "buy out" the $39.5 million that would have been generated (net of financial aid) if general student fees were increased by ten percent. The provisions of AB 1318 would take effect in 1998-99 upon approval by The Regents. Given these actions, the University believes it is premature to propose changes in student fees at this time. A final decision will be made after the Governor's Budget is released in January.

DISPLAY 8

Additional Priorities
($ millions)

Outreach	$5.0
Tenth campus	5.0
Instructional technology	4.0
Industry-University Cooperative Research Program	5.0
Research Opportunities Matching Program	3.0

Outreach

The University has been in the forefront of the nation's efforts to extend to all students the opportunities afforded through higher education, and is continuing to expand these efforts as new paths to diversity are created. The University plays an important role in the ongoing professional development of more than 65,000 teachers and the academic preparedness of hundreds of thousands of kindergarten through 12th grade students by working with public schools. The University's outreach programs have been enormously successful in increasing the number of students who are eligible for admission to college.

Over the years, the University's work in California's elementary and secondary schools has grown from a focus of traditional outreach and recruitment programs that encourage students to attend the University to an extensive array of programs.

The 1997 State Budget Act provided the University with an additional $1 million to develop and strengthen the academic skills of students in K-12 and in community colleges so that more young people are academically prepared to gain admission to the University. This $1 million is in addition to the increase of $1 million that was provided in the 1996 State Budget Act. Of the $2 million increase in State general funds, $500,000 is earmarked for academic outreach programs in the Central Valley, a region of the State that has a lower overall college-going rate and a lower-than-average rate of student eligibility for admission to UC.

The Regents recently adopted the recommendations of a 35-member Outreach Task Force which put forward a bold new vision to expand outreach efforts in order to reduce disparities in educational opportunity and achievement, and thereby help to promote a student population that reflects the diversity of California. The principal new endeavor proposed by the Outreach Task Force is the development of partnerships formed by campuses with various educational, business, community and government bodies to work with selected high schools and associated feeder schools. Targeted schools will be selected on the basis of measures of educational disadvantage. This strategy represents a shift in focus from student-centered to school-centered outreach.

The Outreach Task Force also recommended expansion of (1) student academic development programs, including some existing and successful programs like MESA, Puente and EAOP; and (2) information outreach programs.

The University believes that the full range of recommendations should be funded from a variety of sources including K-12 funding and private contributions, as well as University and State contributions. The University will seek $5 million, above the compact, in 1998-99 to expand its outreach efforts consistent with the recommendations of the Outreach Task Force. To be successful, however, K-12 must be a major contributor to this effort.

Planning for the Tenth Campus and Academic Programs in the San Joaquin Valley

Development of a tenth campus will enable the University to maintain overall undergraduate access at the levels contemplated in the California Master Plan. As part of its strategy to increase capacity, the University identified the San Joaquin Valley as the region in which a new campus should be located, because it is the only major region of substantial population without a University of California campus.

The 1997-98 budget included $4.9 million related to the development of a tenth campus in the San Joaquin Valley. These funds will be used for two purposes: (1) to support a variety of planning activities for the tenth campus including initial site studies, joint infrastructure and community planning, and further delineation of the academic program that will form the basis for planning initial campus facilities; and, (2) for planning and start-up costs associated with expanding academic programs in the San Joaquin Valley prior to the opening of a tenth campus. Assuming the continued availability of adequate resources both to develop a new campus and to ensure the continued financial health and enrollment expansion at existing campuses, the University has targeted fall 2005 to enroll the first 1,000 students. Enrollment is expected to grow to 5,000 students by fall 2010.

In 1997-98, the funds will be used to expand credit and degree programs (under the auspices of existing UC campuses) in the Valley and to develop technology-assisted instructional programs in collaboration with other segments of higher education and K-12 schools. A consolidated UC Center is being established in Fresno, which will include classroom, distance learning, and other computer-based learning facilities to support these expanded program offerings.

Beginning in 1997-98, funds will be used to support core staff who are responsible for tenth campus planning and public information activities, including initial technical site studies and joint planning with adjoining landowners and public agencies to develop a University community plan. Work on the long-range development plan (LRDP) for the campus will begin during 1998-99. The University expects to complete the LRDP and the associated Environmental Impact Report (EIR) in Fall 2000.

Additional planning will focus on the phased development of the campus' instruction and research programs. Transition planning will begin for faculty recruitment; development of academic support services such as libraries and instructional services; student outreach and admission programs; student services; business services; and related operating budget plans and requirements. These planning activities will increase in scope and cost each year until the campus opens in 2005.

Using the operating costs at Santa Cruz as a basis for analysis, the University estimates that approximately $50 million (current dollars) would be required for a campus of 5,000 students. The $50 million includes three major elements: (1) about $35 million which would be generated by the funding agreement for State support of enrollment growth; (2) $5 million associated with the annual operation and maintenance costs of campus facilities; and (3) core funding of $10 million which represents the difference between average cost per student and the funding provided for new enrollment on a marginal cost basis. The $4.9 million provided in the 1997-98 budget represents approximately half of the core funding of $10 million that is needed to develop the tenth campus.

If the State's revenue situation permits, the University will request $5 million in 1998-99 to bring the permanent core funding for the tenth campus to the full $10 million level.

Instructional Technology

The University's 1998-99 budget plan includes $4 million to support instructional technology. When the State's revenue situation permits, the University will request an additional $4 million to allow campuses to move more quickly to ensure that students have adequate access to technology.

Technology dramatically improves data handling, process simulation, problem solving, creative presentations, and communication. New technologies are making possible unprecedented interaction with primary data and are enabling complex networks of communication among students and faculty. For students, these technologies create opportunities to grapple with real data and real problems early in their learning careers, linking them directly to the research enterprise. Participation in such a research process and mastery of the skills and the analytical rigor that it engenders will be lifelong assets for students, regardless of their field of study.

Instructional technology allows faculty to bring their subject matter alive in ways that have not been possible previously. The University remains committed to high-quality instructional programs and to ensuring that curriculum decisions regarding course content and presentation are based on intellectual and academic considerations that are not constrained by technology bottlenecks.

Industry-University Cooperative Research Program

Economists attribute fifty percent of this nation's growth since World War II to investment in research and development, with university-based research playing a key role. In 1996-97, the State provided the University with $5 million to support a new research effort, the Industry-University Cooperative Research Program, designed to help the State's economy by funding research initiatives in fields critical to the State's economy. The $5 million was in addition to $3 million committed by the University to launch this program, which requires matching funds from industry to support research that has the best prospect of benefiting the State's economy. This funding was made permanent in the 1997-98 budget. The plan is to increase funding over time to build the program's annual budget to $40 million, reaching targets of $15 million annually in State support and $5 million annually in University support. Matching industry funds would eventually provide an additional $20 million annually.

The University is proposing to increase funding for this program by $2 million from funds provided in the compact. When the State's revenue situation permits, the University will seek an additional $5 million from the State. California's economic vitality has long been linked to cutting-edge research conducted at the University of California. UC research has resulted in new products and industries, creating millions of jobs for

Californians, providing billions of dollars to the State and improving the quality of life. Collaborative public-private ventures have proved vital to ensuring the research necessary for the development of new technologies. California's robust economy makes it a perfect time to invest more in the research and the development of products that will yield economic dividends to the State.

In 1996-97 the University focused its efforts on biotechnology and is poised to expand this program in 1997-98 to focus on other industries critical to California's economy including digital media, semiconductor manufacturing, wireless communications and information technologies. In 1997-98 the University expects to leverage nearly $10 million in private sector support.

Research Opportunities Matching Program

When the State's revenue situation permits the University will request $3 million, above the compact, to establish a pool of funds to assist UC faculty to compete successfully for federal research funding. The ready-availability of State funds will provide the University with the flexibility to mount a rapid response when opportunities to submit proposals arise during the year. These funds, which would clearly signal the State's commitment, would be used to encourage industry to partner with the University to win federal research support for California. A commitment of matching funds would help keep the University competitive at a time when more federal agencies are requiring matching funds, and when the commitment of matching funds is becoming a greater determinant in the awarding of research grants.

Budget-Related Issues

Federal Funding

Federal funding is a major source of financial support for the University of California. The federal government provides nearly 55 percent of University research expenditures, over half of the financial aid its students receive, and about one-third of the net operating revenue of the teaching hospitals. The three Department of Energy Laboratories, for which the University has management responsibility, are entirely supported by federal funds.

The Congress and the President have reaffirmed their commitment to balance the federal budget by the year 2002. Because of favorable economic conditions in 1997 there was more revenue and lower expenditures than had been predicted. As a result, the balanced budget plan actually allows for increases in domestic discretionary funding in 1998 and in 1999. To bring the budget into balance by the year 2002 cuts would be required beginning in 2000. When considering the effects of inflation, the real purchasing power of the University's federal dollars would be reduced.

Thus, despite the dire predictions of the last several years, the outlook for federal support of research in the *immediate* future is relatively encouraging. The deep cuts in research did not materialize and nearly every major research-related federal agency is faring relatively well in the 1998 appropriations bills currently under consideration by Congress.

The University is pleased with the high priority given to students through a combination of increases in the Pell Grants and the tax credits approved by the Congress. The 1998 appropriations bill now being considered would increase the maximum Pell Grant award by $300. The 1998 tax reconciliation bill, which has been signed by the President, includes several federal initiatives which will help the University's students and their families in the future. Targeted to assist middle-income and lower-middle income families, these include tax credits for tuition and fee payments, changes in the tax status of IRAs when funds are withdrawn to pay for educational expenses, and tax deductions for interest paid on student loans. These are discussed more fully in the section on Student Financial Aid.

The University remains quite concerned about proposed changes in the federal Medicaid and Medicare programs which are expected to hit academic medical centers especially hard. The federal government currently accounts for about one-third of the net operating revenue of the University's teaching hospitals. Under the provisions of the agreement to balance the budget, the Congress and the President are intending to slow the growth of Medicare spending by $116.4 billion over five years, and cumulatively over ten years by $400 to $450 billion. The University will be specifically affected by proposals to cap or reduce payments to disproportionate share providers. In addition, through Medicare, the government has traditionally reimbursed hospitals that are affiliated with medical schools for the costs incurred in training doctors. As part of the overall plan to balance the federal budget, reimbursement for these medical education costs will be reduced over several years.

Capital Improvements

The University's 1998-99 request for State funds for capital improvements is discussed in a companion volume to this operating budget document titled *1998-99 Budget for Capital Improvements.*

The University's capital budget request is consistent with the Governor's four-year compact with higher education which provides funding of about $150 million a year with priority given to seismic and life-safety projects, infrastructure, and educational technology. The funding of the capital improvement program is dependent upon the Legislature placing a bond measure on either the June or November 1998 ballot.

The University has a serious backlog of capital improvement needs that result from a number of factors and reflect existing enrollments and conditions. Foremost among these factors is the urgent requirement to correct serious seismic hazards and other fire and life-safety deficiencies. In addition, the pervasive deterioration of University buildings and campus infrastructure that has resulted from age, intensive use, and constrained funding requires a major capital renewal effort. University facilities also have substantial deficiencies caused by a revolution in science and technology programs and the instrumentation they use that has made many existing facilities obsolete. The capital program must address the effects of rapidly evolving codes and regulations, practical issues of disabled access, and the conditions that remain even today from the 1970s and early 1980s when State funds were very limited.

Although enrollment levels have remained relatively stable over the last several years, the University is projecting moderate growth extending through 2005-06. After that, enrollment is projected to grow dramatically.

The University intends to honor its commitment to access under the Master Plan. To that end, the campuses are continuing to prepare for the expansion of facilities that will be necessary to accommodate additional students and the University is proceeding with planning for the tenth campus.

Expansion of capacity at existing campuses while continuing to address essential life-safety, code and renewal issues of the existing physical plant will require at least $250 million annually from the State in bond funding.

The 1998-99 capital budget request totals $150.9 million. Funds to equip three projects for which construction has already been approved by the State total $2.2 million. Funding for the remaining 23 major capital improvement projects totals $148.7 million. Sixteen of the 23 would be funded for construction, and only nine projects are limited to funding for design.

GENERAL CAMPUS INSTRUCTION

1997-98 Budget	
Total Funds	$1,274,797,000
General Funds	1,023,683,000
Restricted Funds	251,114,000
1998-99 Increase	
General Funds	$18,600,000
Restricted Funds	9,917,000

The general campus instruction and research (I&R) budget includes direct instructional resources associated with schools and colleges located on the eight general campuses. The major elements and their percentages of the I&R base budget are faculty and teaching assistant salaries, 60 percent; employee benefits, 10 percent; and instructional support, 25 percent, which includes salaries of academic administrators, laboratory assistants, field work supervisors, and other supervisory, clerical, and technical personnel, as well as the costs of office and instructional supplies and equipment. Additional components of the I&R budget in 1997-98 include $29.7 million to fund the replacement of instructional equipment and $24 million for instructional computing.

Instructional Programs

Preserving access and quality are the twin goals that have guided the University in its offering of instructional programs. Under the California Master Plan for Higher Education, the University provides undergraduate, professional, and graduate academic education through the doctorate 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. Ideally, this means that the University should be able to accommodate all qualified undergraduates, and also provide graduate academic and professional instruction in accordance with standards of excellence, societal need, and available resources. To do this, the University must maintain a core of well-balanced, quality programs and also provide support for rapidly developing and newly emerging fields of knowledge, and for the exchange of that knowledge.

The University offers instructional programs spanning more than 150 disciplines from agriculture to zoology on its eight general campuses; the San Francisco campus offers health sciences programs exclusively. Courses offered within instructional programs are authorized and supervised by the Academic Senate of the University, which also determines the conditions for admission, degrees, and credentials. The University of California comprises more than 100 undergraduate, graduate, and professional schools and colleges which offer the bachelor's degree, master's degree, Ph.D., and professional degrees -- nearly 600 degree programs in all. The University began awarding degrees in 1870, and since then has conferred more than one million degrees.

The University's undergraduate programs, especially lower division offerings, seek to accomplish several objectives: development of general analytic and communication skills; exposure to a range of intellectual traditions; and development of an appreciation of the great ideas, concepts, and events that have shaped cultures throughout the world. After students complete their general education requirements, customarily during their first two years, they choose a major in a particular area which is administered by an academic department. A major is designed to develop a depth of knowledge within a specialized area of study.

The purpose of graduate study is to inspire independence and originality of thought in the pursuit of knowledge. Doctoral students are expected to achieve mastery of a chosen field through advanced study and research. Master's degrees are awarded in recognition of several achievements, including satisfactory preparation for doctoral study and qualification for entry into professional fields such as business. Graduate degrees fall into two broad categories: professional, such as a master of business administration; and academic, in which degrees are awarded in recognition of a student's ability to advance knowledge in a given field of study.

The University is committed to maintaining the quality of its programs and, depending on the provision of adequate resources, to preserving student access as defined by the California Master Plan for Higher Education. Access remains meaningful, however, only if it provides the opportunity for a quality education and leads to a university degree that continues to enjoy broad recognition and respect. That the University still excels in this respect is demonstrated in various ways. Two recent national studies of research universities confirm the excellence of the University of California. In their new book, *The Rise of American Research Universities*, Graham and Diamond conclude that the University of California as a system leads the nation in research excellence and productivity among public universities. They cite the remarkable rise of the University's smaller, younger campuses as well as the success of its large, established ones. Another indicator of how well the University does when compared to other research institutions is the National Science Foundation study on the scientific foundation of American patents. The University produced more research leading to patented inventions than any other public or private research university or laboratory during the periods studied. The National Research Council reported that more than half of the

University of California's doctoral programs ranked in the top 20 in their fields in terms of faculty quality -- a record of performance unmatched by any university system in the nation (*Research-Doctorate Programs in the United States: Continuity and Change*, 1995). In 1997 twenty UC scholars were named as Fulbright scholars to lecture, consult or conduct research abroad. Eleven UC faculty were among sixty new members elected to the prestigious National Academy of Science. Two more UC campuses were invited to join the prestigious American Association of Universities, bringing to six the number of UC campuses so honored.

Enrollment Planning through 1998-99

Undergraduate enrollment planning at the University of California is based on a commitment to access under the Master Plan, which provides that the top 12.5 percent of California public high school graduates, as well as those transfer students from the California Community Colleges who have successfully completed specified college work, are eligible for admission to the University. Graduate and professional enrollment

DISPLAY 1

Actual and Budgeted Enrollment and Faculty

	Actual Enrollment	Actual Faculty	Ratio	Budgeted Enrollment	Budgeted Faculty	Ratio
1990-91	143,344	7,981	18.0:1	142,079	8,067	17.6:1
1991-92	143,808	7,686	18.7:1			
1992-93	141,507	7,620	18.6:1			
1993-94	139,478	7,582	18.4:1			
1994-95	139,415	7,067	19.7:1	137,481	7,260	18.9:1
1995-96	141,522	7,232	19.6:1	138,000	7,380	18.7:1
1996-97	142,783	7,338	19.5:1	139,500	7,460	18.7:1
	Estimated			Higher Education Compact		
1997-98	144,000	7,540	19.1:1	141,000	7,540	18.7:1
1998-99	145,000	7,650	19.0:1	143,000	7,650	18.7:1

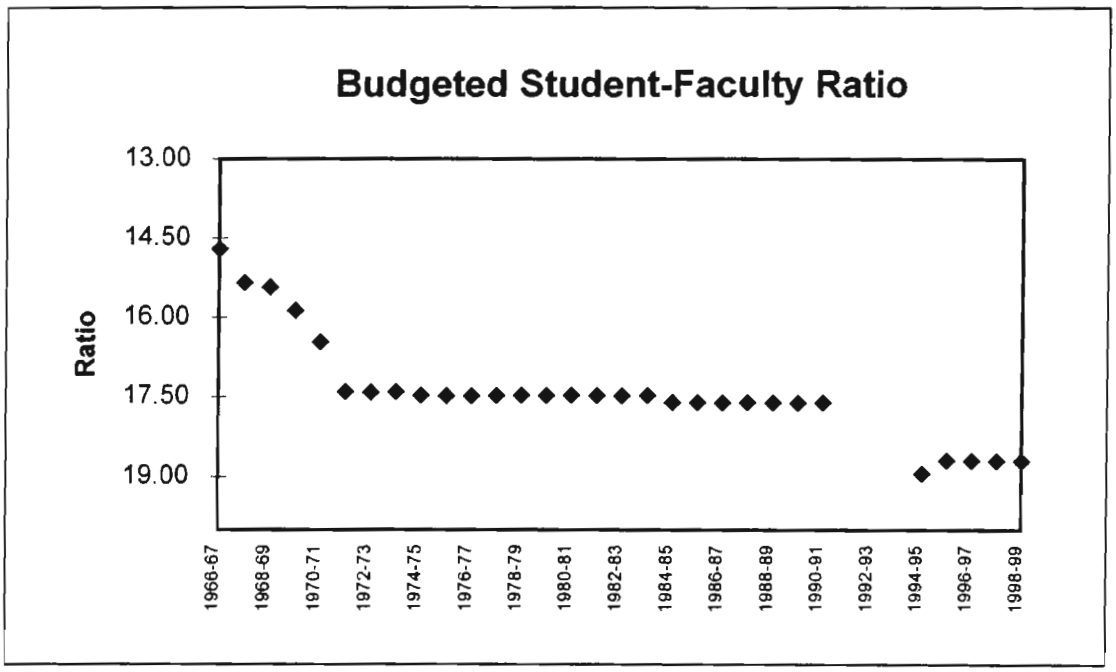
planning is based on assessments of State and national needs, program quality, and available financial support.

Display 1 shows what happened to the University's enrollments during the 1990s. Although the early 1990s were a time of dramatic reductions in State funding, actual enrollments dropped by only three percent and exceeded the level supported by the State. In fact, instructional workload agreements with the State were essentially inoperative from 1991-92 through 1993-94. In 1998-99, UC general campus enrollments are expected to reach a new high of 145,000 full-time equivalent (FTE) students. Actual faculty levels in Display 1 are net figures that include faculty resignations and retirements, especially early retirements, as well as new hires; both State-funded permanent and temporary I&R faculty on the University's payroll are included.

During the late 1960s and early 1970s, State resources failed to keep pace with rapidly expanding enrollment, and as a result the University's budgeted student-faculty ratio deteriorated about 20 percent, from 14.7 to one to 17.6 to one, as shown in Display 2.[1]

The University never recouped the loss even though the State later enjoyed periods of economic prosperity. For twenty years the University received funding on the basis of a

DISPLAY 2



[1] As in the previous display, the gap indicates that instructional workload agreements with the State were essentially inoperative from 1991-92 through 1993-94.

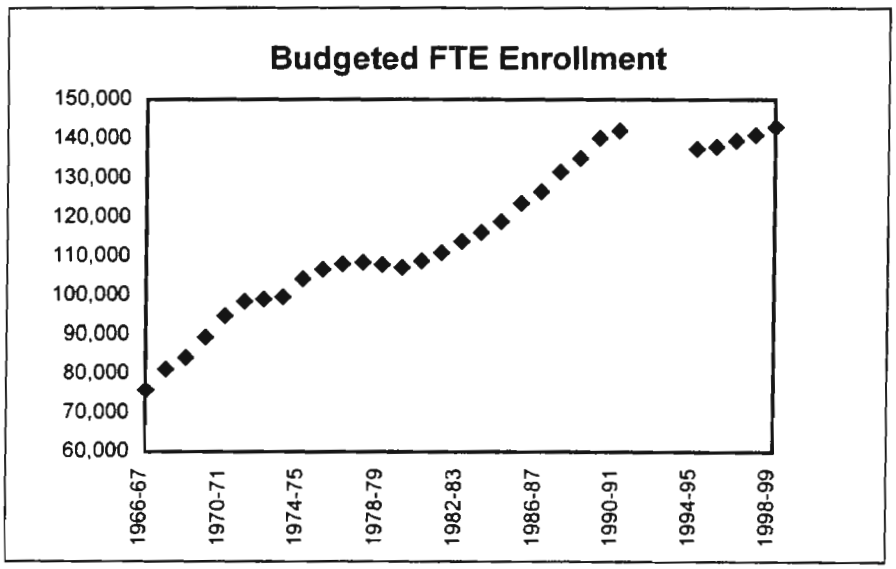
budgeted student-faculty ratio of 17.6 to one. In 1994, the University and the Legislature agreed on supplemental budget language to phase in a funding ratio of one faculty position for every additional 18.7 FTE students added to the University's budgeted enrollment. This represents a further deterioration in the budgeted ratio, continuing the erosion that began in the 1960s. A recent survey of public universities against which the University benchmarks its faculty salaries found an average student-faculty ratio of about 17 faculty for each student, underscoring the loss the University has suffered in State support.

The *actual* ratio of students to faculty is much higher than shown in Display 2 because the University continues to honor the Master Plan and to take more students than are funded by the State. Throughout the 1990s, University enrollment has exceeded the level funded by the State by 1,000 to as many as 3,500 FTE students. The University expects to enroll at least 2,000 more students in 1998-99 than are provided for in the budget.

New Faculty Positions and Related Support ($14,600,000 Increase)

Consistent with agreements in the four-year compact with the State, the University is requesting funds to support enrollment growth of about 1.5 percent, from 141,000 in 1997-98 to 143,000 FTE students in 1998-99, nearly twice as many as were funded in the mid-1960s (see Display 3)[2]. The State provides funding for each additional FTE

DISPLAY 3



[2] As in the previous display, the gap indicates that instructional workload agreements with the State were essentially inoperative from 1991-92 through 1993-94.

student added to the University's current budgeted enrollment level based on an agreed-upon methodology (the marginal cost of instruction). In 1998-99, $7,300 per student for a workload increase of 2,000 FTE students will require funding of $14.6 million. Based on a student-faculty ratio of 18.7 to one, this will provide salary and benefits for 107 faculty positions and related instructional support; instructional equipment; support for teaching assistant positions; institutional support; and support for libraries and student services. Tables in the Appendix contain campus enrollments in 1996-97, and budgeted enrollments for 1997-98 and 1998-99.

Throughout the years of budget cuts, the University kept its historic promise to the citizens of California by continuing to offer admission to all eligible Californians applying at the undergraduate level and it managed, through extra efforts of its faculty, to provide quality education. But now, hundreds of vacant faculty positions must be refilled if the University is to maintain both student access and instructional quality.

For general campus programs, to help fill vacant positions and meet related instructional costs in the schools of business/management, law, and theater/film and television, State funds will be supplemented with income from the Fee for Selected Professional School Students (net of financial aid). Income from the Fee for Selected Professional School Students will be used for these same purposes in the schools of optometry, nursing, pharmacy, medicine, dentistry, and veterinary medicine, thereby treating the health sciences and the general campuses equivalently with respect to net budget cuts that the University received in the early 1990s. These fees are discussed more fully in the Student Fee section of this budget.

Instructional Technology ($4,000,000 Increase)

The 1998-99 budget plan includes $4 million to support the University's growing use of instructional technology. Technology is a critical element of the University's continued commitment to maintain the quality of its teaching and research programs. Computers are nearly-universal tools in higher education. They are used to glean information from global networks, for communication and collaboration, and for every imaginable application from writing reports to laboratory simulation to architectural design. They have become the engines of inquiry in the sciences and of creative expression in the arts. Technological competence is an essential skill for students to succeed in the era of electronic information.

Instructional technologies permeate much of the curriculum, ranging from improvement of course administration to multi-media capabilities. UC campuses are providing students with connections from libraries, laboratories and dorm rooms to the Internet and the World Wide Web. Students use electronic mail and web browsers to communicate with faculty and each other, to access on-line course information, and to register for enrollment at the University.

To compete for the best students and help them be successful, the University must invest not only in the electronic infrastructure, but also in support for faculty, staff and students so these systems can be used effectively. Campuses must provide greater access to computer workstations, put computers in classrooms, and provide students with access to an expanding body of digital library resources.

The University must make wise and timely investments to ensure that UC students benefit fully from the applications and services made possible by the appropriate use of these technologies. These investments will be costly and will require a variety of funding strategies, including effective use of existing resources. While the University has taken significant steps to improve instruction through the use of technology, spending well over $55 million annually, it is not enough. New investments are required. A fully functional digital environment for instruction is not a steady state that can be achieved with a one-time expenditure. The rapid evolution of hardware and software requires a continuous cycle of replacement and upgrade, and technology-enhanced instruction requires recurring expenditures for maintenance and support. Thus, for the foreseeable future, the adoption of new technologies will *increase* rather than reduce costs while extending the University's intellectual resources to new constituencies of learners.

As part of the 1998-99 budget plan, the University is proposing to increase its investment in instructional technology with $4 million included under the compact. The University will enhance student access to and use of instructional resources by funding projects and programs which provide, for example, computer projection in classrooms and Web pages for individual classes. Providing students with access to state-of-the-art technology and expanding access to on-line resources are key areas in which targeted investments can benefit students.

Additional Priorities for Funding

The University has a number of high-priority needs that warrant funding beyond what can be provided through the compact, among which are two that directly affect the University's instructional program. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for the priorities identified.

Instructional Technology

The University's 1998-99 budget plan includes $4 million for instructional technology. When the State's revenue situation permits, the University will request an additional $4 million to allow campuses to move more quickly to ensure that students have adequate access to technology.

Since the beginning of the digital age, University of California faculty and students have played a pioneering role in the development of digital information and communications technologies. The recent NSF award in support of the Internet2, an extension of the faculty's research achievements, is evidence of the University's current and historic role in this arena. Similarly, the University's faculty are leaders in the creation of instructional applications that use the capabilities of the new technologies. For example, UC faculty are lead investigators for a number of national curriculum development projects supported by the NSF and other national funding agencies.

Technology dramatically improves data handling, process simulation, problem solving, creative presentations, and communication. New technologies are making possible unprecedented interaction with primary data and are enabling complex networks of communication among students and faculty. For students, these technologies create opportunities to grapple with real data and real problems early in their learning careers, linking them directly to the research enterprise. Participation in the research process and the mastery of the skills and analytical rigor that it engenders will be lifelong assets for graduates who seek professional opportunities and advanced degrees in any field.

In the past few years, digital applications have become so powerful and pervasive that faculty, students, and instructional staff risk being isolated from the academic mainstream if they do not have ready access to such electronic capabilities as e-mail, Web browsing and editing, electronic journals and data banks, word-processing, and spreadsheet applications. Users require adequate technical support as well as assurance that they will be able to keep pace with changing technical norms. Although not all instructional activities will be improved by technology-based additions or redesign, a growing range of available technology requires careful thought regarding the most effective way to teach. To make the best choices, faculty need to know that all students in a given course have access to the required on-line materials and to the software and hardware necessary to use the materials in a way that enhances their education.

The University is committed to high-quality instructional programs and will continue to ensure that faculty's curriculum decisions regarding course content and presentation are based on intellectual and academic considerations that are not constrained by technology bottlenecks.

Planning for the Tenth Campus and Academic Programs in the San Joaquin Valley

Development of a tenth campus would enable the University to maintain overall undergraduate access at the levels contemplated in the Master Plan. As part of its strategy to increase capacity, the University identified the San Joaquin Valley as the region in which a new campus should be located, because it is the only major region of substantial population without a UC campus.

The 1997-98 budget includes an appropriation of $4.9 million related to development of the tenth campus in the San Joaquin Valley in Merced County. These funds will be used for planning and start-up costs associated with expanding academic programs in the San Joaquin Valley prior to the opening of the tenth campus and for initiating physical planning for the site and related community planning activities. The University has targeted fall 2005 for enrollment of the first 1,000 students on the campus and growth to 5,000 students by fall 2010 assuming sufficient funding is available to support both enrollment expansion at existing campuses and the development of a tenth campus.

This initial appropriation of permanent funding represents approximately half of the core funding of $10 million that is needed to develop the tenth campus. Using funding levels at the UC Santa Cruz campus as the basis, initial analysis indicates that approximately $50 million (current dollars) in State general fund support will be required for a campus with 5,000 students. The funding agreement for State support for enrollment growth would provide about $35 million for 5,000 students. Another $5 million is associated with the annual operation and maintenance costs for campus buildings, grounds, and purchased utilities; funding for this purpose will be requested through the normal budget process as facilities are constructed and opened for operation.

The balance of $10 million represents the campus core funding—the difference between the average cost of educating a student at the University and the funding provided for new students (the marginal cost of instruction). This core funding will cover costs not included in the marginal cost per student calculation. For example, the marginal cost per student includes faculty salaries at the Assistant Professor level; core funding will cover the differential cost of faculty salaries at a mix of levels from Assistant to Full Professor. Other needs covered by core funding include the initial increment of computing, business, and student services, which will be expanded as students are enrolled. It is anticipated that by the time the campus has an enrollment of 5,000 students, it will have achieved some economies of scale and further growth in enrollment could be funded on the basis of the marginal cost of instruction.

If the State's revenue situation permits, the University will request an additional $5 million in 1998-99 to bring the permanent core funding for the tenth campus to the full $10 million level. In the years prior to the anticipated opening of the campus in 2005, core funding will be utilized in four major areas: academic program development; site planning; core campus staff and faculty; and one-time start-up costs as described below.

Academic Program Development. Funds will be used to support the continuation of academic planning activities and to expand academic programs in the San Joaquin Valley prior to the opening of the tenth campus.

In 1997-98, this core funding will be used to work with existing University campuses to expand credit and degree programs in the Valley and to develop and distribute

technology-assisted instructional programs in collaboration with other segments of higher education and K-12 schools. Planning is underway to develop several professional masters degree programs in business, health sciences, and public policy as well as additional teacher training programs and continuing education programs. A consolidated UC Center is being established in Fresno, which will include classroom, distance learning, and other computer-based learning facilities to support these expanded program offerings.

During 1997-98, work will continue on an academic transition plan for the tenth campus, focusing on programs that will be in place when the campus opens in 2005 and what needs to transpire in the intervening period to realize those plans. In addition to delineating the undergraduate program, these transition steps will include building the base for quality graduate programs and fostering research expertise.

Other academic activities that will be pursued include improving access to the University's electronic resources for Valley programs; expansion of joint programs with the California State University; collaboration on programs designed to improve the transfer function within the California Community Colleges; and possible development of a research institute focusing on topics of critical importance to the Valley which would also pave the way for graduate study and research programs at the tenth campus. Development of distance learning facilities to develop an instructional network throughout the Valley is also being explored.

Site Planning. Funds will be used on a one-time basis to support a variety of physical planning activities for the tenth campus site. In 1997-98, funds will support initial technical studies of the site, including topographic, geotechnical, biological resources, and hydrology surveys. These studies will be used to establish the campus boundaries and provide an information base for subsequent site planning activities. Joint community planning for the undeveloped trust properties and the campus site will be initiated in 1997-98. The University Community Plan will address the development concept, infrastructure and public service requirements and financing, and a regional approach to environmental preservation and mitigation. Community planning will continue on a fairly intense basis for two to three years until major development decisions are made and approved through the County planning process.

Work on the Long Range Development Plan (LRDP) for the campus will begin during 1998-99 and its completion, including the associated Environmental Impact Report (EIR), is anticipated in the fall of 2000. Completion and Regental approval of the LRDP and EIR are required before the University can proceed with the design and subsequent construction of specific infrastructure and building projects.

Core Campus Faculty and Staff. Beginning in 1997-98, funds will be used to support core staff responsible for the community and campus planning physical planning activities, as well as the significant public information activities generated by the public aspects of these planning processes. In subsequent years, additional planning

activities will focus on the program details related to campus operations. This includes planning for phased development of the campus' academic organization and its instruction and research programs; detailed plans for faculty recruitment; development of academic support services such as libraries and instructional services; student outreach and admission programs; student services; business services; and related operating budget plans and requirements. These planning activities will increase in scope and cost each year until the campus opens in 2005.

As the opening of the campus in 2005 draws near, a greater portion of core funding will be used to support the initial complement of faculty and staff. The goal is to have 100 faculty in place by fall 2005, ready to offer a range of lower division, upper division, and graduate programs.

One-Time Start-up Costs. Prior to 2005, the University will need to make significant one-time expenditures for start-up costs related to faculty recruitment, initial acquisition of library materials, acquisition of instructional equipment including computers, and development of academic, student services, and administrative computing systems. A portion of the core funding will be set aside during each of the initial years that tenth campus core funding is available and carried forward in order to fund the extraordinary one-time costs that will occur in the two to three years before the campus opens.

Long-Range Enrollment Planning: 1999-2000 through 2010-11

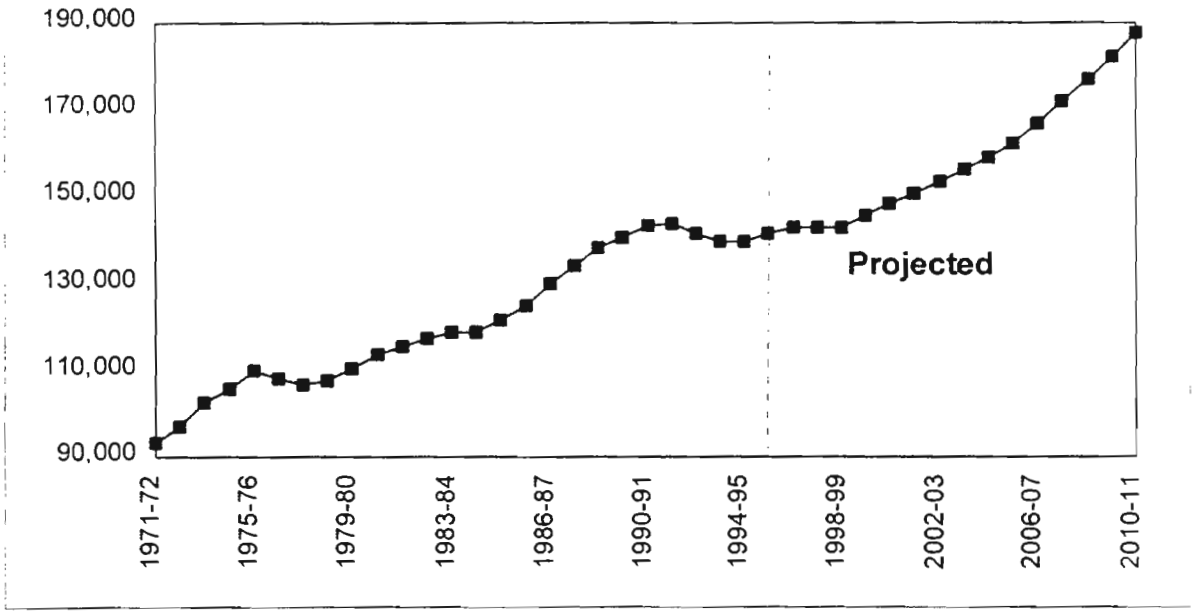
During a period of relatively stable demand through 1998-99, enrollment will be restored to early 1990s levels, albeit at a higher student-faculty ratio. Then, through 2005-06, the University anticipates a period of moderate growth. Finally, beginning in 2006-07, demand for University admission is expected to increase at higher annual rates, producing "Tidal Wave II" (see Display 4). Generally, the University has been conservative in its undergraduate enrollment projections.

The Department of Finance and the University projections of undergraduate enrollment demand both show steady increases to 2005, followed by sharper increases between 2005 and 2010. Given the campus' capacities in their approved long-range development plans, some campuses should be able to continue to grow after 2005. However, the capacity for growth at those campuses appears to be insufficient to meet projected demand of more than 30 percent of UC's current enrollment.

For now the University is estimating enrollment growth of 45,000 students by 2010, with more than half of that growth coming after 2005. Existing campuses would accommodate most of this increase—40,000 students, or the equivalent of two UC campuses. The remaining 5,000 students would be accommodated at a tenth campus.

DISPLAY 4

General Campus FTE Enrollment



As part of its ongoing planning, the University will monitor annually enrollment factors and assumptions in order to adjust, if necessary, projections of future enrollments at the undergraduate as well as the graduate academic and professional levels. K-12 continuation rates, freshman application rates from eligible high school graduates, and demand for transfer from community college students are among the key demographic factors that affect UC's enrollment growth. The University will review the results of the CPEC high school eligibility study when it is released in fall 1997. The University will also look at fiscal projections for the State. To accommodate demand, there must be sufficient funding for capital outlay and instructional workload. Within this demographic and financial framework, the University currently is engaged in a consultative process to develop enrollment plans for each campus through 2005-06.

Assuming that sufficient operating and capital resources can be provided, the University intends to continue to honor the Master Plan. The University believes it will be possible to accommodate projected increases in undergraduate and graduate enrollment expected between 1999-2000 and 2005-06, although it will not be easy. The University will need to maintain its share of the State's general fund revenue in order to support enrollment growth, maintain competitive faculty salaries, and keep pace with inflation and fixed cost increases. Budget increases will be accompanied by the University's continuing to improve productivity, to restructure, and to develop additional revenue sources, particularly private funds. Even so, critical long-term funding problems will remain in such areas as libraries, deferred maintenance, and building maintenance.

The University has been working with the State to develop a long-term funding plan that would provide fiscal stability and the resources needed to maintain access and quality while keeping any necessary student fee increases moderate and predictable. AB 1415 (Bustamante), which was approved by the Legislature on the last day of session and which, as of this writing, is before the Governor for action, would establish a partnership with the University and CSU to provide fiscal stability. The main features of the measure are: (1) the State would provide the University with a proportional share of the State's general fund budget, using 1998-99 as the base; (2) additional resources would be provided for annual enrollment growth in excess of 1.5 percent; and (3) the University would honor several important goals, similar to the commitments in the four-year compact. These commitments, and the University's progress in honoring these commitments, are described later in this section.

Based on the State's continued commitment to higher education and provided the University maintains its current share of the State's general fund budget, the University will be able to continue meeting its obligations under the Master Plan. However, the University is concerned that capital resources will not be sufficient to support the renewal and modernization of existing facilities and to accommodate growth. In the short run the State is providing $150 million a year to support the University's capital improvement program. This is less than what was provided in the 1980s and significantly less than what is needed now. Beyond 1998-99, annual funding is needed in four major areas: about $200 million to maintain the quality of existing facilities (not related to enrollment growth); about $25 to $50 million for deferred maintenance and facilities renewal; about $125 million to accommodate enrollment growth; and about $35 million for the tenth campus. In total, annual funding of approximately $400 million is needed. While the University is committed to meeting a portion of this need through private fundraising and by using a portion of the *increase* in State and UC general funds to pay for debt service on long-term financing, a minimum of $250 million is needed from the State in bond funds.

Graduate Academic and Professional Enrollment

The University has begun a major planning effort to examine the future of graduate academic and professional education at the University of California, in light of California's and the nation's rapidly changing economies and emerging social needs. Modest growth in graduate enrollments is needed to halt the more than 30-year decline in the graduate proportion of general campus enrollments and to supply highly trained professionals, faculty, and researchers in the 21st century.

Among the new conditions that have prompted this reassessment are the following:

- California's economy is changing dramatically. The service sector, which now outpaces manufacturing in the U.S. economy, requires more technical expertise

than ever before because of the advent of computers and the flood of available information. California needs to prepare its business and social leaders to apply their academic education to rapidly changing conditions. Graduate education is already the University's most effective technology-transfer mechanism. This role will become more important, as emerging industries seek to locate near university settings in order to capitalize on collaborations with faculty and graduate students and to be near sources of future employees.

- While the job market outlook for new Ph.D. recipients remains mixed and differs by field, California and the nation will need more faculty to teach the surge of undergraduates expected to enter higher education in the early years of the 21st century, as well as to replace retiring faculty. Changes in student-faculty ratios, growing use of technology and part-time faculty, federal legislation prohibiting a mandatory retirement age, and unpredictable changes in student majors make projections difficult. Nevertheless, the size of "Tidal Wave II" enrollments will require additional faculty in the out-years of the University's long-range planning period. Because about six years are required to educate doctoral students, the University will need to enroll adequate numbers of new doctoral students in the next few years if they are to be available to teach the projected growth of undergraduate enrollment in the next decade.

- Some experts predict that people will change careers three or four times during their lifetime. Consequently, continual learning opportunities, especially at the masters and advanced certificate levels, will be needed to ensure that California's future workforce is able to adapt.

- Graduate study is changing in other ways, as well. Academic education and professional education are becoming more intertwined, and study that crosses several academic disciplines is increasing, as students prepare for careers that may not yet exist. Traditional academic fields are developing new applications that have important economic implications, such as the fusion of the arts and technology in California's entertainment industry.

- Providing adequate support for graduate students remains a major concern. Potential reductions in federal funding in future years for graduate student research assistantships is especially troubling for science and engineering programs, which depend heavily on this source of funding. Graduate student funding and support issues will have to be addressed if graduate enrollments are to grow.

Over the course of the 1997-98 academic year, the University will study these and other factors, in consultation with key constituencies within and outside the University, in order to set the direction and parameters for graduate education at the University at least through the year 2010.

Accomplishments Under the Compact with Higher Education

In January 1995 the Governor proposed a four-year compact with higher education designed to provide the University and CSU with a framework for budgetary stability. Both the State and the University have more than honored their commitments in the compact. The State has actually provided funding above that proposed in the compact by "buying out" proposed fee increases. In turn, the University has focused on providing the classes students need to graduate in a timely manner, on greater access for qualified students, and on working cooperatively with other segments of higher education. The University takes these commitments seriously and is proud of its accomplishments which include:

- Gains in enrollment exceeding the goals of the compact by more than 3,000 students;
- Improved time to degree, and graduation rates that have never been higher;
- Providing required courses, partly through increased faculty teaching efforts, and ensuring that there are no institutional barriers keeping students from moving quickly through their programs;
- Improved access for freshman admissions to the University through Pathways and for community college transfers through Project ASSIST;
- Increased transferability of courses between the other segments and the University through such efforts as expanded counselor training institutes, transfer center programs, and enhanced articulation information such as that offered through Project ASSIST's World Wide Web site;
- More joint activities, including doctoral programs, with CSU;
- Productivity improvements totaling $30 million, with an additional $10 million in 1998-99.

Student Access and the Quality of Teaching

The University is maintaining its commitment to the Master Plan to provide a place on one of the UC campuses to all eligible students who wish to attend, enrolling 3,000 more students in 1997-98 than funded by the State. As a reflection of that commitment and of students' perceptions of the value of a UC education, campuses received applications for fall 1997 admission from 46,682 California high school seniors, up from the previous year and up 16 percent since 1991. Of those admitted, nearly 25,200 California high school graduates are planning to attend the University, up about 1,100 or nearly 5 percent over 1996.

The University is examining ways to ensure that it can continue to provide access to all eligible students. One effort to maintain access is Pathways, the University's new World Wide Web-based application and advising system. Pathways allows prospective applicants to explore each campus, receive admissions and financial aid information, and initiate their application for admission by completing forms at the Web site. Moreover, students are able to communicate on-line with the University regarding admissions questions. All California high school students were able to apply to the University through Pathways for fall 1997 admission. In the future, new components will be added to the system which will allow students to store a cumulative record of their achievements in a safe location on-line, to compare courses they are taking with UC requirements, and to directly communicate with the University regarding their academic progress.

Timely Graduation

Despite the unprecedented fiscal losses of State funding in the early 1990s, the University has been successful in maintaining students' time to degree. The average undergraduate student takes 4.3 years of enrolled time to obtain the baccalaureate degree. The University has an excellent record of student retention and over time has improved persistence. Graduation rates have never been higher. Based on the most recent data available, 38 percent of UC graduates who entered as new freshmen in 1990 took 12 or fewer quarters to receive their baccalaureate, up from 31 percent seven years earlier. The University's six-year graduation rate is 77 percent.

Over the past three years, the University increased its efforts to ensure that there are no institutional barriers that would keep students from moving expeditiously through their curricula and graduating in four years if they so desire. In its March 1997 report to the Legislature, the University indicated that, based on an examination of student persistence, graduation, time-to-degree, and student survey data, *institutional* factors such as insufficient course availability are *not* impediments to graduation at the University.

All eight of the general campuses have implemented "finish-in-four" plans which have as their primary goal the provision of information to students that will enable students to make plans and decisions which will result in completing a degree in four years. Students who wish to graduate in four years are encouraged to clarify their academic goals as early as possible after matriculation, to confer with campus advisors to work out appropriate course schedules, and to consult regularly with their academic advisors in order to stay on track.

In March 1997, the University submitted its fifth annual report to the Legislature titled *Undergraduate Instruction and Faculty Teaching Activities*. The report describes faculty efforts to maintain and improve the quality of undergraduate education even in a constrained budgetary context. UC faculty have worked hard to provide required

courses and to sustain increased interaction with undergraduate students. The average 1995-96 primary class teaching load shows significant improvement over 1990-91 levels. In 1995-96 the Universitywide average primary class teaching load was 4.9 classes per FTE faculty, slightly above the previous year's figure of 4.8 classes. These data reflect a gain of 8.5 percent over the average workload of 4.5 classes per FTE faculty in 1990-91. Systemwide, the University has increased the average annual teaching workload of its regular rank faculty from the 1990-91 base by a little more than one-third of a course (one course in three years).

Faculty time-use studies have shown that UC faculty members devote on average over 60 hours per week to University-related activities, including about 26 hours of instructional activities, 23 hours of research and creative activity, and about 12 hours of University and public service and professional activity. Surveys reported by the National Center for Educational Statistics show similar faculty work-weeks and time spent on teaching at other public research universities.

Intersegmental Cooperation

Since 1990, community college transfer applications to the University have increased about 20 percent; and in fall 1996, the University enrolled 8,726 transfer students from the California Community Colleges. This improvement is reflected in an increase in the percentage of FTE undergraduate students enrolled at the upper division level, from about 54 percent in 1987-88 to 60 percent in 1992-93 through 1996-97. California community college students receive priority in admissions over all other transfer applicants and now represent over 90 percent of all transfers to the University.

The University and CSU continue to work successfully with the California Community Colleges to improve the ability to transfer easily among the three segments. The University supports a wide array of outreach services which help students successfully manage the transfer process. Currently, the University provides: (1) transfer-specific training institutes for community college counselors; (2) expanded articulation with the California Community Colleges through inter-institutional transfer agreements; (3) increased access to transfer information to students throughout the State; and (4) co-sponsorship of the Transfer Center Program.

To make sure that up-to-date and accurate information about transfer preparation and application are widely available at California Community Colleges, the University (in cooperation with CSU) sponsors in the fall the *Ensuring Transfer Success* Counselor Institute and each spring several intensive two-day workshops exploring all major aspects of the process. Experts from each UC campus and from the system office discuss recent changes and trends in transfer application and enrollment; provide detailed campus-by-campus information on how to prepare for specific majors; explain the University's financial aid process; and explore new developments in articulation and use of technology to keep abreast of changes on a regular and frequent basis.

Most UC campuses now offer "contracts" to individual community college students that guarantee the student a space after the completion of a prescribed set of courses. For many students this "contract" helps to set goals and inspires confidence that their good efforts will be rewarded which in turn promotes higher achievement.

In 1994, the University revamped its process of reviewing the curriculum of all California Community Colleges to ensure conformity to course articulation guidelines for acceptance of community college coursework for UC credit. All 107 California Community Colleges now receive a complete review of their entire curriculum every year, identifying which courses will provide academic credit that meets requirements for transfer to the University. Also, all UC campuses now have approved the use of the Intersegmental General Education Transfer Curriculum (IGETC) which allows students to complete all UC general education breadth requirements before transferring. Students who complete IGETC are able to enroll in courses for their major upon entry to the University, reducing their time-to-degree significantly. Finally, in a review that has resulted in new transfer eligibility requirements to take effect in fall 1998, UC faculty recommended a greater emphasis on community college coursework rather than high school eligibility and specified in more detail the elements of a community college curriculum that will help to ensure students' academic preparation for upper division work at the University.

For 1997-98 Project ASSIST (*Articulation System Stimulating Interinstitutional Student Transfer)* has been integrated into a site on the World Wide Web, making articulation information available to students, counselors, and other transfer personnel throughout the state. Project ASSIST, which was developed by the University in concert with CSU and the California Community Colleges, is a statewide computerized articulation and transfer planning system that provides students and counselors access to information about the transferability of community college course credits to specific University and CSU campuses. The database contains transfer agreements with local California Community Colleges that provide the transfer student with a set of precise requirements necessary to satisfy admission to many of the specific majors or colleges on all UC campuses.

The Transfer Center Program was initiated in 1985-86 as an intersegmental program involving the University, the California State University, and the California Community Colleges to increase transfer rates. Transfer Centers are located on community college campuses and serve as the focus of transfer activities. Center staff provide direct services to identify, encourage, and assist potential transfer students. The Center helps students prepare for upper division work by providing academic planning services and employing articulation agreements to ensure that community college course work will be accepted for transfer.

At the graduate level, the University has established several joint programs with CSU. A wide range of UC academic departments collaborate with CSU in the California Pre-

Doctoral Program, which encourages CSU's best masters students to pursue doctoral training at the University. UC San Diego and San Diego State University have developed graduate student exchange programs between specific departments, allowing graduate student on either campus to enroll in designated graduate courses on the other campus. UC Davis and CSU Fresno offer teleconferenced graduate courses in civil engineering offered at sites on both campuses. These campuses also offer a Joint Doctoral Program in Educational Leadership, which has been extended to CSU Hayward and CSU Sacramento.

Changes in Admissions Policy

In July 1995 the Board of Regents adopted a resolution, known as SP-1, which prohibits the University from using religion, sex, race, color, ethnicity, and national origin as criteria for admission to the University. The new admissions policy, which applies to undergraduate students entering in spring 1998 and to graduate and professional students entering in fall 1997, eliminates the use of race and gender as criteria for decisions regarding admission.

In order to implement The Regents' new undergraduate admissions policy as expressed in SP-1, the University developed new admission guidelines which were issued by the President in July 1996. Within the framework of the guidelines, each UC campus has developed its own admissions criteria which were reviewed by the Office of the President prior to implementation. The admissions guidelines:

- Revise the University's admissions policy so that no less than 50 percent and no more than 75 percent of the regularly admitted class is selected solely on the basis of academic achievement;

- Expand academic criteria beyond grades and test scores to provide a more comprehensive view of an applicant's academic achievements and potential;

- Provide other criteria to further assess a candidate's potential to succeed and to contribute to the educational environment of the campus. These criteria range from special talents, to academic accomplishments in light of the candidate's life experiences and special circumstances to the location of the applicant's secondary school and residence;

- Enable campus admissions officers to make decisions based on a broad array of information.

In addition, changes have been made to the Policy on Undergraduate Admissions by Exception. This policy continues to give campuses the flexibility to admit a small proportion of students who do not meet the University's eligibility requirements but who

demonstrate a reasonable potential for success. It has been the University's policy to allow up to six percent of newly enrolled students to be admitted by exception even though they do not meet the eligibility criteria. The revised policy excludes consideration of religion, sex, race, color, ethnicity, and national origin. However, it states that within the six percent, up to four percent can be disadvantaged, that is, students from low socio-economic backgrounds or students who have experienced limited educational opportunities.

Proposition 209, which was passed by the voters in November 1996, went into effect in August 1997 as Section 31 of Article 1 of the California State Constitution. The new constitutional amendment (which has a similar impact on the University's admissions policy as The Regents' Resolution SP-1), stipulates that the State, including the University, "shall not discriminate against, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity, or national origin in the operation of public employment, public education, or public contracting."

Displays 5 and 6 show the change in undergraduate and graduate enrollment by ethnicity from 1980 through 1996.

DISPLAY 5

Undergraduate Enrollment by Ethnicity

Fall 1980 - 1996

	1980	1996	Change	Percent Change
African American	3,474	4,972	1,498	43%
American Indian	483	1,234	751	155%
Chicano	3,816	12,363	8,547	224%
Latino	1,539	4,918	3,379	220%
Subtotal	9,312	23,487	14,175	152%
Asian	10,700	35,186	24,486	229%
Filipino	1,304	5,296	3,992	306%
White/Other	68,200	54,916	(13,284)	-19%
Decline to State	5,362	5,056	(306)	-6%
Total	94,878	123,941	29,063	31%

DISPLAY 6

Graduate Enrollment by Ethnicity

Fall 1980 - 1996

	1980	1996	Change	Percent Change
African American	996	1,303	307	31%
American Indian	132	253	121	92%
Chicano	900	1,576	676	75%
Latino	579	1,068	489	84%
Subtotal	2,607	4,200	1,593	61%
Asian	2,145	4,734	2,589	121%
Filipino	117	491	374	320%
White/Other	20,394	19,947	(447)	-2%
Decline to State	5,354	1,843	(3,511)	-66%
Total	30,617	31,215	598	2%

HEALTH SCIENCES INSTRUCTION

1997-98 Budget	
Total Funds	$598,181,000
General Funds	263,218,000
Restricted Funds	334,963,000
1998-99 Increase	
General Funds	--
Restricted Funds	$16,700,000

The instructional program in the health sciences is conducted principally in fourteen health professional schools which provide education to students preparing for various careers in health care, teaching, and research. The health sciences schools are located on six campuses and include five schools of medicine, two schools of dentistry, two schools of nursing, two schools of public health, one school of optometry, one school of pharmacy, and one school of veterinary medicine. In addition, the University operates four programs in medical education conducted at Berkeley, in Fresno and Riverside, and at the Charles R. Drew University of Medicine and Science in Los Angeles. Professional and academic students, residents, postdoctoral fellows, students in allied health programs, and graduate students who will become teachers and researchers participate in the programs of the health sciences schools. The physical, biological, and behavioral science programs of the general campuses are important complements to the programs of the health sciences schools.

In order to operate the instructional program, the health sciences schools require faculty, administrative and staff personnel, supplies, and equipment. Faculty requirements are determined in accordance with student-faculty ratios which have been established for each type of school and for each of the categories of students enrolled in these schools. As examples, the historical student-faculty ratio for medical students is 3.5:1; for dentistry students, 4:1; and for pharmacy students, 11:1.

Faculty salary costs constitute approximately one-half of the total budget for the health sciences instructional program. Instructional support costs represent approximately one-quarter of the program's budget. These costs include non-faculty personnel, equipment, and supplies, which are provided for each faculty position based on support levels determined for each school. The remaining one-quarter of the program's budget provides funding for other expenses including employee benefits, partial support of

stipends paid to interns and residents, and a portion of malpractice insurance premiums.

In addition to the resources in the instruction budget, the cost of clinical training traditionally has been supplemented by physician and other professional fee income and by revenues generated by the medical centers. Financial support for the costs of providing a medical education in a clinical setting has been declining as a result of many factors including the growth of managed care and changes in Medicare and Medicaid. There is a need to broaden the sources of financial support to help pay for the costs of medical education, and to expand the coverage to include the costs incurred in outpatient settings. In 1996-97, the University was successful in obtaining $50 million in additional federal Medicaid funds to help support the medical education costs related to services provided to the State's Medi-Cal population. The State adopted legislation (SB 391) through which the University and other teaching hospitals will continue to receive this funding for at least the next two fiscal years.

The dramatic changes taking place in the health care delivery system are having a profound effect on health sciences education. While no increases in health sciences enrollments are planned in the near future, the content of the academic curriculum and the relationships between disciplines are evolving. The future agenda for the University health sciences is clear: plan enrollments and curricula to meet the future workforce and research needs of the State and the society; assure the financial support for medical education and other health sciences disciplines; and preserve the academic and research base of the institution in order to assure that the University can continue to respond to ever-changing health care needs.

Health Sciences Enrollments Nationally and Within UC

The University's long-range academic planning for the health sciences is influenced by a variety of internal and external factors. External factors include the State's need for health professionals, federal and State policies for funding health sciences education, access to and reimbursement for health services for the poor, and the State's overall financial circumstances. These external factors have driven health sciences enrollment planning at the Universitywide level which, in turn, has provided broad parameters for the internal, decentralized planning process through which campuses initiate proposals to address programmatic concerns.

National health care workforce projections are key components of the University's heath sciences enrollment planning and have a long history in this country. In the early 1970s, the Graduate Medical Education National Advisory Committee (GMENAC) predicted a shortage of physicians. By the early 1990s, projections warned of a national shortage of generalists and a significant oversupply of specialists by the year 2000.

Recent analyses of physician staffing patterns in closed-panel health maintenance organizations (HMOs) support the notion that the nation is on the verge of a significant oversupply of specialists and subspecialists of virtually every kind. These analyses also suggest that the current size of the generalist workforce falls within the range necessary for the future, and that the large expansion of the primary care workforce previously projected may not be required. These shifts reinforce the need to continually re-examine workforce projections for medicine and for all the health professions.

Health Sciences Enrollments in the University

After peaking in the early 1980s, enrollments in the health sciences have remained relatively steady. Display 1 shows total University health sciences enrollment and the first-year class size for selected professional programs the years 1970-71, 1981-82, 1989-90 and 1998-99 (budgeted). Display 1 also shows that after increases through 1981-82, enrollments began to decrease in large part due to budget cuts. Under the State's four-year compact with higher education, health sciences total enrollments are expected to remain essentially steady through 1998-99, with increased emphasis on training primary care physicians.

DISPLAY 1

Health Sciences Year-Average Headcount Enrollments: Total Enrollment And First-Year Class Size for Selected Programs

	1970-71 Budget	1981-82 Budget	1989-90 Budget	1998-99 Budget Plan
Total Enrollment	7,015	12,750	12,022	12,000
First-Year Class Size:				
Medicine	429	652	622	622
Dentistry	175	216	176	168
Veterinary Medicine	83	129	122	122
Pharmacy	93	120	117	117
Optometry	54	68	65	65

Planned Growth in the 1970s. In 1970, in response to the projected need for increased numbers of health care professionals, the University submitted a comprehensive ten-year plan for the health sciences to the State. In spring 1975, the University submitted a revised plan for the health sciences, based on an extensive reevaluation of programs and resource requirements and an attempt to provide a reasonable balance between the State's needs for health care professionals and the

State's ability to finance the projected growth. This plan was accepted within the University and approved by the State. Operating budget resources to accommodate health sciences enrollment growth in the 1970s were provided by the State. Facilities to accommodate the enrollment growth were funded by a Health Sciences Bond Issue on the 1972 ballot. Enrollment levels envisioned in the 1975 plan were largely achieved by 1981-82.

The Reductions of the 1980s. By 1982-83, however, the State's fiscal problems and downward revisions of estimated future health workforce needs led to a number of decisions which significantly reduced the enrollment levels achieved as a result of the earlier plan. As a result of this and other factors discussed below, health sciences budgets were reduced by $12.6 million during the period 1982-83 through 1988-89, resulting in enrollment reductions totaling 1,193 students in existing programs. Some of this decline was offset by an increase of 384 students in selected or new programs, including 218 students in the Drew/UCLA Medical Education Program.

- *The 2.5 Percent Budget Reduction, 1982-83.* Among the actions taken in response to the 2.5 percent reduction of the University's base budget included in the 1982 State Budget Act, was a cut of $3.6 million in the health sciences instructional programs. This cut required enrollment reductions totaling 388 students in medicine, dentistry, nursing, and veterinary medicine. These cuts were phased over a period of four years in order to allow enrolled students time to complete their degrees.

- *Loss of Federal Capitation Funds.* The federal government instituted a capitation grant program to encourage the expansion of enrollments in the health sciences beginning in 1972-73. The University budgeted these funds as an offset to State support. Although the University considered the basic educational costs of these programs to be primarily a State responsibility, federal income contributed significantly to their support. Federal capitation funds peaked at $6.4 million in 1974-75. Beginning in 1979-80, federal capitation funds were reduced significantly and by 1981-82, were eliminated for all health sciences schools except public health. In 1981-82, capitation funds for public health were also reduced significantly. The funding level for public health remained fairly constant until 1990-91, when the enabling federal legislation expired and capitation funds were phased out.

  As a result of losing federal capitation funds, the University reduced class sizes over a four-year period resulting in a total reduction of 140 professional students in the health sciences schools by 1985-86. This reduction was in addition to the enrollment reduction resulting from the 2.5 percent budget cut discussed above.

  Although the State recognized the elimination of the capitation funds and provided partial replacement funds totaling $3.3 million, the University's health sciences schools were left with a $2 million deficiency. To maintain the quality of

the instructional programs in the health sciences schools, the University reduced all entering class sizes in 1982-83 by two-to-five students each, for a total of 35 professional students.

- *Legislative Reduction of Non-Primary Care Residency Positions, 1982-83.* In 1983-84, legislation requiring a budget reduction of $2 million for medical residency positions in non-primary care specialties was passed, requiring elimination of 267 such positions in 1983-84. No residency positions could be eliminated in 1982-83 because applicants had already been accepted at the time of the legislative action.

- *Budget Reduction, 1983-84.* In addition to the enrollment reductions discussed above, further reductions were required due to elimination of certain fixed-cost funds from the University's 1983-84 budget. The 1984 State Budget Act restored only a portion of these funds; the remainder represented a permanent reduction of the University's budget. The University decided to take $5 million of this cut by reducing enrollment in the health sciences programs by 398 students and by reducing the budgets of the neuropsychiatric institutes by approximately 2.8 percent, phased over a four-year period beginning in 1985-86. The net reduction of 398 students included students in medicine (210 residents and 42 family nurse practitioners in a UCSD based medical school program), dentistry (84 D.D.S. students and 21 residents), nursing (37 graduate professional students), and public health (50 B.S. students and 6 graduate professional students), partially offset by an increase of 24 graduate academic students in nursing and 28 graduate academic students in public health.

Budget Reductions in the Early 1990s. The State began to experience further fiscal problems in the late 1980s. These problems escalated in the early 1990s, eventually developing into a major fiscal crisis for the State. As part of an overall plan to accommodate over $400 million in budget cuts in the early 1990s, the University reduced total budgeted enrollments by 5,500 FTEs, which included 412 health sciences students. Although the 1992-93 Governor's Budget provided funding for new enrollment growth of 100 health sciences graduate academic students, the funding increase associated with this enrollment growth was more than offset by an undesignated cut of $224 million in the 1992 State Budget Act.

The University offered three early retirement programs as one means of coping with cuts of this magnitude in such a short time frame. As a result, health sciences programs lost a number of senior faculty, and student-faculty ratios deteriorated. In order to maintain the quality of the health sciences instructional program, a substantial portion of the vacant faculty positions must be refilled. Income from the Fee for Selected Professional School Students (net of financial aid) is being used in part for this purpose.

Fee for Selected Professional Schools:

The Fee for Selected Professional Schools was charged to first-time students in fall 1994 and became a permanent feature for that class and all subsequent classes in medicine, dentistry and veterinary medicine. Since fall 1996, a similar fee is being charged to students in nursing, optometry and pharmacy. In charging the fee, the University reconfirmed its commitment to maintain academic quality and enrollment in the designated professional school programs. An amount equivalent to at least one-third of the total fee revenue is used to provide financial aid to help maintain the affordability of a professional school education. The remaining revenue is used to sustain and enhance the quality of the professional schools' academic programs and student services, and to fund costs related to instruction. Income from the Professional School Student Fee will be used to help fill a portion of faculty positions vacated through early retirements and to support a budget that will restore 1990-91 student enrollment levels by 1998-99. This financial structure treats health sciences and the general campus programs similarly with respect to net budget cuts. The Fee for Selected Professional Schools is discussed in more detail in the Student Fees section of this document.

Minority Enrollments In University Medical Schools

California is a racially and ethnically diverse state. Concern that the State's health care workforce should reflect the State's ethnic composition, along with data which suggests that physicians who are members of minority groups serve a critical role in serving minority populations and medically underserved geographic areas, has focused attention on the University's health sciences enrollments.

The number of under-represented minority students enrolling at UC medical schools between 1991 and 1995 was higher than the national average, but has slowly declined since 1992. In 1996, UC enrollments of minority students (12.8%) dipped slightly below the national average (13.1%).

While not fully understood, this decline has been attributed by some as reflecting, at least in part, the attractive financial aid packages that are offered by many of the nation's most prestigious private medical schools. It is also the case that nationally there has been an overall drop in the number of medical school applicants across the nation from all categories of students, and a relatively greater decrease in total applications from minority students.

Increasing the Training of Generalists

While the changing workforce requirements of a reformed health care system will affect all of the health sciences professions, initial projections have tended to focus attention

on the nation's supply of generalist and specialist physicians, and the extent to which the number and distribution of such physicians are consistent with foreseeable workforce needs. In response to the increasing emphasis on primary care at the national level and to a specific legislative initiative in California, the University undertook a study of issues related to the State's need for primary care physicians and the University's role in filling this need.

A first report in June 1993, titled *Changing Directions in Medical Education: A Systemwide Plan for Increasing the Training of Generalists*, outlined the University's plans to increase emphasis on primary care training for medical students and residents. These planned changes included, but were not limited to, changes in medical student admission processes and curriculum, increases in the number and proportion of primary care residency positions at each campus, and significant concurrent reductions in the total systemwide number of non-primary care positions.

At the request of the Governor, the University assessed its ability to accelerate the timetable for achieving the planned increases in primary care residency training and planned decreases in non-primary care specialty training. In June 1994, the University submitted a second report which incorporated revised goals for 2001-02. These goals exceeded those identified in the first report by increasing the number of medical residents training in primary care specialties.

In response to a request from the Governor, the University also developed a memorandum of understanding with the Office of Statewide Health Planning and Development regarding issues related to the University's primary care training goals. Consistent with this document and the provisions of supplemental language adopted in conjunction with the 1994 State Budget Act, the University agreed to provide annual reports to the Governor and the Legislature through the year 2003 on progress toward meeting its primary care expansion goals.

The fifth report issued in June 1997 reveals significant progress toward the University's goals including:

- A nearly 40 percent increase over the 1992-93 base of 521 residents in UC and UC-affiliated family practice residency programs, to a 1996-97 enrollment of 724 residents.

- Reduction of 202 residency positions in non-primary care specialties since 1992-93.

- Achievement of a 50:50 balance in the systemwide distribution of the University's primary care and non-primary care residency positions. This change occurred in July 1996, one year in advance of the initial target.

- Ongoing efforts by UC admissions committees to recruit students with a demonstrated commitment to caring for medically underserved communities within the State.

- Comprehensive curricular changes emphasizing core primary care competencies, outpatient training, and the acquisition of skills required for effective practice in future health delivery systems.

- Strong interest among medical students in generalist specialties. More than 60 percent of the 1997 UC medical school graduates selected primary care residencies. Nearly 20 percent of all seniors chose family practice.

For the 1996-97 academic year, systemwide enrollment data (provided in Display 2) show a total of 2,250 (51%) residents in primary care specialties, including 724 in family practice (16%). An additional 2,203 (49%) residents are training in non-primary care fields. Changes in specialty distribution over the past year include an increase of 68 positions in primary care programs, including 36 in family practice, and a decrease of 117 positions in non-primary care. The University is on track in meeting its primary care-related goals, with implementation proceeding on schedule.

Issues for Medical Education

Impact of Managed Care

The University's health sciences instructional programs operate in a dynamic and increasingly complex environment. While historical influences persist, powerful new factors are affecting the University's long-range academic planning for the health sciences. To quote from the November 1995 Third Report of the Pew Health Professions Commission, titled *Critical Challenges: Revitalizing the Health Professions for the Twenty-First Century:*

> American health care is experiencing fundamental change...In five brief years the organizational, financial and legal framework of much of health care in the U.S. have been transformed to emerging systems of integrated care that combine primary, specialty and hospital service....Within another decade 80-90 percent of the insured population of the U.S. will receive its care through one of these systems.

Managed care is the term broadly applied to this range of structural reorganizations and innovations aimed at improving patient health or reducing health care costs. Managed care delivery systems use primary care physicians, physician assistants and nurse practitioners to provide preventive and primary care intervention in outpatient clinical

PLANNED CHANGES IN NUMBER OF MEDICAL RESIDENTS (1)
Progress Toward Increasing the Number of Primary Care Residents

Medical Residents by Specialty: Number and Percent

1995-96 Actual Compared with 1996-97 Target and Actual Distribution

SPECIALTY	Actual 1995-96		1996-97 Target		Actual		Change From 1995-96	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Family Practice	688	15%	746	17%	724	16%	36	5%
Other Primary Care	1,494	33%	1,484	33%	1,526	34%	32	2%
Non-Primary Care	2,320	52%	2,284	51%	2,203	49%	(117)	-5%
GRAND TOTAL	4,502	100%	4,514	100%	4,453	100%	(49)	-1%
Primary Care Subtotal	2,182	48%	2,230	49%	2,250	51%	68	3%

1992-93 Base Year Compared with 1996-97 Actual and 2001-02 Projected

SPECIALTY	Base Year 1992-93		Actual 1996-97		Actual Change From 1992-93 Base		Projected 2001-02		Projected Change From 1992-93 Base	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Family Practice	521	12%	724	16%	203	39%	885	20%	364	70%
Other Primary Care	1,413	33%	1,526	34%	113	8%	1,494	34%	81	6%
Non-Primary Care	2,405	55%	2,203	49%	(202)	-8%	1,953	45%	(452)	-19%
GRAND TOTAL	4,339	100%	4,453	100%	114	100%	4,332	100%	(7)	0%
Primary Care Subtotal	1,934	45%	2,250	51%	316	16%	2,379	55%	445	23%

(1) As reported in the University's June 1997 report titled, "Changing Direction in Medical Education: 1997 Update on Systemwide Efforts to Increase the Training of Generalist."

settings to reduce the subsequent need for more costly hospitalization and specialist services later on. This is affecting the University's health education program in two ways.

First, in anticipation of future health manpower needs, the University is producing more primary care physicians and allied health professionals, and fewer specialists; incorporating more training in outpatient settings for all medical students; and reexamining other aspects of traditional health sciences curricula.

Second, managed care is undermining the financial stability of the University's medical centers which have been a major source of funding for the University's five schools of medicine as well as programs in the other health sciences schools. Hospital revenues that exceed annual expenses, the "operating margins" of the medical centers, are used to modernize facilities, meet working capital needs, expand primary care networks, maintain up-to-date medical equipment, and support the patient volume needed for the instructional and research programs. With managed care's emphasis on providing care in an outpatient setting, inpatient days at the medical centers are declining, and consequently, so are hospital inpatient revenues. As managed care delivery systems evolve, cost-based and fee-for-service reimbursements are being phased out in favor of competitively established, fixed-price payments. Generally, these negotiated rates do not recognize the higher costs of academic medical centers related to their concomitant teaching and research-related activities, and for their role in the health care delivery safety net for the poor.

Paying for the Costs of Health Sciences Education

Over the next few years, one of the major issues facing the UC health sciences will be how to continue providing quality training of doctors and other health care professionals and maintain the clinical teaching program of the academic medical centers in a price-sensitive, competitive, managed care environment. Strong academic medical centers are an essential part of this effort.

Medicare reimbursements currently recognize teaching costs but are expected to change as a result of budget cuts at the federal level. Despite substantial success in containing costs, the cost of services provided by academic medical centers are higher than non-teaching institutions. For example, there are the direct and indirect costs associated with training medical residents, and research and development costs associated with keeping the academic program current. Increasingly, the negotiated rates the teaching hospitals are forced to accept do not recognize these instructional costs, and there are reduced opportunities for offsetting the resulting reimbursement shortfall to charge-paying private patients. Unless alternative sources of funding are found to support education-related costs, enabling the medical centers to compete with non-teaching institutions for market share, the operating margins of the University's medical centers will likely continue to decline, with negative consequences for the academic program.

Concerned about future funding for graduate medical education in a clinical setting, the University commissioned The Lewin Group to determine the reasons for and magnitude of the differences in the cost of services provided by teaching hospitals and by non-teaching institutions. Preliminary findings are that the differences in costs-per-case between teaching and non-teaching large urban community hospitals are not as significant in California as in other states due in large part to successful cost-cutting efforts. Nonetheless, the preliminary findings confirm that, even in California, teaching hospital costs are higher than community hospital costs.

Currently, there is pressure from accrediting bodies, managed care plans, and other policy makers to shift the locus of medical training from inpatient to outpatient care sites. While medical education costs in the outpatient setting are more difficult to quantify than those incurred in inpatient settings, the costs are expected to be similar or higher for a number of reasons, including: there are fewer opportunities to involve teams of residents and medical students together as can be done at the inpatient bedside; and government funding for ambulatory care does not include the increments for teaching. The UCSF Medical Center has estimated that its cost of providing outpatient care in a teaching clinic at nearly double the cost in the average non-teaching setting.

The University reviewed many options for funding medical and health sciences in both the short-term and over the long-term. These are discussed in the Teaching Hospitals section of this document.

Future Planning

The projected changes in academic programs required as a result of managed care affect all health sciences disciplines and not just medicine. The University held a series of three colloquia, the most recent being in June 1996, to bring together administrators and faculty responsible for health sciences within the University of California to discuss issues of relevance to the missions of the seven health sciences disciplines represented within the University. The forums examined the special internal and external environmental pressures affecting the University's fourteen health sciences programs. Each enabled discussions between the schools of dentistry, medicine, nursing, optometry, pharmacy, public health, and veterinary medicine, on such issues as managing health professions curricular challenges in a changing environment, and the future organization and financing of health sciences education.

The University has two advisory groups for health sciences education. The first is the Health Sciences Committee (HSC) of the Universitywide Academic Planning Council (APC), which is charged with advising the University on long-term enrollment planning issues for the health sciences.

The second is the Health Sciences Education Committee of the Universitywide Academic Senate. The charge to the Senate's new Universitywide Health Sciences Education Committee is to recommend policies and procedures for maintaining excellence in health sciences education and training programs, as well as diversity of the various health sciences educational programs. Through improved coordination, the committee will work to strengthen programs across campuses, and will encourage exchange and interdisciplinary contributions to the planning and problem solving issues which will affect health sciences education in the future.

One of the first tasks of these committees will be to review the recently completed *Final Report of the Commission on the Future of Medical Education*.

Commission on the Future of Medical Education

Recognizing the need to tailor health sciences education programs to meet California's future requirements for health care professionals, the University convened a Commission on the Future of Medical Education. The Commission, composed of state and national leaders in medical education, examined a wide range of issues related to the education and training of the medical workforce and the delivery of health care. It focused on developing recommendations, contained in a final report completed in July 1997, in three broad areas: adapting the education and training of physicians to the health needs of the public; adjusting the size, specialty composition, and distribution of the physician workforce in California; and adapting the structure, governance, and management of the University's academic medical centers to best serve their missions of education, research and patient care. The Commission did not attempt to examine the progress of individual medical centers' progress toward the goals specified in the report.

As UC medical schools and medical centers look to the future, the University remains committed to meeting previously established primary care expansion goals, while striving to maintain a long tradition of excellence in health sciences education and responsiveness to societal health needs. Meeting these challenges successfully will require increasing collaboration among educators, teaching hospitals, managed care organizations, and others to ensure that the quality of patient care and medical education continue to meet the high standards of American medicine and modern society.

SUMMER SESSIONS

1997-98 Budget	
Total Funds	$30,700,000
General Funds	--
Restricted Funds	$30,700,000
1998-99 Increase	
General Funds	--
Restricted Funds	$1,500,000

University of California Summer Sessions are self-supporting programs offering courses both for degree credit and for selected specialized programs. The summer degree programs offer a broad spectrum of instruction, with each campus determining its own course offerings.

In 1997, approximately 53,300 persons enrolled in Summer Sessions offerings. Specialized Summer Sessions programs provide refresher courses for new and continuing students and enable students to accelerate progress toward degrees by enrolling in, for example, intensive language courses. In addition, most campuses have special programs for new or potential students who have academic deficiencies.

UNIVERSITY EXTENSION

1997-98 Budget	
Total Funds	$195,600,000
General Funds	--
Restricted Funds	195,600,000
1998-99 Increase	
General Funds	--
Restricted Funds	$10,000,000

University Extension is a self-supporting operation and its offerings are dependent upon user demand and ability to pay fees. Extension programs are offered by every UC campus except San Francisco. There are several statewide programs, including Continuing Education of the Bar, the Center for Media and Independent Learning, and the Institute of Transportation Studies.

UC Extension is the largest continuing education program in the nation, enrolling nearly 450,000 students in 1996-97 in 18,800 different courses, programs, seminars, conferences, and field studies held throughout California and in a number of foreign countries. Of these, about 425 courses are offered by UC Extension through distance learning involving the Internet or videoconferencing.

Two-thirds of Extension's offerings are designed to serve the continuing educational needs of professionals. Major program areas are: environment and hazardous materials management, business and management, alcohol and drug use studies, English as a second language, engineering, the sciences, education, and the arts and humanities. In addition, a number of community affairs programs and public service activities are also conducted, often supported by grants or contracts.

RESEARCH

1997-98 Budget	
Total Funds	$312,993,000
General Funds	206,117,000
Restricted Funds	106,876,000
1998-99 Increase	
General Funds	$2,000,000
Restricted Funds	--

The California Master Plan for Higher Education designates the University as the primary State-supported academic agency for research. As one of the nation's preeminent research institutions, the University provides a unique environment in which leading scholars and promising students strive to expand fundamental knowledge of human nature, society, and the natural world. Knowledge discovered in the University's basic research programs has yielded a multitude of benefits, ranging from technological applications which increase industrial and agricultural productivity to insights into social and personal behavior which help improve the quality of human life. Through its public service activities, the University strives to improve the dissemination of research results and to translate scientific discoveries into practical knowledge and technological innovations which benefit the State and nation.

As it furthers fundamental knowledge, faculty research also enhances instruction, especially undergraduate education, in several significant ways. By engaging in research, an instructor keeps up with developments in the field and is able to communicate to students firsthand the sense of excitement and adventure that accompanies the pursuit and discovery of new knowledge. Faculty research also stimulates change in the curriculum, improvement of teaching material, and development of new courses and even new disciplines, particularly in rapidly advancing fields like genetics, microelectronics, and information and computer sciences. Finally, it affords students the opportunity to develop research skills and work in a creative research environment, alongside top scholars engaged at the cutting edge of knowledge in their fields. For example, undergraduate students on all campuses are able to participate in research projects under the direct guidance of a faculty member. Programs such as the Student Research Program at Los Angeles and the Faculty Mentor Program at San Diego provide undergraduates with exposure to a university

research setting, one-to-one contact with senior faculty, development of skills of inquiry and problem solving, and acquisition of knowledge in a discipline of interest.

Two recent national studies of research universities confirm the research excellence of the University of California. In their new book, *The Rise of American Research Universities*, Hugh D. Graham, a professor of history at Vanderbilt University, and Nancy Diamond, an administrator at Goucher College, quantitatively measure and compare institutional research performance at 203 public and private universities in the U.S. Based on faculty members' grant, publication, and fellowship award records across different fields, the authors concluded that the University of California as a system leads the nation in research excellence and productivity among public universities.

Another indicator of how well the University of California does when compared to other research institutions is a new National Science Foundation (NSF) study on the scientific foundation of American patents. The study, which examined the published science papers cited as the basis for U.S. patents during two recent periods (1987-1988 and 1993-1994), found that the University of California produced more research leading to patented inventions than any other public or private research university or laboratory. When the scientific papers were broken down by individual campuses and topics among the top 25 most frequently cited research institutions, Berkeley ranked third in engineering and technology references and fifth in chemistry references, San Francisco ranked fifth in biomedical references, and Santa Barbara ranked ninth in physics citations.

The University of California is spearheading two significant multi-institutional research efforts that received NSF awards in 1997. UC San Diego will be the lead institution for the National Partnership for Advanced Computational Infrastructure (NPACI), which was selected as one of two winners nationally in a competition for future federal funding for supercomputing. NPACI is a consortium of 37 of the nation's leading academic and research institutions, including all the UC campuses, which plans to revolutionize high-performance computing by developing a coordinated, national infrastructure that will provide unprecedented computational capabilities for U.S. researchers. With the focus of activities centered at UC San Diego's California Supercomputer Center, the planned infrastructure will be used to tackle some of the nation's most intractable scientific and engineering problems, such as the development of improved forecasts for climate and weather and the creation of materials needed for a new generation of transportation and telecommunications networks and systems.

UC is also leading a consortium of California private and public universities which recently won a $3.8 million grant from NSF as start-up funding to develop a new network that will deliver information at speeds at least 100 times faster than today's Internet. The Consortium for Education Network Initiatives in California (CENIC) was formed by UC, the California Institute of Technology, the California State University, Stanford University, and the University of Southern California. CENIC will design and

implement an advanced electronic superhighway, called CalREN-2, that will link California universities to each other and to the national high speed network. CalREN-2 will be able to deliver information in ways more varied and with greater reliability than is possible with today's congested Internet. It will also have a capacity hundreds of times faster than is now available. For example, as envisioned, the new network could transmit the entire 30 volumes of the Encyclopedia Britannica in less than one second.

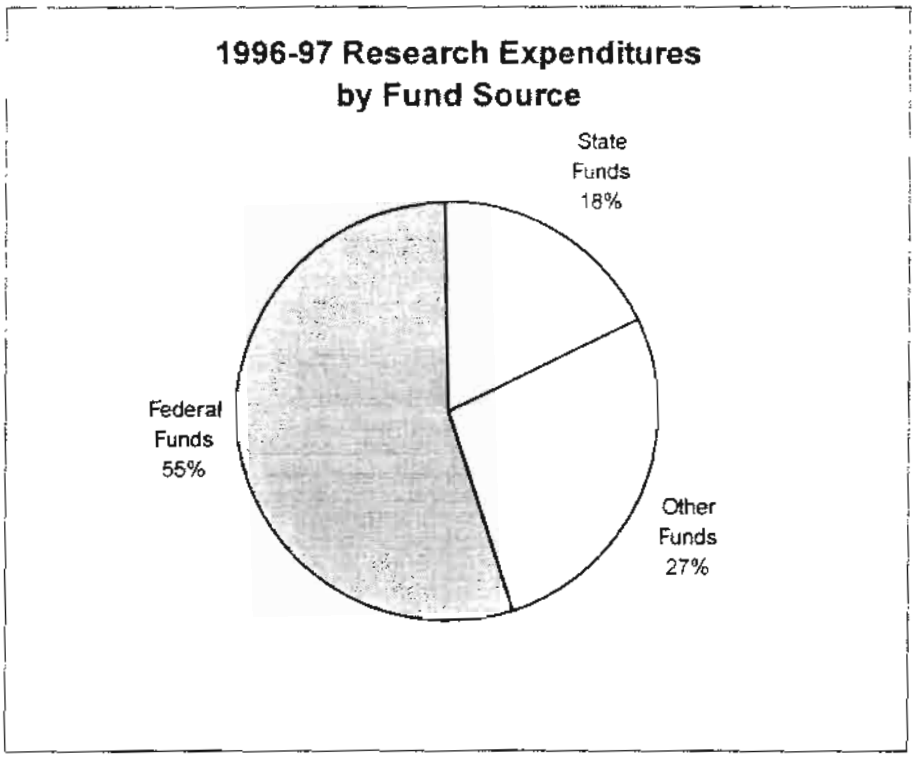
Research Support

Due to the State's fiscal problems, the University experienced severe budgetary shortfalls during the early 1990s. As a result, University budgets were cut by $433 million or about 20 percent of the 1989-90 State-funded budget. Additional base budget reductions totaling $40 million by 1998-99 are anticipated due to required productivity improvements under the four-year compact with higher education. These problems may be greatly compounded by anticipated cuts in federal funding in order to balance the federal budget by 2002.

In order to accommodate the budgetary shortfalls of the early 1990s, the University made deep reductions to Organized Research, including a State-mandated cut specific to the Organized Research budget in 1990-91. For many University research programs, State funds are the core that attracts extramural funds so necessary for the conduct of major research projects. For research programs in fields for which there is little or no extramural funding, most notably in the arts and humanities, State funds represent the major or only support available.

The University has maintained the vitality of its highly competitive research programs through effective management of the Organized Research base. The inherent difficulty the University has always faced in the funding of research is achieving a desirable balance between the need to accommodate initiatives in new and promising research areas and the need to maintain support for existing research programs that are strong and viable. To pursue one at the expense of the other is incompatible with the mission of an outstanding research university; both are essential. In attempting to achieve such a balance, the University has maintained a regular and extensive process of program review and reallocation of the Organized Research base. This has included the establishment, disestablishment, or merger of ORUs and other research activities; the internal reallocation of funds among units; and the redirection of research effort within existing units to address changing priorities. Moreover, promising new research programs have been supported through allocations of temporary resources as "seed money."

DISPLAY 1



University research is supported from a variety of fund sources. Display 1 shows research expenditures by fund source in 1996-97. For 1997-98, of approximately $1.7 billion in projected expenditures for research, about $1.3 billion is expected to come from extramural sources, $206 million from State general funds, $107 million from restricted funds, and $70 million from Regents' funds. The substantial extramural funds are received primarily from the federal government (approximately $876 million) and from private individuals and foundations (approximately $331 million) in the form of contracts, grants, and gifts. The restricted funds include approximately $1 million of special State funds for transportation research, approximately $17 million of special State funds to support a program on breast cancer research, and approximately $33 million of special State funds to support a coordinated statewide program of tobacco-related disease research to be administered by the University. Of the $206 million received from the State in general fund support, approximately 49 percent is allocated to Agriculture; 20 percent to single-campus Organized Research Units (ORUs); 6 percent to Multicampus Research Units, which are ORUs involving several campuses; 22 percent to other research activities not formally constituted as ORUs or MRUs, such as the University-wide programs in AIDS, microelectronics, biotechnology, and toxic substances research; and 3 percent to individual faculty research.

1998-99 Funding

Industry-University Cooperative Research Program ($2,000,000 Increase)

The Industry-University Cooperative Research Program was established in 1996-97 to foster collaborative research in targeted fields critical to California's economy. In its first two years, the program has been supported with annual allocations of $5 million in State funds and $3 million in University funds as well as matching funds from industry. The University's 1998-99 budget plan includes using $2 million from funds available under the compact to increase the State's contribution for the program to $7 million. The increased funding will support additional research grants in fields initiated in the two previous years.

Economists attribute fifty percent of this nation's economic growth since World War II to investment in research and development, with university-based research playing a key role. Many similarly believe that California's recovery from the recent recession was due, in part, to commercial impacts of research conducted at major institutions like the University of California. It is this research that has helped develop the high technology industries upon which the State's economic resurgence has been so dependent. California's economic vitality has long been linked to cutting edge research conducted at the University of California. UC research has, over the years, resulted in new products and industries, creating millions of jobs for Californians, providing billions of dollars to the State and countless improvements in the quality of life.

Collaborative public-private ventures are vital to ensuring the research necessary for the development of new technologies and products that create economic growth. The clear success of programs like UC MICRO (established in 1982), which helps California electronics companies improve their competitiveness and develop the technologies for new products, or UC CONNECT, which links high-technology entrepreneurs with financial, technical and managerial resources, has demonstrated how much public-private partnerships can accomplish. For example, for 1997-98, the MICRO Program has attracted $10.3 million in private sector funding from 151 companies to support 211 research projects.

As California's economy continues to grow, this is an opportune time to invest more in developing the kind of research that will yield further economic dividends to the State. Building on the successful public-private model developed by the MICRO Program, the Industry-University Cooperative Research Program focuses on basic research that shows the most promise for leading to new products and processes which, when eventually developed in the marketplace, boosts productivity and creates jobs. It differs from other competitive grant research programs in that it provides California with a mechanism to make targeted investments in areas of research that are of strategic importance to the California economy.

Under the program, the University, in consultation with industry representatives, selects a field of research based on economic promise, University research expertise, and industry interest in collaboration. UC researchers then join with scientists or engineers from private companies to develop research proposals in that field. A panel of experts, drawn from industry and academia, reviews and selects proposals for funding on the basis of their scientific merit, relevance to the California economy, and their potential to speed the development and transfer of ideas from the University to the marketplace. The University and industry share in the funding of each project.

The Industry-University Cooperative Research Program was initially funded in 1996-97, with $3 million in University funds and $5 million in State funds. This represented the first phase of a proposed multi-year plan to build the program's annual budget to a level of $40 million. Under this plan, increased funding would be phased in over time, reaching targets of $15 million annually in State support and $5 million annually in University support. Matching industry funds would eventually provide an additional $20 million annually.

A major portion of the program's funding in 1996-97 was devoted to the start-up of the first industry-University matching grant initiative in the economically crucial field of biotechnology. California is home to one-third of all biotechnology firms in the U.S., all located within 35 miles of a UC campus. This industry generates over $7 billion in annual revenues for California. Six of the ten best-selling biotech drugs stem from UC research and 20 percent of California biotech companies were started by UC scientists. The biotechnology initiative is aimed at keeping this young industry competitive and on the cutting edge by forging critical linkages between UC and California businesses through collaborative biotechnology research.

In its first year, the biotechnology initiative funded 46 two-year research projects. These projects include early-stage, fundamental investigations on topics such as: "biocompatible" materials for surgical implants; more powerful antibiotics to fight increasingly pervasive antibiotic-resistant infections; new cancer drugs with greater specificity and fewer side effects; diagnostics and treatments for AIDS lymphomas and ADHD (attention deficient hyperactivity disorder); fruit and vegetable crops that are genetically resistant to plant viruses and nematode infections; and biomass conversion technology that turns rice straw into alternative fuel sources, such as ethanol. The 46 research projects are also providing training opportunities for 65 graduate students and postdoctoral investigators.

In 1997-98, the $5 million provided for the Industry-University Cooperative Research Program was made permanent. This, together with the University's continued annual contribution of $3 million, is being used in 1997-98 to expand the research partnership program in biotechnology and to launch programs in two additional critical fields. It is estimated that these programs will attract more than $10 million in matching cash support from private companies. The process for selecting new areas of emphasis is underway. New research fields under consideration include digital media,

semiconductor manufacturing, wireless communications, information technologies, transportation, and environmental technologies.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to improve, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, or all, of the priorities identified. Additional funding for the Industry-University Cooperative Research Program and funding to establish the Research Opportunities Matching Program are two of the identified priorities.

Industry-University Cooperative Research Program

As discussed above, with the continuing growth of California's economy, this is a strategic time to expand Industry-University research partnerships. The Industry-University Cooperative Research Program helps accelerate the discovery and eventual commercialization of new technologies, stimulate the growth of new high technology companies, attract new investments to the state, and train California's future high technology workforce. When the State's fiscal situation permits, the University will request an additional $5 million for this program. The increase will be used to launch new research partnership initiatives in additional fields critical to California's economy. This increase will also bring total State and University funding for the Industry-University Cooperative Research Program to a level of $15 million, which, together with a matching amount from industry, would represent significant progress in reaching the goal of an eventual annual budget of $40 million.

Research Opportunities Matching Program

It has become increasingly apparent in the past few years that, in order to be competitive in securing federal research support, institutions like UC need to have sources of matching funds available. More and more, the commitment of these funds has become a determining factor in the success of research proposals submitted to federal agencies.

In the case of large, multi-million dollar research projects like the California Supercomputer Center in which a UC San Diego-led consortium was selected as one of two national centers for funding from NSF, there usually is enough lead time for the University to formally go forward to the State with a request for matching funds in support of its proposal. However, this is not always true for smaller but still significant federal research projects in the under $1 million range. When opportunities to compete for such projects arise, the turn around time for submitting proposals is often very short,

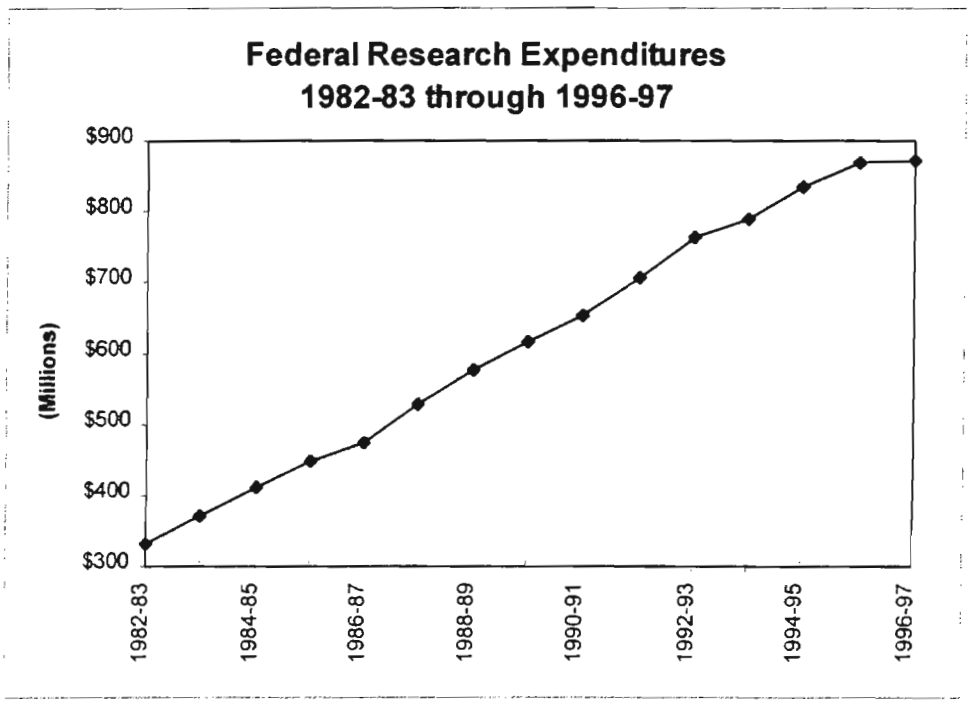
which makes it difficult to secure the matching funds necessary for the success of these proposals.

When the State's revenue situation permits, the University will request an additional $3 million to establish a Research Opportunities Matching Program. The objective of this program will be to assist UC faculty in competing successfully for federal research projects by having access to State matching funds. The ready-availability of such funds will provide flexibility to mount a rapid response when opportunities to submit proposals arise during the year. These funds, which would demonstrate the State's commitment, would also be used to encourage industry to partner with the University to win federal research support for California. The University would work with the State to develop a process by which the Legislature and the Governor would be informed on how the University would propose to use the funds. For large and financially complex federal research projects, the University would continue to separately make requests to the State for matching funds.

Federal Funding

Federal funds are the University's single most important source of support for research, accounting for approximately 55 percent of all University research expenditures in 1996-97. As shown on Display 2, in the decade between 1982-83 and 1992-93 federal support for research at the University grew dramatically. With a commitment to research as a national priority by both the President and the Congress, annual federal

DISPLAY 2



research expenditures increased by an average of approximately nine percent during this period. In the past four years, the focus of the federal government has been on deficit reduction. As a result, while expenditures have continued to increase, the rate of growth has slowed down. Between 1992-93 and 1995-96 federal research expenditures at the University increased by an average of approximately four percent per year, and in 1996-97 they increased by less than one percent, which is the first time since the early 1980s that the annual increase has fallen below the rate of inflation. The outlook for federal support of research in the *immediate* future is relatively encouraging. During the two-year period 1995 through 1996 there was a fundamental debate between Congress and President Clinton on how to balance the federal budget. The outcome of this debate was a general consensus to balance the budget by the year 2002 and to accomplish this, in part, through substantial reductions in domestic discretionary spending. This was of great concern to the University, since domestic discretionary spending is the portion of the federal budget from which UC gets most of its federal funds. However, despite the dire predictions, deep cuts in federal programs did not materialize in areas of importance to the University, such as research and student financial aid. This was due mainly to a healthier than expected economy during this period. As a result of real economic growth and low inflation, there was more federal revenue and lower expenditures than had been predicted. This meant that programs would not have to be cut so deeply in order to reduce the deficit.

In Spring 1997, the President and Congress concluded a budget agreement which balances the federal budget over five years (from fiscal year 1998 through fiscal year 2002). Because of continued favorable economic conditions into 1997, this agreement again reflects significantly lower spending cuts than had previously been anticipated. In fact, with regard to funding for domestic discretionary programs, the plan actually allows for increases in 1998 and 1999 before cuts take place in the final three years of the plan. As a result, Congress now finds itself in the position of deciding for fiscal year 1998 which programs should receive increases and at what level, rather than deciding which programs to cut or eliminate as in the previous two years.

In this budget environment, nearly every major federal research-related agency is faring relatively well in the 1998 appropriations bills currently under consideration. Of greatest importance to the University are the funding increases proposed for the National Institutes of Health (NIH) and the National Science Foundation (NSF). NIH is proposed to receive an increase of between 6 and 7.5 percent, the largest of any federal research agency. NIH funding is critical to the University, constituting a little more than half of all federal research support for UC in 1995-96. NSF, the second largest source of federal research funding for the University, is proposed to receive an increase of around 4 percent for its research and related activities. This increase for NSF exceeds estimated inflation. Most other agencies that support research are proposed to receive either level funding or slight increases in order to keep pace with inflation. This is in contrast to previous predictions of cuts in 1998 for many of these programs.

While funding for research is expected to increase in the next two years, the trend will be short-lived if Congress and The President follow through on their plans for domestic discretionary spending in relation to balancing the budget by the year 2002. Their agreement calls for domestic discretionary spending to rise in fiscal years 1998 and 1999, but then receive sharp cuts in fiscal years 2000-2002 to bring the budget into balance. These cuts would leave total discretionary spending by the end of this five-year period well below the current year's (fiscal year 1997) levels, after adjusting for estimated inflation. This suggests that most federal research programs will, in turn, probably experience a loss in real purchasing power by the year 2002.

Benefits of Research

The University's research activities yield a multitude of benefits, ranging from increases in industrial and agricultural productivity to advances in health care and improvements in the quality of life. The following discussion presents examples of UC's contributions to the economic and social well-being of the State and nation.

Economic Impact

In terms of a direct impact on the California economy, University research programs attract large amounts of extramural funds for expenditure within the state. In 1996-97, the University spent approximately $1.2 billion dollars received from the federal government and private sources for research--over six times the amount provided from the State for research.

High technology industries such as biotechnology, microelectronics, and information technology stimulate and support the state's economy. Some of these industries have grown directly from UC research. For example, the biotechnology industry was launched as a result of the discovery of recombinant DNA, or "gene splicing," by scientists at UC San Francisco and Stanford. Today, California is the world leader in biotechnology, and home to 376 companies, approximately one-third of all biotechnology firms in the U.S.

Many commercial enterprises in California are either based on UC-developed technology or were founded by faculty or students trained at UC. Recently, UC San Diego identified 119 such companies nurtured by research from that campus, which together employ more than 15,000 people and generate annual revenues in excess of $1.8 billion. UC scientists founded one in five biotechnology companies in California, including three of the world's top companies, Genentech Inc. of South San Francisco, Chiron Corp. of Emeryville, and Amgen Inc. of Thousand Oaks. California biotechnology companies collectively account for nearly half of the biotech industry's annual sales in the U.S. and employ more than 40,000 people in California.

Agriculture

Agriculture, which in 1996 was a $24.5 billion industry and accounted for nearly one in ten jobs in California, is highly dependent on UC research. In a recent study on the payback of the State's investment in agricultural research, it was shown that farm production increased nearly 300 percent from 1949 to 1985, with almost half of this growth directly related to research. This correlation continues today, with UC researchers and Cooperative Extension county advisors helping the State's growers maintain a competitive edge in domestic and export markets through the development and adoption of new technologies and innovative farming practices. Agricultural exports generated $12 billion in 1996.

A prime example of UC's research contribution to California agriculture is the success of the State's strawberry industry. California produces more than 80 percent of the nation's strawberries, with a 1996 crop value of $585 million. Average California yields per acre are the highest in the world—more than twice the yields per acre in Florida and five times those in Oregon, the world's next two largest producers. Nearly 90 percent of California's strawberry acreage is planted in UC-developed varieties.

In attempting to further increase the productivity and diversity of California agriculture, UC scientists are currently applying genetic engineering technologies to areas of key significance. Examples include the cloning of disease resistant genes in plants; modifications of microbes to clean up toxic wastes; novel microbial insecticides; genetic improvement in photosynthetic efficiency and nutritional value of plants; and genetic modification of plants for drought, heat, frost and salt resistance.

Medicine and Other Areas

UC medical research has led to dramatic improvements in the diagnosis and treatment of disease. The University has assumed a major leadership role in the battle against AIDS. Its researchers were among the first to describe the syndrome and the malignancies associated with it and to isolate the causative agent for AIDS in humans. Molecular biology research has given us relatively inexpensive, safe, and effective vaccines and hormones as well as a variety of other therapeutic agents. Genetic engineering technologies being developed at UC promise to help find cures for some of our most serious health problems—such as cancer, Alzheimer's disease and other illnesses of aging, cardiovascular disease, and arthritis. Other medical advances growing out of UC research include a laser treatment for previously untreatable eye conditions; high energy shock waves to disintegrate urinary stones without surgery; a nicotine skin patch, worn on the upper arm, to wean smokers off of cigarettes; corrective surgery before birth for formerly fatal fetus 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 for having a Down's syndrome baby.

In areas other than medicine, University researchers are exploring methods for predicting the time and location of earthquakes and ways to design new buildings and modify existing buildings so they better withstand the effects. Research on global climate and earth systems is benefiting California fisheries and agriculture by leading to better predictions of hazards such as drought, flooding, and other natural disasters and to more effective means of mitigating their effects. New materials are being developed that could lead to better synthetic products such as prosthetic devices more acceptable to the body and longer-lasting, easy-care contact lenses. California's changing transportation needs are being addressed by UC researchers forging ahead in new research areas such as roadway technologies, alternative fuels, and truck safety. Social science research is furthering our understanding of issues critical to California's social and political well-being. Examples include research on the local impact of the global economy, the changing distribution of ethnic and racial groups in the State, implications of the aging of the population, and public responses to technological advances.

PUBLIC SERVICE

1997-98 Budget	
Total Funds	$137,771,000
General Funds	73,520,000
Restricted Funds	64,251,000
1998-99 Increase	
General Funds	--
Restricted Funds	--

Public service includes a broad range of activities organized by the University to serve local communities, students and teachers in the schools and community colleges, and the public in general. One large component of public service is the University's intersegmental and outreach programs. Cooperative Extension is the University's largest public service program. Campus public service, which is almost completely supported by user fees and other non-State fund sources, includes such activities as arts and lecture programs and community service projects. In addition, the University's public service programs include two health sciences programs jointly operated with other schools--the Charles R. Drew University of Medicine and Science and the California College of Podiatric Medicine.

Intersegmental Programs

The University of California views itself as a partner with elementary and secondary education in this State, and collaborates with other postsecondary institutions as well as K-12 to improve student preparation. There are many intersegmental programs that motivate and prepare K-12 students to attend college, assist community college students to transfer to four-year universities, and strengthen the quality of teaching and curricula in K-12 schools. Community college programs are described in the General Campus Instruction section of this document. The focus in this document will be on K-12 academic preparation and outreach.

Systemwide intersegmental efforts are coordinated by two principal organizations—the California Education Round Table and the California Postsecondary Education Commission (CPEC). The California Education Round Table is a voluntary association composed of the heads of the education segments. It's goals and objectives for more

effective intersegmental relations are carried out by its action arm, the Intersegmental Coordinating Committee (ICC). The Intersegmental Budget Task Force (IBTF), a subcommittee of the ICC, is composed of senior budget and program representatives from the four public education segments. The IBTF reviews priorities for intersegmental activities, develops an annual intersegmental budget proposal, and ensures that intersegmental projects complement rather than duplicate each other and are consistent with policy directions endorsed by the segments.

The second major intersegmental organization is the California Postsecondary Education Commission, which advises the Governor and the Legislature on postsecondary education issues. The Executive Director of CPEC is a member of the California Education Round Table. A UC Regent serves as a CPEC Commissioner.

Outreach Programs

Systemwide collaboration with K-12 is focused on two major areas—outreach and academic preparation. The University's outreach programs are intended to improve the academic preparation of disadvantaged students so that they can become eligible for and enroll in a postsecondary institution and help to improve the overall diversity of the institution's applicant pool.

Consistent with 1997 supplemental budget report language, the University is in the process of developing a new methodology to evaluate its outreach programs, and will present its plan to the Legislature by Spring 1998.

History and Overview

The University of California has been at the forefront of the nation's efforts to bring students from all backgrounds into higher education and has a long-standing commitment to the goal of enrolling a student body that reflects the diversity of the State of California. The University's existing outreach programs have been highly successful over the past 30 years, evidenced by the fact that these programs have contributed to creating the most diverse university student body in the nation. Over the years, the University's work with California's elementary and secondary schools has grown from a focus on traditional outreach and recruitment programs that encourage students to attend the University to an extensive array of programs across the nine campuses that benefit thousands of K-12 students and their teachers.

The University now spends over $100 million per year on outreach and K-12 related efforts from all funding sources, including federal, private, and other funding. Of this total, about $18 million is used for systemwide student outreach programs such as the Early Academic Outreach Program (EAOP), Mathematics, Engineering, Science Achievement Program (MESA), and Puente. Outreach and school improvement

continue to be a high priority for both the University and the State. The State augmented the University's budget for outreach by $1 million in 1996-97, and provided an additional $1 million in 1997-98. Of these funds, $500,000 is to be used for student academic outreach programs in the Central Valley and $500,000 is to be used for existing programs, including EAOP, MESA, and Puente.

Commitment to Diversity

In July 1995, The Regents approved resolutions that prohibit the University from using race, religion, sex, color, ethnicity, or national origin as criteria for admission to the University or in its employment and contracting practices. At the same time, The Regents confirmed their commitment to diversity.

The commitment to outreach as a tool to assist the University in promoting student achievement, especially among groups with low UC eligibility rates, was reinforced in a November 1995 Regents' resolution identifying the expansion of outreach as one of the University's highest priorities for additional funding when the State's fiscal situation permits. In addition, The Regents established the Outreach Task Force to review current UC outreach efforts and recommend ways to improve and expand existing activities and create new programs. The Task Force, whose members included corporate and business leaders, experts in education representative of all of California's public education segments (K-12, the California State University, the California Community Colleges, and the University of California), and others, presented its report to The Regents in July 1997.

Outreach Task Force Report

The Outreach Task Force Report is the result of more than a year of meetings and research by the 35 member Task Force. The Outreach Task Force adopted two central goals for UC outreach: (1) contribute to the academic enrichment of UC campuses through a diverse student body; and (2) improve opportunities for California students in disadvantaged circumstances to achieve eligibility and to enroll at UC campuses. In this context, the Task Force developed recommendations regarding goals, outcomes, strategies, responsibility, evaluation, and resources which proposed a bold new change in the way the University will seek to qualify more students from all sectors of the State's diverse population for admission to the University. These recommendations were adopted by The Regents in July 1997. In addition to recommending the expansion of the University's successful student-centered academic development programs, the plan focuses on "whole" school improvement—creating a learning environment in which all students, regardless of where they live and irrespective of race, gender, or family economic circumstances, have roughly the same opportunity to prepare for higher education.

The Task force recognized that the goal of improving the diversity of the University's student body had to be met within the context of current policies and laws which

prohibit the use of race, religion, sex, color, ethnicity or national origin as criteria for admissions to the University. The members looked at a variety of factors in developing their recommendations.

A review of performance indicators by the Task Force showed that almost four out of every five students in low-performing schools are either African American, American Indian, or Latino--groups with historically low rates of UC eligibility and enrollment. Schools with the following characteristics are categorized as low-performing schools: (1) students have low Scholastic Aptitude Test (SAT) scores, and low academic performance on standardized tests; (2) where a high proportion of the students are from families receiving Aid to Families with Dependent Children; (3) where students have limited English proficiency; and, (4) where lower proportions of parents possess a high school diploma, a factor known to correlate strongly with college attendance for the next generation. While factors outside of the school also influence the eligibility and enrollment of students in higher education, it is clear that the role of the schools is critical and that collaboration with schools has the potential to provide the most effective single means by which the University can assist in providing all students with equitable opportunities for access to UC.

The Task Force proposed a four-point outreach strategy including: (1) development of school-centered partnerships, (2) expansion of academic development programs, (3) expansion of informational outreach efforts, and (4) establishment of a University research component. Each of these is described in more detail below.

School-centered Partnerships. The partnerships to be established under this initiative are intended to foster long-term intensive relationships between UC campuses and partner schools. The partnerships will focus on strengthening the academic foundation at each partner school through professional development for teachers and curriculum enhancement. The goal is to create a coordinated effort among programs and initiatives that are designed to ensure that students have access to high quality instruction and are able to meet high academic standards in A-F courses.

Each UC campus will collaborate intensively with several regional partner schools, in cooperation with local colleges and universities (especially the California Community Colleges and the California State University), to help improve opportunities for college preparation and to foster a school culture that promotes academic success and high educational standards. About 50 high schools, 100 middle schools, and 300 elementary schools will be selected statewide to become UC partnership schools, including at least one partnership in the Central Valley. Partner schools will be selected based on evidence of significant educational disadvantage such as limited availability of college preparatory courses or low college-going rates, and also based on their potential for improvement and their willingness to participate in collaborative efforts. To achieve whole-school changes, partnerships will need to provide a comprehensive array of resources and programs involving not only students, but also families, teachers, counselors, and administrators at each school site.

Student-centered partnerships will go beyond the traditional types of student academic outreach efforts to incorporate teacher-centered and curriculum-based programs aimed at training and developing teachers and strengthening the academic foundation at partner schools. The California Subject Matter Projects, described later in this section, are examples of a statewide collaboration among California's postsecondary institutions to provide professional development for teachers.

The Outreach Task Force also identified a series of new initiatives that campuses may want to consider establishing on an experimental, pilot, or expanded basis as a means of accelerating academic development efforts for students in disadvantaged circumstances. Among these is a recommendation that the University establish one or more on-campus high schools, or charter schools. The 1997-98 budget includes budget bill language designating that $200,000 of the augmentation for outreach be used "for planning and development costs associated with establishing an outreach high school on the San Diego campus and other campuses of the University of California to serve students from low-income and underrepresented communities."

The Outreach Task Force calls for partnership schools to double the actual number of UC-eligible graduates from partner high schools or increase the rate of UC eligibility in partnership schools by 2 percent between 1997 and 2002.

Academic Development. Academic development activities include student enrichment in specific academic areas through special skills-building programs, tutoring, and group study; career counseling; parent involvement; and mentoring. The University's academic development programs have been very effective in preparing students to enroll in higher education as measured by the number of program participants who subsequently become eligible for and enroll at UC and other postsecondary education institutions. Consistent with the recommendations of the Task Force, UC will expand existing successful student-centered academic development programs such as EAOP, MESA, and Puente to reach more high schools and community colleges served by these programs. Additionally, the Task Force recommended that academic development programs be created for students and families in primary schools that increase awareness of college preparation early in a student's education.

Systemwide UC academic development programs will work to increase the number of UC-eligible program graduates from disadvantaged backgrounds by 100 percent between 1997 and 2002.

Informational Outreach. The Task Force recommended an aggressive program of informational outreach to provide better and more timely information to students, families, teachers, and counselors to improve planning and preparation for college. The University will expand considerably its in-person visits and counseling to reach more students and their families. Through these efforts the University will more carefully and thoroughly explain the requirements for eligibility and avenues for

admission to all UC campuses, including the most competitive ones. The University will increase its efforts to reach families at the critical, early stages of their children's education to help them become more involved in the process for planning for college and to provide better information to them about the kind of academic and financial preparation needed for admission to UC. An increase in these efforts will also help to convey the University's strong commitment to seeking students from all backgrounds represented in California's diverse population. The goal is to increase the number of outreach contacts with elementary, middle school, high school, and community college students and families by 200 percent over the number of contacts now made with these groups.

University Research. The Task Force recommends using the University's research expertise to identify the root causes of educational attainment and motivation. The University will launch a major research program to look at the fundamental causes of the differences in educational achievement and attainment that exist within our society as well as identify and evaluate methodologies to address those disparities. There are already highly capable and interested faculty within UC who are currently working in these areas. This program will involve additional faculty, topics, and funding possibly leading to the formation of a multi-campus research unit or the reorganization of an existing multi-campus research unit.

Undergraduate Outreach and Academic Development Programs

Existing programs that will be key elements in the new outreach effort are briefly described below.

Early Academic Outreach Program (EAOP)

The University's Early Academic Outreach Program (EAOP) guides young people toward participation and success in postsecondary education and makes available academic resources that substantially improve their chances of achieving these goals. The participants are students whose economic and social circumstances make such achievement, without the benefit of the program, unlikely. Currently, the primary goal of the Early Academic Outreach Program is to increase significantly the number of educationally disadvantaged students who are competitively eligible for admission to the University of California. The program accomplishes its goal by identifying potential applicants at the junior high school level and assisting in their preparation for postsecondary education. EAOP has established itself as an integral part of the fabric of the schools in which it operates. Its benefits extend far beyond the group of students participating in the program. EAOP staff serve as a vital link to assist schools in connecting with postsecondary resources and services.

Immediate Outreach

The University's Immediate Outreach activities, which are conducted in conjunction with the University's regular recruitment program focus on encouraging *eligible* disadvantaged high school and community college students to apply to the University. Outreach officers present college admission information at high schools, community colleges, and parent conferences.

Mathematics, Engineering, Science Achievement Program (MESA)

The Mathematics, Engineering, Science Achievement Program (MESA) is designed to strengthen the mathematics and science skills of disadvantaged students with a primary focus on students with low rates of college eligibility. The goal of MESA is to increase the number of these students who ultimately make their careers in mathematics-based fields such as engineering and computer science and the physical sciences.

The MESA Schools Program (MSP) assists elementary through high school students with academic enrichment, financial aid and academic counseling, parent involvement, student groups, and career exploration. MESA's Success Through Collaboration (STC) works with mostly rural American Indian pre-college students and offers a program similar to the MSP but with an emphasis on culturally relevant activities. It is open to all students. MESA pre-college teachers receive special training in science and mathematics that is used to benefit all students, not just MESA participants. At the four-year colleges and universities, the MESA Engineering Program (MEP) provides freshman orientation, academic and career counseling, group study methods, and tutoring to engineering students. The MESA California Community College Program (MESA CCCP) provides academic assistance similar to the MEP so students can successfully transfer to four-year institutions and attain a math-based degree.

Because of MESA's success in producing highly qualified professionals urgently needed by California industry, over 80 corporations are actively involved in supporting the program. MESA serves as a model for similar programs that have been established in 14 other states.

MESA receives funds through budget appropriations to the University of California, California State University, and the California Community Colleges. MESA also receives support from the independent colleges, federal funds as well as contributions from industry, private foundations and local school districts. Funding for MESA has been included in the University's budget since the program began in 1970 with the exception of two years (1983-84 and 1984-85) when funding was temporarily shifted to the State Department of Education.

Puente

The Puente Project was established in 1981 to address the problem of low college persistence and transfer rates of Mexican American/Latino students to four-year colleges and universities. While originally established to focus on Mexican American/Latino students, Puente is open to all students. Puente, which is jointly sponsored by the University and the California Community Colleges, is in 40 of the California Community Colleges. The program combines innovative teaching and counseling methods with community involvement to provide students with an accelerated writing class, sustained academic counseling, and role models and mentors from the professional community who inspire students to achieve academic and career goals. Since its inception, Puente has trained over 200 teachers and counselors in Puente's effective methods for teaching writing skills and counseling underrepresented students. Over 7,000 students have enrolled in the program and an estimated 200,000 non-Puente students have benefited from its exemplary staff, student, parent, and community involvement program. Over 2,000 mentors donate 25,000 hours annually to Puente students. Community colleges with Puente programs transfer 44 percent more Latino students to the University of California than colleges without Puente.

In 1993, Puente began a four-year high school pilot program funded entirely by private foundations and local school districts. High School Puente has now expanded to 10 districts serving 2,160 students a year throughout California. Modeled on the community college program, High School Puente is comprised of a ninth and tenth grade college preparatory English class, taught by the same teacher; academic counseling in grades 9-12; mentoring; and extensive parent involvement. A preliminary report by Puente's external evaluator describes the program as "a major school reform effort with implications for broad curricular and organizational changes within high schools." Puente has received private funds to continue the high school program beyond the scheduled end of 1997. Local school districts have also increased their financial contribution to the program.

Central Valley Outreach Efforts

California has a substantial interest in assuring that students in the Central Valley can fully participate in higher education. Students from the Central Valley have eligibility and participation rates at about half the statewide average at the University of California. The 1996-97 budget designated $250,000 for outreach efforts in the Central Valley and the 1997-98 budget designated an additional $250,000 for a total increase in funding of $500,000. A variety of new activities have been established, including visits to various UC campuses by students and educators; a middle school conference; early identification and counseling of prospective UC freshmen and transfer candidates; conferences for high school juniors and transfer students; and UC day for the public at large. Improvements in technology have allowed for improved student follow-up, data gathering, and analysis.

In 1996, after an expansion in academic development and information outreach to high schools and community colleges, there was an increase of 11 percent in applications to UC from students in the Central Valley compared to a 4 to 5 percent increase statewide.

Graduate and Professional Outreach Programs

The University of California produces almost 10 percent of the Ph.D. degrees conferred each year in the United States. The University has traditionally placed a high value on achieving a diverse graduate student body. Such diversity is especially important to promoting the lively intellectual exchange and variety of ideas and perspectives that are essential to graduate and professional study.

The University's graduate and professional outreach programs have been successful over the last decade, evidenced by the fact that UC Berkeley and UCLA have consistently ranked among the top twenty in the number of Ph.D. degrees earned by underrepresented minority students. Nonetheless, the number of minority students in Ph.D. programs at UC remains low. For example, in all doctoral programs in the physical sciences and mathematics systemwide, only five percent (32 of 634) of those newly enrolled in 1996 were non-Asian minorities. In engineering and computer science, the proportion was four percent (31 of 699 enrolled).

Principal among the University's outreach efforts at the graduate and professional level are the following four components: (1) informal communication between UC faculty and faculty at other institutions about potential graduate students; (2) wide distribution to students of brochures, posters, and other materials about graduate study; (3) direct contact with potential applicants through campus and departmental visits, name exchanges, regional graduate school forums, and career days; and (4) programs designed to provide summer and academic-year research experiences for undergraduates. These efforts are usually most effective at the program or departmental level, but there is an important component handled centrally on each campus by the graduate office which involves outreach to institutions both in California and outside the State who have the potential to provide many more applicants to UC graduate programs.

Graduate and professional school outreach was considered by the Outreach Task Force to be an important part of the University's outreach pipeline. The Task Force Report recommended that the University expand its summer and academic-year research internship programs. In these programs, promising juniors and seniors are paired with faculty mentors in graduate-level research designed to expose the students to the opportunities of graduate-level study and to prepare them for eventual enrollment in graduate or professional school. Students in these programs typically spend 30 or more hours per week working on research in a laboratory or library. Faculty and students are matched according to mutual research interests. Seminars, lectures, and workshops provide skills enhancement and essential information about graduate study.

Current Programs to Help Strengthen K-12 Education

In addition to programs focused on preparing students for college, the University has long been engaged in extensive efforts to strengthen pre-collegiate education. There is a broad-based, systemwide commitment of UC faculty, staff, and students involved in research, teaching, and service activities related to K-12 education. Following is a description of some of the University's current programs to help strengthen K-12 education.

California Subject Matter Projects

The University has statutory responsibility to establish, administer and maintain, with the concurrence of the California Department of Education and the California State University, a network of programs designed to enhance the professional development of teachers, principally from the K-12 segment. Collectively these programs are referred to as the California Subject Matter Projects. The California Writing and Mathematics Projects, two highly successful programs which were established by the University prior to the creation of the network, served as models for the design of all the other projects. The network currently consists of nine projects, each addressing broad subject areas taught in K-12 schools. These nine subject areas are: writing, mathematics, science, history/social sciences, foreign languages, reading and literature, international studies, the arts, and physical education-health. The programs are provided through project sites which are geographically located to maximize statewide access.

Typically, K-12 teachers are invited to participate in the projects' intensive training institutes with faculty and administrators from the University and other institutions of higher education. A variety of follow-up activities are provided for participants during the academic year. Participants share what they learn with colleagues in their districts by leading workshops and through other interactions during the academic year. Through this "teachers-teaching-teachers" approach, the projects provide an avenue for the participants to:

- enhance their content knowledge of the specific discipline through intensive, long-term interaction with postsecondary faculty and other public school teachers, and exposure to key texts and relevant research;

- acquire, critique, and share exemplary instructional practices, particularly those practices that are likely to improve instruction for students from linguistically and culturally diverse backgrounds;

- become skilled in sharing knowledge with their colleagues on better ways of teaching and improving curriculum; and

- gain knowledge and skills which will enable them to serve as leaders in schools, districts, professional organizations, and statewide educational committees and activities promoting educational quality.

Participants are encouraged to remain involved with the projects as consultants and workshop leaders. Their continued involvement contributes to each project's development of a group of highly accomplished teacher leaders and professionals across the State who are able to inform, reinforce, and advance ongoing educational reform efforts.

Funding for the California Writing Project, California Mathematics Project, and California Science Project has been included in the University's budget since these programs began in the 1970s and 1980s. The other projects were established and supported from Proposition 98 funds in the State Department of Education's budget. Beginning in 1996-97, all funds for these programs are directly appropriated to the University as a result of a court settlement related to the California Teacher's Association vs. Gould lawsuit.

UC Links

UC Links provides computer-based educational resources and opportunities to K-12 youth who would not otherwise have access to them in their homes, schools, or neighborhoods. At field sites throughout the State, undergraduate UC students work closely with the children as they engage in computer activities that develop mathematics, science, and basic literacy skills. An important component of the program is the academic field training courses taught by UC faculty in which undergraduates learn to view their field experiences in the light of child development theory and research issues related to culture, language, and learning. The program is coordinated with UC and CSU faculty, staff, and students.

Urban Community-School Collaborative

The Urban Community-School Collaborative helps build and coordinate the collaborative efforts of the nine UC campuses with local communities, school districts, and other institutions and agencies throughout the State. Established to advance the University's role in urban K-12 education in response to the UC Task Force on Black Student Eligibility, the Collaborative helps set up and sustain teams of community, school, and University representatives to address problems identified by local people as relevant to the educational development of K-12 youth in their communities.

UC Nexus K-12 Technology Initiative

UC Nexus is a new program designed to promote quality teaching and learning in K-12 through instructional technology, including an interactive website. The primary goal is to work with schools to ensure that all students and their teachers are able to use computers and internet technologies productively as tools for teaching and learning. The program will make UC's instructional technology resources in areas such as curriculum, professional development, innovative distance learning and mentoring, and research more accessible to teachers, students, and communities.

Priorities for Additional Funding

The University has identified a number of high priority needs that warrant funding beyond what can be provided through the compact. If the California economy continues to grow, the University is hopeful that there will be sufficient revenue to allow the State to provide funding for some, or all, of the priorities identified. Additional funding for academic outreach programs is among the identified priorities.

The University is committed to a quality education for all Californians and, as discussed earlier in this section, is seeking to expand its outreach programs. The University's outreach programs have been enormously successful in increasing the number of students who are eligible for admission to college.

The Outreach Task Force has estimated that about $60 million in new funding from all sources--including the University, the State, K-12, and private funding--will be needed to implement the recommendations in its recent report. In addition to expanding systemwide student outreach programs such as EAOP, MESA, and Puente, the largest new expenditures will be for teacher training and curriculum development programs within partner schools. Currently, combined UC, State, K-12, federal, and private spending on these same programs, including both student-centered and school-centered programs as well as informational outreach efforts is estimated at $59 million annually. Full implementation of the Task Force's recommendations will require approximately a doubling of overall spending in this area.

Presently the University has about $4 million per year of new funds for outreach, $2 million designated from University funds and $2 million from State appropriations. The rest must come from a variety of sources including the State, Proposition 98 (K-12) funds, private foundations, industry, and federal funds. Significant funding for the implementation of the Outreach Task Force recommendations must come from the schools. It is critical that they be a major contributor to this effort. The University will develop a multi-year plan to phase in funding for the outreach program over the next 3 years from a variety of sources. UC plans to request $5 million from the State for this

effort in 1998-99 above the funding in the compact to continue expanding its outreach efforts consistent with the recommendations of the Outreach Task Force.

Cooperative Extension

Cooperative Extension has its roots in legislation which established the original land grant university concept. Since its inception in 1914, Cooperative Extension has provided to the citizens of California applied research and educational programs in agriculture and natural resources, family and consumer sciences, community resource development, and 4-H youth development. Its programs are designed to develop applications of research knowledge and bring about their uses by people located in communities beyond the campuses of the University and to bring problems and issues from these communities back to campuses for exploration and research.

Cooperative Extension operates on the basis of cooperative agreements between the University as a land grant institution, the United States Department of Agriculture, and local county governments in California. Off-campus Extension Advisors are based in county offices throughout the State to provide noncredit educational opportunities for adults and youth. They are supported by campus-based faculty and Extension Specialists.

Charles R. Drew University of Medicine and Science

Since 1973 the State has appropriated funds to the University to support a program of clinical health sciences education, research and public service operated by the Los Angeles campus in conjunction with the Charles R. Drew University of Medicine and Science.

Between 1982-83 and 1990-91, State funding for the Drew programs did not include regular adjustments for inflation. In addition, there was a structural problem with the methodology for calculating the inflation adjustments. Since the Drew programs operate under contracts with the University, and their faculty and staff are not University employees, State augmentations to the Drew budget were calculated by applying a percentage which reflected the rate of increase for nonsalary items only. There was no recognition of the rate of increase for salaries provided to other University programs. Since salaries increased at a faster rate than nonsalary items during this period, and salaries constitute about 75 percent of the Drew budget, this resulted in a serious funding deficiency for Drew. In the annual Regents' Budgets for 1990-91, 1991-92 and 1992-93, the University requested a $500,000 compensatory adjustments in Drew's budget to begin to address the underfunding. None of these requests were funded by the State.

Although the Drew programs were sheltered from the budget cuts assigned to UC programs between 1990-91 and 1994-95 (in fact, the University augmented the Drew budget by $340,000 from UC discretionary funds beginning in 1990-91), the negative effects of the earlier underfunding remained. In 1996-97, Drew began to receive income from the Professional School Fee, which goes to support the instructional program at Drew. This is discussed in the Student Fee section of this document.

In recognition of the serious funding deficiency, the 1997 State Budget includes a $500,000 augmentation for Drew, and requires the University to provide equivalent matching funds.

California College of Podiatric Medicine

The 1974 State Budget Act provided $541,000 for the support of a program of basic and clinical health sciences education and primary health care delivery in the field of podiatry, to be developed and conducted cooperatively by the University of California at San Francisco and the California College of Podiatric Medicine. State funding has been provided to assure that the instruction provided by the only college of podiatric medicine in California will maintain a high level of quality and to assure support for essential programs in the areas of basic medical science, general medical and surgical science, clinical medicine and surgery, and educational support. The State has continued to support this program each year at its 1974-75 level of $541,000, with adjustments for inflation bringing the 1994-95 appropriation to $926,000. However, budget cuts allocated during the 1990s, due to reductions in State support for the University, eroded the actual amount of funding available. The 1997-98 appropriation for this program is $857,000. As with Drew, under the four-year compact, Podiatry will receive the same fixed cost increases as other State-funded University programs for 1998-99.

ACADEMIC SUPPORT--LIBRARIES

1997-98 Budget	
Total Funds	$191,257,000
General Funds	151,579,000
Restricted Funds	39,678,000
1998-99 Increase	
General Funds	$3,000,000
Restricted Funds	--

The University of California libraries are a vital academic resource, providing books, documentary materials, and other information resources required by UC students and faculty for effective study and research. In addition, the libraries provide services to students and faculty of other California colleges and universities, to business and industry, and to the general public, both directly and through cooperative programs with other California libraries.

Over the last decade, the combined effects of reduced budgets and inflation, particularly the significant increases in the costs of acquiring library materials, have seriously eroded the ability of the University's libraries to adequately support the University's academic programs. At the same time, rapid advances in information technology promise enormous improvements in the capability of academic libraries to acquire, store, manage, and deliver the published information needed for teaching and research. The size of the nine-campus UC library system presents unique opportunities to utilize networked information systems and to share the benefits of new library technology on an intersegmental and Statewide basis.

New technology raises challenging issues for library planning, budgeting and operation. For the foreseeable future, electronic information resources will complement rather than totally supplant traditional collections. As a result, the University must maintain and enhance existing collections and services in parallel with the development of digital library services. Effective use of technology for digital library services will also require substantial new investments in equipment, network facilities, software and training. These investments will bring returns quickly in terms of educational and research quality, but more slowly in terms of relief for traditional library materials budgets.

Recognizing both the problems and the opportunities, the University initiated a major planning effort in 1996 to develop a new systemwide library plan to establish a framework for the UC libraries over the next five to ten years.

California Digital Library Initiative ($3,000,000)

The University is embarking on a groundbreaking effort to create the California Digital Library (CDL), a resource that will eventually be accessible to all of California. The CDL, by bringing together technology and the quest for new knowledge, paves the way for a future when the University's libraries can be available without regard to the conventional limits of time and space. This has profound implications which can help provide access to information to all Californians.

The University will invest $1 million in 1997-98 to take the first steps towards the development of a digital library and to begin acquiring electronic resources. The University's 1998-99 budget request includes a plan to provide an additional $3 million to bring the permanent budget for this effort up to $4 million. This will enable the University to initiate a number of strategies to guide the UC libraries through the transition to the digital future while maintaining and improving current collections and services.

In the long run, the University envisions a library system that can blend print and electronic capabilities to support the University's academic programs and serve California's citizens, support business and industry, and forge new collaborative links with other segments of education throughout California. However, continuing rapid developments in information technology, coupled with uncertainty about the characteristics, requirements, and costs of digital publications make the library planning environment fluid for the next decade or so. This is further compounded by the need to continue to support collections that cannot be replaced with digital publications. Notwithstanding this uncertainty, the University cannot let current collections and services continue to deteriorate while waiting for these issues to be resolved.

The California Digital Library Initiative launches a number of strategies that will guide the UC libraries through the transition to the digital future while promoting and sustaining the integration of traditional and digital library collections and services. During this transitional period, the organizational, financial and technological changes needed to ensure the continued viability of the University's libraries will be identified and put into place. These initial strategies include the establishment of a digital library for UC named the California Digital Library (CDL), the development of a Science, Technology and Industry Collection as the charter collection of the digital library, and the creation of mechanisms to allow more effective resource-sharing and collaborative collection building among the University's libraries. The CDL will provide digital library services for the University and will serve as the primary mechanism for library planning

and development during the period of digital transition. The four key elements of the CDL strategy are described in greater detail below.

California Digital Library

The collections and services of the California Digital Library (CDL) will complement and enhance the existing University library system. As a collaborative effort of all nine campuses the CDL offers a number of advantages including the ability to utilize institutional strength to negotiate with external vendors. The CDL will facilitate resource sharing across campuses in recognition that the University cannot sustain nine separate and comprehensive research collections. The CDL will provide access to digital information for students and faculty, relieve pressures on print collections, and develop mechanisms to foster sharing of collections among the nine UC campuses. Ultimately it will provide Californians with increased access to the library resources of the University. To accomplish this, the CDL will license, acquire, develop, and manage electronic (digital) content in support of campus academic programs, facilitate access to the collection, support digitization of books and periodicals, establish policies and procedures for archiving digital content, encourage electronic publishing by faculty, and assist campuses in providing user support and training.

While the initial focus of the CDL will be on the information needs of UC students and faculty, it will also begin to build the partnerships that will allow the University to deliver information to all Californians. As other entities, such as the California State University and private corporations, become partners electronic collections will be enriched and sharing mechanisms strengthened. The California State librarian has enthusiastically endorsed the University taking a lead in providing digital access through the CDL to all Californians. The development and financing of the CDL, therefore, calls for a partnership among all of California's library constituencies. The University plans to develop cost-sharing mechanisms for other agencies to invest in and utilize the resources and services of the digital library.

Science, Technology and Industry: The Charter Collection

The first shared electronic collection of the CDL will be the Science, Technology and Industry Collection, which accounts for over 80 percent of the electronic literature now available. Choosing a collection focused on science and technology will permit the University to achieve economies of scale when accessing the highest cost literature, establish a digital collection with the critical mass needed to investigate a variety of issues relating to scholarly and scientific communication, and relieve the campuses of the need to provide additional support for the development of these digital collections.

Given the importance of this effort the University will begin acquiring electronic resources associated with the development of a Science, Technology and Industry collection in 1997. In 1998-99 the University plans to increase the number of journals

included in the Collection, which will also expand to include less traditional but equally important electronic information resources, such as University-produced technical reports, patents, preprints, and data sets. Planning is currently underway to identify priorities for the development of subsequent digital collections. The University anticipates that about $3,250,000 will be expended for these purposes in 1998-99.

Enhanced Sharing of Print Resources

While shared electronic collections will be an important focus for the CDL, they represent only a small fraction of published material. Comprehensive digital collections will not be available immediately, nor will electronic publications develop and mature at the same rate in all disciplines and subjects. Thus, for the foreseeable future, print collections will continue to be important to the teaching and scholarly activities of University faculty and students and must be maintained in parallel with the development of the digital library.

A key role of the CDL is to coordinate the technology and planning across campuses that will support systems which facilitate expeditious access to printed materials from users' desktops. To create a single common library for the University, all materials, regardless of format and location, must become easily accessible. Systems and policies must permit users to request materials from any campus as easily as they can from their local collection. The UC Libraries can then develop an appropriate mix of shared systemwide collections and locally purchased materials.

Sharing and integrating print collections electronically will require: (1) an automated, patron-initiated ordering system to permit faculty or students to identify and enter requests for material at another campus from their desktop computer and automatically route the request to the appropriate library; (2) a rapid delivery system that achieves the goal of overnight delivery of library material between any two campuses; and (3) strategies to coordinate collection development and selection of materials among all campuses. Implementation and ongoing support of these improvements will cost about $500,000 in 1998-99.

New Methods of Scientific and Scholarly Communications

The California Digital Library also offers the capability to explore innovative methods to create, capture and communicate new knowledge created by UC research and scholarship. The University has begun to explore the capabilities of the CDL as an "electronic publisher" to provide faster, cheaper and more effective communication of UC research to education, industry, and the general public. This includes examining the potential of digitizing UC-owned material appropriate for the Science, Technology and Industry Collection, and studying the costs and benefits of alternative methods of acquiring, publishing, and storing large amounts of UC-generated digital content. The

University plans to put those systems and services that have proven successful into production, at an anticipated cost of $250,000 in 1998-99.

The Library Budget

The University's library budget is divided into three categories representing the major activities of the libraries: acquisitions-processing, reference-circulation, and library automation.

Acquisitions-processing, which represents 59 percent of the budget, includes expenditures for library materials and binding and all staffing activities related to acquiring library materials and preparing them for use, such as ordering, receiving, and cataloging. Library acquisitions also include materials in electronic and other non-print formats, whether obtained by purchase or license.

Reference-circulation, which represents 38 percent of the library budget, includes providing users with information and materials, managing circulation of materials, shelving and reshelving books, maintaining periodical and document collections, providing reference services, and instructing students and faculty in the use of the library and its printed and electronic information resources.

The systemwide Library Automation unit, which provides Universitywide bibliographic access to the resources of the University's libraries through the MELVYL online system, represents three percent of the total library budget.

In 1977, the University adopted a comprehensive library plan with the goals of improving library service and reducing the rapid rise in library costs. To achieve these goals, the plan recommended increased cooperation among the libraries of the University and creation of a library system that would serve all University users, regardless of campus or location.

Between 1977 and the late 1980s, the State provided most of the operating and capital resources called for in the library plan. Over the last decade, however, the ability of the existing library program and budget to support the University's academic program has been hampered by four principal factors: the State's fiscal difficulties which have resulted in reduced funding for the University; high inflation in the costs of published library materials in all forms; growth in both enrollments and the number of approved academic programs requiring library support; and rapid growth in demand for library provision of digital information resources.

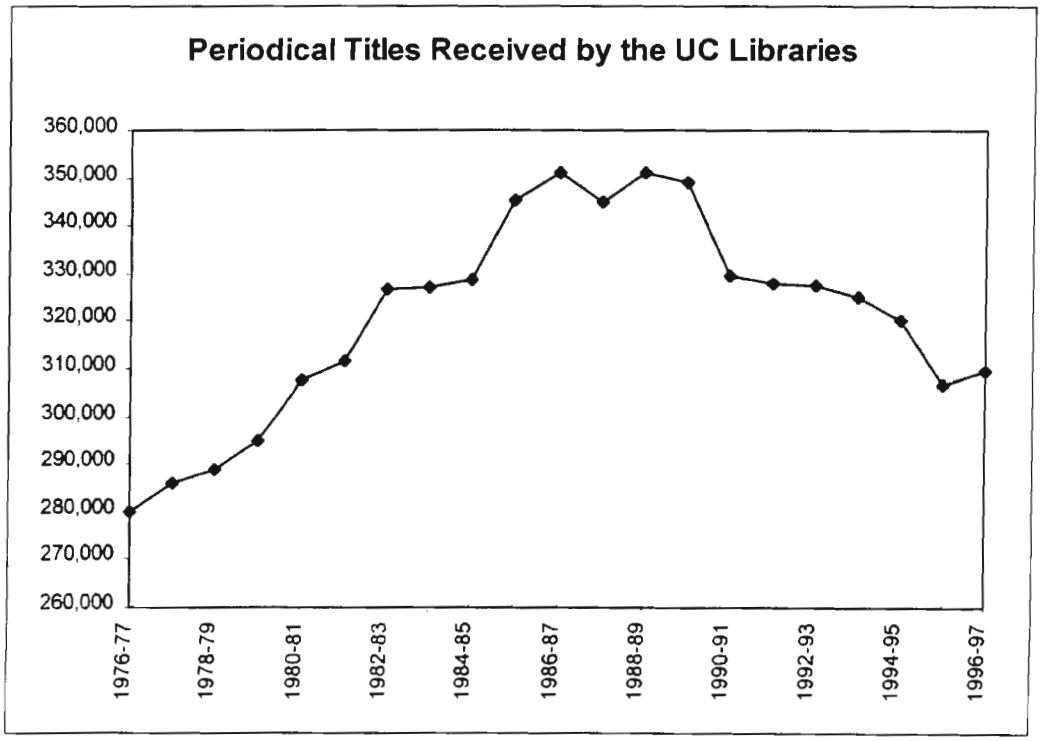
The Fiscal Difficulties of the State

During the early 1990s, library budgets eroded as a result of cuts to University budgets totaling $433 million. To cope with budget reductions while protecting the funds available to purchase materials, the libraries resorted to measures such as closing branch libraries; deferring equipment purchases and maintenance; and reducing operating hours, the number of reference librarians, and the public services available.

Inflation in Library Materials Costs

Over the last decade there have been extraordinary increases in the costs of many library materials, especially periodicals in the sciences, technology, engineering, and the health sciences. According to published industry statistics, U.S. periodical prices rose at an average annual compound rate of 9.8 percent per year between 1986 and 1997. Industry sources estimate that serials price increases for typical academic libraries in 1998 will exceed 10 percent. The State has been unable to provide full funding to meet the impact of inflation on the library materials budget. Consequently, the libraries have lost over 45 percent of their purchasing power since 1989. The severity of this problem is manifested by serial cancellations estimated at over 40,000 titles since 1988.

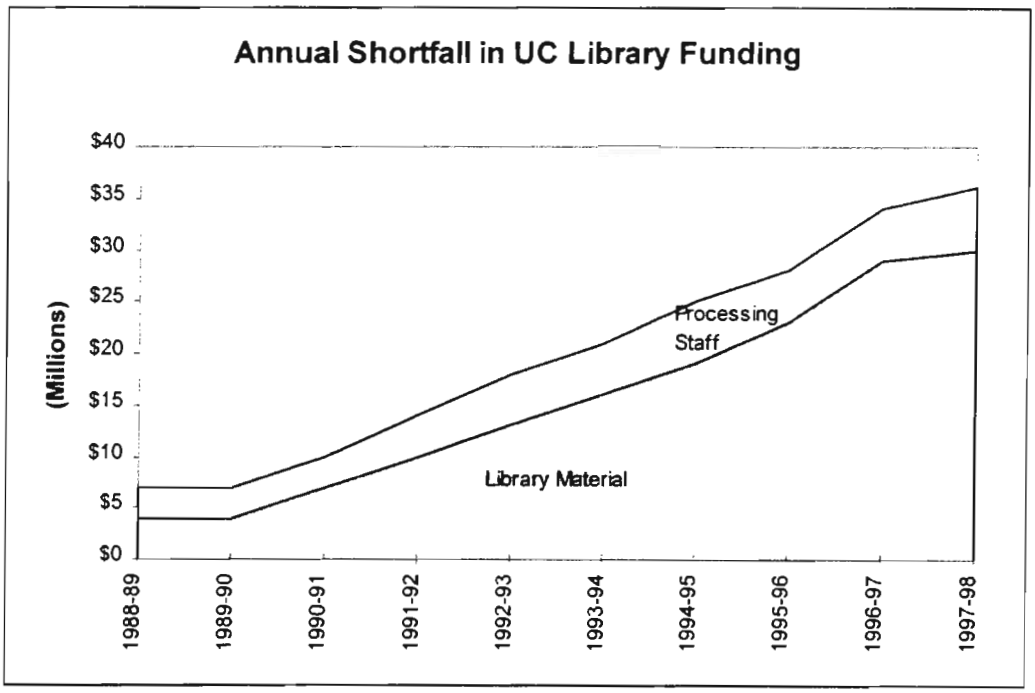
DISPLAY 1



Enrollment and Program Growth

Another factor affecting the quality of library service is the substantial increase in both the level of enrollment and the number of graduate programs offered by the University since the current budgeted library acquisition rate was established in the late 1970s. The budgeted acquisition rate of 614,000 volumes has not been adjusted despite increases of almost 38,000 FTE students and the addition of new graduate and professional degree programs. Even if inflationary costs had been fully funded during this period, the libraries would still find themselves unable to fully support the approved academic program of the University.

DISPLAY 2



The combined effect of these factors have resulted in an annual budgetary shortfall that exceeds $37 million.

ACADEMIC SUPPORT--OTHER

1997-98 Budget	
Total Funds	$384,186,000
General Funds	114,312,000
Restricted Funds	269,874,000
1998-99 Increase	
General Funds	--
Restricted Funds	$10,150,000

Included in the category Academic Support--Other are various support activities that are operated and administered in conjunction with schools and departments. These partially self-supporting activities provide basic clinical and other support essential to instructional programs, and contribute significantly to the quality and effectiveness of health sciences and general campus curricula. State support is an essential part of the income of these clinical activities.

Among the clinical facilities that support health sciences programs are two dental clinics (Los Angeles and San Francisco) with off-campus community dental clinics, occupational health centers in the north and in the south, the veterinary medicine clinical teaching facilities at Davis and in the San Joaquin Valley, an optometry clinic at Berkeley, and two neuropsychiatric institutes (Los Angeles and San Francisco). In addition, a number of demonstration schools, vivaria, and other activities provide academic support to health sciences and general campus programs. Most of these facilities provide experience for students as well as valuable community services. Their financial support is derived from a combination of State funds, patient income, and other revenue.

Description of Programs

The on-campus and community dental clinics at Los Angeles and San Francisco serve primarily as teaching laboratories in which dental students and graduate professional students enrolled in the schools of dentistry pursue organized clinical curricula under the supervision of dental school faculty. The community dental clinics at San Francisco and Los Angeles provide a spectrum of teaching cases that are generally not available in the on-campus clinics. The dental clinics give students actual clinical experience and

a broader perspective in determining treatment plans, thereby 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.

The occupational health centers were created as a joint project of the California Department of Industrial Relations and the University of California to help serve the occupational health needs of California. In July 1981, the centers became an integral part of the University. The major functions of the centers are teaching (the training of occupational physicians and nurses, toxicologists, epidemiologists, and industrial hygienists); public service (providing a referral service for occupational illnesses, promoting health in the workplace, and providing clinical care); and research (stimulating research on the causes, diagnosis, and prevention of occupational illnesses). 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 this field.

The two veterinary medicine clinical teaching facilities, one at Davis and the other in the San Joaquin Valley, 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.

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 to many patients. At the clinic, optometry faculty supervise students in the clinical aspects of the prevention, diagnosis, and remediation of problems of the visual system. 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.

The 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, psychological disorders, and neurological disorders.

Demonstration schools serve as interdepartmental teaching laboratories for experimentation, research, and teacher training. The schools educate hundreds of children and contribute to the advancement of education through research efforts and application of results. Vivaria are centralized facilities for the ordering, receiving, and care of all animals essential to instruction and research. Other activities in this category include support for the arts and specialized physical sciences and engineering projects.

TEACHING HOSPITALS

1997-98 Budget*	
Total Funds	$1, 956,322,000
General Funds	51,730,000
Restricted Funds	1,904,592,000
1998-99 Increase*	
General Funds	--
Restricted Funds	$39,126,000

The Role of The University Teaching Hospitals

The University currently owns and operates five academic medical centers. Their primary mission is to support the clinical teaching programs of the five schools of medicine located on the Davis, Irvine, Los Angeles, San Diego, and San Francisco campuses, as well as programs in the University's other health sciences schools. To a large extent, the core clinical learning experiences in the health sciences take place in the UC medical centers, although changing needs in medical education have required the development of more out-of-hospital educational sites and primary care networks.

In conjunction with their teaching mission, the medical centers provide a full range of health care services and are sites for the development and testing of new diagnostic and therapeutic techniques. With their tripartite mission of teaching, public service, and research, the five University of California academic medical centers constitute a major resource for California and the nation. They provide excellent training for tomorrow's health professionals, educational opportunities for community health professionals who participate in the University's clinical teaching and continuing education programs, and health care services to thousands of patients each day. The patients served generally have more severe illnesses and more limited financial resources than patients at many other institutions. The University's academic medical centers operate in urban areas, and three of the five centers are located in counties that have no county hospital.

* The revenue estimates in this document currently include revenue from the UCSF Medical Center. The 1997-98 and 1998-99 budgets will be modified to reflect the actions taken by The Regents to approve the merger of the UCSF Medical Center with Stanford Health Services to form a non-profit corporation which is expected to begin operation on November 1,1997.

The University's academic medical centers are one of the largest health care systems in California and one of the two largest Medi-Cal providers in the State. In 1997-98, the University medical centers will have a combined licensed capacity of 3,345 acute care beds and are expected to generate more than 650,000 patient days and more than 2.7 million outpatient visits.

Although the five University medical centers have different origins and varying roles in their communities they all operate in highly competitive markets. All five are profoundly affected by the rapid changes in the nation's health care delivery system and in public policies related to paying for this care.

While the University's medical centers are similar to other hospitals trying to survive in a price-sensitive, managed care environment, they have the added responsibilities that distinguish them as academic institutions. The costs associated with providing cutting-edge treatment, biomedical research that has the potential to affect millions of lives, the training of health care professionals, and providing a significant share of the indigent care in California, make it difficult for these medical centers to compete in today's health care market.

Three of the University's medical centers—Davis, Irvine and San Diego—are former county hospitals. These three hospitals have historically served a disproportionately high percentage of Medi-Cal patients, as well as other indigents. Since most of these services are government-financed, these medical centers are extraordinarily vulnerable to changing public policies related to the funding and provision of health care for the poor.

As teaching hospitals, the University medical centers need to have an adequate and diverse patient base to support the clinical instruction and research programs. With managed care becoming the primary system for delivering and financing health services, the University's medical centers have experienced a decrease in the number of inpatients and have had to accept negotiated rates from private and some public payers that do not recognize the higher costs of providing a medical education in a clinical setting. Like all hospitals, the University's academic medical centers will be affected by federal Medicare and Medicaid funding proposals to slow the growth of future rate increases. Additionally, academic medical centers are expected to be hit especially hard by the proposed changes in federal Medicare medical education funding.

Over the last few decades, the University's medical centers have gone from fiscal crisis to fiscal crisis, with short-term solutions being utilized to avert permanent damage. Special capital and operating subsidies were provided to the three former county hospitals in the mid-1980s. Special funding has been provided to all California hospitals that treat a disproportionate share of Medi-Cal and low-income patients. The federal government has support components within the Medicare program to help pay for medical education. Just this year, the University was successful in using State

Clinical Teaching Support funds in the University's budget to leverage an additional $50 million in federal Medicaid dollars to help support medical education costs. The State recently approved legislation which will continue this program for the University, and extend the provisions to the Children's Hospitals as well as other teaching hospitals through 1998-99. None of these programs, however, are permanent solutions to the fiscal difficulties facing the University's medical centers.

The future of the University's medical centers depends upon adequate funding for medical education costs and for providing care to the poor, as well as reimbursement strategies that recognize the medical centers' needs to maintain an operating margin sufficient to pay for debt, provide working capital and purchase state-of-the-art equipment. The future of these academic medical centers also depends on there being a sufficiently diverse and adequate patient base. There has been considerable legislative interest in and recognition of the financial difficulties facing the University's medical centers. Some of this interest has been generated by concerns over the University's continued ability to provide health care to the indigent population as the medical centers pursue a range of long-term strategies to ensure their fiscal viability as they continue to support the University's academic mission.

The following section reviews the changes in financial support for academic medical centers that have occurred over the last decade, identifies the challenges that lie ahead, and briefly discusses the University's plans for dealing with these challenges.

Health Care Financing

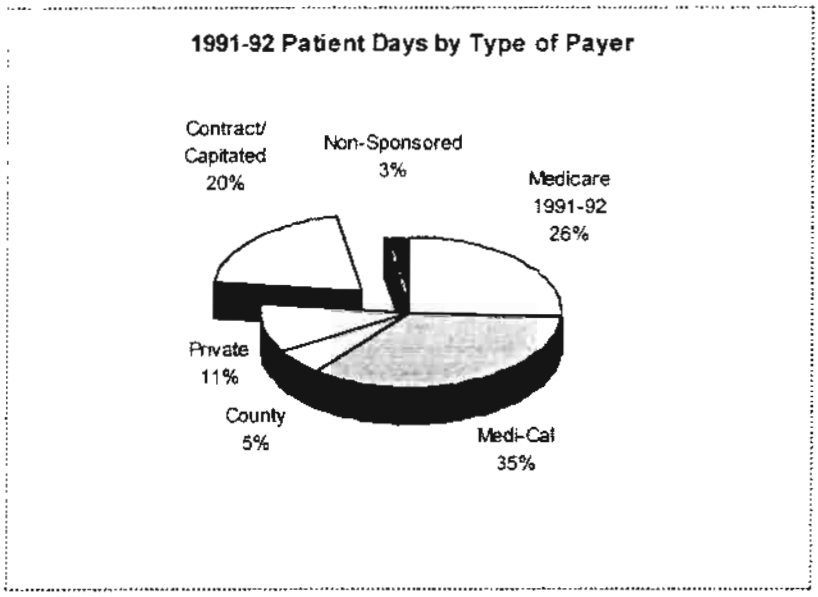
Sharply rising health care costs, demographic changes, and changing economic conditions have caused the State, the Congress, and the private sector to initiate fundamental changes in the financing of health care services. These changes affect academic medical centers more profoundly than other hospitals.

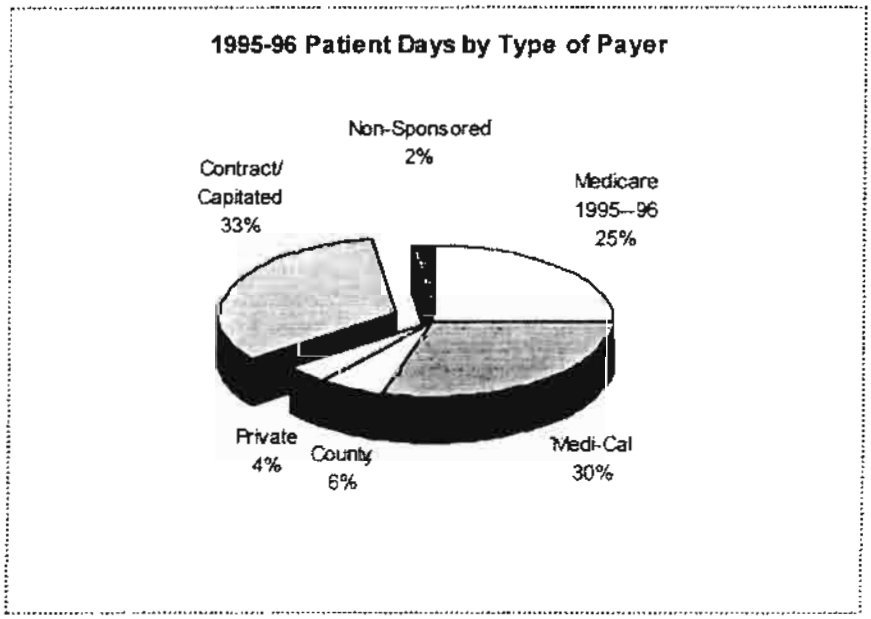
The traditional fee-for-service reimbursement system is being replaced by competitively established fixed-price payments, i.e., either capitated, per-diem, or global rates by diagnosis. The result is inadequate compensation for hospital costs uniquely incurred in an academic setting (e.g., treating sicker patients, providing services to a disproportionate number of uninsured or under-insured patients, and providing a medical education in a clinical setting). In addition, there are reduced opportunities to cover these costs through higher charges to private paying patients, in part because more patients are enrolled in managed care plans which negotiate discounted rates. By moving to negotiated rate structures, the insurers transfer more of the financial risk to providers.

Display 1 shows patient days by payer for the five medical centers in 1992-93 and again in 1996-97. Over this five-year period, the percentage of days accrued by

patients covered by private payers decreased from 11 percent to 4 percent, while the number of days provided to patients covered by contractual or capitated arrangements increased from 20 percent to 33 percent, mainly as a result of the shift to managed care. This data may understate the percentage of patient days covered by contractual or capitated arrangement because Medicare and Medi-Cal payer at-risk contract and capitated days were not separately identified until July 1, 1997.

DISPLAY 1





Changes in Health Care Funding Policy

The changes in health care financing affecting the medical centers began in 1982-83 with the passage of AB 799 which reformed the State Medi-Cal program by instituting: (1) selective hospital contracting for inpatient services at flat per-diem pricing; (2) stricter beneficiary eligibility requirements; (3) a redefinition of "medical necessity"; and (4) a transfer of responsibility for the Medically Indigent Adults (MIAs) from the State to the counties, with funding at far less than the 70 percent of projected State expenditures for the base year 1982-83. The transfer of the MIA patients affected the three former county hospitals, Davis, Irvine and San Diego, in particular. Although hospitals operated by counties are routinely subsidized directly by local tax dollars, this type of financing is not available to the University medical centers, despite their contractual county-indigent-care responsibilities.

Also approved in 1982, AB 3480 provided private health care insurers with the same ability as the State to contract selectively with health care providers on behalf of their enrollees.

At the same time, federal changes in Medicare payment policies for hospitals during the 1980s included: (1) a nationally established prospective payment system for inpatient care based on payments per case according to Diagnosis Related Groups (DRGs) rather than on actual hospital costs; (2) a limit on payments for teaching costs; and (3) the phasing out of cost-based payment for capital improvements.

In 1991 and 1992, AB 336 and SB 485 granted the Department of Health Services (DHS) authority to hasten the transition of Medi-Cal payments from a fee-for-service to a managed care basis for about 2.5 million Aid to Families with Dependent Children (AFDC) beneficiaries and to expand the Medi-Cal managed care program. Under these programs, the provider agrees to treat the members of the Medi-Cal managed care plan for a fixed rate-per-member-per-month. The provider is at risk and is liable for any expenses incurred beyond the monthly capitated payments. Medi-Cal managed care programs are in various stages of implementation throughout the State. Upon full implementation, the University's medical centers will be at increased financial risk for managing the care of patients covered under these programs.

Special Subsidies and Other Support

Special Subsidies For The Three Former County Hospitals. In the 1960s, the Legislature, which supported the University's education and research efforts but wanted the University to give a higher priority to providing medical care for the poor, requested that the University assume operation of three former county hospitals for the Davis, Irvine, and San Diego campuses. These hospitals were designated to serve as the principal inpatient training sites for the three new medical schools established at each of those campuses. The three hospitals have historically provided a disproportionately

high percentage of indigent care and were plagued by financial problems from the very beginning. In 1986, consultants were brought in to review the operations of the three medical centers. The consultants reported that the three hospitals were being effectively managed, and that the operating losses were fundamentally attributable to the environment in which they continued to operate. The consultant emphasized that the fiscal survival of these hospitals would depend on a State-funded operating subsidy to help cover the significant volume of uncompensated and undercompensated patient care.

As a result of the consultant's study and the growing financial crisis that faced the medical centers in the 1980s, the University worked with the Governor and the Legislature on a multi-year plan to deal with the financial problems of the three former county hospitals.

Beginning with the 1985 State Budget Act and continuing through the 1988 State Budget Act, the State provided $86 million to fund cost-saving and revenue-enhancing capital outlay projects and equipment purchases for the Davis, Irvine and San Diego Medical Centers. The State also provided the University with a $28.6 million operating subsidy to mitigate operating losses at the three former county hospitals over a six-year period beginning in 1985. During that time, the Irvine Medical Center was the only center to incur losses.

SB 1255 Funds. In 1989, the State established the Disproportionate Share and Emergency Services Fund, also known as the SB 1255 program. Through the SB 1255 program, public agencies which own eligible disproportionate share hospitals (DHS), including the University, voluntarily transfer funds to the State. These funds are used to secure federal Medicaid matching funds. The pool of funds is then distributed by the State to hospitals that treat a disproportionate share of Medi-Cal and low-income patients. The Davis, Irvine and San Diego Medical Centers qualify as disproportionate share providers. The distributions result from negotiations between the individual hospitals and the California Medical Assistance Commission (CMAC).

From May 1990 to June 1997, the University received, or had commitments to receive, $105.7 million more than it transferred under this program. The continuation of this program is uncertain in light of federal attempts to constrain Medicaid's growth. A per-hospital and per-state ceiling already exists on the amount of gross Medi-Cal revenue that can be received under the total disproportionate share program. The SB 1255 program has been a significant source of funding for the Davis, Irvine and San Diego Medical Centers. The elimination of the SB 1255 program would mean the loss of up to $7 million a year, on average, for each eligible UC medical center. In addition, SB 1255 funds were often provided in lieu of annual Medi-Cal inpatient hospital rate increases.

SB 855 Funds. In 1991-92, the State passed legislation--SB 855--creating a second vehicle to provide supplementary payments to hospitals that provide a disproportionate

share of their inpatient services to Medi-Cal and other low-income patients. The federal government approved the plan, now referred to as the SB 855 program.

The plan requires that governmental entities with hospitals, such as counties, hospital districts and the University of California which own eligible DSH hospitals, transfer funds to the State Controller for deposit into the Medi-Cal Inpatient Payment Adjustment Fund created by SB 855. Unlike the SB 1255 program, these are mandatory transfers, the levels of which are determined by formula. These funds are used to secure matching federal Medicaid dollars. The pool of funds is then distributed by the State to all disproportionate share hospitals. The distribution of SB 855 funds is derived by a formula based on previous year's data regarding the number of Medi-Cal days and the percentage of other low-income beneficiaries served, as reported to the Office of Statewide Health Planning and Development.

The Davis, Irvine, and San Diego Medical Centers qualify as disproportionate share hospitals. During the period from 1991-92 through 1996-97, the University received more than $276 million over and above the dollars it transferred to the SB 855 Fund.

Beginning in 1993-94, distributions from the SB 855 program were subject to the provisions of the federal Omnibus Budget Reconciliation Act of 1993 (OBRA '93), which set a ceiling on the distributions that could be made to individual hospitals and, cumulatively, to each State.

In 1997-98, the net benefit to eligible disproportionate share hospitals is likely to be equal to what was received in 1995-96. Although the cap on disproportionate share payments will increase in 1997-98, any increase in funding is likely to be offset by a decrease in the number of inpatient Medi-Cal days. The total number of Medi-Cal inpatient days across the State is declining as managed care plans exert tighter controls on admissions and length of stay. The trend toward a decrease in inpatient days will continue as more Medi-Cal managed care programs come on-line. The number of inpatient Medi-Cal days will decrease even further if many legal and illegal immigrants are removed from the Medi-Cal rolls as a result of federal welfare and immigration reform. The University also expects a lower rate of return because fewer public hospitals are providing the intergovernmental transfers and more nontransferring entities (i.e., private disproportionate share hospitals) will now receive payments under the SB 855 program.

Funds from the SB 855 program are a significant source of revenue for the Davis, Irvine and San Diego medical centers. The elimination of this program would be detrimental.

Medi-Cal Medical Education Funds. In 1996-97 the University, working with the California Medical Assistance commission (CMAC) , the Department of Finance (DOF), and the Department of Health Services (DHS), developed a program to provide funding for medical education from federal matching funds through the Medi-Cal program. This program, developed specifically for the University of California medical centers, allowed

the University to use existing State general funds (Clinical Teaching Support) to leverage an additional $50 million in federal Medicaid funds in recognition of the cost of medical education incurred in the treatment of Medi-Cal inpatients. The State approved legislation (SB 391-Solis) to continue the program in 1997-98 and in 1998-99 and to expand the program to include other University teaching hospitals, the Children's Hospitals, and major (non-university) teaching hospitals. More details are provided at the end of this section.

Clinical Teaching Support. State general funds, called Clinical Teaching Support (CTS), are appropriated to the University for all five medical centers in recognition of the need to maintain a sufficiently large and diverse patient population for teaching purposes. The funds are used chiefly to provide financial support for patients who are essential for the clinical teaching program, but who are unable to pay the full cost of their hospital care.

The 1997-98 budget includes $50 million in CTS for the University. While this represents less than 2.5 percent of total operating revenue for the five medical centers, it continues to be important to the quality of the clinical teaching programs and to the financial stability of the medical centers, especially in light of generally lower reimbursement for patient care. As a result of the merger between the UCSF Medical Center and the Stanford Health Services, the CTS that would have been budgeted for the UCSF Medical Center will now be budgeted for the UCSF School of Medicine.

Tobacco Tax Funds. In November 1988, voters approved Proposition 99--the Tobacco Tax and Health Protection Act--which imposed an additional tax on cigarettes and other tobacco products, effective January 1, 1989. Proposition 99 created six separate accounts from which funds are to be appropriated for specific purposes, including indigent care, the prevention and cessation of tobacco use, and the prevention and treatment of tobacco-related diseases. Funds from the Hospital Services and Unallocated Accounts are available for payment to public and private hospitals for the treatment of patients who cannot afford to pay and for whom payment will not be made through private coverage or by any program funded in whole or in part by the federal government.

In 1989, the State approved a plan (AB 75) specifying how the Tobacco Tax Funds (Proposition 99 funds) were to be distributed. Major elements of the AB 75 distribution plan important to the University medical centers included: (1) a one-time distribution of $37 million in 1989-90 to hospitals for uncompensated care based on the proportion of each hospital's share of 1988 statewide total uncompensated care costs (of this, UC medical centers received $1.6 million); and (2) a provision that annual appropriations would be made through the newly established California Healthcare for Indigents Program (CHIP) to counties operating a Medically Indigent Adult Program (MIA), for allocation to county and non-county hospitals for uncompensated care costs.

Since 1989, as a result of the overall success of prevention and cessation programs, there has been a decline in smoking and the use of other tobacco products. This has reduced the total amount of Tobacco Tax Funds. In 1996-97, the University medical centers received a total of $5.1 million as compared to $14.6 million (including the one-time payment of $1.6 million) in 1989-90. The amount of Tobacco Tax Funds in 1997-98 is projected to decrease by five percent. Although there has been a significant decline over the last several years, the Tobacco Tax Funds are an important source of revenue for the University.

Meeting the State and University Budget Shortfalls

During the 1993-94 budget process, the University and the State turned to the medical centers to help alleviate some of the University's budgetary problems in the following ways:

- The University funded a $43 million shortfall in its 1992-93 budget by advancing funds from the University's Short-Term Investment Pool. This advance (principal and interest) is being repaid over 15 years by the medical centers under an agreement with the State which recognizes that in the 1980s, when the medical centers were experiencing financial troubles, the State provided more than $80 million of assistance by funding needed capital improvements. The debt service on the revenue bonds for these capital improvement projects is currently being repaid with State funds. Supplemental language accompanying the 1993 State Budget Act addressed this issue.

- The 1993 State Budget Act redirected $153 million in all SB 855 transfer funds and another $84 million in 1994-95, for a total of $237 million that would otherwise have been used to capture federal Medicaid dollars. The loss of federal matching funds reduced the total amount of SB 855 funds available for distribution to all eligible hospitals. In addition, the University's share of SB 855 funds was reduced by $15 million on a one-time basis by the Legislature.

- The University's plan for accommodating cuts in its 1993-94 State-funded budget included a cut to health sciences clinical activities, which resulted in both permanent and one-time cuts in Clinical Teaching Support (CTS) for the medical centers.

During the 1994-95 budget process, the University and the State reached agreement to shift $18 million of State support from the medical centers on a one-time basis to help meet needs in critically underfunded areas in the general operating budget, e.g., libraries, instructional equipment replacement, and deferred maintenance. The shift recognized actual and estimated operating gains at the medical centers during 1992-93 and 1993-94 which were above the five percent recommended by the Legislative Analyst, and supported by the Legislature. It was questionable whether the University could afford to continue to redirect funds in the future. As a result, the University

agreed to undertake a study to look at the medical centers' needs for working capital, capital outlay and equipment, as well as for a prudent reserve. KPMG Peat Marwick was engaged to conduct the study.

The KPMG Peat Marwick Report concluded that the medical centers would face significant financial challenges within the next several years and that redirection of any funds would put them in further jeopardy. Notwithstanding this conclusion, the Legislature adopted supplemental budget language in 1995-96 stating its intent that operating margins above five percent, the minimum recommended by the KPMG Peat Marwick study, be used to fund other parts of the University's operating budget. The Supplemental Report of the 1995 State Budget Act recommended that the University redirect $5.5 million in CTS funds to fund deferred maintenance on a one-time basis. The redirection was intended to reflect a portion of the medical centers' net gains above five percent. Because the medical centers only achieved a 2.8 percent operating margin in 1995-96, the $5.5 million of CTS funds was restored to the medical centers in 1996-97. Excluding the SB 855 Secondary Supplemental Payment and Medi-Cal Medical Education Funds in 1996-97, the margin for the UC medical centers would have been 3.7 percent, well below the 5 percent margin.

Current Issues

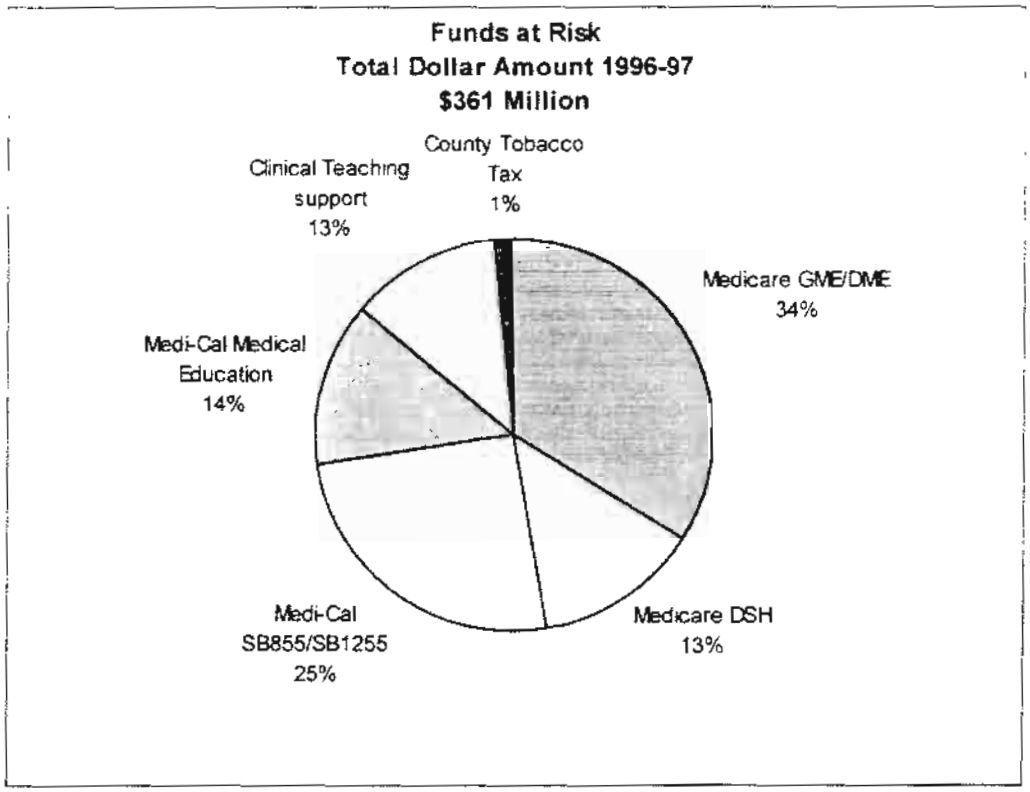
Funds at Risk

The various revenues from sources other than direct payment for medical care which help to cover the cost of medical education or the special costs incurred in providing care to a high risk population are essential to the financial viability of the medical centers. These funds, however, are at risk due to changes in federally funded health care programs.

Display 2 shows the relative share of each fund source that is at risk. In 1996-97, revenues from these sources totaled $361 million, an increase of $93 million over the previous year as a result of the Medi-Cal Medical Education Funds and the SB 855 Secondary Supplemental Payment. The funds at risk represent slightly more than 16 percent of the combined medical centers' total net revenues, but as much as 29.6 percent of the total net revenues at one center. A major reduction on one of these fund sources, or an erosion in the support from more than one source would negatively impact the University's ability to generate the net operating revenue needed to stay competitive.

Reductions in Federal Funding. The federal government currently provides nearly one-third of the net operating revenue of the University's teaching hospitals. The President and Congress have reaffirmed their commitment to balance the federal budget by the year 2002. The University is concerned because substantial federal budgetary savings from the Medicare and Medicaid programs will be part of deficit

DISPLAY 2



reduction strategies. One of the budget objectives is to save the Medicare Trust Fund from bankruptcy for at least ten years by slowing the growth of Medicare spending by $116.4 billion over five years and between $400 and $450 billion over ten years. Most of the impending program cuts and reductions will have an effect on providers rather than on beneficiaries. The University's academic medical centers will specifically be affected by the proposals to cap or reduce disproportionate share payments and direct and indirect medical education payments. The majority of the cuts will not occur until after the year 2000.

The agreement to balance the federal budget is also expected to provide approximately $8.4 billion in net Medicaid savings over five years.

One positive affect of the agreement is that direct and indirect medical education-related reimbursements formerly provided to HMOs, with no obligation to use the funding for the intended purpose, will now be "carved out" of the HMO reimbursements and made available to academic medical centers providing services to HMO members.

Impacts of Managed Care

Academic medical centers are profoundly affected by the rapid changes in the delivery of health care services. These changes are the direct or indirect result of an increase in the percentage of the general population enrolling in "managed care plans" for health care coverage. When reimbursement was based on a fee-for-service, the medical centers were able to generate the patient volume and dollars needed to support teaching and research programs. Patients were attracted to the cutting-edge quality of the specialized treatments for complicated health problems offered by the medical centers, and employer-paid insurance and government programs covered the higher costs.

Managed care, in response to spiraling health care costs, seeks to reduce costs in two ways. First, managed care emphasizes prevention and primary care intervention in order to reduce the need for more costly hospitalization and specialist services later on. Primary care physicians serve as the first-line of treatment and act as "gatekeepers," coordinating care and controlling referrals to more costly specialized services. Some services that have traditionally been provided on an inpatient basis are now being provided in less costly outpatient facilities as efforts are made to hold down costs. Improvements in procedures and technology will continue to allow for more services to be performed in an outpatient setting.

As a result of these trends, most of the University's medical centers have experienced decreases in the average length of stay, and in patient days during the 1990s. The decrease in patient days threatens the medical centers' ability to generate revenue to cover costs and reduces the opportunities for teaching. One medical center, UCLA Medical Center, reported an increase in patients days. This increase was due mainly to the acquisition of Santa Monica Hospital in August of 1995.

The overall downturn of inpatient activity that has occurred over the past few years could continue unless the medical centers are able to increase their competitive position. Since the medical centers require a diverse patient population in sufficient volume to support their teaching and research programs any decreases in the inpatient population are alarming.

Consistent with the managed care's impact on health care delivery, the University's clinics show increases in outpatient visits. While there is pressure from accrediting bodies and other policy makers to shift the locus of medical training from inpatient to outpatient care sites, and the University's clinics are logical outpatient training sites, the cost of medical education in the outpatient setting are expected to be similar or even higher than inpatient settings. Currently, the costs of providing a medical education in an outpatient setting is not reimbursed. It is difficult to capture the data. The University is working with the State on a demonstration project to help identify these costs.

The second way in which managed care seeks to control costs is by contracting with a network of preferred providers to deliver services at negotiated (discounted) rates. To compete successfully for these contracts, physicians are joining with hospitals and other providers to form integrated delivery systems that provide the full range of care from outpatient and lab services to inpatient and skilled nursing care. Integrated delivery systems derive competitive advantages from: (1) economies of scale that can result in lower prices; (2) data collection capabilities that can monitor outcomes over time, which can be an advantage in attracting patients; and (3) convenience for insurers, who can negotiate with many doctors and multiple services as a group rather than an a one-on-one basis. Providers who remain outside these networks face a reduced market for their services, as more and more of the population voluntarily or mandatorily use the managed care option for health care.

The State and federal governments also recognize the cost-containment advantages of managed care. As major purchasers of medical services on behalf of the Medi-Cal and Medicare beneficiaries, government is encouraging the development of contractual arrangements with selected providers to render services to these populations. These contractual arrangements specify negotiated rates for the services to be provided. Unless the rates recognize the special needs of the medical centers and provides the necessary funding, the centers will not be able to recover full costs for providing services.

The University's teaching hospitals--in order to stay competitive and maintain the diverse patient mix needed for teaching--have to become integrated with service networks and develop alternative, stable sources of support for clinical teaching in both inpatient and outpatient settings.

Responding to the Challenges

The medical centers are adapting to the managed care environment by expanding their outpatient and primary care services to complement their existing inpatient services and creating integrated delivery systems. This will enable the centers to compete more successfully for commercial contracts and in turn, provide students with more exposure and training in the delivery of primary care services, and ensure a diverse patient population for clinical teaching and research purposes. An expanded primary care patient base is also expected to result in more referrals to the University's own inpatient and specialist services.

The University's academic medical centers are also responding by reducing costs through restructuring and improved efficiencies. The centers are developing stronger links with other providers, especially community hospitals and physicians in larger networks.

The following is a brief description of how each of the University's academic medical centers have or are responding to the changes in the health care industry.

- **UC Davis Medical Center**: Affiliations and joint ventures are an integral part of the UC Davis Medical Center's plans for the future. In 1996, the Davis Medical Center formed a nonprofit, mutual benefit corporation with Mercy Healthcare Sacramento and North Bay Healthcare System, known as the Western Health Advantage. This corporation was granted a Knox-Keene license, and will be able to function as a health maintenance organization (HMO). In addition, the campus built a new facility, Tower II, to replace the deficient space that nursing units and support functions previously occupied in older parts of the hospital. The Medical center also has developed contracts with many of the major HMOs in Northern California.

- **UC Irvine Medical Center**: Working with the Clinical Practice Group of faculty physicians, the Irvine Medical Center initiated a broad program of managed care contracting and physician practice development. Among the other options being explored by the UCIMC are: (1) the development of its own provider network; (2) increasing the number of CalOPTIMA and County medically indigent services patients directed to UCIMC; and (3) increasing the reimbursement rates for services provided to CalOPTIMA patients.

- **UC Los Angeles Medical Center**: As part of its strategy to develop a foundation for an integrated health care system by expanding primary care to complement existing specialty services, UCLA purchased Santa Monica Hospital in 1995, which had a well developed primary care network. UCLA has also executed an affiliation agreement with the Huntington Provider Group, the largest network of independent physicians and physician groups in the greater Los Angeles area. As a result of structural damage sustained during the 1994 Northridge earthquake, UCLA is planning to build a replacement hospital facility. Most of the funding for the replacement facility will be provided from the Federal Emergency Management Agency (FEMA). The State has provided $44 million in matching funds. The new medical center will have fewer inpatient beds and expanded clinic facilities.

- **UC San Diego Medical Center**: The UCSDMC strategy has focused on reducing its annual operating costs. This strategy directly supports the medical center's efforts to be an attractive partner in network development. It is also critical to the medical center's participation in managed care contracting. Rather than attempting to partner by leasing facilities or staff to other health care systems as previously planned, the UCSD Medical Center will restructure its management service organizations and its health care network. By July 1993, the medical center completed several capital improvements, the Tower and Modernization Project at its Hillcrest facility which converted outdated four-bed wards to double occupancy rooms, and the Thornton Hospital and the Perlman

Ambulatory Center which increased access to more patients in the northern end of the county and provided more modern and attractive facilities. The Healthcare Network was created, linking UCSD's facilities and faculty physicians with community practitioners and hospitals in a county-wide delivery system.

- **UC San Francisco Medical Center**: In addition to acquiring Mount Zion Hospital in 1990, which allowed UCSF Medical Center to expand its clinical programs, the medical center has been developing and strengthening its ties with major health systems, referring medical groups and physician-hospital organizations (PHO). In 1996, the UCSF Medical Center and the California Pacific Medical Group created the Brown and Toland Medical Group to increase access to the managed care population in San Francisco. The Regents have approved merging the clinical operations of the UCSF medical center with Stanford Health Services. Among the advantages of the merger are: (1) an improved ability to compete in a managed care environment and to negotiate more favorable provider contracts; (2) a reduction in costs associated by reducing duplication of capital investments; (3) the ability to sustain an adequate patient base to support the clinical education mission of the schools of medicine; and (4) consolidation of some programs to reduce costs and create efficiencies while maintaining quality.

Paying for the Costs of Health Sciences Education

One of the major issues facing the UC medical centers will be how to continue providing quality training of doctors and other health care professionals in a price-sensitive, competitive, managed care environment.

In 1995-96, the Legislature recognized the financial problems facing the University's medical centers and adopted supplemental language requesting that the University identify the nature of the problems facing its centers. In 1996-97, the Legislature again adopted supplemental language, this time asking the University to develop options for dealing with the underfunding of the cost of providing medical education.

The University reviewed many options, including providing special funding for medical education costs through the Medi-Cal program (similar to the Medicare program), increasing State-funded education support to the University's medical centers, affiliating with strategic planning partners to ensure an adequate patient base and financial stability, and funding of education costs through an all-payer system. As this review proceeded, it became clear that, while no option presents an easy solution to the hospitals' problems, one appears to have the potential for immediate assistance while the University continues to work on a longer-term solution. The option the University is pursuing is to help fund education costs through the Medi-Cal program.

A Phased Approach

Under the federal Medicaid program, federal matching funds are available for state expenditures relating to Medi-Cal education expenses at hospitals that provide services to Medicaid patients. By using State general funds already provided to the University for medical education as a new match for available federal Medicaid funds, the University received $50 million of new funding in 1996-97 to more fully support costs related to Medi-Cal patients and assure a more adequate patient population to support the University's teaching programs.

The State approved SB 391 (Solis), which will continue the program for 1997-98 and 1998-99, allowing the University and other teaching hospitals to obtain additional federal support for educational costs related to services to Medi-Cal patients.

These actions represent short-term, immediate assistance for the support of medical education while the State and the University work on a broader program to finance medical education in outpatient as well as inpatient settings. For the future, the University will undertake a more comprehensive review of the linkages between the delivery and financing of health care in California, and support of the education of appropriate numbers and types of health professionals who will deliver that care.

As part of the long-term solution, the University, in conjunction with other interested parties, hopes to develop a "demonstration project" that would be designed to establish the parameters to allow matching funds for training physicians in non-hospital settings, multi-disciplinary team education, and a multi-payer system of sustained support of health profession education. Such a demonstration project will require negotiations with the federal government to ensure that federal Medicare and Medicaid funding sources are included in the total mix of support for graduate medical education to the fullest extent allowable.

The University will continue to work with the State to establish a permanent, firm funding base for clinical education. In doing so, it is hoped that the program can be developed in a way that will include broader participation of medical education providers throughout the State.

As UC medical schools and medical centers look to the future, the University remains committed to meeting previously established primary care residency training expansion goals, while striving to maintain a long tradition of excellence in health sciences education and responsiveness to societal health needs. Meeting these challenges successfully will require increasing collaboration among educators, teaching hospitals, managed care organizations, and others to ensure that the quality of patient care and medical education continue to meet the high standards of American medicine and modern society.

STUDENT FEES

Overview

There are two mandatory Universitywide fees currently assessed all registered students: the Educational Fee and the University Registration Fee. Income from these two fees is used to support student financial aid, student services programs, and a share of the University's operating costs, including instruction-related costs. There have been no increases in mandatory Universitywide fees since 1994-95. Students also pay miscellaneous fees on each campus to support student associations or student-approved expenses that are not supported by Universitywide fees. For 1997-98, mandatory Universitywide and miscellaneous campus fees across all nine campuses average $4,212 for undergraduate students and $4,722 for graduate students.

The University's 1998-99 budget plan does not include a proposal to increase mandatory systemwide fees. Given the actions taken by the Governor and the Legislature in each of the last three years to "buy out" proposed fee increases, and the Legislature's approval of AB 1318 (Ducheny), which would reduce systemwide fees for undergraduate resident students by five percent, it is premature to propose any changes in general student fees at this time. A final decision will be made after the Governor's Budget is released in January.

All students seeking specified degrees in medicine, dentistry, veterinary medicine, law, business/management, pharmacy, optometry, nursing, and theater/film/television (at the Los Angeles campus only) are required to pay a professional school fee, as provided in the Fee Policy for Selected Professional School Students approved by The Regents in January 1994. As of this writing, scheduled increases in medicine, pharmacy, optometry, and nursing as previously reviewed by The Regents are included in the 1998-99 budget. A decision to proceed with these planned increases will be made after the Governor takes action on AB 1318 (Ducheny) which, in addition to providing a five percent reduction in fees for undergraduate resident students, provides a two-year freeze in fees for California resident students enrolled in graduate or professional school programs.

Finally, in addition to all mandatory Universitywide fees, campus-based fees, and any applicable professional school fees, nonresident students must pay nonresident tuition. For 1997-98, the nonresident tuition is $8,984. An increase of 4.5 percent ($400) in the nonresident tuition is proposed. The increase is equivalent to the estimated growth in the California per-capita personal income.

Historically, the combination of adequate State support and low student fees maintained the affordability of the University; financial aid programs also helped to maintain access for needy students. The commitment to low fees was eroded,

however, by the State's severe fiscal difficulties during the 1990s and the resulting dramatic decline in State support for the University. The shortfalls in State funding were accommodated in three ways: about half through budget cuts, roughly a quarter by not providing employees with cost-of-living salary adjustments and another quarter through general student fee increases. Significant increases in financial aid helped to offset the impact of student fee increases for needy students. The commitment to financial aid, which is addressed in the Student Financial Aid section, has helped maintain the affordability of a UC education.

Student Fees In the 1980s

In 1981-82 and 1982-83, reductions to the University's State-funded budget resulted in significant increases in fee levels and student fees were used to fund programs previously supported from other sources, primarily State funds. In 1984-85, the State reversed the pattern of annual fee increases by approving a $70 per student *reduction* in student fees. In 1985, the State adopted a long-term student fee policy which provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students. In 1985-86 and again in 1986-87, mandatory Universitywide student fees were held at their 1984-85 levels. In each of those three years, the State provided an increase in general funds for student financial aid which, in turn, released an equivalent amount of student fee income to offset the 1984-85 fee reduction and to compensate for the impact of inflation on student services programs for those three years. In 1987-88, 1988-89, and 1989-90, student fees were increased by about 10 percent, four percent, and three percent respectively.

Student Fees In the 1990s

The University experienced sudden and dramatic shortfalls in State funding during the early 1990s. As a result, the University was forced to implement budget cuts equivalent to roughly 20 percent of what the University's State-funded budget was in 1989-90, the year just prior to the period of severe budget shortfalls. In addition, UC employees received no cost-of-living salary adjustments for three years in a row, and in the third year, salaries were cut temporarily by 3.5 percent for one year. Student fees increased significantly during this period, with increases in financial aid helping to offset the impact of the fee increases on needy students. The discussion below describes increases in general Universitywide student fees.

1990-91	Fees were increased by $148 (10%). In addition, a provision was included in the 1990 State Budget Act requiring that law and medical school students pay a new special fee of $376 per year.
1991-92	In response to dramatic shortfalls in State funding for the University, the Statewide Long-Term Student Fee Policy was suspended and general student fees were increased by $650 (40%).

1992-93 The Statewide Long-Term Student Fee Policy was suspended again and general student fees were increased by $550 (24.2%).

1993-94 In actions taken in November 1992 and March 1993, The Regents approved a $995 (35.2%) increase in the Educational Fee to deal with an additional 1992-93 budget cut and an expected shortfall in the 1993-94 budget. However, as a result of a budget augmentation provided by the Governor and Legislature, the fee increase was reduced to $630 (22.3%) in July 1993. These actions continued the suspension of the Statewide Long-Term Student Fee Policy.

1994-95 In January 1994, The Regents approved a new Student Fee and Financial Aid Policy, discussed below, and consistent with the policy, approved a $620 (18%) increase in general Universitywide fees. Subsequently, The Regents approved a reduction in the fee increase from $620 to $345 (10%) student fee increase. As part of the agreement to limit the fee increase to ten percent, the State authorized the use of $25 million in debt financing for deferred maintenance which shifted deferred maintenance costs from general funds to long-term financing, with the released general funds substituting for fee income. Implementation of the reduction in the fee increase was deferred until after November 15 when it was clear that there would be no mid-year budget cut.

1995-96 The University's 1995-96 budget plan included a budget increase of 7.9 percent, noting that if the State could provide this level of funding, no student fee increase would be needed. The January Governor's Budget, however, included only a two percent increase in State funds and proposed a four-year compact with higher education which included provisions for student fee increases of up to ten percent annually. The University subsequently developed a revised budget plan, based on the compact, which included a ten percent fee increase. The Regents deferred action on a fee increase for 1995-96 until after the Governor and Legislature made final decisions on the State budget. Final decisions for 1995-96 included a compromise agreement among the University, the Legislature, and the Governor that there would be no general student fee increase and, instead, an additional $28.5 million of State funds would be provided to help offset the loss of revenue. The additional funds represented about three quarters of the revenue that would have been generated by a ten percent student fee increase net of financial aid, leaving the University with a budget shortfall of $9.5 million. One-time funds were used to deal with the shortfall in 1995-96, and restoration of the funds was provided in 1996-97.

1996-97 Consistent with the four-year compact, a $270 (7.1%) increase in general student fees was included in the University's 1996-97 budget proposal. The Regents again deferred action on the proposed increase and adopted a resolution stating that, if additional State funds were available, holding student fees at the 1995-96 level was among their highest priorities. The 1996 State Budget Act included $27 million beyond the compact, to "buy out" the proposed student fee increase and, as a result, there was no general student fee increase.

1997-98 Consistent with the four-year compact, a $330 increase in general student fees and a $40 Instructional Technology Fee was included in the University's 1997-98 budget plan. Once again, The Regents deferred action on the proposed fees, pending final action by the Governor and Legislature on the University's budget. The 1997 State Budget Act included $37 million beyond the compact to "buy out" the proposed increases in student fees. This was the third straight year in which general student fees were not increased.

Display 1 shows annual fee levels from 1978-79 through 1997-98.

For 1997-98, University fee levels for undergraduate resident students are $384 less than the average fees for the University's four public salary comparison institutions. The University's fees for nonresident undergraduate and graduate students also remain less than the average fees for the comparison institutions. Display 2 shows the average resident and nonresident fees charged at the University's four public comparison institutions.

For 1997-98, UC resident students are paying about 30 percent of the actual cost of their education, with the State subsidizing most of the remainder. This proportion is significantly less than the 40 percent level recommended by the California Postsecondary Education Commission (CPEC), which has proposed that student charges be based on a percentage of the average cost of instruction.

As fees have increased over time, the percentage of additional fee income dedicated to financial aid has increased commensurately, from 16 percent ten years ago to 33 percent at present. Financial aid provided to UC students through the Cal Grant program also has increased. Between the Cal Grant program and financial aid provided from student fee revenue, funds have helped cover fee increases for UC students who demonstrate financial need.

STUDENT FEE LEVELS
1978-1997

	Average Annual Fees per Resident Undergraduate Student						Average Annual Fees per Resident Graduate Student					
	Reg. Fee	Educ. Fee	Ed/Reg Fees Combined		Miscellaneous Fees (a)	Total Fees (a)*	Reg. Fee	Educ. Fee	Ed/Reg Fees Combined		Miscellaneous Fees (a)	Total Fees (a) *
1978-79	$ 371	$ 300	$ 671		$ 49	$ 671	$ 371	$ 360	$ 731		$ 38	$ 731
1979-80	385	300	685	(2.1%)	51	736	385	360	745	(2.1%)	39	784
1980-81	419	300	719	(5.0%)	57	776	419	360	779	(5.0%)	45	824
1981-82 (b)	463	475	938	(30.5%)	60	998	463	535	998	(30.5%)	45	1,043
1982-83 (c)	510	725	1,235	(31.7%)	65	1,300	510	785	1,295	(31.7%)	51	1,346
1983-84	523	792	1,315	(6.5%)	72	1,387	523	852	1,375	(6.5%)	58	1,433
1984-85	523	722	1,245	(-5.3%)	79	1,324	523	782	1,305	(-5.3%)	63	1,368
1985-86	523	722	1,245	(0.0%)	81	1,326	523	782	1,305	(0.0%)	64	1,369
1986-87	523	722	1,245	(0.0%)	100	1,345	523	782	1,305	(0.0%)	82	1,387
1987-88	570	804	1,374	(10.4%)	118	1,492	570	804	1,374	(10.4%)	100	1,474
1988-89	594	840	1,434	(4.4%)	120	1,554	594	840	1,434	(4.4%)	125	1,559
1989-90	612	864	1,476	(2.9%)	158	1,634	612	864	1,476	(2.9%)	222	1,698
1990-91 (d)	673	951	1,624	(10.0%)	196	1,820	673	951	1,624	(10.0%)	482	2,106
1991-92	693	1,581	2,274	(40.0%)	212	2,486	693	1,581	2,274	(40.0%)	557	2,831
1992-93	693	2,131	2,824	(24.2%)	220	3,044	693	2,131	2,824	(24.2%)	608	3,432
1993-94	693	2,761	3,454	(22.3%)	273	3,727	693	2,761	3,454	(22.3%)	703	4,157
1994-95	713	3,086	3,799	(10.0%)	312	4,111	713	3,086	3,799	(10.0%)	786	4,585 (e)
1995-96	713	3,086	3,799	(0.0%)	340	4,139	713	3,086	3,799	(0.0%)	836	4,635 (e)
1996-97	713	3,086	3,799	(0.0%)	367	4,166	713	3,086	3,799	(0.0%)	868	4,667 (e)
1997-98	713	3,086	3,799	(0.0%)	413	4,212	713	3,086	3,799	(0.0%)	923	4,722 (e)

(a) Represents the average of fees charged by the nine campuses.

(b) Includes a one-time $25 Spring Quarter Educational Fee surcharge.

(c) Includes a one-time $100 Spring Quarter Educational Fee surcharge.

(d) The Governor and Legislature included a provision in the 1990-91 budget, subsequently approved by The Regents, which established a new special fee of $376 per year for law and medical school students. This fee is not included in figures shown.

(e) The Fee For Selected Professional School Students is not included in figures shown.

* Total fees are the sum of the Ed/Reg Fees combined and estimated campus miscellaneous fees, which are higher for graduate students.

NOTE: The fee income estimates are not adjusted to reflect the provisions of AB 1318, which is before the Governor for action.

DISPLAY 2

University of California and Public Salary Comparison Institutions
Student Fees

	Undergraduate		Graduate	
	Resident	Nonresident	Resident	Nonresident
Public Salary Comparison Institutions 1997-98 Fees				
University of Illinois	$ 4,340	$ 10,956	$ 4,878	$ 11,552
University of Michigan	$ 6,253	$ 19,093	$ 9,816	$ 19,722
State University of New York *	$ 4,340	$ 9,240	$ 5,792	$ 9,108
University of Virginia	$ 4,786	$ 15,030	$ 4,786	$ 15,030
1997-98 Average Fees	$ 4,930	$ 13,580	$ 6,318	$ 13,853
1997-98 UC Fees	**$ 4,212**	**$ 13,196**	**$ 4,722**	**$ 13,706**
1998-99 Estimated Average Fees for Public Salary Comparison Institutions	*$ 5,102*	*$ 14,055*	*$ 6,539*	*$ 14,338*
1998-99 UC Fees with Proposed Increase in Nonresident Tuition	***$ 4,212***	***$ 13,596***	***$ 4,722***	***$ 14,106***

* Does not include the cost of mandatory health insurance required by the State of New York.

NOTE: The fee income estimates are not adjusted to reflect the provisions of AB 1318, which is before the Governor for action.

During the period when fees increased, the percentage of new freshmen from low-income families--those with less than $30,000 parental income--did not decline. In fact, for fall 1996, the distribution of freshmen by parent income level is quite similar to the distribution of freshman family incomes in fall 1991. The Student Financial Aid section of this budget provides a full discussion of financial aid from all sources, including State, federal, private, and University sources.

Policy on Adjustment of Student Fee Levels

In 1985, the State adopted a long-term student fee policy which provided for gradual and moderate fee increases and established guidelines for fee increase calculations, financial aid, notification to students of fee increases, and consultation with students. In addition, the policy provided for fee increases of up to ten percent when State revenues and expenditures were substantially imbalanced. Although The Regents adopted the

policy in 1985, it was routinely suspended beginning with the 1991-92 budget. The policy was not reauthorized by the Legislature and is no longer in effect.

Discussions occurred at Regents' meetings in October and November 1993 regarding the need to establish a new student fee policy coupled with a formal financial aid policy. These discussions occurred within the context of the reduced State financial support for the University and an anticipated dramatic increase in student demand over the next 15 years. During these discussions the necessity to generate additional revenue in order to maintain the academic quality of the University as well as student access was acknowledged. It was also recognized that for California resident students, funding the cost of a UC education is a shared responsibility among the State, the students, and their families. Further, because student fees cover only a portion of the cost to educate students, it was understood that all students receive a substantial State subsidy, including those from high-income families who have the resources to contribute more. Data from a 1994-95 survey of students' expenses and resources indicate that a third of undergraduates had parents with incomes above $72,000, while about 19 percent had incomes of $96,000 and above.

In January 1994, based on extensive discussions with the State and within the University community, The Regents approved a new Student Fee and Financial Aid Policy that applies to the Educational Fee and University Registration Fee. The Policy recognizes that the commitment to low fees has been eroded by dramatic declines in State support, and specifically authorizes the use of Educational Fee revenue for general support of the University, including costs related to instruction. A goal of the Policy is to maintain access to a quality educational experience at the University for low- and middle-income students without unnecessarily subsidizing high-income students.

Under the new Policy, the Educational Fee continues to be a uniform, mandatory charge assessed to all resident and nonresident students. The Policy calls for the Educational Fee to be established annually based on the following factors: (1) the resources necessary to maintain access under the Master Plan, to sustain academic quality, and to achieve the University's overall missions; (2) the amount of support available from various sources to assist needy students in funding the cost of their education; (3) overall State general fund support for the University; and (4) student charges at comparable public institutions. The President is to solicit faculty and student views annually on the level of the Educational Fee. In addition to funding programs and services supported by the Educational Fee in past years (such as student financial aid and related programs, admissions, registration, administration, libraries, and operation and maintenance of plant), income generated by the Educational Fee is now used for general support of the University's operating budget.

The Policy also established a new methodology for setting annual University Registration Fee levels that vary among the campuses within a range established annually by The Regents.

Finally, to assist students and their parents in planning for future educational expenses, the Policy provides for recommendations annually to the Board concerning the proposed levels for the Educational Fee and the University Registration Fee for the next academic year, and the anticipated fee levels for the following three years.

Educational Fee

The Educational Fee was established in 1970. Though the Educational Fee initially was designated to be used primarily for capital outlay purposes, in subsequent years, an increasing proportion of the Fee was allocated for student financial aid. In 1976, The Regents adopted a policy that Educational Fee income was to be used exclusively for support of student financial aid and related programs. The Regents modified that policy in 1981 following a reduction in State general fund support. As a result, the Educational Fee, which continued to fund student financial aid and related programs, also began to support social and cultural activities, counseling and career guidance, supplemental education (e.g., academic tutoring), and overhead (i.e., operation and maintenance of plant and general administration) associated with student services activities funded by student fee income.

In 1994, The Regents adopted a policy permitting the use of Educational Fee revenue for general support of the University's operating budget, including costs related to instruction. As discussed earlier, the policy also established a new methodology for setting annual Educational Fee levels.

University Registration Fee

The University Registration Fee is a charge made to each registered student for services which are necessary to students but not part of the University's programs of instruction, research, or public service. Included in these services are activities such as counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements which provide extracurricular benefits for students. Chancellors are authorized to determine specific allocations of Registration Fee income on their campuses, within appropriate University policies and guidelines. Each campus has a Registration Fee Committee, which includes a majority of voting student members, to advise the Chancellor on pertinent issues.

Between 1977 and 1988-89, the Registration Fee level differed by campus in order to allow each campus to meet specific program needs. This approach included the expectation that the Registration Fee could be increased differentially, up to a Universitywide ceiling, to meet future campus needs. However, the Registration Fee was frozen from 1984-85 through 1986-87. In 1987-88, the University began moving

toward a uniform Registration Fee level among the campuses. The goal was achieved in 1989-90.

The Student Fee and Financial Aid Policy approved by The Regents in January 1994 provided that the Registration Fee was no longer required to be uniform across the campuses beginning in 1995-96. However, given that the budget plan for 1998-99 does not include a proposal to increase mandatory systemwide fees, no range for the Registration Fee is being recommended at this time. In the interim, programs supported from the Registration Fee will continue to receive inflationary adjustments equivalent to what is provided to general fund and Educational Fee-funded programs (e.g., cost-of-living and merit salary increases, price increases, undesignated budget reductions).

Fee for Selected Professional School Students

The 1990 State Budget Act required that a new Special Fee for Law School and Medical School Students of $376 per year be charged to law and medical school students.

In January 1994, The Regents approved a Fee Policy for Selected Professional School Students. In approving the new fee policy, the University reaffirmed its commitment to maintain academic quality and enrollment in the designated professional school programs and recognized that earning a degree in these programs benefits the individual as well as the State. The policy provides that the fee for each selected professional program will be phased in to approximately the average of fees charged for that program by comparable high quality institutions across the nation. Until the fee is fully phased in, the level of the fee remains the same for each student for the duration of his or her enrollment in the professional degree program, with increases in the fee applicable to new students only. In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees and, when appropriate, nonresident tuition. The Special Fee for Law and Medical School Students is now consolidated with the Fee for Selected Professional School Students.

As of this writing, the 1998-99 budget assumes continued implementation of the plans previously reviewed by The Regents to bring selected professional school fees to the average charged by schools of comparable quality around the nation. This decision will be revisited once the Governor takes action on AB 1318 (Ducheny) which provides for a two-year freeze in fees for California resident students enrolled in graduate or professional school programs.

DISPLAY 3

Fees for Selected Professional School Students:
Proposed Annual Fee Levels by Year of First Enrollment*

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Medicine	$ 2,376	$ 3,376	$ 4,376	$ 5,376	$ 6,376	
Dentistry	$ 2,000	$ 3,000	$ 4,000	$ 5,000		
Veterinary Medicine	$ 2,000	$ 3,000	$ 4,000			
Law	$ 2,376	$ 4,376	$ 6,376			
Business						
Berkeley, Davis, LA, Irvine	$ 2,000	$ 4,000	$ 6,000			
Riverside	$ 2,000	$ 3,000	$ 4,000	$ 5,000	$ 6,000	
Optometry			$ 2,000	$ 3,000	$ 4,000	$ 5,000
Pharmacy			$ 2,000	$ 3,000	$ 4,000	$ 5,000
Nursing			$ 1,500	$ 1,800	$ 2,100	$ 2,500
Theater, Film, & TV			$ 2,000			

* In addition, professional school students pay mandatory Universitywide fees and miscellaneous campus-based fees. This table shows planned increases in the Fees for Selected Professional School Students which have been reviewed previously by The Regents. A decision to Implement the plan in 1998-99 will depend on what action the Governor takes on AB 1318 (Ducheny). The bill provides a 2-year freeze in fees for resident students enrolled in graduate or professional school programs.

Display 3 shows the fee levels previously approved by The Regents as well as planned increases for 1998-99 that were previously reviewed by The Regents. The scheduled increases are consistent with a multi-year plan for phasing in the Fee for Selected Professional School Students that was approved by The Regents in 1995 and 1996. If a decision is made to move ahead with the phasing plan for 1998-99, the Fee for Selected Professional School Students will be set at $6,000 per student per year for new students enrolled in the first graduate professional degree programs in medicine (M.D.) and business/management (M.B.A.) at the Riverside campus only; at $4,000 per student per year for new students enrolled in the first graduate professional degree programs in optometry (O.D.) and pharmacy (Pharm.D.); and at $2,100 per student per year for new students enrolled in the first graduate professional degree programs in nursing (M.S.N. or M.N.).

As previously approved, new students enrolled in the first graduate professional degree programs in law (J.D.) and business/management (M.B.A.) will continue to pay $6,000 per student per year and new students in veterinary medicine (D.V.M.) will continue to pay $4,000 per student per year. New students enrolled in the M.F.A. program in

Theater, Film, and Television (at the Los Angeles campus only) will continue to pay $2,000 per student per year. In law and medicine only, new students will pay an additional $376 per student per year reflecting the Special Fee for Law and Medicine (discussed above) which is now consolidated with the Fee for Selected Professional School Students, resulting in a fee of $6,376 per student per year for new medical and law school students.

If all increases in the Fee for Selected Professional School Students are approved, new revenue (excluding revenue from the $376 for the Special Fee for Law and Medical School Students) will be approximately $5.8 million in 1998-99. Of that total, about $1.9 million will be used for financial aid to maintain the affordability of professional school programs, and the remaining $3.9 million will be used by professional schools to maintain academic quality and enrollment levels, in accordance with the policy approved in January 1994. Fee income may be used to hire faculty and teaching assistants, for instructional and computing equipment, libraries, other instructional support, and student services. The amount of fee revenue associated with the proposed fee increase for 1998-99, including the amount to be set aside for financial aid, is shown in Display 4. Revenue estimates will be modified once a final decision is made with respect to changes in selected professional school fees.

DISPLAY 4

1998-99 Professional School Fee Income *

	Gross Fee Income	Return-to-Aid	Net Fee Income
1997-98 Budgeted Fee Income	$ 34,525,700	$ 11,508,600	$ 23,017,100
Increased Fee Income in 1998-99:	$ 5,875,400	$ 1,958,500	$ 3,916,900
New students paying previously approved fees	$ (4,921,700)	$ (1,640,600)	$ (3,281,100)
Fee income associated with increases in 1998-99 fees previously reviewed by The Regents	$ (953,700)	$ (317,900)	$ (635,800)
Total Fee Income	$ 40,401,100	$ 13,467,100	$ 26,934,000

* Excludes the $376 Special Fee for Law and Medical School Students.

NOTE: The fee income estimates are not adjusted to reflect the provisions of AB 1318, which is before the Governor for action.

Because of a concern about the ability of students with high debt to pursue public interest occupations, some professional schools are developing programs to assist students in meeting their loan repayment obligations after graduation. The University will continue to monitor students' debt levels.

Overall, the University's resident fees for selected professional school students are lower than the tuition and fees charged by comparable institutions. Display 5 shows 1997-98 professional school fees at the University of California and in relation to the University's four public salary comparison institutions. The table also shows the 1997-98 fees at the University's four private salary comparison institutions, which are higher than fees at the public institutions and are about double current UC resident fees for professional schools.

Nonresident Tuition

University of California students who do not qualify as California residents under Section 110.2, Matters Relating to Residency, of the *Standing Orders of The Regents*, are required to pay nonresident tuition. The yearly charge is the same for each nonresident student regardless of level.

In May 1992, The Regents adopted stricter requirements for establishing residency for tuition purposes. This action allowed the University to be consistent with the federal definition of "financial independence" and to give full weight to this factor in assessing whether undergraduate and graduate students should be classified as residents for tuition purposes. Effective fall 1993, students seeking classification as residents are considered financially independent if they satisfy one of the following criteria: is at least 24 years old; is a veteran of the U.S. Armed Services; is married; is a ward of the court; both parents are deceased; has legal dependents other than a spouse; is a graduate student and not claimed on another's income tax as a dependent for the immediately preceding tax year; or is a single undergraduate student who is financially self-sufficient and who was not claimed on another's income tax return as a dependent for the preceding two years.

State Policy on Adjustment of Nonresident Tuition

At the close of its 1988 session, the Legislature adopted Senate Concurrent Resolution 69 (Morgan) expressing its intent to adopt a long-term nonresident student fee policy. The resolution called on the California Postsecondary Education Commission (CPEC) to convene meetings of representatives from the University of California, the California State University, Hastings College of the Law, the California Community Colleges, the Department of Finance, the Legislative Analyst's Office, and students to develop recommendations for a long-term nonresident student fee policy. The Advisory Committee convened by CPEC issued it's report in June 1989, which concluded with the following recommendation:

1997-98 FEES FOR SELECTED PROFESSIONAL SCHOOL STUDENTS

University of California	Under-graduate	Graduate	Medicine	Dentistry	Veterinary Medicine	Law	Business Admin.	Optometry	Pharmacy	Nursing
Current 1997-98 Fees										
Educational Fee, University Registration Fee, and Average Miscellaneous Fees	$ 4,212	$ 4,722	$ 4,714	$ 4,566	$ 4,449	$ 4,478	$ 4,744	$ 4,355	$ 4,509	$ 4,496
Fee for Selected Professional School Students	--	--	$ 5,376	$ 5,000	$ 4,000	$ 6,376	$ 6,000 *	$ 3,000	$ 3,000	$ 1,800
Total Fees for 1997-98	**$ 4,212**	**$ 4,722**	**$ 10,090**	**$ 9,566**	**$ 8,449**	**$ 10,854**	**$ 10,744**	**$ 7,355**	**$ 7,509**	**$ 6,296**
Comparison Institution Fees										
Current 1997-98 Fees										
Public Salary Comparison Institutions										
University of Illinois	$ 4,340	$ 4,878	$ 13,060	$ 9,268	$ 8,838	$ 7,646	$ 10,654		$ 5,306	$ 4,878
University of Michigan	$ 6,253	$ 9,816	$ 17,410	$ 14,388		$ 17,332	$ 18,584		$ 11,806	$ 9,816
State University of New York	$ 4,340	$ 5,792	$ 11,555	$ 11,565		$ 8,075	$ 5,762	$ 10,920	$ 6,525	
University of Virginia	$ 4,786	$ 4,786	$ 10,174			$ 13,954	$ 13,835			$ 4,786
Additional Fee Comparison Institutions for Selected Programs										
University of Alabama								$ 5,986		
Indiana University										
Michigan State University					$ 10,452					
University of Minnesota					$ 9,341					
University of Missouri								$ 13,501		
Ohio State University								$ 8,442		
University of Wisconsin					$ 10,826					
Average Public Comparison Institution Fees	**$ 4,930**	**$ 6,318**	**$ 13,050**	**$ 11,740**	**$ 9,864**	**$ 11,752**	**$ 12,209**	**$ 9,712**	**$ 7,879**	**$ 6,493**
Private Salary Comparison Institutions										
Harvard University	$ 21,820	$ 21,820	$ 26,420	$ 26,420		$ 24,020	$ 26,220			
Massachusetts Institute of Technology	$ 23,100	$ 23,100								
Stanford University	$ 22,002	$ 21,912	$ 26,997			$ 24,612	$ 24,778			
Yale University	$ 23,100						$ 24,200			

* Except the Riverside campus which charged $5,000 per MBA student per year for 1997-98.

> As California's public postsecondary education segments annually adjust the level of nonresident tuition they charge out-of-state students, the nonresident tuition methodologies they develop and use should take into consideration, at a minimum, the following two factors: (1) the total nonresident charges imposed by each of their public comparison institutions and (2) the full average cost of instruction in their segment.
>
> Under no circumstances should a segment's level of nonresident tuition plus required fees fall below the marginal cost of instruction for that segment.
>
> In addition, each segment should endeavor to maintain that increases in the level of nonresident tuition are gradual, moderate, and predictable, by providing nonresident students with a minimum of a ten-month notice of tuition increases. Each governing board is directed to develop its own methodology for adjusting the level of nonresident tuition, but those methodologies should be consistent with this recommendation.

The Advisory Committee's recommendations for adjusting the level of nonresident tuition subsequently were signed into law (Chapter 792, 1990). In addition, the legislation includes the proviso that "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 bill's provisions.

Nonresident Tuition Levels in the 1990s

The nonresident tuition level is an important element in the University's ability to recruit outstanding graduate students. In addition to paying nonresident tuition, out-of-state students must also pay the Educational Fee, the University Registration Fee, miscellaneous campus fees and, if applicable, the Fee for Students in Selected Professional Schools.

As shown in Display 6, between 1987-88 and 1991-92, nonresident tuition increased by nearly 80 percent reflecting the State's fiscal problems. However, these increases created a significant differential between the University's level of tuition and fees and those charged at other public institutions and, in recognition of that differential,

DISPLAY 6

NONRESIDENT TUITION
1978-1998

Year		Tuition Level		Percent Change Over Previous Year
1978-79		$ 1,905		--
1979-80		2,400		26.0 %
1980-81		2,400		0.0
1981-82		2,880		20.0
1982-83		3,150		9.4
1983-84		3,360		6.7
1984-85		3,564		6.1
1985-86		3,816		7.1
1986-87		4,086		7.1
1987-88		4,290		5.0
1988-89		4,956	(a)	15.5
1989-90		5,799		17.0
1990-91		6,416		10.6
1991-92		7,699		20.0
1992-93		7,699		0.0
1993-94		7,699		0.0
1994-95		7,699		0.0
1995-96		7,699		0.0
1996-97		8,394		9.0
1997-98		8,984		7.0
1998-99	(Proposed)	9,384		4.5

(a) For the 1988-89 academic year only, this increase was effective beginning winter quarter/spring semester. Thus, nonresident students were charged a total of $4,806 in 1988-89, a 12.0% increase over the previous year. However, the base for future increases was annual tuition of $4,956.

nonresident tuition remained at $7,699 until 1996-97. Consistent with the Statewide policy on adjustment of nonresident tuition, The Regents approved a $695 increase in nonresident tuition for 1996-97, and a $590 increase in 1997-98. The total fees and tuition charged to nonresident graduate students in 1997-98 remain about $150 below those charged at other public institutions.

1998-99 Nonresident Tuition Increase

Consistent with the Statewide policy on adjustment of nonresident tuition, described above, a $400 (4.5%) increase in nonresident tuition is recommended as one component of the 1998-99 budget proposal. This will generate about $11 million in new revenue.

With the proposed increase, the University's 1998-99 charges for nonresident graduate students will be $14,106, which is less than the projected average charged at other public institutions. Display 2 shows the 1998-99 projected average nonresident tuition and fees for graduate students at the four public salary comparison institutions. Consistent with State policy, future increases in UC nonresident tuition are anticipated to keep the University's charges at the level of the average charged at comparison institutions.

Miscellaneous Campus Fees

Other campus mandatory fees, also called miscellaneous fees, cover a variety of student-approved expenses that are not supported by the Educational Fee or University Registration Fee. These miscellaneous fees help fund student government, sports and recreational facilities, and graduate student health insurance. The level of miscellaneous fees varies from campus to campus and, in some cases, between graduate and undergraduate students. Generally, students must vote to establish or increase campus mandatory fees.

STUDENT SERVICES

1997-98 Budget	
Total Funds	$215,549,000
General Funds	--
Restricted Funds	215,549,000
1998-99 Increase	
General Funds	--
Restricted Funds	1,967,000

Student services programs and activities contribute to students' intellectual, cultural, and social development outside of the formal instructional process. Student services programs and activities include counseling and career guidance, tutoring, student health services, social and cultural activities, admission and registrar operations, financial aid and loan collection administration, and services to students with disabilities. Student services are primarily supported from student fee income. Each of these categories is briefly described below.

Counseling and Career Guidance

Students may visit a counselor concerning such issues as scholastic performance, choice of a major, personal concerns, assessing interests and aptitudes or exploring long-range career opportunities. Group counseling is provided on many campuses. In addition, campuses provide career planning and placement services which provide students and alumni with assistance in defining their career objectives, teach job search skills, and provide on-campus interviewing opportunities for summer or career employment.

Learning Skills Assistance

Campuses provide academic support services that offer tutoring and learning skills assistance to students at learning centers. Learning skills staff provide individual and group tutorial services in writing, mathematics, study skills, and preparation for graduate and professional school exams.

Social and Cultural Activities

Campuses offer a wide range of cultural and social activities to enhance the quality of life for students and the campus community. Such activities include music, dance and drama events; speakers; and sports activities.

Student Health Services

Student Health Services provide students with primary care and other services to keep students healthy. Services include general outpatient medical care, specialty medical care, and health education. On-campus services are supported primarily through student fees and fees-for-service. Graduate students on all campuses and undergraduate students on the Berkeley campus have approved campus ballot initiatives requiring all students to have health insurance as a condition of attending the University.

Admissions and Registrar Operations

Campus admissions and registrar operations include the processing of applications for admission, enrollment and registration of students, scheduling of courses, maintaining and updating student academic records, preparing diplomas, and reporting statistics.

Financial Aid Administration

Campus financial aid officers 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, loans, and work-study jobs from federal, State, University, and private fund sources. Financial aid officers are required to comply with numerous federal and State regulations in administering these funds.

Services to Students With Disabilities

Currently, the University serves 4,600 students with disabilities. Services to these students are required by State and federal law and include mobility assistance, readers, interpreters, notetakers, tutors, provision of adaptive educational equipment, and disability-related counseling among other services. These services represent unavoidable costs that must be covered. Currently, this program is funded from student fees and other income available to the campuses. In November 1995, the California State Auditor reviewed the University's policies, guidelines, and practices for compliance with the Americans with Disabilities Act (ADA), which was enacted in 1990 to provide people with disabilities civil rights protection and access to benefits, services and programs. The State Auditor focused specifically on the adequacy of computer access for UC students with disabilities and concluded that the University provided students with disabilities adequate access to computers on all UC campuses.

STUDENT FINANCIAL AID

1997-98 Budget	
Total Funds	$232,987,000
General Funds	62,260,000
Restricted Funds	170,727,000
1998-99 Increase	
General Funds	--
Restricted Funds	$3,191,000

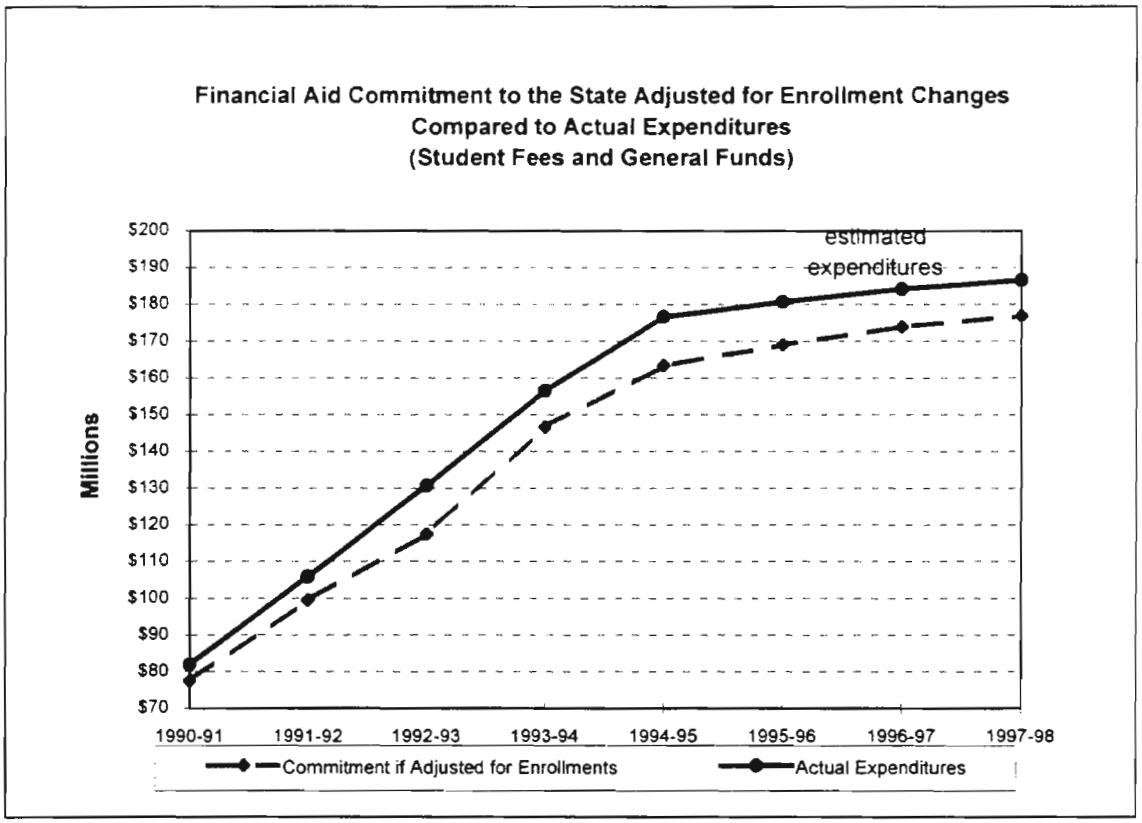
Financial aid plays an important role in making the University accessible to students by helping to ensure that cost considerations are not barriers to enrollment. The Regents reaffirmed their commitment to maintaining access under the California Master Plan for Higher Education once again when the University's financial aid policy was adopted in 1994.

The $232,987,000 for 1997-98 shown in the chapter heading above includes State general funds, funds from University student fees, and endowment funds; excluded from this amount are federal funds, private bank loans, Cal Grants and other aid provided directly to students.

BACKGROUND

Historically, the University has been committed to setting aside a portion of revenue from fee increases for financial aid for needy students. As fees have increased over time, the percentage of revenue from fee increases dedicated to financial aid has also increased, from 16 percent ten years ago to 33 percent at present. Display 1 shows the minimum amount of financial aid required by the University's commitment to the State and the actual expenditures from State general funds and student fees for financial aid since 1990-91. The display shows that the University not only met its commitment to the State to provide sufficient financial aid for needy students, but exceeded that commitment. When enrollments declined in the early 1990s, the University did not reduce the level of funding for financial aid, even though the decrease in the number of students enrolled would have justified a corresponding decrease in financial aid.

DISPLAY 1

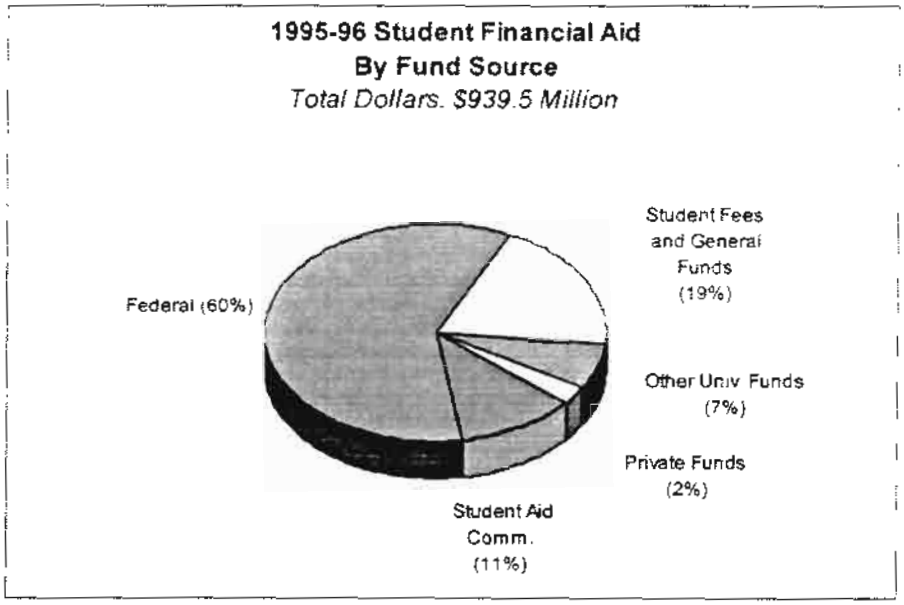


In addition, the University supplemented financial aid from fee increases with other University funds. Looking at all University fund sources, funding for financial aid increased by nearly 133 percent between 1989-90 and 1995-96.

UC students receive scholarships, fellowships, grants, loans, and work-study jobs to assist them in meeting the educational costs of attending the University such as fees, living expenses, books and supplies, and transportation. Financial assistance comes from four sources: the federal government; University funds, including student fees and State general funds, and endowments and other discretionary funds; the State through the Cal Grant programs; and private outside agencies.

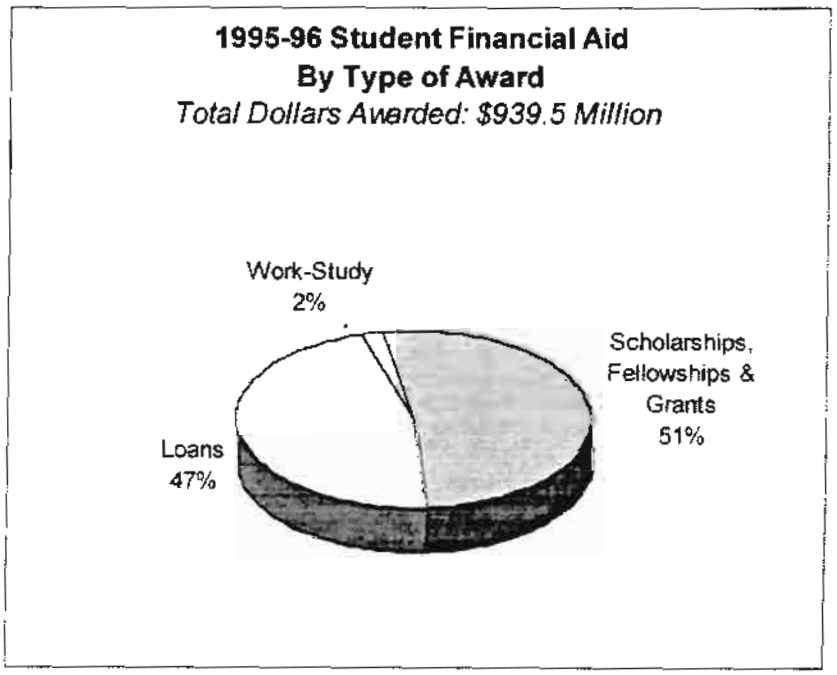
University students received more than $939 million in student aid in 1995-96. Display 2 shows the proportion each fund source contributed to the total amount of financial support provided to UC students in 1995-96, the last year for which final data are available.

DISPLAY 2



The amount of financial aid provided in 1995-96 represents an increase of about $81 million, or 9.5 percent, over the amount received in 1994-95. Most of this increase occurred in federal loan programs and the University's grant programs which grew by $53 million, and $12 million, respectively. Display 3 shows the overall proportion of financial aid provided to UC students by the type of award.

DISPLAY 3



While there was no general Universitywide fee increase in 1997-98, the Fee for Selected Professional School Students and the nonresident tuition fee did increase and additional fee revenue will be generated from increased enrollments. As a result, there will be a modest increase in budgeted University-funded financial aid of about $4.9 million.

Undergraduate Student Aid

The proportion of undergraduate students receiving some type of financial aid has grown steadily over the past few years; this percentage increased from 59 percent in 1994-95 to 63 percent in 1995-96. Financial aid awards for undergraduate recipients averaged about $8,045 in 1995-96. Fifty-two percent of undergraduate aid was awarded in the form of "gift" aid (scholarships and grants) rather than "self-help" aid (loans and work-study). About 81 percent of all undergraduate aid was awarded on the basis of financial need in 1995-96, reflecting that undergraduate financial support is principally intended to provide access to a University education to those students who otherwise would be unable to afford to attend.

Graduate Student Aid

Graduate Academic Student Aid. Compared to undergraduate students, a greater proportion of graduate students receive financial support (91%), and their average annual financial aid award ($11,458) is significantly higher. Because graduate students generally do not rely on parental support to meet educational costs and are more likely to have dependent family members, graduate students tend to have a greater need for financial support. Also, graduate students generally incur higher educational expenses and have higher student debt. The largest proportion of aid awarded to graduate academic students is in the form of fellowships and grants (73% in 1995-96) rather than loans and work-study. In addition, many graduate students receive financial support as teaching and research assistants.

Professional School Student Aid. In 1994, The Regents approved a Fee Policy for Selected Professional School Students which was implemented beginning with the fall 1994 academic term. The policy provides that an amount of funding equivalent to at least one-third of the total revenue from the Fee be used for financial aid to help maintain the affordability of professional school programs. Some campuses have set aside more than one-third of the fee revenue. The majority of the funds is used for grant and fellowship awards with some funds set aside for loan repayment assistance programs.

The remainder of the chapter: (1) outlines the goals of the University's financial aid policy and how student need for University aid is determined using the Education

Financing Model; and (2) describes financial aid expenditures for 1995-96 by source of funds. Display 6 at the end of this chapter shows all financial aid expenditures for 1995-96 by type of aid and fund source.

Financial Aid Policy

As discussed in the Student Fees section of this budget, UC fees increased significantly during the 1990s, largely due to major shortfalls in State funding for the University's budget. In January 1994, The Regents adopted a new University policy for setting fees. Accompanying this policy was a new financial aid policy that calls for maintaining the affordability of the University and focuses on providing enough University financial aid to maintain accessibility for all students.

Education Financing Model

In response to this new Regental policy, the University developed the Education Financing Model (Model), which is used to determine undergraduate student aid funding needs, allocate undergraduate aid funds to the campuses, and guide the award of aid funds to undergraduate students. The Model is based on the following set of principles:

- The total cost of attendance (fees, living and personal expenses, books and supplies, and transportation) is considered in assessing financial need;
- Meeting the costs of attending the University is a partnership among students, parents, federal and state governments, and the University;
- All students should be expected to make some contribution toward their cost of attendance through work and/or borrowing;
- Students should have flexibility in deciding how to meet their expected contribution; and
- Campuses should have flexibility in implementing the Model to serve their particular student bodies and are encouraged to supplement centrally distributed financial aid funds with their own resources.

The formula for determining the amount of grant aid needed is shown in Display 4.

DISPLAY 4

Education Financing Model	
	Student Expense Budget
Less	Reasonable Contribution from Parents
Less	Manageable Student Contribution from Working
Less	Manageable Student Contribution from Borrowing
Less	Federal and State Grant Aid
Equals	**University Grant Aid Needed**

Student Expense Budget. The total undergraduate educational expenses associated with attending the University are considered in assessing need. These expenses include direct educational expenses--fees, books and supplies--for a California resident, plus a modest allowance for living, transportation, and miscellaneous expenses. A uniform method is used by the campuses to determine standard undergraduate student expense budgets. The method recognizes regional variations in costs and in student spending patterns.

Contribution from Parents. Parents are expected to help pay for the costs of attending the University if their children are considered financially dependent using the Federal definition of independence. The amount of the parental contribution is determined by a federally mandated formula for determining need, 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. If parents do not contribute the amount expected under the Federal need analysis standards, the student is expected to make up the difference through extra borrowing and/or work, or by reducing his or her expenses.

Contribution from Work and Borrowing. Students are expected to make a contribution to their educational expenses from earnings and borrowing. The expected contribution should be manageable so that students are able to make steady progress toward completion of the baccalaureate degree and to meet loan repayment obligations after graduation. The Model provides ranges for loan and work expectations which are adjusted annually for inflation and periodically for market changes in student wages and expected post-graduation earnings.

Contribution from Federal and State Grant Aid. The University's goal is to provide grant support to needy students to cover the gap between the student's expense

budget and the expected contributions from parents, student borrowing, and student work. Available Federal and State need-based grants are applied toward a student's grant eligibility.

Campus-based scholarships and grants from gifts, endowments, campus discretionary funds, the Regents' Scholarship Program, and scholarships and grants from outside agencies are excluded from the framework of the Education Financing Model. These funds generally are used to reduce the loan and work expectations of students.

The University began phasing in the Education Financing Model in 1997-98 and expects to fully implement the Model within six years.

Federal Aid

In 1995-96, UC students received $563 million in federal financial aid, which represented approximately 60 percent of all support awarded during that year. Overall, UC students received 12 percent more federally funded aid in 1995-96 than they received in the previous year. This was principally due to increases (totaling approximately $53 million) in borrowing under federal loan programs. Borrowing for University undergraduate and graduate students totaled nearly $432 million in 1995-96. The significance of the federal student loan programs for University students is demonstrated by the fact that the subsidized loan programs comprised over one-half (54%) of all federally funded aid and nearly one-third (32%) of total financial support received by University students in 1995-96. However, the unsubsidized loan program continues to be the fastest growing source of federal support for students.

Consistent with the plan to balance the federal budget by 2002, the President and Congress have reached agreement on spending reductions and tax cuts for the 1998 Federal budget. While funding for most existing federal aid programs will remain relatively stable, the 1998 appropriations bill includes an increase in funds for the Pell Grant program. In addition, the 1998 tax reconciliation bill which was signed recently by the President includes a number of new federal initiatives which could have an impact on University students and their families in the future. A summary of the changes follows.

Increases in Pell Grant Awards

If the 1998 appropriations bill becomes law, the maximum levels in Pell Grant awards would be increased for 1998-99 by $300, making more funds available for needy UC students.

- Generally, low-income undergraduate students will benefit from the increase in the maximum award levels.

HOPE Tax Credit

Under this program, the tax reconciliation bill provides tax credits for qualified taxpayers for the first two years of postsecondary education. A 100 percent tax credit may be claimed for the first $1,000 of tuition and fees. A 50 percent tax credit may be claimed for the second $1,000 of tuition and fees. The tax credit will apply to out-of-pocket tuition and fees payments for enrollment after January 1, 1998. The tax credit is phased out for taxpayers filing joint returns with incomes between $80,000 and $100,000 and for those filing single returns with incomes between $40,000 and $50,000.

- Middle- and lower-middle-income students and their families will benefit from the HOPE Credit.

"Lifetime Learning" Tax Credit

The reconciliation bill also provides a tax credit for tuition and fees paid within a tax year, beginning July 1, 1998. Unlike the HOPE Credit, the "Lifetime Learning" tax credit is not limited to enrollment during the first two years of postsecondary education. The taxpayer may claim a credit equivalent to 20 percent of the first $5,000 in tuition and fees paid through the year 2002 (20 percent of $10,000 in tuition and fees paid in subsequent years) for postsecondary education. The tax credit is phased out at the same income levels as the HOPE tax credit. Taxpayers cannot claim both a HOPE tax credit and a "Lifetime Learning" tax credit for the same student in the same tax year. However, the two tax credits can be claimed during the same year for different qualifying students.

- Middle- and lower-middle-income students and their families will benefit from the "Lifetime Learning" tax credit.

Penalty-free IRA Withdrawals

Penalty-free IRA withdrawals for undergraduate, graduate, and postsecondary vocational education expenses will now be permitted. Currently, withdrawals from IRAs prior to retirement are subject to fines. This provision will permit students and their families to withdraw funds for educational purposes without penalty.

Education IRA

Taxpayers will be allowed to contribute $500 per year into a new Education IRA. Although contributions are not tax deductible, earnings on the IRA will be tax-free and no taxes will be due upon withdrawal if used for an approved purpose. The Education IRA is phased out for families with incomes between $150,000 and $160,000.

- The IRA provisions are targeted to assist middle-income students and their families.

Deduction of Student Loan Interest

The reconciliation bill provides a tax deduction for interest paid on student loans for the first 60 months of repayment. The amount of interest that may be deducted will be phased in over four years; the maximum deduction in 1998 would be $1,000 and would increase to $2,500 in the year 2001 and beyond. Eligibility for the deduction is phased out for taxpayers filing joint returns with incomes between $60,000 and $75,000 and for those filing single returns with incomes between $40,000 and $55,000.

- Middle-income and lower-middle-income undergraduate, graduate, and professional degree students will benefit from the reinstatement of the tax deduction of student loan interest.

Tuition Remission for Graduate Research and Teaching Assistants

Currently, tuition and fee remissions provided to University graduate assistants are tax exempt. The House version of the tax bill had sought to make the value of remissions taxable. However, the tax-exempt status of tuition remissions for graduate students was retained in the reconciliation bill. As a result, tuition and fee remissions provided to the University's teaching and research assistants will continue to be tax exempt.

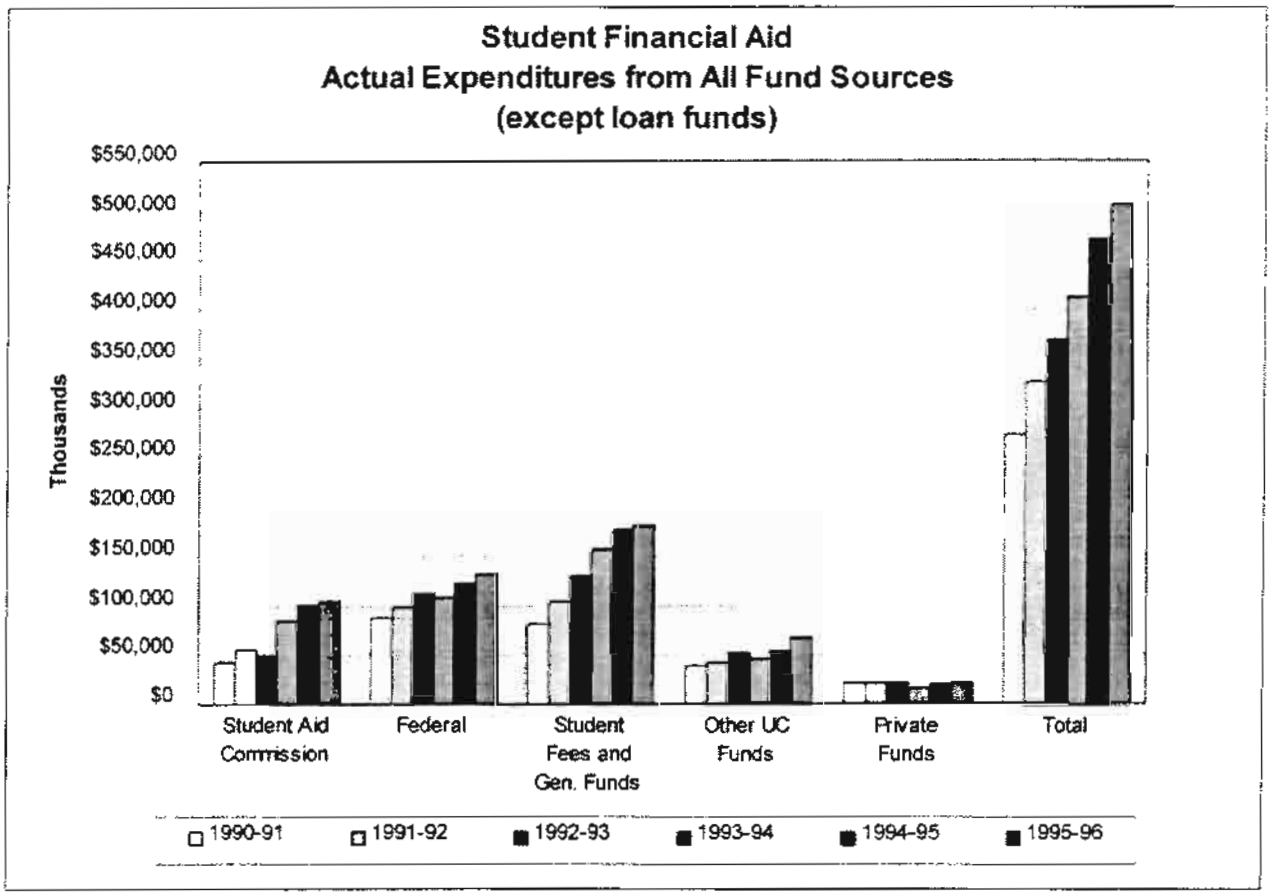
State Aid

California university and college students receive financial support from a number of programs which are for financially needy students. These programs are administered on behalf of the State by the California Student Aid Commission, including the Cal Grant A, B, and C programs, the State Graduate Fellowship Program, and the State Work-Study Program. These programs are designed to promote access to postsecondary education and to foster student choice among California institutions of higher education as well as to encourage high academic achievement. In 1995-96, University of California students were awarded nearly $106 million in financial aid from these programs. The Cal Grant Programs, which together account for virtually all of that amount, are "portable" financial aid programs, in which awards are made directly to students who carry the awards to the institutions they attend. The University continues to support full coverage of students fee for Cal Grant recipients at UC and CSU to promote both student access and student choice.

Since 1993-94, the California Student Aid Commission's budget has fully funded Universitywide fees for eligible UC recipients. Cal Grant funding for UC students grew 15 percent from $85 million in 1993-94 to about $100 million in 1994-95. Because

there were no increases in mandatory Universitywide fees in 1995-96, increases in Cal Grant funding for UC students were modest. The 1996 State Budget Act provided an increase of $25 million for the Cal Grant program. UC students received about $3 million of this increase. The 1997 State Budget Act provides an increase of $10 million for the Cal Grant program. Of the total increase, $5 million will be used to increase the size of the awards for students attending private universities and $5 million will be used to increase the number of awards for students attending all universities. UC students should also receive some of this increase. Display 5 shows the changes in expenditures from the Student Aid Commission for the University's Cal Grant recipients since 1990-91.

DISPLAY 5



University Funds

Student Fees and State General Funds

University student aid programs funded from student fee revenue and State general funds increased again in 1995-96. However, because there were no general student fee increases in 1995-96, the increase primarily reflected the additional aid related to professional school fees. The total amount of aid from student fees and State general funds ($180.7 million) increased by about $4.2 million (or about 2.3%). Thirty-one percent of enrolled undergraduate and 58 percent of enrolled graduate students received some form of financial assistance from the University aid programs.

The University maintains eighteen separate student financial aid programs at the Universitywide level. These programs are supported principally through the Educational Fee and the State general fund. Educational Fee income is used to support both need-based and merit-based programs, while the general fund income is statutorily restricted to the support of need-based financial aid. Display 5 shows the increases in financial aid expenditures from student fee revenue and State general funds since 1990-91.

Other University Aid

In addition to the Universitywide programs described above, University financial aid is also provided through various campus-based programs funded by endowment income, current gifts, repayments from University loans, and campus discretionary funds. In 1995-96, more than $67 million in University aid from these sources was awarded to students of which nearly $63 million of aid was awarded in the form of fellowships, scholarships, and grants.

Private Outside Agency Aid

Finally, private, outside agencies and companies also provide student financial support through scholarships and other forms of aid. Small scholarships from a student's local PTA or Rotary Club are reported here alongside traineeships and fellowships from private companies (for example, Hewlett-Packard and IBM) and associations and foundations (for example, the National Merit Scholarship Foundation and the American Cancer Society). Nearly all funds in this category are awarded to students in the form of grant support. In 1995-96, more than $22 million was awarded to UC students from private, outside agency programs, which represented 2.3 percent of the financial support students received during that year. Display 5 shows the increases in other University and private grant aid provided to UC students since 1990-91.

DISPLAY 6

1995-96 Student Financial Aid

by Type and Fund Source
(In Millions)

			University Funds			
Program	Student Aid	Federal	State General	Other	Private Funds	Total
Scholarships	$0.7	$0.0	$11.5		$18.8	$30.9
Fellowships/Grants	$0.3	$37.0	$74.4		$48.4	$160.1
Scholarships,						
Pell Grant	–	$69.5	–		–	$69.5
Cal Grant A	$75.9	–	–		–	$75.9
Cal Grant B	$28.7	–	–		–	$28.7
Other	$1.0	$46.5	$179.5	$62.9	$20.7	$310.7
Subtotal	**$105.6**	**$116.0**	**$179.5**	**$62.9**	**$20.7**	**$484.8**
Loans (All Students)						
Perkins Loans	–	$28.8	–		–	$28.8
Stafford Loans	–	$357.1	–		–	$357.1
Other	–	$46.0	$0.0	$4.1	$1.6	$51.7
Subtotal	**$0.0**	**$431.9**	**$0.0**	**$4.1**	**$1.6**	**$437.6**
Work-Study (All						
Federal	–	$15.3	–		–	$15.3
State	$0.3	–	–		–	$0.3
University	–	–	$1.2	$0.4	$0.0	$1.5
Subtotal	**$0.3**	**$15.3**	**$1.2**	**$0.4**	**$0.0**	**$17.2**
Total	**$105.9**	**$563.2**	**$180.7**	**$67.4**	**$22.3**	**$939.5**

INSTITUTIONAL SUPPORT

1997-98 Budget	
Total Funds	$328,439,000
General Funds	215,784,000
Restricted Funds	112,655,000
1998-99 Increase	
General Funds	--
Restricted Funds	--

Institutional Support includes numerous campus and systemwide activities under five sub-programs. The sub-programs and examples of typical activities included in each are listed below.

- **Executive Management:** Offices of the President, Vice Presidents, Chancellors, and Vice Chancellors; planning and budget offices.
- **Fiscal Operations:** accounting, audits, and contract and grant administration.
- **General Administrative Services:** computer centers, information systems, and personnel.
- **Logistical Services:** purchasing, mail distribution, and police.
- **Community Relations:** development and publications.

The University is concerned about the steady erosion of its Institutional Support budget. Funding for administration has failed to keep pace with enrollment growth, general inflation, and the costs of new State and federal mandates.

Historically, State budgeting formulas did not provide additional administrative support to accompany enrollment growth, even though more students mean, for example, more recordkeeping related to students and employees, more purchasing, increased police and security requirements, and more faculty whose payroll records must be maintained and whose laboratories must meet environmental health and safety regulations. As a result, campus administrative capacities are only minimally adequate.

This historical lack of funding was compounded by the fact that State funds to cover general price increases fell far short of inflation during the mid to late eighties. During that time, new expenditures in Institutional Support were mandated as a result of a growing body of State and federal laws and regulations covering areas such as environmental health and safety, collective bargaining, accommodation of disabled employees, fair employment practices, and increased accountability requirements. Failure to comply with these mandates can often result in fines and penalties or more severe sanctions.

Erosion of Institutional Support budgets during the 1980s was further compounded by the University's severe fiscal problems during the early 1990s. Due to the State of California's fiscal problems, the University experienced severe budgetary shortfalls during the early 1990s. As a result, University budgets were cut by $433 million, or about 20 percent of the 1989-90 State-funded budget. Further base budget reductions totaling $40 million by 1998-99 are anticipated due to required productivity improvements under the State's four-year compact with higher education. The budget cuts sustained in the early 1990s were deep and affected every aspect of University activity. In order to protect the instructional program as much as possible, campuses made deeper cuts in other areas. Institutional Support was assigned heavy cuts on the campuses. On the systemwide level, core administrative activities in the Office of the President were reduced substantially, including a 20 percent cut over the two-year period 1993-94 and 1994-95. The Office of the President will take additional cuts related to the $40 million in productivity improvements expected to be achieved by 1998-99.

Looking at all fund sources, Institutional Support expenditures declined from 12 percent of total expenditures in 1971-72 to 11.5 percent in 1983-84. From 1983-84 to 1991-92, the percent fluctuated between 11 and 12 percent. By 1996-97, Institutional Support expenditures as a percentage of total expenditures had declined to about ten percent. Considering the magnitude of the University's overall expenditures that is a significant decline in a short period of time.

Notwithstanding the substantial budget reductions in Institutional Support, investments in technology have enabled the University to make significant progress in increasing the efficiency of University operations while maintaining or improving services. Examples of cost saving procedures and activities include: restructuring and consolidating administrative support functions, allowing administrative units and academic departments to reduce costs by sharing resources; extending a new systemwide payroll/personnel system to including the processing of disability claims; expanding use of the campus network and the World Wide Web; streamlining a procurement process and upgrading an on-line purchasing system; automating the hiring process; reducing costs through the negotiation of software licenses; and installing an automated billing system which will reduce the lag time in billing for reimbursement of expenses incurred for sponsored research and student aid.

As noted above, the four-year compact with higher education requires productivity improvements totaling $40 million by 1998-99. A January 1997 report titled *1996-97 Budget Plan for Productivity Improvements* discussed ongoing efforts to streamline administrative processes and business practices as well as plans to achieve $10 million of productivity improvements within all functions of the University in 1996-97. This was the second annual report presented to The Regents describing planned efficiency improvements for the coming year and discussing achievements of the previous year. Productivity improvements apply to both academic and nonacademic activities.

The University will continue working to achieve efficiencies wherever practical. At the same time, The Regents' fiduciary responsibilities must be met and the University must continue to maintain appropriate management capability and accountability both at the campuses and centrally. This includes proper management of programs, expenditures, and investments.

OPERATION AND MAINTENANCE OF PLANT

1997-98 Budget	
Total Funds	$357,591,000
General Funds	300,434,000
Restricted Funds	57,157,000
1998-99 Increase	
General Funds	$2,352,000*
Restricted Funds	--

The University operates and maintains 46.6 million gross square feet of buildings and more than 2,350 acres of improved grounds at the nine campuses and the agricultural field stations.

In 1997-98, $357.6 million is budgeted for the operation and maintenance of the University's physical plant. This includes $12.6 million in 1996-97 excess general fund income, which is available on a one-time basis. The University is reappropriating $6.6 million of this excess general fund income, pursuant to authority in the Budget Act, for deferred maintenance in 1997-98. The remaining $6 million is being sequestered until other one-time budgetary savings can be identified to absorb one-half of the $12 million undesignated cut in the 1997-98 budget. Of the total budgeted funds, 40 percent is for purchased utilities, 22 percent for building maintenance, 16 percent for janitorial services, 4 percent for deferred maintenance, and the balance of 18 percent is for grounds maintenance, utilities maintenance and operations, refuse disposal, fire departments, and plant administration. No funds are permanently budgeted for deferred maintenance.

1998-99 Funding Request ($15,000,000 Increase)

One of the casualties of the budget reductions of the early 1990s has been the University's physical plant. Contributing to this is a chronic shortfall in annual funding for building maintenance and the lack of permanent general funds for deferred maintenance. The physical plant is a resource that requires sufficient ongoing funding

* This includes the $15 million funding request, offset by a reduction of $12.6 million in excess 1996-97 general fund income available for expenditure in 1997-98.

if users are to carry out their functions without interruption or compromise to the academic programs housed in the facilities. The University has become increasingly concerned that insufficient attention to the overall quality of the University's existing facilities coupled with limited funding to build new ones will result in liabilities that the University will not be able to overcome.

The University is faced with maintenance and renewal problems that cannot be adequately addressed with existing resources. The deferred maintenance backlog, which is related in part to the underfunding of the ongoing maintenance budget, now exceeds $500 million and continues to grow. The limited availability of State capital outlay dollars is also a severe constraint.

Recognizing that no single strategy can address these facilities needs, the University has a funding plan for 1998-99 that incorporates three major strategies:

- *Support for the operation and maintenance of new space.* The 1998-99 budget plan includes a permanent increase of $3 million from funds within the compact for new facilities that house State-supportable programs.

- *Increased funding for ongoing building maintenance.* The 1998-99 budget plan includes an additional $6 million for ongoing building maintenance. This is part of a multi-year strategy to fully fund ongoing maintenance.

- *Long-term financing for deferred maintenance.* The 1998-99 budget plan includes a proposal to use up to five percent of the proposed *increase* in State and UC general funds to pay for long-term financing of deferred maintenance. Under the proposal the University would secure long-term financing to pay for deferred maintenance and facilities renewal projects. In 1998-99 the University would use $6 million to pay for the debt service for projects totaling $50-$60 million.

Workload ($3,000,000)

For 1998-99, $3 million is requested to provide funds for 427,000 square feet of additional space that will be occupied by programs that are eligible for State support. Of the nine campuses and the agricultural field stations, two have large facilities coming on-line in 1998-99--the Dwinelle Hall expansion project at Berkeley, and the Science Library at Riverside.

Building Maintenance ($6,000,000 increase)

The University's 1998-99 budget plan includes an increase of $6 million for building maintenance, which is consistent with the concept endorsed by the Legislature to fully fund ongoing building maintenance over a number of years. The University's building

maintenance budget is currently underfunded by more than $50 million annually. Preventive maintenance and replacement of the University's aging physical plant and infrastructure are not properly funded, causing structural failures and equipment breakdowns. Emergency repairs consume an inordinate amount of available funds. The cumulative effect of underfunding has led to critically inadequate levels of maintenance of buildings, grounds, utilities, and infrastructure.

In response to supplemental language to the 1984 State Budget Act, the University worked with the California State University (CSU), the Department of Finance, and the Legislative Analyst's Office to develop common workload standards for maintenance of equipment and space. These standards were intended to be used by the Legislature as the basis for supporting annual operation and maintenance budgets for both the University and the CSU.

The study, undertaken in response to the supplemental language, documented that the actual level of underfunding in the five areas studied (building maintenance, grounds maintenance, janitorial services, utilities operations, and plant administration) was significantly greater than had been previously estimated. Using 1985-86 as the baseline year, the study revealed that State funding equaled only 62 percent of the level recommended for the five areas. As a result, the State provided several increases for the operation and maintenance of plant during the 1980s. These augmentations included: $4 million in each of the three years 1984-85 through 1986-87 and again in 1988-89 for building maintenance; $6.5 million in 1984-85, $2.4 million in 1985-86, and $4.5 million in 1986-87 for deferred maintenance and special repairs; and $1 million in 1985-86 for janitorial services.

The study was updated in 1989-90 and indicated that, as a result of the increased State support, funding for the operation and maintenance of the physical plant was brought up to about 72 percent of the recommended standards. In addition to the areas previously examined, the 1989-90 study update identified funding needs of approximately $44.8 million to replace structural components and fixed equipment.

In 1990-91 State funding began to fall short of meeting the University's basic needs. As a result of continuing and severe financial problems facing the State during the 1990s, the University had to make budget cuts of over $400 million. The budget for operation and maintenance of plant eroded as campuses struggled to accommodate these budget reductions. Although priority was given to students and providing the classes they needed to graduate, maintenance budgets were not disproportionately cut.

Growing recognition of the magnitude of the facilities problems led to extensive discussions with the Legislature during hearings on the 1996-97 budget. The Legislature proposed a plan to eliminate the annual shortfall in funding for ongoing building maintenance over a period of four years. The Legislature's plan proposed to augment the University's 1996-97 budget by $7.5 million, which was to be matched by University funds for a total annual increase of $15 million. In each of the following three

years, the University was to use funds from within the compact for annual increases of $7.5 million for building maintenance. And finally, the Legislature's plan called for the State to provide an additional $7.5 million over and above the compact in each of these years. This plan was to have resulted in annual increases of $15 million for ongoing building maintenance.

However, the Governor vetoed the $7.5 million the Legislature approved as an augmentation to the 1996-97 budget in order to provide an adequate reserve for the State. Notwithstanding this action, the University honored its commitment and included $7.5 million for building maintenance in its 1997-98 budget from funds provided within the compact. Unfortunately, neither the Legislature nor the Governor proposed to augment the University's 1997-98 budget to provide additional State matching funds. As a result, building maintenance remains underfunded by about $50 million annually.

Deferred Maintenance and Facilities Renewal
($6,000,000 increase)

Normal use inevitably causes wear and tear on building systems to the point that their useful lives are exceeded and the systems must be replaced, regardless of how well they are maintained. Heating and ventilation systems, elevators, and roofs are a few examples of these systems. The periodic and systematic replacement of these systems is known as facilities renewal. If proper maintenance is not available for building systems on a timely basis, their useful lives are shortened. Over time, unfunded facilities renewal turns into an unfunded deferred maintenance backlog. Systems still need to be replaced, but it becomes more costly and continued deferral increases the need for emergency repairs. This leads to the deterioration of the assets, and ultimately affects the quality of facilities provided for research and academic programs. The ability to recruit and retain outstanding faculty is compromised when laboratory and research space is dated or substandard.

The University currently has a backlog of deferred maintenance projects that exceeds $500 million. There are a number of factors that have contributed to this backlog, including: (1) funds for ongoing maintenance have been inadequate to properly maintain systems; (2) there has been no systematic funding for facilities renewal; and (3) no funds are permanently budgeted to reduce the deferred maintenance backlog.

The age of University buildings is another major contributing factor. There was tremendous growth and expansion throughout the system during the 1950s and 1960s. Almost one-half of the space that now houses State-supportable programs was constructed during these two decades. Despite annual State capital outlay budgets of more than $200 million a year in the late 1980s, almost two-thirds of all State supportable space was built before 1970. The systems in these facilities, many of which are now 35 to 45 years old, have exceeded or will soon exceed their useful lives.

During discussions on facilities renewal and deferred maintenance, the focus tends to be on buildings with little attention to the infrastructure which constitutes the major support systems for the campuses and the buildings. Examples of infrastructure are utility systems such as electricity and water distribution systems, and roads, sidewalks, and bridges. These are extensive, complex systems that are costly to maintain or replace.

The University is not alone in this problem. Recent reports and studies prepared by the Association of Higher Education Facilities Officers and the National Association of College and University Business Officers (NACUBO) have identified deferred maintenance as one of the most serious problems facing higher education today. Recent estimates have shown that as much as $26 billion would be required to eliminate the accumulated deferred maintenance backlogs on universities in the United States.

Dealing with the deferred maintenance and facilities renewal problems is one of the University's highest priorities. It is essential that the University be provided the funds to deal proactively with facilities renewal as well as the deferred maintenance backlog. A permanent budget for facilities renewal is needed to maintain assets across the complete spectrum of maintenance costs: preventive maintenance, regular maintenance and repairs, and replacement of building and utility systems. The continued underfunding of facilities renewal will result in an increase to the backlog of deferred maintenance projects.

There is no permanent source of funds to dedicate to reducing the deferred maintenance backlog; and, there are only limited funds in the capital budget to address the routine replacement of building systems. There is resistance to using capital funds to address deferred maintenance and there is no money permanently budgeted in the operating budget to address either facilities renewal or deferred maintenance. The magnitude of the problem is far beyond the University's ability to absorb within existing resources. The University needs a sustained financial commitment from the State to provide permanent funding for capital renewal and deferred maintenance.

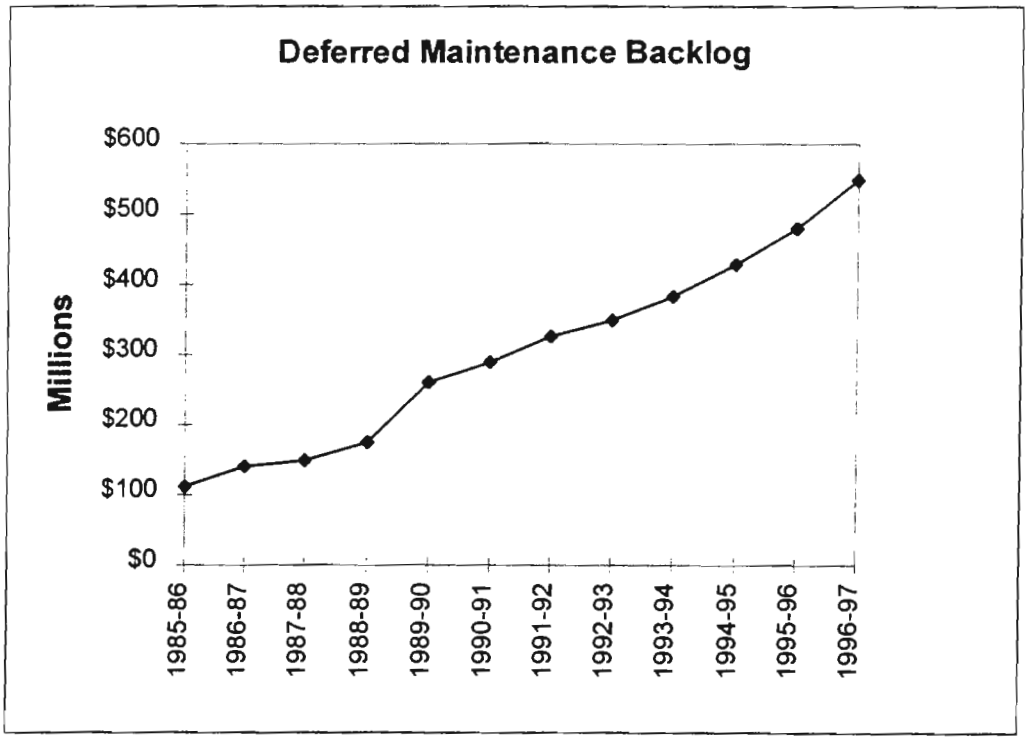
Until permanent funding is provided, the University is proposing that up to five percent of the *increase* in State and UC general fund support be used for debt service for long-term financing of deferred maintenance and facilities renewal projects. In 1998-99, the University would use $6 million under this proposal to finance approximately $50 - $60 million in deferred maintenance and facilities renewal projects.

In 1994-95, the State authorized $25 million in long-term financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. This increase was based on the University's agreement with the State, and was part of the plan to limit the student fee increase to 10 percent. A second authorization for $25 million was included in the 1995-96 budget. The 1996 State Budget Act appropriated $5 million in general obligation bonds for deferred maintenance. In

addition, the University allocated another $19 million in one-time funds for deferred maintenance in 1996-97. No permanent general funds were included in the 1997 State Budget Act for deferred maintenance. However, the University is reappropriating $6.6 million in 1996-97 excess general fund income for deferred maintenance. An additional $6 million is being retained until other one-time budgetary actions can be taken to help address the one-time $12 million undesignated cut in the University's 1997-98 budget.

The University is currently developing a budget model to assess annual funding needs to address facilities renewal on a long-term basis and to verify the extent of the deferred maintenance backlog. The prototype of this model will be used to assess the facilities at two or three campuses initially. Once the system has been adequately tested and the results verified, the model will be applied to all campuses facilities and the agricultural field stations for a comprehensive assessment of the University's funding needs related to facilities renewal.

DISPLAY 1



Other Operation and Maintenance of Plant Functions

Janitorial Services. The 1997-98 budget provides funding at about 66 percent of the recommended standard for janitorial services. Daily workload per currently budgeted University janitorial staff is 29,750 square feet, compared to the recommended area of

about 15,100 square feet. Under these circumstances, reasonable levels of cleanliness for both health and quality of life are difficult to maintain.

Utilities Maintenance and Operations. The 1997-98 budget provides funding at about 72 percent of the recommended standard.

Grounds Maintenance. The 1997-98 budget provides funding at about 60 percent of the recommended standard for grounds maintenance. While lack of funding for grounds maintenance can be more easily tolerated during tight financial periods than lack of funding for building maintenance, grounds maintenance is an essential component of both safety and quality of life at the campuses.

Hazardous Materials and Toxic Site Remediation. The costs of disposing hazardous materials are of increasing concern. Materials that were not formerly regulated by federal and State agencies are now defined as hazardous, and contribute to an increase in volume. Increasingly stringent requirements have added to the handling, treatment, and disposal costs. The cost to clean up contaminated sites, where toxic wastes have been buried, is also expensive and urgent.

Purchased Utilities. For many years, the campuses have been actively engaged in energy-related projects that have reduced consumption or resulted in lower rates. These projects have ranged in nature from the installation of energy efficient lighting fixtures, motors and pumps, to projects involving co-generation, such as the San Francisco campus' Parnassus Central Utilities Plant replacement project.

In September 1996, Governor Wilson signed AB 1890, a comprehensive bill to restructure the electricity industry over the next four years. Under the provisions of AB 1890, consumers in California will be able to purchase electricity from either their current utility or from another electricity supplier. UC and the CSU are exploring the possibilities of jointly purchasing electricity from a single supplier in 1998-99.

The full impact of deregulation will not be known until the restructuring of California's utilities is completed in 2002. It is too early to estimate the level of savings, if any, that will be realized from electricity deregulation. Savings that do accrue to the University will be used to narrow the gap between what is currently budgeted for maintenance of the physical plant and the levels recommended by industry standards.

AUXILIARY ENTERPRISES

1997-98 Budget	
Total Funds	$483,979,000
General Funds	--
Restricted Funds	483,979,000
1998-99 Increase	
General Funds	--
Restricted Funds	$19,200,000

Auxiliary enterprises are non-instructional services provided primarily to students in return for specified charges. Auxiliary enterprises generate sufficient revenues to cover all direct and indirect operating costs. During 1997-98, revenue from auxiliary enterprises will be approximately $484 million, and will be expended as follows: 61 percent for residence and dining services; 13 percent for parking operations; 5 percent for intercollegiate athletics; 16 percent for bookstores; and 5 percent for other expenditures.

The largest element in this budget program is student housing, comprised of approximately 26,500 residence hall spaces and 10,400 apartments with associated dining and recreation facilities. These facilities will house about 41,000 students in 1997-98. They are available to single students and student families, and may also be used as conference and visitor housing during the summer months.

A subset of the housing element is faculty rental housing. Approximately 640 units are available at seven campuses: Berkeley, Irvine, Los Angeles, San Diego, San Francisco, Santa Barbara, and Santa Cruz. The units are self-supporting without subsidy from student rental income, and are made available to newly appointed faculty on the basis of criteria established by each campus.

A second major element is the parking program with approximately 92,500 spaces for students, faculty, staff, and visitors.

No State funds are provided for auxiliary enterprises. The annual budget is based upon income projections. Any budget increases are funded by corresponding increases in revenue.

Faculty Housing Programs

The California housing market is a continuing deterrent to faculty recruitment efforts, particularly of junior faculty. Various programs to alleviate this problem have been implemented since 1978.

Home loan programs have provided mortgage loans with favorable interest rates and/or down payment requirements to 2,609 faculty members and other designated employees. In addition, the Salary Differential Housing Allowance Program has provided 937 faculty members with housing assistance during their first years of employment with the University, and the Mortgage Credit Certificate Program has furnished a federal tax credit for 51 faculty who were first-time home buyers.

The University continues to explore other faculty housing alternatives. Several campuses, in coordination with the Office of the President, have developed for-sale housing on land owned by the University. The land is leased to the purchaser of a unit built by a private developer. Resale restrictions control prices and determine eligibility for new buyers. The Berkeley, Davis, Irvine, Los Angeles, Santa Barbara, and Santa Cruz campuses have completed or are in the process of completing projects which will provide over 865 units, including townhouses, condominiums, and single-family structures. No State funds are provided for faculty housing programs.

PROVISIONS FOR ALLOCATION

1997-98 Budget	
Total Funds	$34,243,000
General Funds	-449,000
Restricted Funds	34,692,000
1998-99 Increase	
General Funds	--
Restricted Funds	$10,261,000

Provisions for allocation serve as a temporary repository for certain funds until final allocation decisions are made. For instance, funds allocated for fixed cost increases, such as salary adjustments (i.e., cost-of-living, parity, and merit increases), employee benefit increases, and price increases, are held in provision accounts pending final allocation. 1998-99 fixed cost increases are discussed in this budget under "Program Maintenance: Fixed Costs and Economic Factors."

The University's budgetary savings target is a negative appropriation that is permanently budgeted in provision accounts. The concept underlying the assignment of a budgetary savings target is that salary savings will accrue during the year as the result of normal employee turnover. Savings in the amount of the assigned target must be achieved each year in order to balance the budget. The University believes that the two percent target assigned in the mid-1970s was a reasonable target representing natural savings. However, the University's current budgetary savings target is six percent, which requires forced savings that must be achieved in ways that significantly diminish the resources available for conducting programs and maintaining quality.

Rental Payments For Facilities Funded From Lease Revenue Bonds/Debt Service Payments For Deferred Maintenance Projects Funded By University Borrowed Funds (Amounts to be Determined Later)

Rental Payments for Facilities Funded From Lease Revenue Bonds

Funds to provide for rental payments for University facilities constructed from lease revenue bonds were initially appropriated to the University in 1987-88. Under the conditions of this funding mechanism, the University contracts with the State to design and construct facilities, provides the State Public Works Board (SPWB) with a land lease for the site on which buildings will be constructed, and enters into a lease purchase agreement for the facilities with the SPWB. Annual lease payments are appropriated from State funds and used to retire the debt; at the end of the lease term, ownership of the facilities automatically passes to the University. In 1997-98, funds appropriated to the University for revenue bond lease payments total $91.2 million. The University is working with the Department of Finance and the State Treasurer to determine the appropriate amount required to support rental payments in 1998-99. Consistent with the provisions of the Governor's four-year compact with higher education, the University will request that the appropriation for these capital-related costs be provided separate from the University's main appropriation for operating budget support. An exact figure for this appropriation will be determined later.

Debt Service Payments for Deferred Maintenance Projects

In 1994-95 and again in 1995-96, the State authorized $25 million in long-term debt financing to pay for high priority deferred maintenance projects involving the renewal or replacement of capital assets. All projects funded by this mechanism are required to have a useful life of at least 15 years. It was determined that the University should provide the financing and that funds to repay the principal and interest would be provided in future years in the annual State Budget. The funds appropriated to the University to repay the principal and interest assume that repayment is at a rate that does not exceed the rate available to the State Treasurer for State General Obligation bonds. This arrangement was part of an agreement with the State to limit the student fee increase to ten percent (rather than the 18 percent that had been proposed by the Regents). In essence, this was a shift of deferred maintenance costs from the University's General Funds to long-term debt financing, with the released General Funds used to substitute for student fee income. The agreement allowed the University to meet a goal that was important to the University, the State and the students; namely, holding the fee increase in 1994-95 to ten percent.

The 1997 State Budget Act appropriated a total of $5.1 million to pay for the principal and interest related to the 1994-95 and the 1995-96 deferred maintenance projects. Funds provided for these payments, while included in the University's main appropriation item for operating budget support, were in addition to the annual increase provided as part of the four-year compact. No increase in funding level is anticipated in 1998-99 because the State did not authorize additional long-term financing for deferred maintenance.

1998-99 Funding Request

The total funding required for debt service related to major capital projects funded by lease revenue bonds, related insurance premiums and State administrative costs, and any additional funds needed for the debt service related to high priority deferred maintenance projects will be available to be included in the 1998-99 Governor's Budget.

Cost Of Compliance With Recently Enacted Legislation (Amount to be Determined Later)

Each year the University identifies pending State legislation which, if enacted, would generate additional costs for the University. During the legislative session, the University develops cost estimates for each bill and those estimates are submitted to the Department of Finance to be considered for funding in the subsequent year. Final estimates, however, cannot be determined until the Governor signs or vetoes legislation in late September.

The University intends to work with the Department of Finance to acquire funds in 1998-99 to cover the cost of implementing recently enacted legislation as well as additional legislative mandates that may be enacted during the current session.

PROGRAM MAINTENANCE: FIXED COSTS AND ECONOMIC FACTORS

1998-99 Increase	
General Funds	$111,400,000
Restricted Funds	--

This segment of the budget proposal includes funding for employee salary and related benefit adjustments, and for general and specific price increases required to maintain the University's purchasing power at present program levels. This segment also discusses savings to be achieved through productivity improvements called for in the four-year compact with higher education.

1998-99 Budget Request

The University's request for a 1998-99 budget increase was calculated on a budget base of $2.986 billion, which includes programs funded from State and University general funds and student fees (Educational Fee, Registration Fee, and the Fee for Selected Professional School Students). This funding base is similar to those used for preparation of the University's past three budgets and the one used for review by the Department of Finance and the Legislature.

Funds required for program maintenance in 1998-99 are summarized in Display 1.

Display 1

Funds Required for Program Maintenance in 1998-99

Restoration of undesignated one-time cut of $12 Million:	
Continuation costs of one month delay in 1997-98 salary increases	$ 6,000,000
Restoration of one-time cuts made in 1997-98	6,000,000
Three months continuation cost of 1997-98 salary increases	15,800,000
Merit salary increases for eligible employees	35,200,000
Funding equivalent to an average 2% cost-of-living salary increase for employees on 10/1/98	31,600,000
2.5% parity salary increase for ladder rank faculty on 10/1/98	14,600,000
2.5% price increases	12,200,000
Productivity improvements	-10,000,000
TOTAL	**$111,400,000**

Continuation Cost of Additional One Month Delay in 1997-98 Salary Increases ($6,000,000 Increase)

The 1997 State Budget included a $12 million undesignated budget reduction for the University. The University views this as a one-time reduction because it was the result of a one-time court-mandated payment to the Public Employees Retirement System (PERS). One-half of the reduction will be absorbed by delaying for one month all cost-of-living salary increases (COLAs) and the salary increases for employees who are only eligible for performance based merit increases. This action is subject to the University's requirements under the Higher Education Employer-Employee Relations Act (HEERA) and excludes personnel for whom salary plans had previously been established in collective bargaining agreements.

The continuation costs for the one month delay, including related employee benefits, is estimated to be $6 million.

Restoration of Funds Cut Temporarily in 1997-98 ($6,000,000 Increase)

The University will utilize a portion of the $12.6 million in excess 1996-97 general fund income to absorb the remaining $6 million undesignated budget reduction. Consistent with the authority in the Budget Act these are funds that the University had planned to provide for instructional equipment and deferred maintenance. Deferred maintenance is important, and there are no other general funds available for this purpose. Every effort will be made during the current budget year to identify one-time budget reductions so that these funds can be restored to address the University's growing backlog of deferred maintenance projects.

Normal Continuation Cost of 1997-98 Salary Increases ($15,800,000 Increase)

The 1997-98 budget included funding equivalent to a two percent COLA for eligible University employees effective October 1, 1997. In addition, ladder rank faculty were provided with a parity salary increase averaging three percent on the same date. Because 1997-98 funding was sufficient to pay the salary increases for only nine months, from October through June, full-year funding must be provided in 1998-99. The continuation cost for three months, including related employee benefits, is $15,800,000.

Merit Salary Increases ($35,200,000 Increase)

Funding for merit salary increases, which are increases within existing salary ranges, is again among the University's highest budget priorities. These merit salary programs are critical to the preservation of the excellence of the University.

Academic merit salary increases provide an incentive to maintain and expand teaching and research skills, and enable the University to be competitive with other major research universities in offering long-term career opportunities. Academic merit increases are never automatic. They are awarded on the basis of each individual's academic attainment, experience, and performance in teaching, research and creative work, professional competence and activity, and University and public service.

The University requires an amount equal to 2.3 percent of the academic salary base to fund its academic merit program. A portion of this need is met from funds released by downgrading the salaries of certain faculty positions to their normal entry levels; such downgrading occurs whenever a faculty position is vacated as a result of retirement. The net additional funding required to finance 1998-99 merits is equal to 1.71 percent of the academic salary base.

Staff merit salary increases are awarded on the basis of individual performance; they are never automatic. Eligible employees are considered for a merit increase once a year. The 1998-99 request for State funds will provide about three quarters of the full-year funding needed for staff merits, with the remaining one quarter of the total cost to be financed from funds released through downgrading salaries of vacated positions to normal entry levels. Some staff positions are only eligible for performance based merit salary increases, which are funded from a pool created by combining funds for COLAs with those provided for merit increases. In 1998-99, the University will require an amount equal to 1.54 percent of the staff salary base to fund merits.

With the addition of related employee benefits, a total of $35,200,000 in State funds will be required to pay for normal merit increases in 1998-99.

Cost-of-Living Salary Increase on 10/1/98
($31,600,000 Increase)

Within the framework of the four-year compact with higher education, the University is requesting funding equivalent to an average two percent COLA for eligible University employees. Funding equivalent to an additional 2.5 percent parity salary increase for ladder rank faculty only is requested as the final phase of the plan to restore competitive faculty salaries by 1998-99. The request for a parity salary increase is discussed later on in this section.

Historically, requests for faculty salary increases have been based on faculty salaries paid at eight institutions used for salary comparisons, and requests for staff salary increases have been based on equivalent treatment with State employees. Before 1995-96 all other academics received, on average, the same salary increase as faculty. Under the four-year compact with higher education, the University has a plan to restore ladder rank faculty salaries to the average salary level at the comparison institutions by 1998-99 and to provide, through a combination of merits and COLAs, salary increases for other employees that, on average, at least keep pace with inflation. If funds are

available, special consideration may be given to other academics and staff in cases where the University's compensation falls significantly below appropriate marketplace benchmarks.

Neither State nor University employees received a COLA in 1991-92 or in 1992-93. In 1993-94 and 1994-95, State employees received COLAs totaling eight percent (5% in January 1994 and 3% in January 1995), while the University received funding equivalent to a three percent on average (October 1994). In 1995-96 the University received funding for COLAs averaging 1.5 percent, and two percent in 1996-97 and in 1997-98. No funding was provided for COLAs for State employees in these three years. The Legislature and the Governor reached agreement on several major issues before they adjourned in September 1997. One of these agreements was that State employees should receive a cost-of-living-adjustment in 1998. Contract talks are now underway.

Given an anticipated increase in COLAs for State employees and projected inflation, the University is requesting funding for an average two percent COLA salary increase for its employees effective October 1, 1998. The cost of this increase, including related employee benefits, is $31,600,000.

Actual salary and benefit actions for University employees may be subject to notice, meeting-and-conferring, and/or consulting requirements under the Higher Education Employer-Employee Relations Act (HEERA). Some staff positions are only eligible for performance based merit salary increases, which are funded from a pool created by combining funds for COLAs with those provided for merit increases.

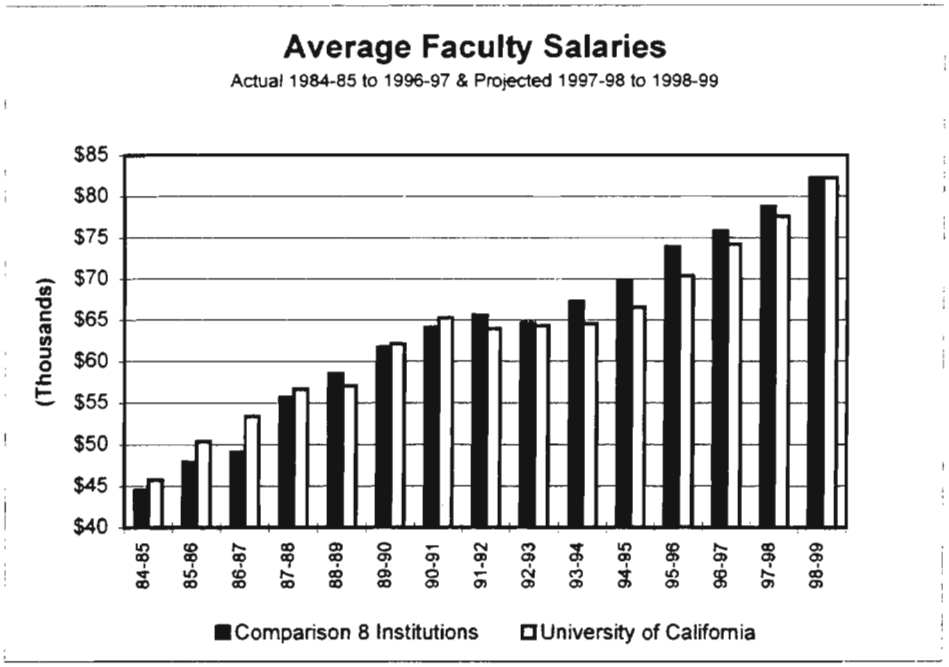
2.5 Percent Ladder Rank Faculty Parity Salary Increase
($14,600,000 Increase)

An additional parity salary increase for ladder rank faculty only, averaging 2.5 percent, is part of the University's plan to restore faculty salaries to the average salary level at the eight comparison institutions by 1998-99. Preliminary estimates indicate that the University will achieve this goal. Updated projections will be available in November.

The reason for the salary lag is that for a period of almost four years, from January 1991 through October 1994, University faculty (and other employees) received no COLA. Furthermore, salaries were cut temporarily by an average of 3.5 percent during 1993-94. Previous salary levels were restored in 1994-95, but only because the University cut budgets by $53 million and reallocated the released funds to salaries. In addition to receiving the COLAs described earlier in this section, University faculty received parity adjustments averaging 1.5 percent in 1995-96 and two percent in 1996-97 and in 1997-98. To restore competitive faculty salaries by 1998-99 the University's 1998-99 budget plan includes an average 2.5 percent parity adjustment for faculty. The cost of a 2.5 percent parity salary increase and related employee benefits for ladder rank faculty, effective October 1, 1998, is $14,600,000.

The lag in faculty salaries sent a negative message about the University across the nation, making it more difficult to recruit and retain those individuals who meet the University's traditional high standards. Nothing is more certain to undermine quality than a persistent inability to meet the competition. Restoration of the University's historic position in the marketplace is absolutely essential if its renowned quality is to survive. Display 2 shows how the salary lag for ladder rank faculty increased prior to the plan to restore faculty salaries by 1998-99.

DISPLAY 2



The Supplemental Report of the 1995 State Budget Act directed the California Postsecondary Education Commission (CPEC) to make recommendations to the Legislature, the Department of Finance, and the Legislative Analyst on the methodologies for calculating faculty salary parity for the University of California and the California State University. The University worked with CPEC on this effort, and a revised methodology for the University was agreed upon, endorsed by the Legislature, and first used for the comparison of 1996-97 faculty salaries. It is expected that this revised methodology will remain in place through 1998-99, after which it may again be revisited. While the revised methodology incorporated a number of changes, the most important, from the University's viewpoint, is that the public and private institutions as a group are now given equal weight in calculating the average salary for the comparison institutions. This change recognizes that the University competes as much with the smaller private as with the larger public institutions. The revisions to the methodology did not result in significant changes in the salary lag projected for 1998-99.

Academic and Staff Employee and Annuitant Benefits (No Increase)

Historically, the University's practice has been to request funding for health insurance and other benefits for employees and annuitants that is equivalent to funding provided for all other State employees and annuitants. With the University's overall funding increases now limited to what is provided under the four-year higher education compact, it is only possible to meet basic needs, such as supporting enrollment growth, restoring competitive faculty salaries, providing salary increases for other employees that on average at least keep pace with inflation, operating and maintaining new space, and funding inflation related fixed cost increases in the non-salary budget. There is simply not enough money to do all of this and also fund possible increases in benefit costs. Since the University utilizes a total compensation approach in which funding for salary increases and benefit costs are pooled, any increases in health benefits would need to be funded from dollars that would otherwise be allocated for cost-of-living salary increases. Fortunately, efficiency measures adopted by the University have been successful in reducing the cost of health benefits in recent years. The University will continue its effort to control costs, although some modest increases in the cost of employee benefits is anticipated over the next several years.

Provisions for Price Increase ($12,200,000 Increase)

The University's 1998-99 budget request includes $12.2 million, which represents a 2.5 percent increase, to offset the impact of inflation on nonsalary budgets and to maintain the University's purchasing power. Although the University purchases many commodities--library materials, technical supplies, specialized equipment--whose costs exceed current inflation estimates, the request for funding is limited to 2.5 percent to stay within budgetary guidelines.

The UCLA Business Forecast (June 1997) is projecting a 2.9 percent increase in the Consumer Price Index (CPI) for both California and the nation. The Department of Finance projections assume an average 2.8 percent inflationary increase. The CPI measures inflation on a particular "basket of goods" acquired by consumers. Many of the goods acquired by the University are not included, or are not given adequate weight, in the calculation of the CPI. A different index, the Higher Education Price Index (HEPI), is often cited as a more accurate indicator of the impact on inflation. From 1983 to 1995, the Higher Education Price Index was, on average, almost one percentage point higher than the CPI.

Increases significantly greater than 2.5 percent are anticipated for several major elements. Based on an annual report from campus libraries as well as the Department of Finance, the University anticipates increases of 10.1 percent for subscriptions and 5.3 percent for serial services. Industry sources, including the Bowker Annual for 1997, confirm that the average annual increases in the costs of library materials will exceed ten percent in 1998-99. Subscriptions and serial services represent more than 60

percent of the library materials budget. The purchase of library materials is one of the largest expenditures incurred each year.

The University will also experience higher cost increases for hazardous waste removal as well as medical and laboratory supplies. Laboratory chemicals, agricultural chemicals such as fertilizers and pesticides, and paper and printing are just a few of the many commodities the University purchases in quantity whose increases will exceed 2.5 percent in 1998-99.

Productivity Improvements (-$10,000,000)

Consistent with the terms of the four-year compact, the University's 1998-99 budget proposal includes a $10 million budget reduction to be achieved through productivity improvements. The compact calls for productivity improvements of $10 million each year, resulting in a total base budget reduction of $40 million by 1998-99. The basic premise is that there is a continuing need for productivity improvements in order to maintain student access and program quality within available resources. This is not a new concept. The University had to cope with budget cuts totaling $433 million between 1990-91 and 1994-95, and is thus very familiar with the need to do more with less. In order to meet the budget reductions, productivity improvements have been initiated that affect many aspects of the University--administrative processes, academic program support, student services, and business practices. A number of common strategies are being pursued and mechanisms are in place to share the best practices among campuses. When appropriate, new administrative systems and cost saving measures have been developed and implemented on a Universitywide basis.

Last year the University issued a report titled *1996-97 Budget Plan for Productivity Improvements*. This report, the second in a series, discussed ongoing efforts to streamline administrative processes and improve services to students. It also described plans to achieve $10 million of productivity improvements in 1996-97. The University will provide a third report in spring 1998.

SPECIAL REGENTS' PROGRAMS

1997-98 Budget	
Total Funds	$115,083,000
General Funds	--
Restricted Funds	115,083,000
1998-99 Increase	
General Funds	--
Restricted Funds	--

The following section discusses three fund sources, the University Opportunity Fund, the Off-the-Top Overhead Fund, and the Department of Energy (DOE) Laboratory Management Fee. The Management Fee is the annual compensation provided to the University for management and oversight of the DOE Laboratories at Berkeley, Livermore and Los Alamos and is discussed at the end of this chapter.

All federal contract and grant activity generates costs, which are divided into two basic categories--direct and indirect. Direct costs are those which can be identified as directly benefiting a specific contract or grant and, therefore, are charged directly to that contract or grant. Indirect costs are those 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, primarily State appropriations, with reimbursement later provided by the federal government. The University Opportunity Fund and the Off-the-Top Overhead Fund derive from this reimbursement.

The University has an agreement with the State regarding the disbursal of federal reimbursement of indirect costs. Pursuant to this agreement, the first approximately 20 percent of the reimbursement accrues directly to the University of California for costs directly related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. The remaining 80 percent of the federal reimbursement is used in two ways. Fifty-five percent is budgeted as University general funds and is used, along with State general funds, for general purposes such as faculty salaries. The remaining 45 percent is the source of the University Opportunity Fund and is returned to campuses primarily on the basis of how it was generated.

Less than ten percent of the combined Off-the-Top Overhead Fund and University Opportunity Fund is used to support systemwide programs such as research programs and the Education Abroad Program, as well as systemwide administrative functions.

In 1990, the State approved legislation authorizing the use of indirect cost reimbursement for the acquisition, construction, renovation, equipping, and maintenance of certain research facilities, the related infrastructure, and financing of these projects. Under the provisions of the legislation, the University is authorized to use 100 percent of 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. Any reimbursement received in excess of what is needed to finance and maintain the facility is allocated as previously described. Of the eleven projects approved by the Legislature to be financed in this manner, seven have been completed, one project received gift funding and has been removed from the program, and the remaining three are under construction.

Off-The-Top Overhead Fund

The Off-the-Top Overhead Fund is used to support costs related to federal contract and grant activity such as campus contract and grant offices and the University's Washington, D.C. office. The amount of indirect cost reimbursement allocated to this Fund pursuant to the agreement with the State may need to be reexamined at some point in the future as Federal policies become more restrictive and limit the University's ability to recover indirect costs. As an example, changes in OMB Circular A-21 mean that certain departmental administrative costs, previously considered as direct costs, will now be considered as indirect charges. This change reduces the reimbursement received by the University because there is an overall cap on administrative costs. The University will continue to review the implications of these changes with respect to the Off-the-Top Overhead Fund and may in the future seek an increase in the Fund. Although the discussion of the Off-the-Top Overhead Fund occurs here, expenditures from the Fund actually occur in various functions and are not included in this section.

University Opportunity Fund

Allocations to campuses from the University Opportunity Fund are based on the amount of indirect cost reimbursement generated by the campus. This approach represents a reinvestment in research and an incentive to further develop the University's research capacity. Each campus has discretion as to the use of University Opportunity Funds. The following is a programmatic description of functional areas under which campuses expend University Opportunity Funds.

Campuses often use their University Opportunity Fund allocations to enhance their faculty recruitment efforts by providing support for such research needs as laboratory alterations, equipment, research assistants, field work, and debt service for new buildings. The adequacy of funding for these and other basic research needs has a substantial impact on the success of efforts to recruit and retain a high-caliber faculty. The level of research support that can be offered is often a pivotal factor in the success of efforts to recruit the most promising junior faculty members. The University must be in a position to offer a level of research support that is competitive with other institutions. In the physical and natural sciences, it is not unusual for the University to provide $200,000 or more in research support in the recruitment of a faculty member.

Research support is also be critical in retention of distinguished faculty members, who regularly receive attractive offers from other institutions. Department chairs report that it is difficult, and occasionally impossible, to replace key faculty members lost to other institutions with scholars of equal stature. Loss of a faculty member disrupts both the instructional and the research programs of the University. The future of the University is dependent upon the quality of its faculty. The use of the University Opportunity Fund for the recruitment and retention of distinguished faculty members will help to secure that future.

Since 1970, The Regents have used University Opportunity Funds to provide core support for high priority systemwide research programs not adequately funded from other sources. Such programs include the Keck Observatory, the Supercomputer Center located at San Diego, the Universitywide Energy Research Group, and the U.S.-Mexico Research Program. Some campuses use a portion of the University Opportunity Fund allocation as seed money for a continued and selective expansion of their research programs. They also use University Opportunity funds in combination with State and other University funds to address the special needs encountered by individual faculty members in the conduct of research, such as funding for equipment and supplies, text preparation, research assistants, and field work and travel.

Instruction

Allocations for instruction are designed to provide continuing incentives to explore new instructional approaches and programs. Innovative instructional activities are essential for maintaining dynamic, high quality academic programs. The Educational Abroad Program is typical of those funded. The Education Abroad Program furthers students' academic progress and enhances their communication skills, cultural enrichment, and understanding of the contemporary world through intensive involvement in a different culture. University Opportunity Funds help to support guest students on University campuses who are here as a result of reciprocal arrangements with foreign institutions

that are hosting University of California students. This is an essential part of the

that are hosting University of California students. This is an essential part of the operation of the Education Abroad Program, but is not supported by State funds.

Some campuses use Opportunity Funds to provide support for programs designed to give special recognition to excellence of undergraduate instruction or to support course evaluations to give faculty the feedback needed to improve teaching. The UC Washington D.C. Center receives some of its support from Opportunity Funds. In all, about $8 million is allocated annually to support instructional activities.

Institutional Support

Currently, a portion of the University Opportunity Fund is used to support administrative activities for which adequate State support has not been provided, for example, administrative computing and environmental health and safety. It is the University's long-term goal to significantly reduce University Opportunity Fund expenditures in such areas and to focus the Fund on activities which foster excellence in academic programs. Activities discussed below are typical of those funded in the Institutional Support category.

Funds are provided under Institutional Support to maintain and improve the University's capabilities to attract external funding, primarily from private sources; such programs have been funded since the mid-1960s from a combination of various funds. Support is provided to meet alumni and development data processing requirements and for management information systems. Allocations from the University Opportunity Fund also provide support for the University's public safety and staff and management development programs.

Department of Energy Laboratory Management Fee

Contracts for University management and oversight of the Department of Energy (DOE) National Laboratories at Berkeley (LBNL), Livermore (LLNL) and Los Alamos (LANL) provide for annual contract compensation totaling $25 million and for direct charging of actual costs for the Laboratory Administration office, currently not to exceed $4.5 million.

Annual contract compensation is distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. Of the total, $11 million is budgeted as UC general fund income and helps to fund the University's operating budget. The remaining funds are used to cover costs related to audit disallowances and for the two University research programs described below. The UC Directed Research and Development (UCDRD) Fund was developed to support high priority research needs at the Laboratories, with emphasis given to collaborative research with the campuses. The Complementary and Beneficial

Activities (CBA) Fund was established to foster collaborative research efforts between the Laboratories and the UC campuses.

UC has recognized the benefits for the University as a whole of encouraging collaborations and has supported these efforts with funds derived from the DOE contracts for managing the Laboratories. The CBA Fund supports a number of collaborative research activities including two Multicampus Research Units, the Institute on Global Conflict and Cooperation (IGCC) and the Institute of Geophysics and Planetary Physics (IGPP). In addition, the Campus-Laboratory Collaborations (CLC) Program was established in 1994 to enhance and facilitate greater collaboration and cooperation between the UC campuses and the Laboratories. Supported by the CBA Fund, the CLC Program provides seed money to encourage initiation of long-term collaborative research programs. Continuing awards for 1997-98 totaled approximately $2 million, with six projects funded in areas as diverse as earthquake hazards, water resources modeling, novel materials design, and radioactive waste management.

Funding from the UCDRD Fund is provided in support of research projects at each of the three Laboratories. Collaborative research with UC campuses is a high-priority use for these funds. UCDRD Funds at LLNL were used to aid the start-up of two new institutes, both with strong links to UC: the Institute for Laser Science and Applications, and the Material Research Institute. LLNL also used funds to provide enhanced support to the CLC projects, assist a joint effort with the Keck Observatory to incorporate adaptive optics technology, provide access to a new Laboratory computer system, and to support collaborative research solicited by five UC institutes (the Center for Accelerator Mass Spectrometry, the Institute for Scientific and Computing Research, and three institutes previously mentioned - IGPP, the Institute for Laser Science and Applications, and the Material Research Institute). LBNL has used its funds to make a major equipment purchase for earth sciences research, to provide matching funds for the fabrication of a crystallography beamline at the Advanced Light Source, and to seed a major new research effort that is expected to link several Berkeley campus and LBNL disciplines, including structural biology and material research. UCDRD Funds at LANL have been used to support collaborations with the UC campuses through three different programs. Studies in the areas of materials, bioscience, and earth and environmental sciences are funded through the Collaborative UC/Los Alamos Research Program (CULAR), while the Research Partnership Initiatives provides seed funding in areas of strategic importance to the Lab. The visiting Scholar Program supports longer-term research visits to the campuses or to the laboratory for LANL staff or faculty, respectively. UCDRD Funds at LANL have also been used to start a new program, the New Mexico Universities Collaborative Research Program, which is modeled after the CULAR Program and the four universities in New Mexico.

In addition to the above efforts, a number of other institutes and centers established at the Laboratories in recent years have resulted in increased collaboration with the UC faculty. These include, for example: the Los Alamos Neutron Scattering Center, the Center for Materials Science, the National High Magnetic Field Laboratory, the Institute

for Nuclear and Particle Astrophysics and Cosmology, the High Performance Computing Center, the Center for Human Genome Studies, the Institute for Transactinium Sciences, the National Center for Electron Microscopy, and the Center for Advanced Materials. The Institute of Geophysics and Planetary Physics (IGPP), established at the Laboratories in the early 1980s, is the largest single conduit for research collaborations at both LANL and LLNL.

INCOME AND FUNDS AVAILABLE

General Fund Income and Funds Available

The programs described in the preceding pages will require general fund resources in 1998-99 of $2.6 billion, including $2.3 billion in State general funds, and $283 million in University general funds. University general funds are comprised of nonresident tuition, a portion of the federal indirect cost reimbursement, overhead on State agency agreements, and income from the application for admission fee and some other smaller fees.

Nonresident tuition will produce $109 million in University general fund income. This income estimate is based on the 1998-99 nonresident tuition level proposed in this budget and on the number of students expected. In addition, the application fee and a number of smaller fees will produce University fund income totaling $13.5 million.

Overhead on State agency agreements totaling $5.5 million will be used to help fund the University's budget.

Federal Indirect Cost Reimbursement

The University has an agreement with the State regarding the disbursal of federal reimbursement of indirect costs on federal contracts and grants. Pursuant to this agreement, the first 20 percent of the reimbursement accrues directly to the University for costs related to federal contract and grant activity. This is the source of the University's Off-the-Top Overhead Fund. It is estimated that $52.6 million will be provided from this source in 1998-99.

The remaining 80 percent of the federal reimbursement is used in two ways. Fifty-five percent is budgeted as University general funds and is used, along with State general funds, to help fund the University's budget. It is estimated that $116.7 million will be provided from this source in 1998-99.

The remaining 45 percent is the source of the University Opportunity Fund and is returned to the campuses primarily on the basis of how it was generated. In addition, in 1990 the State approved legislation allowing special use of incremental indirect cost recovery generated by research activities in certain new research facilities. Under the legislation, 100 percent of the reimbursement can be used to pay for construction and maintenance of the research facility. In such a case, the designated indirect cost recovery is taken off the top of the total indirect cost reimbursement before any other split is made.

Contracts for University management and oversight of the Department of Energy national laboratories at Berkeley, Livermore and Los Alamos provide for annual contract compensation totaling $25 million and for direct charging of actual costs for the Laboratory Administration office, currently not to exceed $4.5 million. Annual contract compensation is distributed in accordance with a Memorandum of Understanding between the University and the State Department of Finance. Of the total, $11 million is budgeted as UC general fund income and helps to fund the University's operating budget. The remaining funds are used to cover costs related to audit disallowances and for two University research programs--the UC Directed Research and Development Fund and the Complementary and Beneficial Activities Fund--established to support high priority research needs and to foster collaborative research efforts between the laboratories and the campuses.

Restricted Fund Income and Funds Available

Other State Funds

In addition to State general fund support, the University's budget for current operations includes $67.9 million in appropriations from special State funds, including for example $16.7 million from the Breast Cancer Fund, $15.8 million from the California State Lottery Fund, and $32.9 million from the Cigarette and Tobacco Products Surtax Fund to fund the Tobacco-Related Disease Research Program.

Student Fees

University student fees are discussed in detail in the Student Fees section of this document. Based on the number of students expected to enroll, income from mandatory systemwide fees (Educational Fee and University Registration Fee assuming no increase) for 1998-99 is currently projected to be $600.8 million. Income from the Educational Fee is used to support student services, student financial aid, and a share of the University's operating costs, including instruction, libraries, operation and maintenance of plant, and institutional support. Income from the University Registration Fee is used to support counseling, academic advising, tutorial assistance, cultural and recreational programs, and capital improvements which provide extracurricular benefits for students.

UC student fees increased substantially during the early 1990s, largely due to major shortfalls in State funding for the University's budget. Income from the Educational Fee and the University Registration Fee increased from $229.9 million in 1989-90 to $597.1 million in 1997-98. As discussed in the Financial Aid section of this document, financial aid grew substantially as well.

In 1998-99, income from the Fee for Selected Professional School Students will be approximately $40.4 million based on the number of students expected to enroll, the fee levels previously approved by The Regents, and the planned increases for 1998-99. An amount equivalent to at least one-third of the revenue will be used for financial aid. Remaining fee income will be used to support the professional school programs. Fee income can be used to hire faculty and teaching assistants as well as for instructional and computing equipment, libraries, other instructional support, and student services.

University Extension and Summer Sessions are fully funded by student fees. These programs are constrained by the estimated fee income for any budget year.

Teaching Hospitals

The University's five academic medical centers generally receive three types of revenue: (1) patient service revenue, (2) other operating revenue, and (3) non-operating 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 patient service revenue are government-sponsored health care programs (i.e., Medicare, Medi-Cal and the California Healthcare for Indigents Program), commercial insurance companies, contracts (e.g., managed care contracts) and self-pay patients. The rate of growth in revenues has slowed significantly in recent years due to fiscal constraints in government programs and the expansion of managed care.

Other operating revenues are derived from the daily operations of the medical centers as a result of non-patient care activities. The major source is Clinical Teaching Support, provided by the State to help pay for the costs of the teaching programs at the medical centers. Additional sources of other operating revenue are cafeteria sales and parking fees.

Non-operating revenues result from activities other than normal operations of the medical centers, such as interest income and income from disposal of equipment.

Medical Center revenues are used for the following expenses: salaries and benefits, supplies and services, depreciation and amortization, malpractice insurance, interest expense, and bad debts. Remaining revenues are used to meet a medical center's working capital needs, fund capital improvements, and provide an adequate reserve for unanticipated downturns. The Teaching Hospital section of this document discusses the major fiscal uncertainties facing the medical centers.

In 1998-99, expenditures of hospital income for current operations are projected to increase by $39.1 million or about two percent compared to 1997-98.

Sales and Service

Income from sales and services from educational and support activities is projected to total $579 million in 1998-99, including the health sciences faculty compensation plans and a number of other sources of income, such as fine arts production income, publication sales, and athletic facilities user fees.

Endowment Income

The amounts shown in the Endowment category on the Income and Funds available schedule at the end of this section represent the expenditure of income earned on endowments, funds functioning as endowments, and life income funds. Endowments require that the principal be invested in perpetuity with the income used in accordance with terms stipulated by donors or determined by The Regents. Under trust law, endowment funds may not be invested in loans for projects within the University. The University is legally bound to keep the principal intact and to comply with donor restrictions. Guidelines have been issued to ensure that the University will not be bound by restrictions that are difficult to administer or that are in conflict with established goals or policies. Funds functioning as endowments are primarily gifts from donors that the University treats as endowments, i.e., the principal is preserved and only the income is expended. Life income funds are held in trust by the University with the income paid periodically to designated beneficiaries; principal vests with the University and income payments cease upon the death of the beneficiaries.

Endowment and Similar Funds are invested by the Treasurer of The Regents. The vast majority of these funds participate either in the General Endowment Pool or in the High Income Pool. The General Endowment Pool is designed to promote capital growth along with steady increases of income. The High Income Pool portfolio is designed to produce a relatively high and stable level of current income.

Between 1983-84 and 1988-89 expenditures of endowment income increased from $30.5 million to $36.9 million (21.3%). During the next eight years, through 1996-97, expenditures increased to $75.3 million (103.7%). It is estimated that $87 million of endowment income will be available in 1998-99.

The primary sources of the preceding discussion of endowment income and policies are the University's Accounting Manual and the Financial Highlights section of the 1995-96 Financial Report presented to The Regents in the Fall of 1996. The annual comprehensive report covering the University's 1996-97 financial activities will be presented to The Regents later this fall.

Auxiliary Enterprises

Auxiliary enterprises are non-instructional support services provided primarily to students in return for specified charges. Services include residence and dining

services, parking, intercollegiate athletics, and bookstores. Faculty housing is also an auxiliary enterprise. No State funds are provided for auxiliary enterprises. Budget increases for each service are matched by corresponding increases in revenue. Revenue from auxiliary enterprises has increased from $426.7 million in 1994-95 to an estimated $500.6 million in 1998-99.

Extramural funds

Extramural Funds are provided for specified purposes by the federal government, usually as contracts and grants; through State agency agreements; and through private gifts and grants from individuals, corporations, and foundations. The majority of these funds are used for research and student financial aid.

Research

In 1996-97, federal research expenditures at the University amounted to approximately $871 million. While UC researchers receive support from virtually all the federal agencies, the National Institutes of Health and the National Science Foundation are the two most important, accounting for approximately seventy percent of the University's federal research contract and grant awards in 1995-96 (the latest year for which data are available). In addition to the funding of research contracts and grants, federal funds entirely support the Department of Energy Laboratories, for which the University has management responsibility. In 1996-97, this support amounted to approximately $2.5 billion.

Federal funds are the University's single most important source of support for research, accounting for approximately 55 percent of all University research expenditures in 1996-97. In the decade between 1982-83 and 1992-93 federal support for research grew dramatically. With a commitment to research as a national priority by both the President and Congress, annual federal research expenditures increased by an average of nine percent during this period. In the past four years, the focus of federal government has been on deficit reduction. As a result, while expenditures have continued to increase, the rate of growth has slowed down. Between 1992-93 and 1995-96 federal research expenditures at the University increased by an average of four percent annually. In 1996-97 expenditures increased by less than one percent, which is the first time since the early 1980s that the annual increase has fallen below the rate of inflation.

The outlook for federal funding of research in the *immediate* future is encouraging. The Congress and the President have reaffirmed their agreement to balance the federal budget by 2002. Because of favorable economic conditions, there has been more federal revenue and lower expenditures than had been predicted. As a result, the balanced budget plan allows for increases in 1998 and 1999 for domestic discretionary spending, that portion of the federal budget from which UC gets most of its federal

research funds. To bring the budget into balance by 2002, cuts would be required beginning in 2000. When considering the effects of inflation, the real purchasing power of the University's federal research dollars would be reduced.

Student Financial Aid

In 1995-96, UC students received more than $563 million in federal financial aid, which represented more than half (60%) of all support awarded during that year. Overall, UC students received 12 percent more federal funded aid in 1995-96 than they received in the previous year. This was principally due to large increases in borrowing under federal loan programs. The significance of the federal loan programs for UC undergraduate and graduate students is demonstrated by the fact that the subsidized loan programs comprised just over one-half (54%) of all federally funded aid and nearly one-third (32%) of the total financial support received by UC students in 1995-96. 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 College Work-Study Program, where the federal government subsidizes up to 75 percent of the student employee's earnings. Graduate students receive fellowships from a number of federal agencies such as the National Science Foundation and the National Institutes of Health.

The Student Financial Aid section of this document discusses these, and other programs. It also discusses the potential impacts on federal financial aid that could result from the 1998 tax reconciliation bill recently signed by the President and the pending 1998 appropriations bill.

Private Gifts and Grants

Private gifts and grants are received from alumni and other friends of the University, campus-related organizations, corporations, foundations and other nonprofit entities. In 1996-97, expenditures of private gifts and grants to the University totaled $464.9 million, an increase of 11.7 percent over 1995-96 expenditures of $416.1 million. Expenditures have increased by 146.7 percent in the ten-year period since 1986-87, when expenditures were $188.4 million. In 1996-97, the University received $726.4 million in donations and pledges, the third consecutive year of record-breaking fund raising.

Approximately 96 percent of gifts are designated by the donor for a specific purpose. Research is the largest category for which private gifts and grants are provided, followed by campus improvement projects (e.g., purchases of buildings, equipment and land, or construction or renovation of buildings or other facilities) and financial aid to students (e.g., scholarships, fellowships, awards, and prizes).

INCOME AND FUNDS AVAILABLE
($000s)

INCOME AND FUNDS AVAILABLE	Estimated 1997-98	Proposed 1998-99	Proposed Change
STATE APPROPRIATIONS			
General Funds	$ 2,181,616	$ 2,316,616	$ 135,000
Special Funds	67,913	67,913	--
TOTAL, STATE APPROPRIATIONS	$ 2,249,529	$ 2,384,529	$ 135,000
UNIVERSITY SOURCES			
General Funds Income			
Student Fees			
Nonresident Tuition	$ 98,012	$ 109,012	$ 11,000
Application for Admission and Other Fees	13,000	13,500	500
Interest on General Fund Balances	16,000	17,500	1,500
Contract & Grant Overhead	116,712	116,712	--
Allowance for O/H & Management	11,000	11,000	--
Overhead on State Agency Agreements	5,000	5,500	500
Prior Year Balance - Deferred Maintenance	12,648	--	(12,648)
Other	8,200	9,700	1,500
Total General Funds Income	$ 280,572	$ 282,924	$ 2,352
Special Funds Income			
United States Appropriations	$ 19,000	$ 19,000	$ --
Local Government	55,000	55,000	--
Student Fees	--	--	
Educational Fee	485,800	488,800	3,000
Registration Fee	111,300	112,000	700
Special Law/Medical Fee	1,820	1,820	--
Special Professional Fee	34,526	40,401	5,875
University Extension	195,600	205,600	10,000
Summer Session	30,700	32,200	1,500
Other Fees	30,500	32,000	1,500
Sales & Services - Educational Activities	401,632	420,982	19,350
Sales & Services - Teaching Hospitals	1,904,592	1,943,718	39,126
Sales & Services - Support Activities	150,520	158,020	7,500
Endowments	81,000	87,000	6,000
Auxiliary Enterprises	481,415	500,615	19,200
DOE Management Fee	52,550	52,550	--
Contract and Grant Administration	17,500	17,500	--
University Opportunity Fund	97,583	97,583	--
Other	168,539	176,800	8,261
Total Special Funds	$ 4,319,577	$ 4,441,589	$ 122,012
TOTALS, UNIVERSITY SOURCES	$ $4,600,149	$ $4,724,513	$ $124,364
TOTAL INCOME AND FUNDS AVAILABLE	$ $6,849,678	$ $7,109,042	$ $259,364

APPENDIX

BUDGET FOR CURRENT OPERATIONS
EXPENDITURE BY PROGRAM AND FUND TYPE
(000'S)

	1997-98 Budget			1998-99 Proposed			Proposed Increases		
	GENERAL FUNDS	RESTRICTED FUNDS	TOTAL FUNDS	GENERAL FUNDS	RESTRICTED FUNDS	TOTAL FUNDS	GENERAL FUNDS	RESTRICTED FUNDS	TOTAL FUNDS
INSTRUCTION									
General Campus	$ 1,023,683	$ 251,114	$ 1,274,797	$ 1,042,283	$ 261,031	$ 1,303,314	$ 18,600	$ 9,917	$ 28,517
Health Sciences	263,218	334,963	598,181	263,218	351,663	614,881	--	16,700	16,700
Summer Session	--	30,700	30,700	--	32,200	32,200	--	1,500	1,500
University Extension	--	195,600	195,600	--	205,600	205,600	--	10,000	10,000
RESEARCH	206,117	106,876	312,993	208,117	106,876	314,993	2,000	--	2,000
PUBLIC SERVICE									
Campus Public Service	29,389	53,380	82,769	29,389	53,380	82,769	--	--	--
Cooperative Extension	44,131	10,871	55,002	44,131	10,871	55,002	--	--	--
ACADEMIC SUPPORT									
Libraries	151,579	39,678	191,257	154,579	39,678	194,257	3,000	--	3,000
Organized Activities	114,312	269,874	384,186	114,312	280,024	394,336	--	10,150	10,150
TEACHING HOSPITALS	51,730	1,904,592	1,956,322	51,730	1,943,718	1,995,448	--	39,126	39,126
STUDENT SERVICES	--	215,549	215,549	--	217,516	217,516	--	1,967	1,967
INSTITUTIONAL SUPPORT	215,784	112,655	328,439	215,784	112,655	328,439	--	--	--
OPERATION AND MAINTENANCE OF PLANT	300,434	57,157	357,591	302,786	57,157	359,943	2,352	--	2,352
STUDENT FINANCIAL AID	62,260	170,727	232,987	62,260	173,918	236,178	--	3,191	3,191
AUXILIARY ENTERPRISES	--	483,979	483,979	--	503,179	503,179	--	19,200	19,200
PROVISIONS FOR ALLOCATION	(449)	34,692	34,243	(449)	44,953	44,504	--	10,261	10,261
SPECIAL REGENTS' PROGRAMS	--	115,083	115,083	--	115,083	115,083	--	--	--
SUBTOTAL	$ 2,462,188	$ 4,387,490	$ 6,849,678	$ 2,488,140	$ 4,509,502	$ 6,997,642	$ 25,952	$ 122,012	$ 147,964
PROGRAM MAINTENANCE									
Fixed Costs, Economic Factors	--	--	--	111,400	--	111,400	111,400	--	111,400
TOTAL UNIVERSITY	$ 2,462,188	$ 4,387,490	$ 6,849,678	$ 2,599,540	$ 4,509,502	$ 7,109,042	$ 137,352	$ 122,012	$ 259,364

GENERAL CAMPUS AND HEALTH SCIENCES
Full-Time Equivalent Enrollments–Year Average

	1996-97 Actual	*1997-98 Budgeted*	*1998-99 Proposed Total*	*1998-99 Proposed Change*
BERKELEY				
General Campus	27,507	27,400	27,600	200
Health Sciences	694	757	757	0
Total	28,201	28,157	28,357	200
DAVIS				
General Campus	19,857	19,700	19,900	200
Health Sciences	1,958	1,832	1,832	0
Total	21,815	21,532	21,732	200
IRVINE				
General Campus	15,666	15,000	15,350	350
Health Sciences	1,145	1,040	1,040	0
Total	16,811	16,040	16,390	350
LOS ANGELES				
General Campus	28,099	27,650	27,950	300
Health Sciences	3,825	3,719	3,719	0
Total	31,924	31,369	31,669	300
RIVERSIDE				
General Campus	8,429	8,200	8,400	200
Health Sciences	50	48	48	0
Total	8,479	8,248	8,448	200
SAN DIEGO				
General Campus	15,990	16,000	16,350	350
Health Sciences	1,233	1,052	1,052	0
Total	17,223	17,052	17,402	350
SAN FRANCISCO				
Health Sciences	3,699	3,552	3,552	0
SANTA BARBARA				
General Campus	17,436	17,200	17,400	200
SANTA CRUZ				
General Campus	9,799	9,850	10,050	200
TOTALS				
General Campus	142,783	141,000	143,000	2,000
Health Sciences	12,604	12,000	12,000	0
Total	155,387	153,000	155,000	2,000

GENERAL CAMPUS
Actual Year-Average FTE Enrollments

	1996-97 Actual	1997-98 Budgeted	1998-99 Proposed Total	Change
BERKELEY				
Undergraduate	20,307	19,890	20,090	200
Postbaccalaureate	10	0	0	0
Subtotal	20,317	19,890	20,090	200
Graduate	7,190	7,510	7,510	0
Total	27,507	27,400	27,600	200
DAVIS				
Undergraduate	16,757	16,550	16,720	170
Postbaccalaureate	60	60	60	0
Subtotal	16,817	16,610	16,780	170
Graduate	3,040	3,090	3,120	30
Total	19,857	19,700	19,900	200
IRVINE				
Undergraduate	13,662	12,885	13,160	275
Postbaccalaureate	124	115	115	0
Subtotal	13,786	13,000	13,275	275
Graduate	1,880	2,000	2,075	75
Total	15,666	15,000	15,350	350
LOS ANGELES				
Undergraduate	21,262	20,930	21,160	230
Postbaccalaureate	0	0	0	0
Subtotal	21,262	20,930	21,160	230
Graduate	6,837	6,720	6,790	70
Total	28,099	27,650	27,950	300
RIVERSIDE				
Undergraduate	7,141	6,865	7,035	170
Postbaccalaureate	107	115	125	10
Subtotal	7,248	6,980	7,160	180
Graduate	1,181	1,220	1,240	20
Total	8,429	8,200	8,400	200
SAN DIEGO				
Undergraduate	13,822	13,795	14,075	280
Postbaccalaureate	82	75	85	10
Subtotal	13,904	13,870	14,160	290
Graduate	2,086	2,130	2,190	60
Total	15,990	16,000	16,350	350
SANTA BARBARA				
Undergraduate	15,279	15,100	15,220	120
Postbaccalaureate	9	10	10	0
Subtotal	15,288	15,110	15,230	120
Graduate	2,148	2,090	2,170	80
Total	17,436	17,200	17,400	200
SANTA CRUZ				
Undergraduate	8,841	8,875	9,050	175
Postbaccalaureate	2	0	0	0
Subtotal	8,843	8,875	9,050	175
Graduate	956	975	1,000	25
Total	9,799	9,850	10,050	200
GENERAL CAMPUS				
Undergraduate	117,071	114,890	116,510	1,620
Postbaccalaureate	394	375	395	20
Subtotal	117,465	115,265	116,905	1,640
Graduate	25,318	25,735	26,095	360
Total	142,783	141,000	143,000	2,000